

PRESS RELEASE

Who will pay for Heathrow's 3rd runway?

12 December 2019

For immediate use

The question of who will pay for Heathrow's third runway does not have a simple answer. Both the airport and 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 (1). 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 (2).

Significant investment is also required in road and rail improvements to support expansion, particularly as the airport has to increase the percentage of passengers arriving at Heathrow by public transport. Indeed, the Airports National Policy Statement has placed a requirement on Heathrow to demonstrate how they can deliver this in their planning application (3).

However, the lack of progress on both Western and Southern rail access improvements into Heathrow is a huge cause for concern. The Government recently published its strategic objectives for the Southern Rail Scheme which reveals that they do not expect the scheme to be operational before 2030, four years after the planned opening date of the third runway. Even this date is optimistic as the Government has still not confirmed what type of rail scheme it actually wants delivered (4/5).

Further, the Conservative General Election Manifesto appears to row back on previous Government commitments to contributing to the financial costs of such public transport improvements. It states that "no new public money" will be available to support the third runway and that the onus is on Heathrow to demonstrate that the business case is viable (6).

The CAA board met in November to discuss whether to approve Heathrow's plans to spend £3.3bn on planning and enabling costs. It is the first time such a clause has been used. This 'investment' would be achieved through borrowing which under the RAB model enables the airport to make profits by passing the cost of repayments onto airlines and passengers (7). Effectively, the airport is seeking permission to increase their revenues by raising the landing charges to help cover the costs of the third runway. The board inserted a new clause into its licence to build a third runway – penalising Heathrow if costs spiral out of control, amid concerns that the project will be built on budget (8).

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 (9).

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

"Heathrow previously declared their 3rd runway would cost £14bn. But now, just 18 months later, they tell us that they'll have to spend almost a quarter of this before they even apply for planning permission, and that total costs have already more than doubled to £31bn!

"As financial experts have long 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) 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>

2) Heathrow Consolidated Accounts, John Busby, 27 September 2019, Figure 4.
<http://www.after-oil.co.uk/HeathrowConsolidatedAccounts.htm>

3) Airports National Policy Statement, Para 3.51
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) DfT's Strategic Objectives for SAH
<https://www.gov.uk/government/publications/southern-access-to-heathrow-strategic-objectives/southern-access-to-heathrow-strategic-objectives>

5) HSR Ltd, Press Release, 6 November 2019, <https://heathrowrail.com/guidance-released-by-government-means-new-southern-rail-link-to-heathrow-faces-not-being-completed-prior-to-2030/>

6) Conservative Party Manifesto 2019, p.28 https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conervative%202019%20Manifesto.pdf

7) "Heathrow Airport: Decision day for airport's third runway", The Times, Monday 18 November 2019, <https://www.thetimes.co.uk/article/heathrow-expansion-decision-day-for-airports-third-runway-0xbbhnbw>

8) Heathrow ordered by CAA to rein in third runway costs, 1 Dec 2019 <https://www.thetimes.co.uk/article/heathrow-ordered-by-caa-to-rein-in-third-runway-costs-fprgvf32m>

9) 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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