

Bermuda Airport Re-Development

David Burt, JP, MP - Shadow Minister of Finance
Lawrence Scott, JP, MP - Shadow Minister of Transport

What We Have Been Told

- ▶ Bermuda cannot afford a new airport
- ▶ Our debt is too high to borrow any more money right now
- ▶ Aecon is the only option that ticks all of the boxes
- ▶ The new terminal will cost the taxpayer nothing
- ▶ The new terminal will not affect our debt
- ▶ Guaranteed on time and on budget

Lets Examine the Figures.....

How Much Money?

- ▶ In 2014 the Airport collected \$25.2 million in Revenues
 - ▶ Revenues (\$25.2 million)
 - ▶ Airport: \$10.7 million
 - ▶ Departure Tax: \$14.5 million
 - ▶ Expenses (\$20.56 million)
 - ▶ Annual Surplus (\$4.67 million)
- ▶ OBA will need more money to give to Aecon to repay **their** loan
 - ▶ Solar Farm at the Finger, Revenue from Airspace Control, Increase Taxes
- ▶ Given current revenue, \$8 million of additional profit/surplus must be found to finance a \$200 million airport project.
- ▶ Before there was not enough money to build a new terminal
but.....

OBA Found More Money!

- ▶ To fill the “funding gap” OBA introduced \$11.5 million in new taxes
- ▶ This means that the Airport now turns a \$16 million surplus annually
- ▶ This surplus will go to Aecon to repay their loan for the new terminal
- ▶ New Total amount of Revenue that Aecon stands to collect is now in excess of \$2 billion
 - ▶ In 2014 Airport Collected \$25.2 million in Revenues
 - ▶ In 2015 due to \$35 in new taxes per person the airport will collect \$36.7 Million
 - ▶ $35 \times \$36.7 \text{ million} = \$1.285 \text{ Billion over 35 Years}$
 - ▶ If we take into account inflation at 2.5%
 - ▶ $35 \times \$36.7 \text{ million} + 2.5\% \text{ inflation} = \2.015 BILLION
- ▶ Larry Burchall on Bernews.com: Aecon will make \$620 million!

Deloitte Report

- ▶ Delivered in May 2015, Paid for by UK Government and Bermuda Government
- ▶ Measured the OBA's approach -vs- best practice for Public Sector Projects
- ▶ *“Policies, strategies, programmes and projects will only achieve their spending objectives and deliver benefits if they have been scoped robustly and planned realistically from the outset and the associated risks taken into account. The business case, both as a product and a process, provides decision makers, stakeholders and the public with a management tool for evidence based and transparent decision making and a framework for the delivery, management and performance monitoring of the resultant scheme. ”*
- ▶ UK Government in its letter of Entrustment said:
 - ▶ (6b) The United Kingdom Government and the Government of Bermuda must agree on what measures are required to address the deficiencies that are identified by Deloitte in their assessment report(s).
 - ▶ (6c) The Government of Bermuda must publish a written and evidence-based assurance that the required measures have been taken, before the Contract can be concluded.
- ▶ Deloitte was critical of OBA's approach to the project and identified numerous gaps

Strategic Case

- ▶ *The Strategic Case is well-defined. Whilst there are some specific areas that could be refined to align to Green Book methodology, the case is comprehensive in principle - the Strategic Case for change has been developed over a number of years and is the most mature of the Five Cases in the Bermuda Airport development business case.*
- ▶ *Broadly speaking, no major gaps identified, although there has been limited consideration of security and confidentiality issues throughout the documentation.*
- ▶ *However, it should be noted that a significant part of the most recent evidence base for change has been produced subsequent to or in parallel to the agreement with the prospective supplier. Recognising this, Government may want to be clear that it owns its own strategy for the airport and ongoing evaluation of that strategy, which is distinct from that of any prospective concessionaire.*



Economic Case

- ▶ The report was very critical of the OBA Government's approach to the airport redevelopment and highlighted "key" and "integral" steps missing from the economic case:
- ▶ *"Key, integral steps are not present in the case. These include an **economic assessment of a defined list of options** to identify the most economically advantageous solution for Bermuda, and some specific Green Book and wider best practice considerations, such as use of a **Public Sector Comparator**, and optimism bias assessment. Under Green Book guidance, this analysis is expected to be performed by Government prior to engaging with potential suppliers such that the most economically advantageous solution for the Government is identified in isolation from private sector influence."*
- ▶ *"Taken as a whole, there is no clear or structured assessment of all options performed in order to appraise the Economic Case of short-listed options and arrive at a preferred solution."*
- ▶

Commercial Case

- ▶ The Deloitte report examined the commercial case and poured cold water on the OBA's claim that their current approach can guarantee value for money. Deloitte went on to recommend that the Government independently assess some of the claims made by CCC, especially the claim that a sole-source procurement is the only viable option
- ▶ *“However, we identified key gaps in evidencing that the sole-sourced procurement approach that was selected will offer the best VFM [Value for Money], and in the Government approach to delivering VFM through commercial negotiations.”*
- ▶ *“It should be noted that the conclusion in favour of a sole-source procurement (notably citing lack of investor interest) is made by CCC, and Government may want to perform independent analysis on procurement strategy to satisfy itself on the validity of this analysis”*
- ▶ *“The available evidence is in large part from earlier stages in project development. There is a potential gap in the evidence to support the sole-source procurement strategy opted for from June 2014, as compared to previous evidence suggesting a competed PPP procurement process could be viable”*

Financial Case

- ▶ Deloitte also examined the financial case and found that many items were developed by CCC and may not take into account the full costs to be borne by the Government of Bermuda:
- ▶ *“While there has been a great deal of work on the affordability of the project, it has been developed by CCC as opposed to the Government. CCC’s affordability components fail to encapsulate all costs to be borne by the Government during and after the project.”*
- ▶ *“The main element missing from the affordability of the project is that the perspective it has been developed under leaves several cost components of the Government amiss. It is therefore not robust enough to make an investment decision and requires further development.”*
- ▶ *“A complete Financial Case could allow the Government to assess whether the Government can afford their obligations under the proposed concession arrangement, and to what extent it will achieve the Government’s stated objectives for the project, including ‘a minimal impact on the government’s balance sheet’”*

Management Case

- ▶ *“Recognising the current stage of development of the project, this is the least mature of the Five Cases, indicating that the overall business case is not yet advanced enough for implementation and delivery considerations to be detailed.”*
- ▶ *“The Management Case is an important tool to be completed prior to the investment decision being made, in order to ensure Government’s ability to deliver its responsibilities and manage dependencies under the contract, understand wider areas of project scope, manage the supplier effectively, and to have risk management and contingency plans in place.”*
- ▶ *“There is limited detail on the practical arrangements to ensure the successful implementation of the project. Additionally, the detail that does exist is high level and typically relates to CCC’s delivery of the project, rather than considering the overall programme plan and Government delivery responsibilities.”*
- ▶ *“One point in the Management Case which could add significant value to the Bermuda Government at the present time is a contingency plan should the current proposed deal with CCC fall through.”*

OBA is Getting Bermuda into a Bad Deal

- ▶ Unsure if there is value for money - meaning Bermuda cannot be sure it is getting the best deal
- ▶ Not taking into account full costs to the government
- ▶ No consideration of alternative funding/operating options
- ▶ Assumptions made by Aecon forming a basis for the case
- ▶ Millions of dollars spent to date on consultants
- ▶ Minister Richards has pushed back against developing a Full Business Case saying Bermuda doesn't have to follow UK "best practice"
- ▶ When talking about 35 years and \$2 Billion in revenue nothing short of "best practice" should be acceptable!

What the PLP Believes

- ▶ That we should not privatise the L.F. Wade International Airport
- ▶ That the profits generated by a new airport should belong to the **People of Bermuda** and NOT a Canadian company
- ▶ That we can build a new airport and maintain control of our airport
- ▶ That we must not forget about the causeway
- ▶ That a project this size must go out to tender
- ▶ That we must get the best deal that takes into account the airport and the causeway - if that takes extra time it is better than getting a bad deal for 35 years
- ▶ We must consider the long term view, and not just short term thinking that can result in long term consequences for our children
- ▶ Given the current financial constraints of the Government, we must focus on increasing air arrivals by developing our tourism product before committing limited revenue to a new airport

What is an Airport Authority?

An airport authority is an independent entity charged with the operation and oversight of an airport or group of airports. These authorities are often governed by a group of airport commissioners, who are appointed to lead the authority by a government official.

Progressive Labour Party's Vision

- ▶ The Department of Airport Operations (DAO) should be transformed, for the purpose of creating an Airport Authority. This would provide the framework and infrastructure which would result in the removal of the expenditures associated with the above mentioned government department from government's financial books, and placed under a Quango called the Bermuda Airport Authority

Progressive Labour Party's Vision



- ▶ The PLP vision ensures the current staff remain employed, directly by the Airport Authority. The creation of an Aviation Quango, provides the ability for the Airport Authority to seek independent financing for a much needed new airport.

Progressive Labour Party's Vision



- ▶ This new airport would not only bring Bermuda up to the 21st century within the aviation industry, the construction of such would create additional jobs, helping strengthen our economy
- ▶ The airport would be a major component of an **infrastructure strategy**, that includes the causeway. The strategy must be preceded with a **tourism strategy** that seeks to increase airlift from our key markets, and introduce new opportunities in Latin America and the Caribbean
- ▶ Increased airlift will increase the revenues required to service the project loan, which will reduce the need to increase borrowing and fees/taxes at the airport

The OBA Plan

Privatisation of L.F. Wade International Airport

- ▶ The OBA's plan will see the privatisation of the LF Wade International Airport
- ▶ Similar to Quito Ecuador, the OBA will enter into a “Concessionary Agreement” with Aecon
- ▶ We would no longer have Operational Control over this country's most lucrative asset for the next 35 years
- ▶ This plan will give operational control of our current terminal and new Terminal to Aecon.
- ▶ Loss of Operational Control introduces uncertainty for the 43 Persons currently employed by Department of Airport Operations
- ▶ The government has already told staff that their jobs cannot be guaranteed once the airport is privatised.

Different Visions for the Future

PLP's Vision

- ▶ Promotes a competitive, open and transparent bidding process
- ▶ Provides negotiating power for future causeway construction and or additional air terminal upgrades
- ▶ Uses the creation of the Airport Authority as a vehicle to allow Bermudians to take advantage of the future projected revenues generated by the airport
- ▶ Allows for Bermudians to maintain operational and managerial control over our new airport for the foreseeable future
- ▶ Increase revenues at the airport by increasing tourism before a new terminal

OBA Plan

- ▶ Select Aecon through sole sourced, questionable, untendered bidding process
- ▶ Privatises our Airport, one of Bermuda's most lucrative assets, for 35 years
- ▶ Does not allow for the building of a new causeway
- ▶ Sees over \$2 billion of future Government revenue go to a Canadian company without a open and transparent bidding process
- ▶ Pressing ahead despite poor visitor numbers and poor govt finances

Conclusion

- ▶ The OBA said they would put their Privatisation agenda on hold and now are planning to privatise one of Bermuda's most valuable assets for at least 35 years
- ▶ The OBA refuse to examine other options for the financing of our airport and will not have a competitive tender process to ensure Bermuda gets the best deal
- ▶ The UK Government has told Bermuda that they must follow best practice, but the OBA is fighting Government House as they want to sole source Aecon and ignore Good Governance bypassing the tender process
- ▶ We cannot allow our airport to be privatised - and we certainly must not allow the OBA to go through with this deal without an open, competitive and transparent tender process that ensures Bermuda gets the best deal.