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Written Representation 23 January 2024 for Deadline 8 submissions

I am making a further representation in response to a number of the Applicant's responses to my WR Deadline 6 submission on the Funding Statement (REP 6-151) contained in their Deadline 7 submission REP7-063, "8.163 Applicant's response to Deadline 6 submissions"

Commentary on Funding Statement (REP5-009)

1. **Para 8.1 Deadline 7 Submission repeats WR Rep 6-151**

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.

Luton Rising Response deadline 7

The Applicant disagrees with this statement and considers that the Funding Statement [REP5- 009] provides more than adequate information to meet all the requirements for such a document and compares favourably against other Funding Statements for projects of a similar size.

Further WR deadline 8

Unfortunately, the Applicant has provided no information to support their contention that "more than adequate information has been provided…". As an example of what should be provided, more information on both costs and confirmation of the availability of funding is set out in the Manston Airport DCO Funding Statement (APP 013 3.2)

The following items would assist understanding of total costs and funding sources.

1. There should be more information on the financial performance of the Applicant because it has recorded significant net losses totalling of over £340m over the two years ended 31 March 2022. The Applicant is presently totally dependent on funding capital projects with loans from the shareholder, Luton Borough Council ("LBC"). Loans have been taken out to fund the DART project, force majeure payments to the concessionaire and the costs of preparing the DCO.

2. The audited accounts of the Applicant for the year ended 31 March 2023 are required to be filed within 9 months of the year end, i.e by 31 December 2023. The accounts have not been filed and are now overdue. This means it is currently not possible to assess the financial performance for the most recently completed business year. The audited accounts for the

previous year were filed nearly 6 months late and showed a net loss of £232m on top of a loss for the previous year of £110m. In the context of such losses, and the required funding for such a significant project, late filing of statutory accounts is, in my view, unacceptable.

3. The audited accounts of the Applicant for the year ended 31 March 2022 indicated that loans to LBC amounted to £409m at 31 March 2022. The draft unaudited accounts of LBC for the year ended 31 March 2023 have been published and indicate that loans to the Applicant increased by £83m to £492m. What is the position now? How will these loans be repaid during the currency of the DCO, if permission is granted. What is the impact of these loans on the ability of the Applicant to secure third party funding?

4. Significant sums have been prepared on the preparation of the DCO application. There is no reference to these costs in the Funding Statement. These are disclosed in the Applicant's audited accounts at 31 March 2022 at £59m and are held in the balance sheet as an asset. The total DCO preparation costs will now be higher and it is unclear whether they are included in the project capital costs set out in Table 3 of the Funding Statement. What is the current figure and forecast total expenditure and are these included in the total DCO project costs?

2. Para 8.2 Deadline 7 Submission repeats WR Rep 6-151

The Applicant's 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 riskier 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.

Luton Rising Response

The Applicant acknowledges that the construction of Luton DART experienced delays due to technical difficulties which were compounded by the construction occurring during the Covid 19 pandemic and the restrictions resulting from that. At the time construction inflation was at a particularly high level and the delays, and this exceptional set of circumstances led to cost increases which were higher than might ordinarily be the case. The Applicant has taken lessons learned from the experience and will use these to inform future projects to be delivered by the Applicant. The circumstances of the DART's implementation should not in any way be taken as a suggestion that the Applicant cannot deliver future projects on time and to budget.

Notwithstanding the above, the Applicant notes that delivery of the Proposed Development would be brought forward by other parties. The preferred funding approaches for Phase 1 and Phase 2 are both private-sector driven, as explained further in Question 8.5, and evidenced by the strong letter of support in Appendix C of the Funding Statement [REP5-009]. In fact, the majority shareholder of the existing concessionaire is the world's largest airport management company by passenger volume and has managed more than 100 building programmes.

Paragraph 9 of the Department for Communities and Local Government Guidance (DCLG) on Compulsory Acquisition states "The applicant must have a clear idea of how they intend to use the land which it is proposed to acquire. They should also be able to demonstrate that there is a reasonable prospect of the requisite funds for acquisition becoming available." This is the test we have applied, evidencing that the Applicant will have more than sufficient free cash to pay for all the land compensation.

Further WR Deadline 8

The Executive Committee of LBC held an open meeting on 15 January 2024 and the Treasury section included details of financing for capital projects over the next 3 years. No amounts have been allocated to the Applicant.

There are concerns about the lack of profitability of the Applicant, as this indicates a lack of internal resources to meet project costs. There are continued concerns about the availability of funds from third parties. The LR response refers to the "strong letter of support" from the current concessionaire, set out in Appendix C of the Funding Statement. This is not a strong letter of support, it is conditional, it states the following: "**provided an appropriate commercial agreement can be reached with the Applicant**, LLAOL is committed to the financing and delivery of the Phase 1 works". The letter discloses that the arrangement being discussed with the Applicant is an amendment and extension of the Concession Agreement. The letter concludes:" **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."

It is clear from this that there is no firm commitment from either party at this time and therefore no certainty that funding will be available. LLAOL indicate in their letter that they plan to provide a further update in January 2024. Given the size of the project, and the impact on local communities there should be certainty that funding is available.

3. **Para 8.4 Deadline 7 Submission repeats WR Rep 6-151**

1.1.5 I don't 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.

Luton Rising Response

This position is contradicted by England's Economic Heartland [REP1-057].

Further WR Deadline 8

The Applicant has not responded to the point about current connectivity and the apparent alignment they suggest of Luton Airport to the cities of Oxford and Cambridge. The position is that there are no direct road and rail links from either city to Luton Airport. Cambridge has direct connections by road and rail to Stansted and Oxford has a frequent direct bus service to Heathrow. Luton Airport is and cannot be a complete substitute for either airport.

4. **Para 8.7 Deadline 7 Submission repeats WR Rep 6-151**

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.

Luton Rising Response

The Applicant does not accept the points made:
• The concession fee income does not belong to the airport operator. As explained in Question 8.5 above, the identified Paragraphs and Table 5 in the Funding Statement [REP5-009] include the total net surplus cash flow that is available for financing the scheme, paying tax and concession fees.
• All cash flow based financial models work in nominal (inflation adjusted) terms as all income is in nominal terms and all costs are in nominal terms, including interest payments on actual monies borrowed and tax payments.
• With a 40-year (or longer) Phase 2 concession, and lenders offering 25-years terms an appropriate debt / equity financing solution can be found to satisfy lender requirements. Further, debt longer than 25-years is available in the markets, and refinancings during a concession are also common.

Further WR Deadline 8

The WR deadline 7 comment was to highlight that the revenues of LLAOL up to the end of the current concession in 2032 are included in the cash flow forecasts for the project. This has been acknowledged by the Applicant, even though there is no agreement or firm commitment to vary the current concession. A more prudent approach would have been to have excluded them. It is difficult to make meaningful assessments of the forecasts in the absence of the undisclosed detailed assumptions that have been referred to.

The point is that by inflation adjusting forecast revenues over a 50 year period and comparing to current forecast project costs at 2022/23 constant prices as shown in Table 3 in the Funding Statement is misleading and a better comparison would have been to show all revenues and costs at 2022/23 constant prices.

End

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