Response to CAA consultation CAP 1964: working paper on the efficiency of HAL's capital expenditure during Q6.

From Paul Groves, member of the No 3rd Runway Coalition, 17th November 2020

Thank-you for the opportunity to respond to your CAA report CAP1964, i.e. working paper on the efficiency of HAL's capital expenditure during Q6.

Background

This Consultation, CAP1964, is published within a framework of recent CAA Consultations as follows.

CAP1966, Heathrow Airport Ltd's (HAL's) request for Government support in the form of increased RAB in the face of Covid-19. Related to this, as reported in the Telegraph , HAL has extracted £4 billion in dividends over their period of ownership, since 2012 …
https://www.telegraph.co.uk/business/2020/10/24/heathrows-owners-told-invest-risk-state-takeover/

CAP1819, HAL's last year application for increased RAB (Regulatory Asset Base), to cover for their doubling from £265m to around £550m of their 3rd runway Category B costs, as reported in the Times on 29th October 2020 as per the following link ….
https://www.thetimes.co.uk/article/airport-chiefs-moans-so-much-hot-air-w9tfq8qrj?shareToken=072375890ead5a4b6e3809e075445b4f

These Consultations well illustrate HAL's process of allowing projects to go over budget, and then apply for increased RAB which enables them to impose increased landing charges which flow through to ever-increased dividends to HAL's mainly foreign institutional and sovereign wealth fund shareholders. This could be considered either as slack management, or an intentional means to increase annual dividends and repeatedly into the future.

Comments on CAA Consultation CAP1964

In Table 1, CAP1964 sets out the projects under review and includes HAL's recent request for increased RAB to cover the up to 4 times cost over-run on their cargo tunnel upgrade, CAP1964, as per the following link, https://www.newcivilengineer.com/latest/heathrow-wasted-money-as-tunnel-refurb-costs-spiral-24-09-2020/

1. Of the sampled current projects for review, it is the larger ones (for example the cargo tunnel upgrade) which have mostly been mismanaged and allowed to go over budget, by as much as 4 times. And HAL are requesting that these overruns be included in their RAB and hence their ability to increase airport charges, profit and ongoing dividends.

   Also regarding project management and lack of responsiveness and relating to the very complex changes to the supporting road network (i.e. M25, M4, and A4) for HAL's planned 3rd runway, in Highways England's "Strategic Road Network Proposals" HE reported their disappointment that HAL attended project meetings with HE, several times being overly optimistic and without following through with the required information. Similar situations occur with HAL meetings with local communities.

This illustrates that HAL are much less capable of managing large projects in an efficient and cost-effective manner and does not bode well if HAL were ever able to achieve planning approval to build a third runway.

It is noted that HAL prefers a broader approach of reviewing projects as a whole. However with the number and scale of project overruns, it is important to take the CAA approach of reviewing individual projects. In the introduction, CAA also states the importance of working to develop new forward thinking incentives to Capital Efficiency. This is welcomed and sorely needed.

HAL should not be allowed to include their mismanagement overruns in their RAB.

2. Included in this "project performance" framework is CAP1819, HAL's last year application for increased RAB for their doubling from £265m to around £550m of their 3rd runway Category B costs.

   In any normal business or commercial situation, analysis, planning and promotion (inc PR) of a new project, in this case HAL's third runway Category B costs which were budgeted at £265m, would be the cost to the business in order for it to assess the viability and promote the project which they intend to bring future additional revenue, income and dividend. HAL want to increase their revenue, income and dividend, i.e. their upside and it is not right that they should be allowed to have the government, public and airlines underwrite these normal business expenses in this way.

   They want to both gain the upside of airport expansion, and not incur the normal business cost of planning and promoting their scheme, and instead have this underwritten by the government, airlines and public. They want a "heads they win" and "tails they don't lose".

   This question of project performance also applies to their overrun in Category B costs to £550m.

   On the subject of Category B costs, HAL have funded the campaign organisation Back Heathrow to the tune of £1m or more. Back Heathrow in turn have been taking issue that the elected London councils of Hillingdon, Richmond, Wandsworth, Hammersmith & Fulham, and Windsor & Maidenhead, have collectively spent £1m in their legitimate pursuit and defence to stop a third runway, in the interests of, after surveying and as mandated by their resident constituents.

   It should be checked to see if funds provided by HAL to Back Heathrow are part of their Category B application.

   With the nature of the RAB process being used to determine landing charges and hence income and dividends, if one were playing devil's advocate one could surmise that it is in HAL's interests to allow larger projects to go over budget and from that to apply for additional RAB, which if accepted leads through to increased annual dividends, and for ever ongoing.

   To repeat, we welcome the CAA stating the importance of working to develop new forward thinking incentives to Capital Efficiency. Some other issues and suggestions are noted further below.

Whilst this application, CAP1964, is not specifically about a Heathrow 3rd runway, nothing in principle has changed since my previous response to CAP 1832 of 11th October 2019, so it is relevant to repeat and consider the introduction and background to that response, as follows.

"Most major infrastructure projects have exceeded budget typically by around 100% and in some cases significantly more, including the Olympics, HS2, Crossrail and Scottish Parliament. No doubt HAL would say that they have a rigorous project plan and such increases will not occur, however no doubt ALL the above-mentioned projects also said that they had rigorous plans and such increases would not occur" and the review of sampled projects in this report, CAP1964 Table 1, shows that they DO occur to many larger projects.

And "HAL's complex and permitted financial structure, allows them to finance expansion mostly by debt or gearing, which in turn is serviced by charges to the public and airport users. Also with HAL being permitted to take dividends based on their RAB or perceived investment (which is largely borrowing serviced as above), then there is no incentive to keep costs under control, but rather a perverse incentive to allow costs to increase and so provide increased dividends to HAL's shareholders, financed by debt which is in turn serviced by charges to the public and airport users.

It has been said that HAL's RAB finance and earnings structure was designed to incentivise investment in the UK. However the level of incentive is excessive and unnecessary. Many global investors and organisations are very keen to invest in the UK without needing such overly generous incentives."

Experience over the last few years has illustrated HAL's continual budget overruns. There has been much industry concern, before Covid-19 struck, about HAL's precarious financial mismanagement to milk their Heathrow asset and feed their shareholders. These three above CAA applications all illustrate HAL's repeated approach of over-gearing, allowing costs to escalate and using that to apply for increased RAB, and hence gain ever increasing dividends. So HAL's need for financial support has been inherent in their over-gearing and profligate financial mismanagement, prior to and has not been as a result of the downturn from Covid-19.

All three above CAP applications illustrate HAL's mismanagement and misuse of their RAB mechanism. If they ever were to gain approval to build a 3rd runway, budgeted at £14 billon, there WILL be an almost certain over-run and increased cost. HAL are also reported to have longer term expansion plans costing £32billion, plus again more probable increases in the longer term.

HAL Financial structure and situation

CAP1964 flags up the forthcoming review of HAL's financial plan and whether/how RAB should relate to it in future, i.e. the H7 review which is due to come into effect at the end of 2021. Far greater transparency is required over RAB, how finance is secured using this to underpin HAL's income stream and what are the tax implications of both RAB and the HAL corporate structure.

The CAA needs to undertake a review of HAL's financial structure, their risks of their level of gearing, the tax implications and how they earn income and dividends via RAB.

This should also look at how Heathrow sits within a national integrated and sustainable transport plan, given the government's 'levelling up' agenda, recovery after Covid, climate change considerations and constraints, and true competition between airports.

Of further concern is that many Heathrow workers are being forced to take up to 20%, or up to £8,000 per annum pay cuts.
https://unitetheunion.org/news-events/news/2020/october/blame-for-vicious-assault-on-heathrow-workers-wage-laid-firmly-at-boardroom-greed-not-coronavirus-research-reveals/
and
https://ukaviation.news/heathrow-tells-staff-to-take-pay-cut-or-risk-job-losses/

HAL has a license to manage a major, if not THE major, UK transport asset and they need to be brought back from their overriding interest in securing shareholder dividends, and instead ensure Heathrow's financial and performance security, and reasonable ongoing earnings and security for its workforce.

Suggestions for the Future

At the beginning of Covid lockdown in May 2020, the Chancellor, Rishi Sunak said, "We would expect all companies to be pursuing all possible actions to preserve cash and maximise liquidity, including engaging with shareholders, lenders and the markets and utilising all available assets and facilities.", and minsters were "prepared to enter negotiations with individual companies seeking bespoke support as a last resort, having exhausted other options".

But he said, such help "would only be possible if all commercial avenues have been fully explored, including raising further capital from existing investors and discussing arrangements with financial stakeholders", and "Terms would be structured to protect taxpayers' interest, and the government would expect to have regard to factors including but not limited to whether the business makes a material contribution to the economic activity of the UK, the importance of maintaining a thriving competitive aviation sector in the UK to deliver connectivity and the equitable and fair treatment across businesses in the sector."
https://www.politicshome.com/news/article/britains-coronavirushit-airlines-have-been-warned-that-they-will-only-be-bailed-out-by-the-government-as-a-last-resort

The CAA would be right to turn down any requests to use RAB to cover HAL's over-budget projects in this application CAP 1964. In line with the Chancellor's statement, any support for HAL needs to follow one of two courses:

1. Either, HAL's shareholders provide the necessary financial support to see the airport through the current situation.
2. Or, the Government takes equity In exchange for providing some financial support as per past examples in Rolls-Royce and British Aerospace, as debated in the following Parliamentary Hansard link, https://api.parliament.uk/historic-hansard/commons/1987/apr/28/rolls-royce

Maybe there needs to be a government "golden share" to impose controls on HAL's activities and excesses. These golden shares have been about protecting strategic industry from foreign takeover. In this case however, a golden share mechanism or similar is necessary to protect strategic industry from financial exploitation, workforce exploitation, low project and operational performance etc.

One pertinent golden share example is British Airports Authority (BAA), previous owner of Heathrow and Gatwick airports. The UK government retained a golden share in the company, which was privatised in 1987, until 2003. With the UK having left the European Union, it may be possible once again to institute a golden share, to protect national interests noted above.

Alternatively,

3. If HAL's shareholders are unwilling or unable to provide the necessary support, the government should effectively re-nationalise Heathrow, as was the case when it was the public company, BAA (British Airports Authority). As HAL have extracted so much by way of dividends, their retained equity or value sits at only 10% or less, or only around £1 billion to £2 billion, a value which is low in comparison with other support that government has been providing nationwide for Covid. And in time, the government can re-privatise Heathrow to return its investment and take the opportunity then to re-establish Heathrow ownership on a basis more equitable for the nation as a whole, for the travelling public, for the workforce, airlines and other interested parties.

And,

4. If HAL's shareholders are able to provide the necessary financial support to keep Heathrow as a going concern, consideration is also required regarding changes in the mechanism for HAL to earn dividends from their RAB. They have been taking an underlying £500m per annum in dividends from normal operations.

   HAL now has a debt of £17bn, larger than their asset base and at "sub-prime" levels of borrowing that caused the 2008 global financial crash. This is largely though a Jersey company called Heathrow Funding Limited, which has a nominal share capital of just £2. How does this impact HAL's financial rating and ability to support their precarious situation?

   By way of comparison, the highly geared utility Thames Water has ratio of 81.5%, and is under pressure to reduce this. And in 2012, the CAA imposed a gearing ceiling on the air-traffic company NATS of 65%. If debt climbs above this level, NATS is banned from paying dividends.

   A year ago, pre-Covid, Heathrow as a company had debt of £13.7bn and a £15.8bn asset base — giving it a leverage ratio of 87%. And their typical £500m dividends have provided HAL shareholders with an excessive around 30% per annum, and sometimes considerably more, of their retained equity.

The UK is a stable and progressive economy which will resume after we get through our current Covid difficulties and as such the UK is an attractive location for secure foreign and international investment.

If for example HAL shareholders earned dividends based on their retained equity investment, as is the case for almost all commercial shareholders, then there can be both the opportunity to get HAL back onto an even keel, and provide the ability for HAL shareholders to earn a good and stable return. If their earnings mechanism can be pivoted, so that it reflects not their amount of gearing (and hence the less equity they have), and instead reflects the amount of retained equity that they DO have, then this would better serve the UK Nation, and all users and workers of the airport.

Taking their asset base as reported a year ago of £15.8bn, with approximately 90% gearing or 10% equity (i.e. £1.58bn) and with a reasonable return of 10%, this would result in an annual dividend of £158m. A 20% equity (i.e. £3.16bn) would result in an annual dividend of £316m and a 30% equity (i.e. £4.74bn) would result in an annual dividend of £474m.

This would provide a means to incentivise HAL to get to a proper and reasonable 30% equity, and its shareholders to provide the necessary level of financial security for Heathrow and the nation.

Any agreement for HAL to continue with Heathrow ownership also needs to include guarantees to support the airport workforce and without wide spread layoffs and wage cuts.

Appendix 1

BUSINESS COMMENTARY – THE TIMES

Airport chief's moans so much hot air

By Alistair Osborne
Thursday October 29 2020,

If only meaningless PR could make all John Holland-Kaye's problems go away. The Heathrow chief's latest case for airport testing is this bit of nonsense: that, "for the first time", Paris Charles de Gaulle has "overtaken" the UK's premier landing strip as "Europe's largest airport".

Seriously, does anyone care? For starters, traffic figures have been skewed by the pandemic, as Heathrow's own nine-month figures underlined: passengers down 69 per cent to 19 million, with the airport making a £1.5 billion pre-tax loss. So this is a freak time. Then you have to adjust for Paris being bigger in domestic traffic not subject to corona restrictions. Plus the key swing factor championed by all hub airport monopolists: transfer traffic. And who wants heaps of that, apart from Mr Holland-Kaye?

Passengers changing planes at Heathrow — 30 per cent of the pre-corona total — bring close to zip economic benefit to the UK. True, at the margins the agglomeration effect of landing lots of passengers at a single airport can make a few extra routes viable, boosting connectivity. But that's outweighed by the negative environmental and economic costs of having to accommodate more polluting, noisy planes. Besides, Britain lost the hub argument to the 24-hour Gulf airports years ago — not that former CBI president Paul Drechsler noticed, to judge by his tweet about Paris trumping Heathrow being a moment of "national importance".

Anyway, that was only one thing bugging Mr Holland-Kaye, whose results missive was mainly a whinge about everything. Yes, Heathrow is having a torrid time. But the general gist was that, rather than his billionaire shareholders coughing up, everyone else should pay for it. The airport is owned by some of the richest investors on the planet, not least the Chinese government and sovereign wealth funds from Qatar and Singapore: a bunch that's taken out £3.8 billion of dividends.

It's no one else's fault that they flew into the pandemic geared to the max to juice up returns. Today net debt stands at £15.2 billion, almost as much as Heathrow's £16.5 billion regulated asset base (RAB), a regulatory proxy for its value. Yet here's Mr Holland-Kaye threatening another "look at reducing costs", on top of 1,400 jobs already going, because of the "lack of government support to waive business rates". Plus moaning about the Treasury "scrapping tax-free shopping for international tourists". And, most egregiously, trying to jack up passenger charges, so the owners can recover the £1.7 billion they claim to have lost to the virus.

Over this, Heathrow's legal threats have caused a bust-up with the Civil Aviation Authority, which, happily, has so far resisted its efforts to get the sum added to the RAB. As British Airways' owner IAG said: "We're staggered that Heathrow thought it appropriate to pass its Covid losses on to us." Airlines reckon it would bake in an extra £2.21 per passenger per year for the next two decades. The airport's trying the same trick with the £550 million it's wasted on the third runway. Contrast other UK airports, all trying to keep passenger charges down to boost a return to flying.

True, Mr Holland-Kaye was bang on with the gripe that got overshadowed by his Paris guff: the government's "slow progress" on airport testing, the key to unlocking demand. Shame that got lost among all the try-ons and hot air.

https://www.thetimes.co.uk/article/airport-chiefs-moans-so-much-hot-air-w9tfq8qrj?shareToken=072375890ead5a4b6e3809e075445b4f

Appendix 2

New Civil Engineer

Heathrow 'wasted' money as tunnel refurb costs spiral

24 SEP, 2020 BY ROB HORGAN

Heathrow Airport Ltd (HAL) has "wasted" money on two ongoing tunnel refurbishment schemes, the aviation regulator has ruled.

A Civil Aviation Authority (CAA) economic performance review concludes that HAL acted "inefficiently" on refurbishments of a cargo tunnel and road tunnel servicing its terminals.

The cost overrun of both schemes combined is estimated at £212.4M, although the CAA suggests that those costs could be inflated further by the time work is completed.

Conclusions made in the CAA's *September 2020, Economic regulation of Heathrow* paper draw on independent analysis by Arcadis and Institute for Fiscal Studies.
Costs on the cargo tunnel job between Terminal 4 and the Central Terminal Area have soared by £152M, from its approved £44.9M budget to the current final cost of £197M, the report reveals.

Meanwhile, the cost of upgrading the main vehicular tunnel to Terminals 1, 2 & 3 has risen by £60.3M from an approved budget of £86M to £146.3M.

On the cargo tunnel, the CAA states that "there is clear evidence that the actions of HAL may have directly contributed to wasted spending or lost benefits".

It adds: "The Cargo Tunnel project faced significant cost overruns of around 400% against the original budget and is now forecast to be completed during H7 [the next funding period starting in 2022].

"We consider that this has led to a loss of benefits to consumers because of late delivery […] We also consider that if the risk of cost increases had been better assessed at the beginning of the project, more efficient contractual terms (in terms of risk allocation) may have been obtained by HAL through its procurement process."

Design work for the project is now being undertaken by WSP, with Mace providing contractor input and Brydon Wood onboard to provide offsite and DFMA expertise.

They took over the project from BAM and Mott MacDonald who were initially involved in the scheme.

Earlier this month, HAL infrastructure & programme management office director Darren Colderwood told *NCE* how procurement for the scheme has moved towards the Project 13 model.
On the main vehicular tunnel upgrade, being carried out by BAM Nuttall in conjunction with M&E specialist VVB Engineering, the CAA report states that "Arcadis concluded that the project had been delivered efficiently to date, and HAL had, by and large, acted reasonably in trying to mitigate the contractor's poor performance".

It adds: "Arcadis found several examples of poor performance by HAL's contractor on this project, including continuing discovery of defects within works already completed."

However, the CAA concludes that HAL is ultimately responsible for its contractors' performance.

"HAL is responsible for any inefficient management or delivery of projects by its contractors that increases cost or results in loss of benefit," it states.

"So, this poor performance leading to delays and cost increases appears to indicate inefficiency."

The CAA will now assess whether to remove costs associated with the tunnel refurbishments from HAL's Regulated Asset Base (RAB) – which effectively means HAL would have to pay for cost overruns, rather than charging airlines.

The decision will be taken following a further consultation round and once work is completed on both projects.

HAL has repeatedly been accused of spending inefficiently by rival bidders to expand the airport. Last week Heathrow West chief executive Carlton Brown slammed HAL's £500M sunk expansion costs as "shocking".

https://www.newcivilengineer.com/latest/heathrow-wasted-money-as-tunnel-refurb-costs-spiral-24-09-2020/

APPENDIX 3

THE TELEGRAPH

Heathrow's owners told to invest or risk state takeover

The airline industry watchdog issued the threat after rejecting Heathrow's demand for higher airline and passenger charges this month

By Oliver Gill (Telegraph)
24 October 2020

The foreign funds behind Heathrow have been warned the airport is threatened with nationalisation if they do not inject new money to help it cope with the pandemic.
The airline industry watchdog said that without emergency funding from shareholders including the sovereign wealth funds of Singapore and Qatar, Heathrow faces a similar fate to Railtrack, the former FTSE 100 company that collapsed in 2001 under debts of £3.5bn. Taxpayers stepped in and took back control of the rail network.

The Civil Aviation Authority (CAA) issued a thinly veiled threat to Heathrow owners also including the Spanish infrastructure company Ferrovial and a Chinese sovereign wealth fund, as well as the UK's Universities Superannuation Scheme, after rejecting the airport's demand for higher airline and passenger charges.

Heathrow has made the demand despite paying out £4bn in dividends via just one of the entities in its corporate structure since 2012.

The regulator said: "Heathrow's request set out a solution that would involve consumers bearing a significant proportion of the costs associated with the pandemic and providing additional protection for shareholders. We have considered Railtrack as a relevant example of when a regulated company has faced severe financial issues."

This weekend Heathrow hit back, accusing the CAA of sending a "terrible" message to foreign investors and threatening court action if regulators do not allow higher charges, which it claims it is entitled to.

Javier Echave, the airport's finance chief, said: "You are breaking the principle of the UK being a safe haven for investors' money."

The row is escalating as concern over Heathrow's ability to withstand more months of depressed air travel rises, given its heavy debts. It owes more than £17bn to banks and bondholders, but says it has funds to see it through until 2023 even though only 19m travellers passed through between January and September, a decline of almost 70pc.

The CAA's comparison with Railtrack pointedly referenced a comment from Stephen Byers, transport secretary during the company's collapse. He said shareholders "need to be fully aware of the projected liabilities of the companies in which they invest and the performance risks they face".

A Heathrow spokesman said the airport was “completely different” to Railtrack and the CAA caveated its comparison by saying there were “a number of important differences in circumstances” between the two.

The CAA is now consulting the industry on its proposed rejection of Heathrow’s call for higher charges.

Richard Stephenson, communications director of the regulator, said: “We do not yet believe that Heathrow has demonstrated its request is a proportionate measure. That’s why we are seeking additional evidence.”

Mr Echave said that without the ability to charge more “when demand returns, Heathrow could become the dysfunctional gateway of Britain”.

https://www.telegraph.co.uk/business/2020/10/24/heathrows-owners-told-invest-risk-state-takeover/

APPENDIX 4

UNITE THE UNION

Blame for vicious assault on Heathrow workers' wage laid firmly at boardroom greed not coronavirus, research reveals

Thursday 8 October 2020

Horrific pay cuts of up to £8,000 a year being imposed on thousands of Heathrow airport workers are the cost of eye-watering levels of debt and excessive payments to directors and shareholders, their union has claimed today (Thursday 8 October).

Jaw dropping debt

Research by Unite the union, released to coincide with the beginning of an industrial action ballot by members employed at Heathrow Airport Ltd (HAL), lays out a catalogue of financial mismanagement and greed at the UK's leading airport demonstrating that it is this and not the pandemic, as the airport claims, which has brought it to its present unstable financial position.
Unite says that 4,000 workers, many of whom are being asked to lose a quarter of their salary and are facing destitution as a result, are the UK's latest victims of 'bandit capitalism' whereby the costs of bad boardroom decisions and reckless financial practices are dropped onto innocent workers.

Complicated corporate structure

The union has uncovered a vastly complicated corporate structure at the airport involving 13 different companies and subsidiaries. The total long-term debt across the group stands at an incredible £16.676 billion, nearly double the debt of any of Heathrow's comparator airports. However HAL, which employs the workers, has assets valued at £15.8 billion. In 2019 the group had reserves of just £822 million.

In the last five years Heathrow's debt has increased by nearly £3 billion, while since 2012, HAL has paid out £4 billion in dividends to shareholders. This includes £100 million paid this year, after the company's operations had taken a huge hit from the coronavirus pandemic.

Huge debts

Unite argues that the airport ought to have been more responsible with the vast profits it made between 2014-19 instead of squandering the money on dividends and increasing liabilities. Senior management and the board are not being asked to contribute to the savings programme, only staff.
As HAL's dividends are not linked to profits but are instead linked to its "regulated assets bases", the more it builds and expands the bigger are its pay outs to shareholders in dividends.

Shareholders bonanza

But, as Unite points out, it is not just the shareholders who have fared very well from Heathrow airport. CEO John Holland Kaye pocketed pay and pensions worth nearly £2.6 million in 2019, a remuneration package that is nearly three times that of equivalent airport bosses.

Further, a total 49 directors received over £21,129 million in pay and benefits from the Heathrow group of companies in 2019.

Heathrow workers are being asked to make massive salary sacrifices in order to keep their jobs include airside operatives, engineers, firefighters and security officers. Rejecting the cuts, workers opted overwhelmingly to take a vote on strike action this autumn, with ballot papers being issued **today (8 October).** The ballot closes on **Thursday 5 November**.

Greed and mismanagement

Unite regional co-ordinating officer Wayne King said: ***"This research sets out a jaw-dropping catalogue of greed and mismanagement at the heart of our major airport.***

"Heathrow's present predicament owes more to boardroom greed than this virus. Once again a UK-based business has rinsed a national asset for all it is worth and then told low paid workers that they have to pick up the tab for this recklessness.

"This labyrinthine set up has directed oceans of money out of Heathrow through unsustainable and unjustified dividends and telephone number salaries to directors.

"There is clearly hefty sums of money in the bank, enough to get through this without destroying people's lives, yet Heathrow's management wants lowly paid workers to pay for their sorry financial practices. This sort of bandit capitalism is immoral and should not be allowed in modern-day Britain.

"HAL needs to stop now peddling the myth that the coronavirus has ruined its financial outlook. Workers did not create the precarious balance sheet which has been years in the making and they should not be made to pay for it.

"Our members' hard work has generated multi-million pound profits for this airport so we are determined that they are not going to pay for the corporate chaos and excess of Heathrow's senior management, and the public will support them on this.

"People will not understand why poorer workers are carrying the can for something that they have no responsibility for yet senior managers and the boardroom are making no salary sacrifice whatsoever.

"HAL made this mess, not the workforce. It is their duty to clean it up responsibly and without driving thousands of workers onto the breadline.

"We urge HAL to withdraw its fire and rehire proposals. Work with us on a fairer and more stable way forward because this course of action will destroy not just the lives of these workers but the businesses and communities that they support across the UK."

Missing war chest?

At the beginning of the pandemic Heathrow boosted it had £3.2 billion to see itself through the pandemic even with no passengers.

Heathrow has received over £26 million from the government to furlough workers as part of the job retention scheme. It has also confirmed that it will take advantage of the government's new job support scheme but despite this additional financial support it is not prepared to revisit the proposed pay cuts.

https://unitetheunion.org/news-events/news/2020/october/blame-for-vicious-assault-on-heathrow-workers-wage-laid-firmly-at-boardroom-greed-not-coronavirus-research-reveals/

APPENDIX 5

UK AVIATION NEWS

Heathrow tells staff to take pay cut or risk job losses

02/09/2020 Civil Aviation, News Written by: Nick Harding

Heathrow Terminal 5

Heathrow Airport has told almost 5,000 of its frontline staff that they must take pay cuts of up to 20% if they want prevent over 1,000 job losses.

The Airport has been negotiating with the Unite union for several months but has failed to reach an agreement.

As a result it has now formally given its staff Section 188 notices which will allow it to effectively sack all of its employees and rehire them on new contracts, **something infamously done by British Airways with its Pilots and Cabin Crew in July.**

A spokesperson for Heathrow Airport said: *"COVID-19 has decimated the aviation industry, which has led to an unprecedented drop in passenger numbers at Heathrow, costing the airport over £1bn since the start of March. Provisional traffic figures for August show passenger numbers remain 82% down on last year and we must urgently adapt to this new reality."*

The Airport has already cut 33% of its managers and imposed pay-cuts of up to 20% on back office staff.

Unite has urged Heathrow to continue talks but claimed that the airport was an *"incredibly wealthy company"* adding that before the pandemic *"it boasted of a £3.2bn war chest. These attacks on pay are not about survival but introducing measures to boost future profits."*

https://ukaviation.news/heathrow-tells-staff-to-take-pay-cut-or-risk-job-losses/

APPENDIX 6

POLITICS HOME

Coronavirus: Rishi Sunak tells airlines they will only get bailed out as a 'last resort'

Chancellor Rishi Sunak

matt_hfoster
25 March 2020

Britain's coronavirus-hit airlines have been warned that they will only be bailed out by the Government "as a last resort".

In a letter to aviation industry bosses, Chancellor Rishi Sunak urged carriers to tap up shareholders and lenders first before calling on taxpayers to prop them up.
And he said extra help would only be made available once all other options "have been fully explored".

Airlines across the globe have grounded flights because of the coronavirus outbreak, amid a wave of travel bans aimed at containing the spread of the virus.
IAG, which owns British Airways, has already announced plans to cut its flying capacity by at least 75% in April, with boss Willie Walsh delaying his retirement to handle the crisis.

In his letter to the major airlines, first reported by Sky News, Mr Sunak pointed out that they could already make use of wider aid schemes announced by the Treasury, including deferring VAT payments and grants to cover staff salaries.

And the Chancellor wrote: "The priority for all companies should now be to reassess their cashflow positions in the light of Friday's announcements.

"We would expect all companies to be pursuing all possible actions to preserve cash and maximise liquidity, including engaging with shareholders, lenders and the markets and utilising all available assets and facilities."

Mr Sunak said the "significant importance of the aviation sector to our economy and economic recovery" meant minsters were "prepared to enter negotiations with individual companies seeking bespoke support as a last resort, having exhausted other options".

But he said such help "would only be possible if all commercial avenues have been fully explored, including raising further capital from existing investors and discussing arrangements with financial stakeholders".

The Chancellor added: "Terms would be structured to protect taxpayers' interest, and the government would expect to have regard to factors including but not limited to whether the business makes a material contribution to the economic activity of the UK, the importance of maintaining a thriving competitive aviation sector in the UK to deliver connectivity and the equitable and fair treatment across businesses in the sector."

https://www.politicshome.com/news/article/britains-coronavirushit-airlines-have-been-warned-that-they-will-only-be-bailed-out-by-the-government-as-a-last-resort