



## INTRODUCTION

The Heathrow Community Engagement Board Ltd.(HCEB) welcomes the opportunity to respond to the CAA's Economic regulation of Heathrow Airport Limited: Policy update and consultation.

This is following our [response](#) to the CAA's update on its programme for development of the economic regulation of Heathrow Airport Limited (HAL).

The HCEB is encouraged by the CAA's commitment to seek to understand more the views of the HCEB, the HCEB's Passenger Services Group (PSG) and other stakeholders that represent consumers. We invite the CAA to follow the suggestions provided in our earlier response in regard to reaching and engaging with a wider group of stakeholders and consumers; we would welcome the opportunity for further discussion on how we can support the CAA in achieving this.

Given the role and remit of the HCEB, we have chosen to provide views on the issues raised in the policy update that are of most relevance to us.

Due to the nature of this consultation, the HCEB response will focus on views from our PSG.

## CONTEXT

In our previous response, we highlighted the ongoing uncertainty around HAL's expansion proposals following the decision by the

# HCEB RESPONSE TO THE CAA ECONOMIC REGULATION OF HEATHROW AIRPORT LIMITED: POLICY UPDATE AND CONSULTATION

## CAP 1940

Supreme Court in May to allow HAL permission to appeal the Court of Appeal's decision.

The COVID-19 pandemic continues to have a huge impact on people, communities, businesses, airports, travel and airspace in the UK as well as around the world.

While the Supreme Court has given permission to HAL to appeal the Court of Appeal judgment, the impact of this judgment and effects of the COVID-19 pandemic have created a uniquely difficult and sensitive time for everyone working in or around Heathrow Airport. The HCEB is currently working with [Oxford Economics](#) to understand more the impact of reduced activity at Heathrow Airport on the local economies of Ealing, Hillingdon, Hounslow, Spelthorne, Slough and South Buckinghamshire. We hope to publish the findings in September.

Heathrow Airport will continue to play a critical role in the national recovery from COVID-19. With expansion plans on pause for the time being, now is the time to be investing in relationships for the long term; to make sure life around Heathrow Airport is better tomorrow than it is today.

## A brief history of the HCEB

The creation of the HCEB was recommended in Lord Davies' Airports Commission report as an important feature of the eventual Airports National Policy Statement (ANPS). The Airports Commission recommended a Community Engagement Board (CEB) for Heathrow because relationships with local

communities were considered poor and trust was very low with key stakeholders, including local authorities. Over the last two years, we have successfully built trust and improved relationships through a wide range of engagement activities, and brokered a constructive dialogue between HAL and community representatives.

## Our role today

### Who?

The HCEB is the Airport Consultative Committee for Heathrow Airport. We are wholly independent of both Heathrow Airport Limited and the Government, and have an independent chair. Our values are independence, impartiality, inclusivity, transparency and integrity.

### What?

We aim to publicly hold Heathrow Airport accountable to the stakeholders and communities who are impacted by its operations and ensure that we facilitate engagement in its decision-making.

### Why?

To encourage decision-making and communication by Heathrow Airport which can be trusted by the stakeholders and communities who are impacted by its operations.

To ensure that there is a clear and accessible process for any issues raised by stakeholders and communities to be addressed quickly and fairly by Heathrow Airport in a transparent and accountable way.

To ensure fairness and transparency for the stakeholders and communities who are impacted by the airport's operations.

### How?

We independently facilitate a clear, transparent and honest dialogue between stakeholders, communities and Heathrow Airport, to provide monitoring and scrutiny of current airport operations and plans for the future, as well as proactively engaging communities and stakeholders in decision-making at Heathrow Airport.

## Our advisory groups

We have a number of advisory groups which exist to provide high level strategic advice to

the Chair and the Board of Directors on how the HCEB can fulfil its purpose. These include two advisory groups (stakeholder & community and elected members), the Passenger Services Group (PSG) and the Transport, Environment and Noise Advisory Group (TENAG).

Further details of these groups can be found on our [website](#).

## HCEB RESPONSE TO THE CAA'S PROGRAMME UPDATE

Our PSG has provided views on some of the main points raised in relevant chapters of the consultation document.

### Response from the HCEB Passenger Services Group (PSG)

We welcome the opportunity to comment further on the Economic Regulation of HAL and, in particular, the process of reaching a Revised Business Plan (RBP) which reflects the new world we live in.

We are encouraged by the CAA's intent to "broaden our approach to stakeholder engagement and develop a better understanding of the perspective of the PSG".

#### Our role

The PSG has one, simple objective, to consider on our own initiative, or by the direction of the HCEB, any issue in connection with Heathrow Airport that would improve the passenger experience, and to report our conclusions and recommendations to the HCEB.

The PSG is comprised of between 6 and 8 independent members, who cover a broad range of airport passengers (the Chair is drawn from this part of the membership), along with a representative from each of the following organisations – Which?, ABTA, the Business Travel Association (formerly the Guild of Travel Management Companies (GTMC)) and the Airline Operators Committee.

The group is intentionally balanced towards and focused on the independent user of Heathrow Airport, with approx. 125 years of collective regular Heathrow use and exposure to a wide variety of UK and international competitor airports.

The PSG is a strong advocate of the concept of being a 'critical friend', always guided by the one, fundamental objective, of viewing

everything through the lens of 'the fare paying passenger' – whether they are outbound, inbound or passing through.

Essentially, the PSG provides the qualitative component of passenger stakeholder engagement and serves as an efficient and complimentary part to of wider quantitative passenger engagement. The PSG believes that our ability to understand the air passenger mindset in general and the Heathrow context in particular makes us useful both in the interpretation of insights and in the setting of deeper research objectives before research begins.

#### General remarks

Since we commented on CAP 1914 in May this year, it has become even more evident that, despite the aviation industry's best efforts to move in a positive direction and with pent-up consumer demand to travel, COVID-19 has resulted in significant and sudden territorial reverses. The July figures show that Heathrow Airport traffic was down 88%<sup>1</sup> on last year.

Furthermore the continued, with a few business and essential exemptions, closure of the USA to UK route is significant. In 2018/19, British Airways generated almost \$1.16 billion USD<sup>2</sup> in revenue on the JFK-LHR route alone.

We therefore wish to reinforce the point we made in our response to CAP 1914, that multiple and rigorous scenarios should be the mutually agreed basis for 'triggering' changes to the business plan. In the absence of a vaccine, it is conceivable that future 'waves' of the pandemic will result in global or regional travel disruption again. We want the RBP to be scalable and adaptable in relation to passenger volumes, but to be consistently high quality in relation to the passenger experience.

We support the airlines' view that charges should be affordable, given the changing circumstances, and that the best outcome will be achieved by constructive engagement between the stakeholders during the development of HAL's Revised Business Plan.

We agree that the CAA should:

<sup>1</sup> Source: <https://www.bbc.co.uk/news/business-53726271>

<sup>2</sup> Source: <https://www.oag.com/blog/billion-dollar-route-jewels-in-the-network>

- work to achieve the best outcome for consumers, which will require price control to result in both affordable charges and efficient financing for HAL
- set up a mechanism to ensure that HAL and the airlines work constructively together
- help guide and influence the RBP, which will need to include enhanced resilience and new procedures to cover COVID-19.

We would also add our support for the following points:

- given the uncertainty surrounding the recovery of the aviation industry, the H7 pricing will need to be flexible and may require trigger points
- we agree that, in the current climate, incentives are required to ensure HAL undertakes any capital investments in an efficient manner
- now that any expansion has been significantly delayed, the H7 pricing should focus on efficiently financing a two-runway airport at acceptable charges.
- work is required to understand the cost of capital in the post-COVID scenario.

### Passenger Stakeholder Engagement

We are strong advocates of multi-stakeholder framing workshops where there are sufficient perspectives to ensure that the wrong question(s) / topic(s) is not the one that is ultimately answered. Research should shine a light and not push towards a hoped-for but false outcome. Understanding what the passenger needs is critical, as is the recognition that the passenger profile at Heathrow is diverse.

The PSG would welcome a quarterly or twice-yearly session with the CAA which would be helpful in framing areas of focus.

### Developing the H7 Programme

We consider that:

- HAL needs to consider not only the short-term recovery phase but also the longer term two runway scenario in developing its approach to Outcome Based Regulation (OBR)
- the RBP should be scenario-based - as proposed by the CAA
- a risk sharing model will need to be developed
- given the current uncertainty, a trigger mechanism will be required to open any renegotiation on price control which may be required
- a balance must be achieved between the cost to the consumer and maintaining the financial viability of HAL
- to achieve the goals, a series of workshops should be run involving representatives of all relevant stakeholders.

### Developing HAL's Revised Business Plan

We consider agree that:

- the CAPEX plan should be linked to the various possible recovery scenarios
- there is a question of whether the models HAL used for the Initial Business Plan (IBP) are relevant to the changed circumstances post-COVID
- the RBP should be evidence-based, transparent, reflect consumer requirements and be available to all stakeholders
- the CAA should be involved in facilitating the development of the RBP and the plan should make good on the shortcomings identified in the IBP.

The guidance measures outlined in Annex E provide a sound basis.

- costs and revenues must be linked to predicted passenger volumes for each scenario. All CAPEX must be justified to stakeholders in terms of cost-effectiveness
- the impact of traffic levels on operational resilience will need to be considered and understood
- consumers will expect a particular focus on health and safety issues, so these must be considered within the RBP
- the Service Quality Rebate and Bonus Scheme (SQRB) will need updating to reflect the new situation
- to support the OBR approach, some form of continuous improvement scheme will be required.
- where possible, reconciliation of CAPEX incentives should take place during the H7 period and the Regulatory Asset Base (RAB) should be adjusted accordingly
- lessons should be learned from the ex-post review of Q6 CAPEX and built into the review procedures for CAPEX during H7. These changes should be built into the RBP
- the proposal to publish a 'way forward' document on the CAPEX incentive framework in early 2021 is welcomed.

### Regulatory Treatment of HAL's Early Expansion Costs

We agree that those Category B and C expansion costs (circa £500M) which have been incurred in a correct and efficient manner should be added to the RAB at the start of the H7 price control.

### Efficiency Incentives: Capital Expenditure

We support the use of incentives to encourage efficient capital expenditure by HAL. However, we would add that:

- the method of incentivising the efficient delivery of CAPEX projects needs to be improved
- incentives should be based on both the delivery objectives and the cost
- any changes to incentive terms must be in the interests of consumers and agreed with the airlines
- in cases where timing is of the essence, trigger payments should be considered
- some flexible framework will be required to decide whether any proposed CAPEX should go ahead or not, depending on the recovery of the travel market

### IPCR of Early Expansion Costs Incurred in 2018

We support the CAA's intention to allow HAL to recover the audited planning costs incurred during 2018.

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Or on our website: [www.hceb.org.uk](http://www.hceb.org.uk)