

Ireland West Airport Knock

Study Group Report

Final Report

December 2013

FOREWORD	v
1. Introduction and overview	1
1.1 Ireland West Airport Knock	1
1.2 The Airport in its catchment	2
1.3 The existing policy support framework for regional aviation	3
1.4 The Study Group: composition and terms of reference	4
1.5 The work of the Study Group.....	5
1.6 Structure of this report.....	6
2. Recent Performance and Emerging Challenges.....	7
2.1 Overview.....	7
2.2 The recent past – passenger numbers, revenues and costs.....	7
2.3 The underlying financial position	10
2.4 Fiscal constraints	12
2.5 The challenge	14
3. Framing the Business Plan.....	15
3.1 The policy context.....	15
3.2 Options for viability and growth.....	17
3.3 The Airport in its catchment: offering the scope for growth	19
3.4 Economic prospects in the region and beyond.....	20
3.5 Tourism.....	22
3.6 Charting a path to sustainability	24
4. Making it happen	25
4.1 A business plan for growth and viability	25
4.2 Actions required	25
5. Conclusions	30
5.1 The work of the Study Group.....	30
5.2 Recent performance, emerging challenges and the scope for growth.....	30
5.3 Making it happen.....	30

FOREWORD

I was pleased to be invited by An Taoiseach, Enda Kenny T.D. to chair this Study Group to examine the potential for the future of Ireland West Airport Knock.

It represented an opportunity and a challenge against the backdrop of changing policy positions at both a national and European level.



The current Exchequer Funding Programme for regional airports will cease at the end of 2014. From the outset, therefore, it was understood that whatever recommendations evolved from the examination of IWA Knock, Ireland's largest regional airport, they would have an important impact on the formulation of future Government policy for regional airports.

Furthermore, at a time when the 2005 European Policy on State Aid and especially the basis for future supports for regional airports is being reviewed, those recommendations will also assist Ireland in contributing to the establishment of new parameters post 2014.

My concern has been to ensure that the contribution made by regional airports to social and economic development in peripheral locations is fairly acknowledged at a national and European level. By using IWA Knock as a reference case, I believe this has been demonstrated.

However, given fiscal constraints, it is also clear that Regional Airports must develop business plans for ongoing sustainability which recognise the lesser role that State supports will play into the future. I am confident that IWA Knock has demonstrated a capacity to do so and has also acknowledged the benefit of using a balance of local and national, public and private inputs to achieving its objective of commercial viability. Achieving this will require investment and that will need to include state support. I do not believe that a reduction in State funding can be achieved in the short term and I hope that Government will recognise the need to develop a new programme for Regional Airports for a defined period from 2015 based on the conclusions of this Report.

The Group comprised representatives from the range of local and national interests including the airport Board and management, Government Departments, local business, State Agencies and Local Authorities, and were assisted by EY. I genuinely believe it gave the different participants a new insight into the difficulties and challenges faced in other sectors. I wish to take this opportunity to express my sincere appreciation to all the members of the Group for their work.

I am confident that this Report will be of significant benefit, not only in terms of IWA Knock's future, but also in developing policy on regional airports in Ireland.

John O'Mahony T.D.
Chairman

1. Introduction and overview

1.1 Ireland West Airport Knock

IWA Knock was established in 1985 and was officially opened in 1986 in response to a campaign led by Monsignor James Horan, a local parish priest. The initial idea conceived of by Monsignor Horan was to give pilgrims easier access to Knock Shrine and to provide a link with other Christian sites across Europe.

From that modest beginning, the Airport has grown to be a key channel of connectivity to the region and is now the largest non-State owned airport in Ireland.

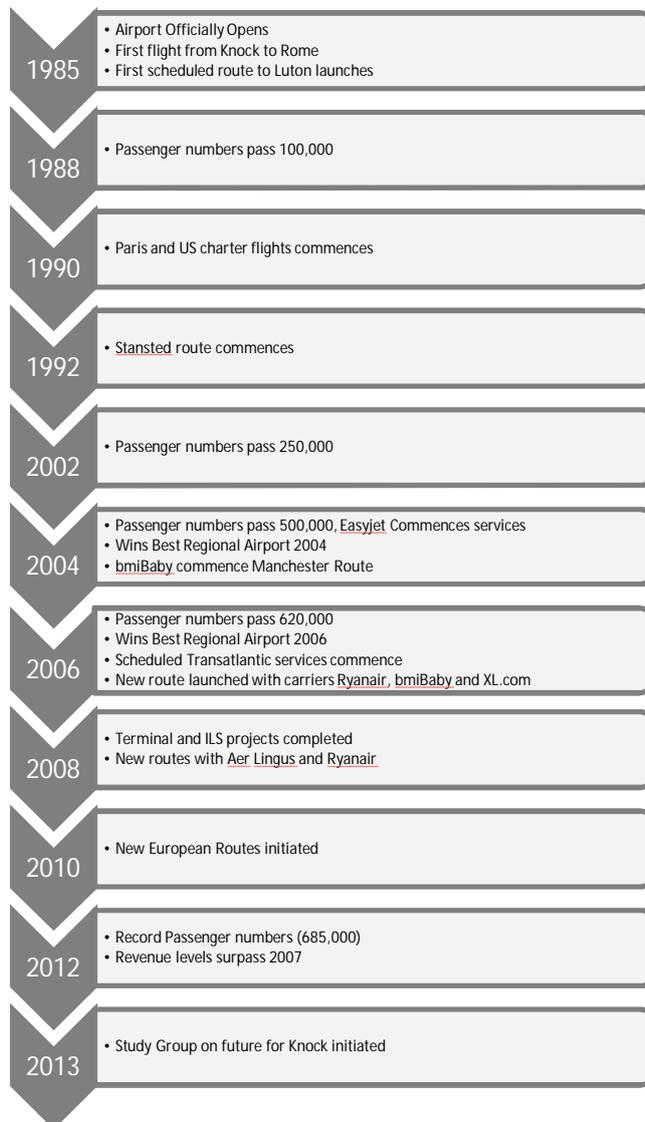
Passenger numbers have displayed a continued upward trajectory and, following a slight dip in the early years of the economic downturn, have shown resolute growth in the face of considerable headwinds. In 2012, a record number of passengers used the Airport and revenues surpassed 2007 levels for the first time.

The Airport is now a critical piece of the economic and social infrastructure of the region and provides vital connectivity to the West of Ireland.

IWA Knock is unique in the Irish aviation industry in that it is operated as an independent airport by Connaught Airport Development Company (CADCO) Ltd, a private company responsible for its day-to-day operation. The Board of Directors consists of twelve members and the sole shareholder in CADCO is the nine-member Horan International Airport Trust. The responsibility of the trustees is to ensure that all profits generated by the Airport are re-invested in the Airport with a focus on providing support to the surrounding region. Through this structure, a level of community and regional-economy involvement is brought to bear on the Airport's focus not common elsewhere.

The role and importance of IWA Knock in the local and regional economies and wider community contribution form an aspect of the backdrop to this study.

The challenge now, is to assess – and work to safeguard – the future of the Airport. Crucially, this must be achieved within a framework of sustainability; both from a financial perspective and from the perspective of State-support.



1.2 The Airport in its catchment

IWA Knock is an important access point to the West, North West and Midlands Region. Across the world, regional airports make a valuable contribution to social and economic development in what might otherwise be peripheral locations. On this theme, a recent report conducted on behalf of the European Commission underlines the important role that airports can play in meeting EU regional development goals. The report noted that better accessibility is one of the means to improve conditions in peripheral locations and regional airports are an important option for improving accessibility in this context.¹

IWA Knock serves as a direct contributor to employment creation and is an important enabler of other economic activities. A 2011 report noted that IWA Knock supports 167 full time equivalent jobs and is a catalyst for a range of follow on activities.²

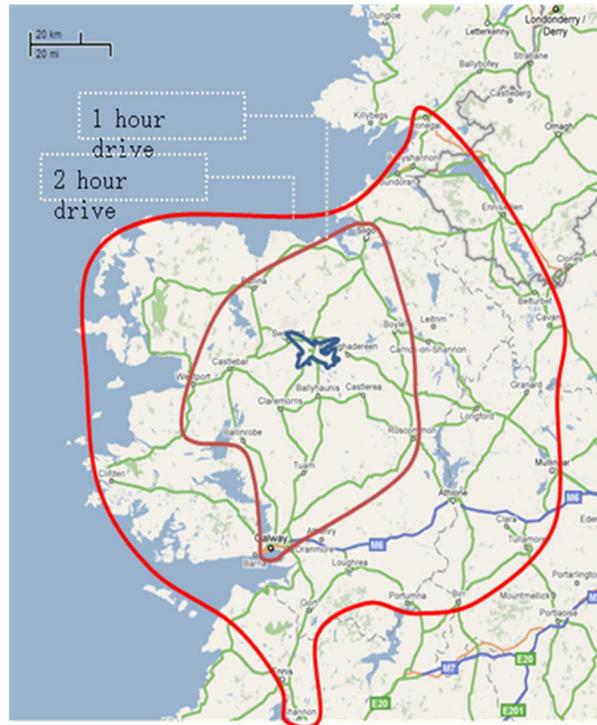
The analysis estimated that for every €100 spent by IWA Knock, an additional contribution of €69 is made to the economy in terms of indirect activity, with the majority of benefits concentrated in the Border, Midlands and West Region. In 2012 IWA Knock spent over €14 million on goods and services, thereby facilitating a further €9.8 million of expenditure on goods and services and underlining the important contribution the Airport makes to the development of its catchment.

The Group also notes the important role of the Airport as an access point for tourists.

The 2011 Report estimated that the tourism activities facilitated by IWA Knock supported a further 817 jobs and led to €111 million of expenditure on goods and services.

Through the variety of routes and destinations served, the Airport provides a considerable degree of connectivity into the UK and wider European market

Figure 1.1 IWA Knock Catchment Area



¹ ESPON (2012) *Airports as Drivers of Economic Success in Peripheral Regions*

² EY (2011) *Ireland West Airport Knock – Economic Study*

Figure 1.2 Destinations Served from IWA Knock



Source: IWA Knock

Table 1.1 shows the impressive performance of IWA Knock against a number of key indicators of economic contribution.

Table 1.1 IWA Knock Economic Contribution, 2012

Indicator	Outturn
Expenditure on goods and services (€ million)	€14.3
Indirect expenditure on goods and services (€ million)	€9.8
Total direct employment (Full Time Equivalent)	102
Employment generated by tourists using IWA Knock (Full Time Equivalent)*	817
Bednights generated*	900,000
Expenditure by tourists using IWA Knock* (€million)	€ 111

*denotes 2010 data

Sources: IWA Knock, EY Economic Study 2011

Accordingly, the Group recognises the importance of the Airport in the region and the imperative of securing a sustainable and vibrant future for IWA Knock.

1.3 The existing policy support framework for regional aviation

Exchequer financial supports are currently provided to four regional airports (Donegal, IWA Knock, Kerry and Waterford). That financial support is administered by the Department of Transport, Tourism & Sport through three separate schemes:

- Public Service Obligation (PSO) air services Scheme - which provides financial support to airlines, based on a competitive tender, to operate essential services. It is a response to the need to ensure connectivity in areas not otherwise served by adequate transport services. The current PSO air services are Donegal to Dublin and Kerry to Dublin and end in November 2014.
- Core Airport Management Operational Expenditure Subvention Scheme - Separately from the need to ensure a particular service, the general economic interest that is served by an airport in a regional location has also been recognised in domestic policy. The Department of Transport, Tourism & Sports' Core Airport Management Operational Expenditure Subvention Scheme (OPEX) works in accordance with the EU Commission's 2005 Guidelines on airport funding. Under the scheme, the Minister may compensate the regional airports for 'subventible losses' - the costs incurred in providing core airport services, insofar as these costs cannot be fully met by prudent commercial management and from any surpluses generated by non-core activities such as car parking charges and catering. The current Scheme expires on 31 December 2014.
- Regional Airports Capital Expenditure Grant Scheme - Additional funding is also provided to the regional airports to support capital investment under a Regional Airports Capital Expenditure (CAPEX) Grant Scheme. In recent times, grant aid under this programme has been limited to those projects or project elements that are essential for safety and security reasons. The current Scheme ends in December 2014.

These programmes are a key element of the overall policy context within which the Group carried out its work.

1.4 The Study Group: composition and terms of reference

Against a backdrop of a number of national and European policy junctures, a Study Group was established to report on options and opportunities for the growth and development of IWA Knock. The specific purpose of the Group is to:

- Examine how best the future of the Airport can be secured
- Examine and clarify the role of the Airport in the catchment area
- Explore options for growth of the Airport
- Examine the means by which the Airport can best support industry and tourism in the catchment it serves
- Take account of available funding, competition rules, and how the Airport can be further developed having regard to the implications for the other regional airports.

In its composition, the Group is representative of the range of local and national stakeholders in the Airport. These include the relevant Government Departments, local business (serving both export and domestic markets) State Agencies and Local Authorities. Table 1.2 provides further detail.

Table 1.2 IWA Knock Study Group Composition

Steering group membership	Affiliation
John O'Mahony, T.D. (Chairman)	Chairman of the Joint Oireachtas Committee on Transport and Communications
Paul Hannon ¹ Declan Hayes ²	Department of Transport, Tourism & Sport
Barry Egan	Enterprise Ireland, Representing Department of Jobs, Enterprise & Innovation
John Fearon	Assistant Secretary, Department of Transport, Tourism & Sport
Pat Gallagher	Baxter
Martin Gillen	IWA Knock Board member
Joe Gilmore	IWA Knock Managing Director
Seamus Granahan ³ Peter Hynes ⁴ Joanne Grehan ⁵	Mayo County Council
Paul O'Connor ⁶ Nico Petris ⁷	Department of Finance
Fergal Ryan	Carlton Hotel Group

¹ Secretary to the Group until September 2013

² Secretary to the Group from October 2013

³ Until September 2013

⁴ From October 2013

⁵ From June 2013

⁶ Until September 2013

⁷ From October 2013

1.5 The work of the Study Group

As noted, previous research has demonstrated the economic, social and cultural importance of the Airport to the region and beyond. Given the Airport's importance and the scale of the task encountered, the Group undertook a thorough process of analysis and deliberation. The Group met on eight occasions and a considerable volume of work was undertaken over the period. To support its work, the Group commissioned EY to undertake a number of pieces of research and analysis including operational and financial modelling of potential future scenarios for the Airport.

Figure 1.3 below illustrates the main blocks of research and analysis which informed the Group's deliberations and the formulation of this report.

Figure 1.3 Key Components of the Work of the Study Group



1.6 Structure of this report

This report documents the overall output of the Group's work and reflects the key themes of the analysis and deliberation carried out.

Section 2 begins by describing the recent – and highly impressive – performance of IWA Knock. At the same time however, short-term challenges mean that the task of charting a sustainable and vibrant future for IWA Knock should not be understated. In addition, any potential plan for sustainability must be framed in the context of the ongoing fiscal challenges.

Section 3 discusses the opportunities which aid the articulation of a sustainable strategy for the Airport. While aviation policy at a national and European level acts to constrain options to a degree, it also offers opportunities by conferring on the Airport a regional aviation primacy and by allowing the scope to prepare a business plan that can take it to sustainability.

Fittingly, for an Airport with the provenance and vital local role of IWA Knock, the greatest potential for its future comes from within the region itself. Accordingly Section 3 draws out the opportunities inherent in the current and future role of the Airport in its catchment.

Of critical importance to the delivery of this future are the respective roles and actions required to make the plan a reality. To this end, Section 4 outlines the responsibilities of all stakeholders, from the Airport itself, through the local community and enterprise base to the Local Authority, State Agencies at central level and the Department of Transport, Tourism & Sport.

Section 5 concludes the report.

2. Recent Performance and Emerging Challenges

2.1 Overview

This Section sets out the findings of the detailed operational and financial analysis undertaken by the Group. As a starting point, the Group considered a line-by-line assessment of recent performance of the Airport, specifically focusing on trends in passenger numbers, resulting revenues and associated costs. This phase of the analysis was important both in terms of understanding the scale of the challenge encountered by the Group and to give the business-model context for any potential options to be pursued.

Section 2 illustrates the challenge encountered in terms of delivering future sustainability of IWA Knock, both in terms of the internal operational and financial performance of the Airport and in the context of the wider fiscal environment.

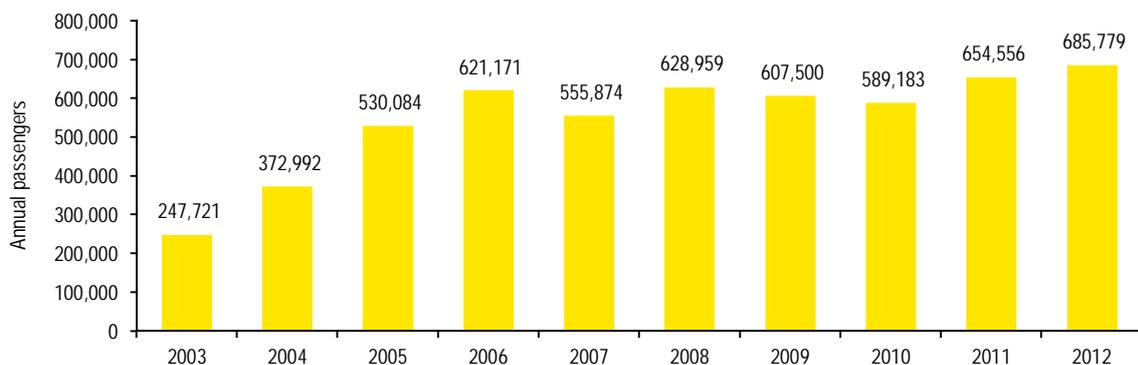
2.2 The recent past – passenger numbers, revenues and costs

Over the past decade the Airport has recorded impressive performance in growing its passenger base and driving efficiency. This outturn has been delivered against the backdrop of a particularly challenging economic environment involving a major contraction in discretionary income and a period of consolidation in the regional airport landscape – both in Ireland and internationally.

2.2.1 A decade of growth - passenger numbers at IWA Knock

The overall trend has been an almost three-fold increase in passenger throughput at the Airport over the past decade, from under 250,000 to almost 700,000 passengers per annum. While the initial impact of the economic downturn was a reduction in patronage (and the ash cloud reduced numbers in 2010), 2011 and 2012 saw a return to growth with record numbers registered in the latter year. Figure 2.1 shows the trend in passenger numbers from 2003 to 2012.

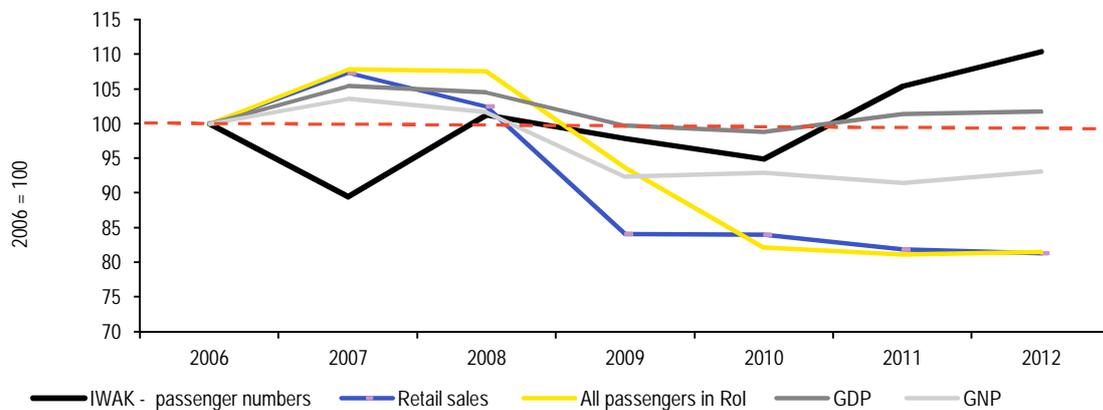
Figure 2.1 IWA Knock Passenger Numbers, 2003 - 2012



Source: IWA Knock

The Airport's traffic growth performance is all the more impressive when considered in light of wider developments over the second half of the period. Figure 2.2 maps passenger outturn against wider economic developments. Overall passenger numbers in the Republic of Ireland have broadly followed economic trends, particularly retail sales. By comparison passenger numbers at IWA Knock have grown strongly while there has been little economic growth.

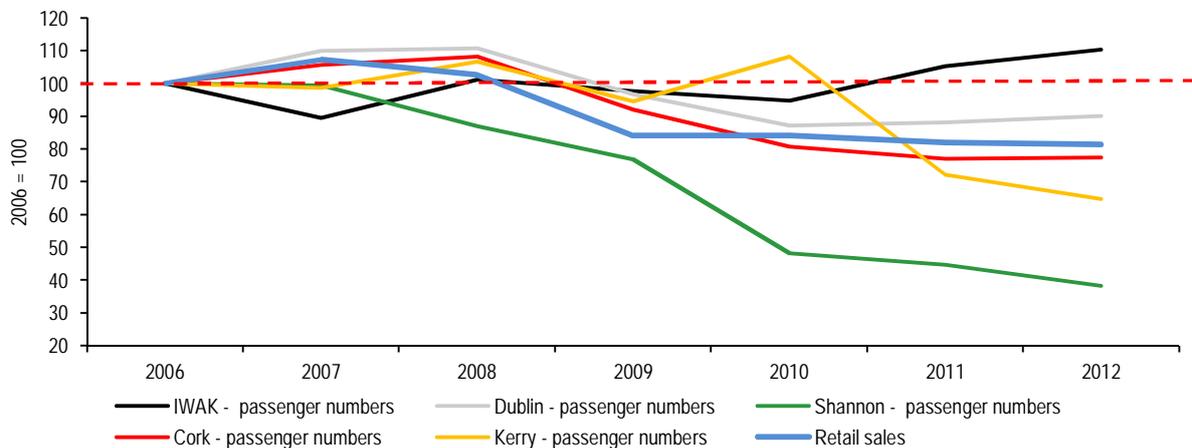
Figure 2.2 IWA Knock Passenger Numbers and Wider Economic Indicators



Source: EY, IWA Knock and CSO

Figure 2.3 shows the change in passenger numbers of IWA Knock alongside that of other Irish airports over the period 2006 to 2012. Sligo and Galway Airports ceased scheduled flights during this period and so have not been shown. It can be seen that only IWA Knock has shown strong growth in recent years.

Figure 2.3 Passenger Trends in Irish Airports, 2006 - 2012



Source: EY, CSO

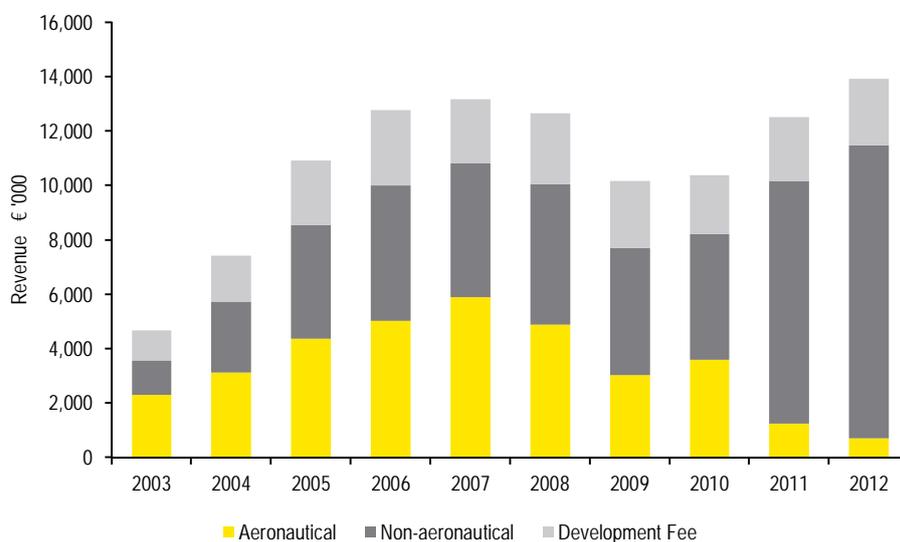
The comparative strength of performance of IWA Knock is clear from this analysis. Of all Irish airports, only IWA Knock has surpassed 2006 levels. All others have experienced a major contraction since the onset of the downturn.

2.2.2 Airport revenues and costs

In 2012, revenue surpassed 2007 levels for the first time owing, in part, to the record passenger levels achieved as described above. The loss of revenue associated with the cessation of PSO services in 2011 was offset by increased non-aeronautical revenues as the Airport moved to bring

in-house activities which had previously been outsourced. Overall, total turnover was €14 million. Given reductions in aeronautical revenue, IWA Knock's revenue model has been strategically repositioned to source a greater share from non-aeronautical channels, albeit that these are lower margin activities. Accordingly in recent years the share of total revenue from non-aeronautical sources has grown, as shown in Figure 2.4.

Figure 2.4 Trends in Revenue Components, 2003-2012



Source: IWA Knock

In addition to aeronautical and non-aeronautical revenues, the development fee has proved to be a stable revenue source, on average contributing €2.4 million over the 2005-2012 period. The fee, introduced in 2003, is a €10 charge on all departing passengers over 12 years of age. The Group is not aware of any other airport having this type of revenue source.

Regarding costs, IWA Knock has shown a resolute capacity to grow passenger numbers within a stable cost base. Operating costs at IWA Knock have been reduced since 2008, as shown in Table 2.1.³ While the trend in the aggregate cost of sales has been upwards over the period, this is accounted for by the fact that the Airport took over activities which were previously contracted to external providers (for example fuel sales).

Table 2.1 Total operating costs and cost of sales, 2008-2012

	Operating costs	Cost of sales	Total
2008	7,347,173	4,176,747	11,523,920
2009	6,600,190	2,743,863	9,344,053
2010	6,439,848	3,496,356	9,936,204
2011	6,752,610	5,059,567	11,812,177
2012	7,147,837	6,610,720	13,758,556

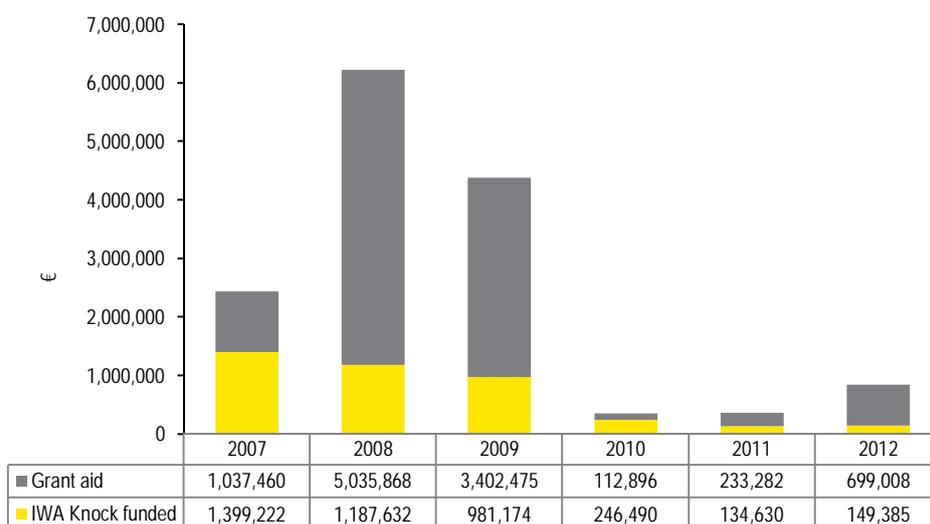
Source: IWA Knock

³ Operating costs exclude depreciation and gross of the Government Grant write back

On a per passenger basis, operating costs have successfully been reduced relative to 2008, pointing to improved productivity in operations. Operating costs per passenger are currently running below average levels for a cohort of UK regional airports benchmarked by EY for the Group, presenting further endorsement of recent performance. The Airport's performance has also been affirmed in a domestic context: a 2010 evaluation showed IWA Knock out performing other Irish regional airports on a number of metrics.⁴

The final category of costs considered relates to capital investment. Figure 2.5 shows the trend in overall investment in capital projects between 2007 and 2012, including the portion funded through Government grants and the portion directly funded by IWA Knock. The peaks of €6.2 million in 2008 and €4.4 million in 2009 relate to the construction of the departures terminal. Since 2010, projects have been limited to essential safety works. The shortage of Government and Airport funds has prevented the implementation of planned projects such as the runway overlay and the apron expansion.

Figure 2.5 Capital investment in the Airport, 2007-2012



Source: IWA Knock

2.3 The underlying financial position

These historic and current trends in passenger numbers, revenues and costs - together with legacy financial issues like debt - combine to produce the Airport's underlying financial position. Table 2.2 sets out the operating financial position since 2008, including estimates for 2013. While revenues are increasing, so too are the cost of sales, so that gross profit and margin have declined. Operating costs are less than in 2008 but rising with the increase in passengers.

As measured by 'EBITDA' (earnings before interest, tax, depreciation and amortisation) IWA Knock has registered a profit in recent years, but this is falling. In 2013, this surplus is estimated by IWA Knock to be in the region of €180,000. An operating grant is required by the Airport to achieve a breakeven position on a net profit basis.

⁴ Department of Transport (2010) *Value for Money and Policy Review of Exchequer Expenditure on the Regional Airports Programme*

While the Airport shows a modest operating profit and a positive cash flow, it has been recording a loss for a number of years once finance charges are taken into account.⁵ As shown in Table 2.3, the 2013 Budget Income Statement anticipates a small free cash flow of €0.3 million.

The 2012 Balance Sheet, shown in Table 2.4, includes the airports assets of €29.4 million, debt to the Western Development Commission of €1.9 million and debt to the bank of €7.9 million, which is secured on the Airport's assets. Accounting for deferred grants of €17.6 million, the 2012 equity position was €2 million.

In a future scenario where there was no change in current policy, the withdrawal of capital and operating grants will result in negative free cash flow and IWA Knock will be unable to finance its operations and be severely constrained in relation to capital expenditure. In effect, a financially critical situation would be reached by the second half of 2014 and without additional investment the Airport will be forced to close.

This reality is a key informant of the deliberations of the Group and gives the first indication of the scale of the challenge faced by the Group.

Table 2.2 IWA Knock operating financial position, 2008-2013 (e)

	2008	2009	2010	2011	2012	2013 (e) ⁶
Revenue	12,655,209	10,179,131	10,384,273	12,528,824	13,927,854	14,069,594
Cost of sales	4,176,747	2,743,863	3,496,356	5,059,567	6,610,720	6,601,145
Gross profit	8,478,462	7,435,268	6,887,917	7,469,257	7,317,135	7,468,449
Operating costs	7,347,173	6,600,190	6,439,848	6,752,610	7,064,114	7,324,082
EBITDA	1,131,289	835,078	448,069	716,647	253,021	144,367
Opex Grant	-	445,000	760,948	431,907	589,644	700,000
Profit/(Loss)	1,131,289	1,280,078	1,209,017	1,148,554	842,665	844,367
Ratios						
Passengers	628,959	607,500	589,183	654,556	685,779	678,586
Change in passengers	13.1%	(3.4%)	(3.0%)	11.1%	4.8%	(1.0%)
Change in revenue	(4.0%)	(19.6%)	2.0%	20.7%	11.2%	1.0%
Gross margin	67.0%	73.0%	66.3%	59.6%	52.5%	53.1%
EBITDA margin	8.9%	8.2%	4.3%	5.7%	1.8%	1.0%

⁵ These include annual interest and capital repayments on bank and Western Development Commission debt of around €900,000 per annum. Bank debt is secured on airport assets. Covenants under the bank debt require bank approval for capital expenditure in excess of €100,000 per annum and for taking on any other liabilities in excess of €100,000.

⁶ IWA Knock internal estimates

Table 2.3 Budget Income Statement

Item	2013 Budget (€m)
Turnover	14.1
Cost of Sales	(6.6)
Other operating Costs	(7.3)
Interest	(0.3)
Core State Grant	0.7
Profit / (Loss)	-
Free Cash Flow	0.3
Interest	(0.3)
Debt Repayment	(0.5)
Increase / Decrease in cash	(0.5)

Source: IWA Knock, Department of Finance

Table 2.4 2012 Balance Sheet

Item	2012 (€m)
Fixed Assets	29.5
Other Net Assets	3.6
WDC debt	(2.0)
Bank debt	(8.5)
Deferred grants	(18.0)
Equity	2.0

Source: IWA Knock, Department of Finance

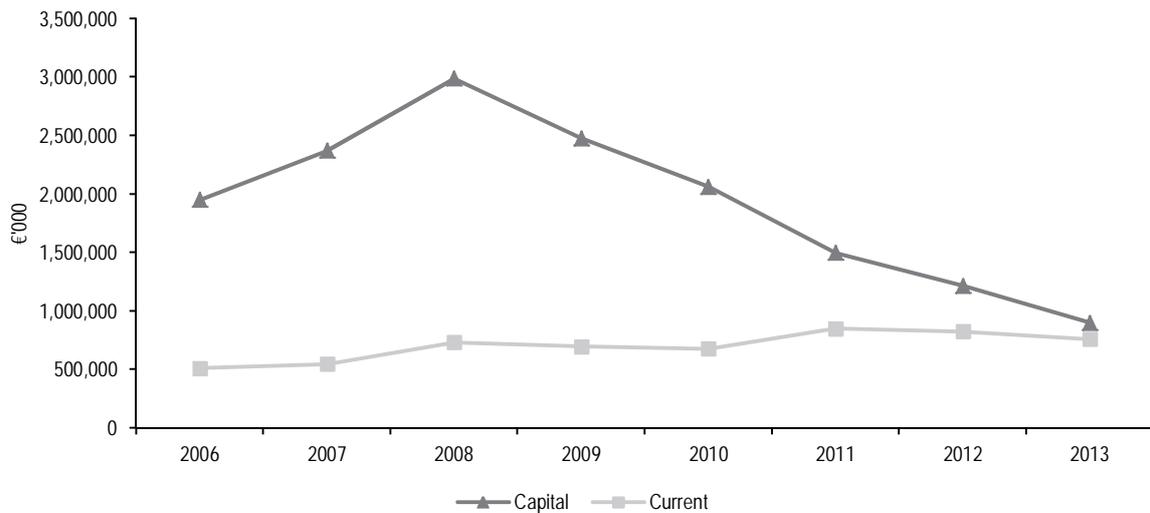
In addition to this significant challenge in relation to Airport operations, the external environment in terms of economic and fiscal constraints must also be considered.

2.4 Fiscal constraints

A number of recent developments in Irish economic performance have supported a measure of cautious optimism regarding medium-term growth prospects. These include an improved labour market outturn and a lower than anticipated Budgetary adjustment.

Notwithstanding these positive developments, the fiscal position will continue to set a very challenging backdrop over the coming years. Budget 2014 requires some €75 million in current expenditure savings from the Department of Transport, Tourism & Sport. In terms of capital expenditure, the Department's allocation is just under €900 million, compared to in excess of €2 billion during peak years.

Figure 2.6 Current and Capital Expenditure by the Department of Transport, Tourism & Sport



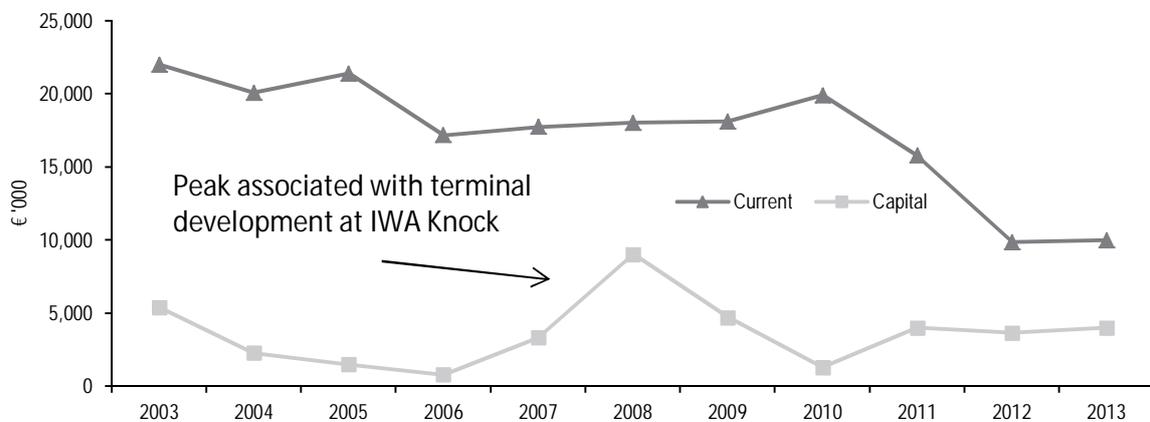
Source: Databank of the Department of Public Expenditure and Reform.

Regarding capital investment in general, the clear focus at present – across the spectrum of sectors – is on safety and maintenance in the first instance with the development of capacity enhancing projects only pursued in a small number of cases where benefits clearly outweigh costs.

The main point in this regard is that in the context of this constrained funding environment, public expenditure choices are zero-sum: for one project or programme to proceed, another has to be withdrawn. While this of itself is not a barrier to reprioritisation (as the Exchequer strives to pursue the highest-impact options) the Group recognises the fundamental trade-offs involved in public spending choices.

Public support to regional airports works within this overall fiscal context and while a substantial level of support has been maintained even in the context of the overall Budgetary environment, all policy areas have been required to contribute to the consolidation effort. Figure 2.7 below shows the recent trends in relation to Exchequer supports for regional airports. The chart shows a peak in capital investment in the 2007-2009 period, the majority of which was accounted for by the Terminal project at IWA Knock.

Figure 2.7 Exchequer Current and Capital Expenditure on Regional Airports, 2003-2013



Source: EY analysis and Revised Estimates for Public Services 2003-2013

In addition, Budget 2014 indicated the need to secure a further €1 million in savings from the regional airports programme in 2014.

2.5 The challenge

The weight of the analysis set out in this Section underscores the impressive recent operational performance of IWA Knock. At the same time however, it is also becoming clear that the capacity for further operational improvement or growth through novel sources is extremely constrained. The challenge for the Airport and the region is in charting a course to sustainability and growth through increases in patronage and other supporting actions within a context of constrained Exchequer resources.

Section 3 sets out the options and opportunities to inform the development of such a solution.

3. Framing the Business Plan

While the environment in which IWA Knock will operate into the future is characterised by a number of constraints, there is equally a set of opportunities available upon which the Airport can build to chart a path to sustainability.

This section outlines these issues which will both inform the potential solution for securing the future of the Airport and set the parameters within which it will operate. The Section also describes the detailed process of options assessment undertaken by the Group.

3.1 The policy context

3.1.1 Overarching policy towards regional airports

Regional airports have made a solid contribution to their catchment areas by providing connectivity, facilitating economic development and supporting social cohesion. In 2010, the Department of Transport, Tourism & Sport undertook an evaluation of the regional airports programme under the Government's Value for Money and Policy Review initiative (VfM).

The purpose of the Review was to evaluate past Exchequer expenditure in terms of programme objectives and, looking to the future, to examine the scope for enhanced efficiency and effectiveness. The requirement for improved value for money was all the more pressing given the fiscal climate set out in Section 2.

The Review informed the medium-term direction of regional aviation policy and in doing so presented both constraints and opportunities for the development of IWA Knock.

The key constraint sets the backdrop to the Group's work: namely the planned cessation of Exchequer supports. The EY analysis carried out for the Group showed clearly the implication of this change on the Airport's finances and signalled that under this scenario the Airport would cease to be viable in the short-term.

At the same time however, the VfM review made recommendations which recognised the relative strength of IWA Knock over other airports in the West and conferred opportunities for its future development.

Two of the recommendations set out in the Review are of particular relevance here:

- "Exchequer support for regional airports in Connaught should be focused on Knock Airport, which can adequately serve both Galway and Sligo with a greater range of service than offered by Galway or Sligo Airports. The focus on Knock should also increase Knock's 'critical mass' and enhance its finances. Galway city will also have the benefit of improving journey times to Shannon Airport."
- "Opex supports for Galway and Sligo should end"

The implementation of these recommendations can be viewed as an affirmation of the efficiency of IWA Knock operations and potential to meet the objectives of the regional airports programme in the West region. The changed landscape that has emerged in the aftermath of the Value for Money and Policy Review therefore presents opportunities for the development of IWA Knock, alongside the obvious constraint of the planned cessation of supports.

3.1.2 Emerging State Aid guidance

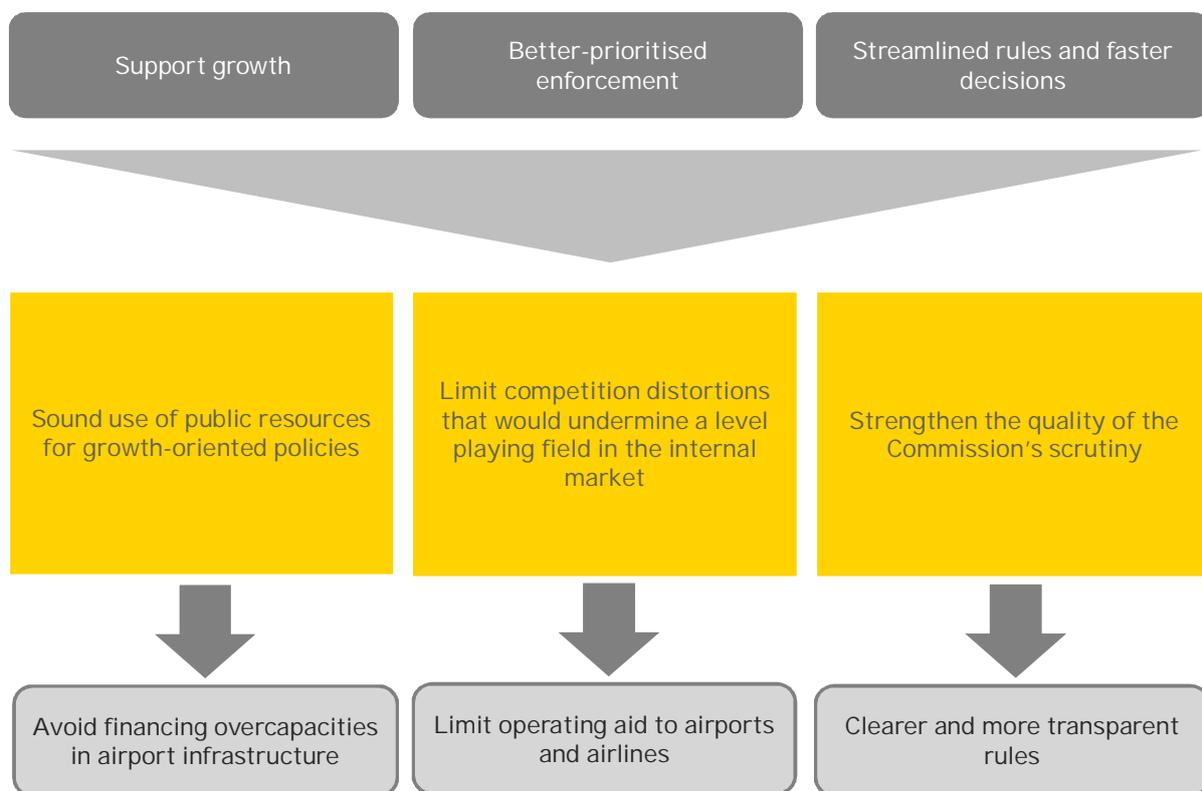
In addition to the domestic policy parameters, the recommended approach to securing the future viability of IWA Knock must be framed within the boundaries of current and anticipated EU legislation.

In this regard the European Commission's Draft Guidelines on State Aid to Airports and Airlines is the main policy document. Published in July 2013, the Guidelines are part of a renewed focus on modernising the Commission's suite of State Aid Policy documents which seeks to:

- Promote sound use of public resources for growth-oriented policies (with an emphasis on avoiding the financing of over-capacity)
- Limit competition distortions
- Strengthen the quality of the Commission's scrutiny

These objectives interact in different ways to both constrain the options available for the future of the Airport and at the same time offer some additional scope. Figure 3.2 below reproduces a schematic of the interaction of these factors as presented by the Commission.

Figure 3.2 Context and objectives of State Aid modernisation



Source: European Commission

The Government's position – as set out in its response to the Commission - is to welcome the process of refreshing the approach, while pointing out some areas of concern. Given Ireland's relative peripheral location on the edge Europe, the Guidelines' recognition of the importance of regional airports for connectivity of isolated and remote areas is particularly welcome.

At the same time, the Government's response - a position shared by the Group - is that a number of elements warrant revision. The maximum funding level of 75% for investment aid would exert severe pressure on airports with fewer than 1 million passengers per annum to fund the balance of 25%. Instead, Member States should be allowed to provide a maximum intervention rate of 90% for safety and security related projects at all regional airports, particularly for airports with fewer than 1 million passengers per annum.

In addition, the requirement to progressively increase operating cost coverage by 10% per annum is too rigid and some flexibility to take account of individual airport's circumstances and their ability to cover full operating costs over a longer period but within the 10 year timeline should be provided.

3.1.3 Implications for IWA Knock

As the Guidelines stand, the summary position is that because IWA Knock has less than 3 million passengers per annum, operating aid can be provided for the duration of a transitional period on the basis of a business plan establishing a path towards full operating cost coverage.

As per the Guidelines, the transitional period is likely to be ten years. Beyond this timeframe, operating aid would be prohibited as proposals currently stand.

Support for investment aid can be provided because – since the cessation of scheduled commercial flights at Sligo and Galway Airports - there is no duplication of airport infrastructure in IWA Knock's catchment.⁷ Such investment aid would only be permissible for the initial injection of infrastructure and equipment, and not for investment costs for non-aeronautical activities.

For an airport of IWA Knock's size at present, the threshold of investment intensity is up to 75% of relevant costs (falling to 50% for airports with annual passenger numbers between 1 and 3 million).

Should the proposed Guidelines be adopted, any future support can only be justified on the basis of a realistic business plan. The kernel of the opportunity for IWA Knock is the ability to articulate and pursue such a sustainable business plan, harnessing the potential of the Airport in its catchment. Sections 3.2 and 3.3 elaborate the characteristics of the region that offer this opportunity.

3.2 Options for viability and growth

3.2.1 Identifying options

In light of the reality of the financial position that would emerge as things stand, the Group gave detailed consideration to all potential options which could contribute to the sustainability of the Airport and spur growth over the medium-term. The process of options identification and assessment was wide-ranging, starting from a 'blank page' in order that novel or innovative ideas be included, ruling nothing out at the outset.

Among the informants of the process were:

- A detailed assessment of operations and supporting activities at regional airports internationally prepared for the Group by EY
- Options proposed for consideration by members of the Group
- Working papers on various themes completed for the Group

3.2.2 Summary options assessment

The scope for further cost reduction

The Group clearly recognised that improved financial performance will aid viability and provide a platform for growth. Cost reduction, more than any other theme, is largely within the Airport's control yet remaining options are sparse. IWA Knock's lean cost base is a strong attribute. Airport management has a good understanding of its cost base and the extent to which it can be further reduced, and maintaining existing cost structures while growing revenues will be key to future viability. In the view of the Group, maintaining the impressive record on cost control will be a necessary rather than a sufficient condition for Airport viability and growth.

⁷ For the purposes of these Guidelines, the Commission defines the catchment as 100km or 60 minutes by car, bus or train

The potential for revenue growth

Just as the Airport has been highly successful in minimising its cost base, it has done well to grow non-aeronautical revenues to compensate for the downturn in aviation revenues. There is however, a limit to the extent to which it can continue to increase revenue per passenger while maintaining traffic. IWA Knock generates significant revenues on a per passenger basis. There is a balance between the aviation charge, the development fee, and other charges such as car parking. The broad conclusion is that revenue per passenger is not likely to increase significantly in the foreseeable future.

Investing for aviation activities

Broadening aviation-related activities requires significant investment and so thorough understanding of market opportunities and assurance on underlying commercial feasibility is paramount. The existence of Eirtrade at IWA Knock shows that there are opportunities for Maintenance, Repair and Overhaul (MRO) related businesses to locate there. Eirtrade specialise in the tear down of an aircraft into parts for recycling and resale. As IWA Knock is remote in terms of airline networks, it will have to remain competitive in order to attract an MRO that can maintain the level of flexibility and adaptability required from companies carrying out lease transitions. Airport management report that there is a significant pool of skilled labour in the catchment. This message will need to be strongly conveyed to the MRO market.

While the construction of required facilities such as hangars and other infrastructure would be costly and given the already burdened cost structure, these options might best be restrained at present. Given the growth which is predicted in this market however, options in this category may be worth taking forward at a later stage.

Promoting non-aviation enterprise

The feasibility of general enterprise development at the Airport is difficult to assess with certainty in the prevailing economic environment. Such options could undoubtedly be a supporting initiative as part of an overall plan.

The challenge with all new business development is that the returns to the Airport itself may be small by comparison with the investment required, even if the funding were available. On the other hand, there will be greater direct benefit to the region more generally through enhanced economic activity.

Enhancing access within the region

While a small number of targeted improvements to the local road network are proposed by the National Roads Authority, the National Transport Authority and Irish Rail do not regard a rail link to the Airport as feasible at this time. There are no plans to increase public bus services to IWA Knock which is already served by two publically funded services and one commercial service. The Airport is in continuous dialogue with Bus Éireann with regard to improving services and connectivity to the Airport and in addition a number of commercial bus operators are also examining the possibilities of commencing services as a result of the growing passenger and route network.

Pursuing passenger growth

Ultimately, for the Airport to grow, it needs more passengers. If Ireland can succeed in increasing its tourism market share, and IWA Knock can succeed in attracting a higher proportion of overseas tourists, then inbound tourism at IWA Knock could increase substantially. Tourism should be recognised as the main potential driver of additional patronage.

The Airport has the potential to attract a higher proportion of outbound traffic from its catchment. Revenues from increased traffic will benefit the Airport by way of increased non-aeronautical

revenues, offset against the cost of marketing and route development. This is considered in Section 3.3.

New route development and tourism initiatives are closely related and will benefit from tighter alignment of efforts. Because these activities are challenging and expensive in today's market, optimised co-ordination and integration of the different initiatives and agencies at work in the region will assist in focusing the approach and maximising outcomes. The relative roles of various stakeholders and actors in this regard are set out in Section 4.

3.3 The Airport in its catchment: offering the scope for growth

Throughout the course of its work, the Group saw evidence of the community and local ethos permeating Airport operations. This involvement spans from the unique ownership structure - embodied in the Horan International Airport Trust - to the major funding stream from the region in the form of the development fee. It is fitting then that the current and potential future role of the Airport in its catchment offers major potential for setting out a robust business plan to take the Airport to sustainability.

3.3.1 Becoming the focal point of connectivity within the region

There is potential for the Airport to grow its share of the market for travellers resident in the West, North-West and Midlands Regions. Analysis undertaken for the Group by EY sought to quantify potential in this regard.

Using various CSO datasets, the analysis derived the ratio of passengers into and out of the airports in each major catchment to the population of that catchment. Table 3.1 shows the results.

Table 3.1 Ratio of Catchment Passenger Journeys to Population

Catchment	Ratio
Leinster	8.1
Munster	3.5
Connaught (including Donegal)	1

Source: EY Analysis of CSO data

A degree of caution is advised in interpreting this data. First, this should not be read to imply that the people of Connaught have a far lower propensity to use air travel than residents of the rest of the country. Rather, the reality is that people living in the IWA Knock catchment frequently fly into and out of Dublin and Shannon Airports.

Second, and related, is that fact that we would not expect to see parity across regions: Dublin is the capital city and Dublin Airport is the national air transport hub. People are attracted to Dublin Airport from all over the country because of the range of destinations served by an International airport operating in the capital city of an island nation.

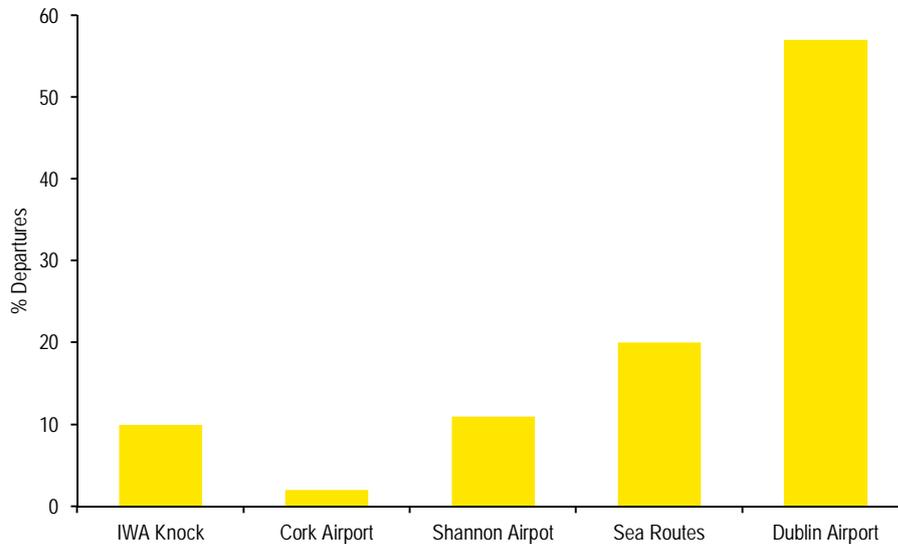
At the same time however, these data show the potential for a growth in market share available to IWA Knock. It is not unreasonable to expect that an enhanced route or service offering could lead to a higher number of the residents of the region switching to IWA Knock. Along with the obvious benefits to the Airport, such a result will deliver economic and social benefits by improving productivity and enhancing access. An expanded route and service offering could also offer additionality to Ireland as a whole by offering greater customer choice.

3.3.2 Growing the share of a growing market

Among the avenues of potential growth which featured most prominently in the Group's deliberations was tourism. A range of supporting analysis was undertaken by the Airport and the

Tourism Development Agencies. This process uncovered the fact that just 10% of tourist visitors to the West of Ireland depart the region through IWA Knock. Figure 3.3 below provides further detail.

Figure 3.3 Ports of Departure of Visitors to the West



Source: Fáilte Ireland

This comparatively low base offers IWA Knock the potential to grow its share.

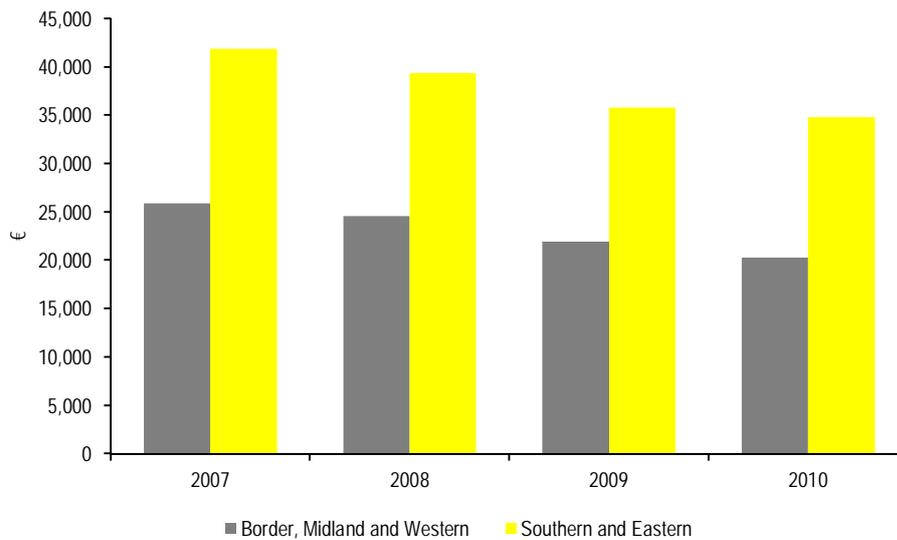
Tourism will be key to passenger growth. Analysis undertaken for the Group by the Tourism Division of the Department and by the Tourism Development Agencies notes that good growth is occurring in 2013. If this trend continues, and if IWA Knock can grow its share within the overall market, then prospects for robust passenger increases are favourable. Section 3.5 sets out more detail in this regard.

3.4 Economic prospects in the region and beyond

3.4.1 The local economy

The economy of the Border, Midlands and West (BMW) Region has suffered a sharper economic contraction than was experienced nationally. Gross value added per person – a measure of economic output – not only started from a much lower base in the IWA Knock catchment than the rest of the country but also fell at a sharper rate. Figure 3.4 charts this trend.

Figure 3.4 Gross Value Added Per Person BMW and Rest of State



Source: CSO

While the data are slightly dated, there has been no marked pick up in the period since 2010. Regarding performance at IWA Knock however, there has been a strong return to passenger growth. The net point here is that if the Airport can maintain this performance and harness the potential of a return to economic growth in the region, it will be well placed to see a further improvement in patronage.

3.4.2 Economic prospects in key markets

Along with the prospects in the regional economy, the performance of the economies in IWA Knock's main markets is an important determinant of future growth. Given the share of traffic represented by flights from the UK (over three quarters of passengers), it is worth considering developments in that economy.

The UK economy has not been immune to the global shocks that occurred in recent years, and disposable incomes have suffered. The medium-term prospects appear more positive however, with a pick-up in the pace of economic growth forecast in 2014 and 2015.⁸

Figure 3.5 shows the recent outturn and forecast growth in private consumption which is an informant of air passenger traffic. The chart shows an acceleration in the pace of consumption growth in the years to 2015.

⁸ EY and Oxford Economics (2013) *Economic Eye*

Figure 3.5 UK Private consumption, 2011-2015



Source: EY Economic Eye

The potential improvement in economic performance of a key market therefore further facilitates the development of a robust business plan for the Airport.

3.4.3 The Airport and local enterprise development

IWA Knock is a major component of regional economic infrastructure and represents a competitive advantage for the area in terms of investment attraction and enterprise development.

Research undertaken for the Group shows that there is a high degree of satisfaction with the Airport across industry in the Region and the Airport is meeting the needs of the enterprise base at present. In framing a medium-term business plan, IWA Knock can enhance its role as a commercial hub within its catchment. Enterprise consultation has shown that this could take the form of:

- Offering same-day return options to London
- Developing connectivity with other international hubs
- Improving access to the Airport locally

The Group agrees that these types of developments should be considered into the future in extending the reach of IWA Knock and deepening its supporting role for industry in the region.

3.5 Tourism

The Group consulted with the tourism agencies and also drew on the submission "The Airport's Role in Growing Tourism in the West and North West Region" which was prepared by IWA Knock, as well as previous regional consultations regarding growing higher-value tourism to the West of Ireland and the plans and programmes of Fáilte Ireland and Tourism Ireland.

Tourism is a key driver of social and economic development at both national and regional levels in Ireland and is central to the Government's economic recovery programme. Tourism is an industry largely characterised by smaller enterprises and is deeply rooted in the fabric of Irish economic life, urban and rural. As well as being our longest-standing source of service export earnings, it directly and indirectly supports employment across the country - often in areas like the West of Ireland where the scope to develop other export-focused sectors is more constrained. Based on 2011/12

surveys, the tourism and hospitality industry employs approximately 185,000 people overall and generates in the region of €5.5 billion per year in revenue from home and abroad.

The EY IWA Knock Economic Study 2011 estimated that the Airport generated €111 million in 2010 in tourism expenditure (including indirect or induced spend) of which 89% was spent in the Border, Midlands West region. It was estimated that this spend supported 817 jobs. Overall overseas visit revenue to the catchment area is estimated at €452 million which would indicate some 16,500 jobs attributable to overseas tourism.

The West of Ireland has numerous strong selling points in terms of its attractiveness as a holiday destination including spectacular scenery, attractive and accessible coastline, and the availability of outdoor activities, such as niche tourism products like fishing and golf. Indeed, it is arguable that the experience of Ireland's west coast - in its diversity and distinctiveness - is one of the most iconic experiences on offer in the country, particularly when the physical experience of the scenery and various activities are combined with the kind of interaction with local people that our visitors so enjoy. That is the basis for Fáilte Ireland's major new initiative, the Wild Atlantic Way.

The original inspiration for the establishment of IWA Knock was to facilitate access to the nearby Knock Shrine. Into the future, the Group agrees that the Airport can work to build on its tradition in relation to pilgrim and spiritual tourism to the benefit of the local community.

Sustaining growth in the numbers of overseas tourists using IWA Knock was identified as the critical factor in ensuring the long term future of the Airport. Of course, increases in the number of tourists arriving in Ireland via IWA Knock will not only benefit the Airport itself but also the numerous accommodation providers, attractions and other tourism service operators in the region. Inbound tourism to the West of Ireland has broadly followed national trends, with falls in North American and mainland European traffic now recovering. While recovery in British visitors has yet to take hold, prospects are buoyed by the positive trends in UK consumption growth as shown in Figure 3.5 on the previous page.

While delivering high-quality of accommodation, food and entertainment is important to the overall visitor experience, overseas visitors are primarily motivated to come to a destination by unique experiences and things to see and do communicated through word of mouth along with well-designed campaigns. Consequently, successful development of overseas tourism through IWA Knock will require a strong partnership across not just the transport sector but also accommodation, attraction and activity operators, supported by the relevant public bodies.

To maximise the number of overseas visitors using the Airport, all of the tourism stakeholders and Airport interests in the region will need to work in partnership, to grow airport usage and consequently tourism business in the medium to long term. While there is already a good working relationship between the State tourism agencies, Airport management and the local tourist industry, this relationship and partnership must be built upon. Such a strong, sustained and active partnership is the central requirement for realising the tourism potential of the Airport and its catchment.

In terms of leadership, experience has shown that mobilising local enterprise and communities is best done by local actors but with clear support and assistance from national agencies. The lead role in such a partnership would therefore best be taken locally, but with the active assistance of Fáilte Ireland in particular as well as Tourism Ireland. In the view of the Group, such a partnership needs to be both wide and deep: wide in terms of engaging not just tourism agencies, carriers and the core tourist industry (tour operators, accommodation, attractions and food services) but also the wider community and tourist stakeholders in the West, North-West and Midlands Regions, including local authorities, development bodies and so forth.

In maintaining such a partnership approach, there are a number of dimensions, including the coordination of resources, improving the information available to tourists and trade, integrating promotion and also delivering consistent and compelling visitor experiences.

3.6 Charting a path to sustainability

As this section has shown, a plan for the future viability and growth must be formulated within a context of domestic and European policy.

At the European level, continued public support to regional airports can be justified on the basis of a clear path to sustainability. This applies in the case of IWA Knock as it has an annual patronage of fewer than 3 million passengers per annum. Investment aid can be provided as there is no duplication of airport infrastructure in IWA Knock's catchment.

Domestically, the 2010 VfM review discussed earlier concluded by providing indicators to monitor future public expenditure on non-State owned airports. These were:

- Passenger number trends
- Subvention cost per regional airport passenger as compared to public transport passenger metrics
- Analysis of operating costs and revenues
- Compliance with IAA and international safety and security standards
- Extent to which non-State owned airports contribute to business development and tourism in their respective regions
- Extent to which non-State owned airports are contributing to air service connectivity from their region
- Measure of road, rail and bus journey times from non-State owned airports to Dublin.

Given IWA Knock's impressive performance against these metrics and taking all domestic and EU policy themes in the round, it is clear that there is now an opportunity to frame a feasible plan for a vibrant future at the Airport. Considering the foregoing analysis in terms of available options, the business plan must be predicated on:

- A continued discipline with regard to cost management
- A continued focus on revenue maximisation
- A workable plan to harness the tourism potential in the region to grow passenger numbers
- A continued emphasis on exploring opportunities for aviation and non-aviation related enterprise.

Crucially, efforts in this regard must be driven by a firm partnership approach involving all local and national stakeholders. The following section establishes the targets and parameters that will guide the ultimate business plan and sets out the Group's view on roles and responsibilities for achieving this vision.

4. Making it happen

4.1 A business plan for growth and viability

In support of the work of the Group, EY undertook detailed financial and operational analysis of a range of potential medium-term scenarios for the future of the Airport. Arising out of this process, the Group has agreed the parameters to frame a detailed business plan for the Airport in the coming years.

The business plan will be predicated on ambitious growth plan taking the Airport to 1.3 million passengers by 2023. Growth will be driven by the introduction of new services and improved load factors are envisaged as economic conditions improve and consumer spending picks up.

To deliver this vision will require investment over the coming years. While it is recognised that investment must include funding by local business and the Local Authority it will also mean that support from the Exchequer beyond 2014 will be needed.

At a minimum, to maintain the current level of service without facilitating growth, it is envisaged that over a ten year period, investment and support of over €20 million would be required. The Airport would likely remain reliant on external and/or Exchequer funding over the forecast period and would not achieve self-sufficiency despite this level of investment.

This however, would leave the Airport in a challenging position and it is considered that the optimum level of investment should be of the order of €36 million along with a need to address Airport's debt levels.

The Airport is confident that with support over a defined period it can develop to a position of stand-alone financial viability within a 10 year timeframe.

4.2 Actions required

Over the course of its work, a theme that was repeatedly apparent to the Group was the pivotal local and community role of the Airport. Through direct and indirect employment, promotion of access to markets and destinations and as a point of connectivity into the region, IWA Knock makes a major economic and social contribution in its catchment. Accordingly, the Airport itself and other local stakeholders such as relevant Local Authorities, businesses and communities will be required to lead in delivering a sustainable and vibrant future for the Airport.

At the same time, the Group recognises the need for support for the Airport from a national level – most particularly from relevant authorities in transport and tourism policy.

The findings and recommendations of the Group are therefore centred on a partnership approach, where local stakeholders will be supported by national authorities in the pursuit of a new phase of development for IWA Knock.

4.2.1 Role of the Government and Department of Transport, Tourism & Sport

The pivotal economic and social role of IWA Knock within its catchment and beyond has been well documented in the past and was again immediately clear to the Group over the course of its work. Yet the reality of the existing policy approach is that cessation of Exchequer supports for regional airports will result in the closure of the Airport. The net economic and social cost of this outcome to the region would be damaging and the considerable potential for future economic and commercial development associated with IWA Knock would be lost.

The Study Group has found that the Airport has a real opportunity to capitalise on its strengths, expand its role in the region and chart a path to medium-term sustainability and vibrancy. For this

reason, the Group recommends a change to existing policy and the introduction of a new targeted programme to facilitate and foster Airport growth in the coming years.

The Group recognises that such a move would represent a major shift in Government policy. As part of a concerted endeavour led by stakeholders in the region however, it is the view of the Group that this change can enable a major economic and social contribution by the Airport.

RECOMMENDATION

Where there is viable path to sustainability and growth - supported by a robust business plan - investment in regional airports by local authorities and business should be supported by a targeted and time limited multi-annual programme of Exchequer supports.

The recommended course of action requires the development of a new funding framework and the establishment of a set of criteria on which future supports can be prioritised. Such criteria should be objective and tangible and funding should not be advanced in the absence of a robust business plan pointing to sustainability in the medium-term.

4.2.2 Role of IWA Knock

A theme that repeatedly came to the fore during the Group's work was the determined and consistent focus on efficiency and performance improvement at IWA Knock. This is in evidence across the spectrum of metrics, from the Airport outperforming other regional airports and economy-wide benchmarks to the cost efficiency of the Airport in an international context.

While it is an obvious prerequisite, it is worth restating that maintaining this impressive track record into the future must remain a focus for the Airport. As part of its work, the Group considered the corporate structure and governance arrangements pertaining to IWA Knock. It was clear from this analysis that a benefit of the existing structure is the formal incorporation of a community presence into overall strategic direction and decision-making process of the Airport.

It is the firm recommendation of the Group that this feature should endure. At the same time, the Group agrees that the corporate structure of IWA Knock should be well placed to understand, plan for and capitalise on developments in the aviation industry. Airport management should therefore routinely reassess that this capacity is in place and make necessary changes to structure and or personnel as required.

Alongside this, and in tandem with the responsibilities set out for the Local Authorities, management should harness available skillsets available through the assistance of local stakeholders. This is explored in Section 4.2.3.

4.2.3 Role of the local authorities

A deeper level of involvement

While national aviation policy is a key enabler, local stakeholders will be required to drive growth at the Airport. As part of its work the Group reviewed the experiences of a range of comparable regional airports across Europe, the United States, Australia and New Zealand. A common theme which emerged from this work was the level of involvement from local government and in many cases, local business.

Waterford Airport – complementing Exchequer support with local funding

During 2012, Waterford Airport made a significant investment of €1.3 million in upgrading the safety infrastructure at the Airport.

New runway lighting and wiring systems were installed as well as grading of the runway environment to improve safety run-off areas. The recent announcement by the Minister for Transport, Tourism and Sport to provide over €400,000 in funding for the purchase of additional land at the south end of the runway, to further improve safety, has been welcomed by the Airport.

To capitalise on this commitment, the Airport proposes to raise an additional €850,000 from the private sector and local authority sources, so as to fully fund the project.

In Ireland, plans by Waterford Airport may inspire an approach to IWA Knock.

In the Group's view, the relationship between Local Authorities and IWA Knock should move closer in line with recent international trends. Deeper involvement in the Airport by the relevant Local Authorities could take a range of forms from informal to formal supports. Examples could include ad hoc advice on financial, procurement or operational issues.

RECOMMENDATION

There should be deeper involvement in, and support to IWA Knock from the relevant Local Authorities.

Supporting tourism in the region

As set out in Section 4.2.6 below, the national tourism development agencies have an obvious role in developing, marketing and promoting the tourism product in the region. There is also a clear role for local stakeholders. Supported and enabled by the relevant national tourism agencies, the Local Authority should join other local stakeholders in leading a renewed drive to grow passenger numbers through IWA Knock. This should involve the development of an enhanced partnership approach between the Airport and all airport stakeholders to grow Airport users. Mayo County Council should immediately, with the support of IWA Knock and the tourism agencies, take steps to establish an IWA Knock Development Partnership Group bringing all relevant stakeholders on board, including industry, local government and community representation. The Group should work towards ensuring that the importance of the Airport as a regional focal hub for the delivery of International visitors, servicing not only as a gateway to the "Wild Atlantic Way", but also a large area of the country and be promoted accordingly.

The Partnership Group should within six months draw up a detailed specific action plan, setting out the actions expected from each stakeholder, in terms of deliverables over one-year and three-year timeframes. This will draw on, support and complement the parallel work on the Wild Atlantic Way which will be a major asset in promoting inbound tourism to the region. The action plan would in turn provide a critical and necessary input to the proposed business plan, required under the State Aids framework.

RECOMMENDATION

An IWA Knock Development Partnership Group should be established by Mayo County Council with the support of the Airport and relevant Tourism Agencies and should draw up a detailed and specific action plan to drive tourism in the catchment.

'Soft' supports to the Airport

A corollary of the lean cost base in evidence at IWA Knock is relatively tight executive team. The management team has shown considerable agility in responding to aviation industry developments, economic trends and the evolution of its cost base and revenue streams. To the extent possible, this efficiency should be maintained: yet this should not happen at the expense of the professionalism or technical capacity of the Airport.

In the Local Authorities of the region there exists a high quality cadre of managers and professionals in procurement, planning, finance, human resources, infrastructure, enterprise development and numerous other areas. This pool of talent should be made available as relevant to the Airport to provide advice or act as a consultative resource on particular management challenges as they arise.

RECOMMENDATION

To assist the Airport in maintaining its lean cost base and tight executive team, the relevant local authorities should lend their technical and professional capabilities as appropriate and lead in the development of a local tourism plan.

4.2.4 Role of local enterprises

Tourism and enterprise development in the region are at the heart of the ambition for the Airport shared by the Group. For passenger numbers to grow, the key driver in the short-term will be tourism development which can spur improved load factors at first, followed by new routes and additional services.

Greater passenger numbers through the Airport directly leads to additional hotel and B&B bookings, fuller restaurants and a busier and more vibrant retail sector in the towns and villages of the West. For the export oriented segments of the enterprise base, swift access to the IWA Knock as compared with Dublin Airport means enhanced efficiency in getting goods to market or time savings for busy executives in making overseas trips.

For these direct economic returns, the local enterprise base will be required to continue to contribute.

This may take the form of funding contributions to route development initiatives as has been trialled elsewhere (see box) or more soft supports.

As well as highlighting the role that local government can play in regional airport management and ownership, the international research considered by the Group highlighted a common theme of local business commitment across the case studies reviewed. The Group recommends that the local enterprise base, including in tourism and other sectors must build on its past contribution to the success of IWA Knock.

4.2.5 Role of the local community

As set out in the foregoing section, for IWA Knock to flourish it must enhance its role in the catchment. The Airport must grow in popularity as the transport hub of choice for the people of Connaught, the Midlands and the North West. The Airport is a key piece of regional infrastructure and supports the wider economy through direct and indirect job creation.

Since 2003, the region has made a major contribution to the Airport in the form of the development levy. This local community involvement has given a degree of flexibility to the Airport in raising an alternative to aeronautical revenues. In this way, the role of the community in securing the sustainability – and ultimately the vibrancy – of IWA Knock is recognised. Without continuing revenue from this source the airport would have to seek revenue from charges or non-aeronautical sources.

Enterprise Funding for Route Development

A previous model employed to finance the development of a route from Donegal to Rotterdam involved funding for route development sourced from the Donegal Airport, relevant tourism agencies and the local enterprise base.

While the particular initiative was short-lived, the concept of business funding for route development is worthy of further consideration. There are clear economic benefits accruing to local businesses from enhanced passenger numbers, and innovative funding mechanisms which recognise this should be explored again in the future.

4.2.6 Role of State Agencies

In the view of the Group, all State Agencies that interact with the Airport and serve the wider region have an obligation to assist in the future vibrancy and sustainability of IWA Knock. For the tourism development agencies, this means continuing to drive product development, undertaking promotional activities to support the tourism industry in the surrounding areas and casemaking for new route development along with cooperative marketing with carriers on key inbound routes. For Enterprise Ireland and IDA Ireland this means redoubling efforts to stimulate the indigenous enterprise base and attracting foreign direct investment. For the relevant regulatory bodies, this means that all obligations on the Airport are proportionate and clearly understood.

Given that the most promising path to sustainability will be via passenger growth through tourism, Fáilte Ireland and Tourism Ireland have a particular role to play. The Box below shows recent initiatives undertaken to promote inbound tourism on routes from key markets.

Development of tourism through IWA Knock will require strong partnership across the transport, accommodation, attraction and activity sectors, supported by the relevant public bodies.

The development of the Wild Atlantic Way, a flagship tourist attraction, offers a promising opportunity to drive tourism growth through the region. Fáilte Ireland is in the process of rolling out a series of workshops in the region to assist tourism businesses in aligning their product offerings to the core proposition of the Wild Atlantic Way.

There is also potential for IWA Knock to grow market share with regard to other major tourism attractions. For example, the Airport could become an alternative point of entry to the Shannon / Erne waterways.

Tourism Ireland – Cooperative Marketing Activity

Tourism Ireland is currently running a €200,000 co-operative marketing campaign with Ryanair to promote both the Stansted and Luton routes and in Liverpool, Bristol and East Midlands regions, promoting direct flights to IWA Knock. A number of other initiatives are underway including a €50,000, co-operative campaign in association with Flybe to promote the Manchester and Edinburgh routes.

The Aer Lingus routes from Birmingham and London Gatwick were included as part of an overall Ireland online co-operative campaign with Aer Lingus to the value of €100,000. In addition, a €60,000 print and online campaign promoting the Milan – IWA Knock route with Ryanair ran in Italy for two weeks promoting the western region and a €20,000 print and online campaign promoting Barcelona (Girona) – IWA Knock route with Ryanair ran in Spain for the month of May. The Lufthansa route from Dusseldorf to IWA Knock has also been extensively promoted by the Tourism Ireland team in Germany.

In these and related endeavours, it is critical that the Airport and other regional stakeholders are provided with the right level and type of support by the tourism development agencies.

RECOMMENDATION

State Agencies – in particular those in the tourism sector – must enable and support the Airport and other regional stakeholders in growing passenger numbers through tourism and other channels.

5. Conclusions

5.1 The work of the Study Group

The IWA Knock Study Group has reaffirmed the critical contribution of the Airport and the need to secure the sustainability of the Airport into the medium and long-term.

The work of the Group was both wide-ranging in terms of its consideration of options for growth and detailed in terms of its exposition of financial and operational issues. To underpin its deliberations the group considered working papers on a spectrum of topics from international trends in regional airport development, analysis of options for growth, the roles of relevant State Agencies, the corporate structure of the Airport, funding options and many more.

5.2 Recent performance, emerging challenges and the scope for growth

The work of the Group in assessing recent performance of IWA Knock underscored the impressive recent operational performance of the Airport. At the same time however, it is also becoming clear that the capacity for further operational improvement or growth through novel sources is extremely constrained. The challenge for the Airport and the region is in charting a course to sustainability and growth through increases in patronage and other supporting actions within a context of constrained Exchequer resources.

Fundamentally, the work of the Group has shown that under the existing policy approach involving the cessation of Exchequer supports for regional airports, a range of legacy financial issues will mean that the Airport, despite its efforts to meet the target of being self-financing by end 2014, would be forced to close within the next two years.

Such an outcome would clearly be extremely damaging for the social fabric and economic prospects of the locality, broader region and Ireland more generally. Accordingly the Group has reviewed a range of options for development and in particular has concluded that the opportunity for the Airport to enhance its role in the catchment, grow passenger numbers and harness broader economic improvements means that there is scope to chart a course to sustainability.

5.3 Making it happen

Detailed financial and operational analysis undertaken for the Group has shown that through a continuation of operating supports in the medium-term, a modest level of investment and an intensified effort by all stakeholders to grow passenger numbers through tourism and other activities, a robust business plan can point the way to sustainability and growth.

A range of potential future scenarios for the future viability and growth of the Airport were considered as part of the Group's deliberations. The conclusions of this analysis are that in the absence of investment or Exchequer support after 2014, IWA Knock would face closure within a short period. At a minimum, to maintain the current level of service without facilitating growth, it is envisaged that over a ten year period, investment and support of over €20 million would be required. The Airport would likely remain reliant on external and/or Exchequer funding over the forecast period and would not achieve self-sufficiency despite this level of investment.

On the other hand, a more ambitious approach - involving an optimum level of investment and support of about €36 million - offers a path for the future viability of the Airport, in addition to an element of growth, leading to self-sufficiency within 10 years.

The overall conclusions of the Group are that

- It is reasonable to expect that, in line with draft EU Guidelines, regional airports should be financially viable within, at most, a 10 year period
- A policy position which would see Exchequer support terminate at the end of 2014, would leave a situation whereby IWA Knock, and likely all regional airports, would face closure within a short timeframe
- Given the contribution that key regional airports make to their regional and local economy, as illustrated in the case of IWA Knock, they should be given an opportunity beyond 2014 to grow to a viable position
- In facilitating their future development, regional airports should have local authority, local business and Exchequer support
- In the case of IWA Knock, the route to growth lies in developing tourism. Local interests, with the support of national agencies, should draw up and implement a plan to develop this market
- Regarding Exchequer support, a framework should be developed by the Department of Transport, Tourism and Sport for approval by the EU Commission for implementation at the end of the current programme (that is from 2015)
- That framework should provide a level of certainty around support over a multiannual period, where regional Airports can provide a business plan leading to stand alone commercial viability within a ten year period and should include requirements in relation to:
 - Local authority, business and Exchequer involvement
 - Catchment areas served
 - Size of airports and level of public support
 - Route to viability
 - Safety and security conditions for Exchequer Capital funding
- Regarding the draft EU Guidelines the Group supports the Irish position that:
 - Member States should be allowed to provide a maximum intervention rate of 90% for safety and security related projects at all regional airports, particularly when passenger numbers are below 1 million per annum
 - A requirement to progressively increase operating cost coverage by 10% per annum is too rigid and some flexibility to take account of individual airport's circumstances and their ability to cover full operating costs over a longer period but within the 10 year timeline should be provided
- Regarding IWA Knock, it is also recognised that in relation to the present debt level a separate parallel solution, not involving Exchequer support, must be identified. Local Authorities should be key to resolution of this issue

The IWA Knock Study Group is confident that – taken together - the actions set out here can assist in delivering the medium-term viability of the Airport to the benefit of the local community, region and Ireland as a whole.

