

Supplementary information request Pre-DCO category C costs

CAA-H7-301

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1. Introduction

1. This note provides responses to the following questions:
 - Heathrow's views on the key findings of the IFS report
 - Heathrow's views on the advantages and disadvantages of the various scenarios including 3a.
 - A more granular breakdown of the cost profile for each of the scenarios. An estimate and clear explanation of any pre-commitments it would be necessary and efficient for Heathrow to make by quarter.
2. The request was raised [REDACTED] on the 24th September 2019, with the response to be provided no later than the morning of 30th September 2019.
3. This note is structured so each Section provides a response to each of the questions above.
4. It should be noted that the information provided within this document does not represent a detailed analysis but a directional indication to aid and inform the identification of the preferred strategic choice.
5. All information provided within this document should be considered confidential.

2. Observations on the IFS Report

1. Heathrow welcome the views of the IFS provided in their report '*HAL Expansion – Pre Consent Category C Spend and Schedule Scenarios*' (6th September 2019)
2. Heathrow were pleased to note that the IFS concluded that sufficient information was provided by Heathrow to conduct a thorough review and to provide a sound basis on which to debate and agree the strategic direction for the programme.
3. Heathrow is working in a timely and efficient manner to deliver one of the most complex planning applications and construction programmes seen in the UK. Multiple estimates have demonstrated the billions in value to consumers from Heathrow Expansion. That is why ensuring momentum is so important to maximise benefits to consumers and the UK.
4. Heathrow notes no major surprises from the findings of the IFS report.
5. Scenario 1 is a challenging schedule which required notable pace and momentum. This scenario has been developed to unlock the benefits of the scheme at the earliest opportunity. However, it has been recognised through Heathrow's own schedule risk analysis and reviews undertaken by Costain (on behalf of the DfT) and Arcadis (on behalf of the CAA) that this is challenging schedule with inherent risk.
6. Heathrow concurs with the IFS view that Scenario 2 illustrates an opportunity to reduce the quantum of pre DCO Expenditure. Heathrow have identified refinement opportunities as suggested by the IFS.
7. There is a choice on the timetable for delivering Heathrow Expansion. Opening the runway by the end of 2026 delivers the most consumer value, estimated at around £7.4 billion¹ NPV (to 2035) compared to a 2027 opening date. The value results from fare savings for existing passengers and benefits gained by new flyers. Furthermore, while moving the runway opening by one year reduces the spend on Pre-DCO Category C spend, it also materially increases the total cost to consumers by creating extra programme costs for a prolonged and less efficient programme. It also does not help the average charge in terms of affordability.
8. Heathrow supports the views of the IFS for Scenario 3 and remains concerned with the risk this places on the 2030 NPS date.

3. Heathrow's Views on the Scenario Alternatives

1. Heathrow detailed the perceived advantages and disadvantages (pros and cons) of the scenario alternatives in Section 4.4 of Heathrow's submission to the CAA on 31st July 2019¹.
2. In examining the previously stated pros and cons for Scenario 2¹, our assessment would be consistent for Scenario 2a with the one additional advantage of providing increased certainty of runway delivery date compared to the original Scenario 2. This is achieved through a resequencing of activities which would not likely require any increase to the pre-DCO expenditure identified for Scenario 2.
3. Our evaluation of the perceived advantages and disadvantages of Scenario 3a are consistent with those identified for Scenario 3, as detailed in Table 4.10 of Heathrow's submission to the CAA on 31st July 2019¹.



4. Indicative Quarterly Pre-DCO Category C Spend Profile

1. Included within this Section are indicative spend profiles for Scenario 1, 2 and 3.²
2. It should be noted that these are indicative spend profiles only, developed for the strategic assessment of pre-DCO Category C spend scenarios.
3. Notable spend commitments are identified for each scenario, which Heathrow have identified as necessary and efficient to support timely delivery of the programme.

² Figures presented have been rounded to the nearest £5m

Scenario 1

| Category C Latest View [£m, 2014p] | FY 2020 Q1 | FY 2020 Q2 | FY 2020 Q3 | FY 2020 Q4 | FY 2021 Q1 | FY 2021 Q2 | FY 2021 Q3 | FY 2021 Q4 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Major Commercial | | | | | | | | |
| Other Commercial | | | | | | | | |
| Residential | | | | | | | | |
| Seeking Agreement | | | | | | | | |
| Design & Site Preparation | | | | | | | | |
| Programme Costs | | | | | | | | |
| Noise & Vortex | | | | | | | | |
| Total Category C costs | | | | | | | | |
| Risk From Profile | | | 120 | | | 185 | | |
| Contingency | | | 105 | | | 150 | | |
| Risk & Contingency | | | 225 | | | 335 | | |
| Total Category C costs incl Risk & Contingency | | | 930 | | | 1330 | | |

Future Spend Commitments

- **Major Commercial:** Commitments will be progressed in advance of DCO consent. [REDACTED]
- **Other commercial:** Agreements will be reached with businesses in advance of relocation. [REDACTED]
- **Residential:** The Home Purchase Bond Scheme [REDACTED]
- **Design and Site Preparation:** Design contracts [REDACTED]
- **Programme Costs:** There would be a legacy cost for demobilisation of colleagues in the event of programme termination. There would also be a liability associated with termination of services provided by PCP and other programme suppliers.
- **Noise & Vortex Insultation:** A scheme will be launched [REDACTED] for those most affected by Expansion works. [REDACTED]

Scenario 2

| Category C Latest View [£m, 2014p] | FY 2020 Q1 | FY 2020 Q2 | FY 2020 Q3 | FY 2020 Q4 | FY 2021 Q1 | FY 2021 Q2 | FY 2021 Q3 | FY 2021 Q4 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Major Commercial | | | | | | | | |
| Other Commercial | | | | | | | | |
| Residential | | | | | | | | |
| Seeking Agreement | | | | | | | | |
| Design & Site Preparation | | | | | | | | |
| Programme Costs | | | | | | | | |
| Noise & Vortex | | | | | | | | |
| Total Category C costs | | | | | | | | |
| Risk From Profile | | | | 35 | | | 135 | |
| Contingency | | | | 25 | | | 135 | |
| Risk & Contingency | | | | 60 | | | 270 | |
| Total Category C costs incl Risk & Contingency | | | | 250 | | | 1070 | |

Future Spend Commitments

- The principles detailed in Scenario 1 are consistent in this scenario, although levels of commitment are reduced due to reprofiling of spend.

Scenario 3

| Category C Latest View [£m, 2014p] | FY 2020 Q1 | FY 2020 Q2 | FY 2020 Q3 | FY 2020 Q4 | FY 2021 Q1 | FY 2021 Q2 | FY 2021 Q3 | FY 2021 Q4 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Major Commercial | | | | | | | | |
| Other Commercial | | | | | | | | |
| Residential | | | | | | | | |
| Seeking Agreement | | | | | | | | |
| Design & Site Preparation Programme Costs Noise & Vortex | | | | | | | | |
| Total Category C costs | | | | | | | | |
| Risk From Profile | | | | | 45 | | | |
| Contingency | | | | | 65 | | | |
| Risk & Contingency | | | | | 110 | | | |
| Total Category C costs incl Risk & Contingency | | | | | 450 | | | |

Future Spend Commitments

- Limited spend commitments in this scenario