**Response to**

**Deadline 11 Submission - Comments on any further information / submissions received by Deadline 10** submitted by London Luton Airport Operations Limited

**And to**

**Deadline 11 Submission - 8.195 Applicant's Response to Compulsory Acquisition Hearing 2 Action Point 10 - Luton Rising Financial Report 2022-23**

Both these documents were submitted at the very last moment in the examination process.

The Applicant's Financial Report, which is not yet available at Companies House, was submitted some 6 weeks after the statutory deadline and shows another very substantial loss, this time of £204 million after tax, or £270 million pre-tax. Once again, the accounts have been qualified on the grounds that the valuation of the airport has been overstated and therefore falls outside of the auditors' view of a reasonable range. At the mid-point of the auditors' reasonable range the pre-tax loss would have been some £450 million, or over 7 years' gross revenues.

The majority of the loss arose from a third successive downward revision of the value of the airport as an investment asset, but another significant item was the impairment of the DART transit system. As noted previously, this is the only major infrastructure project so far undertaken by the Applicant and its cost has now increased to £360 million against an initial budget of £200 million, while its value has been assessed at £100 million, less than 30% of its cost. Such is the Applicant's track record in delivering infrastructure projects.

In addition the Applicant has capitalised the entire £71 million cost of this DCO application, so should the application fail there would be a further write down of this amount.

The accounts also state repeatedly that passenger numbers in the 2022/23 year reached 81% of pre-pandemic levels. Passenger numbers in the calendar year 2019 reached the cap of 18 million, and in the financial year 2022/23 were 13.5 million or 75% of pre-pandemic levels. The 81% number must have been derived from an average of prior years rather than the actual pre-pandemic number, and I am surprised that the auditors allowed this to pass without question. It indicates that recovery has been slower than the Applicant has represented, further undermining the needs case.

In their response 8.163 to Mr Mills-Baker's submission 6.151 the Applicant made statements about the availability of debt financing:

• *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.*

As I pointed out in my deadline 8 submission, the Applicant's parent entity, Luton Borough Council, is already heavily indebted, and both organisations' ability to raise debt finance is likely to be constrained, both by existing levels of debt and by the Applicant's poor track record and qualified accounts.

It now appears that instead, at the last minute, the operating company is being represented as the source of finance. However its commitment is at best equivocal, being "*wholly dependent on a successful conclusion to our ongoing commercial negotiations as well as the granting of the DCO".*

One has to conclude that the DCO is dependent on the funding, and the funding is dependent on the DCO, and both are dependent on a successful conclusion to the negotiations. Obviously these negotiations are commercially sensitive and confidential to the parties, but looked at from the outside, with its diminishing asset and debt of nearly £500 million, the Applicant has very little to bring to the table.

From the point of view of LLAOL, its parent company has cash of £1.6 billion, indicating it in turn would need to raise debt finance, but it already has a debt:equity ratio of 117% which is considered high and would be close to 150% if all the funding were to be raised by debt. It is hard to see why the shareholders, in particular the Spanish government which owns 51%, would find this an attractive proposition.

Taken in conjunction these factors indicate that it would not be prudent to assume that there is a reasonable prospect of achieving the necessary funding. At a very early stage in this process the Examiners made the point that it would be an undesirable outcome if permission were to be granted and compulsory purchases made, only for the project to fail through inability to raise the money required to complete. This is now a very real possibility.