



Civil Aviation Authority
(via email)

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Our ref:
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Dear Sir/Madam

Spelthorne response to CAA

Economic regulation of capacity expansion at Heathrow Airport: consultation on early costs and regulatory timetable

Spelthorne Borough Council, a neighbouring authority to Heathrow Airport, welcomes the opportunity to respond to this consultation. As you will note from our responses to previous consultations, we are concerned over the cost of expansion and the implications on the project itself and our borough, which will be significantly impacted by the quantum and scale of development associated with the third runway.

Whilst the CAA is not seeking to determine whether Heathrow Airport Limited (HAL) expansion strategy will meet the targets set out in the National Policy Statement (NPS), as this is a decision for the planning process, it must however focus on assessing what level of efficient costs are in consumers' interests and should therefore be passed through to airport charges.

In funding terms, the NPS principally focuses on HAL being able to show that there are no financial impediments to the scheme proceeding. Delays in HAL's expansion schedule already mean that a price control business plan will not be practicable by the middle of 2019 and the CAA have confirmed that this should now be provided by the end of December 2019. In the absence of a business plan that articulates efficient costs and finance, affordability and deliverability, as well as one that reflects consumer views and preferences to the fullest extent practicable, we are left with questioning whether the consultation on early costs are in themselves not premature. At a suggested total of £2.9 billion (in 2014 prices), consisting of over £500 million of Category B costs (up from £265 million) and £2.4 billion of early Category C costs (up from £750 million), the proposed costs of expansion incurred by HAL *in advance* of receiving a development consent order (DCO) under the Planning Act 2008 have now morphed into a staggeringly unacceptable quantum.

Spelthorne Council is greatly concerned at the mushrooming costs associated with the scheme's early development and the substantial risks generated for airlines and passengers as well as local and national taxpayers having to undertake both statutory and non-statutory work on this non-consented scheme. Indeed, we must openly question whether the costs are necessary or provide value for money.

The NPS also expects that HAL should demonstrate 'that its scheme is cost-effective and sustainable'. HAL's current estimate of £32.5 billion to deliver the new runway and associated 143mppa capacity have increased and there are already changes in the scope of the infrastructure it intends to deliver. That demonstrates that the entire project is still in a state of flux and that DCO

costs, having increased by 89%, are spiralling out of control and must be reigned-in, phased and managed properly.

With regard to HAL's 'new information that has emerged on these [Cat B] costs', it could be considered naïve to accept such cost hikes as there is insufficient detail of what has super-inflated the DCO application costs by £235 million. HAL 'not having developed a sufficiently mature understanding of the scope of work necessary' is refuted as HAL states that in part, they include 'costs items relating to the original scope but excluded from the original estimate'. Hence, it is either HAL mismanagement or an attempt to mask true costs early in the schemes development to minimise and limit opposition.

Obliging the CAA to reference HAL's outdated 2018 presentation of cost adjustments (para 1.11) when HAL has purposely chosen not to release the 'Steer report' (para 1.16) to all stakeholders for the actual robustness of the cost evidence to be scrutinised, is unacceptable. The alleged 'risk sharing' factor of 105/85 based on the granting or refusal of the DCO incentivises HAL to spend an extraordinary sum on its DCO application. At best, this should be pegged at 100% if the DCO is granted and HAL's string of predominantly foreign investors need to carry greater commercial risk. It is rather perverse to think that the CAA's approach is to better incentivise HAL to reduce costs, when HAL's inefficiency continues to be handsomely rewarded (at 5.35% guaranteed return) as reflected in the quantum of shareholder dividends.

Spelthorne respectfully requests that the CAA ensures it has a strong grasp of the governance and risks of this project rather than merely reactive to HAL's steer.

In the context of the need for genuine competition at Heathrow, the aspirations of HAL to submit a £32.5 billion DCO masterplan application that would take three decades to deliver should not be more favourably supported than the alternative 'plug in and play' Arora Heathrow West terminal design that is more commercially driven, cost efficient and operationally effective. There is an inherent risk that CAA's granting of HAL's early Category C £2.4 billion costs (a 220% mark-up on previous estimates) could distort competition by being spent on areas that are unnecessary for the ultimately consented and built scheme. The CAA should heed the obvious health warning in refusing HAL's escalated early Category C costs and avoid any expenditure that might ultimately be wasted.

Accepting HAL's overall revised budget would be wrong. HAL's 'threat' that without CAAs consent to the £2.4 billion of early Category C costs, the artificial target of 2026 for the opening of the new runway would be delayed. That prospect should be a perfectly acceptable scenario that would give HAL a clear message to get a governance grip, stop escalating costs and genuinely work collaboratively for UK plc interests. It would also provide sufficient headroom to invest in public transport and modal shift provision ahead of the operational commissioning of the third runway.

In short, Spelthorne Council is of the opinion that these costs, in the added context of HAL's estimated £32.5 billion expansion plans, are not cost-effective nor sustainable.

I trust our comments will be taken into account in considering the proposals being consulted upon.

Yours faithfully



Ann Biggs
Strategic Planning Manager