Application by RiverOak Strategic Partners Ltd for an Order Granting Development Consent for the upgrade and reopening of Manston Airport

Information supplied by Timothy Bentley

(Manston Reference Number: 20014305)

Detailed Report

In the comments I submitted in October 2018, I identified various points where I felt that the application by River Oak Strategic Partners Ltd.(RSP) failed to demonstrate that its application had any merit. I have now linked these points to the list of Principal Issues contained in Annex C of the Planning Inspectorate letter of 18 January 2019. Each of these points provides the data, methodology and assumptions used to draw that conclusion.

Compulsory Acquisition:

I stated previously that "the airport there [Manston] could not be sustainable. 360-degree access and good contact with large conurbations is needed for an airport to be sustainable in the United Kingdom."

This assertion is backed by the following:

- There is only one applicant seeking permission to re-develop the airport at Manston, RSP, but clearly an appetite for overseas investors to invest in UK airport infrastructure as was recently evidenced by the French company, Vinci acquiring a 50.01% stake in Global Infrastructure Partners, the owner of Gatwick. If the Manston redevelopment concept is as good as RSP assume, surely others would be exploring its potential? Thanet District Council tried to identify other companies that could be interested in re-opening Manston as an airport, but none were found.
- The exclusion of Manston from the Airports Commission Report indicates that this site can never become a major contributor to airport capacity in the UK, despite the length of its runway and its proud war time heritage.
- Size and geographical position all contribute to the financial attractiveness of airports. If Southend, for example, cannot make money with 29,582 air traffic movements in 2017, how does RSP expect to be able to generate a profit with a mere 10,000 annual plane movements?
- The absence of competition to acquire the Manston site as an airport suggests that the other companies that have examined it, including Stone Hill Park Ltd., have concluded that the likelihood of Manston

airport becoming a viable investment when used as an airport is slim. What is the magic ingredient that the other potential airport acquirers have missed? I have been unable to find one in the RSP submitted documentation.

- The RSP submission provides no statistics to show what level of activity is necessary to enable it to generate adequate profits to provide a return for E.I.O. Investments Ltd., the company that is financing the development. A series of tables are provided to show the air transport movements (ATMs), freight tonnages and passengers that are expected to be carried, but there is nothing to show at what point the suggested development becomes viable financially. What is the relative profitability of air freight as distinct from passenger flights? Where are the metrics against which the viability of the project can be judged? Inevitably the actual freight tonnage, passengers carried and miscellaneous services provided will differ from those included in the document, but no indication is provided that the management of RSP have the slightest idea of how to balance a downturn in one sector of its proposed business against other revenue earning possibilities. As currently submitted the project is set up to fail.

Against such a negative background and the absence of management kowledge in the RSP submission, I see no compelling public interest case for compulsory acquisition of the site to enable its re-development as an airport.

Funding:

My initial observations that "the financial structure of the proposal is confused, with a range of UK based RiverOak companies whose purpose and potential profitability are unclear is borne out by the following:

The table below shows the RiverOak companies that have been set up. The information in this table was extracted from the Companies House website.

Name and Co. House number	**Date incorporated**	**Date last accounts filed**	**Company debt**	**Controlled by**
RiverOak Strategic Partners Ltd. [RSP] (10269461)	8/7/2016	11/4/2018	Dormant	9,000 A shares held by E.I.O.Investments Ltd, based in Belize 1,000 B shares owned by RM
RiverOak AL Ltd.(10311804)	8/7/2016	11/4/2018	£46,379	RSP

[AL]				
RiverOak Operations Ltd.[OP] (10269458)	4/8/2016	11/4/2018	£3,769,941	RSP
RiverOak Fuels Ltd. (11535715)	26/8/2018	No filing	No filing	Not stated
RiverOak MSE Ltd (11720590)	10/12/2018	No filing	No filing	RSP
RiverOak Manston Ltd[RM] (10286975)	19/7/2016	11/4/2018	Dormant	Not stated specifcally
		Overall notified debt January 2019	**£3,816,320**	

The only company mentioned in the application is RSP with no mention of the other companies identified above. The need for five other companies is unclear. As shown in the above table two of the five companies have commenced trading as subsidiaries of RSP, yet neither AL nor OP have been consolidated into RSP's published accounts. All data for these three companies were available on 11 April 2018, the date that information about them was filed with Companies House. It appears therefore that RSP was not a dormant company as of 31 July 2017.

While OP became a subsidiary of RSP at a different time from AL, at the time of the filing of the accounts, RSP owned OP.

It is normal practice for the accounting years of subsidiaries and the holding company to be contiguous. RSP has a year end of 31 July so that it is contiguous with AL, but OP has a year-end of 31st August.

IFRS 10 provides an accounting standard for holding companies. It should be noted that if there is an adequate reason for having subsidiary companies with a different year end date from the holding company, the standard allows that provided this is explained. RSP should be asked to provide that explanation.

It appears that the SIC codes given for RSP are incorrect if the purpose of this company is to act as a holding company for its subsidiaries.

RM is outside the RSP family of companies, since it owns all RSP's B shares. 4 shares have been issued for this company, two being allocated to Mr Lawlor and one each to Mr A Freudmann and to GY Manston LLC, presumably a limited liability vehicle associated with Mr G Yerrall. I have not been able to find any mention of RM in the application.

Review of the financial statements for OP for the year ended 31 August 2017 reveals that this company has investments totalling £1,000,000, current assets of £600,420, short and long-term creditors of £5,370,361 giving an overall debt level of

£3,769,941. Included in the creditors number is a bank loan of £4,458,285, as identified by note 8 in the accounts filed at Companies House. It is therefore a reasonable assumption that the financial plan involves using bank loans rather than share capital to finance the redevelopment of Manston airport.

The precise method of funding the proposal is not stated in the RSP application submission and this lack of transparency does not help in judging the viability of the project plan.

Paragraph 5.1.2 of Volume IV of the Azimuth report identifies four project phases. The Funding Statement in paragraph 27 provides a three-phase allocation of expenditure totalling £313.6 million. What project plan is being requested for approval? No provision has been made in the capital funding proposals for finance to back the inevitable costs that will be incurred prior to aircraft commencing to fly from the site; these costs will include staff and a range of services and supplies. Had a forecast Profit and Loss account or cash flow statement been included in the submission the omission of this expenditure would have been obvious to the company directors who submitted it!

I commented earlier *that" the support statements from Helix Investments and PwC Zurich are inadequate". This is demonstrated as follows:*

Item 21 of Document Reference TR020002/APP/3.2 indicates a wide range of UK, Far East and North American institutional investors willing to invest in the project, via a Belize based company, M.I.O. Investments Limited. Based on the Helix Fiduciary AG letter of 12th July 2018, it appears that the source of the funds ear marked for the project have been independently verified to known clients.

It seems from the Helix letter that £15 million has been set aside for the payment of land acquisition and noise mitigation measures, charges that would arise if the DCO was granted.

It is, therefore, surprising that documents filed with Companies House on 11th April 2018, for both RiverOak AL Ltd for the year to 31 July 2017 and RiverOak Operations Ltd for the year to 31 August 2017 were showing accumulated losses totalling £3,816,320, while the Felix Fiduciary AG letter of 12 July 2018 failed to mention any of this liability. Is it part of a sound management plan to allow subsidiary companies to be financed inadequately?

*I noted earlier that "*it is not possible to assess the financial viability of the proposal" a*nd support that statement as follows:*

The Funding Statement focusses on defining what costs will need to be incurred to bring the project to fruition and a summary table is provided showing in broad terms, in paragraph 27, a three phase rough allocation of expenditure of £313.6 million.

In operational terms paragraph 5.1.2 of Volume IV of the Azimuth report shows the following project phases:

1) Prior to the opening of the airport
2) Years 2 to 4
3) Years 4 to 10
4) Years 11 to 18

It would be helpful if RSP provided a financing statement that linked to the operational plan. It is reasonable to assume that the investors are not providing £313.6 million without some expectation that they will generate a realistic return on that investment. It is noticeable that the summary at paragraph 27 provides nothing for Working Capital. Staffing issues will be examined later, but within the RSP presentation there appears to be no money available to pay for staff, services or supplies prior to the project becoming operational.

The Funding Statement provides no indication of the size of the interest cost incurred by RSP or the level of dividend that E.I.O. Investments Ltd will expect for providing RSP with funds.RSP should be pressed to explain how it expects to pay for the use of the investors' money and define the method by which that payment or payments will be made. Without that, there is no way of judging the viability of the project plan.

This in turn requires that there is a clear understanding of the earning capacity of Manston in its potential new guise.

As explained in the section on Needs, the forecast for air traffic movements of all kinds appears to be totally unrealistic. Based on that assessment, the investors will find this project rather slow in delivering any return on the capital they have expended and the likelihood of staff, services and supplies not being paid increases.

My initial comments drew attention to the fact that" the board of RSP has limited successful aviation experience, but is instead experienced in financial projects usually in a residential or commercial building context."

Item 5 of the Funding Statement shows that the Manston DCO project was originally promoted by RiverOak Investment Corporation but that in December 2016, the responsibility, rights and liabilities were then transferred to the UK company RSP.

The website for RiverOak Investment Corporation LLC states that:

"RiverOak pursues opportunistic and value-add asset purchases and operational opportunities on behalf of a diversified set of investors ranging from institutions to individuals.

Our clients view the world of investment as one that is constantly evolving – not as an indiscriminate whole, but in discrete, specialized sectors where highly experienced developers and sponsors are creating and enhancing value in such areas as healthcare, student housing, office, urban gilt-edged retail projects, and a host of hard asset management turn-around situations.

For over 17 years we have built both our investment business and our reputation on being able to find, research, winnow-out and invest in the types of assets that typically achieve above-average returns on a risk-adjusted basis. While our real estate investment funds are targeted in the $5 million range, our operating asset investments can range anywhere in size from $1 to $50mm."

Two of its former members of staff, Messrs Lawlor and Yerrall, are now directors of RSP dealing with a transaction that has a total value of £313.6 million using only the fixed asset elements, as no provision has been made for working capital. Given current currency fluctuations in the UK, conversions from sterling to UD dollars vary daily, but it is reasonable to state that that the transaction is equivalent to around $600 million, some 12 times greater than the transaction value with which RiverOak Investment Corporation LLC is familiar.

It would be helpful to have some assurance that the UK based directors that have been transferred from RiverOak Investment Corporation LLC have the capability of dealing with a transaction of this value.

In addition, the Funding Statement at item 21 states that RSP directors have, between them, experience of multiple historical airport capital markets infrastructure financings, in the US and elsewhere with these institutional investors. It is noticeable that the RiverOak Investment Corporation LLC website quoted above makes no reference to activities involving airports!

No proof is provided of the "multiple historic airport capital markets infrastructure financings" assertion and it is recommended that all the directors should be required to explain the competencies they have acquired in this regard.

Further it should be noted that the re-development of Manston as an airport actually requires considerably more input than can be provided by people who claim to have the necessary infrastructure funding experience. The airport will require hands on operational management, and with the best will in the world, people whose occupation is given as 'Investments', 'Banking' or 'Fiduciary' on Companies House returns do not have that experience.

Mr Freudmann, is described as an airport director, but his CV is not exactly a glowing one. He was a director of Wiggins Plc, subsequently PlaneStation, that was dissolved on 11th June 2013. (These companies operated Manston Airport prior to that date)

Mr Freudmann's CV quoted on the RSP's website states:

"Tony Freudmann is a director of RiverOak Strategic Partners. He has a Bachelor of Laws degree from the London School of Economics.

Tony has over thirty years' aviation and travel industry experience. He is the former Chairman of PlaneStation plc's European airport group and was responsible for planning and delivering capital projects valued at £125 million during that time. These include site infrastructure at Kent Business Park, Manston Airport, Black Forest Airport and Cuneo Airport among others.

As the owner of FT International Ltd, Tony has provided consultancy services for aviation and tourism development to the public and private sectors in the US, UK, Germany and the former Yugoslavia. Previously he was an elected county leader where he was responsible for delivering capital projects valued at over £175 million."

There are several issues with this CV:

1. Mr Freudman was a director of Wiggins Plc, subsequently PlaneStation Plc , that was dissolved on 11th June 2013. (These companies operated Manston Airport prior to that date). How is it possible to demonstrate effectiveness in the delivery of capital projects valued at £125 million at Manston, when the expenditure for which he was responsible failed to generate profit for the investors providing that money and led to the company's dissolution?

2. His work at Black Forest Airport is cited. Black Forest airport otherwise known as Lahr (LHA), had 1,495 air traffic movements in 2016, as shown by the "Air Traffic in Germany -Mobility Report 2016". This volume of traffic suggests that his work at Lahr was not successful.

3. Similar results are noted in relation to his work at Cuneo airport. Cuneo(CUF) airport, according to Wikipedia, is used by airlines, serving Casablanca, Iasi, Tirana and Cagliari with passenger flights giving rise to 4,908 traffic movements in 2015.. Why is this development classed as a success?

4. Reference is made to his ownership of FT International Ltd. 'FT' is often used as an acronym for the Financial Times. FT International, however, is the trading title of a company registered in Companies House under company reference 05429140 as Freudmann Tipple Ltd. This management consultancy is not large enough to file a full set of accounts, but it is noticeable that from its year end in 2013 through to March 2016 its deficit grew, ultimately reaching £73,101. It was only in 2017 that the fortunes of the company were turned around and as at year end 2018 it reported net assets of £83,037. This financial record does not suggest a businessman who is likely to run an organisation profitably.

5. Mr Freudmann does not indicate in his CV the county in which he acted as Council Leader, nor the period of time in which he held that role, but his ability to deliver public sector projects valued at £175 million is irrelevant since firstly these would have covered a wide variety of unrelated projects

and secondly there is extreme difficulty in identifying the income generating potential of public sector projects. Even if he had ultimate responsibility for the spending of this money (it is highly likely that the investment recommendations came from Council officers), there is certainly no certainty that the objectives of those investments were achieved.

6 In summary, Mr Freudmann's career, while varied, does not indicate success in developing any airport so that it generates profits, an essential requisite for the proposed Manston DCO. This proposal is heavily dependent on attracting freight business to Manston, whereas his underlying experience seems to have been more focussed on passenger travel related activities, where his ability as demonstrated in point 7 below, is hardly brilliant.

7 A review of Mr Freudmann's involvement with different companies via the Companies House website reveals that he has been involved in 5 companies that have wound up either as a result of compulsory dissolution or following from a creditors liquidation. These companies are SDCI Ltd., Upminster Travel Ltd, Travel Club Ltd (The), Unpackaged Holidays Ltd. and Active Energy Ltd., previously Component Imports Ltd. He dissolved Annax Aviation Ltd and Annax Aviation Airports Ltd without engaging in any trading. The CV presented on the RSP website therefore provides a remarkably glossy description of his abilities.

Overall, I doubt the ability of the management team proposed to be able to lead Manston airport to financial success. Thanet does not deserve to have another failure on its hands.

Need

In my October 2018 submission, I stated that " The market for the services that Manston could provide is not clearly defined, nor is its profit generation capability clear." Additionally, I stated "The funding statement is unclear with no linkage between the market forecasts and the positive cash flow RSP's operations must expect to generate." and that "the market size predicted appears grossly overstated. After years of trading previously and using the Azimuth Associates numbers in 2013 Manston had 2,073 freight movements and processed 29,306 tonnes of cargo. In the first year of its forecast (Yr2), RSP predicts 5,252 freight movements and 96,553 tonnes of freight. The forecasts need checking for realism." I hold that 'need' is determined by reference to market conditions and I demonstrate this is not the case in the RSP submission as follows:

I have looked at the forecasts from a number of differing perspectives:

1. **The realism of the forecasts provided**

It is worth examining the data contained in Table 1 of Volume III of the Azimuth report,the first four years of which are presented for ease of reference here:

Table 1 Summary 20 year freight and passenger forecast

	Freight moves	Pax moves	Total moves	Inbound tonnage	Outbound tonnage	Total tonnage	Passenger numbers
Y1	0	0	0	0	0	0	0
Y2	5,252	0	5,252	39,865	56,687	96,553	0
Y3	5,804	4,932	10,736	47,335	61,218	108,553	662,768
Y4	9,700	5,024	14,724	76,326	90,765	167,092	679,868

Bearing in mind that Manston's best year for cargo using numbers taken from Table 8 of Volume 1 of the Azimuth report showed the cargo tonnage handled at 31,078 tonnes in 2012, the idea that it will handle 96,553 tonnes in its first year of operation seems remarkably optimistic. Whereas in the past import tonnages were substantially greater than export freight, the forecast numbers above assume that export air freight will be greater. The explanation of this change around is not provided.

While the 31,078 tonnage agrees with the report published by the CAA in its Airport Data from 1990 onwards, other files within that report quote the number of air traffic movements during that year as being 1,004. In 2012, 8,595 passengers are reported as travelling through Manston.

Again, using Table 8 of Volume 1 of the Azimuth report, the best year for passenger numbers at Manston was in 2005 when 206,875 passengers were carried and according to the CAA numbers there were 4,862 air traffic movements of which 231 were air taxi movements, thus 4,631 passenger ATMs or 44.7 passengers per ATM. Yet we are expected to believe that in year 3, its first year of passenger operation, it will carry 662,768 passengers, with a total of 4,932 movements or 134.38 passengers per ATM. Has anyone applied a reality check to these passenger number projections? Certainly there seems to be a disparity between the air traffic movements envisaged and the passenger and freight volumes.

Using numbers taken from a listing published by Wikepedia that shows the 40 largest airports in the UK for 2017, the RSP projection for its first year of passenger operations is that Manston will push Norwich out of its 29th position and be close to overtaking Bournemouth as the 28th busiest passenger airport in the UK. (Norwich handled 506,007 passengers in 2017 with 37,190 air traffic movements, and Bournemouth handled 667,981 passengers or 36,922 air traffic movements). The numbers for Norwich and Bournemouth again point to discrepancies with the projected air movements for Manston.

I can find no meaningful explanation of any of the cargo and passenger numbers quoted in the Azimuth report, merely a series of extrapolations from statistics provided by other organisations. Because the first-year numbers for both freight and passengers are overstated the forecasts for the latter years are equally overstated. There is no indication of any reality check being applied to these numbers.

RSP should be asked to clarify its traffic forecasts for freight and passengers. It should also explain the pricing structure it will have to apply in order to persuade airlines to change the airports that are currently used. The traffic forecasts clearly drive the employee numbers. If the traffic volume is wrong, the employee numbers will be similarly wrong. The traffic volume forecasts should also drive the earnings forecast in order to demonstrate commercial viability, but none is provided.

2. The needs of industry

I am not entirely clear that the Azimuth report states the requirements of industry correctly. The primary need for any producer is to deliver goods from factory to customer in the safest, cheapest, and most timely manner possible, meeting customer expectations. Simply because airfreight is quicker than other forms of transport does not mean that it is the most logical component of a process to deliver goods appropriately to exactly where a customer requires them and when it needs them.

I can accept that goods that travel across continents, as for example with transport from China or the USA to the UK or vice versa, might justify some air freight activity, but I doubt this is the case with goods travelling from Europe to the UK.

Various government websites I have seen state that all too often the growth in air freight does not match the forecasts of those involved in the promotion of air freight and I feel certain that this is the case with the Azimuth report.

3. The impact of change

The Azimuth report does not address the effect of change. Within the time frame of its review, there is a distinct likelihood that drones will play an important role in the delivery of goods from supplier to customer, without any involvement of airlines or airports at all. This seems highly likely in the case of near Europe trade.

Similarly, the idea that simply because the USA uses more freighters than are used currently in Europe, ignores the fact that wide bodied aircraft are highly appropriate for passenger transport. Inevitably that extra width creates opportunities for utilising extra space for belly hold freight. Airlines that have invested in aircraft that can carry high payloads of both passengers and freight are not going to give up willingly either of the income streams that they enjoy currently. Equally to minimise global warming, and the government controls that go with that, few airlines are going to operate 2 aircraft when 1 aircraft can provide sufficient space for both cargo and passengers.

Regardless of what happens at Manston, a major development is bound to occur at either or both Heathrow and Gatwick in the foreseeable future. These developments will have an adverse impact on any redevelopment proposal for Manston.

I may well not be accurate in describing these potential changes, but a well organised organisation would, at minimum, have discussed the potential impact of both positive and negative change on their forecasts.

4. Other potential income generating activities

There are plans to develop an aircraft teardown and recycling facility, a flight training school, a fixed base for executive travel and business facilities for aviation related organisations. None of these ideas will generate that much income and elements like these are usually seen as incremental activities to the main purpose of any airport. Too much focus on these could give rise to lack of attention to the major stated purpose of the reinvigorated airport, namely freight and passengers.

The RSP submission alludes to these possibilities for income generation but provides no market based information on which to demonstrate a genuine commercial need for these activities

5. Other Views

The opportunity has been taken to examine the work of other commentators and to see to what extent other airports are responding to issues of growth and change. The following represent a sample of these reviews:

a) Avia Solutions

I have read the analysis prepared for Thanet District Council by Avia Solutions in September 2016 and found a well-argued document that broadly agrees with my conclusion that the RSP proposal is not commercially viable.

It is clear that Avia Solutions found the same difficulty as I have done in finding any facts to support what I regard as overly optimistic forecasts for both cargo and passengers. Avia Solutions discovered that RSP regard their data as being of a highly confidential matter.

I can understand some of RSP's concern in this, but the fact remains that the data presented fails to justify the DCO because no substantive evidence of commercial viability has been provided.

b) Channel Tunnel Freight movements

An excerpt from The Times dated 11th January 2019 describes the level of truck movements carried through the Channel Tunnel:

"The owner of Eurotunnel has reported a record year for freight movements after transporting almost 1.69 million trucks.

Getlink, the Paris-based operator formally known as Groupe Eurotunnel, posted a 3 per cent rise in truck shuttles in 2018. The number of passenger vehicles it transported also rose from 2.6 million in 2017 to 2.7 million last year.

The results came as Jacques Gounon, chief executive of Getlink, attacked the British government for what he called "distortionary and anti-competitive" behaviour. As part of preparations for the UK to leave the European Union without a deal, ministers handed out contracts worth more than £100 million to boost cross-channel capacity.

Mr Gounon expressed "serious concern" in a letter to Chris Grayling, transport secretary, over his decision to award the work to three ferry companies.

Getlink "reserve all our rights to challenge such a measure both in the UK and France", he said."

Clearly Getlink do not intend to give up its cross channel freight operations to any airport operator, let alone one that has not succeeded in defining its unique selling points.

c) Flybe acquisition

The Financial Times on January 11th 2019 included the following:

"Virgin Atlantic and the Stobart Group have swooped on troubled UK regional airline Flybe with an ultra-low bid that caused the company's share price to plunge. The joint bid valued the equity at £2.2m, vastly below its closing market capitalisation of £36m on Thursday. The consortium, in the form of a new company called Connect Airways, will inherit Flybe's significant net debt, which was £82m at the end of September 2018. This is one of the main reasons for the low bid. The consortium will also provide Flybe with a £20m bridge loan to ensure it can continue operating, as well as promising to invest a further £80m. Virgin and Stobart originally expressed separate interest in taking over Flybe, but they came together to form a consortium along with US investment firm Cyrus just before Christmas hoping to create a more viable regional airline. Virgin had been looking for a UK domestic business to feed its international flights, which could be scaled up since the failure of Little Red, its domestic subsidiary which flew between 2013 and 2015. The board of Flybe has accepted the offer of 1p per share, which prompted a 90 per cent collapse in Flybe's share price to 1.9p at the open in London. The shares recovered slightly to 3.8p after lunch. They had hit a one-year high of 49.7p in March last year. The buyers said combining Flybe and Stobart Aviation, an arm of the infrastructure group, with Virgin would "create a fully fledged UK network carrier under the Virgin Atlantic brand", with an "enhanced presence" at Heathrow and Manchester airports."

Stobart Aviation owns both Southend and Carlisle airports and having injected some £40 million of its aviation assets into Connect Airways is unlikely to make use of Manston, when it already owns two other UK airports, one of which is relatively close to it.

Since that article was written there is some uncertainty about whether the Flybe acquisition will go ahead, but in the Financial Times of 11th February the comment is made that "Flybe has £80m-plus of net debt and is leasing too many planes in an industry suffering from overcapacity, competition and rising costs". The implication of that is that additional airports are not required, and that if they are developed, the likelihood of obtaining a realistic price for their services will be low. RSP has not discussed its pricing strategy for freight or passenger planes and absent that its ability to generate sufficient profits to satisfy E.I.O. Investments Ltd is remote.

d) Barbarions at the departure gate

The Economist dated 5th January 2019 contained the following article:

"STARTING ON December 19th, as Gatwick airport prepared to disclose a change of ownership, suspected drone sightings forced it to close its runway for a total of 36 hours. Passengers were delayed; so was the announcement. Only a week later could Britain's second-busiest hub reveal it had been sold to Vinci, a French transport group, in a deal valuing it at £8.3bn ($10.5bn). The previous owners, including Global Infrastructure Partners (GIP), an American fund manager, will keep 49.99%.

The acquisition cements Vinci's position as the world's largest private airport-operator, with Gatwick the biggest of the 46 it runs. It is also a reminder of how fast the industry has been privatised: over 50% of European airports have some private participation, up from 22% in 2010. Nearly half of winning bidders since 2008 have been financial investors, according to Mergermarket, a research group. Returns have been juicy. GIP bought Gatwick for £1.5bn in 2009; it and its co-investors have made twice that by selling half of the airport, and earned £1.5bn in dividends in the interim.

Infrastructure, such as bridges, telecom masts and utilities, typically enjoys monopoly positions and produces predictable long-term cash flows. Since the financial crisis, many sovereign-bond yields have been close to zero, tempting insurers and pension funds to switch to infrastructure assets. Airports have added appeal. On top of airline fees, most make profits from car-parking and retail. And passenger numbers typically rise 5-10% each year, says Vincent Levita of InfraVia, a fund manager.

So prices are, naturally, stiff. Since 2014 most large deals have valued hubs at over 15 times EBITDA (a measure of company profits). GIP sold London City Airport to Canadian pension funds for 28 times EBITDA in 2016. At 20 times EBITDA, Gatwick's pricing is a tad more conservative. That may reflect uncertainty linked to Brexit. But it also hints at caution as central banks tighten.

At its simplest, an airport's valuation is the sum of its future cash flows discounted by the cost of money. When interest rates increase, that cost rises and the valuation falls. But the effect is limited, since airports' regulated cash flows are generally indexed to inflation, and their commercial income is correlated with GDP growth. Both inflation and growth tend to be higher when monetary policy is being tightened.

Another problem of higher rates is that airports tend to have a lot of debt. But airport owners have learnt from the pre-crisis years, when hubs often traded at more than 25 times EBITDA. They now raise longer-term debt and mix maturities, says Bruno Candès of InfraVia.

If government bond yields rise, infrastructure will seem less appealing by comparison. But a lot of capital has already been earmarked for the sector, ensuring that investors will continue to fight over the limited number of airports for sale. According to *Infrastructure Investor*, an industry publication, infrastructure funds could attract $100bn in 2019, up from a record $80bn in 2018. A blip in traffic growth could cause over-optimistic buyers to post disappointing returns, says Mathias Burghardt of Ardian, a fund manager. But prices are unlikely to suffer a hard landing.

This article appeared in the Finance and economics section of the print edition under the headline "Barbarians at the departure gate"

These four examples demonstrate the importance of having a business that defines its USPs, shows it has sound economic credentials and understands the difficulty of breaking into a market where other operators have a dominant market position.

RSP has failed to demonstrate credible need for its proposal.

Socio-economic issues

Estimates of employment generation

a The necessity for job creation in Thanet

The importance of job creation in Thanet is made clearly in the Azimuth report but it is not just Azimuth that is aware of this. Deprivation is widely recognised throughout the Kent community. That is why it is so essential that RSP demonstrate in its planning that it has robust forecasts for activities for which it is responsible and most importantly that it has the finance available to fund its direct employees until such time as the business that is proposed grows to a level that generates sufficient income to become self-sustaining.

The inclusion of employees that are classified as direct members of staff, but are not directly employed by whichever RiverOak company is going to hire them is a distraction to understanding the operational viability of Manston airport.

The inclusion of indirect, induced or catalytic people in the report simply serves to distract attention from the key issue. Is the forecast of activity at Manston capable of supporting the employment levels suggested while at the same time meeting all its other expense obligations including providing an adequate return on capital for its overseas owners?

It is by no means certain, in any case, that companies that might work with RSP will necessarily have to hire additional staff to do so, regardless of whether those companies will decide to operate in Kent. Equally some of the engineering companies that RSP plan to attract to site already have places of business relatively adjacent to the site, so the perceived benefit of moving these businesses makes no difference to the local employment position.

In its first year, a prediction has been made that 116 people will be directly employed by a RiverOak company and during that time no freight or passengers will be handled.

This information comes from Table 6 of Volume 4 of the Azimuth report, part of which is displayed below, for ease of reference:

Table 6 Estimated job creation by the Manston Airport operator by function

	Pax	Frei't	ATS	RFFS	Ops	Maint	MT	Sec	Adm	Total
Y1	0	49	6	14	6	8	8	11	14	**116**
Y2	0	196	25	57	24	31	31	45	14	**423**
Y3	99	215	25	57	29	38	38	55	15	**571**
Y4	102	302	25	57	31	41	41	59	15	**673**

In its second year staff numbers grow to 423 and during that time 5,252 freight air traffic movements are predicted. It is unclear how the number of staff flex with air traffic movements. This is an essential question given that the air traffic movement numbers are overstated.

By the third year staff numbers rise to 571 there are 5,804 freight air traffic movements and 4,932 passenger air traffic movements.

As explained elsewhere in this report, the air traffic movements together with the tonnages and passengers carried are considered to be overly optimistic. If the air traffic movements are wrong, the employment numbers have that characteristic too.

b Concern about deprivation in Thanet

Everyone accepts that Thanet is an area of high deprivation so plans to expand work opportunities are to be welcomed.

Should the project fail, as it seems set to do, people who thought they had or would obtain a job working at Manston will find their hopes and aspirations at low level again.

I see no reason why people living in the area should be placed in this unacceptable situation.

Traffic and transport

a Impact on Kent roads.

The Azimuth report contains a mistaken belief that as a result of re-opening Manston as an airport, freight that currently comes to the UK by road across or under the Channel, will instead be delivered by air to Manston and that this will have a favourable impact on Kent roads.

If the assumption is valid, there would be a reduction in traffic on the M20 out of Dover and Folkestone but a commensurate increase in traffic on the narrower A299 and M2, since the goods carried are unlikely to be just purely for goods required in Kent.

Additionally, the M2 and A299 will be required to carry aircraft fuel regularly to the Manston site, a safety issue that requires examination.

There is an assumption too that goods can be delivered by road to London in an hour from Manston. That assumes that the goods being delivered are actually required in London. The greater likelihood is that they will require delivery to the north or west of London, something that will require driving on the M25, a motorway not known for speedy transit.

The writer of the Azimuth report and the directors of RSP appear to have no first-hand experience of Kent or London road traffic flows.

b Moving passengers to and from Manston

In part, passengers are expected to drive their cars to the Manston car park. Taking the RSP forecast that 662,768 passengers will be carried in the third year of the airport being back in business, no real thought appears to have been given to how these passengers will arrive at Manston.

The only reference that can be found is that car parking capacity of 1,069 spaces will be required (Azimuth report volume III Table 7). These numbers are clearly inconsistent with the passenger numbers forecast.

Some passengers will of course travel by rail to Manston, but there is some degree of uncertainty about whether and when the suggested parkway station will be built. How are the passengers who travel by rail to get to Manston?

There is no clarity about how passengers will reach Manston or return home from their flight.

SUMMARY

I reiterate that I can see no valid argument for the re-development of Manston as an airport having been made by RSP.

- The case for compulsory acquisition has not been made
- No evidence that funding will be provided for staff and their working supplies until the airport starts to generate its own cash has been provided
- The freight and passenger forecasts are inflated guesses, not based on reality
- No numbers have been produced to demonstrate the commercial viability of the airport that tie into a financially coherent plan
- The road traffic issues associated with the project lack evidence that the current Kent road traffic volumes and what they will be like should the airport renewal be agreed are understood
- There is a significant risk that the additional employment opportunities promised will not be delivered in an area where there is high deprivation, with the likelihood that the investors will walk away from the project when they fail to earn their expected return on their investment.

In short, the case presented by RSP makes no commercial sense at all and should be rejected.

Manston Airport

Information supplied by Timothy Bentley

(Manston Reference Number: 20014305)

SUMMARY OF RSP MANSTON REVIEW

1 Compulsory Acquisition.

a) Against a background of overseas investments in airports (cf Vinci at Gatwick) RSP fails to explain why Manston is so attractive.
b) Stone Hill Park Ltd don't believe Manston is viable as an airport; Southend made huge losses in 2017; Airports Commission rejected Manston

No compelling public interest case

2 Funding

a) Application is made by RSP but there is activity in its subsidiaries, RiverOak AL Ltd (£46,379 in debt at 31July 2017) and RiverOak Operations Ltd (£3,769,941 in debt at 31 August 2017). Review of Companies House data reveals that there are 6 RiverOak companies, including RSP.
b) No consolidated accounts from RSP; in breach of IFRS 10 rules.
c) Helix Fiduciary letter, written after RSP Company House filing, fails to mention already incurred debts, raising questions about ongoing funding..
d) No working capital is included in the 3-phase capital expenditure forecast of £313.6 million. The Azimuth report discusses 4 project phases. What is the plan?
e) No details are provided of different trading scenarios, eg the profitability of freight compared to passenger flights and nothing at all to describe economic viability
f) The RiverOak Investment Corporation (RIC) website shows no airport activity and a business that deals in investments up to $50m. Adding in working capital and start up costs, Manston looks likely to require $600m of investment. Can the ex RIC executives handle this? No evidence of "multiple historical airport financings " provided
g) 5 RSP directors show their working experience as being 'investments', 'banking ' or 'fiduciary', hardly relevant to running an airport!
h) Mr Freudmann may have spent £125m on capital at Manston but PlaneStation plc was still dissolved.
i) No substantive information is provided about his actions as a Council Leader
j) His tourism companies were all dissolved

None of the directors can claim success at airport management or with a project as large as Manston. The profitability of airlines is currently low hence reducing airport pricing options.

The funding arrangements for RSP are:

- unclear and badly explained,
- unlikely to generate adequate profits

3 Need

a) The Azimuth report shows 5,252 freight ATMs and 96,553 tonnes in its first year compared to Manston's previous best in 2012 of 1,004 ATMs and 31,078 tonnes.
b) For passengers, 4,932 ATMs and 662,768 passengers are envisaged in year 1 versus a previous best in 2005 of 4,631 ATMs and 206,875 passengers.
c) These assumptions put Manston as the 5th largest freight airport in the UK and the 28th busiest passenger airport in its first year! Forecast realism is totally missing!
d) No consideration has been given to the likelihood of substantial change in the airport market caused perhaps by drones and the expansion of Heathrow and possibly Gatwick too.
e) With excess aircraft in many airlines, they are most unlikely to give up valuable income streams from belly hold freight and will expect substantial price reductions to move airport locations

The ATMs suggested lack credibility and not being built into a financial model do not demonstrate any real need.

4 Socio-economic issues

The employment numbers are based on unrealistic ATMs and it is galling to find Thanet's deprived people having their hopes of interesting and well-paid work being dashed by faulty forecasts and uncertainty about RSP's ability to pay.

The comments about personnel increases in industries providing services to Manston are equally speculative.

The data presented do not support the levels of employment RSP suggests.

5 Traffic and Transport

The Azimuth report suggest transferring lorries from the M20 to the narrower A299 and M2.

No credible idea is provided about how the passenger numbers will arrive at or depart from Manston. The Parkway Station at Manston is still not approved.

The RSP proposal is unworthy of support given its:

- **unsubstantiated forecast of freight and passengers**
- **failure to provide a realistic financial plan**
- **distinct likelihood of operational failure**
- **inappropriate and unproven directors**
- **failure to resolve Thanet's deprivation level**