Luton Rising
Our airport.
Our community.
Our planet.

November 2023

# London Luton Airport Expansion

Planning Inspectorate Scheme Ref: TR020001

Volume 3 Compulsory Acquisition Information

**3.03 Funding Statement**

Application Document Ref: TR020001/APP/3.03
APFP Regulation 5(2)(h)

**The Planning Act 2008**

**The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009**

# London Luton Airport Expansion Development Consent Order 202x

## 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 to 32 million passengers per annum (mppa), (the Proposed Development).

Luton Rising 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 Luton 2040 agenda to achieve a healthy, fair and sustainable town where everyone can live and no one has to live in poverty, and to the Levelling Up agenda; and

c) increase its contributions to community groups and services in Luton and neighbouring authorities.

Together, these actions will help the Applicant meet its ambition to grow London Luton Airport to deliver sustained social impact for Luton.

This Funding Statement confirms that, based on the cost and revenue projections, the Proposed Development is capable of being funded from the net income derived from operating the airport. In particular, it:

a) confirms that there is a ‘reasonable prospect’ of the requisite funds for acquisition becoming available (DCLG Guidance on Compulsory Acquisition para 9) to enable the compulsory acquisition within the statutory period following the Order being made, and that the resource implications of a possible acquisition resulting from a blight notice have been taken account of; and

b) gives as much information as is possible about the resource implications of implementing the project (DCLG Guidance on Compulsory Acquisition para 17).

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# 1 INTRODUCTION

## 1.1 Applicant

1.1.1 Luton Rising, the trading name of London Luton Airport Limited (the Applicant), is a private company limited by shares which wholly owns London Luton Airport. It was incorporated in 1986 pursuant to the requirements of the Airports Act 1986 as a wholly owned subsidiary of Luton Borough Council (LBC).

1.1.2 As owner of the airport, the Applicant benefits from the commercial arrangements it has in place with the airport operator, London Luton Airport Operations Limited (LLAOL). It derives a significant revenue stream from LLAOL in the form of quarterly concession fees which it can use to support the development of the airport, including for the acquisition of land and payment of compensation due, and support the finance raised to deliver expansion if necessary.

1.1.3 The Applicant is heavily engaged in the local and regional community. Through the Proposed Development, the Applicant is seeking to enhance the community benefits realised by the airport.

1.1.4 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.

1.1.5 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.

1.1.6 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 [AS-125]**, 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 will contribute to the progress made in terms of the Levelling Up agenda.

1.1.7 As well as jobs and economic activity, the airport benefits communities in Luton and the surrounding area. The Applicant can draw on resources, form partnerships and focus on social value in a way that is unique amongst UK airports. Additional significant support is given to community groups and services in Luton and the surrounding area amounting to an average of £8.5 million per year for the 20-year period to March 2023. In 2019 the amount was more than 20 times more per passenger than any other UK airport. Through the Proposed Development the proposed Community First scheme will further increase such contributions by up to £13 million a year.

1.1.8 In 1998, the Applicant entered into a concession agreement (Concession Agreement) with LLAOL (the airport operator), which is in place until 2032, for the management, operation and development of the airport. As the owner of the airport, the Applicant receives significant annual income via the Concession Agreement that is linked to passenger throughput. The Concession Agreement enables the airport operator to develop the airport to accommodate material increases in the number of passengers using it.

1.1.9 Whilst the airport operator is responsible for the day to day running of the airport, in its role as the owner of the airport, the Applicant has a long-term strategic vision and plan for the airport's future to ensure that the benefits to the local and regional area are fully realised.

## 1.2 Overview

1.2.1 Until 12 October 2023 the airport had approval to operate at up to 18 mppa. On 13 October 2023 an application by the airport operator to increase the airport capacity to 19 mppa was approved, with a joint decision granting planning permission issued by the Secretary of State for Transport and the Secretary of State for Levelling Up, Housing and Communities.

1.2.2 With passenger demand projected to rise, the Applicant proposes to expand the capacity of the airport to 32 mppa which will enable it to make best use of its existing 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 [AS-002]**.

1.2.3 Section 23(1)(3)(a) of the Planning Act 2008 (Ref 1) 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 (Ref 2)).

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

1.2.6 For the purposes of the core planning case within the Applicant's application for development consent, three assessment phases have been assumed[1]:

a. Phase 1 – expansion of the existing Terminal (T1) enabling the terminal to process 21.5 mppa; and

b. Phases 2a and 2b – construction of a new Terminal 2 (T2) to the east 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.

## 1.3 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 (Ref 2) and the Department of Communities and Local Government guidance, "Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land" (Ref 3).

1.3.2 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 [AS-002].** The Proposed Development gives rise to an element of compulsory acquisition as set out in the **Statement of Reasons [AS-008**] and the **Book of Reference [APP-011]**. This Funding Statement should be read alongside and is informed by those documents.

1.3.3 This Funding Statement explains how assessment Phases 1 and 2 can be funded and confirms that, based on cost and revenue projections, the Proposed Development is capable of being funded from the net income derived from operating the airport. A letter from Ove Arup and Partners in its role as financial adviser for the Proposed Development is included at **Appendix A**. In particular:

a. Section 2 of the Funding Statement confirms that there is a 'reasonable prospect' of the requisite funds for acquisition becoming available (in accordance with DCLG Guidance on Compulsory Acquisition (Ref 3), paragraph 9) to enable the compulsory acquisition within the statutory period following the order being made, and that the resource implications of a possible acquisition resulting from a blight notice have been taken account of; and

b. Sections 3 and 4 of the Funding Statement give as much information as is possible about the resource implications of implementing the Proposed Development (in accordance with DCLG Guidance on Compulsory Acquisition (Ref 3), paragraph 17).

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

# 2 LAND ACQUISITION COSTS AND FUNDING

## 2.1 Land ownership

2.1.1 The freehold of the majority of the land required for the implementation of the Proposed Development is owned either by the Applicant or its shareholder LBC. Nevertheless, as set out in the **Statement of Reasons [AS-008]**, 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 also powers to take temporary possession of land for construction purposes (such powers not being powers of acquisition). These powers are necessary to ensure that the Proposed Development can proceed without impediment.

2.1.2 As set out in section 1.3.2, further information on land ownership is provided in the **Book of Reference [APP-011]** and the **Land Plans [AS-011]**.

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, however, compulsory acquisition powers are required as a fallback.

## 2.2 Costs and funding for Land Acquisition

2.2.1 The commercial real estate consultancy, CBRE, has been retained by Luton Rising to give expert advice on land acquisition matters, including likely acquisition costs for land, rights and temporary possession included in the Order. The cost estimates included in this Funding Statement are based on professional advice given by CBRE. A letter from CBRE is included at **Appendix B**.

2.2.2 The current land acquisition cost estimate for the Proposed Development is £108 million in 2022/23 prices. Of this £108 million, approximately £10 million relates to assessment Phase 1 land acquisition costs and approximately £98 million relates to assessment Phase 2 land acquisition costs. The £108 million includes a 20% allowance for risk.

2.2.3 Further analysis of the land and compensation costs is set out in Table 1 overleaf.

**Table 1: Land and compensation costs**

| Compensation | Phase 1 (£m 2022/23 **constant** prices) | Phase 2 (£m 2022/23 **constant** prices) | Total (£m 2022/23 **constant** prices) | Nominal (inflation adjusted) outturn cash flows (£m) |
|---|---|---|---|---|
| Rule 2* | 1 | 31 | 32 | 48 |
| Rule 6** | 1 | 43 | 44 | 68 |
| Part One*** | 8 | 24 | 32 | 55 |
| **Total** | **10** | **98** | **108** | **171** |

* Rule 2 is compensation for the value of the land to be acquired, assessed in accordance with Rule 2, Section 5 Part II of the Land Compensation Act 1961

** Rule 6 is compensation for disturbance, or any other matter not directly based on the value of land in accordance with Rule 6, Section 5 Part II of the Land Compensation Act 1961. This line also includes compensation for the taking of temporary possession.

*** Part I compensation is compensation for the diminution in value in accordance with Part One of the Land Compensation Act 1973

2.2.4 Table 2 profiles these costs over time.

**Table 2: Land acquisition cost (£m 2022/23 constant and forecast outturn)**

| | | Phase 1 | | | | | | | | First years of Phase 2 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** | **2033** | **2034** | **2035** | **2036** | **2037** | **2038** | **2039** | **2040** | **2041** | **2042** | **2043** | **2044** | **2045** | **2046** |
| **Constant 2022/23 prices (£m)** | | | | | | | | | | | | | | | | | | | | | | | |
| Land | 108 | 1 | 0 | 1 | 0 | 0 | 2 | 3 | 3 | 23 | 19 | 18 | 10 | 3 | 2 | 1 | 4 | 5 | 4 | 4 | 2 | 2 | 1 |
| **Forecast outturn prices (£m)** | | | | | | | | | | | | | | | | | | | | | | | |
| Land | 171 | 1 | 0 | 1 | 0 | 0 | 3 | 4 | 4 | 34 | 28 | 27 | 16 | 5 | 3 | 2 | 7 | 9 | 7 | 9 | 4 | 4 | 3 |

2.2.5 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.

2.2.6 In terms of funding for land acquisition, it is important to note that the Applicant has a substantial annual income from the concession agreement with LLAOL. The concession fee income to Luton Rising was £52.9 million in 2022/23 with an expected income in 2023/24 in excess of £60 million. Thus, Luton Rising has an annual concession fee income that is more than sufficient to allow it to meet the estimated £10 million Phase 1 land acquisition cost liability from its normal operating surplus.

2.2.7 The £98 million of land and compensation costs which are expected to arise in relation to Phase 2 of the Proposed Development will not crystallise until the point at which the Compulsory Acquisition powers are exercised, which is expected to be post 2032. Luton Rising's expected concession fee income over the period before this Phase 2 liability will arise is many multiples of these estimated costs. Furthermore, these costs represent less than 5% of the anticipated project cost of that Phase of the development and could also be met from finance raised to support delivery of Phase 2 at the appropriate time. The funding and financing of Phase 2 is addressed further in section 4 below.

2.2.8 The financial analysis demonstrates that over the modelled 50-year term the Airport is expected to generate over £22 billion of free cash flow (i.e. surplus) which is considerably more than would be required to service and repay any finance raised.

# 3 OVERALL PROJECT CONSTRUCTION COST

3.1.1 The purpose of this section, in accordance with DCLG Guidance on Compulsory Acquisition (Ref 3) paragraph 17, is to give as much information as is currently possible about the costs and resource implications of implementing the project in addition to the anticipated Compulsory Acquisition costs detailed in section 2.

3.1.2 The capital and operating costs of the Proposed Development have been independently prepared by the Aviation Team at Arup, with support from AECOM and WSP (formerly Capita and GL Hearn), all of whom have significant experience and expertise in large scale airport projects. York Aviation LLP (YAL) has provided specialist professional aviation expertise and has prepared the passenger demand forecasting and airport revenue projections.

3.1.3 The assumptions for capital and operating costs and forecast revenues have been analysed by experienced Corporate Finance professionals using a detailed commercially confidential financial model as described in section 5 to determine the financial viability of the Proposed Scheme as a whole. This analysis has also taken into account the land acquisition costs discussed in section 2 above, although those figures are not included in the tables below.

3.1.4 The current capital cost estimate for the Proposed Development (excluding land acquisition costs presented in section 2) is anticipated to be approximately £2,612 million in 2022/23 prices or approximately £3,400 million in forecast outturn prices. This estimate includes development costs, construction costs, supervision costs and risk contingencies of approximately 20% on all cost categories.

3.1.5 The capital costs for Phase 1 of the Proposed Development are anticipated to be incurred between 2025 – 2027. The capital costs for Phase 2 are anticipated to be incurred over the period from 2033 – 2040.

3.1.6 Table 3 summarises the breakdown of these capital costs in greater detail, and Table 4 provides the profile of these costs.

## Table 3: Capital cost breakdown (£m 2022/23 constant prices)

| | Phase 1 | Phases 2a & 2b | Total |
|---|---|---|---|
| Airfield | 76 | 374 | 450 |
| Landside | 59 | 631 | 690 |
| Platform | 18 | 205 | 223 |
| Terminal 1 | 128 | - | 128 |
| Terminal 2 | - | 642 | 642 |
| Noise insulation scheme | 42 | 18 | 60 |
| **Sub Total** | **323** | **1,870** | **2,193** |
| Third party investments* | 22 | 397 | 419 |
| **Total all parties** | **345** | **2,267** | **2,612** |

* Third party investments include a low carbon heating and cooling energy centre, a new fuel farm and pipeline connection, new hangars, a new hotel, and solar PV, battery and EV charger investments. All are assumed to be commercially viable projects in their own right. Additionally, there are third party contributions to the Luton DART Phase 2a expansion.

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## Table 4: Profile of capital cost (£m 2022/23 constant and forecast outturn)

| | | Phase 1 | | | | | | | | First years of Phase 2 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 |
| **Constant 2022/23 prices (£m)** | | | | | | | | | | | | | | | | | | | | | | | |
| Airport | 2,193 | 90 | 145 | 73 | 3 | 3 | 3 | 3 | 3 | 247 | 234 | 493 | 224 | 114 | 134 | 322 | 88 | 3 | 3 | 3 | 2 | 2 | 1 |
| 3rd party | 419 | 7 | 9 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 84 | 96 | 60 | 4 | 4 | 2 | 0 | 0 | 0 | 51 | 59 | 37 | 0 |
| **Total** | **2,612** | **97** | **154** | **79** | **3** | **3** | **3** | **3** | **3** | **247** | **318** | **589** | **284** | **118** | **138** | **324** | **88** | **3** | **3** | **54** | **62** | **39** | **1** |
| **Forecast outturn prices (£m)** | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 4,083 | 117 | 183 | 96 | 4 | 4 | 4 | 4 | 4 | 359 | 476 | 908 | 452 | 193 | 233 | 564 | 158 | 5 | 6 | 107 | 124 | 80 | 2 |

# 4 PROJECT CONSTRUCTION COST FUNDING

## 4.1 Basis of DCO financial model

4.1.1 Corporate Finance advisers from Arup Corporate Finance, an FCA regulated financial advisory business external to the Applicant, have built a detailed financial model to assess the financial viability of the Proposed Development over the period 2022 to 2072 (50 years). The commercially confidential model uses best practice financial modelling techniques and has been subject to thorough testing and review.

4.1.2 The model has been prepared from the perspective of the airport operator using cost and revenue inputs from the experienced project advisers listed in section 3.1.2 and benchmarked against existing operational cost data. The inputs and estimates are included in a comprehensive, commercial in confidence, Financial Model Assumptions Book.

4.1.3 Revenue streams include income from the airlines and business aviation, income from commercial retail (duty-free, food and drink establishments and other retail concessions), car park charges, drop-off fees and bus charges, and real estate rentals received from properties adjacent to the airport. Costs include the capital costs, ongoing lifecycle costs to replace assets, operating costs (staff and non-staff costs) and concession fees the airport operator pays to the Applicant.

4.1.4 The model firstly determines income streams and costs for the existing airport. It then overlays the gradual increase in passenger forecasts, and accompanying costs and revenues, as the airport grows over time, to generate a cash flow profile over 50 years. Sensitivity tests on costs and incomes, have been undertaken to satisfy the Applicant that the financial viability of the Proposed Development is robust to changes in key underlying assumptions.

4.1.5 As summarised in section 2.2.8, the results of the financial modelling confirm the Proposed Development is capable of being funded from the net revenues achieved by the airport based on the long-term passenger demand and revenue forecasts after taking account of the anticipated project costs.

4.1.6 Table 5 shows that in nominal (adjusted for anticipated inflation) cash outturn terms, the Proposed Development is forecast to generate c.£22.1 billion of surplus cash over the 50-year term, after taking account of all anticipated project costs. This surplus is available to meet finance costs and investor returns over the project term.

**Table 5: Cash flows of the whole airport 2022 – 2072 (rounded to nearest £100m)**

| | | Nominal (inflation adjusted) outturn cash flows (£m) | Real cash flows (£m 2022/23 prices) * |
|---|---|---|---|
| **Cash inflows** | | | |
| - Airport aero revenue | £m | 20,700 | 10,900 |
| - Retail revenue | £m | 10,200 | 5,500 |
| - Real estate revenue | £m | 1,800 | 1,000 |
| - Car parking, drop-off & bus revenue | £m | 10,100 | 5,400 |
| **Total cash inflows** | £m | **42,800** | **22,800** |
| **Cash outflows** | | | |
| - Capital costs ** | £m | (3,400) | (2,500) |
| - Lifecycle costs | £m | (4,000) | (2,100) |
| - Operating costs (staff & non-staff) | £m | (13,300) | (7,100) |
| **Total cash outflows** | £m | (20,700) | (11,700) |
| **Net surplus cash flow** | £m | **22,100** | **11,100** |

* Real cash flows were calculated by dividing nominal outturn cash flows by a CPI-index from 2022/23 to 2072/73.

** Historically capital cost inflation rises faster than Consumer Price Index (CPI) inflation. This has been assumed in the DCO Financial Model. Therefore, over the c.16-year construction period when dividing nominal outturn prices by the CPI-index the real prices are higher than the £2,193 million in Table 3. which represents 2022/23 constant prices.

4.1.7 Finance, in the form of debt and equity, will be raised to pay for the initial costs of construction at each of the assessment Phases which will be repayable over time from the surplus cash flows generated as passenger numbers and associated revenue surpluses grow. The cash flow analysis demonstrates that the airport is forecast to generate a net surplus of £22.1 billion available to meet the service and repayment costs of such finance.

## 4.2 Analysis of the airport financing markets

4.2.1 The airport financing market remains active, both with new investments and US$ billions being spent on completing existing airport expansions. This is evidenced by some of the large global investments shown in Table 6.

**Table 6: Recent and ongoing major airport investments**

| Airport | | Expansion or new | Deal date | Detail on US $bn finance raised |
|---|---|---|---|---|
| **Location** | **Name** | | | |
| Recent airport development/ expansion projects | | | | |
| USA | JFK New Terminal 1 | Redevelopment | June 2022 | **D**: 6.33<br>**E**: 2.87 |
| USA | JFK Terminal 4 expansion | Expansion | May 2021 | **D**: 1.5<br>**E**: N/A |
| USA | JFK Terminal 6 expansion | Expansion | August 2021 | **D**: 3.4<br>**E**: 1.3 |
| Thailand | U-Tapao Airport | Expansion | June 2020 | **T**: 9.4 |
| Singapore | Changi Terminal 5 | New | Main design start April 2018 | **D**: 6.8<br>**E**: 2.73 |
| Ongoing airport development expansion projects | | | | |
| Spain | Madrid-Barajas Airport | Redevelopment | 2022 - 2026 | **T:** 1.6 |
| UK | Manchester Airport | Expansion | 2023-2025 | **T:** 0.44 |
| Peru | Jorge Chávez International, Lima | Expansion | July 2017 & finish by 2024 | **T:** 1.5 |
| USA | Los Angeles International Airport | Re-development & expansion | 2013 & finish by 2028 | **T**: 30 |

**Key**: **D**: Debt **E**: Equity **T**: Total finance raised (where the debt / equity split not readily available)

4.2.2 Additionally, as part of developing the enhanced Funding Statement, the Applicant's Corporate Finance advisers have undertaken informal market soundings with several lenders including Bank of America, Royal Bank of Canada and Credit Agricole. These discussions have all been positive and have confirmed that airports remain a strong asset class and lenders and investors remain active in the aviation market. Projects continue to be invested in and delivered, and they expect this to continue to be the case.

4.2.3 Another important message is that Environment, Social and Governance (ESG) factors are becoming increasingly relevant, with the Green Controlled Growth Framework proposed by the Applicant being seen as a positive factor.

## 4.3 Proposed delivery approach for assessment Phase 1

4.3.1 There are three financial approaches available for the delivery of Phase 1 which could be used individually or in combination. Whilst each is a possibility, the preferred delivery approach for Phase 1 and the focus of the ongoing detailed negotiations between the Applicant and the current airport operator is Approach 1, as set out below. This requires jointly beneficial arrangements to be finalised between the parties on a commercial basis. Whilst the parties' negotiations are well advanced, the terms remain subject to contract and so 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:

a. Approach 1 (*Concession extension*): The concession agreement between the Applicant and the current airport operator 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 all parties agreed commercial terms to enable the concession to be extended by two years and seven months to enable the financing of development works to support growth from 12 million to 18 million passengers per year conditional on the delivery of construction works phased over 10 years. The construction project costs were in the region of £250 million, being of a comparable scale to the proposed Phase 1 expansion and demonstrates a track record of deliverability.

   This tried and tested method to deliver expansion, where the concessionaire finances and builds new capacity, is capable of being adopted for the delivery of Phase 1 of the proposed expansion and is the intended approach. As above, commercial negotiations to achieve this route are well advanced between the parties, and remain commercially confidential, with final terms subject to conditions precedent. Drafting of terms has begun between the parties with a view to preparing long form documentation for 2024.

   The airport operator will finance the delivery of the expansion works to create the infrastructure and capacity to enable Phase 1 growth. As a result, the period of the current concession would be extended to enable the airport operator's costs to be recovered and an appropriate return on their investment to be made. The airport operator would deliver the Phase 1 construction works commencing in 2025 on behalf of the Applicant. Together, the airport operator and the Applicant would work on the design of the Phase 2 works to ensure that capacity for the next phase of the DCO expansion is not delayed. This approach will not require the Applicant to seek funds to meet the financing of the Phase 1 works.

b. Approach 2 (*No concession extension, with repayment of outstanding financing at existing concession end*): In the unlikely event that the intended approach fails to reach agreement the Applicant would seek to agree terms with the airport operator for it to raise commercial finance to pay for the costs of construction of the works associated with assessment Phase 1. The costs of such borrowing and an 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 this agreement reached.

c. Approach 3 (*LBC or the Applicant financing*): The concession agreement also envisages that LBC or the Applicant may invest in the airport. Subject to shareholder agreement, either may choose to raise finance through commercial routes available. If it was LBC, it would in turn lend such finance to the Applicant on commercial terms to pay for the costs of construction of works associated with 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 airport operator 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 the Applicant. This approach is theoretically possible and so for completeness remains included here, but it is not the proposed approach for delivery.

4.3.2 As highlighted in Section 4.3.1 commercial discussions with the airport operator to deliver the intended approach are subject to contract and well advanced. The airport operator 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. At **Appendix C** is a letter from the Airport Operator confirming this position.

## 4.4 Proposed delivery approach for assessment Phases 2a and 2b

4.4.1 Assessment Phase 2 of the proposed expansion focuses on 2032 onwards (end date of the current concession) for a period of 40 years. The investment phase will be financed with capital raised from private or commercial markets similar to those previously described. There is no intention for LBC to finance the Phase 2 expansion. Delivery will be through a new arrangement either for a long-term concession, joint venture or other commercial arrangement being put in place following the expiry of the existing concession. Options include:

a. A future successor concessionaire being appointed under a new procurement process to finance and deliver the expansion works with the future concessionaire raising capital in the financial markets and retaining the risks and rewards of expanding the airport. Once the Phase 2a works are completed, they would take over responsibility for managing and operating the airport with an obligation to deliver the Phase 2b works. The commercial arrangement would be long-term in nature to provide time for the necessary return on investment. This approach replicates the status quo approach in which the concessionaire is obliged to undertake construction works at the start of the concession period in order to grow the airport and is also responsible for raising the finances to meet the associated costs.

b. Establishing a joint venture between the Applicant and an experienced airport operator with aligned interests and commitments to deliver the expanded capacity through Phase 2a and 2b in a sustainable way. The joint venture would be long-term in nature and would take over responsibility for managing and operating the airport and for delivering the expansion works. The joint venture would be responsible for raising the finances necessary to deliver the Phase 2 works. It would be responsible as a partnership to maximise sustainability measures and community impact.

c. In the absence of either approach outlined above, the Applicant post concession would become responsible for the ongoing operation of the airport with TUPE (Transfer of Undertakings Protection of Employment) transfer of the operational staff taking place at the end of the concession period. The operation would 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, including access to development funding if required. The Applicant would raise money from the private markets or through commercial arrangements determined by its shareholder LBC to pay for the construction costs of assessment Phase 2 and make repayments from the commercial returns of the airport. The Applicant would therefore retain the risks and rewards from expanding the airport.

4.4.2 The ultimate option to be selected will be influenced by the macro-economic, commercial, and financing market conditions closer to the time of implementation of Phase 2 at or around 2032. Given the strategic importance of the airport in driving forward the longer-term interests of Luton, the Applicant will determine at the relevant time which approach it considers most appropriate. The precise details of any commercial arrangements for the delivery of the assessment Phase 2 works would be subject to agreement at the time.

# REFERENCES


Ref 1 HM Government. Planning Act 2008

Ref 2 HM Government. The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009

Ref 3 Former Department of Communities and Local Government (September 2013). Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land.

# APPENDIX A – LETTER FROM OVE ARUP AND PARTNERS

ARUP

Rose Wharf
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arup.com

Sent By email
9 November 2023

Luton Rising
Hart House Business Centre
Kimpton Road
Luton
LU2 0LA

Dear Sir/Madam

## DCO Funding Statement

I am writing to explain my experience and qualifications in the context of the work Arup has undertaken to assess the financial viability of the proposed development in support of the Funding Statement submitted as part of the DCO Application for consent to increase to capacity of London Luton Airport to 32mpax over time.

My name is Jonathan Turton, I am a director in Arup, and I am the Leader of Arup Advisory Services in the North-West and Yorkshire Region. I have been a Chartered Accountant since 2001, and I am an FCA Authorised Person for the provision of Regulated Investment Advice. I have worked at Arup since 2018 providing financial and commercial advice to a wide range of large-scale infrastructure projects and investors in the market. Prior to joining Arup, I worked at KPMG Corporate finance for 20 years, where I was latterly a director specialising in the provision of financial and commercial advice to clients developing and delivering large scale projects in the Transport sector. For example, amongst many others, I led the advice for the first ever UK Guaranteed bond finance raising in a Greenfield infrastructure scheme, Mersey Gateway, a project that went on to win 3 awards for best transport project in Europe at the time.

I have led and supervised the financial viability work that members of the Arup Corporate Finance team have undertaken for the Applicant. I can confirm that based on the underlying assumptions, analysis undertaken and my experience, it is my professional opinion that the proposed development is financially viable, is capable of obtaining the necessary levels of finance when required where market and economic conditions are consistent with those we observe today, and is capable of being funded over time from the net revenues generated by the airport.

Yours faithfully

[redacted]

Jonathan Turton
Director

d [redacted]
m
e

# APPENDIX B – LETTER FROM CBRE

CBRE Limited
Henrietta House
Henrietta Place
London W1G 0NB

[redacted]

www.cbre.com

Luton Rising
Hart House Business Centre
Kimpton Road
Luton
LU2 0LA

13 November 2023

Dear Sirs,

## London Luton Airport Expansion Project

My name is Stephen Walker, I am an Executive Director in the Valuation Advisory Services Division and Head of the Compulsory Purchase and Land Assembly Consultancy Group at CBRE. I am writing to explain my experience and qualifications in the context of the work CBRE has completed for Luton Rising.

CBRE has been advising Luton Rising since April 2019 in relation to compulsory acquisition and compensation matters. We completed Property Cost Estimates (PCEs) of the likely compensation costs arising from the acquisition of land and rights required for construction of the expanded airport.

The PCE is an estimate of the likely statutory compensation payable to parties who have an interest in property that is proposed for acquisition by The Applicant, or whose interest in a property may suffer a reduction in value. Compensation is estimated having regard to statutory entitlements and relevant case law, which together are commonly referred to as the "Compensation Code". The valuation approach and methodology is based on an agreed set of assumptions drawn together to provide consistent and reliable outputs to inform overall project cost. The values provided represent a current view, rather than a projected view.

Our estimate is summarised in the table below:

| Compensation | Phase 1 (£m 2022 prices) | Phase 2 (£m 2022 prices) |
|---|---|---|
| Rule 2* | 1 | 31 |
| Rule 6** | 1 | 43 |
| Part One*** | 8 | 24 |
| Total | **10** | **98** |

* *Rule 2 is compensation for the value of the land to be acquired, assessed in accordance with Rule 2, Section 5 Part II of the Land Compensation Act 1961*

** *Rule 6 is compensation for disturbance or any other matter not directly based on the value of land in accordance with Rule 6, Section 5 Part II of the Land Compensation Act 1961*

*** *Part I compensation is compensation for the diminution in value in accordance with Part One of the Land Compensation Act 1973*

Statutory blight is defined in Part 6 and Schedule 13 of the Town and Country Planning Act 1990 which set out a mandatory system that allows directly affected property owners to sell their land and secure compensation for its unaffected value. Within the scope of our work on the PCE we have provided advice on the likelihood and consequences of Blight Notices being served on the Applicant. The risk is recorded as being very low because there are no residential properties within the limits of the proposed acquisition and the small number of commercial businesses that would meet the qualifying criteria are strategically located at the airport to fulfil their primary purpose and so appear to have no need or wish to leave before it might become necessary. At which time business support from the Applicant would  be available.

The estimation of compensation payable to parties holding an interest in land affected by compulsory purchase is difficult, as the impact of the acquisition is dependent on the individual circumstances of each party and for occupiers, the consequences of being displaced at particular point in time.  The figures therefore include a contingency for risk of 20% which is adopted in respect of the overall property cost estimate, to recognise the uncertainty which arises when estimating costs and losses which have yet to be incurred.

I have been a Chartered Surveyor since 1992, and am an RICS Registered Valuer with over 30 years' experience in compulsory purchase.  I have been a key adviser to Acquiring Authorities in respect of some of the largest nationally significant  infrastructure projects in the UK, including Thames Tideway Tunnel, High Speed Two and Heathrow Airport Expansion.

I have led and supervised the property cost estimates undertaken by my team for the Applicant. I can confirm that based on the underlying assumptions, analysis undertaken and my experience, I believe the property cost estimate provides an accurate indication of the likely compensation costs associated with the acquisition of land and rights required to deliver the proposed scheme.

Yours sincerely

[redacted]

Stephen Walker MRICS
Executive Director



CBRE

# APPENDIX C – LETTER FROM THE AIRPORT OPERATOR

London Luton Airport
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Percival Way, Luton,
Bedfordshire, LU2 9NU

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London Luton Airport

To whom this may concern

This letter is from London Luton Airport Operations Limited ("LLAOL") (Registration Number: 03491213) and is made available in support of the Development Consent Order (DCO) application (Application reference: TR020001) to expand London Luton Airport ("LLA") to 32 million passengers per annum (the "Application") submitted by Luton Rising (the "Applicant").

LLAOL is a privately owned company that operates LLA under a Concession Agreement with the Applicant and Luton Borough Council that expires in August 2032. Phase 1 of the authorised development consented through the DCO would occur during this concession period.

We previously confirmed in our letter dated 23 February 2023, that the Applicant's plans align with LLAOL's ambition as airport operator to grow the supply of airport capacity at LLA to help satisfy growth in aviation demand across the London market.

We remain of the view that the success and growth of LLA is both essential to 'levelling up' a region that relies on the airport's success to fund vital public services, and in supporting the UK's broader economic growth agenda.

Since providing our letter of support in February 2023, we have continued to work closely with the Applicant to support the development and Examination of the DCO scheme. We appreciate that it is critical that the Applicant's Funding Statement provides confidence that the DCO scheme, including compulsory acquisition, can be financed and delivered.

Provided an appropriate commercial agreement can be reached with the Applicant, LLAOL is committed to the financing and delivery of the Phase 1 works, and working with the Applicant to further progress the detailed design and definition of Phase 2 works. Commercial discussions have been progressing with the Applicant in relation to this, and we expect to reach an agreement in principle by the end of 2023, with signed documents in early 2024.

The commercial arrangement we are discussing with the Applicant is an amendment and extension of the Concession Agreement.

If we reach agreement with the Applicant, it will enable us to put in place the required funds to deliver Phase 1 works. Having delivered this critical initial investment in LLA, our intent is to work with Luton Rising and LBC, via a progressive partnership, to deliver the longer-term vision for LLA, including Phase 2 of the DCO.

To demonstrate our capacity to deliver the expansion plans, it may be useful to set out the composition of LLAOL's shareholder base. LLAOL is 51% owned by AENA, the world's leading airport management company by passenger volume, operating 46 airports in Spain and a further 34 airports in 5 countries outside Spain. Aena is listed on the Madrid stock exchange and has a market capitalisation of approximately €20 billion.

49% of LLAOL is owned by InfraBridge a global infrastructure investment company with assets under management of c.$9 billion. In addition to LLA, InfraBridge has investments in Leeds Bradford Airport and Newcastle International Airport in the UK, and Melbourne Airport in Australia.

The combined experience and capabilities of these organisations, gives LLAOL the ability to fund the expansion and deliver the long-term growth of LLA.

In summary, LLAOL recognises the critical role it has in operating the UK's fifth largest airport. A successful and growing LLA creates economic growth, jobs and new opportunities through the local economy, which in turn helps to improve the lives of residents in the local area. Expanding the airport in a long-term sustainable way that is consistent with the DCO is innovative and presents an exciting future for the airport. We welcome the opportunity to be a part of that future.

On the basis that we can reach agreement on commercial terms with the Applicant, we are confident in being able to finance and deliver Phase 1 of the DCO, as well as working together to progress Phase 2 of the development.

We plan to report back in January 2024 with a further update.

Yours sincerely,

[redacted]

Alberto Martin
CEO – London Luton Airport

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