Transport for London

Heathrow Expansion NPS: Factsheet

COST & FINANCING

The Mayor is strongly opposed to Heathrow expansion, recognising the unacceptable noise, air quality and surface access impacts, with serious consequences for public health and quality of life.

Whether or not you accept the case for Heathrow expansion, the National Policy Statement (NPS) presented by Government fails to credibly and comprehensively address its impacts. Moreover, it has substantively ignored almost every recommendation of the Transport Select Committee (TSC). The result is a final NPS for Heathrow expansion which is not fit for purpose.

Why is cost and financing important?

If Heathrow expansion is to be taken forward, it needs to be on a sound financial basis and have a realistic chance of delivery without placing an undue burden on taxpayers or airline passengers and freight users.

"This is probably the largest privately financed infrastructure project anywhere ever in the world."

Andrew Haines, Chief Executive, CAA – speaking before the TSC

The financing challenge

The Secretary of State has stated two key aspirations for the project:

- No taxpayer funding
- Airport charges kept close to current levels

But it is unclear how these can be achieved while ensuring the scheme is commercially viable.

- Heathrow Airport Limited (HAL) estimates the scheme will cost £14bn at current prices.
- The airport is currently valued at around £14bn, financed (in 2017) by a debt of £13.4bn; shareholder funds stood at £0.7bn, down from £5.5bn in 2006 (at the time of the airport's takeover).
- Analysis undertaken by the Airports Commission in 2015 found that funding expansion would require at least an additional £5.5bn of shareholder equity and £22.1bn of debt.
- This constitutes a 165 per cent increase in debt and a 785 per cent increase in shareholder equity compared to 2017.
- This would require HAL shareholders making a massive re-injection of the equity capital they have been taking out over recent years.

In this context, it is entirely appropriate that the Government should provide evidence that a third runway can be delivered on the basis articulated and conditions attached accordingly.

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What the NPS says

The original NPS had a single sentence on costs. Previous statements by the Secretary of State that airport charges should be kept close to current levels are not reflected in the NPS.

What the TSC report says

"Before votes in Parliament to approve a final NPS, we would like to see evidence to demonstrate that the Northwest Runway scheme is both affordable and deliverable and that steps are being taken to address the valid concerns we heard in evidence about the high cost of the scheme and the significant risk that costs will rise."

"We recommend a condition be included in the NPS that airport charges be held flat in real terms but with scope for a marginal increase provided the balance of benefits is in favour of the consumer, as assessed by the CAA."

The Government response to the TSC

It has not provided additional evidence but states that the inevitable risks and challenges will need to be addressed by HAL and the CAA as the scheme design and regulatory framework are developed.

It does amend the NPS to elaborate the existing rules and regulation which govern the funding of the scheme, including the role of the CAA.

It refuses to set any conditions on cost on the ground that it would restrict the CAA's ability *"to act independently – and in the interest of consumers."*

The Government has yet to demonstrate that a Heathrow third runway is affordable and deliverable.

The risk is high that passenger charges will have to rise and that taxpayers will be expected to provide significant contributions and guarantees.

Surface access costs

These exemplify the concerns about the uncertainty in the total costs. HAL has said it has budgeted £2bn for surface access. However, this is primarily for the highway diversion schemes required to accommodate the larger airport footprint (e.g. placing the M25 in tunnel). There is no commitment to the new infrastructure to accommodate an expected increase in passengers and staff demand of more than 50 per cent.

TfL estimates a surface access cost of over £10bn, including the rail infrastructure to encourage passengers and staff to shift from car/taxi and to accommodate the resultant demand. If not accounted for, the likelihood is that the taxpayer will in due course be forced to pick up the bill.