

Meeting date: 25th February 2021
Report to: Full Council
Subject/report title: **Birmingham Airport**
Report from: Leader of the Council
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Wards affected:

All Wards | Bickenhill | Blythe | Castle Bromwich | Chelmsley Wood |
 Dorridge/Hockley Heath | Elmdon | Kingshurst/Fordbridge | Knowle |
 Lyndon | Meriden | Olton | Shirley East | Shirley South |
 Shirley West | Silhill | Smith's Wood | St Alphege

Public/private report: Public

Exempt by virtue of paragraph: N/a

1. Purpose of Report

- 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. For BAHL the priority has been to maintain sufficient liquidity levels to support the airport 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. The commercial details for the recommendation are included in the private part of the agenda.

2. Decision(s) recommended

- 2.1 Full Council is asked to approve the recommendation from the 11th February 2021 Cabinet meeting, that the Council approves a loan facility to BAHL on commercial market terms up to the value of £3.7 million, under Section 8.9 of the Council's Treasury Management Strategy.

3. Background

- 3.1 Together, the 7 West Midland Authorities own 49% of BAHL, and vote in one block at meetings. Solihull owns 3.75% of BAHL's total ordinary shares and £1.176 million of preference shares which pay a fixed dividend of 6.31%. In each of the last two financial years, the Council received over £1 million of income from its investment and prior to the Covid-19 pandemic, dividends were forecast to increase year-on-year.
- 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 on the ability to resume normal operations when travel restrictions are lifted. This includes a two-phase restructure which has resulted in around a 43% reduction in roles throughout the workforce.
- 3.4 BAHL has external debt facilities in the form of a £105 million corporate bond, £371 million 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 cash flows, means that it forecasts to retain a satisfactory cash balance, but will not comply with the June 2021 covenant ratios unless passenger volumes and revenues recover quickly. A combination of a further waiver and shareholder support is therefore 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. Financial analysis and recommended proposal

- 4.1 The financial analysis is provided in the private part of the agenda.
- 4.2 Given that Birmingham Airport is a critical asset for the region, the recommendation is that the shareholders provide a loan facility to BAHL, of which Solihull's share would be £3.7 million.

5. Implications and Considerations

- 5.1 State how the proposals in this report contribute to the priorities in the [Council Plan](#):

Priority:	Contribution:
<p>Economy:</p> <ol style="list-style-type: none"> 1. Revitalising our towns and local centres. 2. UK Central (UKC) and maximising the opportunities of HS2. 3. Increase the supply of housing, especially affordable and social housing. 	<p>As mentioned above, Birmingham Airport makes a very significant contribution to the regional economy, with a direct and indirect contribution to growth and employment.</p>
<p>Environment:</p> <ol style="list-style-type: none"> 4. Enhance Solihull's natural environment. 5. Improve Solihull's air quality. 6. Reduce Solihull's net carbon emissions. 	<p>No direct implications from the proposal to provide a loan to the airport. The intention is that the loan will support the airport's return to previous passenger and traffic levels when we recover from the Covid pandemic.</p>
<p>People and Communities:</p> <ol style="list-style-type: none"> 7. Take action to improve life chances in our most disadvantaged communities. 8. Enable communities to thrive. 9. Sustainable, quality, affordable provision for adults & children with complex needs. 	<p>No direct implications from the proposal to provide a loan to the airport.</p>

5.2 Consultation and Scrutiny:

5.2.1 West Midlands Shareholders Airport Committee has received regular reports on the issues.

5.2.2 In the preparation of this report, independent aviation, accounting and corporate finance advice has been sought. The Council's auditors, Grant Thornton have also been consulted and they have not raised any concerns regarding the proposed accounting for the loan.

5.3 Financial implications:

5.3.1 Section 8.9 of the Council's Treasury Management Strategy states:

5.3.2 *'On occasions the Council may consider investment opportunities, which are in line with the Council's plans and objectives but which do not meet the investment criteria in the Strategy. Where this is the case, prior consideration must be given to the criteria in the Strategy and approval sought from the Director of Resources and Deputy Chief Executive and Full Council. Where these investments take place they will be reported to Audit Committee at the earliest meeting following their completion'*.

5.3.3 Full Council is therefore asked to approve the loan in accordance with Section 8.9 of the Treasury Management Strategy.

5.3.4 The maximum support, if required will be £3.7 million. 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 the private part of the agenda.

5.4 Legal implications:

5.4.1 Under Section 12 of the Local Government Act 2003, the Council has a specific power to invest (or provide a loan). 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.

5.4.2 The Council will be compliant with the requirements of both the General Power of Competence and the Power to Invest. This report serves as the case for the proposal and the basis on which the investment powers can be utilised.

5.5 Risk implications:

5.5.1 The key risks are detailed in the private part of the agenda.

5.6 Equality Implications:

5.6.1 There are no adverse impacts arising from this proposal.

6. List of appendices referred to

6.1 Private report including financial analysis.

7. Background papers used to compile this report

7.1 None.

8. List of other relevant documents

8.1 None.