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Maureen Watt MSP, Convener
Infrastructure and Capital Investment Committee
Scottish Parliament

31 January 2014

Dear Maureen
Glasgow Prestwick Airport

Further to my letter of 23 November 2013, the Infrastructure and Capital Investment Committee will be aware that the Scottish Government acquired Prestwick Aviation Holdings Ltd on 22 November 2013. Prior to my appearance at the Committee on 19 March, I write to provide an update on post-acquisition activities and on the progress being made to develop our vision for the business and on its strategic repositioning.

1. Acquisition

The business case and business plan prepared to inform the decision to acquire Glasgow Prestwick Airport (GPA), demonstrated that the Scottish Government's ownership would be undertaken on a commercial basis, and that it satisfied the Market Economy Investor Principle.

The cost to the Scottish Government for legal, financial, taxation, real estate and insurance advice to complete the confirmatory due diligence required to support the decision to acquire GPA was £1.08m (excluding VAT). This amount includes the purchase of earlier due diligence work commissioned by a commercial party that had previously indicated an interest in acquiring GPA, which is estimated to have saved the Scottish Government both time and money.

2. Corporate Governance

A holding company was created, TS Prestwick HoldCo Ltd, to purchase the shares in Prestwick Aviation Holdings Ltd. The holding company will provide strategic oversight and ensure appropriate corporate governance arrangements are in place to monitor activities at GPA. The next meeting of the Holdco Board is scheduled for 11 February 2014.

As an interim position, the Board of the HoldCo is comprised of senior Transport Scotland (TS) officials, supported by the existing senior management at Prestwick. However, we will be reviewing the Board composition in the light of recommendations from the senior adviser we are appointing (see below).

The work of TS in the immediate post-acquisition period has been focussed on the technical, financial and regulatory activities required to bring GPA into the public sector, with GPA's management team continuing to operate the airport as a going concern, on a wholly commercial basis.

3. Business Continuity

I confirm that all the necessary transitional arrangements were put in place to ensure the uninterrupted provision of services at GPA throughout the acquisition process. The airport remains fully operational and open for business.

There has been regular contact between TS and GPA since acquisition. Directors from TS met with directors from GPA at the airport on Monday 25 November 2013 and on a number of subsequent occasions. There have also been regular progress conference calls between TS and GPA to manage the transitional arrangements and to ensure the uninterrupted provision of services at the airport. Additional meetings and discussions have taken place between the respective finance teams to ensure the continued operation of the airport as an on-going concern.

4. Working Capital and Investment

In addition to the cost of the confirmatory due diligence, the Scottish Government has provided GPA with £3m in working capital for 2013-14, to ensure that it can continue to meet all of its current financial obligations. Further working capital will be provided, where required, as projected in the business plan developed for the acquisition GPA.

The business plan also identified that an initial repositioning capital investment of £2.25m will be required to modernise the terminal facilities, enhance the passenger experience and generally freshen and rebrand the airport. This expenditure is anticipated to be incurred during 2014-15.

All funding being provided to GPA, except for vital safety expenditure, is being made on a commercial basis, with a market rate of return attached.

5. Stakeholder Engagement

There has been considerable interest from local stakeholders to the acquisition of GPA. I have met stakeholders including Ayr College, local MPs and MSPs, and representatives of other airports to discuss our aspirations for Prestwick. I am also meeting Glasgow City Council and the Chambers of Commerce shortly to reassure them that we continue to work closely with our other airport partners to improve international connectivity.

6. Team Scotland Approach

Our route development collaboration with all Scottish airports continues and there have been positive announcements at Edinburgh and Glasgow in the last few months. We are working on other route development opportunities at present and will be promoting Scotland at Routes Europe in April where we will continue our engagement with airlines to encourage new routes to Scotland.

We are actively considering how we can provide an appropriate separation between these 'Team Scotland' activities and Scottish Government's ownership of GPA, so that other Scottish airports can be assured that we will continue to treat all airports equally and leave airlines to make their own decision on which airport is most suitable for them.

7. Senior Adviser Appointment

Interviews have taken place to identify a Senior Adviser for a period of three months, whose role will be to inform the TS Prestwick HoldCo Board and Ministers on the longer term options for future business development and management of GPA. An appointment has been made, with an anticipated start date in early February.

The Senior Adviser will be required to make recommendations on the strategic business development options for the repositioning of GPA, building on the commercial opportunities identified during the acquisition process. This work will help to develop a "Stage 2" business plan for GPA, by fleshing out the earlier work prepared for acquisition and by setting out the details for the next three to five years.

The Senior Adviser will also develop a structural plan to identify the options for ownership and longer term management arrangements and to recommend the optimum operating structure required to take GPA forward.

8. Strategic Vision

As part of the above work, the Senior Adviser will be asked to consider and develop options on how best to market GPA to attract interest from outside Scotland and the wider investment community.

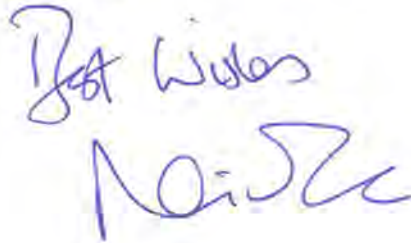
This business plan will set out the commercial opportunity available at GPA, the recommended repositioning strategy, and the likely level of funding required to deliver the aspirations.

The contents of this business plan will be commercially confidential. However, a strategic vision will be developed in conjunction with this business plan, and published, detailing the medium to longer term aspirations and intentions for the development of GPA. I will make a statement to Parliament in due course.

9. Branding

All external and most internal "pure dead brilliant" signage has now been removed. GPA intends to keep the graphics (font type) associated with this signage, until such time as a rebranding exercise is commissioned.

I am sending a copy of this letter to the Presiding Officer and all MSPs. I am also making this letter available to the staff at Glasgow Prestwick Airport.



NICOLA STURGEON