

**Jeff Halliwell**  
**CCB Chair**

6 January 2020

Dear Jeff,

## **Guidance to the CCB regarding its report on HAL's Initial Business Plan**

Further to my 13 December 2019 letter confirming the CCB's reappointment, I noted that I would write to you to provide high-level guidance on the issues we think the CCB should consider in its report on HAL's Initial Business Plan (IBP). The annex to this letter sets out this guidance.

### **Purpose of guidance**

Over two years have passed since we issued our initial guidance to the CCB<sup>1</sup> and policy expectations on consumer engagement and outcome-based regulation<sup>2</sup> (OBR) to ensure consumers remain at the heart of H7 price control. During this time, there have been a number of significant programme and policy developments.<sup>3</sup> As a result, we have reviewed this material in light of the latest developments in the H7 price control review and expansion programme, and are content that it remains fit for purpose.

We are taking this opportunity to collate and highlight relevant elements of this material to assist the CCB in considering how best to focus and frame its report. This is set out in the annex to this letter, which we consider provides a broad steer on our expectations for the CCB's IBP report.

In particular, we are interested in understanding how the CCB has taken account of stakeholder perspectives at Heathrow airport as well as the wider context of capacity expansion in drafting its IBP report. This includes the need for HAL's IBP to deliver directly for consumers as well as meeting the needs of the planning process and delivering for airlines.

We also expect the CCB's IBP report to include a holistic and balanced assessment of HAL's progress since 2016 on:

- its programme of consumer engagement and research;
- the development of its OBR framework; and
- its engagement with the airlines on these matters.

<sup>1</sup> See [link](#) – CAP1540 (April 2017). See chapter 3.

<sup>2</sup> See [CAP1383](#) (H7 Strategic Themes, March 2016); [discussion paper](#) on incentivising consumer outcomes (May 2016); [CAP1449](#) (Decision on CCB's Terms of Reference, September 2016) and [CAP1476](#) (Future of service quality regulation, December 2016).

<sup>3</sup> Including the designation of the Airports National Policy Statement, the interim price review and the development of HAL's masterplan.

We are also interested in the CCB's views on whether there has been an appropriate evolution of the Service Quality Rebates and Bonus (SQRB) scheme to OBR as well as any areas of constructive feedback and/or practical recommendations.

Richard and I would welcome the opportunity to discuss the CCB's report on HAL's IBP with you early in the New Year.

I suggest the CCB also discusses its IBP report with the CAA's Consumer Panel.

I hope this guidance is helpful and I look forward to reviewing the CCB's report on HAL's IBP.

Yours Sincerely,

A handwritten signature in black ink that reads "Paul Smith". The letters are cursive and slightly slanted to the right.

Paul Smith

**Group Director  
Consumers and Markets  
Civil Aviation Authority**

## **Annex - Guidance to the CCB regarding its report on HAL's Initial Business Plan**

We are taking this opportunity to collate and highlight relevant elements of our earlier guidance and policy expectations on consumer engagement and outcome-based regulation (OBR), to assist the CCB in considering how best to focus and frame its report on HAL's Initial Business Plan (IBP).

As an independent body, the CCB should continue to determine for itself how it scrutinises and challenges HAL. The CCB should continue to report independently in accordance with its Terms of Reference, taking account of stakeholder views and the latest developments in the H7 price control process and expansion programme.

We set out below relevant aspects of our earlier guidance and policy expectations.

### **Summary of earlier guidance and policy expectations**

The CCB's Terms of Reference (ToR) states that the CCB's role is to provide independent advice and assurance on the overall quality of HAL's IBP, particularly how, and the extent to which it has been informed by high quality consumer research and engagement, and the extent to which the outcomes and incentives in the IBP reflect the needs of consumers as demonstrated by that engagement. The ToR also notes that the views presented by the CCB in its reports to us should clearly document areas of challenge and disagreement and how trade-offs have been made.

In our initial guidance to the CCB, we stated<sup>4</sup> that the CCB's role is to challenge HAL on how it has carried out engagement with consumers, interpreted and applied the results and reflected these matters in its business plan. We also noted<sup>5</sup> that the CCB needs to fully explain how it has influenced and validated HAL's business plan, so that stakeholders are able to understand how the CCB arrived at its positions on each issue.

Our earlier guidance and policy expectations for consumer engagement and OBR are set out in Figure 1 below for background information.

#### ***Figure 1: Earlier guidance and policy expectations***

- **CAP1383** - H7 Strategic Themes, chapter 4 (March 2016)
- **Discussion paper** - Incentivising consumer outcomes (May 2016)
- **CAP1449** - Decision on CCB's Terms of Reference (September 2016)
- **CAP1476** - Future of service quality regulation (December 2016)
- **CAP1540** – H7 business plan guidance, particularly chapter 2 on OBR and chapter 3 on consumer engagement which includes guidance to the CCB on its reporting to the CAA (April 2017)
- **CAP1819** – updated business plan guidance, particularly chapter 3 and Appendix D (July 2019)

<sup>4</sup> See [CAP1540](#) (April 2017) paragraph 3.14.

<sup>5</sup> See [CAP1540](#) (April 2017) paragraph 3.19.

In considering how best to focus and frame its IBP report, we consider our May 2016 discussion paper and CAP1476 provide useful guidance to the CCB.

The CCB should also take account of our CAP1540 guidance on how the CCB should report to the CAA (see Figure 2 below).

**Figure 2: Key questions for the CCB to consider in reporting to the CAA**

<b>Effectiveness of relationships</b>	Has the CCB been able to fulfil its role objectively and independently, including having access to the information, resources and senior staff from HAL it needs in order to fully scrutinise the company's engagement and business plan proposals?
<b>Consumer engagement</b>	<p>Has HAL developed a genuine understanding of consumers' priorities, needs and requirements, drawing on a robust, balanced and proportionate evidence base, including information from airlines? Has HAL effectively engaged with and informed consumers on its current levels of performance and how this compares to other relevant businesses in a way consumers could be expected to understand?</p> <p>Has the evidence and information obtained from consumers (including from airlines and through HAL's day-to-day contacts with consumers) genuinely driven and informed the development of its business plans?</p> <p>Has HAL effectively engaged with and understood the needs and requirements of different consumers, including those in circumstances that make them vulnerable? Has HAL considered the most effective methods for engaging different consumers, including those that are hard to reach? What trade-offs between the needs of different consumers have been identified and how has HAL proposed to deal with these?</p>
<b>Development of outcomes</b>	<p>How well evidenced is HAL's assessment of consumers' expectations and the outcomes it has developed in response? Is there a clear line of sight between consumer priorities and the final agreed set of outcomes?</p> <p>Are the measures of success and outcome delivery incentives appropriate and are the targets sufficiently challenging? Are incentives aligned with the interests of consumers, and do they reflect an appropriate degree of simplicity, clarity and transparency?</p>
<b>Overall assessment</b>	Overall, has HAL's plan responded to customers' expectations and priorities? Are there areas for further scrutiny?

The CCB should also take account of our updated business plan guidance to HAL in CAP1819, and consider whether the IBP meets the criteria in Figure 3 below.

**Figure 3: Relevant business plan criteria on outcomes and consumer engagement**

<p>Outcomes and consumer engagement</p>	<ul style="list-style-type: none"> <li>▪ For the successful implementation of outcome-based regulation (OBR) it is necessary for HAL to build on the success of the existing Service Quality Rebate and Bonus (SQRB) scheme, including by retaining many of the current metrics, where appropriate. This means that the scope of OBR should capture elements where HAL provides service directly to passengers (e.g. security), as well as elements of airport operation services focussed on enabling airlines to provide service to passengers (e.g. stands and jetties).</li> <li>▪ HAL’s plans should take account of and demonstrate a deep understanding of consumer preferences based on a wide range of engagement and research. Its approach should be reviewed and tested by the CCB. We expect HAL will have taken careful account of the challenge and other feedback it receives from the CCB. Where its approach does not fully align with the views of the CCB, HAL should explain and justify its reasoning for doing so.</li> <li>▪ HAL should propose outcomes which reflect the most important aspects of airport services to consumers. Each outcome should have one or more performance measures associated with it, and the overall package of measures should cover all aspects of airport operations that are either directly or indirectly important to consumers. All the outcome performance measures should include reasonably challenging target levels of service performance, which reflect consumer views. The majority of targets should have associated financial incentives on HAL, though reputational incentives may also be appropriate.</li> <li>▪ There should be strong evidence that (i) consumers have been fully engaged in developing the outcomes that HAL proposes to deliver and (ii) the overall outcome-based regulation framework has been tested with consumers. HAL should be clear about how engagement has shaped and influenced the proposed outcomes, measures, targets and incentives. We expect HAL to have followed a clear and transparent process to be used to convert consumer research into business plan outcomes.</li> <li>▪ Throughout its plans, we expect HAL to demonstrate that it has made robust assumptions, that possible options have been carefully considered (including the trade-off between affordability and service), and how in the FBP strategic choices have been made. We expect HAL to be explicit that the options proposed are best placed to achieve maximum value for consumers.</li> <li>▪ In addition to robust engagement with consumers, HAL should engage extensively with airlines throughout the process, including in the development of the IBP. Airlines have a vital role to play in helping to deliver service quality and, thus, HAL should: (i) develop a coordinated approach to service provision with airlines; and (ii) collaborate closely with them in finalising the outcome-based framework.</li> </ul>
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