Submission ID: 24386

I am making a further submission, following a reading and consideration of the LR funding statement (Volume 3 compulsory acquisition information 3.03 Funding Statement document reference TR020001/AP/3.03 Nov 2023).
The Executive Summary states “ 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” it goes on to say that there is a ‘reasonable prospect’ of the requisite funds for acquisition becoming available’…. And ‘gives as much information as is possible about the resource implications of implementing the project’.
I don’t accept that the information contained in a very short and top level summary document provides appropriate support for such statements. I would contrast the relative brevity and lack of detailed analysis in this document, to the many thousands of pages that have been submitted by the Applicant in other areas.
I am also aware that many other DCO’s provide much more detailed and comprehensive financial summaries with details of key assumptions and best case/worst case.
The Applicants recent track record of completing capital projects on time and on budget is not good. ExA are aware of the near 50% cost over run on the DART project, £200m ended up at £300m. In addition the net revenue calculations reviewed by the Auditors resulted in a £220m write down in the carrying value of the asset.
The DCO project is far more complex and risky with a capital budget well over 10 times the cost of DART.
I also question what exactly does the term “reasonable prospect”, of the availability of funding, mean. My view is that it does not provide any assurance that appropriate funding will be obtained, especially for the second stage.
I have the following specific comments:
1. Introduction
Para 1.1.4 what is the support for 10,900 new jobs? I assume that a good many of these jobs are minimum wage, not full time and in the case of air crew not necessarily based locally or even in this country. Some may only exist during the construction phase.
1.1.5 I dont accept that Luton supports the broader economic development of the Oxford – Cambridge Arc. In terms of air travel, the main airports already well connected to the arc are Heathrow and Stansted. The current rail and road links to both cities from Luton are currently either non existent or poor.
I do accept 2.2.6. that phase one of the project, cost c£350m, could be financed through an extension of the current concession period with the existing operator.
The overall project revenues are shown over a 50 year period for the project and appear to include the revenues of the current concession operator for the next 10 years. The free cash flow, that accrues to them for this period will not go to LR.
We are not given any insight as to how long the concession period needs to be extended for the existing operator to put up £323 million. In addition, if say, the increase in concession is five years, how is this then dealt with for the second stage?
The disclosure in 4.3.1 indicates that the preference is to extend the existing concession period, this is described as the tried and tested method to deliver expansion, … and this is the intended approach’. If there is no increase in the current concession term, then logic suggests that the existing concessionaire will take the bulk of the increase in EBITDA in order to recover over £323 million of capital expenditure.
2.2.8 and 4.1.6 refer to £22bn of free cash flow, for a 50 year period to 2072. Not only does it include concession income that belongs to the airport operator until at least 2032, it is an inflation adjusted figure and double the amount calculated at current prices.
This gives a false impression that there is more than ample free cash flow to service and repay debt, as well as offer an appropriate return to both the investors and LBC. This is because, whilst the asset life may stretch to 50 years, borrowing terms and returns to investors are unlikely to extend beyond 25 years.
I accept the logic of looking at the revenues and expenditure from an operators position. However, I question the level of the annual free cash flow as to whether it contains concession expenditure, and other payments that would be due to LR as the freeholder. I am not able to reconcile apparent margins in the forecasts to the filed annual accounts of LLAOL.
Therefore, I am not convinced with the statement in 4.1.4 “the financial viability of the proposed development is robust to changes in key underlying assumptions.
I believe that a more prudent approach would be to assess the DCO project capital expenditure against modelled incremental revenue and expenditure.
Table 6: This summary is unhelpful as there is little connection between a relatively small leisure based airport and a list of major international airports. The only UK comparison is Manchester Airport, where the total spend is under £500 million.
4.2.2 I am not convinced that the informal market soundings to establish interest in financing a substantial project that doesn’t start for nearly 10 years have much credibility.
End