

**ADDITIONAL QUESTIONS TO: Glasgow Prestwick Airport (GPA) Limited**

1. **Grants and Total Construction Costs.** In section 5 of FSR's S17 application FSR provides a list of estimates – received from Strathclyde PTE ('SPTE') – of the contributions obtained by GPA to finance the construction of the station. SPTE confirmed these figures in its letter to ORR dated 27 April 2006. However, in GPA's additional submission to ORR dated 1 May 2006 the company provided different estimates of the funding contributions. Both FSR/SPTE and GPA's estimates are listed in the table below:

Source of contribution	FSR/SPTE estimate	GPA Previous estimate	GPA Revised Estimate
Prestwick Airport Limited	£360,000	£400,000 (Phase 1) £736,730 (incl. cost overruns)	£1,800,000
<b>Grants – Total</b>	<b>£1,833,350</b>	<b>£1,601,250</b>	£987,529
Ayrshire Enterprise	£420,000	£526,000	£426,000
Kyle & Carrick Council	£360,000	£300,000	£0
SPTE	£508,350	£375,00	£319,529
European Union	£550,000	£400,250 (i.e. 25% of the other grants)	£242,000
<b>Total</b>	<b>£2,193,350</b>	<b>£2,001,250 (Phase 1) £2,337,980 (incl. cost overruns)</b>	<b>£2,787,529</b>

Can GPA please provide:

- a. an explanation of the basis of their estimates including any assumptions

GPA has revised it previous estimates as shown above and as detailed in 1(b) below.

- b. an explanation of the difference between their estimates and the FSR/SPTE figures

GPA have continually identified there has been significant difficulty establishing the exact nature, terms and amounts of the contributions made by the various parties involved to the construction of the Airtrain facility. Accordingly the archives held by GPA, prior to Infratil taking ownership in 2001, have now been completely reviewed and have resulted in the following conclusions being drawn.

After this extensive review of all of the documents currently held by GPA we have failed to identify any specific documents and or agreements that offer a clear understanding of what was clearly a complicated funding structure.

It would also appear that part of the confusion surrounding the amounts identified relates to a lack of clarity as to whether the contributions made were net of the European grant funds or not. Several documents make mention of this issues and suggest that the quoted contributions were in fact inclusive of European grants. In an attempt to clarify the position further review of all materials held by GPA was conducted. The following section outlines GPA's best understanding of the funding arrangements applicable to the Airtrain facility;

### ***Enterprise Ayrshire***

It appears that the original amount offered by Enterprise Ayrshire ('EA') was in the vicinity of £826,000 which was to be made up from a gift of £400,000 from GPA to EA and an additional £426,000 directly from EA. A recent review of additional documentation suggests that this approach was taken in an attempt to boost the claim to the EU for grant funds. **Annexure 'A'** is a letter from the then Chairman of GPA, Matthew Hudson, to the Head of European Funds Division dated 16 December 1993 (pre –construction). This correspondence offers some insight into the thoughts behind the original funding structure which sought to maximise the claim for EU grants. Under the original proposal EA expected to receive an EU grant of approximately £275,000.

While Annexure A suggests a sizable contribution being made by EA a further review of the post construction correspondence makes it clear that a different structure was in fact implemented. In a facsimile from Matthew Hudson to Councillor Robert Gould dated 17 November 1995 (**Annexure 'B'**) it is suggested that the proposed gift to EA would not attract EU grant;

*During negotiations for the construction of the Railway Station it seemed to the Airport (and Enterprise Ayrshire) from our meetings and correspondence with SPTE that the Airport, Enterprise Ayrshire/SEN and SPTE were putting in their contribution gross and that the ERDF funding was additional. In the event SIDO (perhaps in error) ruled that ERDF funding was not available on the Airport's contribution thus requiring the Airport to make up the difference.*

Later correspondence then identifies that GPA did not end up gifting the £400,000 to EA but contributed this amount directly to the project. Accordingly EA contributed £426,000 to the Airtrain project with this contribution attracting a further £142,000 of EU Grants.

### ***Kyle & Carrick District Council***

Our most recent investigation has identified that the contribution made to the Airtrain project by Kyle & Carrick District Council ('KCDC') was made by way of a fully secured, interest bearing loan to GPA. A copy of the loan agreement dated 2 December 1994 is attached as **Annexure 'C'**.

It would, however, appear that this type of contribution was entitled to an EU grant which we believe was in the vicinity of £100,000.

***Strathclyde Passenger Transport Executive***

**Annexure ‘D’** is a letter from the then Deputy Chairman of GPA – Matthew Hudson to the Chairman of Strathclyde Passenger Transport Authority dated 17 March 1998. This letter is the best evidence of the final account of contributions to the Airtrain project. As you will note from this letter Strathclyde Passenger Transport Authority (‘SPTE’);

*.... SPTE originally offered the Airport £500,000 which would have been eligible for an EC grant equal to 100% of that sum (50% funding for ‘Tourist’ projects) providing a total funding of £1.0 million or one-third of that amount, (25% funding for ‘Transportation’ projects) i.e. providing total funding of £666,667.*

*.... At About the time you took chair of SPTE we (GPA) were told that the £500,000 was in fact to be composed of £375,000 from SPTE which would attract a grant of one-third, i.e. £125,000 making a sum of £500,000. Furthermore SPTE intended to keep the grant monies making the actual funding £375,000 versus £666,667.*

*.... Subsequently SPTE improperly (in breach of the funding agreement between the Airport, Enterprise Ayrshire and SPTE) paid £55,471 to ScotRail which was deducted from the £375,000. The funding received from SPTE was therefore £319,529 instead of £666,667.*

Although it would appear that GPA made several attempts to recover the alleged outstanding amounts leading up to 1998 (refer to Annexure ‘B’) and then again within the body of Annexure D, there is no evidence in any of the available accounts identifying receipt of the claimed amounts.

Ultimately our research suggests that only £319,529 was ever contributed to the Airtrain Project by SPTE and that the EU grant of £125,000 was retained by SPTE.

***European Union Grant***

The EU Grant funds appear to be the sum of the amounts received from EA and KCDC being £142,000 and £100,000 (respectively). Accordingly £242,000 has been identified as being received from the EU.

**Summary of Contributions**

The following table is our best assessment of the contributions made by each of the parties:

Source of contribution	GPA (revised Estimate)
Prestwick Airport Limited	£1,800,000
Ayrshire Enterprise	£426,000
Kyle & Carrick Council	£0
Strathclyde Passenger Transport Executive	£319,529
European Union	£242,000
<b>Total Project Costs</b>	<b>£2,787,529</b>
<b>Total Third Party Contributions</b>	<b>£987,529</b>

The above schedule is further supported by reference to Annexure D where it states:

*Our costs for the construction and operation of the Rail Station (since 9/94) now exceed £2.9 million less £1.006 million (£320K SPTE, £568K EA; £100k District Council) for a total net investment of £1.8 million (including £347,138).*

It should be noted that the difference between the £1,350 million identified in the above table and the £1.8 million identified in Annexure D relate to the operating costs of the facility between 1995 and 1998. It is contended by GPA that the operating costs associated to the first three years of operation should be considered as part of the initial capital expenditure associated to the construction of the Airtrain facility.

- c. the reason why the company believes that the cost overruns were not later recovered by PIK Facilities from the contractors (e.g. Scott, Wilson, Kirkpatrick), as Annexure A seems to suggest in the following sentence: *“I have to advise you that under the terms of the contract the above amounts may well have to be paid by PIK as an outlay prior to recovering it from the above parties with the exception of the Railtrack costs which have not been committed due to the failure to submit invoices by that organisation.”*.

Annexure D is the best post construction account of the circumstances surrounding the funding that is able to be identified. You will note that there is no suggestion that the cost overruns were recovered. No additional correspondence or accounting has identified that any other amounts were received after the date of this letter.

2. **Financing costs.** We asked GPA for an estimate of any costs incurred by the company (ideally both before and after its acquisition from Infratil) in relation to the financing of the station's construction. In its response, GPA mentions an estimated annual interest charge of £116,000 paid by Infratil for the purchase of the station, under the assumption that the proportion of the total purchase price attributable to the station was £2 million. Can GPA please clarify:

- a. Whether the £116,000 is based on actual expenditure incurred, i.e. was an interest charge actually paid by the company?

The estimated annual interest charge of £116,000 is an amount calculated on the acquisition price paid for the asset at IAELs cost of borrowing. The Company did have external debt as part of its acquisition funding.

- b. If not, whether GPA is aware of any actual financing costs incurred by them and/or previous owners of the airport in relation to the funding of the station's construction.

Please refer to 2(a) and to the section under the heading Kyle and Carrick District Council in answer 1(b) above.

3. **OPEX and CAPEX figures.** With regard to GPA's answers to questions 9b and 9c, can GPA please:

- a. Reconcile the figures in Annexure C with the “maintenance” and “repairs” cost figures provided in the table within the section entitled ‘*Costs of Ongoing Obligations in relation to the GPA Facility*’ in the GPA Airtrain Access Agreement proposal dated 29 March 2006.

The cost figures provided in the table within the section entitled ‘*Costs of Ongoing Obligation in relation to the GPA Facility*’ are the average of the three years of maintenance and repair costs identified in Annexure C.

- b. Clarify: (i) the source of these figures, (ii) whether they are actual or estimated expenditures, (iii) their price base, and (iv) indicate if possible which type of assets were repaired/maintained in each relevant year.

The source of these figures are the actual repair and maintenance costs for the years identified. As all of the maintenance and repair costs of the airport are pooled for accounting purposes, GPA was required to review the accounts and isolate those repair and maintenance costs specifically related to the Airtrain Facility. These figures are excluding VAT.

- c. Clarify whether GPA incurred any renewals cost between FY03 and FY06 and if so provide the relevant renewals costs figures and clarify: (i) the source of these figures, (ii) whether they are actual or estimated expenditures, (iii) their price base and (iv) indicate if possible which type of assets were renewed in each relevant year

GPA has only incurred maintenance costs in the period from FY03 to FY06 – no costs have been deemed capital in nature for accounting purposes and have limited lives

- d. Provide - if available - any figures on operating, maintenance, repairs and renewals costs incurred before FY 2003 (ideally from the starting date of operations at the station up to FY 2002) and clarify: (i) the source of these figures, (ii) whether they are actual or estimated expenditures, (iii) their price base, and (iv) indicate if possible which type of assets were repaired/maintained/renewed in each relevant year

As maintenance, repairs and renewal costs for the station were pooled with other Airport costs we are unable to accurately breakdown these costs prior to Infratil taking ownership. However the estimate of the Operating costs for 1994 identified in Annexure B from our previous answers is consistent

4. **Depreciation.** Could you please clarify the following statement at page 5 of your *Addendum* dated 1 May 2006:

*“In order to compare the depreciated historical cost to the MEV you would be required to add back the depreciation and index the original cost – effectively the indexed purchase price (refer issues above).”*

To clarify, effectively what we are saying is that to compare the original price of constructing the GPA station today you could take original cost of construction (i.e. the same as taking the depreciated cost and adding back depreciation) and then applying an appropriate index to this value. This would provide you with an estimate of the cost of building the same station in today’s terms.