


Draft guidance on capital expenditure governance

CAP2524G

A large, abstract graphic composed of overlapping blue and purple shapes, primarily a large blue trapezoid with a curved bottom edge, and a darker purple shape at the bottom right corner.

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About this document

Our Final Decision for the next price review (“H7”) of Heathrow Airport Limited (HAL) includes a new framework of incentives that are intended to drive efficiencies in how HAL plans and deliver capital expenditure (“capex”).

We consider that there are opportunities to improve the current arrangements through which HAL engages with stakeholders, notably airlines, as part of the process of managing capex projects.

This document sets out our proposals for enhancing the current capex governance arrangements. We consider that these will improve the quality of engagement that takes place, and enable the effective implementation of our H7 proposals.

If you would like to discuss any aspect of this document, please contact alex.bobocica@caa.co.uk.

Chapter 1

Introduction

- 1.1 It is important that Heathrow Airport Limited (HAL) undertakes capital expenditure (“capex”) in an economic and efficient manner. This helps to ensure HAL is able to operate, maintain and develop airport services so that the reasonable demands of users of air transport services are met and that costs are kept down.
- 1.2 We aim to incentivise capex efficiency both through the way we design and set price controls and through wider licence obligations on HAL. As part of this approach, HAL is required by its licence to comply with certain conditions that relate to how it develops and delivers capex.¹
- 1.3 These include a requirement for HAL to carry out appropriate consultation with users, airlines and other relevant stakeholders (“stakeholders”), and obtain airline approval for projects passing through project gateway “G3”.² Through this process, HAL must provide stakeholders with timely and accurate information to ensure they can take an informed view on its proposals. In turn, HAL must take these views into account in deciding on the future development of its proposals.
- 1.4 HAL is also required by its licence to consult on, agree and publish a protocol setting out how it will satisfy its obligation to consult. This protocol must reflect any elements set out in relevant guidance from the CAA, which we must first consult upon.
- 1.5 At present, HAL issues the documentation that aligns with this requirement via the Capital Efficiency Handbook, which airline stakeholders can access by means of a SharePoint site. In chapter 3, we describe the actions we expect HAL to take to ensure stakeholders have accessible information on projects and performance. This information includes HAL’s documentation on its approach to consultation on capex.
- 1.6 The existing governance arrangements have evolved through discussions between HAL and airlines over time. In general, we welcome this type of engagement and encourage both HAL and airlines to continue to work together to review and adapt arrangements as required.

¹ See, in particular, Condition B.3 (Promoting economy and efficiency) and Part F (Consultation conditions).

² The governance process around capital expenditure requires a project to proceed through a number of gateways as it is developed and delivered. Gateway 3 (“G3”) is the point in the process where the requirement, scope and budget is agreed jointly by HAL and airlines. This is the Gateway through which a project progresses from ‘Development’ to ‘Core’.

- 1.7 Nonetheless, there appears to be scope to further enhance the current governance arrangements for capex. This includes ensuring that the arrangements are appropriately developed to take account of the approach we have taken to promoting capex efficiency in the H7 price control review. In this document, we are consulting on our proposed guidance for how HAL should engage with stakeholders in the development and delivery of capex projects.
- 1.8 We began the process of reviewing whether there need to be changes to the existing governance arrangements shortly after publishing our Final Proposals for the H7 price control. We have now confirmed our decision on these proposals in our Final Decision. We are introducing a framework of forward looking (or *ex ante*) capex incentives through which the efficiency of HAL's capital investment will be assessed by comparing out-turn costs of an individual project against that project's previously agreed cost baseline.
- 1.9 This cost baseline will be the project budget agreed with airlines at G3. For this process to be effective, it is essential that airlines are well informed and have sufficient information available to them about the nature, scope and expected benefits of the project in question. To ensure this is the case, airlines must be provided with the information and analysis they need to be able to meaningfully evaluate a project's proposed scope, delivery timetable, cost and benefits. This guidance is intended to ensure that airlines are provided with the required scope and quality of information on a consistent basis. In compiling this guidance, we have taken account of principles that guide best practice applied in other industries: this includes, but is not limited to, the Infrastructure and Projects Authority's 'Principles for project success'.³
- 1.10 We are also mindful of the need to minimise any additional cost and time delay to the delivery of projects that our framework of *ex ante* incentives might otherwise cause. This guidance is, therefore, also intended to ensure that the resource and time of both HAL and airlines is focussed on those aspects of expenditure where airline scrutiny is likely to be most valuable.
- 1.11 While this guidance is primarily directed towards HAL, we recognise that the effective planning and delivery of capex also requires engagement from airlines; as well informed users of the airport's infrastructure and services they can help to promote efficient and timely investment in the interests of consumers. In fulfilling this role, it is important that airlines' requirement for information is proportionate and directly relevant to the development of the capex project being discussed, or the wider programme of which that capex project is a part.
- 1.12 Our approach to identifying enhancements to the current arrangements has been to engage with both HAL and the airlines to understand where they see

³ [IPA Principles for Project Success.pdf \(publishing.service.gov.uk\)](#)

opportunities for improvement. Where relevant, we highlight where our proposals reflect the outcomes of these discussions and where one party has expressed concern at a proposed reform. In responding to this consultation, all stakeholders have a further opportunity to provide us with their views on the overall package of guidance before we issue it.

- 1.13 As noted above, our decision to review existing governance arrangements was made with a view to supporting the implementation of a framework of *ex ante* capex incentives. Nevertheless, we consider that the changes that we have set out in this proposed guidance are likely to streamline existing arrangements and improve the quality of information used to inform decisions on capex projects. In our view, these reforms would benefit airport stakeholders, and ultimately consumers, regardless of the approach to assessing capex efficiency in H7.
- 1.14 We welcome views on our proposed guidance. Please e-mail responses to economicregulation@caa.co.uk by no later than: Friday 28th April 2023.
- 1.15 We cannot commit to take into account representations received after this date. We expect to publish the responses we receive on our website as soon as practicable after the period for representations expire. Any material that is regarded as confidential should be clearly marked as such and included in a separate annex. Please note that we have powers and duties with respect to information under section 59 of the Civil Aviation Act 2012 and the Freedom of Information Act 2000.

Chapter 2

Summary of our proposed guidance

2.1 At present, HAL has in place a governance framework to support its delivery of capex projects. For the most part, this framework appears to be a reasonably effective means of engaging with airlines in the development of a capex project and securing their agreement before commencing delivery.

2.2 Nonetheless, we have identified a number of potentially important ways to enhance the current processes and these are set out in the following chapters.

2.3 The following two chapters set out our proposed guidance, which is made up of the following sections.

Chapter 3

Standard information provision

2.4 We propose to standardise the information that airlines receive at various stages of project development (that is, the project “gateways”).

Assessment of information

2.5 Our intention is to consolidate, speed up and improve the quality of the assessment of underlying and commonly applied standards/processes relating to capital projects. We also intend to focus resources to undertake more detailed reviews of those projects deemed most complex, valuable and/or critical to airline operations.

Delivery Obligations (“DOs”)

2.6 We set out requirements to establish the objective metrics that will be used to indicate if a project has been successfully delivered.

Accessible information on projects and performance

2.7 This section clarifies the information that we expect HAL to publish in an accessible format and location.

Chapter 4

Role of the CAA and next steps

2.8 We explore how the CAA will consider capex-related disputes brought to us for determination.

2.9 Our intention is that these enhanced arrangements should not add unnecessary time or cost to the process of developing and delivering a project. We consider that by standardising and streamlining certain elements, the overall time involved

in taking projects through the governance process should be reduced. While our proposal for independent scrutiny of certain information may involve additional cost being incurred on a limited number of projects, we consider that these costs should be outweighed by benefits arising from more rigorous scrutiny, such as the identification of better quality and more cost-efficient solutions.

- 2.10 We are, however, mindful that these arrangements may take time to “bed in” or may not operate as intended at first. For this reason, we intend to monitor the effects arising from the implementation of this guidance. If we consider it necessary, we may subsequently update this guidance, following consultation.

Chapter 3

Proposed Guidance

Standard information provision

- 3.1 In our view, an effective capex governance process depends on the quality of information that HAL provides for each project.
- 3.2 We acknowledge that currently HAL appears to provide airlines with the information they require to approve spend and outputs associated with most projects. However, we are aware of airline concerns that, for certain projects, they do not receive what they consider to be essential information at the most appropriate time. We also note HAL's concerns that, on occasion, airlines can request additional information which HAL does not consider is relevant to that stage of the governance process, resulting in additional time and resource being diverted to provide the material requested.
- 3.3 We consider, therefore, that a standardised set of questions/information should be established and applied to each project. This should provide HAL and airlines with a baseline expectation on what common information will be made available to support decision making.
- 3.4 We consider that the information should as a minimum address the following aspects of a project.

Table 1: Minimum information categories

Categories of information to be covered by standard questions		
<ul style="list-style-type: none"> • Project need • Project outputs • Operational impact • Delivery timetable • What will constitute the completion of the project 	<ul style="list-style-type: none"> • Options considered • Risks/opportunities • Costs • Quantifiable benefits and significant non-quantifiable benefits 	<ul style="list-style-type: none"> • Standards/processes applied

- 3.5 In Appendix 1, we set out the type of standard questions we will normally expect HAL to address for each project in relation to the above. These have been informed by a similar set of common requirements that were initially identified by airlines. We note that, in response to the airlines' proposal, HAL has proposed a structure to the provision of information, highlighting at which point in the project process the requested information will be provided.
- 3.6 We welcome views on both the content of these proposed standard questions and when in the project process this information should be provided.

- 3.7 We also encourage HAL and airlines to engage constructively on the issue of standardised information provision. If this engagement results in agreement on an alternative set of questions, then we would be likely to accept this alternative proposal.
- 3.8 We recognise that for individual projects, other information may be required. The standardisation of common questions/information should not restrict HAL from providing airlines with other information, where that is relevant for the purpose of facilitating a timely and high-quality project decision.
- 3.9 Airlines may also request that HAL provides 'follow-on' information, where they consider that the initial response from HAL prompts the need for additional detail or justification. We would, however, expect any such additional information to be requested in good time before when the relevant decision needs to be made and not relate to new issues that could have reasonably been identified earlier. Any party requesting this information should clearly justify the relevance of the material and consideration should be given to the cost/resource and time associated with providing that information.
- 3.10 If the burden of providing this information appears to be more than its value or relevance, then HAL should seek to agree a different and better approach with airlines and should not be obliged to provide unnecessary material ahead of seeking airline agreement.

Question:

Q1. Do you have any comments on the proposed set of standard questions we have set out in the Appendix?

Q2. By which gateway in the project process, should the response to each standard question be provided by HAL?

Assessment of information

- 3.11 While the provision of key information is essential for effective capex governance, it is only of use if airlines can meaningfully evaluate that information. If they are not well placed to do so, then there is a risk that airlines may agree to a project proceeding without full confidence in whether it is the most efficient solution available. Equally, airlines may choose not to agree with a proposed project, despite HAL providing good quality justification for their preferred scheme.
- 3.12 In our view, for much of the key information related to each project, airlines have sufficient experience and insight to appraise the material issued by HAL. However, we consider that there is benefit from supplementing these arrangements by providing airlines with additional support in relation to:
- assessing common standards and processes; and

- undertaking a more detailed review for some projects (to be identified by HAL and airlines, subject to some criteria discussed below).

3.13 We address each of these two issues below in turn.

Assessment of common standards and processes

3.14 Some of the information that HAL may be required to provide is likely to relate to the standards or processes that it applies on a common basis across most, if not all, projects. These may relate to HAL's approach to the following activities, among others:

- design and planning standards;
- asset management strategy/policy;
- business case development;
- quality assurance procedures;
- procurement policies;
- approach to risk management; and
- project controls.

3.15 In combination, HAL's approach to these activities is likely to have a fundamental impact on the cost of projects. Therefore, when airlines are asked to agree the cost of a project, they should have assurance that HAL's standards and processes are appropriate and efficient.

3.16 However, undertaking a meaningful assessment of HAL's management of these activities is likely to require insight into the equivalent arrangements that are commonly applied across the construction industry. This skill-set, and the related experience, may not be fully and readily accessible to airline stakeholders.

3.17 We also consider that, in general, HAL is unlikely to vary its approach to these activities radically for each project, or projects within a programme. It would, therefore, appear to be disproportionate for airlines to make a separate assessment of HAL's approach to these activities for each individual project.

3.18 After reflecting on these points, we consider that the standards and processes that HAL commonly applies across projects or projects within a programme should be independently reviewed to give all parties the confidence that these are appropriate and up to date.

3.19 As part of this process, HAL should clearly document the standards and processes it has in place for its capex activities, when these were put in place and/or last reviewed and the sort of projects where it expects these standards and processes to apply.

- 3.20 The focus and timing of this review (or reviews) should be tailored to reflect standards and processes that are likely to be the most important drivers of cost for upcoming projects.
- 3.21 We consider that HAL and airlines should be able to agree whether this review should be a single assessment covering all relevant standards and processes for H7 investment or should be undertaken in phases throughout the period. The approach taken to this review must not unnecessarily delay the progression of projects through to construction. We would expect the assessment of relevant standards and processes as a requirement for a G3 investment decision only for those individual projects where these standards are a significant driver of costs.

An independent review of common processes and standards

- 3.22 This review (or reviews) should consider the extent to which HAL's process and standards reflect best practice elsewhere in the construction industry, or other relevant comparators. The review should either conclude that HAL's processes and standards are appropriate or identify where these should be updated or enhanced in keeping with best practice.
- 3.23 In principle, this review can be undertaken outside of the Gateway process that individual projects must proceed through. Where the review has been completed and concluded that HAL's approach is appropriate, then further airline scrutiny of these standards/processes should not be required on individual projects as part of the process of securing airline agreement.
- 3.24 In our view, this is likely to speed up the progression of projects through to delivery.
- 3.25 At this time, we are not specifying how many of these reviews need to be undertaken. It may be that a combination of standards and processes can be collectively assessed across HAL's entire capex plan. However, there may be certain groups or programmes of projects that warrant a separate and more bespoke assessment of HAL's standards and processes. We expect HAL and airlines to agree the scope, focus and timing of these reviews.

Selecting an assurance provider

- 3.26 It is important that the organisation undertaking the assessment can provide a fully independent view with reference to wider best practice. The selection of the preferred provider should be agreed between HAL and airlines, and the report(s) should be directly issued to both parties at the same time.
- 3.27 We expect that this review should be funded through HAL's capex allowance.

Question:

Q3. Do you have any comments on our proposal to require an independent assessment of the standards and processes that HAL commonly applies to capex projects?

More in-depth scrutiny

3.28 For projects that are more complex, or more costly, or which have a greater impact on airline operations (either during construction or post delivery), we consider that there is likely to be benefit from a more detailed review where this provides airlines with assurance that, in developing its preferred scheme, HAL has appropriately considered factors such as the:

- underlying drivers for a project and how these may change under a range of plausible scenarios;
- different solution options that have been considered, including the assessment of relative costs, risks, benefits and operational impacts of each option (that is, a business case assessment);
- opportunities where HAL has sought to seek capex/opex efficiencies by co-ordinating works with other schemes;
- procurement process that HAL has undertaken to secure value for money;
- benchmark cost information that HAL has used to assure the efficiency of the project budget; and
- approach to the identification and management of risks.

Independent support for more detailed reviews

3.29 Over the course of 2022, airlines have highlighted the need for independent support in relation to different projects.

3.30 We agree that the quality of existing airline scrutiny is likely to be enhanced by expert support, particularly for projects that may not directly relate to airline operations. A major benefit arising from airline engagement is the direct access to their knowledge as relatively well informed users of the airport. We would not want any additional use of consultants to be at the expense of airlines directly inputting their internal knowledge and expertise to these processes. In our view, the assessment of this type of information for a specific project is likely to require the input of independent consultants with expertise in project/programme development and construction. This set of skills and experience can help to compare HAL's approach against good industry practices.

- 3.31 We have found that the use of the IFS to assess the efficiency of project delivery has helped to provide independent and informed assurance to all parties, and the IFS can bring wider knowledge related to projects such as surface access related projects. To a degree, the airlines' proposal appears to be a natural extension of this arrangement and combining the assessment of project development as well as delivery may be the most efficient approach. Our initial position, therefore, is that the IFS appears to have the necessary capability to undertake this role in combination with its existing function. As noted below, we welcome views on this.
- 3.32 We consider that a provisional decision on which projects should be subject to a more detailed review should be made at Gateway 1 or earlier, and only revisited in the event of a material change in the project scope or cost. We consider that it is reasonable and efficient if HAL has an early understanding of the nature of the assessment for each project.
- 3.33 To support engagement with airlines on this, HAL should produce annually, and at least six months in advance of the start of the year, a list of all projects that are due to proceed through G3 in each year. This should form the basis of consultation with airlines on which should be subject to a more detailed review.
- 3.34 The output from the independent review will be a report jointly issued to the airlines and HAL on the reasonableness of the approach to the above that HAL has taken. To be clear, it is not the role of the independent reviewer to "co-design" or propose a preferred and alternative solution. Ultimately HAL must be responsible and accountable for the efficiency of capex solutions and the impact they have on the functioning of the airport.
- 3.35 Where the independent reviewer's report identifies concerns with HAL's approach, then we expect HAL to use reasonable endeavours to address these, before proceeding to the next gateway stage.

Projects in scope for a more detailed review

- 3.36 We have considered whether a cost threshold should be applied to determine which projects should be subject to a more detailed review. We agree with airlines that a simple separation based on cost may be too "blunt" an approach. It may be essential to evaluate in depth certain projects of a lower value, but which are relatively more complex and/or likely to have a critical impact on airline operations. Equally, there could be larger value projects that are comparatively straightforward and do not warrant additional scrutiny, for instance a major lift/escalator replacement programme involving the repeated installation of the same asset.
- 3.37 For this reason, we are not proposing a financial value be applied as the sole means of determining which projects are subject a more detailed review. But we

would expect there to be a reasonably strong degree of correlation between the size of projects and those selected for additional assessment.

- 3.38 We do, however, recognise HAL's concern that a more detailed assessment will involve additional time, cost and resource compared to existing arrangements. HAL's view, which we agree with, is that there needs to be some restraint on the frequency with which the a more detailed review is undertaken. This is to avoid excess costs and delays to the delivery of projects.
- 3.39 We therefore request that, in responding to this consultation, airlines and HAL identify those projects that are due to proceed through G3 in the next 12 months that would be a suitable for a more detailed review. We will use this information to assess the amount of resource, cost and time that might be associated with this arrangement. If we consider it to be necessary, we may issue further guidance on the number of projects that we consider should be subject to a more detailed review.

Question:

Q4. What are your views on whether the IFS should support a more detailed review and/or whether a different approach to supporting these assessments should be developed?

Q5. Do you have any comments on our proposal to require HAL to publish a list of projects due to proceed through G3, at least 6 months in advance of the start of each year?

Q6. Which projects that are due to proceed through G3 in the next 12 months would be suitable for a more detailed review?

Q7. For each project you think should be subject to a more detailed review, please specify:

- **Why you think this project is suitable?**
- **Between which gateways should this assessment take place?**
- **What percentage of the estimated overall cost of the project, should be allocated for this assessment?**

Delivery Obligations

- 3.40 In our Final Decision for H7, we require all projects to have DOs specifying (through SMART targets) the key indicators that will show if the project has delivered what was intended and agreed by HAL and airlines. These DOs should be described in terms of outputs, quality (in terms of design and/or planning standards) and timescales, although these may vary depending on their

relevance for an individual project. Performance against these DOs will be used to adjust capex baselines for the purpose of reconciliation with out-turn expenditure.

- 3.41 DOs should provide an objective means of establishing whether a project has been delivered in line with the assumptions that informed its original budget and programme. We consider that all stakeholders will benefit from these matters being assessed in an objective manner and against metrics that have been established at the time the budget was set.
- 3.42 In principle, we see no reason why the content of DOs (outputs, quality and timescales) would not be discussed and agreed through existing governance arrangements. If this is not the case, then our expectation is that these elements should be covered by the standard set of questions/information provision described in the section above and agreed by no later than G3.
- 3.43 In discussions with stakeholders, there was some uncertainty around how DOs should distinguish between the efficiency with which a capital project has been delivered and the operational performance of the associated assets. To clarify, our view is that the DOs should specify the key aspects of the infrastructure that drive the cost and anticipated benefits of the project. This will vary between projects but might include elements such as specific items of equipment (such as a new baggage system), number of units (for example, X new air bridges), size and the performance capability that these dimensions are intended to achieve (which might be expressed, for instance, in terms of the number of bags or passengers per hour that a facility is capable of processing).
- 3.44 In terms of a DOs, HAL and airlines can choose to either specify the key dimensions of the infrastructure to be delivered or, if there is agreement between airlines and HAL to avoid that level of granularity, the overall performance capability.
- 3.45 If the performance capability is the chosen DO, then it will be necessary to measure whether this has been delivered in practice through a demonstration that the expected performance capability specified in the original project design can be achieved in practice. This assessment must be undertaken within a finite time period. In this example, we would anticipate that testing of the expected performance capability would be an essential feature of the handover of the asset into the operation of the airport. Once the facility has been handed over, however, its ongoing level of operational performance should be subject to incentives through the OBR framework.
- 3.46 HAL has raised concerns that the process of agreeing DOs could involve an excessive amount of additional time. HAL's view assumed that the existing process of agreeing triggers for a small number of projects would need to be replicated for all projects in order to agree DOs.

- 3.47 We do not consider that this needs to be the case. The existing governance arrangements require airlines to agree the key deliverables for each project and, for most projects, particularly those that are not subject to triggers, this appears to involve relatively few meetings and information that is presented at a summary level. We see no reason why these arrangements would not continue to be suitable for most projects for the purpose of agreeing DOs.
- 3.48 We recognise that, for more complex projects, the process could become more involved. Again, we do not see any reason why in principle this would be different from the current arrangements. Experience at Heathrow and from other relevant infrastructure sectors is that projects that are more critical and complicated will involve more discussion (with airlines) before agreement can be reached.
- 3.49 Our H7 Final Decision also requires a weighting to be applied to each DO, indicating what proportion of the overall baseline would be associated with performance against that Obligation. We recognise that this aspect of setting DOs is not an activity that is currently undertaken. The use of weightings is for the purpose of calculating a baseline adjustment. In our view, this establishes the relative importance of different aspects of a project that may impact on its cost, and that should be considered in the process of making an adjustment to the capex baseline.
- 3.50 In support of seeking to streamline the process of setting DOs, in the first instance, we expect these weightings to be evenly allocated across DOs.
- 3.51 Should airlines or HAL request a different allocation on an individual project, then this should be supported through a clear justification as to why this would be appropriate, and an assessment undertaken by both HAL and airlines of the potential impact of this. We propose that an alternative allocation of weightings should be agreed by no later than Gateway 2. An early understanding of priorities is necessary for HAL to ensure its planned delivery approach reflects the relative importance of each DO.
- 3.52 Throughout this guidance we have referred to G3 as the critical gateway when budgets and DOs should be agreed. To be clear, we recognise that any changes (to budget or DOs) that are subsequently agreed through the established Change Control process supersede those that were first established at the original G3. Should there be a requirement to stop a project permanently after it has been through G3, we expect the Change Control process to make the necessary adjustments to the project cost and DOs to reflect the work undertaken to that point.
- 3.53 HAL has requested that the CAA provide detailed instruction and templates for establishing DOs. We do not consider this is either necessary or appropriate. We expect HAL and airlines to agree a process for identifying and documenting DOs

(and the measures of performance against these). Whatever approach is decided upon, it must ensure that, at G3, HAL and airlines have agreed and documented the DOs for the project that they consider appropriately reflect the key drivers of cost. HAL and airlines also need to ensure that for each DO there is an objective metric in place that can be used to determine if the associated Obligation has been met.

- 3.54 We encourage all parties to apply a process and approach to documentation that is proportionate to the size and complexity of the project. We anticipate that a relatively streamlined approach can be applied for most projects. The process should ensure that projects that are likely to involve more extensive discussion should be clearly identified at an early stage.
- 3.55 Through the process of agreeing documentation to support the setting of DOs, HAL should also set out how they will report to stakeholders, and the CAA, on their performance against DOs. As part of this, we will expect to see HAL provide information on a project-level basis that sets out:
- baseline capex agreed at G3;
 - DOs agreed at G3;
 - performance against DOs once the project is completed;
 - adjusted baseline capex reflecting performance against DOs; and
 - actual expenditure incurred.
- 3.56 This reporting, which we consider should be done at least on an annual basis, but could potentially be more frequent, will support the process of adjusting capex baselines for any under delivery, to enable the end of period reconciliation process to take place.
- 3.57 If there are specific aspects to this process where stakeholders require further guidance, then we will take this into consideration. We will expect requests of this nature to explain why they require more information on a process that will be undertaken by the CAA. Having considered this, we may provide further guidance in due course.
- 3.58 Finally, in relation to DOs, we recognise that there may be a requirement for further input from CAA to help address issues that emerge once the activity to apply these begins in earnest. We commit to providing ongoing support where we consider this to be necessary.

Question:

Q8. Is there any further guidance that the CAA can reasonably provide at this time that would be helpful in setting DOs?

Accessible information on projects and performance

- 3.59 To support effective engagement on projects, including the assessment of performance, HAL will need to make available certain information to airlines and other stakeholders. This includes the information that needs to be provided on individual projects, but also more high-level information to support the consultative process.
- 3.60 In this document, we have described the type of high-level information that we propose requiring HAL to provide. For the purpose of clarity, these proposed requirements are restated below along with the paragraph reference where more detail is available.

Table 2: Information to be provided by HAL

Type of information	Paragraph reference
Documentation on HAL's approach to consultation on capex	1.5
Standards and processes in place for capex activities, when these were put in place and / or last reviewed and the sort of projects where it expects these standards and processes to apply	3.19
HAL should produce annually, and at least six months in advance of the start of the year, a list of all projects that are due to proceed through G3 in each year.	3.33
HAL should also set out how it will report to stakeholders on its performance against DOs	3.55-3.56

- 3.61 We expect HAL to provide the above information in a format that is easy to understand and in a location that is accessible for stakeholders. In support of this, HAL should seek stakeholder views on their preferences for receiving this information.
- 3.62 In responding to this consultation, we invite HAL to outline the format and location through which it will make this information available.

Question:

Q9. Do you have any views on our proposed requirements for HAL to provide accessible information on projects and performance?

In responding to this consultation, we invite HAL to outline the format and location through which it will make this information available.

Chapter 4

Role of the CAA and Next Steps

Role of the CAA

- 4.1 We intend that the application of this guidance will improve the quality of the information shared by HAL with airlines and better enable them to offer their informed input to, and agreement with, HAL's capex proposals.
- 4.2 We recognise that disagreements may arise. In the first instance, we expect HAL and airlines to work together constructively to resolve disputes in a timely manner. To support this, HAL and airlines should agree an appropriate process for escalating disputes where these cannot be resolved at working level. We expect this escalation route to have been fully utilised ahead of any disputes being brought to the CAA. In responding to this consultation, we invite HAL to submit to us the proposed process it has agreed with airlines for resolving disputes.
- 4.3 Should HAL not be able to resolve disputes through these arrangements, then it may be necessary for them to be brought to the CAA for our consideration. Where this is the case, any decision we make will be informed by our consideration of our duties, including whether we consider HAL has acted in a manner likely to promote the timely and appropriate enhancement and development of the Airport in an economical and efficient manner. In providing this guidance, we are setting out the basic governance activities and information provision that we consider are likely to be consistent with an economical and efficient approach to capex delivery.
- 4.4 In this context, our proposed guidance should serve as an indicator of what we may consider in relation to a dispute. Where HAL can demonstrate that it has complied with protocols that align with this guidance and that independent consultant reports have not identified clear inefficiencies, then we are likely to support HAL's approach.
- 4.5 We will also have overall regard for the reasonableness of the conduct of both parties. In particular, we will consider whether parties have sought to resolve issues constructively, engaged in a timely manner and raised issues as soon as reasonably possible.
- 4.6 It should be emphasised though that this guidance is not binding on the CAA. Our assessment of whether and how to intervene in a dispute will be made on a case-by-case basis and in accordance with our duties. In making this assessment we will take into account all the information provided to us.

Question:

Q10. Is there any further guidance that stakeholders think would be helpful in relation to the ongoing role of the CAA in this process?

In responding to this consultation, we invite HAL to outline the process it has agreed with airlines for escalating disputes.

Next steps

- 4.7 We welcome responses to this consultation, and we will consider these fully before issuing the guidance in its final form.
- 4.8 Once this guidance has been formally issued, we expect HAL and airlines to update the existing capex governance protocols accordingly. Ahead of these protocols being updated, we expect HAL to act reasonably to ensure that projects that have not yet progressed through G3 are developed in line with this guidance.
- 4.9 We will closely monitor the impact of aligning capex governance arrangements with this guidance. Where appropriate, we will update the guidance if we see concerns that it imposes an excessive burden and cost on HAL and/or airlines, unnecessarily contributes to delays or where it is failing to ensure projects undergo a sufficient level of scrutiny.

Appendix: Standard questions/information provision

<ul style="list-style-type: none"> • Project need • Project outputs • Operational impact • Delivery timetable • What will constitute the completion of the project 	<ul style="list-style-type: none"> • Options considered • Risks/opportunities • Costs • Quantifiable benefits and significant non-quantifiable benefits 	<ul style="list-style-type: none"> • Standards/processes applied
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Project need, outputs and operational impacts:

1. What is the need for the project?
2. Why is this project required now?
3. What assumptions underpin the business case?
4. What outputs will the project deliver?
5. What are the quantifiable benefits and significant unmonetizable and unquantifiable benefits that the project is expected to deliver?
6. What will be the operational impact of the project during construction?
7. Is this project part of a larger tranche or programme? What is the context for the project and the budget being presented in relation to the scope, costs and criticality of delivery of other projects in the same package or tranche.

Options:

8. What options have been considered, including do nothing, opex alternatives and safeguarding/"do minimum" solutions?
9. What information on cost (including incremental opex and whole-life cost impacts), benefit (including quantified benefits, which may include opex or other efficiency savings) and impact of different options has been considered to identify the preferred option? Has this information been used to assess the value for money of different options, for example using cost-benefit analysis techniques?

Standards/Processes

10. What design standards have been applied to this project?
11. What is the approach to risk management and what proportion of project cost does this constitute?
12. What procurement processes have been applied? What other processes or policies have been applied, for example Asset Management policies for relevant projects?

13. What project management controls will be in place?

Costs

14. What is the estimated cost by category, including central costs such as Leadership and Logistics, incremental opex and whole-life costs?

15. What percentage of the project has been tendered?

16. What percentage of the work is being delivered by 3rd parties?

17. How has the cost been benchmarked?

Risks/Opportunities

18. What lessons have been learned from previous projects?

19. What are the top five opportunities/risks that relate to at least 80% of the total and opportunities?

20. How are these risks being mitigated?

21. What synergies are possible with other projects?

Project delivery timetable

22. What is the schedule for delivery (including gateway assumptions and milestones)?

23. What assumptions underpin this schedule including constraints such as nightwork, and closure of areas?

Close down

24. When will the project outputs be delivered?

25. What indicators will be used to determine if the project outputs have been delivered?