London Luton Airport Limited

Annual report and financial statements

for the year ended 31 March 2019

Registered in England & Wales No.: 2020381

London Luton Airport Limited

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London Luton Airport Limited

Strategic Report
for the year ended 31 March 2019

The directors present their strategic report on the company for the year ended 31 March 2019.

Principal activities

The company's principal activities until August 1998 were the ownership, operation and management of London Luton Airport. In August 1998 the company granted a concession contract to an unrelated company, London Luton Airport Operations Limited ("LLAOL") to operate the airport on its behalf in return for a concession fee. The company continues to own the land, buildings and infrastructure at the airport.

Review of the business

LLAL's principal source of income continued to be the Concession Fee which is based on work-load units, each unit being one passenger or 100kg of freight. Growth in passenger numbers was particularly strong, reaching a number just short of 17 million in the year to March 2019, an increase of some 7% over the previous year.

During the year LLAOL continued with the development works to increase the passenger capacity up to 18 million passengers per annum, and accelerated the pace of construction to meet demand.

Principal risks and uncertainties

The key business risks and uncertainties for the company are considered to relate to fluctuations in passenger throughput, the key determinant of the concession income. Passenger numbers are subject to competition between airlines, airport operators, the selection of routes and destinations, and underlying passenger demand for air travel which can be influenced by the general economic environment and consumer confidence. There is a risk that the decision to leave the European Union may diminish passenger demand for leisure related air travel. The concessionaire is deemed to be in the best position to manage this risk by its contractual relationships with airline operators.

Assessments have been undertaken of the potential and likely impacts of the UK's decision to leave the European Union; indications are that the company's business plans remain deliverable, and no material change is expected in the company's prospects.

Review of business and future developments

At the financial year end the company's financial position was strong and its future prospects are good.

The company continues to operate profitably and will share in the future success of the airport via the concession fee receivable from LLAOL.

The company is likely to continue to diversify its property portfolio by acquiring suitable properties adjacent to or nearby the airport, where it can be shown that these not only have a long-term strategic value to the company but are also capable of making a reasonable return on investment in the short to medium-term.

Much of the company's landholdings now form part of the London Luton Airport Enterprise Zone, announced by the former Chancellor of the Exchequer, the Rt. Hon. George Osborne MP, in November 2015.

In February 2017, LLAL submitted an application for planning consent for a mass passenger transit system to provide a fast, frequent and efficient transfer from London Luton Airport Parkway station to the central terminal area. The £225m construction commenced in the first quarter of 2018, and the system is to be fully operational by the first quarter of 2021.

During the early part of 2018, LLAL submitted applications for planning consent in respect of it commercial development sites at Bartlett Square and Century Park. Bartlett Square was consented in November 2018 and Century Park in March 2019 (subject to consideration by the Secretary of State). The company intends to submit, in summer 2020, an application for a Development Consent Order to enable airport expansion.

Strategic report
for the year ended 31 March 2019 (continued)

Key performance indicators (KPI's)

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not currently necessary for an understanding of the development, performance or position of the business.

Financial risk management

The company does not have any external financial relationships with banks or finance houses. The debenture loans to the company are from Luton Borough Council, the shareholder, and are held at fair value at inception. No repayments are scheduled until the end of the concession period. It is not, therefore, exposed to any financial risks resulting from changes in debt market prices, credit risk, and liquidity risk. The company does not use finance derivatives and as such no hedge accounting is required.

Price risk

The company is not currently exposed to commodity price risk as a result of its operations.

Credit risk

The company is only exposed to credit risk in respect of London Luton Airport Operations Limited who pays a concession fee to the company on a quarterly basis in arrears. LLAOL is bound by an open book policy with the company and therefore its internal auditors have access to monitor performance and viability. An annual internal audit is undertaken to ensure that the liquidity and financial position of LLAOL is sufficient to meet its obligations under the concession agreement. The company utilises the facilities of its parent, Luton Borough Council, in ensuring minimal risk with its cash and investments.

Liquidity risk

The company receives its concession income at four agreed dates on a quarterly basis. It actively manages its short term investments and cash holdings to ensure sufficient funds are available for its activities.

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, all of which earn interest at a fixed rate. The company maintains it debt at a mixture of fixed and variable rates reducing exposure to fluctuating interest rates. The directors will revisit the appropriateness of this and determine a policy should the company's operations change in size or nature.

By order of the Board

M Turner
For the Company Secretary, Luton Borough Council

20 September 2019

London Luton Airport Limited

Directors' report
for the year ended 31 March 2019

The directors present their report and the audited financial statements for the year ended 31st March 2019.

Future developments

Future developments for the company are set out in the Strategic report.

Results and dividends

The company's profit for the financial year is £46.6m (2018: £26.7m). The members at a General Meeting held on 28th March 2019 approved a final dividend for the financial year of 40.15 pence per ordinary share (amounting to £18m). The Board of Directors had previously agreed interim dividends of 0.58 pence per share (amounting to £259,000) and 4.25 pence per share (amounting to £1.9m) at its meetings held on 30th July 2018 and 3rd December 2018 respectively, making the total dividend payable for the year 44.97 pence per share (amounting to £20.159m) (2018: 43.5p, £19.5m).

Directors

The directors who held office during the year and up to the date of signing the financial statements were:

D Agbley	(Appointed 20 August 2018; resigned 21 May 2019)
W Akbar	
D Franks	(Resigned 23 January 2019)
J Hussain	(Appointed 21 May 2019)
T Khan	(Resigned 2 May 2019)
A Malcolm	Chairman
K Malik	(Appointed 21 May 2019)
A Nicholls	(Appointed 21 May 2019)
A O'Callaghan	(Resigned 2 May 2019)
J Rowlands	(Resigned 27 July 2018)
T Saleem	(Appointed 21 May 2019)
A Skepelhorn	(Resigned 23 January 2019)
J Taylor	(Resigned 2 May 2019)
J Young	

Lord McKenzie of Luton, Dr Romano Pagliari of Cranfield University and Mr Roy Davis (with effect from 21 May 2019) attend Board meetings in an advisory capacity. They are not Directors of the company and have no voting rights.

Employees

The company has no employees (2018: nil). Services to London Luton Airport Limited are carried out by employees of Luton Borough Council and the company is charged for these as set out in note 7.

Corporate social responsibility

The year ended 31st March 2019 saw the continuation of the company's Community Funding Policy, which sets out the ways in which the company will contribute to the social, environmental and economic wellbeing of the communities surrounding London Luton Airport. Details of the Community Funding Policy are available on the company's website at llal.org.uk.

Financial risk management

This has been documented within the Strategic Report at page 2.

Directors' insurance

The company maintains insurance policies on behalf of all the directors against liabilities arising from negligence, breach of duty, and breach of trust in relation to the company.

Directors' report
for the year ended 31 March 2019 (continued)

Going concern

Refer to the accounting policies (note 3) for a review of going concern.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

London Luton Airport Limited

Directors' report
for the year ended 31 March 2019 (continued)

Charitable donations

The company has, through its Community Funding Programme, made donations during the financial year amounting to £9.204m (2018: £9.365m) to local charitable organisations based or operating in Luton and the surrounding area. Payments are analysed across the seven Funding Themes of the Programme as follows:

	2019 £000	2018 £000
Children, Families & Young People	1,769	1,677
Citizen Enablement	792	792
Community Involvement	880	880
Community Safety	586	611
Environment & Economy	212	220
Health & Wellbeing	694	914
Leisure & Culture	4,271	4,271
	9,204	9,365

Independent auditors

PricewaterhouseCoopers LLP have acted as auditors to the company in the financial year and will be reappointed automatically as the company passed an elective resolution to that effect at its Annual General Meeting on 10 June 2006.

By order of the Board

M Turner
For the Company Secretary, Luton Borough Council

20 **September 2019**

Independent auditors' report to the members of London Luton Airport Limited

Report on the audit of the financial statements

Opinion

In our opinion, London Luton Airport Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2019; the profit and loss account, the statement of comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent auditors' report to the members of London Luton Airport Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of London Luton Airport Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Tim Broadway

Tim Broadway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

20 September 2019

Profit and loss account
for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	6	**51,044**	46,310
Administrative expenses		**(15,412)**	(15,991)
Change in fair value of investment properties		**24,955**	4,695
Operating profit	7	**60,587**	35,014
Interest receivable and similar income	9	**11**	85
Interest payable and similar expenses	10	**(4,070)**	(3,826)
Profit before taxation		**56,528**	31,273
Tax on profit	11	**(9,963)**	(4,622)
Profit for the financial year		**46,565**	26,651

The profit and loss account has been prepared on the basis that all operations are continuing operations.

Statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year		**46,565**	26,651
Re-measurements of net defined benefit obligation	20	**(16)**	49
Current tax deductions relating to net defined benefit obligation		**3**	(9)
Impact of change in tax rates		**-**	1
Total comprehensive income for the financial year		**46,552**	26,692

London Luton Airport Limited

Balance sheet
as at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investment properties	13	**615,712**	571,046
Property, plant & equipment	14	**88,041**	27,138
		703,753	598,184
Current assets			
Debtors	15	**13,866**	9,237
Cash at bank and in hand		**352**	4,329
Total current assets		**14,218**	13,566
Creditors: amounts falling due within one year	16	**(26,236)**	(31,119)
Net current liabilities		**(12,018)**	(17,553)
Total assets less current liabilities		**691,735**	580,631
Creditors: amounts falling due after more than one year	17	**(137,221)**	(57,921)
Provisions for liabilities	19	**(59,456)**	(53,963)
Pension deficit	20	**(1,924)**	(2,006)
Net assets		**493,134**	466,741
Capital and reserves			
Called up share capital	21	**44,837**	44,837
Retained earnings		**448,297**	421,904
Total shareholders' funds		**493,134**	466,741

The notes on pages 14 to 28 are an integral part of these financial statements.

The financial statements on pages 9 to 28 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

A Malcolm, Director
20 September 2019

Registered Number 2020381

London Luton Airport Limited

Statement of changes in equity
for the year ended 31 March 2019

	Called up share capital	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000
Balance at 1 April 2017	44,837	414,712	459,549
Profit for the financial year	-	26,651	26,651
Other comprehensive income for the financial year	-	41	41
Total comprehensive income for the financial year	-	**26,692**	**26,692**
Total transactions with owners – dividends	-	(19,500)	(19,500)
Balance at 31 March 2018	44,837	421,904	466,741
Balance at 1 April 2018	44,837	421,904	466,741
Profit for the financial year	-	46,565	46,565
Other comprehensive expense	-	(13)	(13)
Total comprehensive income for the financial year	-	**46,552**	**46,552**
Total transactions with owners - dividends	-	(20,159)	(20,159)
Balance at 31 March 2019	**44,837**	**448,297**	**493,134**

London Luton Airport Limited

Statement of cash flows
for the year ended 31 March 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit for the financial year	**46,565**	26,651
Adjustments for:		
Taxation charge	**9,963**	4,622
Interest payable and similar expenses	**4,070**	3,826
Interest receivable and similar income	**(11)**	(85)
Change in fair value of investment properties	**(24,955)**	(4,695)
Increase in debtors	**(4,644)**	(1,700)
(Decrease)/Increase in creditors	**(4,883)**	1,105
Corporation tax paid	**(4,883)**	(4,526)
Net cash generated from operating activities	**21,222**	25,198
Cash flows from investing activities		
Purchase of tangible assets	**(78,797)**	(29,424)
Interest received	**11**	85
Net cash used in investing activities	**(78,786)**	(29,339)
Cash flows from financing activities		
Interest paid	**(4,054)**	(3,876)
Receipts from loan facility	**79,300**	10,000
Dividends paid	**(21,659)**	(17,800)
Net cash generated from (used in) financing activities	**53,587**	(11,676)
Net decrease in cash and cash equivalents	**(3,977)**	(15,817)
Cash and cash equivalents at the beginning of year	**4,329**	20,146
Cash and cash equivalents at the end of year	**352**	4,329

Notes to the financial statements for the year ended 31 March 2019

1. General information

London Luton Airport Limited ("the company") is the owner of London Luton Airport, together with a number of other investment properties and parcels of land. The company operates entirely in the UK. The airport is leased to London Luton Airport Operations Limited ("LLAOL") as set out in note 5.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Hart House Business Centre, Kimpton Road, Luton, LU2 0LA.

2. Statement of compliance

The individual financial statements of London Luton Airport Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

The accounting policies have been applied consistently other than where new policies have been adopted.

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investment properties and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Turnover

Turnover relating to concession income is recognised in line with the concession contract, see note 5 for further details. Other property income represents amounts falling due under rental agreements.

Leased assets

As a lessee, rental costs under operating leases are charged to the profit and loss account on a straight line basis over the periods of the leases.

Notes to the financial statements for the year ended 31 March 2019 (continued)

3. Accounting Policies (continued)

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, and loans from banks and other third parties.

(i) Financial assets

Basic financial assets, including trade and other receivables, and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest, and thereafter measured at amortised cost.

These are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

Notes to the financial statements
for the year ended 31 March 2019 (continued)

3. Accounting policies (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Pension costs

Certain employees of the airport business prior to the granting of the Concession Contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the financial year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire Local Government Pension Scheme in respect of former employees' entitlement to pension augmentations arising on redundancy.

This provision has been assessed in accordance with the advice of an independent actuary using the following principal assumptions.

	% pa
Pensions increase rate	2.5
Discount rate	2.1

An actuarial valuation for the purposes of settling London Luton Airport Limited's actual contributions was carried out at 31 March 2010 by Hymans Robertson LLP on the instructions of the then administering authority, Bedfordshire County Council. The results of this valuation have been projected forward to 31 March 2019 by Barnett Waddingham LLP on the instruction of the current administering authority, Bedford Borough Council, and reflected in these financial statements. The scheme is a defined benefits scheme.

Investment properties

The company includes investment properties at their fair value at the balance sheet date on the basis of the external valuer's valuation. Any gains or losses through the change in fair value are recorded through the income statement.

Notes to the financial statements for the year ended 31 March 2019 (continued)

3. Accounting Policies (continued)

Given the rapid growth in passenger numbers at the airport over the past two years, and the acquisition by the company of a number of strategic property assets adjacent to or connected with the airport, the Board commissioned a full valuation as at 31st March 2016, and this has been reviewed and updated at 31st March 2019.

Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing cost capitalised.

Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until they are ready for use.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical judgements in applying the entity's accounting policies

There are no areas within the financial statements where management has been required to apply a critical judgement.

b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain former employees now employed by LLAOL. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures relating to the defined benefit pension scheme.

4. Critical accounting judgements and estimation uncertainty (continued)

Fair value of investment properties

The valuation, undertaken by Deloitte LLP, took into account forecast future cash flows based primarily on passenger growth and was discounted using a discount rate of 11.5% being an estimate of the company's long term weighted average cost of capital. The DCF analysis assumes a reversionary value of the airport at the expiry of the concession on 31st March 2031 including assumptions on exit yield and income. The valuation was made in accordance with the RICS Appraisal and Valuation Manual.

5. Concession contract

On 20 August 1998 ('the concession date') the company entered into a concession contract with an unrelated entity, London Luton Airport Operations Limited ("LLAOL").

Under the terms of this contract LLAOL was granted a concession to operate the airport for a period of 30 years ('the concession period') and a lease over the company's land and buildings. In return LLAOL undertook to pay an annual concession fee to the company comprising of £3 million as a minimum fixed payment or a greater amount based on workload units (being each departing and arriving passenger and each 100 tonnes of freight) as prescribed in the concession agreement and, subject to the continuing growth of passenger numbers, fund an extensive capital investment programme. At the end of the concession period the assets, liabilities and operations of the airport revert to the ownership and use of the company.

In August 2012 a supplemental agreement to the concession contract was reached between LLAL and LLAOL. This agreement commits the operators to undertake a significant programme of development works to increase the Airport's capacity to handle throughput of up to 18 million passengers per year, in return for an extension of the Concession Period to March 31st 2031. The concession agreement was further amended in January 2014 to provide for a scheme to rebate the Concession Fee Rate payable by the airport operator in certain circumstances, in order to encourage passenger growth.

At the concession date the trading assets and liabilities of the company were transferred to LLAOL at book value. No profit or loss arose on the transfer of these assets and liabilities. The employees of the company were also transferred to LLAOL.

As the company no longer operates the airport itself, the land and buildings have become investment properties. At the instruction of the company, Deloitte LLP have valued the freehold interest in London Luton Airport as at 31 March 2016. The next valuation is due to be undertaken as at 31 March 2020; it has, however, been agreed that, given the rate at which passenger numbers are currently growing, and the other developments currently being carried out by the company, the valuation will be reviewed annually in the intervening periods to ensure the investment properties are reflected at fair value.

Notes to the financial statements for the year ended 31 March 2019 (continued)

6. Turnover

	2019	2018
	£'000	£'000
Concession income	49,960	45,414
Other property income	764	896
Other income	320	-
Total investment income.	51,044	46,310

All turnover is generated and originates in the United Kingdom. The future minimum rental amounts are £3,000,000 per annum.

7. Operating profit

	2019	2018
	£'000	£'000
Operating profit is stated after the following amounts have been charged:		
Operating leases - land and buildings	2,910	2,860
Charge for enhanced pension payments	46	52
Charitable donations	9,204	9,365
Auditor's remuneration:		
The audit of the company	58	45
Tax compliance services	11	12
Tax advisory services	67	88
Other services	209	382

The shareholder, Luton Borough Council, provides professional services to the company. Charges to the company for these services amounted to £1,555,026 (2018: £1,521,773) and are on commercial terms. £2,834,547 (2018: £2,834,547) of the operating lease charge for a car park on the airport premises and for the adjacent area of Wigmore Valley Park is with Luton Borough Council on commercial terms. Luton Borough Council is the company's controlling party by virtue of its majority shareholding. The company has no employees. Services to the company are carried out by employees of Luton Borough Council and the company is charged for these as set out above. Accordingly, there is no key management personnel compensation.

Notes to the financial statements
for the year ended 31 March 2019 (continued)

8. Directors' emoluments

Directors' emoluments for the financial year amounted to £nil (2018: £nil). All of the directors are council members and therefore do not qualify for remuneration.

9. Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest receivable	**11**	85

10. Interest payable and similar expenses

	2019	2018
	£'000	£'000
Interest on debenture loans - repayable after more than 5 years (note 17)	**4,070**	3,826

The total interest paid in the year was £7,872,113 (2018: £4,598,247), of which £3,801,806 (2018: £722,603) in relation to the company's development projects was capitalised.

11. Tax on profit

	2019	2018
	£'000	£'000
Current tax		
United Kingdom corporation tax on profits of the financial year	**4,716**	4,893
Adjustments in respect of prior years	**(260)**	-
	4,456	4,893
Deferred tax :		
Origination and reversing of timing differences	**5,894**	(303)
Adjustments in respect of prior years	**233**	-
Change in tax rates	**(620)**	32
	5,507	(271)
Total tax charge on profit	**9,963**	4,622

Notes to the financial statements for the year ended 31 March 2019 (continued)

11. Tax on profit (continued)

The tax assessed for the financial year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit before tax	**56,528**	31,273
Profit before tax multiplied by standard rate in the UK of 19% (2018: 19%)	**10,740**	5,942
Effects of:		
Expenses non-deductible for tax purposes	**12**	11
Deferred tax not provided for	**(129)**	-
Indexation on revalued properties	**(13)**	(1,363)
Adjustments in respect of prior years	**(27)**	-
Tax rate change	**(620)**	32
Total tax charge	**9,963**	4,622

Factors that may affect future tax rate

Changes to the UK Corporation tax rates were substantially enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements.

12. Dividends

	2019 £'000	2018 £'000
On ordinary equity shares		
Approved: 44.97p (2018: 43.5p) per share	**20,159**	19,500

Notes to the financial statements for the year ended 31 March 2019 (continued)

13. Investment properties

	Airport £'000	Other Properties £'000	Assets in the course of construction £'000	Total £'000
Balance at 1 April 2018	536,500	20,870	13,676	571,046
Additions in the year	-	-	19,711	19,711
Fair value adjustments	23,500	1,455	-	24,955
Balance at 31 March 2019	**560,000**	**22,325**	**33,387**	**615,712**

The interest in the airport and other properties has been valued in accordance with the circumstances and principles set out in note 3.
The "Assets in the course of construction" includes £13,145,000 (2018: £7,148,000) in respect of the commercial development sites at Bartlett Square and Century Park, and £20,241,000 (2018: £3,874,000) in respect of the FutureLuToN project.

14. Property, plant & equipment

	Assets in the course of construction £'000
Balance at 1 April 2018	27,138
Additions in year	60,903
Balance at 31 March 2019	**88,041**

The "assets in the course of construction" relates to the Luton DART (Direct Air-Rail Transit) mass passenger transit system linking Luton Airport Parkway railway station to the central terminal area of London Luton Airport.

Notes to the financial statements for the year ended 31 March 2019 (continued)

15. Debtors

	2019	2018
	£'000	£'000
Deferred tax (note 18)	340	354
Prepayments and accrued income	13,526	8,883
	13,866	9,237

16. Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Corporation tax	2,178	2,608
Other taxation and social security	2	53
Dividends	18,000	19,500
Other creditors	6,056	8,958
	26,236	31,119

17. Creditors: amounts falling due after more than one year

	2019	2018
Debenture loans Maturity loans non-instalment	**£'000**	£'000
Debenture loan 1 – interest fixed at 12%	3,153	3,153
Debenture loans 2 & 3 – interest at 4% over three months LIBOR	7,216	7,216
Debenture loan 4 – interest 4% over six months LIBOR	1,788	1,788
Debenture loan 5 – interest fixed at 12.125%	3,102	3,102
Debenture loan 6 – interest at 4% over six months GBR	1,662	1,662
Debenture loan 7 – interest at 7.58% over three months LIBOR	11,000	11,000
Debenture loan 8 – interest fixed at 11.5%	12,000	12,000
Debenture loan 9 – interest fixed at 11.5%	3,000	3,000
Debenture loan 10 – interest fixed at 8%	5,000	5,000
Debenture loan 11 – interest fixed at 8%	5,000	5,000
Debenture loan 12 – interest fixed at 8%	5,000	5,000
Debenture loans 13-33 – interest fixed at 8%	79,300	-
	137,221	57,921

The debenture loans are from Luton Borough Council, the shareholder. The repayment in full in a single payment of the principal in respect of debenture loans 1 to 6 is scheduled for 28th March 2028 and of debenture loans 7 to 33 for 1st April 2031. The debentures are secured on the total assets of the company.

Luton Borough Council has provided the company with a loan facility of £281.0m (2018: £281.0m), of which £94.3m (2018: £15.0m) has been drawn down as at 31 March 2019. The amounts drawn down are represented by debentures 10 to 33 above. The loan facility attracts a fixed interest rate of 8% (2018: 8%) and the maturity date is 1 April 2031.

Notes to the financial statements for the year ended 31 March 2019 (continued)

18. Deferred tax asset

The deferred tax asset represents the following:

	2019 £'000	2018 £'000
Deferred tax in relation to pensions liability	**340**	354

Deferred tax at 1 April	**354**	379
Deferred tax charge in the profit and loss account	**(14)**	(25)
Deferred tax asset at 31 March	**340**	354

19. Provisions for liabilities

The deferred tax liability arises wholly in relation to investment properties.

	2019 £'000	2018 £'000
Balance at 1 April	**53,963**	54,252
Deferred tax in respect of fair value adjustments in year	**5,157**	(468)
Adjustment in respect of prior year	**233**	-
Deferred tax in respect of capitalised interest	**723**	147
Change in tax rate	**(620)**	32
Balance at 31 March	**59,456**	53,963

20. Pension commitments

Certain employees of the airport business prior to the granting of the concession contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the financial year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire Local Government Pension Scheme (LGPS) in respect of former employees' entitlement to pension augmentations arising on redundancy. The LGPS is a defined benefit statutory scheme. The cost charged to the company is based on the actual cost attributable to the former employees.

Notes to the financial statements for the year ended 31 March 2019 (continued)

20. Pension commitments (continued)

a) Defined benefit scheme

An actuarial valuation of the Bedfordshire Pension Fund for the purposes of settling London Luton Airport Limited's actual contributions was carried out at 31 March 2010 using the projected unit basis, by Hymans Robertson LLP, independent consulting actuaries. The results of this valuation have been projected forward to 31 March 2019 by Barnett Waddingham LLP. The major assumptions used by the actuary were:

	2019	2018
	%	%
Pension increase rate	**2.5**	2.4
Discount rate	**2.1**	2.6

The mortality assumptions used were as follows:

	2019	2018
	years	years
Longevity at age 65 for current pensioners:		
– Men	**20.7**	22.4
– Women	**23.2**	24.5

	2019	2018
	£'000	£'000
Present value of scheme liabilities	**(1,924)**	(2,006)

b) Reconciliation of present value of scheme liabilities

	2019	2018
	£'000	£'000
At 1 April	**2,006**	2,153
Interest cost	**50**	52
Unfunded benefits paid	**(148)**	(150)
Re-measurements of net defined benefit obligation	**16**	(49)
At 31 March	**1,924**	2,006

Notes to the financial statements for the year ended 31 March 2018 (continued)

21. Called up share capital

	2019 £'000	2018 £'000
60,000,000 (2018: 60,000,000) Authorised ordinary shares £1 each	**60,000**	60,000
44,837,002 (2018: 44,837,002) Allotted and fully paid	**44,837**	44,837

22. Operating lease commitments and contingencies

At 31 March the company was committed to making the following total payments in respect of operating leases relating to land and buildings.

	2019 £'000	2018 £'000
Amounts payable in less than one year	**2,929**	2,860
Amounts payable between two and five years	**8,076**	7,800
Amounts payable in excess of five years	**14,979**	16,860

An error in the prior year disclosure has been corrected in these financial statements.

23. Financial instruments

	2019 £'000	2018 £'000
Financial assets		
Financial assets that are debt instruments measures at amortised cost	**9,934**	8,151
Financial liabilities		
Financial liabilities measured at amortised cost	**163,334**	88,940

24. Related parties

There are no transactions with related parties not wholly owned by the group headed by Luton Borough Council. The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned by the group headed by Luton Borough Council.

Notes to the financial statements for the year ended 31 March 2018 (continued)

25. Parent entity and ultimate controlling party

The immediate and ultimate parent undertaking and controlling party is Luton Borough Council. Luton Borough Council is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2019. The consolidated financial statements of Luton Borough Council are available from Town Hall, George Street, Luton, LU1 2BQ.