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18<sup>th</sup> January 2022

## **Re: Response to Economic Regulation of Heathrow – H7 OBR Proposals (CAP2265D and CAP2274)**

Thank you for the opportunity to respond to the CAA's consultation, setting out further details on the CAA's initial proposals regarding the future approach to Outcome Based Regulation ("OBR") within the H7 price control period at Heathrow, supplementing the work on OBR contained within the CAA's Initial Proposals for H7, as set out in CAA CAP2265D .

This submission is made jointly by the LACC and Heathrow AOC (the "Airline Community") and sets out agreed principles and outcomes that we believe the CAA's policy should aim to address. Individual airlines, groups and alliances may make their own submissions detailing their specific views on the CAA's proposals. In making this submission the Airline Community also retain the right to submit subsequent comments and evidence subject to further developments and evidence. This submission also incorporates by reference previous bodies of evidence and comment submitted to the CAA on this issue, in particular the Airline Community's feedback to the CAA on HAL's Revised Business Plan<sup>1</sup> and its response to CAA CAP2139 (Way Forward document).

In responding, we have broadly followed the structure within the two consultation documents set out above, with supporting evidence from ICF, hereby incorporated as Annex 1.

### **1. Overview**

The Airline Community believes that an outcomes-based approach to the monitoring and tracking of service quality and performance has the best interests of consumers at its core and ultimately, if calibrated correctly, can create behavioural and performance changes through the identification and targeting of the right incentives on a monopoly provider.

We cannot agree however with the CAA's statement that the "*proposed approach to OBR...furthers consumers' interests by ensuring that the services HAL provides meet their needs in terms of the range, availability, continuity and quality of airport operations*"<sup>2</sup>, or at least not in so far as we believe they could and should do at Heathrow.

We have supported the overall framework of developing a set number of outcomes with specific measures and targets associated to those. However, given the approach the CAA has taken in accepting HAL's outcomes, whilst we are agreeable with the overall framework, the approach taken

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<sup>1</sup> Airline Community Initial Response to HAL's RBP, February 2021

<sup>2</sup> Paragraph 1.12, CAA CAP2274



with the underlying outcomes, measures and targets, means the overall proposal fails at the first hurdle and doesn't move the dial on HAL's performance, as we set out further in this response.

Furthermore, the Airline Community are concerned on the level of due diligence undertaken on some of the points and issues it has raised in its detailed submissions, notably those provided to the CAA in response to HAL's RBP and CAA CAP2139 (H7 Way Forward) where a detailed list of Outcomes and Measures were set out with specific explanation as to the rationale. Despite the better outcomes these could bring for consumers and users of the airport there has seemingly been little analysis undertaken by the CAA nor comment provided as to why these have not been taken forward above those provided by the monopoly the CAA is regulating.

The OBR Working Paper, in deciding to progress with HAL's outcomes, has failed to explain why a greater definition to measures, as proposed by the Airline Community, would not ultimately provide a better proposition and clearer definition on the outcomes seeking to be achieved.

By way of further example, the CAA has made little comment nor appeared to have undertaken any analysis on the merits of moving to daily measures despite this featuring heavily in previous Airline Community feedback. In response, the Airline Community have continued to undertake further work in this area and commissioned ICF Consulting to undertake a short study on this issue which found there is very little correlation between the level of demand in the terminals and the number of breaches in security performance experienced each day. Our preliminary conclusion is therefore that a daily target would drive increased management focus and improved performance at Security and Control Posts without an increase being required in OpEx. Further details on this can be found under Paragraph 2.2 and Annex 1 but it further reinforces the point that the CAA must ensure it is fully engaging with all feedback being provided.

The Airline Community are also concerned that the targets being proposed by the CAA does not take full account of the feedback from its own consultants or the Airline Community and does not provide a sufficient challenge on HAL.

As set out further in the following Sections, the overall proposition therefore falls short in our mind of a fully formed OBR proposition but rather can be seen as SQRB in all but name.

Given the above, and as further set out within this response we would strongly encourage the CAA to re-consider many aspects of the proposals put forward and to engage further with the Airline Community including on the findings and opportunities set out by the CAA's own consultants in the interest of ensuring a fully fit for purpose framework is established from the outset.

## **2. Outcomes, Measures and Targets**

### **2.1 Outcomes:**

The Airline Community does not agree that the Outcomes as drafted are specific enough to provide a clear definition of the best outcomes for the consumer, and the CAA has provided no evidence to support the defined Outcomes. Whilst we agree that Outcomes should be drafted in a manner that does not require constant updating, there are no specific performance indicators associated with the Outcomes proposed, as seen in other regulated markets (as we have seen by Ofwat for example), nor a clear sign as to how these would be tracked. It therefore leaves a large degree of subjectivity and a lack of clarity as to, overall, how HAL perform against the Outcomes and therefore the merit of these.



Outcomes should reflect clear priorities for the consumer and be concerned with the regulated bodies specific areas of responsibility. As set out in CAP2139 p 74:

***Outcomes should capture the most important aspects of airport services that consumers value.***

***They should be simple and easy to understand for consumers and can encompass those aspects of airport performance that impact on other stakeholders.***

We are repeating our comments as set out in our response to the Way Forward document:

The Airline Community have developed Consumer Outcomes that better match the objectives as set out in CAP2139 p 74:

We have aimed to refine and clarify HAL's original outcomes to sharpen their relevance for consumers and to HAL's provision of Airport Services. We believe the below revised outcomes better match the CAA's objectives as set out in CAP 2139 and would ask the CAA what independent evidence they have to support the wholesale adoption of HAL's suggested Outcomes?

We provide the below logic to our assertion that our suggested Outcomes are more relevant to the consumer and to HAL's provision of Airport Services as a regulated entity.

Original Outcome: **I feel Comfortable and secure at the airport**

Replaced by:

- 1. Safe and Comfortable: Heathrow meets my basic needs, provides relevant & timely information, and has leading levels of safety**
- 5. Accessible and connected: Heathrow is accessible to me, easy to use and there are a range of effective transport options**

Reasoning: The terms 'comfortable' and 'secure' could cover a range of outcomes eg: a consumer could have found a nice chair in departures where they were confident they could keep an eye on their bags. By focussing on what outcomes provide the feeling of comfort (basic needs met, timely information provided, accessible to PRS consumers, easy to use) and what provides a feeling of security (Leading levels of safety) we have further refined the consumer outcome so that they are more relevant for consumers.

Original Outcome: **I feel cared for and supported**

Replaced by:

- 1. Safe and Comfortable: Heathrow meets my basic needs, provides relevant & timely information, and has leading levels of safety**
- 2. Responsible: Heathrow provides a consistent, high-quality experience**
- 5. Accessible and connected: Heathrow is accessible to me, easy to use and there are a range of effective transport options**

Reasoning: The terms cared for and supported could cover a range of outcomes eg: a consumer could have been cared for and supported by a great PRS person, but still missed their flight. By focussing on what outcomes provide the feeling of being cared for (basic needs met, timely information provided, high quality experience, bags travelling with you), and what provides a feeling of support (Accessible to me, easy to use with a range of effective transport options) we have



further refined the consumer outcome into outcomes that are more relevant for consumers. The concept of Responsible, enables customers to feel confident that Heathrow is in control.

Original Outcome: **I have a predictable and reliable journey**

Replaced by:

- 2. Responsible: Heathrow provides a consistent, high-quality experience**
- 3. Reliable: I expect that my Heathrow flight will operate as scheduled, and depart and/or arrive on time together with my checked baggage**

Reasoning: The terms predictable and reliable could cover a range of journey outcomes eg: a consumer could face a predictably and reliably bad journey as the performance was consistently poor! By focussing on what outcomes support a good journey experience (High quality experience, bags travelling with you) and what provides a feeling of reliability (operate on schedule, depart and arrive on time, checked bags travel with me) we have further refined the consumer outcome into outcomes that are more relevant.

Original Outcome: **I have an enjoyable experience at the airport**

Replaced by:

- 1. Safe and Comfortable: Heathrow meets my basic needs, provides relevant & timely information, and has leading levels of safety**
- 2. Responsible: Heathrow provides a consistent, high-quality experience, and my checked baggage travels with me**
- 3. Reliable: I expect that my Heathrow flight will operate as scheduled, and depart and/or arrive on time together with my checked baggage**
- 4. Seamless: I can progress quickly through Heathrow at every step, and without stress**
- 5. Accessible and connected: Heathrow is accessible to me, easy to use and there are a range of effective transport options**

Reasoning: An enjoyable experience at the airport is too high level and could cover a range of experiences (ie meeting a friend or relative, enjoying time in an airline lounge, have a good meal, purchasing a bargain in the shops etc.) most of which may not be attributable to HAL's overall performance. In order for the consumer to have an enjoyable experience at the airport it is better to clarify what would drive that enjoyable experience that is within HAL's control. We therefore have recommended that all 5 new consumer outcomes replace this outcome. A consumer needs to feel safe and comfortable, experience an accessible, connected, seamless and reliable level of service, progress through the airport quickly and without stress to have an enjoyable experience. If any of these consumer outcomes were not met, then it clearly would not be an enjoyable experience.

Original Outcome: **I am confident I can get to and from the airport**

Replaced by:

- 5. Accessible and connected: Heathrow is accessible to me, easy to use and there are a range of effective transport options**

Reasoning: Again, this outcome is not specific enough. A consumer could be confident of getting to and from the airport, but also confident that it would be a very stressful and uncomfortable journey.

To further refine this outcome, we have focused on there being a range of effective transport options and specifically for PRS consumers that Heathrow is accessible.

**Original Outcome: An airport that offers me a good value choice of destinations that I want to travel from**

Not replaced.

Reasoning: The Airline Community do not support an outcome based on choice of destinations. Choice of destinations are driven by the competitive market that the airlines operate in. It should not be a consumer outcome for HAL.

In addition to the above comments previously raised, we also note it is not appropriate for CAA decisions to be based on consumer research specified and presented by HAL – who have an incentive to ensure that the OBR framework is vague and does not constrain HAL’s management in its operation of the airport. We suggest that this something both independently undertaken by the CAA and includes qualitative and quantitative input from airlines given their unique role in operating at the airport and understanding on specific services required in meeting the needs of consumers who ultimately they hold the direct relationship with and who are using the airport as part of a wider level of service in getting from A to B in a predictable, timely and safe manner.

Our final comment on the suggested Outcomes is that each Outcome is written from an individual consumer’s point of view (ie “I have a predictable and reliable journey”). This is the right level – each Outcome should be relevant to an individual consumer. We therefore believe that the measures underlying the OBR should also be relevant to individual consumers.

## **2.2 Measures:**

Airlines remain bemused by the approach taken by the CAA in not introducing such a common hero measure as Net Promoter Score (NPS) as the overarching measure to understand how consumers feel about their Heathrow experience. Airlines have previously demonstrated how multiple airports of a similar size and geography use NPS as it is clearly the most comprehensive global standard of measuring customer satisfaction and can be used as a comparator against other airports and sectors. Instead, the CAA have further ignored the advice of airlines who, as organisations that have to measure customer satisfaction to a finite degree in order to remain competitive, and have elected to favour the opinion of a monopoly provider.

NPS is, and for the foreseeable future will remain, the de facto global measurement in customer satisfaction measurement for multiple varied customer facing industry sectors. The CAA should reconsider the rationale for opting to use such a unique CSAT measure.

In addition to the above, the Airline Community believe that the measures underlying the OBR should also be relevant to individual consumers. It is imperative that the CAA move to individual per passenger queue measurement at Security (as specified by the CAA in the Q6 Licence). It is also Imperative that the CAA move to a daily measurement target for Security Queues and Control Posts so that consistent performance is delivered for each individual consumer.

### **2.2.1 Measurement of security performance**

The prospect of finally being able to implement a robust method of security queue measurement is referred to at various locations within the CAA’s documentation (e.g. CAP2274, 1.11; CAP2265D,

14.28; CAP2265D, 14.56). The airlines feel strongly about this matter and our position is summarised as follows:

- The requirement to provide an automated system for per passenger queue measurement was an obligation within the Q6 licence. With reluctance, the Airline Community agreed that the original implementation 2015 date could be pushed back. The combination of perceived difficulties in finding an appropriate solution and HAL's clear reluctance to implement such a solution made delays inevitable.
- Every passenger matters, so it is essential that the queue time for each passenger is measured. This is as true now as it was back in 2013 when the Q6 licence obligation was conceived.
- Technology is now in place at LHR to monitor passenger queues; we therefore know that it is easily possible for HAL to meet this obligation, given appropriate investment and an operational programme.
- Security Compliance/Transformation is the largest capital project in H7. It is essential that all parties fully understand all aspects of the current performance of HAL's security operations and to be able to compare this to the performance during and after this huge change programme.
- It is concerning that both HAL and the CAA appear to be proposing that the implementation of queue measurement technology should not take place until after the change programme is complete. This would mean yet another unreasonable delay in implementing the technology, with the security experience of millions of individual passengers not fully measured over this period.
- The Airline Community acknowledges that the configuration of security lanes will change as the transformation programme progresses. However, we believe it unlikely that the changes will be so significant that the implementation of technology in the short-term will be wasted. Moreover, implementing the technology now will give all parties a valuable dataset to monitor the progress of the programme and its impact on the passenger experience.

With all this in mind, we propose the following plan and request the CAA's endorsement:

1. As a matter of urgency, HAL should undertake the necessary survey work to inform the design of security queue measurement technology in all terminals.
2. Within this design, the potential coverage of the camera hardware should be defined, such that all parties can understand how much the implemented system could be amended for future changes
3. Assuming reasonable and likely future changes can be incorporated within its capabilities, the system should be implemented as soon as possible, so that the experience of today's passengers can begin to be captured and the developing impact of the changes in security infrastructure and process can be monitored.

We would also note that, as per our previous proposal, the Airline Community believes it would be best for the interests of consumers if the queue standards for central search and transfer are harmonised. For the Q6 licence obligation (as referred to above), it was agreed that harmonisation of these standards should coincide with the implementation of automated queue measurement.

We believe this continues to be a sensible approach and propose that this harmonisation standard should be re-instigated alongside automated queue measurement as a key part of the H7 licence.

In addition to the above comments on security performance, the Airline Community remain strongly of the view that daily measurement should be part of H7. By way of further evidence in support of this view, the Airline Community commissioned ICF Consulting to undertake a short study on this issue. The ICF study only had access to high level HAL data on Security performance (Daily levels of breach by terminal, daily departing passenger demand data). However, the study has shown that there is very little correlation between the level of demand in the terminals and the number of breaches in security performance experienced each day. Our preliminary conclusion is therefore that a daily target would drive increased management focus and improved performance at Security and Control Posts without an increase being required in OpEx.

Clearly further work is required to analyse demand and performance data at the 15 minute level to fully confirm this finding. (ie aim to correlate the no. of departing passengers/15mins, no. of lanes open/15mins, no. of security staff working/15 mins, average no. of trays/passenger / 15 mins, with the no. of breaches/15mins in each terminal and control post).

We would urge the CAA to request this data from HAL and then commission independent analysis to confirm or deny our preliminary finding. This is not a large piece of work, and a good data scientist/analyst should be able to complete this in two weeks.

### **2.3 Targets:**

We remain concerned and disappointed with the CAA's "cautious approach<sup>3</sup>" on stretch targets in particular the justification of this as a result of increasing passenger volumes, possible changes in priorities or expectations and new security equipment.

Indeed, in many cases the CAA have actually proposed targets lower than that which HAL are achieving to date. As an absolute minimum the current performance should form the baseline for any targets as would be the case were HAL to be operating in a competitive market - and particularly when the CAA is currently proposing consumers pay between 25 – 75% more than today to use the airport whilst accepting a fall in standards.

The Airline Community remain open to working with the CAA, its advisors and HAL to ensure these are appropriately constructed or identifying specific review points to address any such concerns, however, we do not believe these should be ignored in their entirety nor any be set at the start of the period. This is particularly the case given there is no future commitment or requirement either being set by the CAA, further comment on which we provide under Section 4 Continuous Improvement.

### **2.4 Specific Measures and Targets:**

Notwithstanding and without prejudice to the views set out above, below captures specific feedback on the proposed measures and targets put forward by the CAA:

#### **Financial**

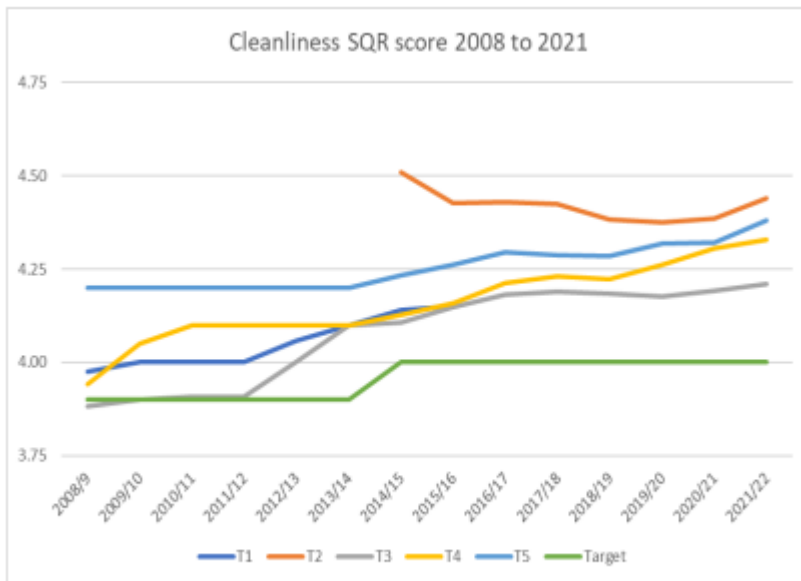
##### **Cleanliness: Q6 = 4.00, H7 IP = 4.15**

We do not agree with the target proposed by the CAA for Cleanliness. HAL has consistently performed at a higher level than this target. (see below chart from the CAA's own Arcadis report.)

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<sup>3</sup> Paragraph 2.11, CAP2274





Source: HAL data, Arcadis analysis

Arcadis state the average across all terminals since 2014/15 was 4.25. It therefore is appropriate to increase the target from the Q6 level (of 4.00). We would very strongly argue that the proposed target of 4.15 is simply too low and not in any way a target that will encourage HAL to perform better in H7 as it is already performing consistently above this target. We strongly support Arcadis’s statement that *“Given HAL’s strong performance in this area and the CAA’s proposed allowance for the Covid-19 overlay, this is another area that would warrant further stretch on the proposed targets for H7.”*

We would therefore propose an appropriate target for H7 of 4.30 which reflects the performance achieved across 2019 and 2021 but with the added stretch of the increased passenger requirements for cleanliness post covid.

Further we would note using QSM data as the only basis for measuring the cleanliness of the Heathrow operating environment does not address the limitations of such an approach. Passenger awareness of the environment being clean/unclean may not address the need for a clean environment from a health and safety perspective. As such, it may be best to supplement this approach with surveying of the more permanent on airport community ie staff, who can provide insights from their own experience, as well as carrying out unannounced inspections. In the week commencing 10<sup>th</sup> January 2022, both the T2 and T3 AOC Chairs raised cleanliness concerns to their respective HAL Terminal Managers, seeking significant improvements in cleanliness in both terminals.

Further the current survey process does not recognise the cleanliness issues back of house, both in the terminal and baggage areas, and also passenger areas post survey, including jetties. On back of house an annual challenge is vermin management, which is a lead indicator of the issue of cleanliness.

**Wayfinding: Q6 = 4.10, H7 IP = 4.20**

We would stress our previous feedback that the “Wayfinding” measure is not precise enough to provide a clear indication of HAL’s performance in this area. The airline community have instead suggested measures that would work as below:



Departure - On a scale of 1 to 5, I was able to go to the right place to check-in and catch my flight, first time.

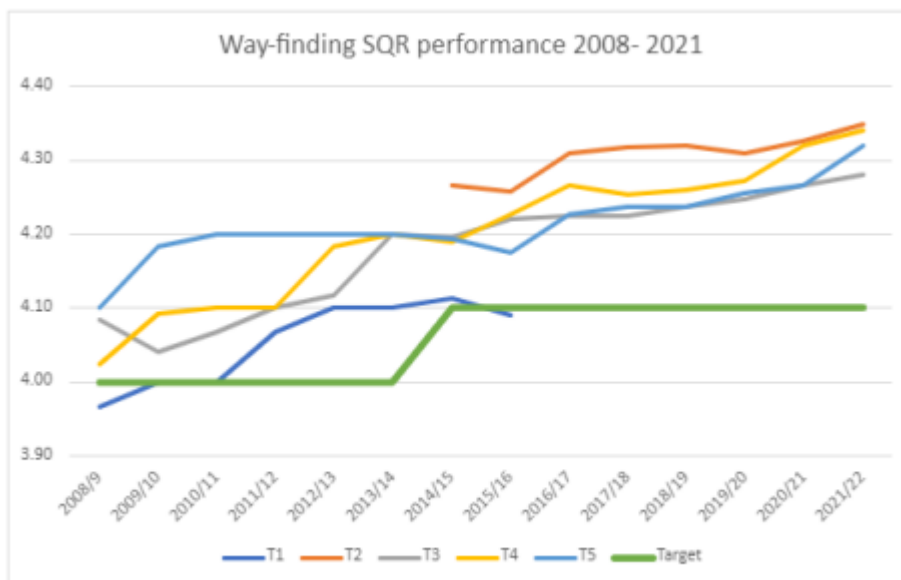
Transfers - On a scale of 1 to 5, I was able to go to the right place to catch my flight first time.

Arrival: On a scale of 1 to 5, I was able get to immigration and through the baggage hall first time.

If we continue to be ignored by the CAA on this measure then we would request that the “Wayfinding” measure becomes a Reputational and not Financial measure.

Without prejudice to the above points we would note that: again the CAA’s own consultant Arcadis has provided evidence that the proposed target for H7 is not in any way a stretch for HAL. The past performance data shows that HAL is already performing consistently above the suggested target for H7 of 4.20, and has done since the start of Q6 (the average for Q6 was 4.24, and performance never fell below 4.20.) We again would strongly argue the proposed target is too low.

We would therefore propose an appropriate target for H7 of 4.30 which reflects the performance achieved across Q6 and 2021 but with the added stretch of future passengers across H7 expecting to have very good information to hand on how to navigate the airport.



Source: HAL data, Arcadis analysis

**Helpfulness/Attitude of security staff: NEW, H7 IP = 4.10**

There is no performance data available to understand the past performance of this measure. We have seen that the more general measure of Security- Passenger satisfaction has performed on average over 4.20 in 2019 and over 4.40 in 2021. Considering the low passenger forecast provided by the CAA for H7 we therefore do not believe that the performance standard of 4.10 is appropriate. We would strongly recommend a performance standard of 5.0 for this measure across H7 – Security staff should treat all consumers equally well and all consumers should be complimentary on the helpfulness and attitude of security staff. We would also state that we do not believe that this should be a financial incentive. Instead, the rebate value assigned to this measure should be added to the security performance measures. We do not agree with the CAA that there is a risk that if this

measure were not included HAL may be incentivised to “rush” passengers through security to the detriment of the consumer experience.

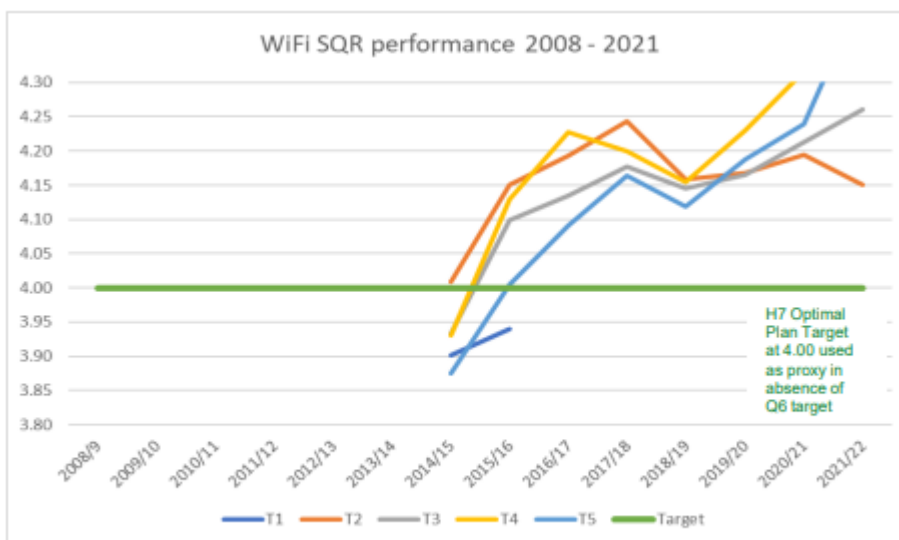
**WIFI Performance: NEW, H7 IP = 4.05**

We would note again that the CAA’s own consultant Arcadis has provided evidence that the proposed target for H7 is not in any way a stretch for HAL. The past performance data shows that HAL is already performing consistently above the suggested target for H7 of 4.05 and has done so since 2015. We again would strongly argue the proposed target is too low. Arcadis suggest that “the target should be between 4.00 and 4.20 as actual performance is running at 4.19 so this should be achievable.”

We strongly believe that a clearer target is required for this measure. Rather than a survey of consumers we should target HAL on providing an appropriate amount of speed and bandwidth for all consumers in a typical peak hour for a LHR operating at capacity.

Without prejudice if the CAA continue with the old measure we would propose an appropriate target for H7 of 4.30 which reflects the performance achieved across Q6 and 2021 but with the added stretch of future passengers across H7 expecting to have good Wifi.

We would also note that we firmly believe that this measure should continue to be a reputational rather than financial measure. HAL collect personal information of those who register to use the free wifi and send marketing information to them once they are registered. It is therefore appropriate to continue the Q6 policy of this measure being reputational only. HAL have their own incentive to make this work – it is not necessary for the CAA to provide a further target.



Source: HAL data, Arcadis analysis

**Security Queue Time Central Search**

95% within 5 mins

We do not agree with the target proposed by the CAA. Arcadis has shown that during Q6 HAL performed consistently above this target at an average of 96.99%. We therefore would urge the CAA to adopt a target that provides a realistic target to improve HAL’s performance in this critical area. A target of 97% would be appropriate in the forecast reduced passenger volumes of H7.



99% within 10 mins

We do not agree with the target proposed by the CAA. Arcadis has shown that during Q6 HAL performed consistently above this target at an average of 99.84%. We therefore would urge the CAA to adopt a target that provides a realistic target to improve HAL's performance in this critical area. A target of 99.9% would be appropriate in the forecast reduced passenger volumes of H7.

#### **Security Queue Time Transfer Search**

95% within 10 mins

We do not agree with the target proposed by the CAA. Arcadis has shown that during Q6 HAL performed consistently above this target at an average of 98.09%. This is a critical area of service delivery for consumers making connections at LHR- the UK's only hub airport. We therefore would urge the CAA to adopt a target that provides a realistic target to improve HAL's performance in this critical area. A target of 99.9% -which is in line with that for Central Search would be appropriate in the forecast reduced passenger volumes of H7.

#### **Security Queue Time Staff Search**

95% within 10 mins

We do not agree with the target proposed by the CAA. Arcadis has shown that during Q6 HAL performed consistently above this target at an average of 98.79%. This is a critical area for airlines aiming to provide an on time service to the consumer. We therefore would urge the CAA to adopt a target that provides a realistic target to improve HAL's performance in this critical area. A target of 99% would be appropriate in the forecast reduced passenger volumes of H7.

#### **Control Post Vehicle Queue Time**

95% within 15 mins

We do not agree with the target proposed by the CAA. Arcadis has shown that during Q6 HAL performed consistently above this target at an average of 96.29%. This is a critical area for airlines aiming to provide an on-time service to the consumer. We therefore would urge the CAA to adopt a target that provides a realistic target to improve HAL's performance in this critical area. A target of 97% would be appropriate in the forecast reduced passenger volumes of H7.

#### **Availability of Lifts, Escalators and Travelators: Q6=99%, H7 = 99%**

Replaces PSE availability (general + priority). We agree with this measure as proposed.

#### **Availability of check in infrastructure: NEW TBA**

We would repeat our position made during the way forward response. This is a critical area of the consumer experience. Any failure of this infrastructure will immediately cause queues and consumer stress and also impact punctuality. We therefore would urge the CAA to adopt a performance target of 99.5% Availability each day from 0500 – 2300. This would equate to one or fewer 5 minute periods of down time for check in each day. (Note: we would include check in baggage input feeds in the category check in infrastructure)

### **Availability of departure gate facilities**

We are disappointed that CAA has disregarded this airline-proposed measure. The rationale for including this as a new measure is exactly the same as for check-in infrastructure: these are essential facilities which the airport provides to enable airlines to deliver the required services to their passengers. It is irrelevant that the facilities differ by terminal; just as for check-in infrastructure, these differences would be allowed for within the details sitting behind the measure. We ask the CAA reconsiders its position.

### **Availability of baggage carousels: Q6=99%, H7 = 99%**

We agree with this measure as proposed but would note as stated in our Way Forward response that this should be both targeted and measured daily.

### **Availability of track Transit system 1 train, 2 train: Q6=99%, 97%, H7=99%, 97%**

We agree with this measure as proposed. but would note as stated in our Way Forward response that this should be both targeted and measured daily. We would also note, given the new trains and technology recently introduced into the TTS that the Q6 target should be increased for H7.

### **Availability of stands: Q6=99%, H7 = 99%**

We agree with this measure as proposed but would note as stated in our Way Forward response that this should be both targeted and measured daily.

### **Provision of stand facilities: Q6=98%-99%, H7 = 99%**

(Replaces FEGP, PCA, Jetties, Stand entry guidance). We can only agree with this measure as proposed if this is measured appropriately on the basis of instances when these facilities are required rather than any time-based measure, or at a minimum the time that the aircraft is on stand; continued measurement over a 24hr period is incompatible with an effective incentive and grouping of the existing individual was designed solely to ensure that different facilities provided on different stands were distinguished.

### **% Pier served stand usage: Q6=95%, H7 = 95%**

We agree with this measure as proposed.

### **Runway Operational Resilience (Q6=max deferred movements per day, H7 =same)**

We agree with this measure as proposed.

### **Hygiene safety testing: H7=100% amber tests resolved < 24hrs, 100% Red tests resolved < 4 hours**

We agree with this measure as proposed but would recommend that it should be a reputational measure rather than financial as we already have a financial incentive attached to cleanliness and we do not have sufficient experience to understand the performance target to set and its appropriateness to stretch HAL's management of hygiene. We would also strongly urge the CAA to include "back of house" areas in this measure.

### **Timely delivery from departures baggage system: NEW TBA**

It is imperative that a customer trusts that when flying from LHR that their bag will arrive with them at their final destination. Airlines suggest a multi-layered approach to baggage as it is a fundamental service for a hub airport and a key outcome for passengers. (We would also note that over the Q6

and H7 periods, significant investment and Opex has been and will be made into baggage systems on behalf of the consumer and it is therefore untenable that there is not a performance measure for departures and connecting baggage to monitor how these investments are performing and to incentivise HAL to utilize them effectively).

We suggested the below measures in our previous responses:

- a) Daily Departure, Transfer, Out Of Gauge and Arrivals baggage system % availability
- b) Baggage in-system time Departure, Transfer and Arrivals
- c) In-system baggage miss-connection rate when within MCT.

We believe that the HAL-proposed and CAA-endorsed measure of “timely delivery from departures baggage system” **could** be a useful measure as it would incorporate the airline-proposed measures in b) and c) above. Clearly, if a direct-departing or transferring bag does not make a flight and misconnects, then there has not been a delivery from HAL’s baggage system in time for the outbound flight of that transfer bag.

However, it is incorrect to characterise that airlines ‘currently support’ this measure<sup>4</sup>. The Airline Community position is one of ‘cautious support’, pending the significant amount of detailed work which still needs to be done to fully define this measure and agree reasonable performance standards. The CAA has not proposed a target measure for this metric in the Initial Proposals – which is very disappointing considering the volume of performance data that HAL already have available on this subject. In advance of the required detailed work being undertaken, the airline community would propose a metric of 99.8% of bags being delivered from the HAL system 30 minutes before scheduled departure time. This equates to a missed bag rate of 2 per 1000 as an average across the combination of direct and transfer baggage. This is a suitable stretch target and aligns with HAL’s previously shared baggage strategy targeted performance [REDACTED]<sup>5</sup>

Whatever Measure is finally agreed for departing baggage, this is another area for which performance must be assessed on a daily basis. Every bag for every passenger matters and following a monthly target runs the risk of hiding poor baggage system performance and extreme passenger impact. In CAP2274, 1.6 (bullet 5), there is a suggestion that the CAA “would give consideration to whether a further measure of baggage performance (such as HAL’s proposed baggage misconnect rate)” would be a useful additional measure. As part of the point above, the Airline Community fundamentally refutes any such measure which would consider airline performance. The baggage misconnect rate is made up of two linked, but independent activities: the performance of HAL’s system and the performance of the airline and its ground handler. The former must be monitored as the activity is solely in the control of the regulated entity. The latter must not be monitored by the regulator: it is an activity solely undertaken by the airline as a commercial entity and as such, performance is market-driven.

Similarly, the Airline Community is disappointed by and firmly rejects the CAA’s suggestion that ‘last bag on the reclaim belt’ should be a new reputational measure<sup>6</sup>. The regulated entity's role in this activity is important, but relatively small. HAL’s job is simply to ensure that suitable infrastructure is made available for airlines to deliver bags to passengers. It is the airlines and their handlers who use

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<sup>4</sup> Paragraph 14.43, CAA CAP2265D

<sup>5</sup> Baggage Transformation Steering Group, 2<sup>nd</sup> May 2018

<sup>6</sup> Paragraph 14.25, CAP2265D

this infrastructure to provide the required (commercially driven) service for their passengers. Thus, the measure 'Availability of arrivals baggage carousels' is all that is required in this area to ensure satisfactory performance by the regulated entity. It is inappropriate to consider measuring non-HAL performance.

This 'last bag on the reclaim belt' measure is simply not suitable, because it does not recognise the interplay between airlines and the regulated body, HAL, and how they ultimately provide services to consumers .

### **Reputational**

**Overall satisfaction: NEW, H7 IP=4.26**

**Customer effort (ease): NEW TBA**

**Enjoy my time at the airport: New TBA**

**Airport that meets my needs: NEW TBA**

**Feel safe and secure: NEW, H7 IP = 97% agreeing**

All of the above measures and also the suggested "helpfulness and attitude of airport staff" could be instead summarised with a Net Promoter Score measure. We would repeat our previous statement:

NPS is a common measure across industry types to understand overall customer satisfaction. This should be the 'Hero' measure, the North Star that is the overall outcome Heathrow's Leadership Team should be aiming to improve. It is important to ask this question once customers have been able to experience the full extent of Heathrow's services but this score helps to bring together all the touchpoints and elements of the customer journey into one simple question. Not only that, we feel that NPS is a great tool to be able to monitor and benchmark Heathrow against other airports and service providers.

At least 2 of Heathrow's closest comparable airports use NPS as a measure for customer satisfaction at Gatwick and Schiphol:

Measure:

On a scale of 0 – 10, how likely are you to recommend Heathrow to a friend or relative?

Airline suggested target:

40 pts

**Ease of access to the airport: New TBA**

This measure is not in HAL's direct control, has the potential to drive excessive un-necessary capital demands and as such is not an appropriate measure for the OBR, we therefore do not support this measure. We would note that what is in HALs control is the Terminal Drop Off Charge, subsidized bus schedules and buses for both staff and customer car parking. It is much more appropriate for the CAA to set targets on these specific HAL activities.

**Helpfulness/attitude of airport staff: New TBA**

See above comment on NPS.

**Being able to social distance if I want to: New TBA**

We agree with this measure as proposed.

**Ease of understanding Heathrow's Covid safety information: New TBA**

We agree with this measure as proposed.

**Passengers with reduced mobility - overall satisfaction: NEW, H7 IP = 4.00**

We would note that the CAA's own consultant Arcadis stated that "Based on the recent performance, it is not clear why HAL would set a lower target of 4.00." We are therefore at a loss as to why the CAA have adopted that same low target of 4.00 for this measure. We would note that the budget for PRS in 2019 was £ [REDACTED] with passenger numbers of 80.1m that year and that the budget for PRS in 2022 is £ [REDACTED] for only 42.5m passengers - a 109% increase on a per passenger basis. As such, we would urge the CAA to reflect the large additional spend in this area with an increased target level of service for the consumer.

**Departures punctuality - % of flights departing off stand within 15 minutes: NEW, H7 IP=80.5%**

This measure is not in HAL's direct control, and as such is not an appropriate measure for the OBR, we therefore do not support this measure. We completely agree that punctuality is a key component of consumer satisfaction across the overall journey. However, a large number of factors affecting punctuality are outside HAL's control. It is much more appropriate for the CAA to focus on measures that do affect punctuality and are largely in HAL's control, these include:

Airport departures management

Airport arrivals management

Security performance

Control post performance

Timely delivery from departures baggage system

Availability of Check in Infrastructure

Availability of Gate infrastructure

Availability of Track Transit System

Provision of Stand facilities

Availability of Stands

If HAL's management team deliver excellent levels of service to match and improve upon the above measures and targets, then the factors that affect punctuality within HAL's control should all improve.

**Airport departures management (% of flights taking off within x mins of standard time): NEW TBA**

We support the introduction of this measure. We would urge the CAA to request detailed data from HAL so the CAA can provide an opinion on the right level of targets to be set. There is a huge amount of HAL and NATS data available on the movement of aircraft to and from the runways and it is straightforward and not time consuming to analyse this data to provide evidence of the right level of target to be set.





### **Airport arrivals management (wheels down to doors open): New TBA**

We support the introduction of this measure. We would urge the CAA to request detailed data from HAL so the CAA can provide an opinion on the right level of targets to be set. There is a huge amount of HAL and NATS data available on the movement of aircraft to and from the runways and it is straightforward and not time consuming to analyse this data to provide evidence of the right level of target to be set.

### **% of UK pop. within 3 hours (and one interchange) of Heathrow by public transport: New TBA**

We would note that this measure should only concern public transport that is within HAL's ability to influence.

### **Passenger injuries per 1,000,000: NEW, H7 IP = 4.5**

As stated in previous feedback this measure should also cover colleagues working at the airport and should be "injuries per million passengers". All colleague injuries at the airport must be reported to HAL's APOC. HAL already have colleague injury data, so it is straightforward for HAL to include that data and measure and report on all injuries.

### **Immigration queue times: NEW, H7 IP = 95% <45mins for Non EEA, <25mins for EEA**

We agree with this measure as proposed.

### **Reduction in Heathrow's carbon footprint: New TBA**

This measure is not in HAL's direct control, and as such is not an appropriate measure for the OBS, we therefore do not support this measure.

## **3. Incentives, Rebates and Bonuses**

### **3.1 Incentives**

The Airline Community would first reiterate our continually stated position that the primary purpose of an incentive mechanism is to ensure customers get the service that they, through airlines, are ultimately paying for through an appropriately calibrated framework.

Furthermore, and notwithstanding our comments set out below, we strongly agree that any application of incentives must be considered and calibrated to ensure the right behaviours are maintained and do not allow for any 'gaming' of the system – for example where the CAA have applied a bonus structure, that is only possible against the lowest performing asset.

### **3.2 Rebates**

We note that, notwithstanding specific challenges, the existing arrangements to rebates have broadly worked. Furthermore, no compelling evidence has been presented either during this, or previous, review periods to suggest otherwise, and we are cognizant there are already a number of changes being proposed within the overall framework. We are therefore agreeable to the continued approach to rebates and that these should continue to form the basis for the future, including existing governance arrangements (on which we comment further under Section 5).

Given the views of the Airline Community on those measures that should be financial and those reputational, as set out under Section 2.4, the specific weightings should be reconsidered.

The Airline Community do agree however with the CAA's position regarding the continuation of 'knife edge' rebates and that a sliding scale approach to rebates as this would introduce the concept of 'acceptable failure' and also note it would create uncertainty in the delivery of service levels that airline operations require; and cause regulatory complexity. A sliding scale approach would allow HAL to self-determine a trade-off between cost and service delivery to the potential detriment of consumers. The full rebate amount should be payable when the service standard is not met.

### 3.3 Bonuses

In terms of bonuses, we reiterate we remain principally unsupportive of them under OBR particularly in the case here where, further to our comments on targets, these appear to relate to HAL carrying out activities to certain levels already compensated for elsewhere within the regulatory settlement e.g. operating cost and capital expenditure allowances for example.

Notwithstanding and without prejudice to the views set above, below captures specific feedback on the proposed bonuses put forward by the CAA:

1. The bonus target proposed for Central Search is not a stretch target. Arcadis has already described to the CAA that the average central search performance in Q6 was 96.99%. We would strongly recommend a target that is meaningful to all consumers. We would recommend a target of zero days in the month where the queue time is over 5 minutes for more than 2 x 15 minute periods.
2. Wayfinding is important at LHR, but we do not believe it is in the interests of consumers to provide a bonus on this metric. Instead, we would strongly recommend a bonus target for Transfer search. HAL operate the UK's only hub, and the transfer experience is a stressful process for consumers unless it works smoothly for all consumers. We would recommend a target for Transfer Search of zero days in the month where the queue time is over 5 minutes for more than 2 x 15 minute periods.
3. Cleanliness is important at LHR, but we do not believe it is in the interests of consumers to provide a bonus on this metric. Instead, we would strongly recommend a bonus target for Control Posts. Excellent punctuality is a key driver of service for the consumer and smoothly working control posts with minimal queuing is vital component for airlines to provide a punctual flight. We would recommend a target for Control Posts of zero days in the month where the queue time is over 15 minutes for more than 2 x 15 minute periods at any one Control Post.
4. Timely delivery from Departures Baggage System. This is an important measure for consumers. We would recommend a target for H7 bonus structure of a bonus payment each month is the baggage performance is more than 99.9% of bags (direct and transfer) delivered 30 minutes before scheduled departure time.

#### **4. Continuous Improvement**

Whilst supportive in principle to the concept of Continuous Improvement, as set out in previous feedback, the Airline Community remain concerned that under the existing governance framework, there is no incentive or mechanism that would compel HAL to agree to a change in targets.

We are therefore of the view that stretch targets are automatically applied to a set point within the period. If there is clear evidence that collectively agreed demonstrates such a stretch is not possible (or require significant investment), then this could be amended at the 'review point'. This alternative approach not only addresses the underlying concerns set out above, but also provide an incentive more akin to an organisation in a competitive market whereby continuous improvement would be expected and a natural progression.

We note the CAA have also put the onus on airlines and HAL to agree what a mid-point review on Continuous Improvement would cover and when. Given our concerns set out above we think this must be developed in a tri-partite manner with the CAA have greater accountability for establishing this, building on an approach set out by the CAA in Paragraph 14.54

In terms of frequency, given a number of areas still to resolve and noting the CAA's comments that there could be further changes (for example the CAA have suggested some targets may not be set until 2023, or subject to passenger volumes), we strongly believe this needs to be on a more regular basis than a one off 'mid-point' review and would propose this to be undertaken annually. This will ensure sufficient development of any new arrangements and, with the proposals set out within this response ensure a greater level of service is provided to the consumer.

#### **5. Governance Arrangements**

The Airline Community feels that it continues to be a necessity to ensure that any alleviation of service standards is only through the Airline Community. This is particularly important as in all cases of potential alleviation there is a service impact on the airline customers, with whom there is a contract of service and expectation of standards being met. Where these standards are not met, there may be consequences to the airline in terms of financial recompense, such as with under performance in PRS, baggage, or prolonged delay; with others there may be reputational damage and future choices made not to fly from Heathrow. Currently this provides healthy challenge to HAL in delivering standards and where there is failure and HAL seeks alleviation, work is done to outline the operational reasons for such alleviation to be requested. Where appropriate alleviation is never withheld, and in a few examples each year it may be challenged, which appears to be a healthy reflection of the process.

The CAA have not demonstrated a requirement it to be the ultimate arbiter, as proposed within the consultation. The existing process has served the consumer well and on the rare occasion counsel from the CAA has been agreed by HAL and airlines, this has been agreed to. We are deeply concerned that any changes will lead to a continued escalation of issues by HAL and used to by-pass airlines. Given other concerns with OBR, if there is no opportunity for the community to represent the consumer in a very direct challenge of standards delivery through alleviation oversight, then we would likely recommend to CAA that SQRB is maintained until the whole OBR structure is in a more appropriate configuration.



We remain available and welcome the opportunity to discuss further the points and questions raised within.

Yours sincerely,

Gavin Molloy  
Chair – LACC  
London (Heathrow) Airline Consultative Committee

Nigel Wicking  
Chief Executive – AOC  
Heathrow AOC Limited

## Annexes and Appendices

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### Annexes:

1. **ICF Report: Heathrow AOC Security Queue Performance – January 2022**