Press Release

24 June 2018

For immediate use

MPs warned that Heathrow is next Carillion

MPs have been warned ahead of a parliamentary vote on Monday to look beyond "lazy" statements from ministers about Heathrow's ability to finance a third runway – just as MPs ought to have looked beyond ministers' reassurances about the health of certain rail franchises and Carillion.

The No 3rd Runway Coalition has written to all Members of Parliament, asking them to look at Heathrow's indebtedness, protections afforded to its foreign investors that allow guaranteed income, minimises their corporation tax, and even permits further borrowing to pay unearned dividends, ahead of Monday's vote (1).

Since starting its campaign for expansion over a decade ago, and despite the enforced sales of Aberdeen, Glasgow, Southampton and Stansted airports, equity at Heathrow's parent company (FGP Topco) has been whittled down by 86% to just £922m, as indebtedness has reached a ratio of 87% (it is now borrowing £13.7bn against its £15.8bn regulatory asset base) (2).

Far from Heathrow building a war chest, the opposite has happened - allowing large dividends to be reaped by the airport's foreign investors. In 2017, dividends of £847m were paid on post tax profits of only £561m, which suggests they're now even borrowing to pay unearned dividends (3).

Were Heathrow permitted to expand, financing the construction would not only stretch Heathrow's balance sheet yet further (taking the indebtedness ratio up to 93%) but it would almost double the size of Heathrow's £15.8bn asset base (4).

Transport Secretary, Chris Grayling, expresses confidence that Heathrow's investors are willing to finance the project (5), claiming that there has been communication with some of the investors, such as GIC Private Ltd (6).

Repeated ministerial reassurances have been made before; from the DfT, in respect of certain rail franchises, long after the writing was on the wall (7).

Paul McGuinness, Chair of the No 3rd Runway Coalition, said:

"Heathrow's corporate structure is labyrinthine and its balance sheet unimpressive. Many MPs may not understand corporate finance but swallowing lazy reassurances from ministers is simply not good enough.

"We've spoken to some serious financiers who simply cannot see how the taxpayer won't be left having to pay out billions, while Heathrow's foreign investors continue to enjoy a guaranteed income under this scheme".

"Our message to MPs is to think twice before kick starting this project."

ENDS.

Notes

1. **1.** Letter available on request. The No 3rd RUNWAY Coalition represents those leading the fight against a 3rd Runway, incl. Residents Groups from across and beyond London, environmental and aviation organisations, GLA members, councillors and MPs, and Borough Councils (incl. those taking legal action – Hammersmith & Fulham, Hillingdon, Richmond, Wandsworth, Windsor & Maidenhead).

2. 2. Shareholders' funds (equity) has declined from £6.3bn in 2006 to £922m. Rather than raising new equity from its foreign investors, it has used the enforced sales of Aberdeen, Glasgow, Southampton and Stansted airports to pay dividends to keep those investors on board.
   The only remaining asset – Heathrow airport, itself, and its associated activities, e.g. Heathrow Express, – is very highly indebted. With debt of £13.7bn and a £15.8bn regulatory asset base — a leverage ratio of 87%. And on its current account it is technically illiquid (as with current liabilities of £1.9 Billion, to assets of little more than £1Billion, "current" – i.e. unsecured – creditors could bring LHR to its knees by demanding immediate repayment).

3. 3. Heathrow's 2017 accounts record a dividend of £847m for shareholders last year on after-tax profits of just £516m, implying that dividends were partially funded by taking on yet more corporate debt (Companies House – Latest Accounts of FGP Topco, made up to 31st December 2017).

4. 4. This is providing that the project remains within the lower bands of the proposed budget (14bn – 18bn), so broadly doubling the size of Heathrow's £15.8bn asset base. This would also require stretching its balance sheet further, taking the leverage ratio up to 93% or even higher.

5. 5. "I have also talked to Heathrow shareholders, who have emphasised to me their commitment to this project." 5 June 2018, Hansard.(https://hansard.parliament.uk/Commons/2018-06-05/debates/ED5F2A14-318D-4A18-8414-E472C9608DD2/AirportsNationalPolicyStatement)

6. 6. From 2009, Sir Howard Davies was a paid adviser to the Investment Strategy Committee of GIC and, from 2011, a member of GIC's International Advisory Board. Sir Howard only resigned these remunerated roles when his appointment as Chair of the Airports Commission had been confirmed by the government in 2012.

7. 7. "I have confidence that whatever the situation with Carillion, that consortium will deliver the results we expect." Chris Grayling, 17 July 2017https://www.belfasttelegraph.co.uk/business/news/inconceivable-to-suggest-cost-of-hs2-set-to-spiral-says-chris-grayling-35941379.html

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- Media interviews available from representatives of the No 3rd Runway Coalition on Monday 25 June.