
**Manchester City Council
Report for Resolution**

Report to: Executive – 18 October 2017

Subject: Strategic Investment

Report of: The Chief Executive, City Treasurer and City Solicitor

Purpose of report

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. The report seeks approval to the recommendations set out below.

Recommendations

The Executive is recommended to:

- 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;
- 2 note that the Transformation Programme outlined is fully aligned to the strategic economic and regeneration objectives for the City;
- 3 delegate to the Chief Executive in consultation with the City Treasurer, City Solicitor and Executive Member for Finance and Human Resources to approve the funding package including the City Council shareholder loan;
- 4 authorise the Chief Executive, City Treasurer and City 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;
- 5 recommend that Council approves the increase in capital expenditure supported by prudential borrowing;

Financial consequences for the Revenue budget

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 £44m of airport dividend is supporting the revenue budget. Airport dividend income is used to support the budget a year in arrears and the budget assumes no future increase in dividend as it would not be prudent to do so.

Financial consequences for the Capital budget

Any loan of over 12 months has to be treated as capital expenditure under the Local Authority Accounting Code.

Contact Officers

Joanne Roney
Chief Executive
0161 234 3006
j.roney@manchester.gov.uk

Carol Culley
City Treasurer
0161 234 3406
carol.culley@manchester.gov.uk

Liz Treacy
City Solicitor
0161 234 3087
l.treacy@manchester.gov.uk

Background Documents

None listed

Wards Affected

All

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The Transformation programme will support the continued economic development of the city region through providing connectivity to emerging economies, sustaining a large number of jobs across the region, acting as a medium for attracting jobs and talent and in helping to retain existing companies who want to be located in places that have the maximum level of connectivity.
A highly skilled city: world class and home grown talent sustaining the city's economic success	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.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Manchester Airport has a key role in driving connectivity, providing employment and training opportunities for local residents and supporting the economic growth of the city region. The development programme will facilitate both training and employment opportunities for the local community.
A liveable and low carbon city: a destination of choice to live, visit, work	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.
A connected city: world class infrastructure and connectivity to drive growth	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.

Introduction and Background

- 1 This paper provides an update on the capital investment by Manchester Airport Group and the associated funding structure, including the proposed shareholder loans.
- 2 Following the acquisition of Stansted in 2012, MAG was restructured. The nine districts own 29% of the shares (which are non-voting). The Council owns 35.5% of the economic interest, which carries 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.
- 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.
- 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.

The Transformation Project

- 5 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.
- 6 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.
- 7 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
- 8 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.
- 9 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).
- 10 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.
- 11 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.
- 12 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.

- 13 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.

The Investment Strategy and Next Steps

- 14 As shareholders there is an opportunity for Manchester City Council and the nine Districts 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 the City as set out in the Our Manchester Strategy and would promote economic growth and employment opportunities for local residents.
- 15 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 £44m of airport dividend is supporting the revenue budget.
- 16 Any investment decision has to be underpinned by a thorough assessment of the risks involved and a robust due diligence process. Part B of this report sets out the due diligence process, the identified risks and mitigation arrangements.
- 17 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.

18 Contributing to the Manchester Strategy

(a) A thriving and sustainable city - The Transformation programme will support the continued economic development of the city region through providing connectivity to emerging economies, sustaining a large number of jobs across the region, acting as a medium for attracting jobs and talent and in helping to retain existing companies who want to be located in places that have the maximum level of connectivity.

(b) A highly skilled city - 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.

(c) A progressive and equitable city - Manchester Airport has a key role in driving connectivity, providing employment and training opportunities for local

residents and supporting the economic growth of the city region. The development programme will facilitate both training and employment opportunities for the local community.

(d) A liveable and low carbon city – 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.

(e) A connected city - 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.

19 Key Policies and Considerations

(a) Equal Opportunities - None directly.

(b) 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.

(c) Legal Considerations - The Council's legal team will continue to advise on the commercial arrangements in respect of the investment, to ensure that the most efficient arrangements are put in place to protect the return on the Council's capital investment.