

Bagby Airfield Planning Application 16/02240/FUL

Business Case Review by R G Chapman BSc, FCA

1. Introduction

- 1.1. I am a Chartered Accountant who has worked in industry for over 40 years. I have worked as a consultant to many different organisations in the private, public and charity sectors, ranging in size from local SMEs to public quoted companies. I have also owned and run my own country pub and restaurant for four years.
- 1.2. Planning applications for Bagby Airfield from the 1990s onwards were not accompanied by any business cases, nor supported by any financial justification. This was remarked on by Her Majesty's Inspector (Appeal Decision by Inspector Braithwaite – paras. 65 et al) and by A4R on numerous occasions. Until this application there is no record of the historic business intentions of the airfield for comparison with the current document.
- 1.3. Limited financial information was eventually presented to support an Appeal and covered in that appeal decision 22.1.2014 by Inspector Lewis. This information clearly shows a steady decline in GA hobbyist activity levels, and a move to greater commercialisation as evidenced by the increased sales of Jet fuel compared to Avgas. The move to greater commercialisation is evident in this business case by the comments concerning Graham Fox Engineering Ltd (GFEL) wishing to move towards servicing more advanced types of aircraft, and the clear emphasis in section 10 on increased helicopter activity.
- 1.4. This application presents a major shift from the original hobby airfield for local enthusiasts, which has existed for many years, to a "GA destination airfield" attracting both day and overnight visitors. All comments in previous applications and appeals concerning higher noise levels and increased nuisance to local residents continue to be relevant with this application.

2. Business Case Major Conclusions

- 2.1. As a result of the proposed development, the business plan envisages the following major changes (and subsequent economic benefit to the local area):
 - an increase in turnover for all businesses on the airfield from £ 1.2m to £ 1.8m,
 - an increase in numbers employed from 10 full and 20 part-time to 22 full and 22 part-time employees,
 - the availability of modern facilities which will be attractive to the GA population, further enhanced by the ability to service more modern types of aircraft by GFEL.

3. Graham Fox Engineering Ltd

- 3.1. GFEL at present provides service and testing facilities for light aircraft. Most of these are of the older private aviation type, which use Avgas fuel. GFEL's expressed view is that the company's ability to expand is limited by the present hanger facilities. The proposed development would allow GFEL to increase the number of servicing bays, and to employ

more highly competent engineers who are qualified to service more modern aircraft types, particularly those using Jet fuel . This would allow the company to provide a wider range of services at a higher technical level, and increase activity levels substantially. The figures quoted are to increase turnover from £ 600,000 to £ 950,000 in 2 to 3 years, and to increase personnel from 6 full- and 1 part-time to 12 full- and 1 part-time employees.

3.2. None of this is has been substantiated by any detailed market analysis beyond general assumptions.

3.3. Note that these supposed increases are for an activity that is showing a decline nationally – i.e. general aviation.

“After strong growth in the late 1980s, traditional flying has shown a slight decline recently, reflecting a move amongst recreational flyers towards microlight aircraft, and increased numbers of foreign-registered aircraft.”

3.4. But note:

“Recreational helicopter usage has grown primarily due to the introduction of smaller and cheaper aircraft. Glider activity has remained relatively static, although there has been a gradual increase in the number of self-launching motor gliders.”

3.5. And also note:

“Business aviation has shown strong growth.”

3.6. These activities of GFEL are only of interest in the airfield as far as the increased hangerage would allow for a larger rent to be paid to Bagby Airfield – there may also be additional catering and accommodation income.

4. The Airfield Business Plan

4.1. Leaving aside GFEL and other associated activities, the business plan concentrates on the changes in the level of activity following the proposed developments.

4.2. The attached tables show the previously supplied financial information by Mr Pritchett, allied to the projections from this business case, as shown in App 2 of the business case.

4.3. The original financial information is to April 2015. This needs updating for 2016 and 2017. Our assumption is that these 2 years will be similar to 2015.

4.4. The financial performance for 2010 to 2017 moves from a loss to a low operating profit, which, after financing costs, could show a marginal profit but more likely an overall loss. This is possibly confirmed by Mr Pritchett who, in cross examination, has admitted that Mr Scott has had to support the business from his own resources.

4.5. The financial projections show a major change to a very profitable business by year 2 with further profitability growth thereafter, again ignoring financing costs. This rate of growth of turnover and profitability would be remarkable for any business in the hospitality industry, with the problems of the sector being regularly aired in the media.

4.6. For detail comments see below.

5. Existing Cost Types

The business case shows changes in the major areas of cost from 2017 over the next 6 years for existing cost types as follows:

- Hangerage – 84% increase in income because of the increased areas available and the higher rent levels payable by GFEL (see the final table in App2);
- Fuel – 10 % increase in income only, with no supporting data;
- Hire, Training etc – 100% increase in income because of increased and better facilities but with no supporting data.

6. New Cost Areas

6.1. The provision of catering and bar facilities, as well as accommodation, is projected to allow income to rise from the present very low base of £ 7,500 to over £ 280,000 by the end of six years. This is a remarkable achievement in a climate that is seeing the demise of more and more hospitality outlets.

6.2. The year one projection of £ 120,000 income for catering/accommodation, with a further 50% increase in year 2, and a doubling to £ 250,000 by year 3, requires more thorough justification.

6.3. There is very little detail to back up the assumptions on catering and accommodation beyond general statements, and comments and narrative from other UK airfields.

6.4. The bar, food and accommodation incomes expected are given in 8.16.5, 8.16.10 and 8.16.12 and are round figure assumptions with no real basis of calculation given. For such a large investment as envisaged by this application, one would assume a more detailed analysis of the local demand/supply needs would have been developed.

(Note that the values given for accommodation given in 8.16.12 (of £26k, £52k, £78k and £85K over four years) are not actually those used in the business plan in App 2, which are £ 20k, £39k, £59k, and £64k).

6.5. The profit margins used in the business case for catering are 72% - this must be only an aspiration, and is again not supported by any detail. This level of margin is achievable by a very busy bar/restaurant that has reached a critical mass, but this is certainly not the case here, particularly in the early years.

6.6. As an experienced industrial accountant I would require a business case of this magnitude to be supported by detailed financial and marketing penetration and growth forecasts. If, as suspected, this development is to be financed by borrowings, I am sure a great deal of detailed supporting information will need to be developed and presented – data which is not evident in this business case.

7. Fuel Sales

7.1. Despite the high incomes from catering/accommodation expected as above, the rate of increase in fuel sales is minimal – only a 10% increase over the whole 6 year period.

7.2. This is totally inconsistent with all the change in all the other activity levels. The business plan quite clearly states in 3.3.1 b increased economic activity due to: "encouraging travelling aircraft to land and refuel, uploading significant quantities of fuel for their longer journeys".

7.3. This may be partly explained by the change in fuel sales types from Avgas as used by older GA type aircraft to Jet fuel as used by helicopters and business aircraft. This assumption may be further supported by the proposed increase in hard standing areas which supports the swing towards more and larger helicopters, rather than lighter GA aircraft.

8. Overheads

8.1. The basis for the projected overhead costs is not given beyond rudimentary suggestions of people numbers. Anything else, such as heating, laundry, maintainence, business rates, etc. is either assumed to be the same as at present, or has been omitted.

9. Capital Costs

9.1. The capital costs are also given in App2. There is no basis of calculation shown. The building of the clubhouse, to provide new bar, catering, eating and accommodation facilities, for £ 175,000 appears wishful thinking. Further there no cost shown for the airfield monitoring system which is supposedly integral to this application (see 13.9). Any such major capital project would need detailed costings, if only to support the any financing required.

10. Conclusions

10.1. It was hoped that the inclusion of a business plan with this latest proposal would lead to a greater understanding of the future of Bagby Airfield. However, this business case, for all its flowery language, falls very short of justifying the development of the airfield as proposed.

10.2. Firstly, there is no risk analysis attached – this is an obligatory requirement for such a major development presumably relying on borrowed money.

10.3. The steady decline of GA across the UK is acknowledged. An investment of this size aimed at GA would be foolhardy. Therefore, it is clear this development is aimed at the commercial market.

10.4. This is further emphasised by the comments in 10.15:

"Because of the Airfield's position, located as it is on the main north/south access for both rail and powerlines, the Airfield has become extremely popular for helicopter operators, who wish to have a based in the area for the purpose of refuelling helicopters and resting pilots between tasks, whether it be a power line inspection or the monitoring of signals along railway lines. Similarly, because of the Airfield's location near to the North Yorkshire Moors, it has become a valuable refuelling point for helicopters servicing some of the shooting estates in the area and in addition, has become an essential refuelling point for race horse trainers, owners and jockeys, who need to fly across country to attend race meetings ."

10.5. (Note in this context that the use of helicopters for power-line inspection is declining as the use of unmanned drones, offering cost and safety benefits, continues to grow.)

10.6. There is also the suggestion that helicopter training may take place at the airfield, as mentioned in 10.8:

“Mr Scott has, through the voluntary code, sought to enhance this position, as in the case of aerobatics, restricting the activities of helicopters practising or training at the Airfield limiting the number of circuits that a helicopter can perform and finally, by offering to limit helicopter movements at weekends, so that such movements cannot in the future develop into a problem, as the Airfield gains in popularity amongst flyers.

These comments indicate that helicopter training will occur, but do not give any guarantees as to number, extent and the timing of such activities. In particular, helicopters hovering practice, probably taking place at weekends to suit private fliers, and within the village boundaries, will clearly be extremely noisy. This type of flying is indicative of a commercial operation and is not that associated with a GA airfield.

10.7. The basis of preparing the financials within the business case is not clear. There are many questions as to the derivation of the financials, which appear to be based on “round-figure” estimates, with no details of the initial assumptions made. There are also serious inconsistencies within the numbers given. On these tests alone, I would question the validity of the whole business case.

10.8. A business case for such a major investment would look at a number of different scenarios. At the very least, there should be “best case, worst case, and middle case” plans, with the associated financials. While it may be construed that the “worst case” scenario is only a matter for the airfield operator, what is of interest to all other stakeholders is what measures the airfield operator may take to rescue such a “worst case”, and what impact these measures may have on the area.

10.9. Licensing. In 14.4.14 the business case states that “the airfield intends to being formally licensed with the CAA and has commenced this process”. It is my understanding that such a process is a major undertaking, requiring a complete change to the methods of operation. Formal processes and procedures, the majority of which are absent at the moment, need to be implemented, and then adhered to. I would also suggest that the cost of this undertaking is way in excess of what Bagby airfield can afford – perhaps more importantly these costs are not included in this business case. This raises the question as to whether this business case accurately reflects Mr Scott’s plans for the airfield or whether it is just a means to win planning approval at any costs.

10.10. In summary, this is a business case for the establishment of a hotel, which happens to be sited on an airfield, which in turn is expected to cater to the increased concentration on the commercial flying world. The emphasis is very much on commercial flying with helicopters becoming of greater importance. The concept of the development of Bagby airfield to support the growth of hobby flying has been severely down-graded, particularly with the mention of the future licensing of the airfield to CAA standards. The development of this commercial operation in a rural area goes against all natural development rules, and is contradictory to the Local Area Framework.

Bob Chapman
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