

# NATS (EN ROUTE) PLC SIP: INDEPENDENT REVIEWER REPORT

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**High-level opinion on SIP21 Addendum and Quarterly SIP Update**

**21 May 2021**

*Document released to the CAA*

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# SCOPE AND INTRODUCTION

- In response to the release of the SIP21 Addendum and Quarterly SIP Update at the end of April 2021, Egis, in its role as the CAA's Independent Reviewer (IR), is required to provide a high-level opinion on both documents.
- The SIP21 Addendum is a one-off document, prepared by NERL to act as the revised RP3 baseline, following the disruption caused by COVID-19. The IR review, therefore, focuses on the suitability of the Addendum to act as a baseline, i.e. a document that sets out the key parameters of investments, and can be referenced upon in future SIP reviews.
- At this stage, the IR review will not comment on the traceability of this new baseline to the revised RP3 Business Plan. This traceability is expected to be provided by NERL within an Annex of the interim SIP (iSIP), to be released in July 2021.
- For the Quarterly SIP Update, the IR review focuses primarily on the structure and presentation of the document. The review assesses the accessibility of the current SIP Update template to users, as its primary role will be to act as a resource for stakeholders to glean key information regarding changes to project costs and milestones.

# SIP ADDENDUM

### Overview:

- The SIP Addendum provides an updated schedule of milestones, benefits, risks and RP3 costs for each of the NERL CAPEX programmes.
- This document formalises the revised CAPEX baseline for RP3, following the disruption caused by COVID-19.
- Changes to this plan will be communicated in future SIP reports and SIP quarterly updates.

### High-level comments:

#### **Milestones:**

- The SIP Addendum, meets its objectives of providing a clear and traceable link to the milestones in SIP21.
  - Each programme specific subsection includes a table explaining how milestone names and forecasted completion dates may have changed between SIP21 and the new baseline. Where appropriate, these changes are justified in the “Changes since SIP21” column, hence allowing the customers to understand the changes made.
  - The revised set of milestones are summarised on page 19 of the Addendum in an updated milestone diagram. This diagram provides a suitable overarching picture of the delivery schedule for RP3, and a page of information that can be easily referred back when reviewing future SIPs.

#### **IR expectations from SIP21 review:**

- The SIP Addendum addresses a number of other IR expectations, regarding this revised RP3 baseline. This includes:
  - A detailed description of anticipated benefits and risks for each programme. These benefits and risks will be updated, where appropriate, in the respective programme section in future Quarterly SIP Updates.
  - A reference table that clearly describes any changes in programme names from SIP21 (Section 2.1.1). These programme names subsequently remain consistent throughout the SIP Addendum and Quarterly SIP Update, further enabling clear traceability of investments.
  - The SIP Addendum provides costing information in Calendar Years, to align with the Regulatory Period and the annual reporting cycle. This is an improvement on the SIP21 report, which mixed performance and planning between calendar years and NERL’s internal Fiscal Years.

#### **Costing information:**

- The “RP3 Capital Costs Baseline” (Section 5.1.1) provides an overview of the costs expected for each of the programmes. The table gives sufficient detail to track the costs across the remainder of RP3 (which in the future will be referred as NR23).
- With regards, to this cost table in Section 5.1.1, there are three areas which could benefit from further explanation:
  - There appears to be no contingency or risk in the budget, and no explanation to justify why this is the case. To the reader it is unclear if this contingency budgeting is instead built into the “Low end” or “High end” financial estimates.
    - **Note:** NERL has subsequently confirmed that “contingency and risk is captured and managed at an overall programme level and we expect any risk materialising within the 2020-2022 period will result in resources being flexed to work through the emerging issues, the consequence of which will extend out our milestones, benefit delivery dates and cost to the whole programme rather than increasing the costs within this period.”
  - There is no explanation of the “Other” programme, and therefore no justification of the £3m forecasted cost. Given this has a greater forecasted cost than the “Simulation Transformation and Sustainment” programme, which has a dedicated subsection in the SIP Addendum, some additional detail should be provided on what this £3m is being used for.
    - **Note:** NERL has provided an explanation that this “this relates to minor investments in programmes that were finishing work commenced in RP2 but not continuing extensively in RP3”.
  - Regarding the cost estimate for DP-ER and Voice, there is no reference to a revised cost-bridge from page 27 of SIP21, and its adjusted forecast of £189m. How these various elements of the cost bridge have been adjusted to give a revised forecasted cost of £175m in the SIP Addendum is unclear to the reader.
    - **Note:** NERL has provided a clarification that The £175m presented on page 20 of the SIP Addendum is a baseline for RP3 (entire capital forecast for 2020-2022), before any opportunity or risk is considered. The £189m presented on page 27 of SIP21 covers the entire DP EN Route programme out to late 2024, and is an adjusted forecast after considering opportunity but before considering risk.”

*Overall, there is a clear effort towards improved consistency and traceability in the SIP Addendum. This document provides sufficient information, from both a delivery and cost perspective, to track the progress of NERL’s CAPEX programme for the remainder of RP3.*

## QUARTERLY SIP UPDATE

Given the SIP21 Addendum (i.e. programme baseline) and Quarterly SIP Update were released at the same time, there are no major changes in the programme schedules and costs between the two documents. Therefore, this report comments on the structure and presentation of the Quarterly SIP Update and provides a brief overview of significant changes to the CAPEX programmes as reported in the SIP Update and Addendum.

### Structure and presentation:

- The Quarterly SIP Update presents updates to the key project milestones, costing information, risks and benefits for each of NERL's CAPEX programmes
- This information is summarised in a Quarterly Dashboard (page 2), as well as at a more detailed level in the 'programme on a page' section (Programme Status - pg 4-11). This section also summarises the progress since last quarter, and work to be completed in the next quarter.
- The Programme Overview section (pg 12-20) presents the 'static' information for each programme i.e. programme description, anticipated benefits and risks. This section provides useful background information for readers that may not have a deep understanding of NERL's CAPEX programmes.
- This separation of the 'static' information improves the accessibility of the document for stakeholders, by ensuring that information on changes to costs and milestones is easily obtainable.
- It is recommended that a small amount of introductory text is included at the start of each section. This will aid understanding of the current layout.

<b>DP En-Route &amp; Voice</b>	The DP En-Route milestone names have been adjusted to allow flexibility in operational deployments. These changes are clearly explained in SIP Addendum (pg 4). The programme remains "on-track", despite facing site access issues due to COVID-19 restrictions.
<b>Airspace &amp; Ops Enhancements</b>	The Airspace programme name now includes 'Operational Enhancements'. There are also minor changes to milestone names, as explained in SIP21 Addendum.
<b>Sustainment &amp; Surveillance</b>	The Quarterly SIP Update highlights that there may be delays to "NODE Core replacement FOS", and "DVOR replacement" milestones, due to the ongoing impact of COVID-19 causing site access issues and resource constraints (pg 6). Other milestones remain on-track.
<b>Facilities Management</b>	Three out of the five forecasted completion dates for the FM milestones are highlighted as "TBC". The Quarterly SIP Update notes that this is because of a combination of dependencies on other milestones, and continuing COVID restrictions hindering site access.
<b>Information Solutions</b>	The SIP Addendum notes that there are a number of additional activities to be continued in relation to the IS programme, but these will be not tracked due to continuous nature of service. Notable changes to these activities be reported through the SIP Updates. This is also the case for FM and Sustainment and Surveillance programmes.
<b>Simulation Transformation &amp; Sustainment</b>	This is a new CAPEX programme as presented in the Quarterly SIP Update and SIP Addendum. The programme is still in the 'identify' phase, hence no milestones are presented. The programme has a very low forecasted cost of £1m for RP3.
<b>Oceanic</b>	There are no significant updates to the Oceanic programme. The Quarterly SIP Update highlights that the "Enhanced Data Analytics and Reporting" project is yet to be commenced and the 21 November deadline is subject to scope agreements with NAV CANADA.
<b>iTEC Collaboration</b>	This is a new CAPEX programme as presented in the Quarterly SIP Update and SIP Addendum. Planned activities include the development of an initial roadmap to allow the development of a future iTEC solution for NATS lower operations. The forecasted costs for the programme in RP3 amounts to £11m.

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