

Birmingham City Council

Report to Cabinet

9 February 2021



Subject: BIRMINGHAM AIRPORT UPDATE

Report of: Rebecca Hellard, Chief Finance Officer

Relevant Cabinet Member: Councillor Ian Ward- Leader

Relevant O &S Chair(s): Resources Overview and Scrutiny
Councillor Sir Albert Bore

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference:		007768/2020
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential: Exempt Appendix A, Annexes A-D. Exempt information relating to the financial or business affairs of any particular person (including the Council).		

1 Executive Summary

- 1.1 Birmingham Airport makes a very significant contribution to the regional economy, with a direct and indirect contribution to growth and employment.
- 1.2 In recent years, the Council has received a significant return from its investment in Birmingham Airport Holdings Limited ("BAHL").

- 1.3 2020/21 has been a challenging year due to the uncertainty created by the Covid-19 pandemic for both BAHL and the Airline sector across the UK and globally. The priority has been to maintain sufficient liquidity levels to support BAHL into the future as a key strategic regeneration catalyst, whilst ensuring that it is ready to return to full capacity as soon as travel restrictions are lifted.
- 1.4 The purpose of this report is to seek approval for the Council to provide Shareholder support if required, and to note that the commercial details pertaining to this report are included in Exempt Appendix A, Annexes A-D.

2 Recommendations

Cabinet is requested to:

- 2.1 Approve the investment in BAHL on the basis of Option 3 set out in the report;
- 2.2 Authorise the Chief Finance Officer in consultation with Leader to agree any variations to the proposal that may arise during the shareholders governance processes;
- 2.3 Approve the use of its powers under Section 12 of the Local Government Act 2003 and Section 1 of the Localism Act 2011 to make the investment in BAHL;
- 2.4 Approve a loan facility to BAHL on commercial market terms up to the value of £18.5m as set out in the report;
- 2.5 Authorise the City Solicitor to take all necessary actions including entering into the relevant legal agreements required to make the investment set out in this report.

3 Background

- 3.1 Together, the 7 West Midland Authorities (“Authorities”) own 49% of BAHL, and vote in one block at meetings. The Council overall owns 18.68% of BAHL’s total ordinary shares, comprising 19.2% of BAHL’s “A” and “C” ordinary shares. The Council does not hold any of the “B” ordinary shares. In addition, the Council holds £5.9m preference shares which pay a fixed dividend of 6.31%. Further detail of the current structure of BAHL is set out in Appendix A. In both 2018/19 and 2019/20, the Council received over £5million income from its investment
- 3.2 Birmingham Airport plays a very significant role in the regional economy, providing the air connectivity vital for international trade, investment and employment, the growth of inbound tourism, and access to outbound leisure destinations. Prior to Covid-19, 7,000 people were directly employed by companies located within the Airport boundary and a further 9,900 people were employed indirectly to supply goods and services to the Airport. The Airport’s net economic impact including catalytic effects in the West Midlands region was estimated as £1.5billion GVA (Gross Value Added), and 30,900 jobs.
- 3.3 The Covid-19 pandemic has led to the worst decline in traffic and income in BAHL’s history. In response, BAHL has reduced costs where possible, without impacting the ability to resume normal operations when travel restrictions are lifted. This includes a two-phase restructure which has resulted in around 43% reduction in roles throughout the workforce.

- 3.4 BAHL has external debt facilities in the form of a £105million corporate bond, £371million private placement loan notes, and a bank loan of £25 million. The terms of the debt agreements require compliance each year with various covenant tests at 30 September and 31 March. Due to the impact of Covid-19 on the covenant requirements, the tests at 30 September 2020 and 31 March 2021 were waived, and an additional testing date at 30 June 2021 was introduced along with a six-month forward liquidity covenant. BAHL's proactive reduction in cashflows, means that it forecasts to retain a satisfactory cash balance, but will not be able to comply with the June 2021 covenant ratios unless passenger volumes and revenues recover quickly. A combination of a further waiver and shareholder support may therefore be required to avoid a covenant breach.
- 3.5 In recent months various UK Airports have raised capital in response to Covid-19, including Heathrow £1.4bn of debt in October 2020, and Manchester Airport Group raised £300m from its shareholders in July 2020.

4 Options considered and Recommended Proposal

- 4.1 The following options are considered.

Option 1- Do nothing;

Option 2- Provide support if required pro rata to existing shareholding;

Option 3- Provide support if required at a level that results in the Authorities' total support being in proportion to their current collective investment in BAHL.

Further details in relation to the above options is contained in Exempt Appendix A, Annex A.

- 4.2 Option 3 is the recommended proposal, given that Birmingham Airport is a critical asset for the region, as detailed in paragraph 3.2 above, and in independent advice in Exempt Appendix A, Annex A.

5. Consultation

- 5.1 Councillor Tristan Chatfield and Cllr Paul Tilsley, the Birmingham City Council appointed Directors of BAHL have been consulted regarding the preparation of this report.
- 5.2 West Midlands Shareholders Airport Committee has received regular reports on the issues.
- 5.3 In the preparation of this report, independent aviation, accounting and corporate finance advice has been sought. The accounting advice has confirmed the financial analysis within this report. The Council's auditor's Grant Thornton have also been consulted, and they have not raised any concerns regarding the proposed accounting treatment.
- 5.4 The BAHL Executive has been consulted in the preparation of this report.

6. Risk Management

- 6.1 All identified risks are assessed to have a low likelihood of occurring. The key risks associated are detailed in the risk register at Exempt Appendix A Annex D.

7. Compliance Issues:

- 7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?
- 7.1.1 The proposals set out in this report will support the delivery of the Council Plan 2018-2022 (as updated in 2019) specifically:
- Outcome 1, Birmingham is an entrepreneurial City to learn, work and invest in.
 - Priority 2- we will strive to maximise the investment in the City, and engage local employers to create quality jobs and opportunities for citizens, especially for those in the most deprived circumstances.

7.2. Legal Implications

- 7.2.1 Under Section 12 of the Local Government Act 2003 the Council has a specific power to invest. The power states "a local authority may invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". This provides the Council with a power to invest in BAH, for any purpose relevant to its functions (this function would have to be identified) or if the Council can show it is for the prudent management of its financial affairs. Under section 1 of the Localism Act 2011, the Council also has a power "to do anything that individuals generally may do" (the "General Power of Competence"). "Individual" means an individual with full capacity. The General Power of Competence gives the Council:

- power to do a thing anywhere in the United Kingdom or elsewhere,
- power to do it for a commercial purpose or otherwise for a charge, or without charge, and
- power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

The Council will be compliant with the requirements of both the General Power of Competence and the Power to Invest. This report serves as a business case for the proposed investment in BAH and the basis on which the Investment powers can be utilised.

7.3 Financial Implications

- 7.3.1 On entering into any commitment, the potential impact will be considered as part of the Treasury Management Strategy and budget.
- 7.3.2 The maximum support, if required will be £18.5m. It is currently assessed that any support will be repaid within a short period, and will not require any revenue resources. Details of the financial implications and issues which are commercially confidential are included in Exempt Appendix A.

7.4 Procurement Implications (if required)

7.4.1 There are no procurement implications associated with this report.

7.5 Human Resources Implications (if required)

7.5.1 There are no employee related implications associated with this report.

7.6 Public Sector Equality Duty

7.6.1 There are no adverse impacts associated with the decision.

8. List of Appendices accompanying this report

8.1 Exempt Appendix A- Birmingham Airport Update

- Exempt Annex A- Options analysis
- Exempt Annex B- Independent Business Plan forecast
- Exempt Annex C- Financial analysis
- Exempt Annex D- Risk register

Annex A- BAHL current structure