The Harpenden Society

Unique reference number: 20038925

Luton Rising (“LR”) Development Consent Order (“DCO”) application

Written submission on the Examination procedure

and draft Examination Timetable

requesting the addition of “Funding” to the list of Principal Issues

Dear Ms Dowling

Thank you for your letter of 13th July inviting The Harpenden Society to attend the Preliminary Meeting and make written submissions on the proposed agenda.

Agenda item C covers your initial assessment of the Principal Issues, a list of which is included as Annex C.

In our Relevant Representation we identified that "Luton Rising does not have either the management skills **or access to funding to achieve the applications proposals**".

Access to funding is not listed separately as a Principal Issue and it may well be that it is intended that it will be covered under Principal Issue 4 (Compulsory Acquisition) or Principal Issue 5 "…adequacy of security for project delivery".

We believe that Luton Rising's ability to raise the funding to undertake not only the compulsory land acquisitions but the project as a whole is extremely constrained and believe that the integrity of its assertions in the Funding Statement and, previously, during meetings with the Planning Inspectorate (where it claimed its funding was "robust") should be separately examined.

We will submit our detailed evidence in accordance with the Examination timetable but a summary of our concerns is set out below:

1.1 Luton Borough Council ("LBC") is listed as the source of the funding for Phase 1 options b) and c) and Phase 2 a) and c). The airport is an investment asset held primarily for yield and does not directly support service provision in Luton. The Public Works Loan Board ("PWLB") has recently revised its lending terms and will not lend for the purchase of assets held primarily for yield. Thus, it is arguable whether LBC would be able to secure £2.7 billion of funds from the PWLB but even if could or, separately, it could secure the funding from private markets, it would increase LBC's borrowing fourfold (from £0.8 billion to £3.5 billion). Furthermore, the minimum additional annual interest bill would be of the order of £135 million (£2.7 billion at around 5.5%, the PWLB's current fixed interest rate – commercial rates are likely to be considerably higher). LBC's current net services budget is £148 million. No doubt the S151 Officer (the Council's finance officer) would argue that the airport revenue stream would be more than sufficient to cover the interest but the revenue stream is not guaranteed, indeed as Ernst & Young recently stated in their draft audit report, Phase 2 is "highly speculative". For a Council that had to apply for a capitalisation decision from the government, due to Covid's impact on its airport revenues, the prospect of its exposure to the airport increasing sixfold (loans to Luton Rising are just under

£500 million presently but will increase to £3.2 billion) isn't something that can be glossed over in a few paragraphs of assertions in the Funding Statement. LBC needs to show that there is a realistic prospect of it securing such funding and it being able to finance the interest payments. It also needs to demonstrate that such funding would keep it within the terms of the Prudential Code for Capital Finance in Local Authorities. It is worth noting that, as part of the capitalisation decision, the Minister at the Department for Levelling Up, Housing and Communities required LBC to "address a specific condition of the capitalisation direction, specifically around your ability to present a plan to Government for reducing the Council's financial exposure to the airport". Borrowing to fund airport expansion, of course, will increase the Council's financial exposure to the airport markedly.

1.2 As reported in 1.2 above, Ernst & Young's view, as set out in its draft audit report on the 2018/19 LBC statement of accounts is that "expansion of the airport in line with phases 2a) and b) of the DCO is highly speculative, uncertain and is likely to have a reduced net present value. This conclusion is supported by the findings of the Council's own external expert, Arup." Furthermore, LBC is adamant a new concessionaire will make an upfront payment of up to £1.2 billion for a new concession. It is not clear whether this is reflected in the £2.7 billion, we suspect not, in which case the risk to a new concessionaire will be greater even than Ernst & Young forecast. Under these circumstances, Luton Rising needs to demonstrate that there is at least one concessionaire who is willing to underwrite the risk on reasonably settled terms, not subject to the "commercial agreement", otherwise no reliance can be placed on the achievement of the forecast economic benefits.

1.3 In 2021 the total project cost was forecast at £1.5 billion, down from an earlier estimate of over £2 billion (due to a reduction in the volume of earthworks, in the main, according to Luton Rising's then CEO Graham Olver). Costs are, a short time later, quoted as £2.7 billion. Whilst we recognise that construction cost inflation is high, this is an extraordinary change. Luton Rising's only other experience of a major infrastructure project is the DART where the budgeted cost of £200 million has been exceeded by 50% and Luton Rising's auditors Pricewaterhousecoopers required it to write down the DART's value by £180 million in 2021 to reflect the fact that future revenues will not cover the capital cost. Luton Rising has provided no information to support the DCO cost budget. Given its poor performance managing project costs and the scale of increase in costs in little over a year no reliance can be placed on its assertions about costs in the Funding Statement. Luton Rising should be required to provide detailed cost estimates and the contingencies attached to these for assessment by the Examining Authority.

1.4 Luton Rising has outlined a range of funding options but there is only one economic outcome and no sensitivity tests around this outcome to reflect different funding options. It is highly unlikely that all the funding options will produce the same economic outcome. By way of example, Phase 1 funding option 4.2.1 a) [*extension of the existing concession*] will affect the timing of Phase 2 and the revenues and costs associated with it. No account has been taken of this. Options 4.2.1 b) and c) show LLAOL delivering Phase 1 but this is subject to the "commercial agreement" – clearly, the economic outcome is uncertain and the impact of a number of alternative agreements should be taken into account.

Taken together, these concerns demonstrate that Luton Rising's assertions that the DCO is financially viable and that funding is readily available are anything but robust. We respectfully request that the Examining Authority adds Funding to the list of Principal Issues so that this area can be scrutinised in detail, especially in circumstances where none of the directors or staff at Luton Rising appears to have any airport or large infrastructure project management experience.