
DURHAM TEES VALLEY AIRPORT

Responsible Cabinet Member - Councillor Bill Dixon, Leader

Responsible Director – Ada Burns, Chief Executive

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to seek appropriate delegation to enable officers to respond to the changing situation at the Airport on behalf of the Council as shareholder.

Summary

2. The five Tees Valley Councils plus Durham County Council are minority shareholders in DTVA. The current shareholding stakes for Darlington are 6.67%.
3. The terms of the shareholder agreement are that if Peel Airports Limited (PAL) invest in the Airport the Councils have the opportunity to either match that investment in proportionate amounts or the Council shareholding becomes diluted. Over the years the investment in this way has resulted in an estimated more realistic shareholding stake for Darlington of 2.88%. PAL have indicated their intention to serve a formal share conversion notice regarding the funding it considers it has provided to DTVA in the period up to 31 October, 2010. There is a need to conduct a verification process and to resolve outstanding matters but when that work is done the outcome will need to be discussed with all the shareholding Local Authorities. There is a wish on PAL's part to conclude the verification and conversion process as soon as possible, and we are seeking to assist in this.
4. Once the formal process has begun under the provisions relating to shareholding set out in the Background Shareholding Agreement (BSA) the Councils will be asked to indicate if they wish to subscribe for shares. The funding required from Darlington is estimated to be in the region of £1.147 m. The period between receipt of a conversion notice and the relevant Board meeting at which the relevant conversion resolution is to be considered may be as short as 7 days, and during that time, under the BSA, the Appropriate Officers should meet to agree what response to give. To enable that to happen the Leader will need to be able to make decisions on behalf of the Council to respond within the timescales. Given the amounts likely to be involved and the Council's wider financial pressures it is not recommended that the Council invest further resources in the Airport at this time. However, the Councils are continuing to work closely with DTVA to promote a sustainable business plan moving forward.

Recommendation

5. It is recommended that
 - (a) The Leader of the Council take decisions in relation to the Council's shareholding in Durham Tees Valley Airport on behalf of the Council without further financial investment.
 - (b) The Director of Resources be granted delegated powers to finalise the verification and any paperwork necessary to give effect to the decision.

Reasons

6. The recommendations are supported to enable the Council to respond to the requirements of the shareholding agreement within the timescales of that agreement.

Ada Burns
Chief Executive

Background Papers

No Background papers were used in the preparation of this report.

Catherine Whitehead: 2306

S17 Crime and Disorder	There are no impacts on Crime and Disorder
Health and Well Being	There are no impacts on Health and Well being
Carbon Impact	There are no specific carbon impacts as a result of the recommendations of this report.
Diversity	There are no diversity issues.
Wards Affected	Middleton St George, All Wards
Groups Affected	None
Budget and Policy Framework	The proposals in this report do not represent a change to the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	This has no specific impacts for the Council's strategy, it arises out of the Council's role as shareholder.
Efficiency	The proposals do not have any impact on efficiency.

MAIN REPORT

Information and Analysis

7. The five Tees Valley Councils plus Durham County Council are minority shareholders in DTVA. The current shareholding stakes are:

Darlington Borough Council	6.67%
Durham County Council	3.33%
Hartlepool Borough Council	2.47%
Middlesbrough Borough Council	3.88%
Redcar & Cleveland Borough Council	3.89%
Stockton Borough Council	4.76%

8. Given PAL qualifying investment and expenditure into DTVA and the imminent dilution of shares in agreement with the shareholding agreement, a more accurate shareholding is:

Darlington Borough Council	2.88%
Durham County Council	1.44%
Hartlepool Borough Council	1.07%
Middlesbrough Borough Council	1.67%
Redcar & Cleveland Borough Council	1.68%
Stockton Borough Council	2.06%

9. PAL have informed SBC as lead authority of the Local Authority Shareholders that they intend to serve the requisite dilution notice. The shareholding will be diluted unless the Councils agree to proportionately match PAL investment. To do this would require a cash investment for each Council:

Darlington Borough Council	£1.147m
Durham County Council	£0.573m
Hartlepool Borough Council	£0.425m
Middlesbrough Borough Council	£0.667m
Redcar & Cleveland Borough Council	£0.669m
Stockton Borough Council	£0.819m

10. Throughout 2009, PAL were wishing to explore options for how they may acquire the remaining shareholding from the Councils and discussions and preliminary work was conducted to link this to a non-closure guarantee for a fixed period to enable the fortunes of the airport to be reversed. In June 2010 Vancouver Airport Group acquired a majority shareholding in PAL. The Vancouver Airport Group run and operate the airports of Liverpool, Doncaster and DTVA. This news was well received and welcomed as they are

an international airport company with a proven track record. In 2009/10 DTVA recorded losses in of circa £6m following. Since then PAL have reduced operational cost base including introducing the passenger fee. Despite this 2010/11 loss was £2m plus. Whilst the position has improved, it remains untenable. PAL have therefore notified the Councils of the intention to serve a formal share conversion notice regarding the funding it considers it has provided to DTVA in the period up to 31 October, 2010.

11. A vouching exercise regarding income and expenditure for the period to which the notice will relate is underway. Once the verification process and outstanding matters have been resolved, the outcome will need to be discussed with all the shareholding Local Authorities, and the relevant report and conclusions signed off. That should then provide the basis for the formal conversion notice and related Board process. There is a wish on PAL's part to conclude the verification and conversion process as soon as practicably possible. The Background Shareholders Agreement will come into operation once the formal process has begun, and the Stockton Borough Council as lead authority has been asked to indicate at a specified Board meeting which, if any, of the Councils wish to subscribe for shares.
12. The period between receipt of a conversion notice and the relevant Board meeting at which the relevant conversion resolution is to be considered may be as short as 7 days, and during that time, under the BSA, the Appropriate Officers should meet to agree what response the Councils will give at the Board meeting. PAL could serve a conversion notice at any time and they are keen to proceed and conclude matters as quickly as possible. However they have so far seen the merit of dealing with the matter informally first of all, in order to try to agree the conversion amount prior to serving a formal notice. If that continues to be their stance then what we need to do is to finish the verification work, agree the report and to consult all of the Local Authority shareholders on these matters and the overall outcome. It may be possible to do all of this, in order to enable PAL to serve a formal notice before the end of this calendar year. There would then be a need for a Board meeting to deal with the conversion resolution but we may need to act quickly.
13. Based on the draft conversion amount (£17.2M), in order to maintain shares the following sums would need to be invested:

Darlington BC	£1.147M
Durham CC	£0.573M
Hartlepool BC	£0.425M
Middlesbrough BC	£0.667M
R & C BC	£0.669M
Stockton BC	£0.819M

Given the Council's current financial position; the current value of the shareholding and the amounts likely to be involved to enable the Council to maintain the current shareholding further investment is not recommended at this time. The Councils are however continuing to work closely with DTVA to promote a sustainable business plan.

Outcome of Consultation

14. There has been no consultation on this report other than as detailed above.