Comhairle Cathrach & Contae Phort Láirge
Waterford City & County Council

TO: All Members of Waterford City & County Council

Waterford Airport Proposal

The members will be aware that the Board of Waterford Airport Company, of which Councillors Power and Griffin and myself are members as nominees of this Council, have been trying with a considerable number of years to secure investment for the airport to extend and widen the runway and develop the necessary ancillary facilities to accept jet aircraft with the capacities to carry the order of 150 passengers. To do so requires a runway of 45m in width and of operational length of 2000m. The existing runway is 30 metres wide and 1400m long from an operational perspective.

It is and has been the considered view of the board that this represents the only commercially sustainable outcome for the airport that will deliver real economic benefit for the region as a key piece of infrastructure. Over the past ten years or more the board has been seeking to attract private investment to the airport and this resulted in a proposal to government developed in 2017 that was finally approved in 2019 to extend and widen the runway with €5 million of investment from Government, €5 Million from predominantly regional investors and €2 Million from the local authorities. This Council proceeded to planning permission and compulsory purchase of the necessary properties and these were confirmed by An Bórd Pleanála in January 2022. In the interim, however, Covid and massive increases in costs because of the Ukrainian war have altered the landscape significantly rendering the original proposal unviable. The proposal would also not have had the support of the majority shareholder, Devin Regional Investments.

In the past two years the Airport Company has revisited the proposals and with assistance from the Council has undertaken detailed design work in consultation with the Irish Aviation Authority. The result is that the costs for an extended runway have now escalated to €27 Million and the majority shareholder has made a proposal that Devin Regional Investments, which is now a partnership between the Bolster and Comer Groups, will invest €12 million in the company to facilitate the extension of the runway subject to matching Government investment of €12 million along with €3 million from the local authorities. This Council has entered into a non-binding memorandum of understanding with Devin Regional Investment and the Airport Company, and the company has made a formal application to the Dept. of Transport on this basis.

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The key provisions of this agreement are that

- Each of the entities will make the investment as outlined above.
- Waterford City and County Council will transfer lands owned by it at the airport to the airport company at nominal cost only if and after the extended runway has been completed and has received IAA accreditation.
- The local authorities will receive 18% of the share capital of the airport company, with the investors receiving 80% and existing shareholders receiving 2% subject to the agreement of an EGM of the company. There is, however, a buy back option for the investors over a six year period for the local authority shareholding on a reducing scale to nominal cost if the airport is run successfully for that period as a going concern.
- The investors will have the option to buy back the local authority shares over a six year period on a sliding scale subject to successful operation of the airport as a going concern.
- The investors will on execution of contract invest €2 million in the company from which a maximum of €1.7 Million will be paid to Waterford City and County Council to cover the costs of land and property purchase through the CPO process or by negotiation.

The proposed contribution from the local authorities of €3 million, with €2.2 million from Waterford and €0.4 million from each of Kilkenny and Wexford. This is necessary to demonstrate regional commitment to the airport and members may reasonably ask isn't this an exceptional level of commitment from this Council given that the land transfer is included in the arrangement as well. In truth it is but the prize of delivering the core infrastructure in terms of regional economic and social development is equally exceptionally high and the contribution has to be measured against the difficulty of securing investment over the years and the risks of achieving a return on investment.

Waterford Airport Company has been seeking investment for over 10 years with limited success or appetite in the market place on a similar basis to now being proposed. Everyone in the general aviation market would have been aware of the opportunity at Waterford and the board and majority shareholder have been diligently trying to secure investment through investment banks, financial advisors and directly to high-net-worth individuals. The simple reality is that there are significant risks in achieving a return on investment and there needs to be a significant scale of passenger numbers generated to achieve any yield of consequence.

The investors own business forecasts below prepared by Grant Thornton demonstrate that there is a) no future in the existing operation as a commercial proposition with a loss close to €300,000 per annum being generated and b) that over 300,000 passengers a year need to be generated before any profit is made. This is also dependant on a yield being achieved in terms of passenger fees and airlines are currently dictating terms with respect to passenger charges. The broader context is also that Waterford at peak with a London-Luton flight being the primary generator only achieved less than 150,000 passengers..

Waterford Regional Airport – Investor Forecast P&L

€'000	Budget '23	Forecast '24	Proj. '25	Proj. '26	Proj. '27	Proj. '28
Revenue	1,388	1,388	3,147	3,598	4,651	5,460
Cost of sales	(398)	(398)	(858)	(883)	(1,308)	(1,717)
Gross profit	991	991	2,289	2,715	3,344	3,743
Sfaff costs	(779)	(779)	(1,600)	(1,923)	(2,157)	(2,235)
Operating costs	(473)	(473)	(965)	(1,115)	(1,166)	(1,221)
EBITDA	**(262)**	**(262)**	**(276)**	**(324)**	**21**	**287**
KPI						
Passenger numbers	-	-	165,818	230,003	303,429	341,706
Revenue growth	n/a	0.0%	126.6%	14.3%	29.3%	17.4%
Gross margin	71.3%	71.3%	72.7%	75.5%	71.9%	68.5%
Staff cost as a % of sales	56.1%	56.1%	50.8%	53.5%	46.4%	40.9%
Opex as a % of sales	34.1%	34.1%	30.7%	31.0%	25.1%	22.4%
EBITDA margin	(18.8%)	(18.8%)	(8.8%)	(9.0%)	0.4%	5.2%

If we look at Kerry Airport as a comparison they are achieving about €1 Million of annual profit from around 400,000 visitors but this has to be viewed in a context of Kerry's really significant inbound tourism and the fact that the build-up of numbers over years was enhanced and supported by a PSO subsidy for Kerry/Dublin flights until relatively recently. This profit level also has to be viewed in the context of ongoing capital maintenance requirements of substance in airports and Kerry are achieving this through an outgoing passenger charge for the use of the terminal which isn't terribly popular with airlines. As an alternative comparator Cornwall Airport in Newquay which has an immediate population of over 500,000 in Cornwall would have run slightly at loss a or break-even pre-pandemic with a very significant PSO subsidy for flights to London and with over 400,000 passengers and have been struggling to recover numbers post pandemic.

The simple reality is to achieve return on investment for the investors the company will have to be exceptionally managed and ancillary activities which require further capital will have to be driven to maximise income and generate a yield on return. All of this is dependant on continuing demand for air travel which is currently being demonstrated post pandemic but obviously aviation faces challenges in respect of climate change. The one value in this context of investment in the airport is it can itself move towards carbon neutrality as a consequence of the investment. What is also certain is that the current undercapitalised community based model cannot achieve what have always been the objectives for the airport as a core piece of economic and social infrastructure.

In this respect the alternative to this proposal is equally unpalatable. The airport cannot sustain losses on an ongoing basis and the reality is there is no operational support available at national level without scheduled services and the only real option is for this Council to step in and provide this support and effectively take ownership of the airport as a condition of this support. At best this would simply be keeping the proposition alive at a cost not incompatible over time with the investment proposed but without any of the economic and social benefit of the improved infrastructure.

I have had discussions recently with the investors to seek an alteration to the memorandum of understanding the allow the local authorities to retain a 10% shareholding in the airport without any buy-back clause as a simple alternative to the existing clause. These discussions are ongoing and in the circumstances I am requesting that the elected members authorise me to enter into contract under the Local Government Act in the interests of the community based on the terms and conditions outlined above with both alternatives in terms of distribution of shareholding as options. Patently this arrangement is absolutely dependant on Government support and the Airport Company has made application with clarifications sought and replied to in recent days. It is also subject to agreement of shareholders by way of EGM.

I recommend to Council that you accept this proposal as a once off opportunity to deliver a core piece of infrastructure for the region.

Michael Walsh,
Chief Executive
(Designated Public Official under the Regulation of Lobbying Act 2015)