



London (Heathrow) Airline Consultative Committee
Room 2044, D'Albiac House
Cromer Road
Heathrow Airport
TW6 1SD
Tel: +44 (0) 20 8757 3936
Email: oconnellg@iata.org



Heathrow AOC Limited
Room 2040-2042, D'Albiac House,
Cromer Road
Heathrow Airport
TW6 1SD
Tel: +44 (0) 20 8745 4242
Email: Gensec@aoc-lhr.co.uk

Anna Bowles
Head of Regulatory Accounting
Civil Aviation Authority
CAA House
45-59 Kingsway
London
WC2B 6TE

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Independent Planning Costs Review on Costs Relating to the Heathrow Expansion Programme Covering the Period 2016 and 2017 (CAA CAP 1752)

The Airline Community at Heathrow Airport welcomes the publication of the IPCR's review of Cat B costs incurred by HAL in 2016 and 2017 (CAA CAPs 1750 and 1751), and the opportunity to respond to the CAA's initial thinking on the level of Cat B in those years that HAL should be allowed to recover (CAA CAP 1752). We have deliberately kept our comments at a relatively high level, but are happy to go into more detail with the CAA if that would be helpful.

This opportunity is especially pertinent for the airlines, as we have previously raised our concerns with both the CAA's policy on Cat B and HAL's management of its Cat B costs. More specifically a lack of a coherent baseline plan, costs, risks and an overall lack of visibility and governance. We note that PWC encountered the same issues in the course of their work, and are deeply concerned that these issues continue to persist in what is a major and long running programme of national significance.

Before turning to our detailed comments on CAP 1752, we have a number of general comments. First, we do not believe that the tests for efficiency are fit for purpose. To paraphrase the tests as laid out by PWC they appear to be: the existence of a baseline; some form of governance; the existence of a reporting mechanism; and the timely provision of information. None of these tests seem to us to be reflective of efficiency, but rather do the receipts add up to a total (with no reference to whether the total is efficient or spent on something worthwhile). For us, the tests for efficiency should include items such as:

- was the spend necessary?; and
- was the output value for money?;

In short, there is no effective qualitative assessment applied to any of the Cat B expenditure. On this basis it is difficult to see how the CAA's efficiency review for Category B spend in excess

of £10m per annum differs fundamentally from the £10m pa it allows HAL to incur without review.

Second, it is clear to us that the evidence from the PWC review, HAL's behaviour (in relation to its engagement with PWC), the inadequate nature of the 'efficiency tests', and the fact that the Cat B budget is spiralling upwards from £265m, demonstrates that the CAA's policy on Cat B costs, including:

- 105% costs award if DCO application is successful; and
- the first £10m of Cat B in any calendar year being exempt from any CAA efficiency test;

is clearly not fit for purpose. We understand that the CAA intends to consult on its Cat B policy in the spring of 2019, and we urge the CAA to make this consultation a priority.

Finally, we also note with some concern that HAL do not appear to have engaged fully with PWC (for example CAP 1750 where PWC cite HAL's refusal to clarify the allocation of invoices).

We now turn to our detailed comments on CAP 1752. We take each of the CAA's 'efficiency tests' as laid out by PWC and apply the evidence provided by PWC to them. In CAP 1751 in the section on efficiency, PWC state that HAL had provided some documentation on AWG and OAG as evidence of Governance, but that with these exceptions their findings remained unchanged from CAP 1750. For the avoidance of doubt, the Airline Community, whilst it has found these fora useful does not believe that they are substitutes for appropriate Governance. We have also encountered the same issues as PWC in terms of a lack of baseline, lack of change control and so on.

Test 1: Is there a clear and consistent baseline?

In CAP 1750, PWC state

"it appears that HAL does not have a clear and singular integrated baseline to approval of the DCO that aligns requirements and scope with the associated time, cost and risk."

They go on to argue:

"HAL has not provided evidence which definitively sets the baseline scope and deliverables required in 2016 and 2017 or up to DCO approval. Whilst HAL does have a number of documents containing varying levels of scope detail, these do not establish a robust baseline from which to direct and manage delivery of the programme"

From the evidence provided by PWC, we believe that this test is failed.

Test 2: Is there a clear and established governance process to manage the baseline?

We note that the PWC report found that there were *'a number of core control programme controls that were not in place'* and that these included a lack of change control and a lack of timesheet management.

Again, based on the evidence from PWC, we must conclude that this test is not met.

Test 3: Is progress and performance clearly and consistently reported, including the consequential impact of delay?

PWC found it challenging to evaluate against this test as *“there is no clear singular reference point (baseline) to measure against. They argue that there is evidence that some activities were delivered late, but that the ‘consequential impact of these factors on the overall schedule and cost forecast to DCO approval is unclear.’* In other words because there is no adequate baseline it is impossible to tell whether any underspend was earned (ie driven by efficiencies) or the result of delay, and whether when the delay is considered whether spend is above or below what it should be for the level of progress achieved in the programme.

Consequently, given the evidence from the PWC report, we must conclude that this test is failed.

Test 4: Was information provided relevant, complete and timely?

It is clear from the CAA’s own narrative in CAP 1752 that this test is also failed. For example the CAA cite that HAL provided a statement of Cat B costs, but were only able to produce invoices for 60% of the total. And some of those invoices were duplicates, or out of scope. They initially declined to engage with PWC on the allocation of costs, and only subsequently gave further information. The CAA also states that it *‘has concerns over the quality of the information initially provided’*.

We also note that in CAP 1513 the CAA state clearly that *“HAL must provide an annual statement of the planning costs that it has incurred within four months of the end of each Regulatory Year in sufficient detail to allow effective scrutiny by the IPCR and/or the CAA.”* Clearly HAL have not complied with this, and therefore the data provided by HAL would need to be considered as not timely by the CAA’s statement.

In short, the initial information provided was not complete, not fully relevant, and not provided in a timely manner. We must therefore conclude that this test is also failed.

When looking at the tests PWC used to determine whether the Cat B spend had been incurred efficiently, it is clear to us that HAL initially failed all 4. We also note that PWC had similar concerns and were unable to assure the efficiency of the spend given the lack of a baseline. It is not for the airline community to determine what level of Cat B spend HAL should be allowed to recover – that is properly the role of the CAA.

However, we do find it a matter of very grave concern that given the evidence of a lack of efficiency, even by the very loose standards of the tests applied by PWC on behalf of the CAA, that the CAA would propose to award HAL over 94% of its Cat B spend. We urge the CAA to consider the evidence PWC have placed before it very carefully, along with the implications that its decision will have for the affordability of the programme going forward.

What is clear to us is that the situation must improve dramatically and as a matter of some urgency. Consequently, we suggest the following two actions:

- that the CAA defers its decision on Cat B spend, until it has completed its review of its Cat B policy, and that this review needs to be undertaken quickly; and

- HAL should bring full monthly reporting of Cat B and Cat C to the airlines and the CAA for review.

We hope that these comments are useful, and look forward to engaging with you on these matters.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Gardiner".

Mark Gardiner
Chairman LACC

A handwritten signature in black ink, appearing to read "Simon Arthur".

Simon Arthur
Managing Director
Heathrow AOC Limited