

LLATVCC News-Sheet

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Financing Luton Airport: not-so-funny money

The strange story of the airport finances may be about to become a bit less obscure. Luton Borough Council (LBC) has been obliged to seek a Capitalisation Directive: a relaxation of the normal accounting requirement that long-term borrowing or capital receipts should only be used to finance capital expenditure. Such a relaxation has always been subject to an application process, with applications assessed against strict criteria. In the current round only four local authorities: Bexley, Eastbourne, Peterborough and Luton; have had to seek this indulgence from Government: the first three authorities sought indulgences of around £4million each: Luton's was for £35 million, which amounts to a great big get-out-of-jail-free card.

But it's far from good news for LBC: as part of the deal, Luton must undergo an assurance review by Government that will ["examine the council's commercial arrangement with Luton airport"](#) and aim to ["reduce the council's dependency on it."](#): since the airport is wholly owned by LBC, that may prove to be a challenge beyond the usual application of creative accounting. A letter from the Ministry of Housing, Communities & Local Government to the council said the review will consider ["your ability to present a plan to government for reducing the council's financial exposure to the airport, with the intention of it resulting in agreement between the authority and the secretary of state to address the review's recommendations"](#). Another painful aspect of the Government involvement is that any further loans from the Public Works Loan Board would be at a penalty rate of interest.

A statement from Luton BC: which sounds awfully like an excuse: said ["the council had expanded its commercial activities in response to government cuts which had left it needing to make savings of £157m over eight years."](#) One wonders whether the Chartered Institute of Public Finance and Accountancy would accept that what has happened is in any way aligned with their guidelines over prudent investing.

["Previously we had been applauded for growing our income from the airport, which has been instrumental in maintaining discretionary services that would have otherwise been cut. The income from our airport company helped us hold off the worst of austerity,"](#) according to the Council. ["London Luton Airport remains vital to our social and economic recovery after the Covid-19 pandemic. Its ownership by the council, through its wholly-owned airport company, London Luton Airport Limited, ensures that the profits flow to the public purse and not to private shareholders. The airport is a strategic asset for the council and a significant part of the UK PLC national infrastructure. It is a major contributor to the prosperity of the local and regional area and as such is at the centre of what this council aims to achieve. It holds a central role in the fabric of Luton, pivotal to regeneration, businesses and of course employment, not only for Luton, but both regionally and nationally."](#)

A report to Luton's full council said that ["a forced sale of assets would have significant implications for the council and it is important for the council to work with London Luton Airport Limited \(LLAL\) in order to ensure LLAL is a going concern and at the same time any support provided are affordable and sustainable from the council's view point"](#). The council ["anticipates requests from the company for aid in ensuring its financial stabilisation"](#). A detailed council report on the ["financial resilience and recovery"](#) of LLAL has been kept private due to its commercial sensitivity. Luton received a dividend on £19m from the airport in 2019-20, but is not expecting any further dividend for the foreseeable future.

However, by getting into such a dire financial mess, paved the way for Government now to finally take a good look at Luton Council and how its finances, together with those of its wholly-owned airport, have been run. It was apparent for years that LBC thought it was untouchable and not accountable to anyone and could do what it likes particularly with its airport. Now the Council is fighting to keep ownership of its own airport and can't blame anyone apart from itself.

Also the cost of DART has gone up again, as the council accounts states an additional £53.7million for the DART. To add to LBC's woes the cost of what was misleadingly portrayed as an access road to New Century Park, which had been presented to the South-East Midlands Local Enterprise Partnership (SEMLEP) as a high-tech mixed use industrial park and part of a Luton Enterprise Zone, was estimated by SEMLEP as £140 million: which in the Council's own words "makes all development options potentially unviable". The way out of this impasse? More fantasy finance – the costs of such a road, if it is ever built, will now be rolled into the DCO case for a possible second terminal: which is where it should always have been so at last some semblance of the truth is out there. It does, of course, pose the question: "if LBC is as ruinously indebted as we can all see it to be, from where would the finance come for developing a second terminal and its access road"? Especially if it comes at a penal rate of interest.

In a masterful piece of analysis, recorded in SEMLEP minutes for 2/21: "understandably the situation in Luton is very difficult at the moment and little progress had been made. There will be discussion to see if now is the right time to redefine the Enterprise Zone to something more realistic and deliverable."

More Fantasy Finance

On reflection, one wishes that it were fantasy rather than reality: between them, British Airways, easyJet, Gatwick Airport, Jet2, Ryanair and WizzAir owe almost £2billion to the Bank of England's Covid Corporate Financing Facility. The short-term prospects seem pretty poor, especially in the light of the Government edict about any form of overseas travel by air. Until very recently there have been surprising numbers of flights in and out of Luton, mostly to "far-away places with strange-sounding names", with travellers apparently on essential trips – the burden of proof, and the penalty for flying without very solid justification, now seems to be heavier. This seems a very sensible precaution, since the incidence of CoVid in ever-more European destinations, is on the rise. The bright side (there is one): a huge improvement in the local noise climate, it now being possible to enjoy the birdsong and to spend time in the garden without the row from jet engines. The writer will soon once again enjoy, on Thursday evenings, the sound of the bells of St. Marys as the ringers have their socially-distanced practice without the decibels from Airbus and Boeing. Of course, it'll not last: we must enjoy the silence while we can.

That Planning Application to grow to 19 million (21/00031/VARCON)

Still in the hands of Luton Borough Council: we heard that despite the social media orchestration in favour that we've come to expect from the airport, a large proportion of real responses lodged on LBC's planning portal were not in favour. We await the outcome with considerable interest.

The airport's contribution to the local and regional economy

We hear a lot from the airport's enthusiasts on this subject: here is a different take on it, based on reasonable interpretation of official statistics:

UK residents make up 70% of Luton Airport's passengers according to survey data provided by the [Civil Aviation Authority \(CAA\)](#), and 71% of passengers terminating at Luton Airport live within the South East Region and list Greater London as their origin/destination.

From the [Office of National Statistics \(ONS\) "Travel Trends" tables for 2019](#):

nationally there were 40.9 million inbound trips involving spending of £28.4 billion in UK : about £694 per head;

nationally there were 93.1 million outbound trips involving spending of £62.3 billion outside UK: about £682 per head;

so the UK balance of tourism spending was £33.9 billion negative, i.e. a net **loss** to the UK economy .

So, more locally, for Luton's departures (70% UK residents) and 18million passengers per year: that represents a loss to the local and regional economy of about £4.3 billion: 70% of the 9 million outbound flights will have been by UK residents;

for Luton's arrivals , only 30% of the 9 million flights will be inbound tourism (70% will be UK residents returning with empty wallets), so one can estimate the value of the inbound tourism spending at £1.8 billion.

so Luton operating at 18 million passengers per year causes a net loss to the local and regional economy of around **£2.4 billion**.

Travel Trends is a mine of information, airport by airport, about items such as average trip lengths, annual income of passengers, sizes of groups travelling together etc. The characteristics of Luton's travellers are not significantly different from those using other airports, though more of them make short trips (less than a full week) than those using Heathrow.

Those Airbus NEO aircraft

The jury is still out on the case of the under-achievement of the forecast noise reductions as far as the increasingly-popular A321 is concerned. Both the 320NEO (New Engine Option) and the A321 NEO are slightly larger, and heavier, than the versions they replace and, though the 321NEO appears to perform more or less as forecast when in use at Heathrow it hasn't at Luton. The reasons are still being sought: one suggestion is that its weight on landing requires full landing flap and a fair amount of power to keep the aircraft in a steady descent so as to touch down as near to the end of the runway as possible – Luton's runway is relatively short and the aim is to have the greatest possible length of runway available in which to come to a near-stop without needing to use reverse thrust (noisy) or setting the brakes on fire. We'd heard some reports of issues with brake temperature, on B737s, in summer, as the short turn-round time left the brakes still hot at take-off time and pilots were getting concerned about the available brake performance if there were to be a need to abort a take-off run. There's another consideration with the A321NEO: its length requires care, when the pilot raises the aircraft nose in the last stages of the landing approach, not to lift it too high (which, along with full flap and more power) would help it to slow

down but would also risk the tail of the aircraft hitting the ground – definitely not to be recommended.

A forthcoming trial

The airport management has forewarned us of some trials which are due to start in the middle of the year, seeking to determine whether it would be beneficial to communities relatively close to the departure routes for the airport to declare a preferred Noise Abatement Departure Procedure (NADP) and for airlines to adopt that choice: though there is no means whereby the preferred method could be enforced. For many years CAA has recognised two variants of the procedure, NADP1 and NADP2, the effects of either being intended to cause less noise disturbance than taking off at high power and imitating the well-known bat from hell.

When an aircraft operates NADP 1, the aircraft climbs quicker initially with a reduction of thrust at around 800 feet, reducing noise close to the airport. However the aircraft has flaps/slats out for longer, increasing drag, which results in higher noise further from the airport. When an aircraft operates NADP 2 the aircraft does not reduce thrust at 800 feet, therefore creating more noise at the airport. However, the aircraft retracts the flaps sooner and generates less noise further from the airfield. As a general guide, NADP 1 reduces noise closest to the airport and NADP 2 reduces noise between 3,000 and 4,000ft. Operators use at LLA is split between NADP1 and NADP2. Some also fly a hybrid alternative NADP, whereby they retract the flaps at a certain altitude and increase thrust at a certain altitude, usually to achieve savings in fuel burn and engine wear. This can be designed to work with the geography of communities around an airport.

The initial intention is for the trial to involve westerly departures, which occur in about 70% of occasions, and for the trial to start around midsummer on the assumption that more aircraft would then be flying. The effects in noisiness terms will be extensively monitored – it would be good to find that there is an overall benefit for choosing one or other; better still if the various operators could be persuaded to adopt that choice. We'll let you know later in the year what happens.

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