

Special Council (OPEN) Meeting

7 June 2022

Addendum 1:

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SECTION 6: ECONOMIC DEVELOPMENT AND PLANNING			
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Section 6: Economic Development and Planning

ITEM C/6/38/06/22

AIRPORT: *STATUS QUO* AND WAY FORWARD

<u>Portfolio Comm:</u>	Strategic Services & Office of the MM	<u>Demarcation:</u> Ward 2
<u>File Ref:</u>	17/12/2	<u>Delegation:</u> Council
<u>Attachments</u>	None	
<u>Report from:</u>	Director: Economic Development & Planning	
<u>Author:</u>	Director: Economic Development & Planning	
<u>Date:</u>	6 June 2022	

PURPOSE OF THE REPORT

To inform the Council of the current status of the airport and to obtain Council approval to proceed with an ‘open ended’ call for proposals for the future management of the airport.

EXECUTIVE SUMMARY

The Council has previously resolved that a ‘call for proposal’ process be initiated for the future management of the airport. This has not yet materialized. Options for the future management include the selling of the land, a ‘PPP’ project or a ‘call for proposal’ process. The ‘call for proposal’ process can be ‘wide’ or ‘narrow’. It is recommended that the Municipality opt for a disposal (selling or leasing) process.

BACKGROUND /DISCUSSION

During a meeting held 30 September 2019 the Council inter alia resolved as follows:

“That a call for development proposals and management services of the Plettenberg Bay Aerodrome be advertised as soon as possible, and that the whole process be fast-tracked”.

Although numerous meetings and discussions regarding the matter took place, the reality is that this Council decision has to date not been implemented.

Towards the middle of 2021 the airport was downgraded due to the failure to address certain outstanding issues that have been raised during South African Civil Aviation Authority inspections over a number of years. One of the direct effects of this downgrading was the immediate suspension of all flights of CemAir to and from Plettenberg Bay.

During August 2021 it was an agreement was reached with CemAir in accordance with the following resolution:

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1. *That the offer by CemAir to address and resolve the outstanding requirements of the South African Civil Aviation Authority for a period not exceeding 18 months on the understanding that the costs so incurred by CemAir be off-set against the landing and related airport fees of CemAir be accepted, provided that an adequate Memorandum of Agreement that addresses all relevant aspects be entered into between the Municipality and CemAir.*
2. *That authority be delegated to the Municipal Manager to finalize the Memorandum of Agreement.*

During February 2022 it was resolved that the airport function be transferred to the Department Economic Development & Planning until such time that the new organogram is finalized.

CemAir have scheduled flight services between OR Tambo International Airport and Plettenberg Bay Aerodrome as well as Cape Town International Airport and Plettenberg Bay Aerodrome. These include:

Mondays, Wednesdays and Fridays	2 flights per day
Tuesdays and Thursdays	1 flight per day
Saturdays	1 flight per day
Sundays	2 flights per day

During these scheduled flights CemAir employ 5 to 6 private personnel for passenger screening and hand luggage screening. The screening equipment is owned by CemAir.

CemAir has their own fuel bowser on-site and is used to refuel CemAir fleet as well as private jets which use the airport for departures and arrivals.

The airport also accommodates private jets / airplanes and a privately owned sky diving company.

There is an on-site in-complete fire sub-station intended to service the airport as well as Kranshoek (and the surrounding rural area).

There are a total of 45 hangers at the airport.

The following 9 staff members are employed at the airport:

- 1 x Airport Officer – Day to day operations on-site.
- 1 x Administrator – Bitou personnel, Capture of leave and attendance
- 1 x Cashier – Collects revenue from private jets, Landing and parking fees.
- 1 x Cleaner – Cleaning of the Terminal Building.
- 1 x Grounds man – Upkeep of the grounds surrounding the terminal building.
- 4 x Baggage handlers and re-fuellers – During departure and arrivals.

During the last 8 months numerous suggestions have been made by interested parties regarding the appropriate way to manage the airport in future. These proposals range in nature from the outright selling of the property to a formal Public Private Partnership ('PPP'), a Built Operate and Transfer ('BOT') scheme, or the lease of the land to a service provider. The problem in this regard is twofold: First, each of the proponents have their own vested interests (e.g., they are making proposals to suit their own circumstances. Second, there is a real risk that any person or party who is directly involved in determining the appropriate option may have to be disqualified from any formal process.

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To proceed with the matter certain ‘in principle’ guidance is required from the Council. In essence three options are available:

1. Disposal of the land.

The argument here is that an airport is not a ‘normal’ function of the Municipality, and that if the facility is sold / leased *in toto* it will become the full responsibility of the new owner / lessee.

2. Public Private Partnership (‘PPP’).

The first step of a “PPP” process is the investigation into and preparation of a feasibility report. That feasibility report will consider all the available options in detail and determine the best way forward. The problem is that it is a costly, lengthy process without any ‘guarantee’ of the outcome. It will require substantial ‘planning’ funding, the appointment of a transaction advisor, and be dependent on the prescriptive requirements of the National Treasury.

3. Call for proposals.

This is the process previously required by the Council. Although it is more ‘informal’ than the structured ‘PPP’ process it still needs to comply with all supply chain and related requirements. This implies (inter alia) the Council will not be allowed to have any involvement in the matter.

The first step in the ‘call for proposal’ process will be the preparation of specifications. These specifications can be ‘specific’ (e.g., stipulating that it should make provision for a three-party arrangement between the Municipality, the Hanger Association, and an aircraft operator) or ‘open ended’ (where any proposal can be submitted, including a proposal where the Municipality has no direct involvement whatsoever). Although there are advantages in the ‘open ended’ call for proposals it will present difficulties at specifications / evaluation stage (e.g., how can completely different proposals be fairly compared with each other?).

It is suggested that the land be disposed of, either by the selling or leasing thereof. The following factors are to be considered by the Council before approval can be granted for the disposal of land:

- (a) The land may not be required by the Municipality to provide a minimum level of basic municipal services (Section 14 (1) and 14 (2) (a) of the MFMA; Section 5 (b) (i) of the Asset Transfer Regulations).

Comment: The airport does not constitute a ‘basic service’, and it is not required to provide a minimum level of basic municipal services.

- (b) The land may not be required by the Municipality for its own purposes at a later date (Section 7 (a) of the Asset Transfer Regulations).

Comment: This is related to the provision of a minimum level of municipal services. The land will not be required by the Municipality in future.

- (c) Council must consider the fair market value and the economic and community value to be received in exchange for the land (Section 14 (2) (b) of the MFMA).

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Comment: The land value will be determined before any final decision to dispose of the facility is made.

The economic benefit to the community would be the continued operation of the airport, but without any risks to or responsibilities of the Municipality.

- (c) Council must consider the gain or loss that is expected to result from the disposal of the land (Section 7 (b) of the Asset Transfer Regulations).

Comment: The loss to the Municipality will be land that is not actually required for municipal purposes. The gain will be the continued operation of the airport, but without any risks to or responsibilities of the Municipality.

- (d) Council must consider the extent to which any compensation will result in significant economic or financial gain or loss (Section 7 (c) of the Asset Transfer Regulations).

Comment: This is related to the land value, and will be considered before any final decision to lease / sell the land is made.

- (e) Council must consider the risks and rewards associated with the control of the land to be sold in relation to the Municipality's interests (Section 7 (d) of the Asset Transfer Regulations).

Comment: There are huge risks associated with the current control by the Municipality of the airport. If the land is leased / sold these risks will be minimized, while the rewards as a result of the operation of an airport will remain.

- (f) Council must consider the effect that the disposal may have on the credit rating of the Municipality and its ability to raise borrowings in the future (Section 7 (e) of the Asset Transfer Regulations).

Comment: This is related to the land value, and will be considered before a final decision is made.

- (g) Council must consider any limitations or conditions attached to the capital asset and the consequences of any potential non-compliance with those conditions (Section 7 (f) of the Asset Transfer Regulations).

Comment: There are no 'special' conditions or limitations applicable to the land.

- (h) Council must consider the estimated costs of the transfer (Section 7 (g) of the Asset Transfer Regulations).

Comment: As all costs will be borne by the lessee / purchaser this aspect is not relevant.

- (i) Council must consider the transfer of any liabilities and reserve funds associated with the land (Section 7 (h) of the Asset Transfer Regulations).

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Comment: This is related to the land value and will be considered before a final decision is made.

- (j) Council must consider any representations received (Section 7 (i) of the Asset Transfer Regulations).

Comment: The principle of the proposed lease / selling will be advertised for comment before a final decision is made.

- (k) Council must consider the views of the National or Provincial Treasury (Section 7 (j) of the Asset Transfer Regulations).

Comment: The views of National and Provincial Treasuries will be obtained before a final decision is made.

- (l) Council must consider the interest of any State Department, of the Municipality and of the local community (Section 7 (k) of the Asset Transfer Regulations).

Comment: The views of the Provincial Department of Public Works and of the CAA will be obtained before a final decision is made.

- (m) Any disposal of land must be fair, equitable, transparent, and competitive (Section 14 (5) of the MFMA).

Comment: This process will be followed after the public participation and similar processes have been complied with.

- (n) The legislative regime applicable to the proposed disposal must be complied with (Section 7 (l) of the Asset Transfer Regulations).

Comment: This has to date and will in future be complied with.

FINANCIAL IMPLICATION

Staff costs and maintenance costs (and the financial and other risks relating to the operation of an airport).

RELEVANT LEGISLATION

Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)

Municipal Systems Act, 2000 (Act 32 of 2000)

Asset Transfer Regulations (2008)

Disposal Policy (2020)

Comments: Acting Director Community Services

The recommendation of the Municipal Manager is supported.

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Comments: Manager Legal Services

The recommendation of the Municipal Manager is noted.

RECOMMENDED BY THE MUNICIPAL MANAGER

1. That it be resolved for the purposes of Section 14 (1) and 14 (2) (a) of the MFMA, read with Section 5 (b) (i) of the Asset Transfer Regulations, that neither the airport itself nor the land areas occupied by the airport are required to provide a minimum level of basic municipal services.
2. That it be resolved for the purposes of Section 7 (a) of the Asset Transfer Regulations that the land areas occupied by the airport will not in future be required by the Municipality.
3. That the prescribed public participation procedures be followed and that the views of the following organs of State be obtained:
 - National and Provincial Treasuries;
 - Provincial Department of Transport;
 - South African Civil Aviation Authority;
 - any other deemed necessary by the Municipal Manager.
4. That the matter be resubmitted to council after conclusion of paragraph 3 above.