

**Heathrow and Gatwick Airports**  
**CAA Update and Decision following audit of Service Quality**  
**Standards and Rebates Scheme**

***March 2010***

***Civil Aviation Authority***

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## Executive Summary

1. In its March 2008 decision, the CAA set out the Heathrow and Gatwick airports<sup>1</sup> Service Quality Standards and Rebates Scheme<sup>2</sup>, and in April 2009 the CAA commissioned external consultants Steer Davies Gleave to audit the measurements underpinning the Scheme for the year 2008/9. The CAA published the audit report in August 2009 and consulted on its findings in November 2009.
2. The audit identified significant issues with the calculation of rebates and security queuing and made more minor findings on the three other areas of service quality metrics: asset availability, passenger perception elements measured by a passenger survey (the Quality of Service Monitor (QSM)) and the Aerodrome Congestion Term (ACT).
3. In its November 2009 Consultation Document, the CAA proposed addressing the outstanding issues raised by the audit through a combination of:
  - an annual audit, focusing on those areas where deficiencies were identified by the audit, for the remainder of Q5;
  - changes to the Scheme where that was appropriate;
  - indicating where the CAA was minded to make changes to the Scheme contingent on further consultation and analysis; and
  - requesting an action plan from each airport setting out how they intended to address the findings and recommendations identified in the audit.
4. This document updates the CAA's views following responses to the consultation and publishes the CAA's decision in respect of technical changes to the Scheme. The CAA:
  - confirms its intention to commission targeted annual audits as proposed;
  - publishes a decision on technical changes to the ACT to index the rebate, based on a value of the retail price index which is known before the relevant year begins, and which also clarifies the specification of this element; and
  - comments on the action plans provided by the airports. In particular the CAA is pleased to acknowledge the progress being made towards automated measurement of passenger queues for Terminals 1, 3 and

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<sup>1</sup> A similar Scheme applies to Stansted Airport but as this only came into effect in April 2009 it was not part of the audit.

<sup>2</sup> referred to as "the Scheme" in this document.

4 at Heathrow. The CAA is, however, requesting timetables by May 2010 from Gatwick and from Heathrow (in respect of Terminal 5) for introducing automated measurement, with a target date for implementation of 1 April 2011.

5. The CAA also confirms its approach to modifying the measurement of security queuing. Formal proposals are contingent on on-going work and validation being conducted by the airports and airlines. The CAA expects to publish formal proposals for consultation in May to allow the changes to take place with effect from 1 July 2010. The CAA also sets out its current thinking on how to deal with passenger security queues. Where there are multiple portals, the CAA considers that the worst performing portal in each period should be measured and where there are a large number of staff security points as in Terminal 5 that the money at risk should be split between them. The CAA intends to consult on formal proposals to address these two issues as part of the more general consultation on changes to queue measurement in May.

# 1. Introduction

## Purpose of this document

- 1.1 This paper updates the CAA's views in light of responses to the CAA's Consultation Document: Heathrow and Gatwick Airports - CAA proposals following service quality audit, November 2009. It sets out further actions for the remainder of Q5 in respect of revising the security elements and commissioning annual audits, and reaches a final decision to make some minor technical amendments to the Aerodrome Congestion Term (ACT) element of the Statement of Standards and Rebates.

## Background

- 1.2 Following public interest findings by the Competition Commission in 2002, the CAA imposed conditions on Heathrow and Gatwick under which the airports paid rebates on airport charges to airlines if certain specified service standards were not met. In March 2008, the CAA amended the Schemes, increasing their coverage of airport services and facilities, tightening some of the targets, and increasing the amounts payable in rebates for service failures. At the same time, the CAA introduced bonuses for performance where service quality for some passenger facing elements was above target across all the terminals at an airport. The details of the service quality regimes are set out in a published Service Quality Statement of Standards and Rebates<sup>3</sup> referred to as "the Scheme" in this document.
- 1.3 In its decision on the price cap regimes for Heathrow and Gatwick in March 2008, the CAA stated that it would commission audits of the Scheme at the end of the first year of the price control.
- 1.4 In April 2009, the CAA commissioned Steer Davies Gleave to conduct an audit in respect of Heathrow and Gatwick Airports for the year ending 31 March 2009. The objective of the audit was to provide a transparent, independent assessment of the measurement of service standards in the Scheme rather than a fundamental review of the form or intensity of the Scheme. The auditor reported to the CAA in July 2009 and its report was published on the CAA's website on 3 August 2009.
- 1.5 The audit identified some significant issues with the calculation of rebates and security queuing and made more minor findings on the three other areas of service quality metrics: asset availability, passenger perception elements measured by a passenger survey (the Quality of Service Monitor (QSM)) and the ACT.
- 1.6 In November 2009, the CAA published its proposals for addressing the auditor's findings and recommendations for consultation with interested

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<sup>3</sup>Annex H of the CAA's March 2008 price control decision.

parties. It also took the opportunity to consider some additional issues that had been drawn to its attention by interested parties. The consultation set out an illustrative timetable intended to allow changes to the service quality regime to come into effect on 1 April 2010.

1.7 In general terms, the CAA proposed addressing the outstanding issues raised by the audit through a combination of:

- an annual audit, focusing on those areas where deficiencies were identified by the audit, for the remainder of Q5;
- changes to the Scheme where that was appropriate;
- indicating where the CAA was minded to make changes to the Scheme contingent on further consultation and analysis; and
- requesting an action plan from each airport setting out how they intended to address the findings and recommendations identified in the audit.

1.8 The CAA invited comments on these proposals from a wide group of interested parties and received responses from BAA/Heathrow, Gatwick Airport Limited (GAL), the Heathrow Airline Operators Committee (AOC), British Airways (BA) and the Air Transport Users Council (AUC).

### **Structure of document**

1.9 This document considers each of the main areas reviewed by the audit:

- calculation of rebates,
- security queuing,
- asset availability measures,
- survey based metrics measured by QSM, and
- ACT.

1.10 The document also considers future annual audits and the publication of passenger performance information in terminals. (These two sets of issues were dealt with in the audit in the section on calculation of rebates but the CAA believes that they are sufficiently distinct to warrant separate treatment.)

1.11 In each section, the document summarises what was proposed by the CAA in the November 2009 consultation, the main points made by respondents, the CAA's view in light of responses and, where relevant, any decision the CAA has reached relating to the Scheme.

**Timetable**

1.12 The timetable for the Scheme audit to date and indicative timings for follow-up action are set out below:

CAA decided to audit the service quality Schemes at least twice in price control period 2009-2013	March 2008
CAA asked airports and airlines for comments on draft terms of reference for the first audit	December 2008
CAA published terms of reference for the audit	March 2009
CAA appointed Steer Davies Gleave to carry out the audit	April 2009
Steer Davies Gleave delivered its audit report to the CAA	July 2009
CAA consulted on the findings of the audit and the CAA's proposed actions	14 November 2009
Closing date for responses to CAA consultation	8 January 2010
Airports provide action plan	8 January 2010
CAA publishes current document following audit	March 2010
Decisions made in this document (excluding queuing measurement) come into force	1 April 2010
Airports and Airlines validate detail of revised security measurement.	To be completed by April 2010
CAA consults on changes to revised security measurement.	May 2010
Closing date for responses to CAA consultation	June 2010
Decision	End June 2010
CAA implements amendments to the Scheme	1 July 2010

**Next Steps**

1.13 For clarity, this paper is not a consultation paper. It provides an update on the CAA's views and a decision on certain issues. The CAA plans to consult on the detail of changes to the security elements of the Scheme shortly. However, if interested parties would like to respond to this document they should send comments to [kathryn.hodgson@caa.co.uk](mailto:kathryn.hodgson@caa.co.uk). Alternatively, comments may be posted to:

Kathryn Hodgson  
Economic Regulation Group  
CAA  
45-59 Kingsway  
London WC2B 6TE

- 1.14 The CAA will acknowledge any responses and make them available on its website. Any material that is regarded as confidential should be clearly marked and included in a separate annex which, subject to further discussion with the author and subject to the criteria the CAA has established for treating information as confidential, will not be published.
- 1.15 If you have any immediate questions on this document please contact Mike Goodliffe on 020 7453 6226 or by e-mail to [mike.goodliffe@caa.co.uk](mailto:mike.goodliffe@caa.co.uk).

## 2. Calculation and publication of rebates and bonuses

### CAA's November 2009 proposals

- 2.1 As the CAA reported in November 2009, the most significant findings of the audit related to errors in the calculation of the Scheme in the year ending 31 March 2009. Although the airports addressed the immediate issues for 2008/9 by promptly repaying the outstanding amounts and explaining to the CAA the circumstances in which the miscalculations had occurred, the CAA stated its intention to address the on-going calculation of the rebate. It proposed to do this through the combination of an annual audit and the requirement for each airport to produce an action plan, with timescales, setting out what the airports would do to prevent errors in future calculations.
- 2.2 The CAA also stated that there should be greater clarity on which elements of agreement, between airports and airlines, form part of the Scheme (as alluded to in the Scheme) and which agreements are additional agreements between the parties. The CAA stated that informal agreements, at an airport or terminal AOC level, should not be treated as valid for the operation of the service quality Scheme unless they are formalised by the CAA.
- 2.3 The CAA also argued that the Scheme would be made more transparent by the airports producing a summary process document for their own managers setting out how data would be collected and processed, which should be copied to the AOCs and CAA for information.

### Responses

- 2.4 There was widespread support from users for these proposals.
- 2.5 Heathrow and Gatwick have both provided revised calculation spreadsheets. Both airports had taken steps to clarify and ratify the existing agreements, which were part of the Scheme with the AOCs. Both reported that they were now working on a summary process document for airlines (although Gatwick's would not be completed until September 2010).
- 2.6 The AOC and British Airways (BA) welcomed the prompt steps to correct the miscalculation.<sup>4</sup> Both wanted the calculation spreadsheets to be audited and to be kept involved through the annual audit process. BA would have preferred the adjustment for the calculation of QSM year to date scores to be effective from the start of Q5 rather than from April 2009. Both agreed that changes in local agreements should be lodged with the CAA; BA went further and asked whether they should be formally part of the Scheme. Both welcomed the CAA's statement that informal agreements are not valid for the

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<sup>4</sup> Although BA said that it would have preferred a further adjustment in one of the elements where the CAA had concluded there had been a potential cause of misunderstanding and had not backdated the adjustment to the start of Q5. Making this adjustment would have increased rebates in Terminal 3 by £150k.

purpose of the Scheme. The AOC further proposed that changes which are not agreed by both the airport and airlines should not be valid where there is a prior documented agreement between the two parties. BA suggested that the summary process document, proposed by the auditor, should form part of the action plan with a firm deadline for agreement. The AUC argued that the auditor's findings on the calculation demonstrated the value of the audits and that the CAA's proposal for annual audits and action plans provided a proportionate response.

### **CAA view**

- 2.7 The CAA will commission a follow up audit of the calculation of rebates for 2009/10. This will include an audit of the relevant spreadsheets. The CAA also invites the airport operators to make the spreadsheet calculations available to users.
- 2.8 The CAA notes that BA would have preferred the adjustment for the calculation of QSM year to relate back to April 2008 rather than be changed from April 2009 going forward. The CAA confirms, however, that it considers that there were sufficient potential sources of misunderstanding in the chapter of the March 2008 decision describing the Scheme and in the Statement of Standards and Rebates as originally specified and has therefore decided that the adjustment takes effect from 1 April 2009.
- 2.9 The CAA acknowledges the reissued agreements cited in the Scheme supplied by Gatwick and will publish these on its website. The CAA also notes Heathrow's provision of existing agreements under constructive engagement and its plan to update agreements by April 2010. The CAA observes that only those agreements directly relating to issues identified in the Scheme as being for agreement between the airport and AOC, or Terminal AOC, form part of what is binding under the Scheme. Any changes to the definitions need to be agreed between the airport and the relevant AOC and communicated to the CAA. However, the CAA does not consider that agreed changes necessarily need be altered on the face of the Scheme.
- 2.10 The CAA acknowledges that both Heathrow and Gatwick are working towards providing airlines with a summary process document for users, as proposed by the auditor. The CAA considers that it would be desirable for this document to be available soon after the end of the current charging year rather than, as in the case of Gatwick, scheduled as late as September.

### 3. Security queuing

#### CAA's November 2009 proposals

3.1 The audit had made recommendations on the way that queues should be measured (to enable the transition to automatic measurement) and on how more complex queuing procedures should be dealt with where there was more than one security area in a terminal. These were:

- the Scheme should be redrafted to reflect the delay imposed by the security queue, rather than the time in the queue;
- at search areas where there are multiple entrances, security queuing data should be gathered for each entrance and ideally a weighted average should be taken to reflect the passenger experience. The CAA recognised that this may cause problems with data capture for the number of passengers using each portal and also offered alternatives of:
  - the performance metric to be an average of the performance at each portal;
  - the performance to be measured at each 15 minute interval for each portal and the performance for the purpose of the metric to be then considered to be the worst performance across the relevant portals;
  - splitting the amount of revenue at risk between entrances at T5 where this is a significant issue.
- Heathrow Airport should ensure that staff responsible for data capture are free from distractions when undertaking this function;
- progress towards automation of passenger and vehicle data capture should be a priority; and
- the CAA should develop a common set of requirements and standards for automated queue measurement installations.

3.2 The CAA proposed revising the Scheme to reflect the auditor's recommendations but it proposed that these changes be contingent on further work by airports and users to validate the detail of the revised standards. It also requested an action plan from the airports on the introduction of automatic queue measurement.

3.3 In addition the paper considered issues that had been raised by BA around the closure of staff search points and whether the amount at risk for staff search at Heathrow should be split between the performance of individual staff points, as at Gatwick.

## Other developments

- 3.4 Since the publication of the CAA's Consultation Document the requirements for security have been adjusted with an increase in the proportion of passengers being searched by hand and having their cabin baggage tested for traces of explosives. New body scanners have been introduced at Heathrow and Manchester and will be rolled out to other airports during the course of the year. Depending on where these processes take place, they may have the potential to change significantly some of the measurements on which revisions to the Scheme would be based (particularly the estimate of the time that passengers would take to pass from the portal to the queuing area to the metal detector in the absence of a queue).

## Responses

- 3.5 Heathrow reported that it was making good progress to automate measurement and this should be in operation in Terminals 1, 3 and 4 from April 2010. There were technical issues in Terminal 5 involving interference between Bluetooth technology and the wi-fi network, which would delay implementation. So manual measurement would remain until these issues were solved. Progress at Gatwick would be slower, with GAL arguing that the sale of the airport had meant that it no longer had access to earlier BAA work and because there was an unprecedented requirement for IT projects generally. Its action plan was to develop a plan for implementation by September 2010.
- 3.6 All respondents supported the adoption of a universal approach to queue measurement along the lines recommended by the CAA. The main issue arising was the timing of work to validate the revised standards in time to implement the changes from 1 April 2010 and how to take into account changing requirements.
- 3.7 The tone of responses from BA and the Heathrow AOC was that security remains a problem area despite the investment and expenditure undertaken. The AUC argued that it was important that measures closely reflected the passenger experience and asked the CAA to keep open the option of measuring the whole processing time at future reviews.
- 3.8 The contentious issues were how to deal with multiple queuing portals (raised primarily in the context of Terminal 5) and how to deal with staff search in T5. In respect of multiple portals all respondents favoured one of the simpler approaches although the airports favoured splitting the money at risk, while all three respondents representing users preferred the standard to be based on the worst performing portal. In respect of T5 staff search, none of the respondents favoured splitting the money at risk.

**CAA view**

- 3.9 The CAA acknowledges the progress being made at Heathrow toward automated measurement of passenger queues for Terminals 1, 3 and 4. However, progress at Terminal 5 remains modest. The CAA therefore requests that Heathrow provides a timetable for introducing a solution to the issues of its introduction in Terminal 5 by May 2010 with a target date for implementing automatic measurement by 1 April 2011. If manual measurement is expected to continue for a significant time in Terminal 5, the CAA would also request that Heathrow reports by May 2010 on what steps it would take to ensure that those responsible for data capture are free from other distractions. While the CAA appreciates that the sale of Gatwick might give rise to problems in designing and implementing automated measurement, it considers that allowing a period until September 2010 for GAL to come forward with an implementation plan would lead to unacceptable delay, especially given that the need for automated measurement was identified well before the start of Q5. The CAA requests that Gatwick provide a timetable to introduce automated measurement by May 2010 with a target date for implementation of automated measurement by 1 April 2011.
- 3.10 There appears to be widespread endorsement of the CAA's approach to calculating the length of security queues by reference to the delay imposed by the queue, rather than the slightly cruder measure of the time in the queue (which includes the time it would take to walk freely to the security check point). The CAA is therefore minded to adopt this approach to security queue measurement and intends to make concrete proposals on this basis when the details of the relevant measurements have been established.
- 3.11 No respondents commented on whether the measured time should end when the passenger reaches the roller bed or the security arch, although the AUC has asked the CAA to keep time measurement for the whole security queuing and processing as an option for future reviews. The CAA's view is that on balance the security arch represents a more objective entry to the main security process given that time at the roller bed (less allowance for necessary processes) itself may form part of the waiting time for the process to begin. The CAA is currently minded to revise the definition of the security queue accordingly.
- 3.12 Heathrow and Gatwick have supplied plans showing how they intend to validate the relevant unimpeded times before April 2010 (albeit based on current passenger behaviour that does not fully reflect new security requirements). These plans are available in their respective submissions. The plans envisage sign-off by local AOCs with the airport, but would not allow sufficient time for a formal consultation process for the CAA to approve these changes before the start of the charging year in April. Moreover, introducing the proposed unimpeded times from 1 April could reduce the

chances that these figures reflect the revised security processing requirements. The CAA has therefore deferred the planned date for introducing the new measurement standards until 1 July.

- 3.13 With the existence of multiple portals in Heathrow Terminal 5, the CAA accepts that a weighted average might not be a simple solution, particularly if it were to require passenger counts at each portal every 15 minutes. The CAA has therefore given further consideration to the two alternative approaches favoured by respondents.
- 3.14 The first approach would be to split the overall money at risk between the portals, based on a broad-brush assessment of usage over the year. This would not, however, deal with the need to take account of the closure of particular portals. A safeguard might be to treat the portal as failing the standard if the portal is closed within a 15-minute period. This might, however, diminish the airport's incentive actively to manage queues when there were unplanned peaks in connecting traffic. (This could of course be mitigated if the portals were not closed but subject to dynamic information for passengers on the expected queue time for each portal.)
- 3.15 The second approach would be to adopt a standard based on the worst performing portal at each measurement: this probably better reflects passenger experience, would provide immediate measurement to those managing the process and would take account, on a dynamic basis, of periods when the north portal was closed to accommodate unexpected transfer flows. However, any particular standard on this basis of measurement would imply a somewhat higher level of performance than the existing regime. In addition, basing the standard on the worst performing portal could possibly encourage an adverse outcome if the queues were then managed by diverting passengers between portals to avoid any one just failing the standard in a given period. This might be mitigated if the queue measurement were able to identify diverted passengers and allow in their queuing time all the time between presenting at the first portal and the time they reach the "exit" to the queue.
- 3.16 The CAA considers that on balance the approach based on the worst performing portal would be preferable. In principle, the CAA would need to make an adjustment in the standard compared to other terminals to reflect the fact that the standard is being applied to the worst rather than the average performing portal. The CAA does, however, consider that there may be merit in not making this adjustment as this would encourage BAA to strive for automatic queue measurement with the possibility of better real time information for passengers joining queues. More informed behaviour on the part of passengers would tend to narrow performance between portals and mean that the performance of the worst portal would tend towards the performance of the average of the two. The CAA is therefore minded to adopt this approach to multiple portals and intends to make concrete proposals on

this basis when the details of the relevant measurements have been established.

- 3.17 In respect of staff search, the CAA acknowledges that splitting the sums at risk between five points in Terminal 5 would dilute the incentives but adopting this approach (and considering that the standard is failed where the search post is closed) should provide an incentive for the airport to provide the levels of service and opening as agreed with the resident airlines. The CAA recognises that, conceptually, it would appear to be at odds with the approach being proposed for multiple portals in Terminal 5. However, the two situations are different. First, it would be impractical to base the measure on the worst performing of five control posts every 15 minutes. Secondly, there seems to be a much stronger argument for considering that the standard would be failed at any control post which was not open than might be the case at the north portal in Terminal 5 as users may not want the airport to keep the north portal open in circumstances where it was being completely overwhelmed by connecting traffic. Overall, therefore, the CAA is inclined to 'split the money' for staff search unless Heathrow and BA can jointly come forward with an agreed superior solution.

### **Further Consultation**

- 3.18 The CAA is not proposing changes in respect of security queue measurement as part of this document but intends to publish formal proposals (including multiple portals and staff queuing) in May contingent on on-going work and validation being conducted by the airports and airlines to validate unimpeded walk times.

## **4. Asset availability**

### **CAA's November 2009 proposals**

- 4.1 The audit did not identify any major systematic shortcomings in asset availability measures. It did, however, find some minor inconsistencies. The CAA stated that the airports' action plans should address these findings. There were no substantive points raised in the responses. Heathrow and Gatwick reported the steps that they were taking to address the issues in the audit.

### **Responses**

- 4.2 Heathrow reported on the measures taken to address the recommendations made by the auditor. It had considered whether to consolidate all the reporting of asset availability into a centralised function but argued that this would remove the technical experts from the process, which could have an adverse effect on the accountability of the reporting. It did, however, state that processing teams that interrogate and make adjustments to the data would share methods to ensure consistency. Controls and governance over data integrity had been strengthened. The airport had also been discussing with airlines how to communicate when airside assets were returning to service and was testing systems based on physical covers or cardboard tags. It would continue to notify airlines when assets are returned to service through the staff information system (SIS) and would remind users to monitor for updates. It was agreed that there was a need to formalise the process for project overruns. Stand availability and project overruns for passenger sensitive equipment are already captured. The airport is planning to implement similar systems for other asset availability measures.
- 4.3 GAL believed that the issues identified by the auditor were specific to Heathrow with the exception of the formalisation of a process for recording project overruns. It believed that this is covered by the monthly SQR exclusions meeting that occurs between GAL and the airline/AOC representatives. However, it would be presenting a template that the relevant project leader would complete with full details should a project overrun occur, to be agreed by the SQR users' meeting.
- 4.4 There were no substantive comments on asset availability measures from the AOC, BA or the AUC.

### **CAA view**

- 4.5 The CAA acknowledges the steps taken by Heathrow and Gatwick in this area and proposes that the effectiveness of these changes in addressing the audit's findings be considered as part of the forthcoming annual audit. The CAA agrees that a number of the specific findings of the audit related particularly to Heathrow rather than to Gatwick.

## 5. Quality of Service Monitor (QSM)

### *CAA November 2009 proposals*

5.1 The audit gave the Quality of Service Monitor (QSM) measures a relatively strong endorsement. It did, however, recommend that:

- the scores should be weighted by terminal passengers;
- BAA should investigate the significance of under-sampling late-to-gate arrivals; and
- in the longer term, the CAA should consider whether to make the measures more sensitive to changes in performance and extending the Scheme to include additional QSM measures, based on customer priorities.

### **Responses**

5.2 Heathrow appreciated the auditor's strong endorsement. It considered that there was little to be gained from undertaking an investigation of late-to-gate passengers because the QSM sampling methodology already made allowances, there were many categories of late-to-gate passengers and further analysis would be required to apply the results as any significant change would require the targets to be re-based. While there would be an advantage in switching from a 12-month moving average to a shorter period in terms of sensitivity, seasonality would need to be considered. If further measures were to be added at the next quinquennium they should ensure that the priority elements of the passenger experience are included and produce the right behaviours from airports and airlines. These further measures should be considered against the criteria of the level of BAA accountability, customer priority, and the current level of relative performance as measured by the airport service quality survey (ASQ). BAA/Heathrow looks forward to further discussion to progress a review of the Scheme.

5.3 GAL commented that it intended to investigate and gauge the size and nature of the issue of passengers arriving late to gate. It proposed to work with its top six airlines (by passenger volume) to fully understand the size and nature of this issue, and intends this work to take place in the next 4-6 months. Having established this goal, it would develop a shortened survey to pick up the key QSM points for those passengers arriving late-to-gate to be carried out over a trial period of 3 months. GAL anticipated that the analysis from this research would be completed by September 2010 with the conclusions provided to the CAA shortly thereafter. With regard to the preparatory work required to consider any changes to the QSM for Q6, GAL intends to consider these issues within the same timescale and report to the CAA with its initial thoughts in September 2010.

- 5.4 BA wanted to highlight that late-to-gate passengers should include a larger proportion of business/premium class passengers who frequently arrive later in the boarding process. With respect to further work, BA suggested that customer satisfaction with the security process and the PRM process were two important measures that reflect directly on Heathrow and Gatwick's ability to deliver customer service to passengers, and considers there to be significant room for improvement in these areas at the current time. BA would be willing to engage in preparatory work with other airlines and airports to determine what QSM measures should be considered.
- 5.5 The Heathrow AOC noted the findings of the audit. The AUC did not comment on the QSM element.

### **CAA view**

- 5.6 Despite the reservations of both airports, the CAA considers that it would be beneficial to establish what difference there is, if any, between the perceived experience of late-to-gate passengers (who are not as fully represented in the surveys) and other passengers. Such a study should establish whether it is a significant factor. The CAA recognizes that for the purpose of Q5, the current QSM methodology forms the relevant benchmark and variations from this benchmark provide the basis for gauging any improvement or decline in performance. The CAA therefore confirms that it does not intend to adjust targets in the Scheme for the remainder of Q5 but to provide evidence as to whether, and if so how, this benchmark should be revised in Q6.
- 5.7 The CAA confirms that it will be giving consideration to whether the measures in the Scheme should be made more sensitive to changes in performance and whether the Scheme should be extended to include additional QSM measures, based on customer priorities. The CAA will expect to assess user views and will engage with consumer bodies on these issues in the Q6 airport reviews.

## 6. Aerodrome Congestion Term (ACT)

### CAA's November 2009 proposals

- 6.1 The audit concluded that the Aerodrome Congestion term (ACT) at Heathrow and Gatwick, although different, was robust and fit for purpose. The audit made recommendations relating to improving the consultation and information process with users and the adjustment of the standard level of rebates from 2007 prices to current year prices.
- 6.2 The CAA said that it intended to monitor progress on improving consultation and information through the airports' action plans and proposed to modify the Scheme so that the annual uplift in prices was based upon a fixed known level of inflation and would not require subsequent revision after rebates had been paid.
- 6.3 The CAA also took the opportunity to respond to a request by BAA to clarify the ACT at both airports and to propose minor changes to their specification.

### Responses

- 6.4 BAA believed that the Scheme worked well at Heathrow because of the constructive relationship between airport and airline operational managers. It agreed that a clear escalation and dispute resolution process would simplify the treatment of any disagreements and it would discuss with airlines a process aligned with other dispute resolution processes at Heathrow. BAA also undertook to add the detail of when rebates had been paid to the SQR reports that it published on its website. It also welcomed the simplification of the inflation adjustment and noted the clarification of the formula proposed by CAA.
- 6.5 GAL stated that the current process consisted of a monthly meeting with a representative of the AOC with additional meetings as soon as possible after a potential material event. It proposed to record the output of these meetings.
- 6.6 Both the Heathrow AOC and BA supported the airport involving operational expertise as soon as possible after a material event occurred, that the CAA may have to arbitrate a material event as a last resort and that there should be a mechanism to notify airlines when a rebate had been paid and where judgement had been used by the AOC and airlines in reducing a rebate. BA recognised that the CAA is proposing an approach to inflation that it had suggested. BA also made general points that ACT rates were not high enough, criticised BAA for sticking to agreed terms of reference, requested future audits to consider ACT and remarked that work on any revision to ACT for Q6 should start early because of the complexity of the subject.
- 6.7 The AUC did not comment on the ACT term.

**CAA Decision**

- 6.8 The limited response to the CAA's proposals to revise the basis of indexation and to clarify the text has been positive. The CAA therefore confirms the changes proposed in November 2009 so that they can be brought into effect from 1 April 2010. The CAA also confirms that the follow-up audit would consider ACT to the extent of the recommendation, made by the original audit.
- 6.9 The CAA has decided to make the following changes to the Scheme in respect of the ACT with effect from 1 April 2010.

Old Text	Proposed text
Heading of first column of table H-7	
Maximum cumulative movements deferred (2007/08 prices)	Maximum cumulative movements deferred (2006/07 prices)
Paragraph H.23	
The rebates in Table H shall be inflated to outturn prices by: = $\text{Rebate}_{2007/8 \text{ prices}} \times (\text{PRICE INDEX}_t / \text{PRICE INDEX}_{2007/8})$ where: PRICE INDEX <sub>t</sub> is the average monthly value of the CHAW series of the retail price index for the 12 months from April to March in relevant year t.	The rebates in Table H shall be inflated to outturn prices by: $\text{Rebate}_{2006/7 \text{ prices}} \times (\text{PRICE INDEX}_{t-1} / \text{PRICE INDEX}_{2006/7})$ where: PRICE INDEX <sub>t-1</sub> is the value of the CHAW series of the retail price index published with respect to August in relevant year t-1 and accordingly PRICE INDEX <sub>2006/7</sub> is the relevant value of the CHAW index published with respect to August 2006.
Footnote 53:	
As the CHAW index will not be known until the end of the relevant year, monthly rebate payments will need to be based on a forecast. Any under- or over- payment of rebates would then be subject to the end of year adjustment set out in paragraphs H.8-H.9.	Deleted

Old Text	Proposed text
Paragraph H.5 definition of $\text{Rebate}_{P\&A}$	
is the aggregate rebate in the relevant year relating to the former "Passenger" and "Airline" elements (as extended by additional elements) (P & A) and calculated as defined in paragraphs H10-H21;	is the aggregate <b>percentage</b> rebate in the relevant year relating to the former "Passenger" and "Airline" elements (as extended by additional elements) (P & A) and calculated as defined in paragraphs H10-H21;
Paragraph H.5 definition of $\text{Rebate}_{ACT}$	
is the aggregate rebate in the relevant year relating to the Aerodrome Congestion Term (ACT) as defined in paragraphs H22-H34; and	is the aggregate <b>percentage</b> rebate in the relevant year relating to the Aerodrome Congestion Term (ACT) as defined in paragraphs H22-H34; and
Paragraph H.22	

$\text{Rebate}_{ACT} = \text{MIN} \left[ \frac{\text{Rebate}_{ARR} + \text{Rebate}_{DEP}}{T_t}, \text{MAXRebate}_{ACT} \right]$	$\text{Rebate}_{ACT} = \text{MIN} \left[ 100 \left( \frac{\text{Rebate}_{ARR} + \text{Rebate}_{DEP}}{T_t} \right), \text{MAXRebate}_{ACT} \right]$
<p><math>T_t</math> is the total revenue from airport charges in respect of relevant air services levied at the relevant airport in relevant year.</p>	<p><math>T_t</math> is the total revenue from airport charges in respect of relevant air services levied at the relevant airport in relevant year <b>t</b>.</p>

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## 7. Future audits

### CAA November 2009 proposals

- 7.1 In its price cap decision in March 2008, the CAA stated that it had decided to conduct two audits of the measurement of service quality during the course of Q5: an audit at the end of the first year to test whether the Quality of Service Monitor, security queuing and asset reliability measures continued to be fit for purpose in the light of the additional weight placed on them in the new Scheme, and a second audit after four years of Q5 timed to inform the Q6 review. The CAA had reserved the right to commission further investigations and audits during Q5 of service quality measurement and performance if it considered that this was warranted in light of the findings of its audit early in Q5.
- 7.2 Following this first audit, the CAA considered that the errors discovered in the calculation of rebates were sufficiently significant to warrant commissioning further investigations and audits on an annual basis.
- 7.3 The CAA believed, however, that it would be wasteful to repeat an in-depth audit against the detail of the whole Scheme on an annual basis. The main part of the methodologies for asset availability, QSM measures and the ACT could be expected to remain stable for a number of years. Changes were envisaged to the security queuing measures but full implementation is unlikely to take place during 2009/10. This implied that the audits for years two and three of Q5 should be more focused than the recent Steer Davies Gleave audit.
- 7.4 The CAA's provisional view was that these audits should focus primarily on:
- the calculation of rebates; and
  - the progress in addressing the findings of the 2008/9 audit against each airport's action plan.
- 7.5 The CAA still anticipated commissioning a fuller audit at the end of the fourth year of Q5.

### Responses

- 7.6 Heathrow and Gatwick noted the CAA's proposed approach. The AOC and BA supported the CAA's proposal to hold annual audits for the remainder of Q5 focused on the calculation of rebates and the progress of airport action plans against the findings of the first audit while the AUC described this as a proportionate response.

**CAA view**

7.7 In the light of the support contained in the responses, the CAA confirms its November 2009 proposals.

## **8. Publication of information**

### **CAA's November 2009 proposal**

- 8.1 The Scheme requires the airports to publish performance of the passenger facing measures against the standards. The audit had recommended that the information posted in the terminals could be presented in a way that communicated the service quality performance more effectively.
- 8.2 The CAA agreed that examples of different formats should be tested with members of the airports' passenger consultation bodies before finalisation of design to consider whether they clearly convey good or bad performance as appropriate to passengers. The CAA stated that it would expect this issue to be addressed in the airports' action plans.

### **Responses**

- 8.3 Both airports were taking steps to improve the provision of information to passengers. Gatwick had begun consultation with the Passenger Advisory Group (PAG) in October 2008 to revise posters. New posters had been displayed from 15 December 2009 to PAG's satisfaction. Heathrow was in the process of redesigning posters to present the results in a meaningful way and would be gathering feedback on the final design through the existing passenger survey mechanisms, to be completed by May 2010. BA suggested that posters should be located along the passenger arrival and departure routes. (It suggested the link bridges in Terminal 5). The AUC believed that publication of performance to passengers was an important element of accountability and it would be interested to consider any new formats.

### **CAA view**

- 8.4 The CAA acknowledges the work done in this area. The Scheme is intended ultimately to promote positive outcomes for passengers. The CAA considers that it is important to engage with passengers, consistent with their needs to pass through the airport expeditiously. It therefore encourages airports to undertake wider consultation with consumer bodies on the form and location of information best calculated to achieve the appropriate effect.