



British Airways plc
Waterside
PO Box 365
Harmondsworth UB7 0GA

Civil Aviation Authority
Westferry Circus
Canary Wharf
London EH14 4HD

cc: economicregulation@caa.co.uk

28th April 2023

British Airways Response to CAP2524G
Economic regulation of Heathrow Airport Ltd
Draft guidance on capital expenditure governance

Thank you for the opportunity to respond to your latest consultation on the Economic Regulation of Heathrow; we set out below our views on the Civil Aviation Authority's ("CAA") proposals and implications for the wider policy environment.

This consultation response is structured as follows:

- Executive summary
- Chapter One: Standard information provision
- Chapter Two: Assessment of information
- Chapter Three: Delivery obligations
- Chapter Four: Accessible information on projects and performance
- Chapter Five: Role of the CAA

Executive summary

The provision of sufficient, quality information, provided in a timely manner to the airlines is essential for a robust capital governance process. The consultation outlines the way in which this information could be provided through the use of standard questions and independent expert support to improve the effectiveness of the current process. We have outlined our views on how this could work and the benefits of our approach in our response below. We are supportive of the principle of standard questions; however, we suggest that this is expanded to apply across all the project and programme gateways, such that appropriate information is provided at each stage.

With the ex-ante approach to capital expenditure being introduced with H7, delivery obligations, set at the G3, become the baseline for all project delivery and against which performance of the capital portfolio can be measured. We are supportive of the clarity these will provide. Again, our consultation response below addresses the principles proposed and the answers to the questions posed.



Please find below our comments and answers to the specific questions raised. (References within the text refer to the numbered paragraphs in CAP2524G.)

1. Standard information provision

- 1.1. We agree with the CAA statement that *"...it is essential that the airlines are well informed and have sufficient information..."*¹ for the capital governance process to be effective. This is imperative and underpins the whole approval process. We are therefore supportive of the principle of using a set of standard questions, to ensure the minimum, pertinent information for each project is provided at each gateway to support the decision-making process, is included in the protocol.
- 1.2. We have been working with Heathrow Airport Limited ("HAL") and the rest of the airline community to develop a set of standard questions that should be answered in advance of requesting approval at the relevant gateway. We propose that this exercise is allowed to continue in parallel, with the conclusion being submitted to the CAA as a joint response. We expect to be able to do this in advance of the CAA issuing their final guidance (at least for the G3 questions) to enable it to be appropriately referenced.
- 1.3. However, we do not see the list of questions as exhaustive and, as such, their inclusion in the future protocol should not restrict HAL from providing broader information or considerations at, or in advance of, the gateways, or from the airlines requesting further information or asking further questions relevant to the project and gateway.
- 1.4. The list of questions should be viewed as the minimum expectation to facilitate approval of funds and have been developed in anticipation of them being relevant to all projects at some stage of the gateway and approval cycle.

Q1. Do you have any comments on the proposed set of standard questions we have set out in the Appendix?

- 1.5. The 25 questions proposed by the CAA in [CAP2524G](#) to be answered prior to G3 approval appear to cover the breadth of the information required by the airlines to make informed decisions. However, to support the approval process at the G3, similar questions should also be answered at the earlier project and programme gateways, tailored to the relevant gateway.
- 1.6. We expect the detail provided in the answers to mature as the project moves through its lifecycle. For example, the CAA question of *"Why is the project required now?"* should be answered when a project is first raised for inclusion on the portfolio through to being confirmed at the G3 stage when more information is known.
- 1.7. The questions should therefore be aligned to specific gateways with sub-questions or clarifications added depending on the expected maturity of the project at that gateway. Notes added to the gateway documentation template, could include, for

¹ [CAA CAP2524G Capital Expenditure Governance](#), para 1.9

example, for the question *“Why is the project required now?”* prompts such as: to address a health and safety concern, to meet a legislative change, to gain synergies, to deliver an operational efficiency, to meet a customer need or airline priority?

- 1.8. This additional guidance will help the individual project managers provide the information that the airlines are looking for first time, reducing the frequency of airlines needing to ask supplementary questions, improving the efficiency of the overall governance process.
- 1.9. As stated above, we agree that the final guidance should set the principle and approach of having a set of standard questions, aligned to the gateways, included in the capital governance protocol. The development of such a suite of questions, is work in progress with HAL. We request that the CAA allows this work to conclude with Heathrow, such that a pre-agreed joint set of questions are adopted into the final protocol. If such agreement cannot be reached with HAL in a timely manner, we would need the CAA to intervene.

Q2. By which gateway in the project process, should the response to each standard question be provided by HAL?

- 1.10. As above, we are working with HAL to develop an agreed set of standard questions to be answered by the individual project managers to a level of granularity as appropriate for each gateway. This should include both programme and project gateways.
- 1.11. We recognise and appreciate the CAA’s inclusion of the ability for the airlines to request additional information where they deem it necessary. *“Airlines may also request that HAL provides ‘follow-on’ information where they consider that the initial response from HAL prompts the need for additional detail or justification.”*² It is crucial for this to be retained. The breadth of the portfolio means that flexibility is required, such that it is unreasonable to expect airlines to think of all their questions in advance, in particular those that will inevitably arise based on the answers provided.
- 1.12. We also agree that the *“standardisation of common questions/information should not restrict HAL from providing the airlines with other information”*³. Again, it is essential that HAL present a complete case to the airlines for approval, and this may need to extend beyond the scope of the standard questions.

2. Assessment of information

- 2.1. We agree with the CAA that for many of the capital projects brought through governance the *“airlines have sufficient experience and insight to appraise the material issued by HAL.”*⁴. The airlines are often able to comment, challenge and understand the need for a project, the options and solution being proposed, and

² [CAA CAP2524G Capital Expenditure Governance](#), para 3.9

³ [CAA CAP2524G Capital Expenditure Governance](#), para 3.8

⁴ [CAA CAP2524G Capital Expenditure Governance](#), para 3.12

the approach being taken to deliver it. However, where the investment does not constitute a core part of our business and operation, we require expert assistance to evaluate the scope, cost and benefit of a project and understand whether it is value for money.

- 2.2. Where the investment is not part of our core business, for example, some of the projects within the Asset Management and Compliance programme, we recognise that we are less well equipped to best represent the consumer. This imbalance in expertise between the airlines and HAL may be remedied by the new ways of working proposed by the CAA, but it will be key as to how these proposals are implemented to best serve the customers' interests and represent value for money.
- 2.3. This does not mean that airlines should not be consulted on these projects as has been suggested by HAL in its appeal documentation for the H7 periodic review, rather that, ways of working should equip airlines with the appropriate expertise to interrogate HAL information through the use of expert external support. Further discussion and detailed working on these topics will be required as the protocols for H7 are finalised.

Q3. Do you have any comments on our proposal to require an independent assessment of the standards and processes that HAL commonly applies to capex projects?

- 2.4. We agree with the CAA that there would be benefit in an independent review of HAL's standards and processes, examples of which have been listed in CAP2524G para 3.14 to *"give all parties the confidence that [they] are appropriate and up to date"*⁵.
- 2.5. We agree that such a review needs to be proportionate, and the initial priority could be placed on areas such as Leadership & Logistics, Risk Management, Procurement and Design Standards. These are predominantly standards by which HAL manage and deliver the capital portfolio.
- 2.6. It may be implied by *"design and planning standards"*⁶, but there is a need for the airlines to more fully understand the specifications to which HAL are scoping and designing projects. The need for a capital project may be in response to a change in standard, for example, or additional cost introduced to achieve a particular standard or drive an implementation methodology or approach. It is also these standards that the airlines need to understand. Again, this should be proportionate, and would not be on a project-by-project basis, as once a particular standard has been reviewed, it can be referred to from that point forward as per CAP2524G para 3.23, until it is next revised and updated.
- 2.7. A joint (HAL/airlines) prioritisation discussion would need to be held to determine which standards would be most beneficial to review first as *"the most important*

⁵ [CAA CAP2524G Capital Expenditure Governance](#), para 3.18

⁶ [CAA CAP2524G Capital Expenditure Governance](#), para 3.14

*drivers of cost*⁷ at either a project or portfolio level. It is our expectation that the process for delivering the first of these reviews should be initiated immediately following the publication of the CAA final guidance.

- 2.8. As referenced in CAP2524G para 3.21 and CAP2524G para 3.25, the airlines and HAL should jointly agree the scope, focus and timeframe for conducting these reviews, such that the review *"must not unnecessarily delay the progression of projects"*⁸. However, it is recognised that where the *"standards are a significant driver of costs"*⁹ that a review is conducted as a requirement for the G3 investment decision.
- 2.9. We support the guidance in CAP2524G para 3.26, that HAL and the airlines should jointly agree the selection of the provider(s) of this assurance service and that any report *"should be directly issued to both parties at the same time"*.
- 2.10. We are also supportive that the review(s) should be funded through *"HAL's capex allowance"*¹⁰.

Q4. What are your views on whether the IFS should support a more detailed review and/or whether a different approach to supporting these assessments should be developed?

- 2.11. We appreciate the acknowledgement by the CAA of the *"need for independent support in relation to different projects"*¹¹ raised by the airlines. This is in recognition of the imbalance in technical knowledge and expertise between HAL and the airlines.
- 2.12. We think it is critical that this imbalance is addressed, such that the airlines have access to independent expertise on key projects to enhance and facilitate the governance process and to enable the airlines to *"take an informed view"*¹² on HAL's proposals.
- 2.13. It is agreed that although the airlines contribute significant benefit, based on their expertise and knowledge as key users of the airport, there are gaps in that expertise which could be addressed with support from independent experts. However, we also agree that the contribution of any external experts should not *"be at the expense of airlines directly inputting their internal knowledge and expertise to these processes"*¹³.
- 2.14. The airline community requires the subject-matter experts to work alongside them as projects and programmes progress through the governance gateway lifecycle, from the inception of a project through to its investment decision (and post if

⁷ [CAA CAP2524G Capital Expenditure Governance](#), para 3.20

⁸ [CAA CAP2524G Capital Expenditure Governance](#), para 3.21

⁹ [CAA CAP2524G Capital Expenditure Governance](#), para 3.21

¹⁰ [CAA CAP2524G Capital Expenditure Governance](#), para 3.27

¹¹ [CAA CAP2524G Capital Expenditure Governance](#), para 3.29

¹² [CAA CAP2524G Capital Expenditure Governance](#), para 1.3

¹³ [CAA CAP2524G Capital Expenditure Governance](#), para 3.30

- required) and less, as implied by the CAA, for a consultant to carry out a detailed review. The experts will provide the airlines with independent advice, and challenge and work with HAL to ensure the proposed solutions will achieve the benefits and are value for money. They need to be seen as an extension of our airline community.
- 2.15. We disagree with the intention noted by the CAA in CAP2524G para 3.34. We would not expect the output from the independent expert to necessarily be a written report following the completion of their review. We need the independent expert to support the airlines through the project lifecycle and it is envisaged that their output will be more informal and delivered in parallel to the HAL engagement, such that by the time the project reaches its investment decision, the airlines have been briefed and have sufficient knowledge to make an informed decision on the case being presented. Awaiting the production of a report following an independent review, risks delaying the project, adding rework and cost.
- 2.16. It is not proposed that the subject matter experts will have responsibility for endorsing or rejecting capital spend; that responsibility will remain with the airlines. As such, we are also not proposing changes to the governance process for these additional resources.
- 2.17. The airlines have agreed with HAL to run a 12-month trial of the procurement of subject matter expertise for key projects within the portfolio, starting with T2 Baggage. However, the basis of the trial is that the subject matter experts will be jointly appointed and managed by both the airlines and HAL. This does not meet the objective of the airlines having their own independent resources, providing independent expert advice, working on behalf of the airlines to address the imbalance noted above. It is important that such experts are independent of HAL to ensure that they have freedom of operation and can provide the best-quality advice to support the airlines through the capital governance process.
- 2.18. The CAA state in CAP2524G para 3.31 that that the IFS *"assess the efficiency of project delivery"*. The role of the IFS is to independently evaluate whether HAL have correctly followed their own governance processes and as such, that the documents provided are of a sufficient level of maturity for the relevant gateway and that the project is being managed effectively. The objective of an Independent Fund Surveyor (IFS) is to *"provide an on-going assessment of the reasonableness of all key decisions made on key projects and, in undertaking projects the capital is being used effectively to deliver the outcomes determined by the business case."*¹⁴.
- 2.19. The IFS do not provide input to or an assessment of the proposed scope, solution, options or delivery approach, with associated cost proposal. It is for these elements that the airlines require additional support.
- 2.20. It is therefore not necessarily appropriate that the IFS be engaged to provide this expertise. We require the flexibility to be able to appoint the most appropriate individual or organisation to support the specific project in question. The skill set

¹⁴ Heathrow Airport Enhanced Engagement & Governance Protocol – Section 7.3 Independent Fund Surveyor



required will vary depending on the project to be assessed. It may be a baggage expert, general transport consultant, master planner, IT specialist, carbon/sustainability expert, or experienced building management/infrastructure specialist.

- 2.21. We agree with the CAA in CAP2524G para 3.32 that a decision on which projects should be subject to this additional support is made as early as possible in the project lifecycle, such that maximum benefit can be achieved without impacting the timeline. However, this may not be at a G1 gateway given HAL's new programme approach to delivery and governance. It is not envisaged that this additional support will be required across all areas of the portfolio, but just on specific key projects, where the airline community feels more exposed.
- 2.22. We support the CAA in its conclusion to not propose a financial value as the sole determinant for whether the airlines require the additional independent subject matter expertise¹⁵. This should be considered on a case-by-case basis, recognising the need to be proportionate, and to not cause unnecessary delay, but at the same time to ensure that we are able to be effective in the governance process.
- 2.23. We understand the CAA's concerns regarding the number of projects that may be requested for the independent review, however we disagree with the proposed process of a detailed review followed by the issuing of a report. External consultant(s) supporting the airlines with their knowledge and expertise from the start of a project, providing us with insight on an ongoing basis through design and development, should not result in additional delays or project costs. In fact, the engagement of more knowledgeable representatives on some of these projects should speed up the approval process as the airlines will be able to rely on their own experts.
- 2.24. Further discussion and work jointly with HAL and the CAA is required in this area to conclude the process and scope for the independent subject-matter experts. A statement from the CAA on the expectation for the consultants to be independent, working on behalf of the airlines is required in the final guidance document.
- 2.25. We expect that the independent consultants acting as subject-matter experts will also be funded through the HAL capex allowance, as per those looking into HAL's standards and processes.

Q5. Do you have any comments on our proposal to require HAL to publish a list of projects due to proceed through G3, at least 6 months in advance of the start of each year?

- 2.26. We agree that such a list of projects due to proceed through G3 would be beneficial and would provide visibility across the portfolio. HAL's new programme governance framework should provide greater visibility of the expected timing of gateways as programmes pass their P2 and P2 Tranche milestones.

¹⁵ [CAA CAP2524G Capital Expenditure Governance](#), para 3.37

2.27. However, for the purposes discussed above (of identifying and securing independent resources to work with the airlines) a list of projects to be initiated (at a G1, P2 or P2 Tranche) within the next 12 months would be more beneficial. This would enable an independent consultant to be brought in at the start of a project, mitigating the risk of potential delay or rework. Projects achieving G3 within the next year may have already passed their G1 and even G2 gateways and as such already have a defined scope and preferred option.

Q6. Which projects that are due to proceed through G3 in the next 12 months would be suitable for a more detailed review?

- 2.28. H7 projects that require additional support for the airlines could include, (but this should be subject to further discussion and agreed across the airline community):
- T2 Baggage – e.g. design and operation of new system, IT and data, automation (already subject to the 12-month trial)
 - Asset Management – e.g. car parks, runway resurfacing, terminal infrastructure, IT and cyber security
 - Security – e.g. transition planning and implementation phasing
 - Carbon & Sustainability – e.g. carbon saving benefits, de-carbonising heat

Q7. For each project you think should be subject to a more detailed review, please specify:

- **Why you think this project is suitable?**
 - **Between which gateways should this assessment take place?**
 - **What percentage of the estimated overall cost of the project, should be allocated for this assessment?**
- 2.29. The projects identified above are high-cost or operationally critical projects for which knowledge and expertise beyond that of the current airline community is required to properly assess whether the project is necessary, whether the solution proposed is acceptable, the delivery approach is efficient and the cost reasonable and hence determine if they offer value for the consumer.
- 2.30. With the ex-ante approach, we are signing off the capital efficiency parameters at the G3 stage on behalf of the CAA and the consumer, and without a more detailed understanding of some of the projects, it is difficult for the airline community to do this. It is not reasonable to expect the airline community to have the breadth and depth of knowledge required to make such decisions across the entire portfolio without additional support.
- 2.31. We do not know what percentage of the overall project cost should be allocated to this function. As the detail is worked through and the trial with T2 Baggage progresses, the cost and benefit of this support will become clearer. We believe it will not however be a significant financial commitment in the context of the overall capital portfolio.

3. Delivery obligations

- 3.1. We welcome the implementation of delivery obligations (DOs) and agree with the CAA that these will be of benefit to all stakeholders.
- 3.2. We appreciate the clarity provided in CAP2524G para 3.43 and CAP2524G para 3.44, that the definition of what is included in the DOs should be tailored to be relevant to the specific project. However, we specifically would like to agree with performance capability being recognised as an acceptable key metric if appropriate and appreciate the clarity provided in CAP2524G para 3.45 of how this performance metric should be measured as part of the bringing into operation the newly delivered infrastructure.
- 3.3. We agree with the CAA, that the setting of DOs for the majority of projects should not require additional arrangements, and that the information available at the G3 stage, should be able to be structured into a DO. We also support the need for the discussion on the structure of the DOs to be had as early as possible in the project lifecycle such that it does not delay the approval at the G3.
- 3.4. We agree with the CAA that it is prudent for equal weightings to be set across all the DOs as the default position. However, we welcome the opportunity for these to be adjusted (following justification at the appropriate time) if deemed appropriate to reflect a particular criticality of one of the elements.
- 3.5. As proposed by the CAA (CAP2524G para 3.53), we will determine the logistics of setting the DOs jointly with HAL via the work in progress on the detail of the protocol and by updating the document templates for the gateway approvals. The process for setting the DOs can be incorporated into this work. However, if such agreement cannot be reached with HAL in a timely manner, we would need the CAA to intervene.
- 3.6. We suggest we would want to review the performance of the project against the DOs as soon as practicable after each project finishes (e.g., when the asset is in full operation). The point at which this should be done should be agreed when the DOs are set. This may include a commissioning period for example, if required to demonstrate a capability has been delivered.
- 3.7. The performance of the project against the DOs should be via the standard governance forums (Stakeholder Programme Groups) and then consolidated at Capital Portfolio Board. We suggest that the summary reporting should be conducted on an annual basis to enable the end of period reconciliation process. However, the detail of this process requires further discussion and agreement.

Q8. Is there any further guidance that the CAA can reasonably provide at this time that would be helpful in setting DOs?

- 3.8. We do not believe that the CAA are required to provide any further guidance at this point to set the DOs. We need to discuss and agree a process with HAL for the setting and tracking of the DOs. However, if an agreed framework for this process is not concluded in a timely manner, we will need the CAA to intervene.



3.9. We expect there will need to be a process of review and continuous improvement for an initial period to ensure the process is properly embedded. We appreciate the offer of further support from the CAA if required.

4. Accessible information on projects and performance

Q9. Do you have any views on our proposed requirements for HAL to provide accessible information on projects and performance?

- 4.1. We agree that the required project, programme and governance information should be accessible and in an appropriate format, and we await HAL's proposal on how this information will be provided.
- 4.2. The existing Development Information Portal SharePoint site would be the obvious location as per all other capital governance documentation.

5. Role of the CAA

Q10. Is there any further guidance that stakeholders think would be helpful in relation to the ongoing role of the CAA in this process?

- 5.1. We acknowledge the need for a dispute resolution process, guidance as to how and what can be escalated to the CAA and clarity over the role of the CAA in such disputes. We await HAL's proposal for a dispute resolution process, such that we can discuss and reach agreement on it.
- 5.2. As referenced above, we continue to work with HAL and the rest of the airline community, on a number of the areas raised in this consultation.
- 5.3. We appreciate the opportunity to continue to do that in parallel to this consultation and will share the output from that work with the CAA as it progresses with the aim of incorporating it, in principle in the issued guidance and in detail within the H7 capital governance protocol.

Yours sincerely



Sarah Poynter
Airport Capital and Capacity Manager
Networks & Alliances
British Airways Plc