Heathrow financing

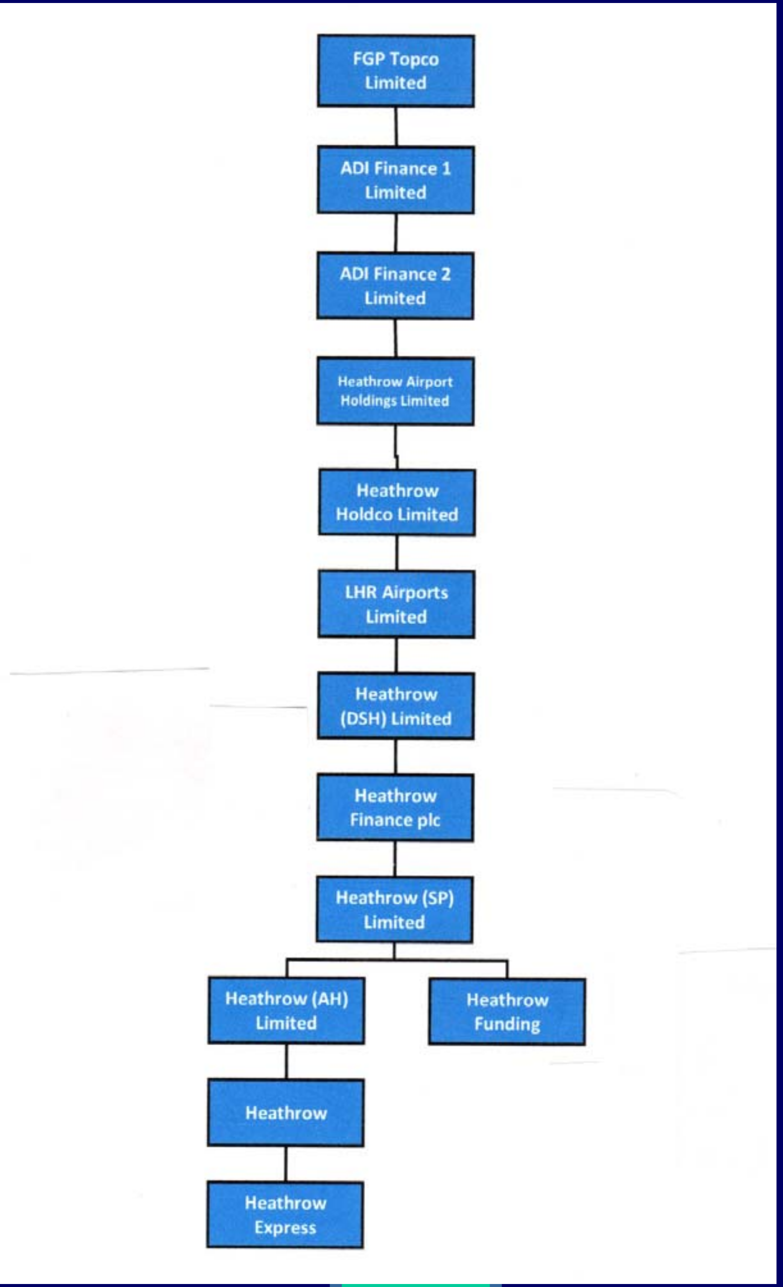
Debt financing for tax avoidance

Heathrow ownership

- The owner is **FGP Topco Limited**, a 90% foreign-owned holding company in which the accounts are consolidated.
- Ferrovial 25%
- Qatar Holding 20%
- Caisse de dépôt et placement du Québec 12.62%
- Government of Singapore Investment Corporation 11.20%
- Alinda Capital Partners 11.18%
- China Investment Corporation 10%
- Universities Superannuation Scheme 10%

There are 13 main companies in the group.

There are 4 finance companies, one of which, Heathrow Funding Limited is in Jersey



Profit and Loss Reserves

- Each of the main group companies has a profit and loss reserve
- The total of the amounts in the reserves is £22+ billion

P/L Reserves	£million
FGP Topco	2,303
ADI Finance 1	1,114
ADI Finance 2	1,504
HAH	2,871
Holdco	3,830
LHR Airports	-48
DSH	932
H Finance plc	284
SP	3,001
AH	5,076
H Funding	-72
H Airport	1,293
H Express	30
Total	22,118

Debt financing

- Heathrow's capital projects are financed by debt
- Rather than draw from the £22+ billion in the profit and loss reserves, the financial costs of the borrowings and losses on financial instruments can be set against the operating profits
- This has put FGP Topco in losses for 6 of its ten years, not only avoiding corporation tax but gaining net tax credits

Borrowings

- Around 85% of FGP Topco's £14 billion borrowings amounting to £12 billion are in bonds issued by Heathrow Funding Limited in Jersey
- Prospectuses absolve the bondholders from paying withholding tax and if having to pay it are compensated.
- Savings in withholding tax of 20% of the £12 billion of bonds issued in Jersey from interest paid to bondholders of £5 billion over 10 years amounts to perhaps around £950 million
- This may be the main tax advantage in offshore bond issuing

Operating profits offset by finance costs

- In 2016 FGP Topco Limited's operating profit of £1.049 billion was offset by finance costs of £1.231 billion and by other costs to give a loss of £182 million
- The 2016 tax credit thereby amounted to £70 million
- The net tax credits over 2007 to 2016 totalled £860 million

Dividends

- Sums nominated as ‘dividends’ were passed up the chain of subsidiary companies
- They mostly augmented subsidiaries’ profit and loss reserves and some paid loan interest.
- The 2016 FGP Topco Limited dividend amounting to £325 million was paid by issuance of bonds, term notes and other financing.
- From 2007 to 2016 the total of dividends paid by debt amounted to £2.495 billion
- The prospectus allows *“the proceeds of bond issuances and of loan drawings … to enable the payment of dividends …”*

FGP Topco Limited

- Analysis of 10 years of its accounts shows:-
- £2.5 billion paid in dividends
- £6 billion interest paid on bonds
- £950 million saved on withholding tax?
- £860 million net tax **credits**

FGP Topco Limited												
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Totals
Dividends £million		£ -	£ -	£ -	£ -	£ -	£ 240	£ 555	£ 1,075	£ 300	£ 325	£ 2,495
Interest payments	£million	£ 811	£ 813	£ 501	£ 457	£ 444	£ 487	£ 589	£ 597	£ 631	£ 608	£ 5,938
Tax credits	£million	-£ 7	-£ 6	£ 117	£ 245	£ 243	£ 119	£ 149	-£ 45	-£ 25	£ 70	£ 860
Withholding tax avoided	£million											£ 950

Capital requirement

- Airport Commission Table 11.2 estimates:-
- Capital needed £52.5 bn, with runway and expansion £17.6 bn, core capital £13.4 bn, asset replacement £16.5 bn and surface access £5 bn
- **TfL claims surface access will cost £18.6 bn**
- The Airport Commission assumes surface access connections of £5 billion will be paid by Heathrow and accepts that there will be some public expenditure but makes no estimate of it.
- Without additional airport charges the total cumulative ca. £70-80 bn debt over next 8 to 10 years cannot be serviced.

Major expenses

- Tunnelling the M25
- Re-routing of perimeter roads
- Removal and replacement elsewhere of Energy-from-Waste plant
- Removal and replacement of BA's Waterside complex
- Removal and compensation for owners of hotels, factories and offices
- Compensation for Harmondsworth community destruction

CAA Regulation

- CAA builds Regulatory Asset Base (RAB)
- Seven RAB ‘building blocks’ produce a price cap per passenger
- Price cap limits airport charges
- IAG’s CEO argues that the cap is too big
- Heathrow’s charges are 65% over European hubs
- CAA is building new RAB for the expansion starting from end of 2019

Funding the runway and expansion

- The CAA price cap takes into account revenue, operating costs and return on capital expenditure.
- The Regulatory Asset Base (RAB) makes debt raising attractive and the price cap too high
- Funding the runway and terminal expansions by debt is not acceptable to the airlines as it will mean additional airport charges

Corporation tax instead of tax credits

- Equity to be raised and reliance on debt reduced
- Limits to be set on finance costs able to be set against operating profits
- Chancellor’s Autumn Statement 2016 is pledged to stop offshore withholding tax avoidance
- Offshore bond issuance to be progressively replaced by bonds issued onshore as they mature so that withholding tax will be paid.

Runway not needed

- The progressive deployment of bigger aircraft is making the third runway unnecessary
- Average passenger numbers per flight of 255 will provide 50% more passengers without it
- The ultimate target of 130 million passengers a year can be reached with 290 average passengers per flight without the third runway
- Airlines will not pay for runway they don't need
- Improved passenger and freight handling will be needed to facilitate bigger arrivals and departures

My Conclusion

- Heathrow’s debt financing needs reform
- There is no need for a third runway
- Better handling facilities required for the arrival and departure of bigger aircraft