



CAA (by email)

Please reply to:
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Growth

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Date: 11.10.19

Dear Sir/Madam

CAA 1832 – Economic Regulation of HAL – financial resilience and ring fencing

Spelthorne Borough Council, a neighbouring authority to Heathrow Airport, welcomes the opportunity to respond to this consultation which sets out options to provide further assurance that HAL is operating in a financially resilient manner and that there is adequate risk mitigation in place.

Changes are clearly long overdue on the way in which HAL is challenged on its financial resilience. We would reiterate that HAL should take a long hard look at the escalating costs of expansion and bring them down to ensure that airlines and therefore, the consumers are not subsidizing superfluous elements of the scheme. As a Council, we find ourselves in a position where we must again openly question whether the costs are necessary or provide value for money.

The CAA need to ensure that HAL's starting point is 'What is the absolute minimum that is required to deliver a sustainable expansion in order to limit the risk of any adverse financial impact'. Everything in terms of financial resilience and risk mitigation should flow from this initial premise.

There are elements of HAL's proposals which we as a Council contend are not required in order to deliver an efficient expanded Heathrow. The new north terminal (T5XN) for example, requires the displacement of significant amounts of car parking to the south of the airport and into our borough (22,000 space Southern Parkway). Not only is this unacceptable to our residents, it escalates costs unnecessarily through the need to compulsorily acquire the existing car parks along Bath Road, and then additional areas of land for new car parks (such as the Cemex site in Stanwell). Costs are then compounded even more with the considerable capital investment required for brand new facilities. In our view a scaled down expansion which can be delivered at a lower cost and in lesser time has to be the best way to mitigate any adverse financial impact, either by HAL or in conjunction with an alternative provider for terminal expansion such as the Heathrow West scheme.

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Detailed comments

We believe it is absolutely necessary to strengthen further licence protections in order to provide challenge, and reign in the unnecessary costs of expansion. It cannot be right that the licence conditions which apply under Business As Usual (accepting T5 and T2 projects were large scale projects) should apply in a situation where HAL is looking at wholesale expansion. More rigour is critical, as it is needed to ensure that HAL is directly accountable and that issues are owned corporately. Currently, if any 'financial distress' were suffered by HAL there would be a divergence of priorities, with the shareholders focused on protecting their money and the consumers concerned about their travel. The airport needs to be held fully to account on behalf of consumers, not simply shareholders – thus, a re-balancing exercise is required and long overdue. A pertinent example of HAL's track record on its approach to business and the consumer would be the £1.6million fine incurred last year for breaching competition laws over its anti-competitive car park agreement with a hotel owner.

We would agree with the principle of 'upstreaming' to reduce and mitigate financial risk further down the line. On this basis we support the suggestion that HAL should be required to upgrade their covenant strength. This would provide an additional layer of on-going assurance that the organisation is 'fit and healthy financially' and resilient enough to deliver its expansion plans. For HAL, this will enable them to access cheaper loans which will be beneficial from a funding point of view and should be welcomed by them.

HAL should be required to have and maintain an investment grade credit rating. Currently, HAL is simply required to 'inform' the CAA of changes to credit ratings. This does not place any requirement on HAL to rectify any down-gradings, and the CAA currently has no recourse open to them to intervene. As such, there is no incentive for the rating 'drop' to be owned corporately to galvanise HAL into action.

Curtailing dividend payments if HAL loses its investment grade or cannot provide a clean 'sufficiency of resources' certificate would ensure that HAL has a clear incentive to rectify an issue and get the financial situation 'back on track'. This 'safety net' is required if the 'upstreaming' to mitigate risk fails.

We would support the CAA in making it mandatory for HAL to provide the CAA with the same information that is provided to bondholders for reasons of transparency, and to ensure an even playing field. This must be done on an annual basis (annual certification) so HAL can provide assurance it has sufficient resource to deliver on its programme. This is prudent financial management which any business should undertake as a matter of course in any event.

At a higher level, the CAA needs to consider more fully the complex company structure which sits around and above HAL, including Heathrow Funding Ltd, Heathrow Finance Ltd, ADI Finance 2 Ltd and Heathrow SP Ltd. Restrictions need to be put in place to ensure that there is

direct accountability at the right level to prevent disposal of assets in one company to deal with possible future financial 'distress' which may impact on expansion.

Ultimately, from a Council point of view it is absolutely critical that if the expansion goes ahead (whether in its current form or not) that HAL is in a sufficiently robust financial position to ensure the development programme is delivered in a timely manner. The expansion will result in 'temporary' construction sites in the back gardens of Stanwell Moor and Stanwell Village for a generation (potentially up to 2050). Anything that extends this pain any further due to lack of resource would be completely unacceptable to us as a borough and our communities, compounding our concern in general over the longevity of the expansion project.

I trust you will take these comments on board.

Yours faithfully

A handwritten signature in black ink, appearing to be 'John Boughtflower', written in a cursive style.

Cllr John Boughtflower
Chairman of Heathrow Expansion Working Group
Spelthorne Borough Council