

<b>Report To:</b>	<b>EXECUTIVE CABINET</b>
<b>Date:</b>	7 February 2018
<b>Cabinet Deputy/Reporting Officer:</b>	Cllr Bill Fairfoull – Executive Member (Finance & Performance) Tom Wilkinson, Assistant Director (Finance)
<b>Subject:</b>	<b>STRATEGIC INVESTMENT IN MANCHESTER AIRPORT</b>
<b>Report Summary:</b>	<p>This report sets out the investment proposals of the Manchester Airport group companies ('MAG') to provide the airline capacity and standard of facilities required to secure future business plan growth and the longer term sustainability of the business.</p> <p>The report seeks approval to the recommendations set out below.</p>
<b>Recommendations:</b>	<ol style="list-style-type: none"> <li>1 note the proposals set out in the report, and in particular the recommendations for financial support to the Manchester and Stansted transformation programme through the form of further shareholder loans;</li> <li>2 note that the Transformation Programme outlined is fully aligned to the strategic economic and regeneration objectives for Greater Manchester;</li> <li>3 delegate to the Chief Executive in consultation with the Borough Treasurer, Borough Solicitor and Executive Member for Finance and Performance to approve the funding package including the Borough's shareholder loan;</li> <li>4 authorise the Borough Treasurer and Borough Solicitor to negotiate and finalise the detailed arrangements in respect of the shareholder loan, and to progress the financial and legal work associated with it;</li> <li>5 recommend that Council approves the increase in capital expenditure supported from reserves by up to £11.3m.</li> </ol>
<b>Links to Community Strategy:</b>	The transformation programme will consolidate the position of Manchester Airport as the UK's premier airport outside of London. The income received from the investment will be used to fund Council services and priorities.
<b>Policy Implications:</b>	The Treasury Management Strategy permits this type of strategic investment as an alternative investment. The strategy and accompanying policy was amended in February 2017 to allow investments such as this to take place.
<b>Financial Implications:</b> <b>(Authorised by the Section 151 Officer)</b>	The airport transformation programme that the loans are supporting should enable the future anticipated dividend rates to be paid. Without the capital investment there is a very real risk that the level of dividend payable will reduce considerably in future years. In 2017/18 £4m of airport dividend is supporting the revenue budget, and has been budgeted to do

so on a recurrent basis. Any investment of this nature that is for more than 12 months has to be treated as capital expenditure under the Local Authority Accounting Code.

The final level of investment required and coupon to be received are subject to further negotiations, but they represent a significant uplift on any return that is possible through normal treasury management investment activities, which can then be used to support front line Council services.

**Legal Implications:**  
**(Authorised by the Borough Solicitor)**

The returns on the financial investment have delivered significant value for money for taxpayers and have been used to support budget pressure avoiding further reductions in service delivery.

**Risk Management:**

The risks associated with the investment have been fully considered as part of the due diligence process. The scope, detail and conclusions of this work are set out in Part B of this report.

**Access To Information:**

The background papers relating to this report can be inspected by contacting Tom Wilkinson, Assistant Director, Finance by:



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## **1. INTRODUCTION AND BACKGROUND**

- 1.1 This report provides an update on the capital investment programme being undertaken by Manchester Airport Group (MAG) and the associated funding structure, including the proposed shareholder loans.
- 1.2 Following the acquisition of Stansted in 2012, MAG was restructured. The nine districts own 29% of the shares, with equal shares of 3.22% (which are non-voting). Manchester City Council owns 35.5% of the economic interest. IFM Investors own the remaining 35.5% of shares. Manchester City Council's shares carry 50% of the voting rights in a deadlocked company with Codan Trust Company (Cayman) Ltd as trustee for IFM having similar rights. The acquisition and restructuring gave the potential for higher shareholder returns in an enlarged group with access to a growing market and the potential for future further investment.
- 1.3 Since the acquisition MAG has traded ahead of the Business Plan agreed by the shareholders. Trading has been particularly strong at Stansted driven by increased passenger volumes. This has resulted in Shareholder dividends being significantly ahead of those set out in the Premier Plan. Both airports are now very close to capacity at peak trading periods which will constrain future growth. Stansted has a one off opportunity to take advantage of lack of runway capacity at other London airports.
- 1.4 In order to drive further growth, substantial capital expenditure is required at both Manchester and Stansted. Both airports are in the process of commencing terminal transformation projects which together comprise c£1.5bn of investment.

## **2. THE TRANSFORMATION PROJECT**

- 2.1 Manchester Airport is the international gateway to northern Britain, currently handling over 27 million passengers per annum. The airport serves over 200 hundred destinations across the world, more than any other UK airport, and is served by over 100 airlines. Its global reach is demonstrated by the fact that seven flights operate each day to the Middle East, it has two very busy routes to China, which have recently seen increases in frequency and serves a wide range of destinations in North America.
- 2.2 It is the only airport outside London and the South East with two runways and has recently attracted new routes to destinations such as Beijing and San Francisco and has the potential to accommodate an increase from its current level of 27 million passengers per year to 55 million using these existing runways. The transformation project to provide the first class terminal facilities in Manchester, which has received planning permission, is an important step to realising this potential.
- 2.3 The transformation programme represents the most significant programme of investment ever made in Manchester Airport and will see the campus developed to provide a world class operation, with significant enhancements to the facilities and to improve the customer experience. The programme includes:
  - The expansion and reconfiguring of Terminal 2 to become the airport's primary building.
  - Improvement to Terminal 3 to cater for increased demand and an expanding flight schedule.
  - The introduction of new and enlarged airside transfer facilities, including the direct linkage between Terminals 2 and 3.
  - Improvements to customer facilities including new technology in the two security halls, customer friendly enhancements such as self-service check in facilities and increased food and beverage and retail outlets.
  - The introduction of new stands and piers, offering better departure gate facilities.

- 2.4 Continued action to support further growth would simultaneously improve international connectivity for the whole of the UK and help to narrow the economic performance gap between the North and the rest of the country. Realising these benefits will require an effective alignment between airports policy and the wider national infrastructure strategy, whereby complementary investments in road and rail are prioritised to support airport growth.
- 2.5 From a jobs perspective over 20,000 people are employed on site at the airport. The airport provides employment to people across Greater Manchester with particular concentration of employees from Manchester, in particular Wythenshawe, Stockport and Trafford. Onsite employees have been estimated to have an overall wage impact in excess of £260 million pa. (Source: New Economy).
- 2.6 The Manchester Independent Economic Review (MIER) emphasised the role that Manchester Airport plays in supporting the continued economic development of the city region. The MIER Reviewers' Report indicates that it serves several different functions in Greater Manchester's economy, which includes providing connectivity to emerging economies, sustaining a large number of jobs across the region and acting as a medium for attracting jobs and talent. The MIER also found that Manchester Airport increases productivity in Greater Manchester, by adding to agglomeration benefits that the conurbation accrues. In addition the report highlighted the importance of Manchester Airport's role in supporting the wider supply chain.
- 2.7 Manchester Airport also plays a key role in helping to retain existing companies who want to be located in places that have the maximum level of connectivity. Proximity to Manchester Airport will act as an incentive to them to remain in the area. In a survey of inward investors to Greater Manchester by New Economy, 81.3% of respondents indicated that the airport would be either significant or very significant to their business in the future.
- 2.8 A final key benefit is the airport's role in supporting the growing visitor economy in Manchester and the wider region. Manchester is the third most visited city in the UK and the airport plays a major role in supporting the growing sector of the economy that supports visitors to the region.
- 2.9 Stansted is London's third largest airport. Since its acquisition by MAG, passenger numbers have grown from 17m to 26m. With Heathrow and Gatwick effectively being full, Stansted is the only major London airport with available capacity, albeit there are relatively few peak slots still available. The transformation plan involves building a new arrivals building at the side of the existing terminal which will provide both additional capacity and enhanced retail space. The estimated cost of the transformation programme is £480m.

### **3. THE INVESTMENT STRATEGY AND NEXT STEPS**

- 3.1 As shareholders there is an opportunity to support the funding package that underpins the Transformation Programme through the format of shareholder loans. The investment would be fully in line with the economic objectives for Greater Manchester as set out in the Greater Manchester Strategy "Our People, Our Place" and would promote economic growth, employment opportunities for local residents and world class connectivity.
- 3.2 There is also a financial benefit to the council. As well as the direct return on loan, the airport transformation programme that the loans are supporting should enable the future anticipated dividend rates to be paid. Without the capital investment there is a very real risk that the level of dividend payable will reduce considerably in future years. In 2017/18, £4m of airport dividend is supporting the revenue budget, and is budgeted to continue at this level in the Medium Term Financial Plan, without the dividend additional equivalent savings would have to be found to balance the budget.

- 3.3 Any investment decision has to be underpinned by a thorough assessment of the risks involved and a robust due diligence process.
- 3.4 From the analysis and work carried out this is deemed to be a reasonable investment for the Districts that is aligned to the economic and strategic priorities for GM and will help secure future dividend growth.

#### **4. CONTRIBUTING TO THE GREATER MANCHESTER STRATEGY**

- 4.1 It is important that any decisions made by the Council of this nature contribute to the Greater Manchester Strategy as outline by the Combined Authority. The key elements of the strategy that this investment will contribute to are outlined below:
- a) **Good jobs, with opportunities for people to progress and develop** - The airport transformation programme will facilitate continued economic growth and attract employers in growth sectors. Over 20,000 people are employed on site at the airport from people across GM with a particular concentration of employees from Manchester, in particular Wythenshawe, Stockport and Trafford.
  - b) **A thriving and productive economy in all parts of Greater Manchester** - The airport development programme has facilitated other investments such as Airport City that have been brought to the area because of the economic activity generated by the Airport.
  - c) **World-class connectivity that keeps Greater Manchester moving** - A successful airport is critical to the ambition for Manchester to be a global city and to attract inward investment. It is the only airport outside London and the South East with two runways and the transformation project is an important step to fully realising the airports potential.
  - d) **A green city-region and a high quality culture and leisure offer for all** - The Transformation Programme is underpinned by Sustainable Development Plan which sets out the strategic objectives for the growth and development of the airport alongside how the local disturbance and environmental impact will be managed and minimised. As part of the Plan, the airport and development partners will undertake environmental assessment of all major developments in order to effectively understand and mitigate the impacts and to ensure environmental standards are incorporated into the design.

#### **5. RECOMMENDATIONS**

- 5.1 As set out on the front of the report.