



SPECIFICATION

Terms of Reference

Q5 Capex and Consultation Review: Gatwick Airport

Context

Towards the end of each quinquennium, the CAA carries out an assessment of each airport's performance in relation to capital expenditure efficiency and consultation on airport development and investment. The current price control at Gatwick, known as Q5, will expire in March 2014¹. The CAA will carry out a similar review of Gatwick as a separate study.

Requirement

To provide, for Q5, a transparent assessment of:

- i. capital expenditure efficiency at Gatwick airport, taking account of the criteria established by the CAA for Q5² and the conclusions of Currie & Brown at the mid-quinquennial review. This assessment will also consider the context of the evolution of the overall capital investment plan from the 2008 CIP through updates to the CIP and discussions and agreements at airline/airport forums (for example JSG) throughout the quinquennium;
- ii. whether the overall capital programme has been efficiently incurred taking account of the criteria cited in (i);
- iii. whether capital expenditures on five specific projects have been efficiently incurred and have met the consultation requirements of Annex G³;
- iv. whether consultation with users on airport development and investment in relation to scope changes for the relevant projects met requirements, as set out in Annex G. This should also assess whether any project dependencies have been properly identified;
- v. lessons learnt and recommendations for assessing capital efficiency and consultation that can be practicably implemented during the preparation and implementation of the capital investment plan for Q6 (2014-2019).

The assessment of capital expenditure efficiency will need to address the following issues:

¹ The CAA extended Q5 by a year in 2011.

² The relevant criteria are set out in the CAA's Q5 decision document, March 2008

³ Annex G of the CAA's Decision in March 2008 set out BAA's agreement on enhanced information disclosure and consultation at Heathrow and Gatwick Airports. http://www.caa.co.uk/docs/5/ergdocs/heathrowgatwickdecision_mar08.pdf

- whether the airport has followed best practice management;
- development and application of cost benchmarking to the Q5 capital investment plan and, prospectively, to the initial development of capital plans for Q6 and beyond;
- application and evolution of risk allowances for projects;
- progress in management of certain risks at airport investment portfolio, rather than individual project level and implications for setting future risk allowances; and
- whether the specified scope has, or is expected to be, delivered;

The CAA shall require the appointed Contractor to provide a detailed methodology outlining how a robust assessment of capital efficiency will be undertaken. As part of the methodology, the appointed Contractor will need to conduct face to face interviews with Gatwick Airport as well as representatives of the airline community and demonstrate how they will source and utilise benchmarking data. Further, the CAA shall require the appointed Contractor to review a number of specific capital expenditure projects.

The Contractor should review each of the projects identified in Table 1.

Table 1: Required projects for review

Project	Description	Indicative Cost Estimate 2008 CIP
GAL 116 and 117: North Terminal extension (check-in and baggage reclaim)	3 storey, 4 bay deep extension with 28 additional check-in desks, increased space for security queuing and additional area for domestic and international baggage reclaim	£86 million (£58 million for check-in and £28 million for reclaim)
GAL125 South Terminal baggage factory and GAL005 Pier 1 remodelling	South Terminal baggage enhancements involving the strategic refurbishment the South Terminal baggage system.	£101 million for South Terminal baggage and £9 million to £12 million for Pier 1
North Terminal baggage upgrade (based on GAL137 North Terminal baggage sorter)	The North Terminal baggage upgrade supports the North Terminal extension, providing infrastructure in line with growth forecasts.	£12 to £14 million for North Terminal baggage sorter although baggage upgrade was a larger project
Main runway resurfacing (part of GAL096 Airfield Programme)	New pavement along the length of the main runway	GAL096 was costed at £27 million
Crew reporting		Not included in CIP