Luton Rising
Our airport.
Our community.
Our planet.

February 2023

London Luton Airport Expansion

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3.03 Funding Statement

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3.03 FUNDING STATEMENT

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EXECUTIVE SUMMARY

This Funding Statement has been prepared by London Luton Airport Limited trading as Luton Rising (Luton Rising or the Applicant) to support its application for an order to grant development consent (DCO) for the expansion of London Luton Airport from 18 million passengers per annum (mppa) to 32 mppa (the Proposed Development).

Luton Rising is a limited company wholly owned by Luton Borough Council (LBC). It is seeking, through the Proposed Development, to:

a) increase employment and improve economic activity in Luton and the surrounding Three Counties area;
b) contribute to the levelling up agenda; and
c) increase its contributions to community groups and services in other neighbouring authorities.

Together, these actions will help Luton Rising meet its ambition to growing and greening London Luton Airport to deliver sustained social impact for Luton.

This Funding Statement confirms that, based on the cost and revenue projections, the scheme as currently proposed (including all land acquisition costs) is capable of being funded from the net income derived from operating the airport.

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1 INTRODUCTION

1.1 Applicant

1.1.1 Luton Rising, the Applicant, is a limited company wholly owned by Luton Borough Council (LBC) and was incorporated in 1986. Luton Rising owns the airport and benefits from the commercial arrangements it has in place with the operator of the airport. Luton Rising is heavily engaged in the local and regional community. Through the Proposed Development, Luton Rising is seeking to enhance the community benefits realised by the airport.

1.1.2 The airport is the largest employer in Luton, providing 10,900 jobs directly and supporting a further 900 jobs locally through its supply chain in 2019. Its growth has the potential to generate substantial employment both directly and by attracting other businesses to locate in the area.

1.1.3 The economic impact of the airport spreads much further than just Luton, supporting the broader economic development of the Oxford-Cambridge Arc. At the national level, in 2019 the airport supported 28,400 jobs and £1.8 billion in economic activity, of which 16,500 jobs and £1.1 billion of economic value was created across the Three Counties of Bedfordshire, Buckinghamshire and Hertfordshire, including in Luton itself.

1.1.4 Growth at the airport has the potential to increase employment and economic activity in Luton, the Three Counties and across the UK. The economic benefits of the Proposed Development are set out in full in the **Need Case [TR020001/APP/7.04]**, however, to briefly summarise:

a) at an expanded capacity of 32 mppa, the airport would support a further 10,800 jobs, and £1.45 billion in economic activity across the UK;

b) most importantly, many of these new jobs would be realised locally, with an increase of 6,100 jobs and a boost of £0.9 billion in economic activity within the Three Counties area; and

c) of the total number of additional jobs and increased economic activity in the Three Counties area, 4,400 jobs and £0.7 billion would be realised in Luton. Given Luton's higher levels of underlying deprivation the impact that growth achieves will be even more marked in the Luton area and contribute to the progress made in terms of the levelling up agenda.

2.1.5 As well as jobs and economic activity, the airport benefits communities in Luton. Luton Rising and LBC (as its sole shareholder) can draw on resources, form partnerships and focus on social value in a way that is unique amongst UK airports. Current contributions made to frontline services amount to 15% of LBC income. Additional significant support is given to community groups and services in Luton and the surrounding area amounting to £8 million each year. This is 20 times more per passenger per year than any other UK airport. Through expansion the proposed 'Community First' scheme will further increase such contributions by up to £14 million a year.

1.1.5 In 1998, Luton Rising entered into a concession agreement (Concession Agreement) with London Luton Airport Operations Limited (LLAOL or the

Operator) for the management, operation and development of the airport until 2032. As the owner of the airport Luton Rising receives income currently linked to passenger throughput. The Concession Agreement enables the Operator to develop the airport to accommodate material increases in the number of passengers using it.

1.1.6 Whilst LLAOL is responsible for the day to day running of the airport, the Applicant takes significant responsibility for the long-term vision and planning of the airport's future to ensure that the benefits to the local and regional area are fully realised.

1.2 Overview

1.2.1 The airport currently comprises a single runway and terminal with the capacity and approval to operate at up to 18 mppa.

1.2.2 With passenger demand projected to rise, the Applicant proposes to expand the capacity of the airport from 18 mppa to 32 mppa which will enable it to make best use of its single runway in line with government policy. A more detailed explanation of the Proposed Development, with signposting provided to the full suite of application documents, is provided in the **Introduction to the Application [TR020001/APP/1.03]**.

1.2.3 Section 23(1)(3)(a) of the Planning Act 2008 states than any airport expansion of 10 mppa or more falls within the definition and thresholds for a Nationally Significant Infrastructure Project (NSIP) and requires a DCO application to authorise expansion.

1.2.4 A funding statement is required where a DCO application includes compulsory acquisition powers (regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009).

1.2.5 Being a scheme with an increase of more than 10 mppa that requires compulsory acquisition powers, the Proposed Scheme requires a DCO application and a funding statement.

1.2.6 For the purposes of the core planning case within Luton Rising's DCO application, three assessment phases have been assumed[1]:

a) Phase 1 – expansion of the existing Terminal enabling the terminal to process 21.5 mppa; and

b) Phases 2a and 2b – construction of a new Terminal 2 (T2) to the north of the existing terminal to enable the airport to initially process 27 mppa and then grow to 32 mppa.

1.2.7 These assessment phases have been adopted for the purpose of providing the information required for this Funding Statement.

[1]In practice the DCO may be delivered incrementally, in line with demand.

1.3 Purpose of this Funding Statement

1.3.1 This Funding Statement has been produced pursuant to regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 and the Department of Communities and Local Government guidance, “Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land” (September 2013).

This Funding Statement is one of several documents accompanying the Application and submitted to the Secretary of State, as set out in the **Introduction to the Application [TR020001/APP/1.03].** The Proposed Development does give rise to an element of compulsory acquisition as set out in the **Statement of Reasons [TR200001/APP/3.01]** and the Book of Reference **[TR020001/APP/3.03]**. The Funding Statement should be read alongside and informed by those documents.

1.3.2 This Funding Statement explains how assessment Phases 1 and 2 (comprising assessment Phases 2a and 2b) can be funded and confirms that, based on cost and revenue projections, the scheme is capable of being funded from the net income derived from operating the airport.

2 LAND ACQUISITION

2.1.1 The freehold of the vast majority of the land required for the implementation of the Proposed Scheme is owned by the Applicant or its shareholder LBC. Nevertheless, as set out in the **Statement of Reasons [TR020001/APP/3.01]**, the Applicant requires compulsory acquisition powers to (amongst other things) acquire freehold interests in other plots of land, to acquire and create rights in land (including imposing restrictions) and to take temporary possession of land for construction purposes. These powers are necessary to ensure that the Proposed Development can proceed without impediment.

2.1.2 As set out in 2.3.1, further information on land ownership is provided in the **Book of Reference [TR020001/APP/3.02]** and the **Land Plans [TR020001/APP/4.03]**.

2.1.3 The Applicant is and remains committed to securing the necessary rights and interests in the land required through voluntary agreement. If this is not successful, compulsory acquisition powers would be required as a fallback.

3 PROJECT COST

3.1.1 The preparation of the DCO capital costings has been independently undertaken by the Aviation Team at Arup, with support from AECOM and WSP (formerly Capita and GL Hearn). York Aviation LLP (YAL) has provided specialist professional aviation expertise and CBRE has supplied land and compensation estimates.

3.1.2 The current cost estimate for the Proposed Scheme is anticipated to be in the region of £2,700m in 2022/23 prices (Estimated Total Project Cost). This estimate includes development costs, construction costs, supervision costs, risk contingencies, land acquisition costs (including compensation payable in respect of any compulsory acquisition of land and rights in land), Section 106 Town and Country Planning Act payments and costs associated with a new noise insulation scheme for properties most affected by aviation noise.

3.1.3 The Estimated Total Project Cost can be split into the assessment phases as follows:

a) Phase 1 has a cost of approximately £350m in 2022/23 prices; and

b) the combined Phases 2a and 2b have a cost of approximately £2,350m in 2022/23 prices.

3.1.4 The Estimated Total Project Cost includes costs for land purchase, compensation and blight of approximately £110m, of which £10m relates to assessment Phase 1 and £100m relates to assessment Phases 2a and 2b.

4 FUNDING

4.1.1 The Estimated Total Project Cost is capable of being funded from the net revenues achieved by the airport based on the long-term passenger demand and revenue forecasts after consideration of the anticipated project costs. However, as it will take time for passenger numbers to grow and net revenue surpluses to be realised, finance will be raised to pay for the initial costs of construction at each of the proposed Phases which will be repayable over time.

4.2 Proposed delivery approach for assessment Phase 1

4.2.1 There are several possible financial approaches available for the delivery of assessment Phase 1 which could be used individually or in combination. These approaches are set out below and require jointly beneficial arrangements to be agreed between parties on a commercial basis. The final selection of approach will depend upon the prevailing market and macro-economic conditions at the time of implementation and the commercial agreement reached with the relevant parties involved:

a) Approach 1 (*Concession extension*): Luton Rising and LBC are parties to the concession agreement with the current airport operator. The concession provides the airport operator with the right to develop the airport to accommodate material increases in the number of passengers. From the outset of the concession, flexibility was built in to enable the duration of the concession to be extended to accommodate material growth. This was executed in 2012 when both parties agreed commercial terms to enable the concession to be extended by two years and seven months to enable the financing of growth from 12 million to 18 million passengers per year conditional on the delivery of construction works phased over 16 years.

   This tried and tested method, where the concessionaire finances and builds new capacity, is capable of being adopted by agreement by all parties, with the period of the concession to be extended to enable the costs of construction of assessment Phase 1 to be met and an appropriate return on investment to be made. The current concessionaire, LLAOL, would then deliver the assessment Phase 1 construction works for and on behalf of Luton Rising.

b) Approach 2 (*No concession extension, with repayment of outstanding financing at existing concession end*): Agreement may be reached with the current concessionaire for it to raise commercial finance to pay for the costs of construction of assessment Phase 1. The costs of such borrowing and any agreed commercial return would be partly offset against the net additional revenue generated by the expansion of the airport. The amount of borrowing outstanding at the end of the current concession period would be repaid in accordance with the agreement reached. The current concessionaire, LLAOL, would then deliver the assessment Phase 1 construction works for and on behalf of Luton Rising.

c) Approach 3 (*LBC financing*): The concession agreement also envisages that LBC may choose to raise finance through the routes it has available. It would in turn lend such finance on to Luton Rising on commercial terms to pay for the costs of construction of assessment Phase 1, such finance to be repaid through the net additional revenue generated by the airport. This would require an agreement being reached with the concessionaire to progress the works. The current concessionaire would continue to operate the airport and would oversee the delivery of the assessment Phase 1 construction works alongside Luton Rising.

4.2.2 Positive discussions with LLAOL around the preferred approach and alternative commercial models are ongoing. LLAOL has confirmed that it is supportive of the expansion proposals set out in the application for development consent and, subject to commercial arrangements being settled, is committed to the development of the airport through implementation of the powers contained in the DCO.

4.2.3 On granting the DCO, and subject to such commercial agreements, it is anticipated that LLAOL would therefore deliver or oversee the delivery of assessment Phase 1 construction works and operate the airport at its expanded capacity. The ability to do this has been provided for in the terms of the Draft DCO.

4.2.4 LBC as the sole shareholder in the Applicant has the reversionary interest in the airport and has already made significant investment in the DCO Application, the Luton DART and Bartlett Square. The existing asset is valued at £1.5bn. LBC considers it to be a key strategic asset in the delivery of Luton 2040 Vision and in the securing of a strong economic recovery in Luton and the region. LBC fully supports growing the airport and this is a key part of Luton's Inclusive Economic Strategy delivered through Luton's wider Inclusive Economy Board.

4.2.5 The Council recognises the need to make the airport sustainable as part of its journey to becoming a carbon neutral town by 2040 and provides for this within its longer-term ambitions.

4.2.6 Recognising that the airport is a key enabler for the delivery of its priorities, and given its reversionary interest in the airport, Luton Rising and its shareholder will have to ultimately determine, in agreement with the existing concessionaire, which of the approaches will become the preferred funding route for delivery of assessment Phase 1 development. The precise details of any commercial arrangements would be subject to the agreement of LBC as shareholder at the relevant time and LBC will be directly involved in the structuring of the appropriate financing agreements.

4.3 Proposed delivery approach for assessment Phases 2a and 2b

4.3.1 Assessment Phase 2 of the proposed expansion will be financed with capital raised from private or commercial markets similar to those previously described, with delivery through a new long-term concession or other commercial arrangement being put in place following the expiry of the existing concession. Options include:

a) Luton Rising operating the airport post concession with TUPE transfer of current operational staff. The operation could further benefit from the provision of a Technical Services Agreement (TSA) with an aviation expert with global expertise to provide ongoing comprehensive technical and management support for a period of time. Luton Rising would raise money from the private markets or through commercial arrangements determined by LBC to pay for the construction costs of assessment Phase 2 and make repayments from the commercial returns of the airport. Luton Rising would therefore retain the risks and rewards from expanding the airport;

b) a concessionaire being appointed to run the airport and deliver the expansion works financed by the concessionaire raising capital in the financial markets and retaining the risks and rewards of expanding the airport; and

c) a concessionaire being appointed to run the airport and deliver the expansion works financed in part by Luton Rising through commercial terms as above.

4.3.2 The ultimate option to be selected will be influenced by the macro-economic, commercial and financing market conditions closer to the time of implementation. As outlined above, given the strategic importance of the airport in driving forward the longer-term interests of Luton, and as the single shareholder of Luton Rising, LBC will have to determine at the relevant time which approach it considers is most appropriate. The precise details of any commercial arrangements for the delivery of the assessment Phase 2 works would be subject to the agreement of LBC at the relevant time and LBC will be directly involved in the structuring of any relevant financing agreements.

4.3.3 Some elements of assessment Phase 2, such as the fuel farm and EV charging infrastructure, are likely to be funded by third party providers. However, for the purposes of this funding statement, it is assumed for now that all costs are funded as set out in paragraph 5.3.1 and these costs are included in the Estimated Total Project Cost.

4.4 Funding for Land Acquisition

4.4.1 Specifically in relation to assumptions and costings for land acquisition, entitlement and disposition the expertise of CBRE has been retained by Luton Rising and CBRE has wholly informed the costs. The current cost estimate (see Section 4 above) includes approximately £110m for land acquisition and compensation for the compulsory acquisition proposals included in the Order and required for the Proposed Scheme.

4.4.2 Due to the types of property adjacent to the airport (mostly commercial), very few Statutory Blight claims are anticipated. The resource implications of any possible acquisitions resulting from a blight notice have been taken account of.

4.4.3 Due to the commercial sensitivity of land negotiations, it is not proposed to break land costs estimates down further.

4.4.4 As explained in Section 4.1.1, the costs for land acquisition and all other compensation are included within the Estimated Total Project Cost. The costs can all be funded through the net revenues achieved by the airport.

4.4.5 As described in the **Statement of Reasons [TR020001/APP/3.01]** the project is seeking authorisation for compulsory acquisition powers to be exercisable over an extended period of 10 years. This proposed extended period does not affect the availability of necessary funding to cover the costs of compulsory acquisition.