



Terms of Reference: assessment of Commercial Revenues at Heathrow and Gatwick airports: Revision 1

Background

The CAA is currently considering the most appropriate regulatory arrangements to put in place when the present price controls expire in March 2014. As part of this work the airports and airlines at each of the three airports subject to economic regulation: Heathrow, Gatwick and Stansted, are undertaking a process of constructive engagement (CE) on potential price caps for the next regulatory period (Q6) using a RAB-based framework.

One of the key building blocks of a RAB-based price control is Commercial Revenues, which relates mainly to retail, property and car parking at the airport. In Q5 the CAA commissioned a similar study, undertaken by Donaldson's¹ (now part of DTZ), which may be found at:

<http://www.caa.co.uk/default.aspx?catid=5&pagetype=90&pageid=7162>

Requirements

This request for advice covers assessment of Commercial Revenues at Heathrow and Gatwick airports.

At Heathrow, recognizing the high degree of consensus between HAL and the airlines, emerging from CE, the following tasks should be undertaken:

- To explain the reasons for the difference between the Q5 settlement² and outturn and learn any lessons for Q6;
- To review the overall Heathrow commercial revenue forecast in Q6 and robustness of the underlying assumptions taking into account the broad level of agreement between airports and airlines; the consultants will be able to review the HAL model and are not required to develop a new model;
- To examine the impact of the ban on tobacco advertising on commercial revenues (and other possible health related/WHO effects);
- To review the car parking revenue forecasts taking into account factors such as the impact of the percentage of transfer passengers that do not use car parking, split of business v leisure passengers etc.;
- For commercial projects that are not till positive in Q6 that have been proposed by the airport, to review the passenger and other benefits and costs of the projects (it is expected that the consultants will be required to consider 2 of these projects after discussion with stakeholders); and

¹ Scrutinising trends in commercial revenue in BAA's designated airports.

² See CAA March 2008 'Decision: Economic regulation of Heathrow and Gatwick Airports, 2008-13'.

- To provide the CAA with recommendations (taking into account CE outcomes) for commercial revenue forecasts (split into retail, property and car parks) for 2014 to 2019 for the CAA to use as a basis for its initial Q6 price control proposals.

At Gatwick the following tasks should be undertaken:

- To review the reasons for the difference between the Q5 settlement and outturn;
- To review the overall Gatwick commercial revenue forecast in Q6 and robustness of the underlying assumptions. This review should examine both the airports justification for its Q6 commercial revenue forecasts and the review of airports proposals undertaken by the airlines consultants, Javelin, and develop an independent view of Q6 commercial revenue forecasts. The airlines consultants work encompasses a review of car parking, retail and advertising and should be completed by mid December. It is not envisaged that the contractor would need to undertake a full bottom up analysis of the work in these areas but rather focus on reviewing the forecasts of others and undertaking appropriate independent checks;
- To review Gatwick airports property revenue forecasts taking into account the trends in the general commercial property market. This analysis is likely to require some bottom up analysis
- To review the costs and benefits of any new commercial projects that are being proposed by the airport; and
- To provide the CAA with commercial revenue forecasts (split into retail, property and car parks) for 2014 to 2019 for the CAA to use as a basis for its initial Q6 price control proposals.

Structure of the study

The study is being separately contracted in two and potentially three phases:

Phase one: Initial analysis. Assess the drivers of Commercial revenues by examining the initial business plan and latest outputs of Constructive Engagement. For Heathrow this is the July 2012 initial business plan, for Gatwick it is the April 2012 initial business plan.

Phase two: January Business Plan. Refresh the Phase two analysis based on the airports January 2013 Business Plan. The airports January business plan will reflect the airports updated views following constructive engagement. It should be assumed that the airports will be submitting this business plan on 31 January 2013.

Phase three (optional): Where applicable update the analysis undertaken in Phase three based on any updated airport business plan submitted by 20th July 2013.

The main focus of the study should be on reviewing the full (and/or updated) business plan rather than the initial business plan.