

Response to CAP 1964 Economic regulation of Heathrow: working paper on the efficiency of HAL's capital expenditure during Q6.

Introduction

The No 3rd Runway Coalition is the largest organisation campaigning against the expansion of Heathrow. Our membership includes local communities, parliamentarians, local authorities, trade unions and environmental NGOs. This submission constitutes our response to the CAA's consultation document CAP 1964.

Response

Across the ten projects reviewed there is a total overspend of £246.3m. Such a figure alone raises serious questions about the project management processes in place at HAL and highlights that inefficient delivery is not a sufficient concern.

It is clear that the costs associated with the tunnel refurbishments should be removed from HAL's Regulated Asset Base (RAB) so that HAL would have to pay for cost overruns, rather than charging airlines and ultimately passengers.

We suggest that the starting point of "demonstrably inefficient or wasteful" that spending is efficient unless CAA prove otherwise could be strengthened by placing the emphasis of proof of efficiency onto HAL.

On the Cargo Tunnel project, Arcadis noted that there is clear evidence that the actions of HAL may have directly contributed to wasted spending or lost benefits. The multiple failings under these different criteria imply inefficiencies which should result in the £12.7m being disallowed from HAL's RAB in relation to the Cargo Tunnel project.

On the Main Tunnel, HAL's expenditure has been demonstrably inefficient given the as significant and continuing cost overrun of £60m. It is not clear how Arcadis concluded that spending had been efficient when the original budget was exceeded by 70% and is now entering a 16th month of delay. Whilst it may be complex to attribute blame to HAL for specific inefficiencies it is also too simplistic to blame the contractor. In our view, more robust project management would have helped reduce the number of delays and minimised the continuing discovery of defects.

The Arcadis report concludes that two common issues contributing to HAL's inefficiencies are lack of clarity of scope and use of inappropriate contract models. This does not provide confidence of HAL's ability to deliver existing projects and hardly bodes well for their expansion plans.

Their inability to set the scope of a project with a properly constructed contract is likely to result in huge inefficiencies that may well result in consumers and taxpayers being forced to pay billions of pounds.

Consequently, HAL's proposed third runway represents an unacceptable reverse transference of risk – initially back on consumers – but on a wider basis potentially back on the UK taxpayer and the UK economy.

Given HAL's existing track record of delivery, it is clear that the initial budget for the proposed third runway will certainly be exceeded and this will result in escalating consumer costs to the point the project will become unsupportable without major public subsidy or some other form of state aid.

The Government should make it absolutely clear that no further cost or programme overruns will be countenanced and that the scheme will not be facilitated or bailed out in any shape or form by the UK taxpayer.

Broader Issues

Whilst not entirely within scope of this consultation, it is a concern that HAL's weak financial position raises may deteriorate further and that this may lead to possible breaches of licence condition E2.1.

We agree with the questions raised about HAL's existing approach to applying a mark-up to CapEx projects, which appears to be a device for recouping OpEx rather than being essential to the delivery of CapEx projects.

It is essential that HAL provide any relevant information it has on significant outperformance and the wider issues raised by the Transport Study or CAA concerns about their delivery of complex projects.

The list of questions that CAA lists to ask of Heathrow indicates the scale of the concern that consumers and taxpayers should have about the ability of HAL to manage projects efficiently.

HAL's complex and permitted financial structure, allows them to finance projects mostly by debt, which in turn is serviced by charges to the public and airport users. The RAB structure provides no incentive for HAL to keep costs under control and should be examined as to whether this is a suitable model for a nationally significant piece of infrastructure.