Subsidy Advice Unit Report on the proposed subsidy to Teesside International Airport Limited

Referred by Tees Valley Combined Authority

18 July 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

1. The Referral

1.1 On 2 June 2025, Tees Valley Combined Authority (TVCA) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to its proposed subsidy (the Subsidy) to Teesside International Airport Limited (TIAL) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates TVCA's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment and evidence submitted relevant to that Assessment.

1.3 This report is provided as non-binding advice to TVCA. It does not consider whether the Subsidy should be given or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the Statutory Guidance) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the SAU Guidance).

1.5 In our view, TVCA has considered the compliance of the proposed Subsidy with the subsidy control principles. In particular, the Assessment sets out a clear policy objective with supporting evidence that is focused on the role of TIAL in supporting regional economic activity and regeneration in the Tees Valley. It sets out a clear and well evidenced equity rationale and explains how the policy objective and subsidy will help address it.

1.6 As a general observation, TVCA should ensure that statements made in the Assessment and supporting information – in particular, regarding commercial viability and funding gaps – are supported by evidence so that the basis upon which these conclusions are reached is clearly explained.

1.7 In relation to the subsidy control principles, in our view the Assessment should:

(a) in relation to the counterfactual of the investments not proceeding, better reference the explanation and evidence in the business case on which this

[1] The SAU is part of the Competition and Markets Authority
[2] Subsidy Control Act, 2022
[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

conclusion is based, covering in particular why commercial funding could not be obtained (Principle C);

(b) further explain, providing supporting evidence, how the subsidy design features make the Subsidy proportionate to its policy objective and limited to the minimum necessary. In particular, the Assessment should better explain the approach adopted to determine the size of the Subsidy, including how the costs of the Project have been calculated and appraised (Principle B);

(c) demonstrate and evidence how relevant design features of the Subsidy contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom. The Assessment should also set out an evaluation of whether a subsidised loan would be an effective, proportionate and less distortionary alternative (Principle F); and

(d) balance the benefits of the Subsidy against its identified negative impacts, rather than against the negative consequences of the 'do-nothing' scenario. The Assessment should also consider any potential impacts on international trade and investment (Principle G).

1.8 We discuss these areas below, along with other issues, for consideration by TVCA in finalising its assessment.

The referred subsidy

1.9 TVCA is proposing to grant TIAL a subsidy of £12,519,370 in the form of grant funding for a project (the Project) to develop hangar space and associated infrastructure, including new taxiways, roadways, airside fencing and power upgrades, on the northside of Teesside International Business Park (the Business Park). The Project is in support of specialist commercial space focused on non-passenger aviation, addressing demand for freight facilities, additional aircraft storage and maintenance activity.

1.10 The Project has been identified by TVCA as essential to enable the Business Park to operate at full capacity, with Teesside International Airport (the Airport) being an important asset for the Tees Valley economy. The Assessment states that ensuring the sustainability and growth of the Airport is expected to help address disadvantages in the area.

1.11 TVCA states that it has invested £138.2 million in the Airport since purchasing it in 2019 including acquisition costs, equity investment, loans and grants.

1.12 The Assessment states that subject to the delivery of this project, two existing tenants, Draken and Willis, have committed to invest a further £16 million to build their own hangars on the development plots unlocked by the project. A further tenant, Airbourne, is expected to occupy a third hangar being developed by TIAL as part of the project.

1.13 The Assessment outlines the following expected outputs from the Project:

(a) £9.3 million in additional gross value added per annum;

(b) 250 direct jobs;

(c) 115 indirect jobs;

(d) 130 construction jobs; and

(e) 163,000 square feet of specialist aviation commercial floorspace.

1.14 TVCA explained that the Subsidy is a Subsidy of Particular Interest because the total amount of the subsidy exceeds £10 million in value.

1.15 The Assessment sets out that the hangar being developed by TIAL will be rented at a market rate. However, it is not explained whether the ground lease charges for the two businesses developing their own hangars are set at competitive market rates. The Subsidy is intended to deliver infrastructure that will allow these specific businesses to invest and expand their operations. In our view, TVCA should consider whether these two businesses could be characterised as indirect beneficiaries of the Subsidy arising from the infrastructure development part of the Project.[4] If so, their activities will be relevant to the Assessment of the subsidy control principles (for example see paragraph 2.45).

[4] See Statutory Guidance paragraphs 15.52-15.56.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by TVCA.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[5]

Policy objectives

2.3 The Assessment states that the policy objective of the Subsidy is to 'grow the regional economic activity associated with the Airport and to maximise the potential agglomeration benefits associated with the wider aviation and aerospace sectors in the region'.[6] This is intended to help facilitate the long-term strategic development of the regional economy with the associated jobs and regeneration helping to address equity issues faced in the Tees Valley area.

2.4 The Assessment also references the TIAL Infrastructure Project business case which notes that the wider operational impact of the Airport has generated some £54m for the Tees Valley economy during the period 2019-2023, with the Airport experiencing an increase of 53% in airport employment and a 50% increase in passengers since 2019.

2.5 It explains that the proposed subsidy will support critical infrastructure on the northside of the Airport, that will enable TIAL to further contribute to the growth of regional economic activity by unlocking aviation related 'employment land', creating jobs and leveraging a further £16m private investment, whilst meeting a

[5] See Statutory Guidance, paragraphs 3.33–3.58 and the SAU Guidance, paragraphs 4.7–4.11 for further detail.
[6] The PA submission provides supporting documentation and an economic impact assessment which seeks to quantify the forecast impact and economic footprint of the Airport and its role in supporting GVA and employment. It draws upon direct, indirect and induced benefits as well as wider benefits which accrue to the region resulting from airport development linked to foreign direct investment, increased trade, tourism, positive labour market and agglomeration effects (such as productivity benefits achieved by firms located close to each other eg through knowledge spillover between firms, improved access to suppliers or access to larger labour markets).

growing market demand for high quality modern aircraft hangars. It describes how the initiative forms part of a 10-year turnaround plan – implemented following TVCA's acquisition of the majority shareholding in TIAL in 2019 – and further updated in a refreshed business plan covering the period 2025-2030 and the associated Teesside Airport Masterplan.

2.6 The Assessment explains that these plans are in line with and complement national government growth objectives and investment plans[7] as well as TVCA's strategic economic and investment plans for the Tees Valley and the evolving Tees Valley local growth plan.

2.7 In our view, the Assessment clearly describes and evidences the specific policy objective of the Subsidy and explains how the proposed intervention aligns with national government and local strategies and policies.

Equity Objective

2.8 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.[8]

2.9 The Assessment states that the equity rationale that the Subsidy seeks to address is to reduce social and economic disadvantage in the Tees Valley relative to the UK.

2.10 It cites supporting evidence for high levels of deprivation in the Tees Valley, identifying a lack of employment opportunities (particularly those characterised as high skill and high wage) and low employment rates as key equity challenges. It states that these contribute to low levels of income per household in the area and result in some of the highest concentrations of poverty and deprivation in the UK.

2.11 It states that these factors contribute to high incidences of health issues amongst local residents and lower levels of life expectancy when compared to the national average. Key measures, based on ONS data include:

(a) some 44,000 Tees Valley residents currently not working who want to work;

(b) 47% of Tees Valley jobs being high skill against 53% for UK; and

(c) average pay at around 17% below national levels.

2.12 The Assessment explains that the Subsidy and related project will enable TIAL to operate its business park at full potential and help grow economic activity

[7] Such as the Government's Growth Missions, the PM's Plan for Change, the Invest 2035 Green Paper and the UK Government's Freeport Programme (areas of the Northside and Southside of the Airport's Business Park are in the Tees Valley Freeport Area).
[8] Statutory Guidance, paragraphs 3.51–3.55.

associated with the Airport. It states that this will lead to new investment and improved regional economic competitiveness alongside job creation both at the Airport and in related supply chains. Further benefits include social and community impacts related to regional accessibility, and social development linked to improved connectivity and improved work and leisure travel opportunities for residents.

2.13 The Assessment and supporting documentation cite evidence that anticipates significant secondary economic and social benefits arising from the growth of the Airport, leading to positive impacts on local businesses, reductions in regional disadvantage and deprivation levels, and more thriving communities.

2.14 In our view, the Assessment clearly describes and evidences the equity objective that the Subsidy seeks to address. The Assessment also clearly explains how the policy objective will help address the identified equity rationale.

Appropriateness

2.15 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[9]

2.16 The Assessment explains that TVCA has considered whether the policy objective could be achieved by supporting activities other than development of the Airport, for example by leasing land to developers to deliver the Project through means of a public/private partnership, or by the use of commercial loans.

2.17 The Assessment references supporting information – drawn from the TIAL infrastructure project business case – to explain why these were not considered feasible. This includes factors such as, firstly, the centrality of the Airport to the effective stimulation of local economic impact and delivery of Tees Valley's economic regeneration plans, and secondly, TIAL's existing organisational financial constraints (which limit access to commercial lending) as well as an unwillingness on the part of TVCA to risk a potential loss of control over the strategic direction of the Airport.

2.18 It also identifies risks linked to commercial viability gaps[10] and funding gaps related to the Project. TVCA state that these risks combine to prevent TIAL from attracting investment from non-public sector sources at the level required to address the scale of investment needed.

[9] Statutory Guidance, paragraphs 3.56–3.58.

[10] Where expected returns are considered insufficient to fully offset the costs and risks involved, making it unattractive to private investors or financiers.

2.19 The Assessment explains that as part of the business case assessment process a long list of options for different levels of investment in the Airport were considered, taking account of monetary costs and benefits, delivery risks, and outcomes and impacts. These included 'do nothing', seek private sector funding for the infrastructure improvements and hangar through a public/private partnership model, 'do something less' (building the infrastructure only without the hangar, or building the hangar without the infrastructure), or undertaking the Project and additional hangars.

2.20 The 'do nothing' and 'do something less' options were rejected as the policy objectives and benefits of the investment would not or only partially be achieved. The public/private partnership model approach was discounted on the basis that under this option, the full benefits of the Project and policy objective would not be delivered (due to commercial viability and funding gap concerns) and the risk of TVCA's loss of ownership and control of the strategic direction of the Airport. Building additional hangars was discounted on the basis that additional hangar capacity would be created as part of this project and there would be potential for new or existing tenant(s) to expand into these in future.

2.21 The proposed approach was selected on the basis that this was considered the most effective way of overcoming the viability and funding gaps identified and ensuring that the full benefits of the Project would be delivered into the economy, including that the public sector investment in infrastructure would leverage the construction of two additional hangars and support associated jobs.

2.22 In our view, the Assessment demonstrates that TVCA has considered other ways of achieving its policy objective and explains why a subsidy was considered the most appropriate option.[11] However, the Assessment and supporting information make a number of assertions regarding commercial viability gaps, funding gaps and the appetite for risk on the part of the private sector developers in respect of this Project. In our view, the Assessment could set out more clearly evidence that explains the basis upon which such conclusions were reached, for example, by reference to independent reports and/or consultations that evidence why the funding gap cannot be met through non-public means.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.23 Under Step 2, public authorities should consider compliance of a subsidy with:

[11] The TIAL Project Business Case submitted as supporting evidence also describes the factors which explain why TIAL has been unable to obtain commercial funding and why any lending is considered unviable. It also explains why a public/private partnership is considered unsuitable, see paragraphs 2.25-2.26 under Step 2 of this Report.

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[12]

Counterfactual

2.24 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[13]

2.25 The Assessment sets out a counterfactual scenario where TIAL would continue to operate the Airport but would not be in a position to progress the Project and would be unable to develop the identified infrastructure absent the Subsidy. While no explanation or supporting analysis is provided in the Assessment document, the Teesside International Airport Infrastructure Project Business Case (which was provided as supporting evidence) sets out that TIAL had sought but been unable to obtain commercial funding. The business case attributes this to several financial factors:

(a) if TIAL's cash reserve was to be used to fund the hangar development or to pay interest on an external loan, this could prevent TIAL being able to cover its operating costs including staff payroll over the turn around period;

(b) TIAL's balance sheet position, including intercompany loans, meaning any borrowing would be highly geared;

(c) that any external loans would be likely to be at extremely high interest rates to take account of TIAL's negative balance sheet and the risks associated with the sector TIAL operates in; and

(d) due to high construction costs along with high interest rates and a cap on the level of rent a tenant would pay and that would be deemed acceptable in the market, any lending makes the project unviable.[14]

2.26 As noted in paragraph 2.20, the Assessment concludes that delivering the Project with private sector funding through a public/private partnership arrangement would

[12] See Statutory Guidance, paragraphs 3.59–3.73 and the SAU Guidance, paragraphs 4.12–4.14 for further detail.
[13] Statutory Guidance, paragraphs 3.62–3.64.
[14] The business case argues that this is not only the case for TIAL, but for any investor / developer, and hence explains a national lack of supply [of hangarage and infrastructure] in the aviation industry.

be unsuitable as it may not deliver the full benefits of the Project and TVCA would lose control over the strategic direction of the Airport.

2.27 The Assessment explains that absent the Subsidy and so without the required infrastructure developments, Draken and Willis would not be able to proceed with building new hangars and enlarging their activities at the Airport.

2.28 In our view, the Assessment explains what would be likely to happen if the Subsidy was not awarded. However, the Assessment should better reference the explanation and evidence in the business case on which this conclusion is based, covering in particular why the Project would not be financed absent the Subsidy and referencing in the Assessment itself the reasons why TIAL has been unable to obtain commercial funding (as outlined within the TIAL Project Business Case).

Changes in economic behaviour of the beneficiary and additionality

2.29 Subsidies must bring about something that would not have occurred without the subsidy.[15] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy (‘additionality’).[16]

2.30 The Assessment explains that the Subsidy will enable TIAL to develop critical infrastructure, that it would otherwise not be in a position to do this or would be able to do so to a much lesser extent.

2.31 The Assessment sets out that TVCA has imposed requirements in its offer of grant funding to TIAL to ensure that the Subsidy will be used to achieve the policy objective and will not simply be used by TIAL for business-as-usual costs. The funding will be subject to clawback if TIAL breaches the terms of the grant funding agreement, while monitoring arrangements will impose obligations for delivery of the key outputs and outcomes.

2.32 As noted above, the Assessment explains that two existing businesses at the Airport would not proceed with building their new hangars without the supporting infrastructure works proceeding.

2.33 In our view, the Assessment explains how the Subsidy would change the beneficiary’s economic behaviour and that the Subsidy brings about changes that would not have occurred absent the Subsidy. However, as with the counterfactual, the Assessment could better reference the explanation and evidence on which this conclusion is based.

[15] Statutory Guidance, paragraph 3.66.
[16] Statutory Guidance, paragraphs 3.65–3.69.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.34 Under Step 3, public authorities should consider compliance of a subsidy with:

(a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

(b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.[17]

Proportionality

2.35 The Assessment states that the Subsidy is proportionate to the objective being pursued as the business case has concluded there is value for money for the investment. The Assessment also states:

(a) the £12.5 million subsidy will leverage £16 million from the private sector to develop infrastructure in the form of hangarage space;

(b) the costs of the work required have been kept as low as possible through procuring the works via a competitive process. It describes the specification for the works for the procurement process and describes the necessity of the hangar meeting certain specifications;

(c) that once the tender was completed, the tender underwent 'a vigorous value engineering process'; and

(d) there are agreement and monitoring arrangements between TVCA and TIAL which will ensure funding provided by TVCA is used for the approved purpose.

2.36 The Assessment states that the private investment of Draken and Willis has helped reduce the grant subsidy to what is required to meet the viability gap.

2.37 The Assessment contains some consideration of subsidy design features which contribute to the Subsidy being proportionate and limited to the minimum necessary to achieve its specific policy objective. However, in our view, the Assessment should, with regard to the Statutory Guidance, further explain (and provide supporting evidence) how the subsidy design features make the Subsidy proportionate to its policy objective and limited to the minimum necessary. In particular, the Assessment should better explain the approach adopted to determine the size of the Subsidy, including how the costs of the Project have

[17] See Statutory Guidance paragraphs 3.74–3.110 and the SAU Guidance, paragraphs 4.15–4.19 for further detail.

been calculated and appraised (to demonstrate that they are at minimum necessary levels) with supporting evidence.

2.38 In doing so, the Assessment could:

(a) explain why it is necessary for the Subsidy to cover the full costs of the Project, given that no viability gap analysis has been provided, for example for development of a new hangar against which future revenues can be anticipated;

(b) explain in more detail the tender and procurement process which was conducted for the tender of the Project and how that contributed towards keeping the Subsidy to the minimum necessary; and

(c) explain whether there will be any clawback or other mechanisms in place in the event of higher than anticipated returns, eg from rental payments for the hangar.

Design of subsidy to minimise negative effects on competition and investment

2.39 The Assessment sets out that TVCA considered other options for smaller or larger projects and concluded there is no more suitable approach to achieve the policy objective. However, the Assessment does not explicitly discuss how the design of the Subsidy minimises negative effects on competition and investment.

2.40 In our view, the Assessment should demonstrate and evidence more directly how relevant design features of the Subsidy contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom, as set out in the Statutory Guidance. For example, it could set out how the nature of the costs for the Subsidy are related to an initial investment rather than an ongoing cost which vary by output as these are often less distortive,[18] and how the monitoring of payments to ensure they are ringfenced to costs relating to delivering the Project or the timing of payments contribute to minimising distortions.[19] In particular, while the TIAL Infrastructure Project Business Case sets out reasons why commercial funding may not be available or appropriate, it does not address whether other types of subsidy could be effective, or how other types of subsidy were evaluated. In our view, the Assessment should set out an evaluation of whether a subsidised loan would be an effective, proportionate and less distortionary alternative.[20]

[18] Statutory Guidance paragraph 3.101.
[19] Statutory Guidance paragraph 3.104.
[20] Subsidised loans are often considered less distortive than grants (Statutory Guidance paragraph 3.82).

Assessment of effects on competition or investment

2.41 The Assessment acknowledges the potential for a Subsidy of Particular Interest to have negative impacts on competition and investment. The Assessment states that TVCA has considered whether the Subsidy could adversely affect other providers of airport facilities but that it considers the potential impact as limited.

2.42 In particular, it states that it has identified a lack of hangar space in the UK relative to demand, drawing on external and commissioned research. It sets out that the Subsidy would not have an impact on the operations of competitor airports who do not have the potential to develop hangar space, for example due to lack of suitable capacity. The Assessment also compares the level of funding that TVCA is providing for the Project with private and public funding received by competitor airports.

2.43 TVCA also argues that by facilitating the ability of TIAL to develop hangarage, the Project may encourage aviation businesses to expand facilities and ultimately lead to increased competition in the aviation sector.

2.44 In our view, the Assessment demonstrates that TVCA have considered and evidenced the effect of the Subsidy on competition and investment for UK hangarage. However, while it has presented evidence, it could consider whether this evidence is sufficient to conclude that there is no risk of influencing competition with other airports in supplying hangar space and particularly in displacing alternative investments in hangars by other competitors. For example, as part of TVCA's assessment of this risk, it could consider what alternative locations for hangar investments or hangars for rent will be available to Draken, Willis and Airbourne, and what each would have done without the Subsidy.

2.45 Additionally, as noted at paragraph 1.15, we have suggested that TVCA consider whether two businesses (Draken and Willis) are indirect beneficiaries of the Subsidy. If TVCA do determine there are indirect beneficiaries, then the Assessment should additionally consider the impact of the Subsidy on competition and investment for each of the affected markets in which they operate.

Step 4: Carrying out the balancing exercise

2.46 Under step 4 (principle G), public authorities should establish that the benefits of the Subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[21]

[21] See Statutory Guidance, paragraphs 3.111–3.119 and the SAU Guidance, paragraphs 4.20–4.22 for further detail.

2.47 The Assessment sets out the expected benefits to the local economy (see paragraph 1.13).

2.48 The Assessment states that without the Subsidy, the Project would not proceed and these benefits would not be realised. It identifies the risk that without the investment in the Airport, existing tenants may feel obliged to move away from Tees Valley which could lead to increasing the disadvantages in the area.

2.49 The Assessment briefly considers the impact of the Subsidy on competitor airports and concludes that other airports would not be in a position to achieve the same results as TIAL.

2.50 In our view, the Assessment has considered the benefits of the Subsidy well. But it should also consider the negative impacts of the Subsidy, rather than the negative consequences of the 'do-nothing' scenario, and should then assess the balance of these positive and negative impacts. These negative impacts could cover potential distortions of competition such as the risk that expanding capacity at the Airport leads to reduced investment in hangar capacity in other parts of the UK. The balancing exercise should also take account of any impacts on competition and investment in relevant markets if indirect beneficiaries of the Subsidy are identified.

2.51 The Assessment should also consider any potential impacts on international trade and investment,[22] including in relation to any identified indirect beneficiaries of the Subsidy.

Other Requirements of the Act

2.52 TVCA confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

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[22] See Statutory Guidance, paragraph 3.115.