

Report to Cabinet
10 July 2019
Report of Chief finance officer (Section 151 Officer)
Subject Proposed disposal of long term investment

Item

10

KEY DECISION

Purpose

To consider an offer for the council's equity in Norwich Airport Ltd.

Recommendation

To:

- 1) approve the sale of Norwich City Council's shares in Norwich Airport Limited to Regional and City Airports Limited; and
- 2) subject to agreeing to the sale of the city council's shares in Norwich Airport Limited to agree to enter into a 15-year ongoing engagement agreement with Norwich Airport Limited.

Corporate and service priorities

The report helps to meet the corporate priority Inclusive economy

Financial implications

The city council receives no dividend from its Norwich Airport Limited shares and it is unlikely to do so in the foreseeable future. If the council agrees to sell its shares in Norwich Airport Limited it will receive a capital receipt which can be used to fund the General Fund's future capital programme. Further financial details are set out in the exempt appendix to this report.

Ward/s: Catton Grove

Cabinet member: Councillor Waters - Leader

Contact officers

Karen Watling, chief finance officer (Section 151 Officer), LGSS

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Background documents

None

Report

Background

1. In March 2004 Norfolk County Council and Norwich City Council sold 80.1% of their shares in Norwich Airport Limited to Omniport Norwich Limited. In the intervening period Omniport Norwich Limited has been sold to Regional and City Airports Limited.
2. Regional & City Airports (RCA) wrote to the Leaders of Norfolk County Council, Norwich City Council and the directors of Legislator 1656 Ltd on the 13 February 2019 offering to purchase their shares in Norwich Airport Limited.
3. As part of the offer to purchase the shares, Regional and City Airports Limited offered to enter into an ongoing engagement arrangement with both councils.
4. RCA already owns 80.1% of Norwich Airport Limited. The remaining 19.9% is owned by Norfolk County Councils (9%), Norwich City Council (6%) and Legislator 1656 Limited (4.9%). Legislator 1656 Limited is jointly owned by the two councils.
5. Norfolk County Council and the directors of Legislator 1656 Limited will be considering similar reports on the offer.

Proposal

6. RCA's original offer consisted of three elements:
 - a cash payment for the shares in Norwich Airport Limited;
 - a proposed mechanism to ensure ongoing engagement between Norwich Airport Limited, Norfolk County Council and Norwich City Council;
 - a willingness to extend the Overage Agreement.
7. The cash offer was for the 19.9% owned directly by the councils and Legislator 1656 Ltd and was based on an independent valuation produced by GVA Grimley Limited (GVA) in 2017. The GVA report was produced for bank funding purposes as part of a refinancing exercise and it has been shared on a confidential basis with the councils and Legislator 1656 Limited.
8. The proposal for the ongoing engagement is a legally binding agreement that provides for constructive meetings between the councils and the Norwich Airport Limited with a briefing from the managing director and relevant members of the airport management team. Both councils would nominate a representative to attend these briefings which RCA would ideally like the Leader of each council to attend.
9. When the councils sold 80.1% of their shares in Norwich Airport Limited in March 2004, an Overage Agreement was put in place for 80 years until 2 March 2084. (This agreement requires that the councils and Legislator 1656 are paid an element of the proceeds if the land is sold for purposes other than aviation). The purpose of this was to ensure that as far as possible the current site would remain an operational airport. Whilst this does not prevent the owner

from seeking to change the use of the site and develop some of the land for some purposes other than an airport, it does make it a much less attractive proposition to someone minded to take that route. The councils were requested to express a view on whether extending the Overage Agreement is of interest and the duration of a proposed extension.

10. RCA proposed that if the councils and Legislator 1656 Limited were interested in selling their shares they would be looking to complete the transaction within 6 months from their letter dated 13 February 2019.

Independent Valuation and Value for Money Assessment

11. The councils and Legislator 1656 Ltd commissioned Lovewell Blake to provide an independent valuation to assess whether the offer represented value for money.
12. After signing non-disclosure agreements with RCA, the GVA report and other financial information provided by Norwich Airport Limited was shared with Lovewell Blake.
13. Lovewell Blake produced their own valuation report. Similar to the GVA report, Lovewell Blake used earnings as a basis for their valuation of Norwich Airport Limited's shares. Other valuation methods were considered but as the fixed assets are intrinsically linked to the airport operation and have limited value outside of this, they judged the earnings basis the most appropriate.
14. The Lovewell Blake market valuation is higher than the GVA report. The reasons for this are:
 - the GVA valuation report uses historic information for Norwich Airport Limited and having reviewed more recent information Lovewell Blake assessed the recurring profit as higher than that used in the GVA report;
 - Lovewell Blake assessed that the profit multiple used in their valuation should be higher than that used in the GVA report;
 - Lovewell Blake assessed the value of the call centre at a higher value than that included in the GVA report because of a recent revaluation.

Alternative Proposal

15. After considering the Lovewell Blake report, the Leaders of both councils and the directors of Legislator 1656 Ltd responded to the offer on 17 May 2019 with an alternative proposal for RCA to purchase the shares for a higher valuation based on the Lovewell Blake report and for the councils to enter into an ongoing engagement agreement with Norwich Airport Limited.
16. The councils and Legislator 1656 decided that they did not wish to pursue the extension of the Overage Agreement as it has a long period before it expires, and it would be difficult to apply a value to any extension request.

Negotiations

17. Following further negotiations, officers and RCA have agreed a revised valuation for the purchase of the shares as set out in the exempt appendix which officers believe demonstrates value for money.
18. As part of the negotiations, heads of terms have been agreed that propose on completion of the sale of shares, Norfolk County Council and Norwich City Council enter into a 15-year engagement agreement with Norwich Airport Limited with the intention to hold two meetings per annum at six monthly intervals. The objective of the meetings is to exchange information with each other relating to the current performance and future development of Norwich Airport to support the objective of having a successful airport in the region.
19. Officers from both councils and the directors of Legislator 1656 Limited have worked together to consider whether the offer represents value for money. The councils and Legislator 1656 Limited commissioned an independent valuation of Norwich Airport Limited and had further discussions with Regional and City Airports Limited. On 12 June 2019 Regional and City Airports Limited made a revised offer which officers believe demonstrates value for money.

Options

20. The alternative option is for the council to reject the offer from RCA and continue to be a minority shareholder in Norwich Airport Limited.

Integrated impact assessment



NORWICH
City Council

Report author to complete

Committee:	Cabinet
Committee date:	10 July 2019
Director / Head of service	Karen Watling
Report subject:	Proposed disposal of long term investment
Date assessed:	26 June 2019

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The city council receives no dividend from its Norwich Airport Limited shares and it is unlikely to do so in the foreseeable future. If the council agrees to sell its shares in Norwich Airport Limited, the council will receive a capital receipt which can be used to fund the General Fund's future capital programme.
Other departments and services e.g. office facilities, customer contact	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The council has received an approach to buy its shares in Norwich Airport Limited and has made an assessment that the offer demonstrates value for money. The sales proceeds will be used to deliver capital investment in council services and assets.
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Financial inclusion	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>This is purely a financial transaction, the selling of the city council's minority shares in a private sector company.</p> <p>The council under the proposed ongoing engagement agreement with Norwich Airport Limited will continue to have a dialogue with the airport and can raise any environmental concerns. The council as a planning authority has statutory powers and duties to consider such issues in any master plans or planning applications received from the airport. A master plan is currently being prepared and is expected to be brought to cabinet for consideration in the autumn.</p>
Natural and built environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	There is a risk that the council sells its shares for less than market value. However, this has been mitigated by commissioning an independent valuation of Norwich Airport Limited.

Recommendations from impact assessment
Positive
Negative
Neutral
Issues

