



# Independent planning cost review

**Heathrow Expansion Programme**  
Covering the period 2016 and 2017

**Supplementary report**

Report dated November 2018



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# Executive summary

## Background and context

PwC was engaged by the Civil Aviation Authority (CAA) on 23 April 2018 to independently review the 2016 and 2017 statement (the “Statement”) and opex costs (the “Opex Schedules”). The purpose of the review was to assess the extent to which Category B costs (planning costs) had been incurred, apportioned and claimed by Heathrow Airport Limited (“HAL”) in accordance with CAA guidance CAP1513 and CAP1651.

The findings of our first review, undertaken between 01 May 2018 and 03 August 2018, were issued in September 2018 in the “Independent Planning Cost Review for Heathrow Expansion Programme” report (the “Report”). The Report addressed three areas of focus:

1. Are the costs included within the Statement and Opex Schedules provided by HAL supported by appropriate evidence?
2. Are the costs presented in the Statement and Opex Schedules correctly categorised as Category B?
3. Is there evidence to indicate that costs included within the Statement and Opex Schedules have been incurred in an efficient manner?

## Scope and purpose

HAL provided additional information between 3 August 2018 and 19 November 2018 in response to the findings set out in the Report.

The CAA instructed PwC to review and analyse the additional information provided by HAL and develop this supplementary report (the “Supplementary Report”). This Supplementary Report updates our findings documented in the Report (dated November 2018) based on the additional information provided by HAL. This Supplementary Report should be read in conjunction with the Report.

## Information provided

The additional information provided by HAL included a revised statement of Category B costs for 2016<sup>1</sup> (referred to herein as the “2016 Costs Paper”) which supersedes the 2016 costs from the Statement and Opex Schedules set out in the Report.

The 2017 costs from the Statement and Opex Schedules set out in the Report remain unchanged (herein referred to as the “2017 Statement” and “2017 Opex Schedule” respectively), albeit additional supporting evidence has been provided.

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1 2016 Costs Paper: CAA-H7-175 Evidence associated to efficiently incurred Category B costs for 2016.pdf

The revised suite of documents which set out the Category B costs claimed by HAL are now:

1. The 2016 Costs Paper
2. The 2017 Statement
3. The 2017 Opex Schedule.

Collectively these three documents are referred to as the “Updated Submission”. The Updated Submission is compared to the Statement and Opex Schedules, set out in the Report, in Table 1. The 2016 Costs Paper reduces the total Category B costs claimed for 2016 by £1.539m when compared to the Statement and Opex Schedules reviewed as part of the Report.

**Table 1 – Difference between the Report Statement and Opex Schedules and Updated Submission (£m)**

Year	Cost type	a	b	c	d
		Statement and Opex Schedules (the Report)	Statement Updated Submission	Delta (b – a)	Source document from Updated Submission
2016	Capex	4.600	3.857	(0.743)	The 2016 Costs Paper
	Opex	6.069	5.273	(0.796)	
2017	Capex	74.969	74.969	–	The 2017 Statement
	Opex	2.811	2.811	–	The 2017 Opex Schedule
Total		88.449	86.910	(1.539)	

## Costs claimed prior to 25 October 2016

The costs included within the Updated Submission total £86.910m. The 2016 Costs Paper totals £9.130m, with £4.727m of costs identified by HAL as being incurred prior to the government announcement on 25 October 2016. We have agreed with the CAA that these costs would not be reviewed as part of this Supplementary Report. Deducting the £4.727m results in a balance of £82.183m as set out in Table 2.

**Table 2 – Updated Submission balance (£m)**

Year	Cost type	a	b	c
		Statement and Opex Schedules (the Report)	Costs claimed prior to 25 October 2016 <sup>2</sup>	Updated Submission balance (a-b)
2016	Capex	3.857	–	3.857
	Opex	5.273	4.727	0.546
2017	Capex	74.969	–	74.969
	Opex	2.811	–	2.811
Total		86.910	4.727	82.183

<sup>2</sup> As included in the 2016 Costs Paper

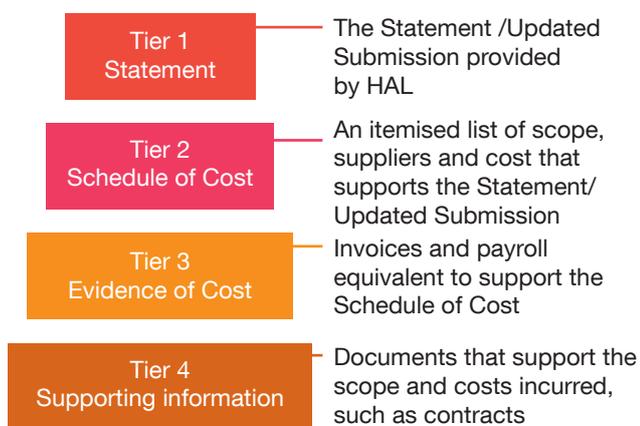
# Approach

Details of the approach for each area of focus is included in the subsequent sections of this Supplementary Report.

We met with representatives from HAL between 06 September 2018 and 13 November 2018 and reviewed additional information made available between 03 August 2018 and 19 November 2018.

The document hierarchy and tiers of information referred to within this Supplementary Report and the Report are summarised in Figure 1 for reference.

**Figure 1 – Document hierarchy and tiers of information**



To provide relevant context from the Report, summary findings from both the Supplementary Report and the Report are provided in pink boxes within the Executive Summary, as shown in the example below.

## Key findings from the Supplementary Report

Within the Executive Summary the key findings from the Supplementary Report are included here.

## Summary findings from the Report

Within the Executive Summary a summary of the findings from the Report are included here.

# Key findings

Our key findings for each of the three key areas of focus are provided below.

## Are the costs included within the Updated Submission provided by HAL supported by appropriate evidence?

### Key findings from the Supplementary Report

Of the Updated Submission balance of £82.183m, HAL has provided appropriate Evidence of Cost for £79.314m (96.5%) as shown in Table 3. The remaining delta of £2.869m (3.5%) consists of:

- £1.424m of low value invoices – HAL has advised that this balance consisted of a large quantum of small value invoices. Hence it would have been inefficient to dedicate the necessary resources to provide the invoices given the relatively small values and percentage of the overall amounts claimed; and
- £1.445m of accruals - CAA guidance note CAP 1651 requires that the Statement cost data includes “any accruals at year-end included with supporting calculations for any accruals greater than £100,000.” The accrual balance of £1.455m comprises of multiple accruals, each of which are less than £100k.

**Table 3 – Summary of the Updated Submission, Schedule of Cost and Evidence of Cost**

		a	b	c	d
Year	Cost type	Updated Submission balance	Schedule of Cost	Evidence of Cost	Delta (c - a)
2016	Capex	3.857	3.594	3.561	(0.296)
	Opex	0.546	0.546	0.381	(0.165)
2017	Capex	74.969	75.052	73.059	(1.910)
	Opex	2.811	2.811	2.313	(0.498)
<b>Total</b>		<b>82.183</b>	<b>82.003</b>	<b>79.314</b>	<b>(2.869)</b>

### Summary findings from the Report

In the Report the overall delta between the £88.449m Statement and Opex Schedules compared to the £53.305m Evidence of Cost totalled £35.144m (40%).

## 2016 Costs Paper

For 2016 there is Evidence of Cost totalling £3.942m (89.5%) compared to £4.403m claimed in the 2016 Costs Paper as set out in Table 4.

**Table 4 – Delta between the 2016 Costs Paper, Schedule of Cost and the Evidence of Cost (£m)**

	a	b	c	d	e
2016 Costs (£m)	2016 Costs Paper post Oct 25	Schedule of Cost	Evidence of Cost	Delta (c – a)	Comments
Programme team	1.292	1.292	1.214	(0.078)	Of the £0.167m delta: • £0.042m is due to invoices not provided
Strategic brief	0.022	0.022	0.022	–	
Design and Development	2.075	2.075	2.033	(0.042)	• £0.125m is due to accruals without supporting rationale and information.
Consents	0.077	0.077	0.030	(0.047)	
Other	0.391	0.128	0.263	(0.128)	The totality of the £0.128m delta is due to invoices not provided.
<b>Sub-total (Capex)</b>	<b>3.857</b>	<b>3.594</b>	<b>3.561</b>	<b>(0.296)</b>	
Security	0.546	0.546	0.381	(0.165)	The totality of the £0.165m delta is due to invoices not provided.
<b>Sub-total (Opex)</b>	<b>0.546</b>	<b>0.546</b>	<b>0.381</b>	<b>(0.165)</b>	
<b>Total costs (Capex + Opex)</b>	<b>4.403</b>	<b>4.140</b>	<b>3.942</b>	<b>(0.461)</b>	

## 2017 Statement and Opex Schedules

For 2017 there is Evidence of Cost totalling £75.372m (97%) compared to £77.780m claimed in the 2017 Statement and Opex Schedule as set out in Table 5.

**Table 5 – Delta between the 2017 Statement and Opex Schedule, Schedule of Cost and the Evidence of Cost (£m)**

2016 Costs (£m)	a 2017 Statement / Opex Schedule	b Schedule of Cost	c Evidence of Cost	d Delta (c – a)	e Comments
Colleague costs	14.186	14.213	14.156	(0.030)	• The totality of the £0.030m delta relates to accruals.
Non IDT suppliers	18.293	18.293	16.588	(1.705)	Of the delta of £1.705m a total of:
<i>Programme Leadership</i>	4.321	4.321	3.794	(0.527)	• £0.878m is due to invoices not provided
<i>Future Heathrow</i>	5.835	5.835	5.599	(0.236)	• £0.722m is due to accruals without supporting rationale and information
<i>Consents</i>	4.735	4.735	4.329	(0.406)	• £0.105m is due to invoices provided not supporting the full amount claimed for the Compass Centre.
<i>Community and Stakeholder</i>	0.393	0.393	0.248	(0.145)	
<i>IT</i>	1.949	1.949	1.660	(0.289)	
<i>Regulation and Strategy</i>	1.060	1.060	0.958	(0.102)	
Integrated Design and DCO Team (IDT)	42.490	42.546	42.314	(0.176)	Of the delta of £0.176m, this is split approximately between the respective IDT suppliers.
Sub-total costs (Capex)	74.969	75.052	73.059	(1.910)	
Opex Costs	2.811	2.811	2.313	(0.498)	Of the delta of £0.498m a total of:
					• £0.430m is due to accruals, of which £0.239m did not have supporting rationale and £0.191m did
					• £0.068m is due to invoices not provided.
Sub-total costs (Opex)	2.811	2.811	2.313	(0.498)	
Total costs (Capex + Opex)	77.780	77.863	75.372	(2.408)	

## Are the costs presented in the Updated Submission correctly categorised as Category B?

### Key findings from the Supplementary Report

The overall difference between the £82.183m Updated Submission balance compared to the Evidence of Cost totalled £2.869m (3.5%); as a result we are unable to comment on whether these costs were incurred in relation to the Expansion Programme, or for other activities.

Of the evidenced £79.314m (96.5%) Updated Submission balance costs, we were unable to verify:

- £1.169m of 2017 staff costs relating to 2016.
- £0.319m of 2016 costs as being correctly categorised as Category B costs.

These costs have been identified as being incurred post the Government announcement on 25 October 2016, yet the Evidence of Cost evidences that they appear to have been incurred prior to the Government announcement.

Furthermore, for an additional £0.515m of 2017 costs we have seen Evidence of Cost that does not appear to have been incurred in 2017 given the invoices were dated in 2018.

### Summary findings from the Report

The overall difference between the Statement and Opex Schedules compared to the Evidence of Cost totalled £35.144m or 40%; as a result we were unable to comment on whether these costs were incurred in relation to the Expansion Programme, or for other activities.

Of the evidenced £51.652m Statement costs and £1.653m Opex Schedules costs, we were unable to verify that £0.200m (PCP mobilisation activities) of Statement costs and £1.653m (Security and CAA costs) of Opex costs have been correctly categorised as Category B costs.

Of the £27.917m unevidenced Statement costs and £7.227m Opex Schedules costs, we identified a number of specific areas that did not appear to be correctly categorised as Category B.

## Specific items that do not appear to be correctly categorised

We were able to verify £79.314m (96.5%) of the £82.183m Updated Submission costs to Evidence of Cost (source documentation). Whilst Evidence of Cost was provided, there were a number of specific items that did not appear to be correctly categorised as Category B. These specific areas are:

### 2017 staff costs relating to 2016 – £1.169m

£1.169m of HAL staff costs relating to 2016 are included in the 2017 Statement. The detail of staff costs relating to 2016 was not made available and further information is required to confirm whether these costs are solely associated with seeking planning permission for the delivery of new runway capacity.

### Allocation of Category A and Category B costs – £0.319m

Of the costs identified by HAL in the 2016 Costs Paper as being incurred post 25 October 2016, there are minor examples of costs totalling £0.319m which have been claimed as Category B, yet appear to have been incurred prior to the government announcement. These costs do not appear to be consistent with the principles for Category B costs included in the CAA guidance documents 1513 and 1651.

The £0.319m comprises: £0.254m of Programme team costs, £0.035m of design and development and £0.030m of Consents. Further detail is given in the body of this Supplementary Report.

## Specific items identified in the Report which are now evidenced as Category B

In the Report a number of specific areas were identified that did not appear to be correctly categorised as Category B costs. With the exception of the specific items identified in the previous sub-section, HAL has now provided additional evidence to demonstrate that the following costs are correctly categorised as Category B.

### 2016 Capex (£3.561m) and opex costs (£0.381m) – £3.942m

The 2016 Costs Paper sets out the different programmes of work that were carried out from 01 January 2016 to 31 December 2016, structured pre and post the government announcement on 25 October 2016. The programmes of work post 25 October 2016 describe activities that are consistent with establishing a programme team and seeking planning permission for the delivery of new runway capacity.

### 2017 Opex costs – £2.313m

Opex costs totalling £2.313m relating to additional security and CAA costs are now verified as Category B costs. HAL has provided additional information including a new Schedule of Cost and the contracts for security costs.

## Other points of note

### Allocation of costs to the 2017 Statement – £0.515m

We have seen £0.515m of Evidence of Cost within the £79.314m of verified cost that appear to be correctly categorised as Category B, however do not appear to have been incurred during 2017. Further detail is given in the sub-sections of this chapter of the Supplementary Report.

## Is there evidence to indicate that costs included within the Updated Submission have been incurred in an efficient manner?

### Key findings from the Supplementary Report

HAL has provided further evidence to document the outputs from key engagement reviews, namely the Options Approval Group and the Airline Working Group, for development and evaluation of runway length (which was selected as a representative example).

Otherwise, the findings from the Report remain unchanged.

### Summary findings from the Report

The Report findings are retrospective and cover the period 2016 and 2017 when the Expansion Programme was in the early lifecycle stages, having been rapidly mobilised following the government announcement in October 2016.

The Report identified that, as the Expansion Programme matures and develops greater certainty of scope, cost, schedule and risk, there will be a number of thematic opportunities for HAL to operate in a more efficient manner.



# Section 1

Introduction, context  
and approach



## 1.1 Introduction

This section of the Supplementary Report provides an overview of the Updated Submission and details our approach to the assessment of additional information provided by HAL.

## 1.2 Overview of the Updated Submission and additional information

### The Updated Submission

HAL has provided a new and revised statement of cost for 2016, referred to as the “2016 Costs Paper”, which reduces the capex and opex Category B costs claim for 2016 by £1.539m. The 2016 Costs Paper supersedes the 2016 costs claimed in the Statement and Opex Schedules.

The 2017 Statement and 2017 Opex Schedule remain the same as included in the Report.

The suite of documents, which comprise the “Updated Submission”, and set out the Category B costs claimed are now:

1. The 2016 Costs Paper.
2. The 2017 Statement.
3. The 2017 Opex Schedule.

A comparison of the Updated Submission and the Statement and Opex Schedules is included in Table 6.

A summary of the full 2016 Costs Paper totalling £9.130m is included in Table 7 includes the £4.727m incurred prior to the Government announcement on 25 October 2016 for reference.

**Table 6 – Difference between the Report Statement and Opex Schedules and Updated Submission (£m)**

Year	Cost type	a	b	c	d
		Statement and Opex Schedules (the Report)	Updated Submission (Supplementary Report)	Delta (b – a)	Source document from Updated Submission
2016	Capex	4.600	3.857	(0.743)	The 2016 Costs Paper
	Opex	6.069	5.273	(0.796)	
2017	Capex	74.969	74.969	–	The 2017 Statement
	Opex	2.811	2.811	–	The 2017 Opex Schedule
<b>Total</b>	<b>Total</b>	<b>88.449</b>	<b>86.910</b>	<b>(1.539)</b>	

**Table 7 – Total revised 2016 costs claimed in the 2016 Costs Paper**

2016 Costs Paper <sup>1</sup> (£m)	a	b	c
	2016 Costs Paper (b + c)	2016 Costs Paper up to Oct 25	2016 Costs Paper post Oct 25
Programme team	1.292	–	1.292
Strategic brief	0.022	–	0.022
Design and Development	2.075	–	2.075
Consents	0.077	–	0.077
Security	–	–	–
Other	0.391	–	0.391
<b>Sub-total (Capex)</b>	<b>3.857</b>	<b>–</b>	<b>3.857</b>
Programme team	0.351	0.351	–
Strategic brief	0.888	0.888	–
Design and development	1.320	1.320	–
Consents	0.371	0.371	–
Security	0.958	0.412	0.546 <sup>2</sup>
Other	1.385	1.385	–
<b>Sub-total (Opex)</b>	<b>5.273</b>	<b>4.727</b>	<b>0.546</b>
<b>Total costs (Capex + Opex)</b>	<b>9.130</b>	<b>4.727</b>	<b>4.403</b>

<sup>1</sup> 2016 Costs Paper: CAA-H7-175 Evidence associated to efficiently incurred Category B costs for 2016.pdf

<sup>2</sup> Security was not allocated into (i) the pre and (ii) the post October 25 2016 in the 2016 Costs Paper. This was subsequently provided by HAL in file “Security\_2016\_split pre and post oct.xlsx” and adjusted by PwC, see Section 2.2.2.

## Overview of other additional information received between 03 August 2018 and 19 November 2018

HAL has provided several Schedules of Cost that support the amount claimed in the Updated Submission. Table 8 summarises the key pieces of additional information provided by HAL and a description of what they include.

HAL has also provided additional information to address some minor exceptions regarding whether the costs presented in the Updated Submission are correctly categorised as Category B, and whether the costs have been efficiency incurred.

**Table 8 – Key pieces of additional information received**

Year	WBS area	Filename	Summary of file
2016	All	CAA-H7-175 Evidence associated to efficiently incurred Category B costs for 2016.pdf	The paper and supporting appendices sets out the work undertaken from 01 January 2016 to 31 December 2016, split according to whether the work was pre or post 25 October 2016.  Schedule of Cost for 2016 costs to address the deltas between the Updated Submission and the Evidence of Cost. Includes copies of invoices pasted into the document.
2017	Colleague Costs	CatB Colleague Costs__Facilitated.xlsx  IDT and PCP_PO's Details (002) (version 1).xlsx	Schedule of Cost for 2017 colleague costs to address the deltas between the Updated Submission and the Evidence of Cost. Includes copies of invoices pasted into the document.
2017	Non IDT Suppliers	2017 Non_IDT costs_facilitated.xlsx  2017_Expansion_CompassCentre charge.xlsx	Schedule of Cost for 2017 non-IDT supplier costs to address the deltas between the Updated Submission and the Evidence of Cost. Includes copies of invoices pasted into the document.
2017	IDT	IDT Payment certificate summary 16-17 _Facilitated.xlsx  IDT and PCP_PO's Details (002) (version 1).xlsx	Schedule of Cost for 2017 IDT supplier costs to address the deltas between the Updated Submission and the Evidence of Cost. Includes copies of invoices pasted into the document.
2017	Opex Costs	2017 Security Costs_Facilitated.xlsx  2017 CAA Fees_Facilitated.xlsx	Schedule of Cost for 2017 opex supplier costs to address the deltas between the Updated Submission and the Evidence of Cost. Includes copies of invoices pasted into the document.

## 1.3 Approach to the review

The Report identified a delta between the Statement and Opex Schedules, Schedule of Cost and Evidence of Cost. In line with our intended purpose we sought to verify that the costs included within the Updated Submission were supported by Evidence of Cost and that they were correctly categorised. Our approach has focussed on engagement with HAL which has supported the:

- review and verify the invoices included in the revised Schedules of Cost provided by HAL
- review of other supporting information available made available by HAL to clarify the allocation of Category B costs
- selection of a sample of internal staff costs (Colleague costs) and review source payroll data with HAL.

The approach taken to verify Evidence of Cost remains the same as detailed in the Report unless stated otherwise.

## 1.4 Structure of this Supplementary Report

The remainder of this Supplementary Report is structured as detailed in Table 9.

**Table 9 – Structure of this Supplementary Report**

Section	Areas of focus	Sub-sections
Section 2	Are the costs included within the Updated Submission provided by HAL supported by appropriate evidence?	<ul style="list-style-type: none"><li>• 2016 Costs</li><li>• 2017 Colleague costs</li><li>• 2017 IDT costs</li><li>• 2017 Non-IDT supplier costs</li><li>• 2017 Opex costs</li></ul>
Section 3	Are the costs presented in the Updated Submission correctly categorised as Category B?	Where Evidence of Cost has been provided, are these costs solely associated with seeking planning permission for the delivery of new runway capacity?
Section 4	Is there evidence to indicate that costs included within the Updated Submission have been incurred in an efficient manner?	Update to an area of the governance sub-section

Throughout this report there are specific references which HAL has identified as commercially sensitive and require redaction. These redactions are represented as a black box: [REDACTED]



## Section 2

Are the costs included within the Updated Submission provided by HAL supported by appropriate evidence?

# 2.1 Summary

## 2.1.1 Introduction

In this section of the Supplementary Report we set out our findings on whether the costs included within the Updated Submission are supported by appropriate Evidence of Cost.

### 2.1.2 Key findings

#### Key findings from the Supplementary Report

Of the Updated Submission balance of £82.183m, HAL has provided appropriate Evidence of Cost for £79.314m (96.5%) as shown in Table 3. The remaining delta of £2.869m (3.5%) consists of:

- £1.424m of low value invoices – HAL has advised that this balance consisted of a large quantum of small value invoices. Hence it would have been inefficient to dedicate the necessary resources to provide the invoices given the relatively small values and percentage of the overall amounts claimed; and
- £1.445m of accruals - CAA guidance note CAP 1651 requires that the Statement cost data includes “any accruals at year-end included with supporting calculations for any accruals greater than £100,000.” The accrual balance of £1.455m comprises of multiple accruals, each of which are less than £100k.

**Table 10 – Summary of the Updated Submission, Schedule of Cost and Evidence of Cost**

		a	b	c	d
Year	Cost type	Updated Submission balance	Schedule of Cost	Evidence of Cost	Delta (c – a)
2016	Capex	3.857	3.594	3.561	(0.296)
	Opex	0.546	0.546	0.381	(0.165)
2017	Capex	74.969	75.052	73.059	(1.910)
	Opex	2.811	2.811	2.313	(0.498)
<b>Total</b>		<b>82.183</b>	<b>82.003</b>	<b>79.314</b>	<b>(2.869)</b>

#### Summary findings from the Report

In the Report the overall delta between the £88.449m Statement and Opex Schedules compared to the £53.305m Evidence of Cost totalled £35.144m (40%).

Further detail is provided in the following sub sections:

- Section 2.2: 2016 costs
- Section 2.3: 2017 colleague costs
- Section 2.4: 2017 non-IDT supplier costs
- Section 2.5: 2017 IDT supplier costs
- Section 2.6: 2017 opex costs.

## 2.2 2016 costs

### 2.2.1 Introduction

The 2016 Costs Paper is summarised in Table 11, which includes the delta between the 2016 Costs Paper, the Schedule of Cost and Evidence of Cost.

### 2.2.2 Approach

In line with our intended purpose we sought to verify that the 2016 costs included within the Updated Submission were supported by Evidence of Cost. We were provided with the 2016 Costs Paper, which included new supporting Schedules of Cost. Our approach included:

- A reconciliation of the Schedule of Cost to Evidence of Cost (invoices) for external suppliers.
- For 2016 Colleague costs (included as part of the “Other” sub- category provided by HAL) we sought to reconcile the 2016 Costs Paper to a Schedule of Cost and Evidence of Cost (payslips). In order to test 2016 Colleague costs we:
  - selected a sample of four employees (20% of directly employed individuals) for review of Evidence of Cost (payslips) for the month of November 2016 at a meeting with HAL on 20 September 2018
  - reviewed a detailed Schedule of Cost with HAL at a meeting on 02 October 2018, the total of which did reconcile to the total included in the 2016 Costs Paper
  - reviewed payslips for the selected four individuals, the amounts of which reconciled to the Schedule of Cost that HAL showed us at the meeting on 02 October 2018.

**Table 11 – Delta between the 2016 Costs Paper, Schedule of Cost and the Evidence of Cost**

	a	b	c	d
2016 Costs (£m)	2016 Costs Paper post Oct 25	Schedule of Cost	Evidence of Cost	Delta (c – a)
Programme team	1.292	1.292	1.214	(0.078)
Strategic brief	0.022	0.022	0.022	–
Design and Development	2.075	2.075	2.033	(0.042)
Consents	0.077	0.077	0.030	(0.047)
Other	0.391	0.128	0.263	(0.128)
Sub-total (Capex)	3.857	3.594	3.561	(0.296)
Security	0.546	0.546 <sup>1</sup>	0.381	(0.165)
Sub-total (Opex)	0.546	0.546	0.381	(0.165)
Total costs (Capex + Opex)	4.403	4.140	3.942	(0.461)

<sup>1</sup> Security was not allocated into (i) the pre and (ii) the post October 25 2016 in the 2016 Costs Paper. This was subsequently provided by HAL in file “Security\_2016\_split pre and post oct.xlsx” and adjusted by PwC, see Section 2.2.3.

## 2.2.3 Reconciliation between the 2016 Costs Paper, Schedule of Cost and Evidence of Cost

The 2016 Costs Paper presents the Category B costs claimed in a different work breakdown structure (WBS) to the 2017 Statement and Opex Schedule. The revised WBS structure for 2016 is included in Table 11 where the deltas between the 2016 Costs Paper, the Schedule of Cost and the Evidence of Cost are set out.

The Schedule of Cost for each WBS component was provided in Appendix 3 of the 2016 Costs Paper. It contained the PO numbers, vendor names, line descriptions, invoiced amounts and an image of the invoices.

Each component of the WBS included in Table 11 is described below, with commentary provided on the Schedule of Cost and Evidence of Cost as appropriate.

### Programme team £1.292m

The description of the programme team provided by HAL in the 2016 Costs Paper is:

“The programme team was established to lead the expansion programme and is accountable for the successful delivery of the programme to time, budget and quality. They ensure that the requirements are clearly articulated and delivered to the satisfaction of the key stakeholder groups as expressed through the strategic brief.”

**Schedule of Cost:** The Schedule of Cost totalled £1.292m which reconciled to the 2016 Costs Paper.

**Evidence of Cost:** HAL provided invoices totalling £1.214m for costs identified post the Government announcement on 25 October 2016 2016, £0.078m lower than the 2016 Costs Paper. The £0.078m delta is due to accruals included within the Schedule of Cost which did not include appropriate evidence, such as supporting rationale and calculations.

### Strategic brief £0.022m

The description of strategic brief provided by HAL in the 2016 Costs Paper is:

“The Strategic Brief will act as the cornerstone for future business planning across Heathrow. It sets out Heathrow’s guiding principles for developing the masterplan options, design and construction. It will also inform our Management Business Plan presented to the CAA. It serves to guide us and offer a sense of direction on our aspirations, to inspire us all to create the best possible Heathrow of the future.”

**Schedule of Cost:** The Schedule of Cost totalled £0.022m which reconciled to the 2016 Costs Paper.

**Evidence of Cost:** HAL provided invoices totalling £0.022m for costs identified post the Government announcement on 25 October 2016 2016, which reconciled to the 2016 Costs Paper.

### Design and development £2.075m

The description of design and development provided by HAL in the 2016 Costs Paper is:

“Design and development work on the EIA covered a range of aspects which were prioritised to support the Government recommendation and our ability to mobilise the programme with risks such as air quality, carbon, noise and biodiversity understood to a level commensurate with the need to mobilise the programme proper.”

**Schedule of Cost:** The Schedule of Cost totalled £2.075m which reconciled to the 2016 Costs Paper.

**Evidence of Cost:** HAL provided invoices totalling £2.033m for costs identified post the Government announcement on 25 October 2016 2016, £0.042m lower than the 2016 Costs Paper. The £0.042m delta is due to copies of the invoices not being provided.

### Consents £0.077m

The description of consents provided by HAL in the 2016 Costs Paper is:

“All planning and legal scope undertaken during 2016 was principally to support preparation for and early activities associated with the DCO consenting process, including scoping of the policy requirements of the emerging draft National Policy Statement.”

**Schedule of Cost:** The Schedule of Cost totalled £0.077m which reconciled to the 2016 Costs Paper.

**Evidence of Cost:** HAL provided invoices totalling £0.030m for costs identified post the Government announcement on 25 October 2016, £0.047m lower than the 2016 Costs Paper. The £0.047m delta is due to accruals identified in the Schedule of Cost which do not include appropriate evidence such as supporting rationale and calculations.

### Other £0.391m

The description of Other provided by HAL in the 2016 Costs Paper is:

“██████████: The supplier provided advice and consultation on financeability of the expansion programme. This work included various modelling.

Colleague Costs: Following the preferred Government decision in October, the Expansion programme quickly mobilised to demonstrate to Government and wider stakeholders that Heathrow was ready to deliver expansion and open the new runway in 2026.”

**Schedule of Cost:** HAL did not provide a Schedule of Cost for the colleague cost component of Other costs identified in the 2016 Costs Paper. A single line with the description, “Colleague costs from October 26 to December 30th” for £0.263m was provided. However in a meeting on 02 October 2018 HAL showed us a Schedule of Cost (name unknown) which included the 2016 direct employee costs and equalled the total £0.263m included in the Schedule of Cost.

For the ██████████ work a single line with the description, “██████████ advice and consultation on financability” for £0.128m was provided.

**Evidence of Cost:** For each employee sampled we were shown the breakdown of cost by HAL and viewed the payslip and cross-checked the salary on the payslip to the document (name unknown) that HAL showed us at the meeting on 02 October 2018.

For the sample selected appropriate Evidence of Cost (payslips) was provided and therefore no further sample was selected. HAL did not provide the invoice/s for £0.128m for ██████████.

### Security £0.546m

The description of security provided by HAL in the 2016 Costs Paper is:

“In the lead up to the government announcement, there were a number of protests carried out to raise awareness of the impending Government announcement that Heathrow was to be the preferred location for new runway capacity.

This was an attempt by opponents either to change Governments decision or to delay the announcement. Each of the protests were specifically aimed towards Expansion and Heathrow implemented the following measures as a result to protect the smooth running of the airport and ensure that passenger journeys were not impacted. These events would not have occurred without Expansion.”

**Schedule of Cost:** The Schedule of Cost totalled £0.607m however, we identified £0.061m which was incorrectly categorised as post October 25, when actually it related to work undertaken prior to the government announcement. This resulted in a revised balance of £0.546m.

**Evidence of Cost:** HAL provided invoices totalling £0.381m for costs identified post the Government announcement on 25 October 2016, £0.165m lower than the revised balance of £0.546m. The £0.165m delta is due to copies of the invoices not being provided.

## 2.3 2017 Colleague costs

### 2.3.1 Introduction

A summary of all 2017 costs is included in Table 12, which includes the delta between the 2017 Statement and Opex Schedule, the Schedule of Cost and Evidence of Cost.

Colleague costs are those costs that relate to the employment of individuals who are fulfilling an Expansion Programme role. Colleague Costs include the cost of individuals on the Expansion Programme that are:

- directly employed by HAL (including salary, allowances, pension and National Insurance contributions, as well as any performance bonus)
- a Programme Client Partner (PCP) filling an Expansion Programme role
- a temporary resource, provided by an agency, [REDACTED], filling an Expansion Programme role.

### 2.3.2 Approach

In line with our intended purpose we sought to verify that Colleague costs included within the Updated Submission were supported by appropriate evidence, specifically that:

- direct employee costs reconciled to a Schedule of Cost and Evidence of Cost (source payroll data)
- PCP and temporary resource costs reconciled to a Schedule of Cost and Evidence of Cost (invoices).

#### Internal: Direct employees

In order to test the direct employees component of Colleague cost we selected a total of 18 employees as follows:

- Selection of one employee per calendar month between January and December 2017, totalling 12 employees (11% of directly employed individuals)
  - We randomly selected the 12 anonymised employees from the document “CatB Colleague Costs” at a meeting on 20 September 2018
  - At a meeting on 02 October 2018 HAL showed us a document which included the names of the employees, which were previously redacted
  - At the meeting on 02 October HAL showed us payslips for the selected individuals

- A further 6 individuals (5.5% of directly employed individuals) from HAL’s organisational chart (dated October 2017) at a meeting held at HAL’s offices on 20 September 2018
  - At the meeting on the 02 October HAL showed us payslips for the selected individuals.

#### External: PCP and temporary resources

We were provided with a Schedule of Cost “CatB Colleague Costs\_\_Facilitated.xlsx” which contained embedded images of, or links to, the appropriate invoices for PCP and [REDACTED].

### 2.3.3 Reconciliation between the 2017 Statement, Schedule of Cost and Evidence of Cost

#### 2017 colleague costs – £14.186m

**Schedule of Cost:** HAL submitted a Schedule of Cost for the full year (“CatB Colleague Costs\_\_Facilitated.xlsx”) which was supported by a number of other schedules<sup>1</sup> for Colleague Costs and totalled £14.236m. This Schedule of Cost was the same as the version submitted and referenced in the Report and included anonymised details of direct employees. As noted in the Report the Schedule of Cost does not reconcile to the 2017 Statement balance of £14.186m with a minor difference of £0.027m. The breakdown of the internal and external Colleague Costs identified is set out in Table 13.

#### Evidence of Cost – Internal staff costs

At a meeting on the 02 October 2018 HAL we verified that the amount claimed for each of the 18 selected employees equalled the amounts on their respective payslips.

For the sample selected appropriate Evidence of Cost (payslips) was provided and therefore no further sample was selected.

#### Evidence of Cost – External costs

For external costs, PCP and Colleague Costs, we were able to verify costs of £6.064m of the £6.121m included in the Schedule of Cost. The breakdown of this, including details for each external supplier, is shown in Table 13.

<sup>1</sup> Folder: “Payroll Calculations” containing 12 spreadsheets detailing 12 months of redacted payroll reports.  
Folder: “PCP” containing 4 spreadsheets (one for each PCP) detailing capitalised resource costs.  
Folder: “[REDACTED]” containing 2 spreadsheets detailing the resource costs and the accrual capitalisation.

**Table 12 – Delta between the 2017 Statement and Opex Schedule, Schedule of Cost and the Evidence of Cost**

	a	b	c	d
2017 Costs (£m)	2017 Statement and Opex Schedule	Schedule of Cost	Evidence of Cost	Delta (c – a)
Colleague costs	14.186	14.213	14.156	(0.030)
Non IDT suppliers	18.293	18.293	16.588	(1.705)
<i>Programme Leadership</i>	4.321	4.321	3.794	(0.527)
<i>Future Heathrow</i>	5.835	5.835	5.599	(0.236)
<i>Consents</i>	4.735	4.735	4.328	(0.407)
<i>Community and Stakeholder</i>	0.393	0.393	0.248	(0.145)
<i>IT</i>	1.949	1.949	1.661	(0.288)
<i>Ground Investigation</i>	–	–	–	–
<i>Regulation and Strategy</i>	1.060	1.060	0.958	(0.102)
IDT	42.490	42.546	42.314	(0.176)
Sub-total (Capex)	74.969	75.052	73.059	(1.910)
Opex Costs	2.811	2.811	2.313	(0.498)
Total costs (Capex + Opex)	77.780	77.863	75.372	(2.408)

**Table 13 – 2017 colleague costs delta between the 2017 Statement, Schedule of Cost and Evidence of Cost**

	a	b	c	d
Colleague Cost Type (£m)	2017 Statement	Schedule of Cost	Evidence of Cost	Delta (c – a)
Internal: Direct Employees		7.432	7.432	
Internal: Transfers		0.660	0.660	
Sub-total Internal		8.092	8.092	
External: PCP		5.130	5.167	
██████████	14.186	1.238	1.244	(0.030)
██████████		1.020	0.999	
██████████		1.732	1.759	
██████████		1.140	1.165	
External: ██████████		0.991	0.897	
Sub-total External		6.121	6.064	
Total Colleague Costs	14.186	14.213	14.156	(0.030)

## 2.4 Non-IDT supplier costs

### 2.4.1 Introduction

Non-IDT supplier costs are those costs that relate to services provided by an external supplier but exclude the Integrated Design and DCO Team (IDT) and colleague costs.

### 2.4.2 Approach

In line with our intended purpose, we sought to validate that the non-IDT supplier costs included within the Updated Submission were supported by appropriate evidence. We sought to reconcile the Updated Submission costs to a Schedule of Cost, and verify that costs within the Schedule of Cost were supported by appropriate Evidence of Cost by way of invoices.

The approach for verification of non-IDT supplier costs remains the same as identified in the Report, albeit the new facilitated reconciliation sheets were used as a basis to verify the costs.

We were provided with a Schedule of Cost “2017 Non\_IDT costs\_facilitated.xlsx” and “2017 Non\_IDT costs\_facilitated responses.xlsx” which contained embedded images of Evidence of Cost that was in addition to the Evidence of Cost previously identified in the Report. As such, the Evidence of Costs in Table 14 is split according to the:

- evidence of Cost reviewed and documented in the Report
- evidence of Cost reviewed and documented in the Supplementary Report.

### 2.4.3 Reconciliation between the 2017 Statement, Schedule of Cost and Evidence of Cost

#### 2017 Non-IDT costs – £18.293m

A summary of the total Non-IDT costs included in the Updated Submission compared to the supporting Schedule of Cost and the Evidence of Cost provided is summarised in Table 14.

**Non-IDT Schedule of Cost:** HAL provided a Schedule of Cost, “2017 Non\_IDT costs\_facilitated.xlsx” which detailed the PO number, supplier, a description of services and the costs for 2017. This totalled £18.983m, which reconciled to the 2017 Statement.

**Non-IDT Evidence of Cost:** From an overall Schedule of Cost of £18.293m, HAL has not provided Evidence of Cost for £1.705m. Of this £1.705m, £0.878m was due to Evidence of Cost not being provided, £0.722m was due to accruals not being supported by appropriate evidence, and £0.105m was due to invoices provided not supporting the full amount claimed for as part of the Compass Centre.

Further commentary on the Evidence of Cost provided for each WBS component for non-IDT suppliers is set out below.

#### Programme Leadership – £4.321m

HAL provided £0.645m additional Evidence of Cost in support of Programme Leadership (excluding accommodation) and £0.868m additional Evidence of Cost for accommodation. The totality of the Evidence of Cost, shown in Table 14, was £0.527m less than the Updated Submission:

- £0.422m was due to Evidence of Cost not provided (excluding accommodation)
- £0.105m was due to invoices provided not supporting the full amount claimed for as part of the Compass Centre<sup>1</sup>, which is fully set out in Table 15.

<sup>1</sup> 2017\_Expansion\_CompassCentre charge.xlsx

### **Future Heathrow – £5.835m**

HAL provided £0.201m additional Evidence of Cost in support of Future Heathrow. The totality of the Evidence of Cost, shown in Table 14, was £0.236m less than the Updated Submission:

- £0.166m was due to Evidence of Cost not provided
- £0.070m was due to accruals without appropriate evidence such as supporting rationale and calculations.

### **Consents – £4.735m**

HAL provided £0.580m additional Evidence of Cost in support of Consents. The totality of the Evidence of Cost, shown in Table 14, was £0.406m less than the Updated Submission:

- £0.065m was due to Evidence of Cost not provided
- 0.341m was due to accruals without appropriate evidence such as supporting rationale and calculations.

### **Community and Stakeholder – £0.393m**

HAL provided £0.038m additional Evidence of Cost in support of Community and Stakeholder. The totality of the Evidence of Cost, shown in Table 14, was £0.145m less than the Updated Submission:

- £0.065m was due to Evidence of Cost not provided
- £0.080m was due to accruals without appropriate evidence such as supporting rationale and calculations.

### **IT – £1.949m**

HAL provided £0.909m additional Evidence of Cost in support of IT. The totality of the Evidence of Cost, shown in Table 14, was £0.289m less than the Updated Submission:

- £0.150m was due to Evidence of Cost not provided
- £0.139m was due to accruals without appropriate evidence such as supporting rationale and calculations.

### **Regulation and Strategy – £1.060m**

HAL provided £0.036m additional Evidence of Cost in support of Regulation and Strategy. The totality of the Evidence of Cost, shown in Table 14, was £0.102m less than the Updated Submission:

- £0.010m was due to Evidence of Cost not provided
- £0.092m was due to accruals without appropriate evidence such as supporting rationale and calculations.

**Table 14 – Non-IDT supplier costs delta between the 2017 Statement, Schedule of Costs and Evidence of Cost**

	a	b	c	d	e	f
Non IDT Supplier Costs (£m)	2017 Statement	Schedule of Cost	Evidence of Cost previously identified in the Report	New Evidence of Cost	Total Evidence of Cost (c + d)	Delta (e – a)
Programme Leadership		3.330	2.264	0.645	2.909	
Programme Leadership: Accommodation	4.321	0.991	0.017	0.868	0.885	(0.527)
Future Heathrow	5.835	5.835	5.398	0.201	5.599	(0.236)
Consents	4.735	4.735	3.749	0.580	4.329	(0.406)
Community and Stakeholder	0.393	0.393	0.210	0.038	0.248	(0.145)
IT	1.949	1.949	0.751	0.909	1.660	(0.289)
Ground Investigation	-	-	-	-	-	-
Regulation and Strategy	1.06	1.06	0.922	0.036	0.958	(0.102)
<b>Total Non IDT Supplier Costs</b>	<b>18.293</b>	<b>18.293</b>	<b>13.311</b>	<b>3.277</b>	<b>16.588</b>	<b>(1.705)</b>

**Table 15 – Delta between the 2017 Schedule of Cost, Compass Centre schedule and Evidence of Cost**

	a	b	c	d	e
Compass Centre (£m)	Schedule of Cost	Compass Centre schedule	Evidence of Cost	Delta (c – a)	Information in support of the schedule
Rent (Meridian, East and West Block)	-	████	████	N/A	12 invoices provided.
Rates	-	████	████	N/A	Third party calculation provided which detailed the methodology for deriving the Compass Centre charges from the overall Heathrow Airport invoice.
Insurance	-	████	████	N/A	Invoice provided was for the period April 2017 to March 2018 and totalled █████.
Facilities Management	-	████	████	N/A	26 invoices for base fees and variable works provided totalled, █████. A reduction of 5% to account for fees related to the Academy reduced this to █████.
Dilapidation	-	████	████	N/A	Dilapidation Liability Assessment report provided which identified the total potential claim as █████. Dilapidation accrual stated as █████.
<b>Total Compass Centre costs</b>		<b>9.053</b>	<b>8.694</b>	<b>N/A</b>	
Programme Leadership – Accommodation	0.991	-	-	N/A	
Total Desks	-	1,400	1,400	N/A	Total Desks based on average for Compass Centre. HAL did not provide the basis of this estimate. In the Report reference was made to a Mitie report which counted the desks as 1804.
Cost per User (£)	-	6,467	6,210	N/A	Calculation: Total Compass Centre costs / Total Desks Users.
Expansion Headcount (Av. Monthly People)	-	142.6	142.6	N/A	Headcount in the schedule averaged 142.6 per month. We note that this is 23.6 higher than the headcount included in the Updated Submission pack which is 119.
Category B Cost for Compass Centre	0.991	0.922	0.886	(0.105)	If the calculation is re-performed with 1804 Total Desks and 119 Expansion Headcount the Category B Cost would be £0.573m.

## 2.5 2017 Integrated Design and DCO Team costs

### 2.5.1 Introduction

Integrated Design and DCO Team (“IDT”) costs are those costs that relate to designers, consultants and architects responsible for the development of master plan options for the planning and consents process. The contracted organisations are:

- Grimshaw Architect Limited (“Grimshaw”)
- Quod Limited (“Quod”)
- Amec Foster Wheeler Environment & Infrastructure UK Limited (“Amec Foster Wheeler”)
- Mott MacDonald Limited (“Mott MacDonald”)
- Ove Arup & Partners Limited (“Arup”)
- Atkins Limited (“Atkins”)
- Jacobs UK Limited (“Jacobs”).

### 2.5.2 Approach

In line with our intended purpose, we sought to validate that the IDT supplier costs included within the Updated Submission were supported by appropriate evidence.

We sought to reconcile the Updated Submission costs to a Schedule of Cost, and verify that costs within the Schedule of Cost were supported by appropriate Evidence of Cost by way of invoices. A summary of this reconciliation is included in Table 16.

We were provided with a Schedule of Cost “IDT Payment certificate summary 16-17 \_Facilitated.xlsx” which contained embedded image of, or links to, the appropriate invoices which enabled reconciliation as detailed in the below sections.

### 2.5.3 Reconciliation between the 2017 Statement, Schedule of Cost and Evidence of Cost

#### 2017 – IDT costs £42.490m

**Schedule of Cost:** HAL provided a Schedule of Cost in the file “IDT Payment certificate summary 16-17 \_Facilitated.xlsx” which totalled £42.588m for 2017, £0.098m higher than in the Updated Submission. It contained the PO number, vendor name, line description, invoiced amount and images of invoices.

**Evidence of Cost:** We were able to verify £42.322m from the Evidence of Cost provided by HAL. This is £0.176m lower than the 2017 Statement and £0.274m lower than “IDT Payment certificate summary 16-17 \_Facilitated.xlsx”. Table 16 shows how this is split across the IDT suppliers.

**Table 16 – IDT suppliers delta between the 2017 Statement, Schedule of Costs and Evidence of Cost**

	a	b	c	d
IDT Costs (£m)	2017 Statement	Schedule of Cost	Evidence of Cost	Delta (c – a)
		8.250	8.227	N/A
		6.303	6.094	N/A
		5.157	5.228	N/A
	42.490	5.412	5.412	N/A
		5.392	5.385	N/A
		10.085	10.017	N/A
		1.947	1.951	N/A
<b>Total IDT costs (Capex)</b>	<b>42.490</b>	<b>42.546</b>	<b>42.314</b>	<b>(0.176)</b>

## 2.6 2017 opex costs

### 2.6.1 Introduction

HAL provided a schedule containing 2017 Category B opex costs, named as “the 2017 Opex Schedule”. For clarity, the “2017 Opex Schedule” is a separate file to the 2017 Statement but HAL has communicated that they anticipate these costs to be treated and recovered in the same manner as the Category B costs included in the 2017 Statement. As a result, and at the request of the CAA, they have been included as part of this review.

The 2017 Category B Opex costs presented are summarised in Table 17 and include costs relating to:

- Security
- CAA costs.

### 2.6.2 Approach

In line with our intended purpose, we sought to validate that the Opex costs included in the 2017 Opex Schedule are supported by appropriate evidence. We sought to reconcile the 2017 Opex Schedule cost to a Schedule of Cost, and verify that costs within the Schedule of Cost were supported by appropriate Evidence of Cost by way of invoices.

We were provided with a Schedule of Cost “2017 Security Costs\_Facilitated.xlsx” and “2017 CAA Fees\_Facilitated.xlsx” which contained embedded images of the appropriate invoices.

### 2.6.3 Reconciliation between the 2017 Opex Schedule, Schedule of Cost and Evidence of Cost

#### 2017 Opex costs – £2.811m

**Schedule of Cost:** HAL provided two Schedule of Cost documents, “2017 Security Costs\_Facilitated.xlsx” that totalled £1.296m and “2017 CAA Fees\_Facilitated.xlsx” that totalled £1.515m. The Schedules of Cost detailed the supplier, a brief description, the invoice number and the invoiced amount in support of the Opex Schedules.

**Evidence of Cost:** HAL provided invoices for security and CAA costs which collectively totalled £2.313m for 2017. As shown in Table 17, this is £0.498m lower than the 2017 Opex Schedule.

In support of the costs related to security we have been provided with invoices totalling £0.989m, which is £0.307m less than the 2017 Opex Schedule. Of the £0.309m:

- £0.068m is due to invoices not being provided
- £0.239m is due to accruals not including appropriate evidence such as supporting rationale and calculations.

In support of the CAA Costs HAL provided invoices totalling £1.324m and £0.191m for accruals that have been substantiated with supporting rationale.

The CAA invoices for 2017 include some invoiced costs from 2016. HAL has verbally advised that they were not aware of the costs in 2016, and only became aware of these costs when the CAA submitted these invoices in 2017.

**Table 17 – Opex cost delta between the 2017 Opex Schedule, Schedule of Costs and Evidence of Cost**

	a	b	c	d
Opex Costs (£m)	2017 Opex Schedule	Schedule of Cost	Evidence of Cost	Delta (c – a)
Additional Security: ██████████	1.200	1.200	0.961	(0.239)
Additional Security: ██████████	0.068	0.068	–	(0.068)
Additional Security: ██████████	0.028	0.028	0.028	–
CAA Costs	1.515	1.515	1.324	(0.191)
<b>Total costs (Opex)</b>	<b>2.811</b>	<b>2.811</b>	<b>2.313</b>	<b>(0.498)</b>



## Section 3

Are the costs presented in the Updated Submission correctly categorised as Category B?

# 3.1 Introduction, approach and key findings

## 3.1.1 Introduction

CAA guidance documents CAP 1513 and CAP 1651 provide guidance on the categorisation of cost into three categories, which are summarised in Table 18.

## 3.1.2 Approach

In line with our intended purpose, we sought to validate that the costs included in the Updated Submission were:

- incurred by HAL after the Government announcement on 25 October 2016
- solely associated with seeking planning permission for the delivery of new runway capacity.

We reviewed the additional information provided by HAL, specifically the documents identified in Table 8 and any other documents referred to within these files. In conjunction with this review of contracts, purchase orders, invoice descriptions and the 2016 Cost Paper we held facilitated discussions with HAL in order to confirm the nature of the scope and the delivery period for the work to assess whether it fitted the description of Category B costs.

**Table 18 – Cost categories**

<b>Category A costs</b>	These costs are costs which were incurred by HAL during the Airports Commission process, or before Heathrow was named as the preferred location for new runway capacity on 25 October 2016.  These costs are not generally recoverable.
<b>Category B costs</b>	Capacity expansion costs that are, in general, incurred by HAL after the Government policy announcement on its preferred location for new capacity on 25 October 2016 and are associated solely with seeking planning permission for the delivery of new runway capacity at Heathrow, as defined in Cap 1513.  These costs are generally recoverable.
<b>Category C costs</b>	Those costs incurred by HAL in connection with implementation and construction of new capacity, up to entry-into-operation. The majority of these costs will typically be incurred after planning permission is granted.  These costs are generally recoverable.

Further detail is provided in the following sub-section:

- Section 3.2: Where Evidence of Cost has been provided are these costs incurred by HAL after the Government announcement on 25 October 2016 and solely associated with seeking planning permission for the delivery of new runway capacity.

### 3.1.3 Key findings

#### Key findings from the Supplementary Report

Key findings from the Supplementary Report The overall difference between the £82.183m Updated Submission balance compared to the Evidence of Cost totalled £2.869m (3.5%); as a result we are unable to comment on whether these costs were incurred in relation to the Expansion Programme, or for other activities.

Of the evidenced £79.314m (96.5%) Updated Submission balance costs, we were unable to verify:

- £1.169m of 2017 staff costs relating to 2016.
- £0.319m of 2016 costs as being correctly categorised as Category B costs.

These costs have been identified as being incurred post the Government announcement on 25 October 2016, yet the Evidence of Cost evidences that they appear to have been incurred prior to the Government announcement.

Furthermore, for an additional £0.515m of 2017 costs we have seen Evidence of Cost that does not appear to have been incurred in 2017 given the invoices were dated in 2018.

#### Summary findings from the Report

The overall difference between the Statement and Opex Schedules compared to the Evidence of Cost totalled £35.144m or 40%; as a result we were unable to comment on whether these costs were incurred in relation to the Expansion Programme, or for other activities.

Of the evidenced £51.652m Statement costs and £1.653m Opex Schedules costs, we were unable to verify that £0.200m (PCP mobilisation activities) of Statement costs and £1.653m (Security and CAA costs) of Opex costs have been correctly categorised as Category B costs.

Of the £27.917m unevidenced Statement costs and £7.227m Opex Schedules costs, we identified a number of specific areas that did not appear to be correctly categorised as Category B.

## 3.2 Where Evidence of Cost has been provided are these costs incurred by HAL after the Government announcement on 25 October 2016 and solely associated with seeking planning permission for the delivery of new runway capacity?

We were unable to verify £2.869m (3.5%) of the £82.183m Updated Submission costs to Evidence of Cost (source documentation). As a result, we are unable to comment on whether these costs were incurred in relation to the Expansion Programme, or for other activities.

### 3.2.1 Specific items that do not appear to be correctly categorised

We were able to verify to £79.314m of the £82.183m Updated Submission costs to Evidence of Cost (source documentation). Whilst there was appropriate Evidence of Cost provided, there were a number of specific items totalling £1.488m that did not appear to be correctly categorised as Category B. These specific areas are set out below.

#### 2017 staff costs relating to 2016 – £1.169m

HAL provided information in the Schedule of Cost which included staff costs relating to 2016 for Expansion Programme staff which totalled £1.169m paid in March 2017. We were unable to isolate the Category B proportion of the total staff costs relating to 2016. A summary is included in Table 19.

Overall Category B Expansion Programme Colleague costs increased from £0.788m in February to £2.478m in March 2017. This increase was due 31 new HAL staff (including 2 temporary staff) being allocated to the Expansion Programme and the staff costs relating to 2016 in March 2017.

The basis of staff costs relating to 2016 was not made available therefore it is unclear whether the costs paid were accrued from the previous year (when some staff did not appear to be working on the Expansion Programme), and whether staff costs relating to 2016 were for the full year, or part of the year attributable to the Expansion Programme.

#### Incorrect allocation of Category A and Category B costs – £0.319m

Of the costs identified by HAL in the 2016 Costs Paper as being incurred post the Government announcement on 25 October 2016, we identified costs totalling £0.319m which have been claimed as Category B, yet appear to have been incurred prior to the government announcement. These costs do not appear to be consistent with the principles for Category B costs included in the CAA guidance documents 1513 and 1651 and are set out below.

#### Programme team – £0.254m

We were informed by HAL that a contract variation (Compensation Event) was agreed for each of the Programme Client Partners (PCP) to the sum of £0.050m as a:

“contribution towards the mobilisation activities including the planning and preparation of the team for the P0 roles.”

We identified invoices totalling £0.200m (£0.050m for each of the four PCPs Turner & Townsend, Mace, Arup and CH2M) for mobilisation activities.

Furthermore, we identified invoices totalling £0.054m for specific services that were provided prior to the Government announcement on 25 October 2016.

These costs do not appear to be consistent with the principles included in the CAA guidance documents 1513 and 1651 for categorisation of Category B costs given the costs appear to be for work completed prior to the Government announcement on 25 October 2016.

**Table 19 – Staff costs relating to 2016**

Cost Item	Total (£m) Category B, C and Opex	Total (£m) Category B
Total Payment for March 2017 – Direct Employees	1.891	1.629
of which relates to ██████████	1.145	
of which relates to ██████████	0.005	Unable to isolate
of which relates to ██████████	0.019	
Total staff costs relating to 2016	1.169	Unable to isolate

### Design and development – £0.035m

We identified £0.022m of invoices that do not clearly identify the time period when the services were provided. As such, we have been unable to determine whether they are consistent principles included in the CAA guidance documents 1513 and 1651.

Furthermore, we identified £0.013m of invoices for specific services that were provided prior to the Government announcement on 25 October 2016. These costs do not appear to be consistent with the principles included in the CAA guidance documents 1513 and 1651 for categorisation of Category B costs given the costs appear to be for work completed prior to the Government announcement on 25 October 2016.

### Consents £0.030m

We identified £0.030m of invoices for specific services that were provided prior to the Government announcement on 25 October 2016. These costs do not appear to be consistent with the principles included in the CAA guidance documents 1513 and 1651 for categorisation of Category B costs given the costs appear to be for work completed prior to the Government announcement on 25 October 2016.

## 3.2.2 Specific items identified in the Report which are now evidenced as Category B

In the Report a number of specific areas were identified that did not appear to be correctly categorised as Category B costs. The evidence now provided by HAL supports that the following costs are correctly categorised as Category B and are further detailed below.

### 2016 Capex and opex costs

The 2016 Costs Paper provided by HAL sets out the different programmes of work that were carried out from 01 January 2016 to 31 December 2016, structured pre and post the Government announcement on 25 October 2016. The programmes of work post 25 October 2016 describe activities that are consistent with establishing a programme team and seeking planning permission for the delivery of new runway capacity. As agreed with the CAA, we have not reviewed the costs pre 25 October 2016.

### 2017 opex costs additional security

Further information has been made available by way of contracts, internal notifications and external reports of protester activities along with further discussions with HAL. Whilst the contracts do not make specific reference to the Expansion Programme, we have been verbally informed by HAL that these costs are specifically for additional Expansion specific security, and have been provided with copies of internal HAL emails and statements supporting that protester activities were planned at the time when the additional security costs were incurred.

### 2017 opex costs CAA costs

Further information has been made available that has enabled the specific CAA line items to be identified and understood. The CAA has confirmed that the costs identified in “2017 CAA Fees\_ Facilitated.xlsx” file are correctly categorised as Category B costs.

## 3.2.3 Other points of note

### Allocation between 2017 and 2018 – £0.515m

We identified £0.515m of Evidence of Cost within the £79.314m of verified cost that appear to be correctly categorised as Category B, however do not appear to have been incurred during 2017. Of this £0.515m:

- £0.128m within Programme Leadership related to IT and Security work undertaken during 2016 (post October 25) but with an invoice dated in 2017
- £0.033m within Future Heathrow related to Airspace Design / DCO consultation support where the invoice was dated 2018 and it is unclear when the services were provided
- £0.110m within Consents related to Environment and Planning where the invoice was dated 2018 and it is unclear when the services were provided
- £0.028m related to Other where the invoice was dated 2018 and it is unclear when the services were provided
- £0.216m within IT related to Programme Software, Other IT Masterplan Studies and Other where the invoice was dated 2018 and it is unclear when the services were provided.



## Section 4

Is there evidence to indicate that costs included within the Updated Submission have been incurred in an efficient manner?

# 4.1 Introduction, approach and key findings

## 4.1.1 Introduction

In order to provide an assessment of whether works have been undertaken in an efficient manner we considered four areas of:

- baseline
- governance
- progress and performance
- provision of information.

This section of the report addresses Governance for which HAL has provided further information.

## 4.1.2 Approach

In line with our intended purpose, we sought to confirm whether an established and appropriate governance process was in place to manage the baseline.

## 4.1.3 Key findings

### **Key findings from the Supplementary Report**

HAL has provided further evidence to document the outputs from key engagement reviews, namely the Options Approval Group and the Airline Working Group, for development and evaluation of runway length (which was selected as a representative example).

Otherwise, the findings from the Report remain unchanged.

### **Summary findings from the Report**

The Report findings are retrospective and cover the period 2016 and 2017 when the Expansion Programme was in the early lifecycle stages, having been rapidly mobilised following the government announcement in October 2016.

The Report identified that, as the Expansion Programme matures and develops greater certainty of scope, cost, schedule and risk, there will be a number of thematic opportunities for HAL to operate in a more efficient manner.

## 4.2 Is there an established and appropriate governance process in place to manage the baseline?

When we met with HAL on 06 September 2018 we discussed Section 4.3 of the Report, specifically where we referred to development and evaluation of the runway length options and evidence to document the outputs from workshops.

HAL has provided further evidence to document the runway length options which were reviewed at:

1. an Airline Working Group (AWG) on 01 September 2017
2. an Options Approval Group (OAG) on 30 November 2017.

### **AWG on 01 September 2017**

The evidence provided for the AWG on the 01 September 2017 includes:

- a presentation entitled “2017-09-01 Airline Working Group 03” which documents the information and analysis reviewed at the AWG
- “AWG 3 final draft 11 Oct 2017 Summary Report” which documents the key points and comments from the AWG and attendees.

### **OAG on 30 November 2017**

The evidence provided for the OAG on 30 November 2017 includes:

- “20171130 OAG Runway length requirements” which documents the information and analysis reviewed at the OAG relating to the runway length options
- “20171130 OAG Agenda and Minutes” which documents the key points and comments from the OAG including those relating to runway length options.





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