

Gatwick Airport

Response to the CAA's Assessment of Capital Expenditure and Consultation at Gatwick Airport during the first two years of Q5

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Gatwick Airport Limited
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Gatwick Airport - Response to the CAA's Assessment of Capital Expenditure and Consultation at Gatwick Airport during the first two years of Q5

This document represents Gatwick Airport's response to the CAA document '*UK Civil Aviation Authority Assessment of capital expenditure and consultation at Heathrow and Gatwick airports during the first two years of Q5, February 2011.*'

Since the start of Q5, the project process at Gatwick had been followed in accordance with BAA's procedures. After Gatwick came under new ownership in December 2009, new processes and practices have been implemented with the specific aim of driving value, efficiency and continuous improvement through its capital investment.

Gatwick has welcomed the assessment of Capital Expenditure and Consultation in the first two years of Q5 and as an indicator of where improvements will be made during the remainder of Q5 and subsequent years.

This document is structured as follows:

- Section 1 sets out a summary of Currie & Brown's findings on the capex part of the review and Gatwick's update regarding progress against these findings.
- Section 2 sets out a summary of Steer Davies Gleave's findings on consultation and Gatwick's update regarding progress against these findings.

1.0 Gatwick Response to the Currie & Brown (C&B) Findings:

1.1 Summary of the C&B Findings

The following is extracted from the CAA document '*UK Civil Aviation Authority Assessment of capital expenditure and consultation at Heathrow and Gatwick airports during the first two years of Q5, February 2011*':

'1.10 In summary, C&B found that:

- *shortcomings at both airports in the pre-Q5 planning process had impacted on the robustness of the development strategy in the first two years;*
- *Heathrow had developed comprehensive processes for managing risk at project and portfolio level but similar progress had not yet occurred at Gatwick;*
- *there was insufficient clarity at both airports on the treatment of inflation and the calculation of allowances used;*

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- *although both airports' approach to benchmarking processes and procedures were well formalised, further work would be required in the approach to benchmarking against external reference points; and*
- *at both airports there was very limited application of whole life value modelling techniques with business cases to appraise the impact of capex on opex.'*

1.2 The Pre-Q5 Planning Process

Gatwick would agree that there have been significant shortcomings the pre-Q5 planning process at the airport. Since the start of Q5 the project process had been followed in accordance with BAA's procedures. In examining only the first two years of Q5 this assessment has focussed only on the approach taken under previous ownership.

After Gatwick came under new ownership in December 2009, new processes and practices have been implemented at Gatwick with the specific aim of driving value, efficiency and continuous improvement through its capital investment.

An example of these new processes and practices is Design For Six Sigma (DFSS). Design For Six Sigma (DFSS) is the process for design, development and delivery of capital projects that is now used at Gatwick.

The Design For Six Sigma (DFSS) process is characterised by a series of reviews with various tollgates serving as the milestones for the various phases of each major projects development. These reviews, gateways and processes will provide assurance that plans are in place to efficiently and effectively deliver the Capital Investment Programme.

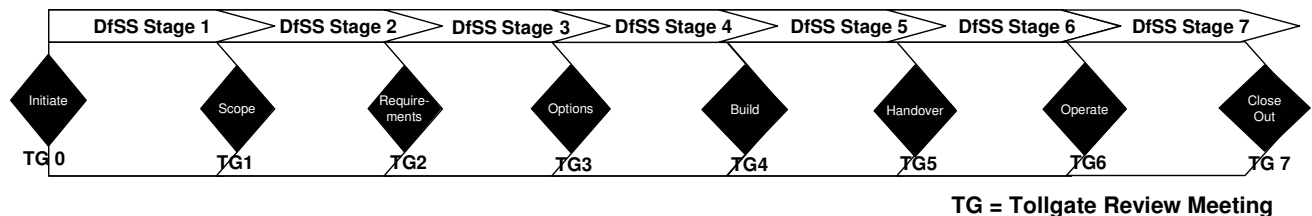
The reviews, gateways and processes provide assurance that plans are in place to efficiently and effectively deliver the Capital Investment Programme, enabling Gatwick to measure against the outcomes below:

- Improved safety, security and sustainability
- Enhanced customer and business need analysis
- Better quality of service
- Improved capacity
- Appropriate solutions
- Reduced cost to operate
- Increased income

These reviews have been implemented in order that they become a core part of Gatwick's processes which deliver the CIP and should ensure that required outcomes we are met in the best possible way.

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The DFSS process is summarised below:



As part of the Design for Six Sigma Tollgate process reviews of the project status, its readiness to progress to the next stage and authorisation of funds is carried out at one of three review meetings according to project stage and the value of funds requested. It can be seen above that the new process closely follows the requirements set out in Annex G, reviewing projects at the following stages:

Tollgate 0 - Initiate - Approval to start the DfSS Tollgate Process

Tollgate 1 - Scope - Approving the Start Up of the Project

Tollgate 2 - Requirements - Approval of Brief, procurement plan, authority to appoint Prime Designer & release of funds to Tollgate

Tollgate 3 - Options - Option Approval, Budget Update, Procurement Plan Update, release of funds to Tollgate 4

Tollgate 4 - Build - Authority to Appoint Prime Contractor, Release of full funds,

Tollgate 5 - Handover - Readiness for Handover & start of Airport Operational Readiness

Tollgate 6 - Operate - Airport Operational Readiness Complete, ready to 'Go Live'

Tollgate 7 - Close Out - Project Close Down

1.3 Risk Management

New processes and practices have been implemented at Gatwick regarding the management of risk at a portfolio level. The portfolio risk (R2) / contingency procedures that have been implemented:

- Recognise the requirements of Annex G.
- Remove exposure by projects to uncontrolled allocation/expenditure
- Demonstrate improved reporting, managed within Project Controls
- All portfolio risk (R2) / contingency drawdown is agreed with the airlines

An update on these risk procedures, that provide Gatwick and its airlines with a clear view of remaining risk allowances and where it has been allocated, driving project performance to deliver within their budgets and holding CIP funds outside of the projects for unforeseen portfolio risks was presented at the recent Joint Steering Group (JSG), 9th March 2011.

1.4 Inflation

The inflation assumptions, and any subsequent changes to the inflation assumptions, that have been employed in relation to capital planning at Gatwick Airport from the beginning of Q5 have been shared with the Joint Steering Group (JSG) on 1st September 2010, and are also included in the published CIP2010. Inflation assumptions will now be included in all CIP publications.

Gatwick also conducted a one day workshop discussion exploring future UK construction industry trends on 9th November 2010. This workshop brought together commercial consultants, for an open discussion and sharing of information and insight. The delegates present included; representatives from EC Harris, Doig & Smith, Davis Langdon, Turner & Townsend and Cyril Sweett. This workshop and similar workshops in the future will enable Gatwick to form an outlook on future trends of the construction industry and a broader approach to our benchmarking and approach to inflation.

1.5 Benchmarking

1.5.1 External Cost Benchmarking

In response to the suggestion of '*further work being required in the approach to benchmarking against external reference points*' Gatwick has appointed Davis Langdon to carry out an exercise to determine Gatwick's performance compared with the external market.

The approach they have taken is to analyse four projects, two from the North Terminal and two from the South Terminal. Two of the chosen projects are in the early stages of development and two are nearing completion.

As well as comparing Gatwick's performance with the external market, this analysis will also provide external benchmarks for use with early stage cost setting.

In order to carry out their review Davis Langdon have been provided with:

- Early estimating sheets (CAS)
- Monthly project reports
- Cost plans
- Schedules
- Final Accounts (where available)

In addition to the documentation listed above, Davis Langdon have held individual meetings with Gatwick project teams.

This exercise has so far highlighted:

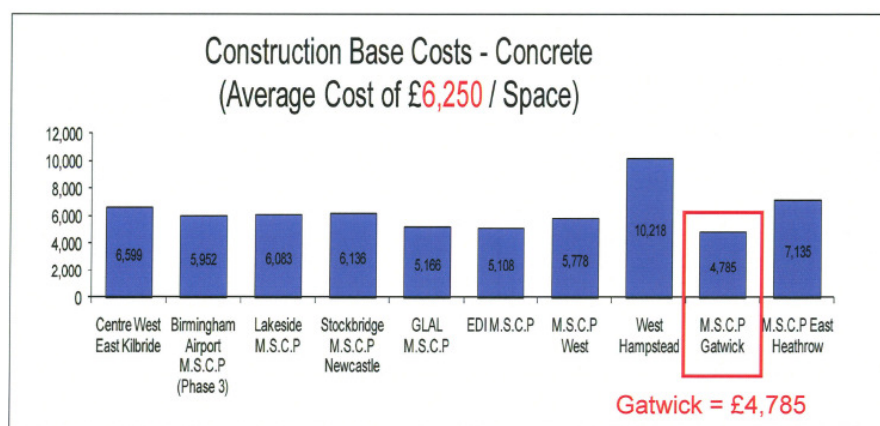
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- Positive performance within specific areas
- Areas where attention needs to be focussed
- Provision of learning to implement within future project delivery

It is Gatwick's intention is to use the results of Davis Langdon's analysis to enable improved external cost benchmarking for the remainder of Q5 and preparations for Q6.

For example when the examining the construction base costs for concrete in the MSCP6 (multi-storey car park) project it was seen that the unit cost per car parking space is significantly below the average cost when compared to similar external benchmarks. This is represented in the graph below:



Gatwick will continue to robustly set performance targets using both internal and external benchmarks.

1.5.1 External Performance Benchmarking

In an attempt to further understand investment from a passenger, airline and airport perspective Gatwick has also instructed IATA Consulting to conduct a review in the following areas:

- **Peer Review:** Provide general peer review services on the Gatwick Airport Master Plan, including (but not limited to) format, approach, technical content, methodology and structure;
- **Benchmarking:** Assist Gatwick Airport in benchmarking other airports against Gatwick. This will entail determining what items to benchmark (what are we measuring and why), as well as which airports are relevant to benchmark against Gatwick.

This is a further demonstration that Gatwick's focus is on improving the Passenger Experience and increasing performance to the airlines. The results of this review are due very shortly, however not in time to be available to attach to this response.

1.6 Whole Life Costing

From the first day of new ownership, one of our top priorities has been to review the CIP, circa £1 billion (£985 million) of planned investment, to make sure that every pound Gatwick spends is focused on delivering value and efficiencies for airlines and passengers.

This review has led to some changes to the CIP such as the new consolidated security search area for South Terminal at the Village level by the end of 2011, to replace the current multiple search areas.

Attached as Appendix A is the South Terminal Consolidated Security Business Case Summary. This is essentially a summary business case including a cost benefit analysis and was provided to the airline community through the consultative forum of the Joint Steering Group (JSG).

This format was well received by the Joint Steering Group (JSG) and looking ahead will be used as a model to articulate business case and cost benefit analysis.

This demonstrates Gatwick's fresh approach to investment review and the consideration that has been taken to assess investment from a passenger, airline and airport perspective.

2.0 Gatwick Response to the Steer Davies Gleave (SDG) Findings:

2.1 Summary of the SDG Findings

The following is extracted from the CAA document *'UK Civil Aviation Authority Assessment of capital expenditure and consultation at Heathrow and Gatwick airports during the first two years of Q5, February 2011'*:

'1.13 The assessment found that:

- both airports largely conformed with the consultation process in Annex G including the consultation at Heathrow regarding PSDH expenditure;*
- both airports did not conform with requirements in relation to the provision of an Airport Master Plan and long-term land use plan;*
- the Capital Investment Plan (CIP) largely conformed with the requirements of Annex G but there was often a lack of a clear linkage between the CIP projects and the Master Plan; and*
- change control processes generally conformed to the requirements of Annex G.'*

2.2 Airport Master Plan and Long-term Land Use Plan

SDG concluded in paragraph 3.15 of the CAA document *'UK Civil Aviation Authority Assessment of capital expenditure and consultation at Heathrow and Gatwick airports during the first two years of*

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Q5, February 2011 that 'GAL does not conform to this aspect of Annex G as it only has an interim plan in place.'

It is the view of Gatwick, however that although the 2006 Master Plan was titled as 'interim' it is Gatwick's current Master Plan, and by definition is a Master Plan. The 2006 Master Plan is complete and was the subject of a public consultation. It was only called 'interim' because the expectation at the time was that it would be updated more quickly than the usual 5 year cycle.

The airport continues to safeguard land in accordance with that Master Plan further demonstrating its validity.

2.3 Linkage Between the CIP Projects and the Master Plan

We are now in the process of producing a new Master Plan and activity is currently underway at Gatwick to clearly define the linkage between the CIP Projects and this new Master plan. This linkage will be fully explored with the airlines through the Joint Master Plan & Q6 Working Group. The working title of this link is the 'Gatwick Development Strategy'.

The intention of the Gatwick 'Development Strategy' is to focus on the following aspects of Gatwick's future development as a preamble to the project specific CIP:

- Ambition
- Service levels
- Forecasts
- Constraints
- Capacity assessments
- Infrastructure requirements
- Development options
- Land use plans

At this point in time the review period of the 'Development Strategy' is expected to be 12 months.

2.4 Annex G

In addition the summary of SDG findings it was also queried in paragraph 3.25 of the CAA document *'UK Civil Aviation Authority Assessment of capital expenditure and consultation at Heathrow and Gatwick airports during the first two years of Q5, February 2011'* that *'In light of CAA and CC activities to improve Annex G at Heathrow, the CAA invites stakeholder views on whether it would also be beneficial to update Annex G at Gatwick.'*

Gatwick is confident that it's current consultative structure is robust enough not to warrant a pressing need to update Annex G before the Q6 preparations are underway. However if the airline

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community expresses an distinct appetite to review Annex G, Gatwick is more than happy to take part.

Gatwick requests, that if undertaken, a review is conducted with a clear and concise approach and in a timely manner to ensure the maximum benefit realisation.

APPENDICES

A – Business Case Summary: South Terminal Consolidated Security

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