

PRESS RELEASE

AVIATION REGULATOR LOSING CONFIDENCE IN HEATHROW EXPANSION

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For immediate use

The Civil Aviation Authority has rejected Heathrow Airport's desire to spend nearly £3bn on its new runway despite the plans not having received final approval, in a sign that it is losing confidence in Heathrow's ability to fund the project on budget (1).

The aviation regulator cited the risk that the costs would be passed on to passengers were the runway not to go ahead. The CAA approved just under half Heathrow's request; £1.6bn (1), saying that "passengers cannot be expected to bear the risk of Heathrow Airport Limited spending too much in the early phase of development, should planning permission not be granted", in a clear sign of the many hurdles Heathrow has to clear before receiving final permission to expand (2).

2028/29, the new target date Heathrow has now set for it to open the new runway, is also reducing what potential small economic benefits it would bring to the UK by 2030 – a key criteria the government previously assessed when choosing Heathrow's expansion scheme, compared to Gatwick's or the extended runway proposed by Heathrow Hub Ltd (3).

Both Heathrow and the Government claim that the project will be privately financed yet there are concerns about Heathrow's ability to afford expansion as costs continue to rise and the markets begin to question the viability of the investment.

In its latest analysis of Heathrow's business case, Standard and Poor revealed that there is significant concern about the design, funding and construction costs of a third runway (4). The report raises specific concerns about the availability of relevant information which could result in a downgrading of Heathrow's investment grade credit rating which would make the 3rd runway unviable.

Analysis of the consolidated accounts of Heathrow Airport Limited and its holding group FGP Topco shows the airport to be losing money. Despite claiming some £22bn in reserves, once you consider dividends, interest payments on debt, and financial instruments the airport is not making a profit (5).

The political issue with approval of this level of spending in advance of planning consent is the 'poison pill' agreement between Heathrow and the Government which could result in taxpayers picking up the bill for Heathrow's costs should the Government cancel the 3rd runway (6).

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

"Even the regulator is losing confidence in Heathrow's ability to finance this runway. Heathrow previously declared their 3rd runway would cost £14bn. But now, just 18 months later, they tell us that they'll have to spend one and a half billion of this before they even apply for planning permission!

"As financial experts have advised us, Heathrow seems to be flying by the seat of their pants on this expansion - unable to determine how much they'll need to invest, let alone the source of that investment capital.

"Government should immediately halt this project, before taxpayers inevitably find themselves underwriting the irresponsible and vain aspirations of this foreign owned private company."

ENDS.

NOTES

- 1) <https://www.ft.com/content/13c97730-226d-11ea-92da-f0c92e957a96>
- 2) Court of Appeal Verdict on Heathrow expansion expected from 13 January 2020
- 3) Airports National Policy Statement, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714106/airports-nps-new-runway-capacity-and-infrastructure-at-airports-in-the-south-east-of-england-web-version.pdf
- 4) S&P Global Ratings: Heathrow Funding Limited, 9 August 2019 <https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/investor/credit-ratings/sp/2019-Heathrow-Funding-Ltd.pdf>
- 5) Heathrow Consolidated Accounts, John Busby, 27 September 2019, Figure 4. <http://www.after-oil.co.uk/HeathrowConsolidatedAccounts.htm>
- 6) Heathrow Airport Limited Statement of Principles, 2016, Page 4. para. 2.1.6. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/562175/heathrow-airport-limited-statement-of-principles.pdf

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