

**REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE
- 20 FEBRUARY 2007**

**REPORT ON: TRANSFER OF DUNDEE AIRPORT TO HIGHLANDS & ISLANDS
AIRPORTS LIMITED (HIAL)**

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 111-2007

1 PURPOSE OF REPORT

The purpose of this report is to seek the Committee's approval to transfer the operation of Dundee Airport to Highlands and Islands Airport Limited (HIAL). The transfer is scheduled to take place on 1 September 2007 and will require detailed negotiations with the Scottish Executive, HIAL, Trade Unions, Civil Aviation Authority and other interested parties.

2 RECOMMENDATIONS

The Committee is asked to agree to the following:-

- 2.1 That the operation of Dundee Airport be transferred to HIAL with effect from 1 September 2007.
- 2.2 The City Council authorises the Depute Chief Executive (Support Services) to enter into a 175 year lease of Dundee Airport facilities with the Scottish Executive.
- 2.3 As part of the Dundee Airport transfer, the staff at Dundee Airport will become HIAL employees, under a TUPE transfer. HIAL will also seek to become an admitted body of the Tayside Superannuation Scheme and they will be seeking admission in the near future. A report on this matter will be considered by the Finance Committee. Trade Unions will be consulted on the proposed transfer under TUPE regulations.
- 2.4 That the Depute Chief Executive (Support Services) and Director of Economic Development conclude the arrangements as set out in Paragraph 6.5.
- 2.5 The arrangements proposed by the Scottish Executive will reduce the amount of net budgeted Revenue Expenditure to be met from the 2007/08 Council Tax by £1.571m and this adjustment should now be reflected in the 2007/08 Revenue Budget and Council Tax.

3 FINANCIAL IMPLICATIONS

- 3.1 On 12 February 2007, a letter was received from the Minister for Finance and Public Services Reform advising the Council that the transfer of the Dundee Airport operation to HIAL from 1 September 2007 had been agreed. The City Council will now receive an additional special grant of £655,000 in 2007/08 and from 1 September 2007, all net expenditure on the Airport will be the responsibility of HIAL.

3.2 The financial effect of the content of the Scottish Executive's letter is that the Revenue Budget 2007/08 will reduce by £916,000 in respect of the net expenditure from 1 September 2007 to 31 March 2008, and the City Council will receive a special grant of £655,000. The combined effect of these will be to reduce the amount to be met from Council Tax by £1.571m. If this report is approved, then the reduction of £1.571m will assist in setting a lower Council Tax (Band D) for 2007/08 than otherwise would have been the case.

3.3 The Capital Plan has a provision of £500,000 for 2007/08 and only a proportion of this will be required in respect of expenditure up to 30 August 2007. The letter from the Minister for Finance and Public Sector Reform also stated that he is willing to pay a special capital grant to fund agreed capital expenditure at Dundee Airport from 1 April to 31 August 2007. The Capital Plan has planned capital expenditure in 2008/09 and 2009/10 of £500,000 and £615,000 respectively and this will no longer be required to be funded by the City Council.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

6.1 In March 2006, the City Council approached the Scottish Executive to discuss the long-term development of Dundee Airport. The City Council stressed the strategic and economic importance of the City having a modern airport, however in 2006/07, approximately £34 of that year's Council Tax (Band D) reflected the net deficit on operating Dundee Airport. The Council also pointed out to the Scottish Executive that Dundee City Council was the only Scottish local authority which had to meet the cost of running a local airport and that the current revenue support grant arrangements failed to adequately reflect the real cost of running Dundee Airport.

6.2 During the meetings with the Scottish Executive, the City Council proposed that one particular option that would help the development of the Airport and resolve the revenue deficit issue, would be to transfer the operation of Dundee Airport to one of the main public sector airport providers, namely Highlands and Islands Airport Limited (HIAL). The benefits of this particular option were that HIAL already operated airports throughout Scotland, including Inverness Airport, and therefore had the necessary expertise and airline connections to ensure the future development of Dundee Airport. In addition, HIAL is wholly owned and deficit funded via the Scottish Executive and therefore the cost of operating Dundee Airport would transfer from Dundee City Council to the Scottish Executive.

6.3 During the summer and autumn of 2006, the City Council provided HIAL and the Scottish Executive with a significant amount of detailed information in connection with the Dundee Airport operation. The Council lobbied a range of ministers at the Scottish

Executive, including the Minister for Transport, Minister for Finance and Public Services Reform and the First Minister.

- 6.4 On 12 February 2007, a letter was received from the Minister for Finance and Public Services Reform advising that the Scottish Executive and HIAL had agreed to the transfer of Dundee Airport from the City Council to HIAL. In addition, this letter detailed the short-term and long-term funding arrangements for the transfer and these commitments can now be reflected in the City Council's 2007/08 Revenue Budget and Council Tax.
- 6.5 The Director of Economic Development and the Depute Chief Executive (Support Services) will now conclude arrangements for the transfer of Dundee Airport to HIAL, including:-
- Conclude negotiations with the Trade Unions and staff on the transfer of the Dundee Airport staff to HIAL.
 - Ensure that staff transfer on the same terms and conditions which they currently enjoy in accordance with TUPE regulations, and that they will continue to be members of the Local Government Pension Scheme through the Tayside Superannuation Fund.
 - Confirm HIAL will seek admission to the Tayside LGPS Superannuation Fund.
 - Enter into a 175 year lease of the Dundee Airport facilities with effect from 1 September 2007. The lease will provide that should the Airport cease to be operated as such, the land and buildings will revert to the City Council at no cost to the Council, provided that the Council uses the land for open space/recreation purposes.
 - Transfer licenses with the Civil Aviation Authority to HIAL.
 - Transfer all assets of the Airport to HIAL.
 - Transfer any long-term contracts to HIAL, or arrange for contracts to be brought to an end.
 - Inform existing customers of the new arrangements.
 - Work in partnership with HIAL to develop new routes from Dundee Airport.

7 CONSULTATION

This report has been subject to consultation with the Chief Executive, Director of Economic Development, Depute Chief Executive (Support Services) and Assistant Chief Executive (Management Services)

8 BACKGROUND PAPERS

Letter of 12 February 2007 from the Scottish Executive.

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)

DATE: 20 February 2007