

CAP3286 – Heathrow capacity expansion: Update on the approach to the regulatory framework

Response by Heathrow Airport Ltd

Supporting Document 3: Governance case studies

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A REVIEW OF IAG CLAIMS IN RELATION TO THE T2 BAGGAGE RENEWAL PROGRAMME

Executive Summary

The factual record does not support IAG's broader conclusion that the T2 Baggage Renewal Programme (Programme) demonstrates a fundamental failure of Heathrow's capital governance framework. Instead, it shows an operationally critical and complex programme developed through changing demand, regulatory uncertainty, airline-agreed choices, independent assurance and material airline engagement.

Heathrow's priority for the T2 Baggage Renewal Programme has been and remains clear: to secure safe and resilient baggage operations while delivering value for the passengers who fund the investment. That means replacing ageing infrastructure without disrupting live operations, meeting demanding safety, security and resilience requirements, and preserving flexibility for Terminal 2's future development - all with firm cost discipline.

This paper refutes IAG's claims against the full Programme record: its history, cost and scope development, benefits, maturity and airline participation in governance. That complete record matters. Selective headline comparisons obscure the choices, assurance and stakeholder influence that have shaped the Programme.

The evidence supports four clear conclusions:

- **The current Programme is the product of successive, evidence-based decisions -not an undelivered 2007 project.** Timing reflected a different terminal concept, lower demand, airline-agreed portfolio choices, regulatory changes, COVID-19 and independent evidence that targeted investment could sustain the existing system. A simplified timeline is included in the Annex.
- **The case is resilience and obsolescence, not immediate capacity. This has been agreed with airlines over multiple project touchpoints.** The Programme removes reliance on ageing Terminal 1 infrastructure, protects current service and preserves future flexibility. Committing significant capital in a period of high uncertainty and change would have imposed substantial charges; extending the existing solution while maintaining performance is estimated to have avoided more than £600m on avoided airline charges.
- **IAG's £339 million-to-£897 million comparison is not like-for-like. Three adjustments are needed.** First, restate the 2007 estimate in 2025 prices: £339 million becomes approximately £579 million. Second, compare equivalent scope: the G3 cost of the new T2A baggage system itself is approximately £551.8 million, not £897 million. Third, test cost control after the P2 baseline: removing £108.2 million of airline-agreed scope changes reduces the £897 million G3 estimate to approximately £789 million, broadly in

line with the £787 million approved at P2. The evidence shows different scope and price bases—not uncontrolled escalation. See reconciliation in Figure 1.

- **Airline challenge materially shaped the Programme, but effective governance also depends on stakeholders using their rights consistently and evidentially.** Airline input secured material changes, including the full T2 solution, additional screening capability, independent Subject Matter Expert (SME) assurance and Plan B.¹ Airlines had extensive opportunities for scrutiny through the Airline Strategic Group (ASG), SPG and wider engagement programme, yet IAG attended only 29% of ASG meetings and 46% of SPG sessions between 2023 and 2025. Some requirements were also raised late or without sufficient supporting evidence, and relevant operating-cost information was not provided. The record therefore points to uneven use of an influential framework, rather than an absence of airline influence.

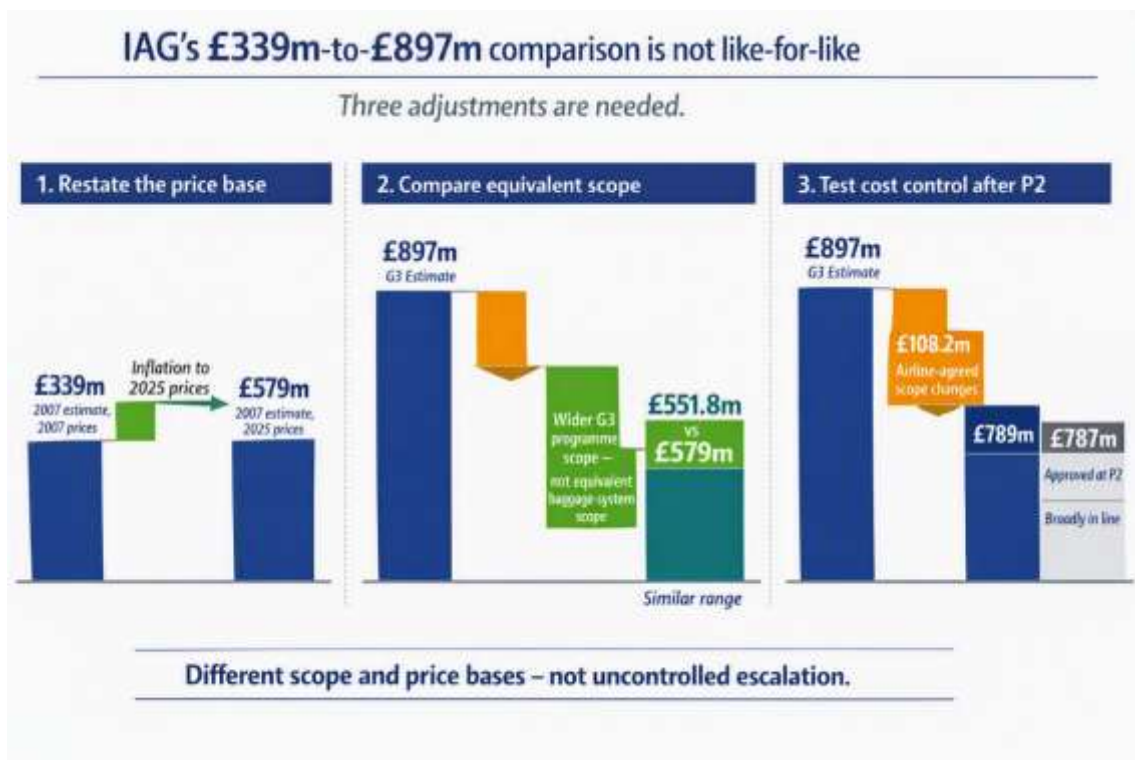


Figure 1. Why IAG's comparison is not like-for-like

The case therefore supports targeted reform, not wholesale redesign. Governance should be proportionate and risk-based, reflecting scale, interdependence, maturity, uncertainty and the consequences of delay. It should also reinforce reciprocal accountability: Heathrow must provide clear and timely evidence, while airlines must exercise their influence effectively, promptly and constructively.

This has different implications for business as usual and Heathrow Expansion:

¹ Plan B Plan B reconfigured the baggage system and apron layout to improve traffic flows and operational efficiency. Developed with airlines, handlers and independent experts, it was formally reviewed and approved between April and July 2024.

- **For H8:** The focus should be on targeted reform of the existing framework. Heathrow's submissions to the CAA within the H8 price review process (Business Plan and Response to Initial Proposals) and in the main response to this CAP3286 provide a detailed view of proposed incremental framework improvements. Heathrow has been engaging proactively in discussions with airlines to identify further areas of targeted improvement and possible solutions.
- **For Expansion:** Its scale, duration, interfaces and risk profile require a bespoke programme-level framework - not an enlarged business-as-usual model. This should combine independent assurance, strategic engagement, better information, tailored efficiency incentives and procurement oversight, while preserving clear delivery accountability (as set out in Heathrow's responses to CAP3195, CAP3251 and CAP3286).

Governance reform should therefore reinforce shared accountability - not add procedural layers or confer additional control on one party while leaving participation, evidence and operational responsibilities unaddressed. Additional rights without corresponding duties to engage, evidence positions and deliver operational improvements would not resolve the challenges identified - it would risk entrenching them.

T2 Baggage Renewal Programme: Summary response to IAG's claims

This table provides a summary of Heathrow's response to IAG's principal claims concerning the history, cost, benefits, maturity and governance of the T2 Baggage Renewal Programme. It highlights the key conclusions and supporting evidence relevant to each claim; the underlying analysis is developed in the corresponding sections later in this paper.

No.	IAG claim	Factual evidence
1	Heathrow has known about the need since 2007 but failed to deliver.	<p>It is not the case that an approved replacement project has been left undelivered since 2007. The current investment scope and timing reflects a sequence of governed decisions made as demand, regulatory circumstances, and asset evidence changed.</p> <ul style="list-style-type: none"> • The 2007 proposal formed part of a later phase of terminal development rather than an approved standalone replacement project that remained the same over time. • A fully integrated baggage system could not be accommodated within the initial T2A footprint, as part of Phase 1 in the T2 development, principally because of the Piccadilly Line beneath the terminal. It was reliant on elements included in Phase 2. • Significant changing circumstances: <ul style="list-style-type: none"> • Passenger traffic in 2012/13 was 70.3m, around 10% below the CAA's Q5 exit forecast of 78.2m, supporting reassessment of the timing of further major investment. • In November 2017, the Q6 allowance was reduced through formal change control with airline-community agreement from £185m to £15m. • The Programme was halted in April 2020 because of COVID-19; the present Programme was then brought forward through the H7 planning cycle in 2021–22. • Suisseplan jointly commissioned review concluded that the existing system could continue operating with targeted resilience investment.

No.	IAG claim	Factual evidence
2	Deferral of the investment increased costs.	<p>Deferral incurred necessary lifecycle costs but avoided a larger premature capital commitment – which delivered significant savings to airlines - and did not cause the headline cost difference.</p> <ul style="list-style-type: none"> • Prolongation expenditure funded asset replacement, resilience and supporting infrastructure, following the airline-supported 2013 assessment that the existing system could continue with targeted investment. • Proceeding sooner would have required substantial capital while demand, regulatory settlements, the Airports Commission process remained uncertain. • A high-level counterfactual indicates that not proceeding with the early investment and extending the life of the existing solution avoided more than £600m of airline charges when contrasted with option of earlier capital investment to deliver the Programme. • The wider scope of today's Programme also reflects evolved cyber-security, safety, resilience, technology, capacity, enabling and demolition requirements, including changes requested through airline engagement. • The current Programme, as agreed with airlines across five tranches in different G3 gateways between 2023 and 2025, includes approximately £169m for T1 building asset replacement, £62m for T1 baggage asset replacement and £60m for IT replacement and relocation; these lifecycle and continuity costs should not be conflated with the new baggage system itself.

No.	IAG claim	Factual evidence
3	The programme has experienced substantial cost escalation.	<p>The £339m and £897m figures are not directly comparable because they reflect different solutions, scopes and price bases. Once inflation, early-stage scope maturation and traceable, airline-agreed changes after P2 are taken into account, the underlying post-P2 cost position remained broadly stable and within the approved budget envelope.</p> <ul style="list-style-type: none"> Adjusted for CPI inflation, the 2007 estimate is approximately £579m in 2025 prices, compared with approximately £551.8m for the new T2A baggage system itself at G3, although the system designs are not identical. The 2007 estimate covered construction of a different baggage-system solution. It therefore did not include prolongation, building and services works, IT relocation, enabling works, demolition and decommissioning included in the current Programme, as agreed with airlines across five tranches in different G3 gateways between 2023 and 2025. Most cost movement occurred before P2, when design, surveys and investigations refined the scope and enabled a full delivery cost re-estimate to be carried out. Identifiable post-P2 changes totalled approximately £108.2m: £48.6m demolition; £43.6m for the full T2 operation, T2 Directs Holding Baggage System (HBS) capability² and airline-requested SME assurance; and £16m for Plan B. Excluding those changes reduces the £897m G3 estimate to approximately £789m, broadly in line with the £787m P2 estimate. Independent review considered the selected solution sensible and the costs not unreasonable given programme maturity; any additional benchmarking exercise proposed by IAG would need to account for the Programme's specific scope and operational constraints. Other measures contributed to cost control: before G3, approximately £90m of capital efficiencies were identified and the estimated cost of prolonging T1-based assets in Tranches 1–3 fell from around £270m at P2 to approximately £206m at G3.

² T2 directs HBS refers to the removal of the current direct screening of holding baggage on level 20 of T2 and its incorporation into the T2 basement.

No.	IAG claim	Factual evidence
4	Airlines and passengers have borne the cost of deterioration.	<p>The evidence does not show sustained deterioration in T2 baggage performance unusually high maintenance costs. Targeted investment contained asset risk and maintained comparatively strong performance, while available operating evidence indicates that T1/T2 has not required disproportionate baggage-maintenance resources.</p> <ul style="list-style-type: none"> • Year to date in 2026, T2 processed 21.4m outbound bags, broadly unchanged from the previous year and at, or often above, pre-pandemic levels. • In June 2026, T2's Misconnect Rate (the share of passengers that did not travel with their bags) was 9.4 per 1,000 passengers, compared with 18.6 Heathrow-wide; the respective moving annual averages were 11.2 and 14.4. T2's In-System Missed Rate was 1.83 per 1,000 bags, compared with 2.50 Heathrow-wide ; the respective moving annual averages were 1.87 and 2.03 (this measure is a subset of Misconnect Rate, bag has entered the systems but not been output in time to connect to its flight. This could be down to system issues, performance at output - causes congestion - or other, but has been used as a measure of the success of our processes). • Targeted works over time included baggage assets, buildings, services and IT systems, out-of-gauge handling, transfer-dock indicators, purge points and the temporary baggage recovery facility; agreed measures also protected throughput when forecast check-in demand exceeded 2,000 bags per hour. • Although the ORC charging structure prevents precise attribution of the operating expenditure required to maintain individual baggage systems, the available evidence provides an important cross-check: since at least COVID-19, T1/T2's share of baggage-maintenance resources has broadly matched its share of baggage volumes. The same pattern is evident at other terminals, including T5, indicating that T1/T2 has not required unusually high operating expenditure. • Claims that airlines and handlers bore additional costs remain unquantified because, despite repeated requests, the supporting third-party cost data was not provided to Heathrow. Heathrow nevertheless developed a generic operating-cost model to estimate their direct benefits and support an evidence-based assessment.

No.	IAG claim	Factual evidence
5	The benefits are weak relative to the cost.	<p>The Programme's strategic benefits are resilience, obsolescence management and operational continuity—not capacity growth alone. Its value should therefore be assessed against continued reliance on ageing infrastructure and the credible alternatives available; on that basis, the selected solution was the most proportionate response and preserved a pathway for future T2 development.</p> <ul style="list-style-type: none"> • The investment removes reliance on ageing T1 infrastructure, improves maintainability, reduces operational risk, protects current service and supports future terminal development. • Objectives established at P1 and translated at P2 covered service, capacity, operational risk and operating expenditure, including Misconnect Rate, In-System Missed Rate, operational capacity, corporate risk reduction and operating-cost efficiency. • The earlier Future T2 concept, used only as a growth-led comparator concept, illustrates the cost and duration of significant capacity growth: it was estimated at approximately £1.85bn, would have required around ten years to construct and would have prolonged reliance on T1 by two to three years. • The selected solution was judged the most proportionate means of removing dependence on T1, maintaining current capacity and service, and preserving a pathway for future T2 expansion. • Arcadis considered the selected solution sensible and the option-assessment approach reasonable; Heathrow did not receive an alternative airline proposal addressing the underlying strategic need. • An independent estimate presented before G3 identified potential airline and handler operating savings of up to £8.6m per year, with realisation dependent in part on changes to airline and handler arrangements.

No.	IAG claim	Factual evidence
6	The business case lacks a robust whole-life cost and value-for-money assessment.	<p>The business case contained a substantive whole-life and value-for-money assessment, covering the principal capital, operating, risk and strategic considerations through option comparison, programme-wide analysis, successive gateways and independent assurance. Consolidating those analyses into a single whole-life view would have made the case easier and quicker to test, but does not detract from the robustness of the underlying assessment.</p> <ul style="list-style-type: none"> • The assessment covered capital expenditure, operating impacts, asset condition, operational risk, resilience, deliverability, future flexibility and alignment with Heathrow's long-term masterplan. • Value for money was tested by comparing materially different strategic options; the selected solution maintained capacity and service, removed reliance on T1 and preserved future expansion optionality without the higher cost and longer delivery period of a growth-led alternative. • Some airline and handler impacts could not be quantified directly because operating-cost data was not made available to Heathrow, despite repeated requests. Heathrow nevertheless acted proactively, developing a generic operating-cost model to estimate their direct benefits and support an evidence-based assessment. • The assessment developed cumulatively through P1, P2, P2T, G2 and G3 with independent assurance supporting the key decisions. Arcadis considered the solution sensible, expressed confidence in the option assessment and found the associated costs not unreasonable given programme maturity. • The programme-level assessment included the costs of sustaining and retiring the legacy operation, including T1 assets, IT relocation, enabling works, decommissioning and risk allowances; approximately £90m of capital efficiencies had been identified before G3. • For future large integrated programmes, a consolidated presentation of capital, operating, risk and charge impacts would make the case simpler and quicker to test.

No.	IAG claim	Factual evidence
7	The programme reached approval with unresolved issues.	<p>G3 required sufficient maturity for commitment to Delivery Obligations, not completion of every downstream design, procurement or operational-readiness activity. This relies on a balance of enough certainty to commit but not closing out all decisions to the point where it increases both cost and schedule to resolve.</p> <ul style="list-style-type: none"> • The route to G3 included progressive solution sign-off, tender and design reviews, simulation and proving, operational-concept reviews, transition planning and testing walkthroughs. • The maturity process generated nearly 800 questions and actions: 331 through solution sign-off, 178 across two immersion events, more than 164 stakeholder interactions during RIBA Stage 4, and more than 120 further questions and 80 completed actions during the final G3 period. • Airlines endorsed the proposed solution in principle, subject to specified technical matters being demonstrated through defined outputs and timescales. • The jointly appointed Independent Fund Surveyor (IFS) confirmed that the core solution, scope, cost and risk position were sufficiently mature for G3, while recording and tracking residual actions through defined outputs, responsibilities and timescales. • Airlines raised concerns at G3 about the previously agreed 35–40 bag container-load design basis, despite extensive earlier engagement and completed trials. Heathrow sought supporting evidence, but the airline business case remained outstanding, requiring further late-stage review and accommodation. • IAG's claim conflates identified and controlled downstream actions with unresolved fundamental issues; the former are inherent in a staged delivery process and do not indicate approval of an undefined or immature Programme.

No.	IAG claim	Factual evidence
8	Airline consultation did not amount to meaningful control.	<p>Airline engagement provided substantive influence over the evidence, requirements, assurance, scope and design considered through governance.</p> <ul style="list-style-type: none"> • Airlines had extensive opportunities to scrutinise and influence the Programme through the ASG, SPG and intensified engagement before G3. More than 140 airline-engagement sessions and meetings with other stakeholders were held between January 2024 and July 2025. • IAG did not demonstrate the level of involvement required to make full use of those governance rights: its representatives attended only 29% of ASG sessions and 46% of SPG sessions. • The IFS noted that some later stakeholder requests were raised too late or without the detailed supporting evidence needed for timely resolution, reinforcing that effective challenge depends on early and well-supported participation. • At P2, airline feedback requested changes concerning hold-baggage screening, out-of-gauge and super-out-of-gauge baggage, and transfer bags. • Airline challenge secured the full T2 solution, additional T2 Directs HBS capability, airline-requested SME assurance and Plan B. Together, these changes materially altered design and scope and added approximately £59.6m: £43.6m for the full T2 operation, additional HBS capability and SME assurance, and £16m for Plan B.
9	Contractual Commitments limited control and influence.	<p>Commercial commitments did not predetermine the G3 decision. No major contracts had been committed, mobilisation could be deferred and material redesign remained possible, although those choices carried normal programme and market consequences.</p> <ul style="list-style-type: none"> • Substantial efficiency was achieved before G3: commercial negotiations and supply-chain interventions secured over £90m of cost reductions and value improvements while strengthening affordability and delivery certainty. • Decision-makers retained a genuine choice: Heathrow made clear that mobilisation could be deferred, although delay could trigger supplier renegotiation, higher costs and a programme delay of up to nine months. • Continued stakeholder scrutiny, and Heathrow's demonstrated ability to reopen and materially redesign the solution after earlier approvals, confirm that the Programme was not locked into a fixed configuration before G3. • Cost certainty at G3 (which is what airlines want), requires contractual commitments and cost to be confirmed with supply chain partners. Supplier prices are valid only for defined periods, reflecting standard practice across Tier 1, 2 and 3 supply chains. Extending or removing those periods requires suppliers to price in additional risk; a defined decision window was therefore necessary to provide credible cost certainty under the current ex-ante framework, not evidence that G3 control had been lost.

No.	IAG claim	Factual evidence
10	Governance gives airlines challenge rights but not decision rights.	<p>The governance model combined substantive airline influence and independent assurance with Heathrow's final accountability for deciding and delivering the investment. Formal accountability should not be confused with an absence of airline agreement or influence.</p> <ul style="list-style-type: none"> Major proposals were developed through airline engagement and presented for review, challenge and agreement before Heathrow's final approval, covering strategic need, objectives, assumptions, scope, cost, risk, requirements and the preferred solution. The material changes evidenced in Row 8 demonstrate that airline influence affected substantive decisions on scope, design, assurance and cost rather than being confined to consultation on a fixed proposal. The record identifies airline-community agreement to cost position at P2, Tranches 1–4 P2T and Tranche 5 P2T, alongside progressive endorsement of the solution before G3. Meaningful ex ante influence does not require a unilateral airline veto, which could delay resilience investment, fragment accountability and make differences within the airline community harder to resolve. The appropriate safeguards are timely information, independent assurance, transparent cost reconciliation and evidence of how challenge affected the proposal; effective challenge also depends on timely, well-supported engagement by users.
11	Information asymmetry prevented effective challenge.	<p>As programme sponsor and asset owner, Heathrow naturally held more detailed information, but the evidence shows that airlines received sufficiently extensive information and independent support to test the Programme and secure material changes.</p> <ul style="list-style-type: none"> Airlines received business cases, scope definitions, assumptions, risks, cost estimates and supporting documentation before key gateways; draft P2 material was reviewed, revised and reissued before approval. Waterfall analyses and subsequent materials reconciled cost and scope movements between P1, P2, P2T, G2 and G3 and identified principal changes, cost impacts and governance decisions. Information quality was independently tested through airline-requested SME assurance and IFS review; the IFS described the P2 documents as high quality, providing an external cross-check on the material available to airlines. The information and assurance provided enabled airlines to secure the material changes recorded in Row 8, demonstrating that challenge could affect substantive outcomes rather than merely comment on a fixed proposal. Before G3, Heathrow provided approximately 500 pages of additional material and held 16 further sessions in response to assurance requests. Future improvements could include an agreed core information set for each gateway and independent assurance against questions agreed jointly with airlines.

No.	IAG claim	Factual evidence
Overarching view	<p>The T2 Baggage programme is evidence that Heathrow's current capital governance arrangements have failed.</p> <p>Despite extensive consultation and governance processes, the project became larger, later and more expensive.</p>	<p>The evidence supports targeted improvements to information transparency, whole-life value presentation and gateway evidence. It does not support claims of unmanaged delay, uncontrolled cost escalation, ineffective scrutiny or the need for wholesale redesign of the governance framework.</p>

Detailed response to IAG's claims

Programme history, timing and cost development

Heathrow has known about the need since 2007 but failed to deliver.

IAG argues Heathrow identified the need for a permanent T2 baggage solution as early as 2007 but repeatedly deferred delivery, allowing an interim solution to become effectively permanent. In IAG's account, the requirement was identified as early as 2007 yet a permanent solution is still not expected until around 2030.

The current investment is not the same project carried forward from 2007. Its timing reflects the evolution of changing demand, moving regulatory circumstances and asset evidence. Heathrow continued to review the need and acted through explicit governance decisions.

Terminal 2 was planned as a phased development. Phase 1 delivered T2A and T2B; Phase 2 envisaged the T2A extension and T2C; and Phase 3 envisaged T2D and further extension following closure of Terminal 3. A fully integrated baggage system could not be accommodated within the initial T2A footprint, principally because of the Piccadilly Line beneath the terminal. The permanent system was therefore linked to and reliant on elements to be delivered in Phase 2 rather than omitted from Phase 1, with timing reviewed with airlines before, during and after Q6.³

The timing of Phase 2 was reconsidered during the transition from Q5 to Q6. Passenger traffic in 2012/13 was 70.3 million, around 10% below the CAA's Q5 exit forecast of 78.2 million. Following substantial investment in T5 and the first phase of T2, Heathrow and airlines considered whether further major investment should proceed immediately or be paced to reflect lower demand and the effect on passenger charges. Heathrow consulted on the options through its Strategic Options Plan (2011), Initial Business Plan (2012) and Full Business Plan (2013). The Airports Commission process also created uncertainty over the future terminal configuration under two-runway and three-runway scenarios.

In parallel, Heathrow and the airline community addressed the resilience of the existing Terminal 1 baggage system. Airline concerns recorded during the 2012 Constructive Engagement process led to a jointly commissioned independent review. The airline community helped define its scope and select the reviewer. The 2013 Suisseplan assessment concluded that the system could continue to operate with targeted resilience investment, providing an evidence base for maintaining the existing operation rather than proceeding immediately with full replacement.

Heathrow then delivered an airline-agreed resilience programme, including out-of-gauge handling improvements, transfer-dock indicators, purge points and a temporary baggage recovery facility. These measures sustained safe and reliable operations while the long-term terminal and baggage strategy remained under review.

³ Some of these elements, or different solutions addressing these elements, are now included in the Programme.

The Q6 portfolio, which began in 2014, included an agreed £185 million allowance to begin planning T2A Phase 2 towards the end of the period. In November 2017, this was reduced to £15 million through formal change control with airline-community agreement. This was an explicit and joint portfolio decision about the timing and priority of Phase 2, not the abandonment of an unidentified or unmanaged renewal need.

Heathrow subsequently developed the broader Future T2 programme between 2017 and 2020, again with airline participation. It was intended both to reduce the operational and engineering risks of the T1-based system and to deliver the next phase of T2 and its baggage infrastructure. The programme was halted in April 2020 because of COVID-19 and the associated financial and strategic disruption. The present T2 Baggage Programme was then brought forward through the H7 planning cycle in 2021–22.

The elapsed period therefore reflects a sequence of governed decisions made in materially changing circumstances: phased terminal development, lower-than-forecast demand, independent evidence that the existing system could be sustained with targeted investment, airline-agreed portfolio choices and the interruption caused by COVID-19. Those decisions had consequences and show that the Programme now is not simply the same solution identified in 2007 that was simply left unmanaged.

Deferral of the investment increased costs.

IAG claims that repeated deferral increased the overall cost of addressing the renewal need. In its account, the eventual programme became larger and more expensive, while additional capital expenditure and operating costs were incurred to prolong, maintain and work around the ageing Terminal 1-based system.

The delivery timetable required planned expenditure to sustain the T1-based operation. That expenditure maintained safe and reliable service and preserved strategic flexibility; it does not show that all subsequent cost growth was caused by delay, or that committing to the 2007 concept earlier would necessarily have represented better value.

Prolongation expenditure was not simply the cost of inaction. It also reflected the 2014 airline-supported decision to stop replacement and the resulting continued reliance on the still-undemolished Terminal 1. The expenditure funded asset replacement, resilience and supporting infrastructure needed to maintain safe and reliable operations while the permanent solution was developed. These interventions followed an airline-supported independent assessment in 2013, which concluded that the existing system could continue to operate with targeted investment. Heathrow subsequently invested in T1 baggage assets, building and services works, IT replacement and relocation, out-of-gauge improvements, transfer-dock indicators, purge points and a temporary baggage recovery facility.

Therefore, the relevant counterfactual is not a cost-free earlier replacement. Proceeding sooner with the Programme would have required Heathrow to commit substantial capital while passenger demand, regulatory settlements and the Airports Commission process remained uncertain, with the future configuration of T2 in discussion. Successfully extending the life of the

existing baggage solution while maintaining performance levels delivered more than £600m savings to airlines (see Figure 2 below).

Investment in 2012 or 2025?

We have developed a high-level exercise to illustrate the scale of savings delivered to airlines by extending the life of the existing T1/T2 baggage system rather than committing substantial capital to an earlier replacement - in an environment of changing regulatory priorities, demand fluctuation, and later COVID-19 - as well as independent evidence showing that targeted investment could safely sustain the existing system.

- The early-investment scenario assumes:
 - Heathrow replaced the system in 2012 as part of the original Terminal 2 Phase 2 plans. This would have added about £826m to the RAB in 2012 (2025p for easier comparison). This amount corresponds to the current Programme's £897m total envelope agreed at G3 in 2025, less the amount connected to Tranches 1-3, spent between 2022-2025, and that are linked to ensuring resilience of the existing baggage system and associated infrastructure).
- The life-extension scenario reflects what happened:
 - Heathrow maintained and gradually renewed the existing assets until 2025, while keeping service performance at or above the level achieved at other terminals; and
 - Heathrow's actual capital spending on maintaining the system during Q5 and Q6, i.e. prior and in addition to the investment from Tranches 1-3 mentioned above.
- Both scenarios assume:
 - the same investment in real terms, a 20-year asset life and the same WACC profile (Q5 to H7); and
 - the same Opex profile¹.

Conclusion: On these assumptions, extending the life of the existing system reduces the cumulative return on capital recovered through airport charges from about £820m to less than £200m in the period considered (2012 – 2025). This represents an estimated saving of more than £600m for airlines during this time. A replacement built in 2012 would therefore have needed to deliver exceptionally large operating and asset-health benefits to offset this difference in cost².

¹ The ORC charging structure makes it difficult to calculate the precise Opex required to maintain the system. However, the available evidence provides an important cross-check. Since COVID-19 at least, the share of baggage-maintenance resources used by T1/T2 (measured based on Operations and Maintenance staff, which constitute the overwhelming majority of Opex) has been broadly the same as the terminal's share of baggage volumes. The same pattern can be seen at the other terminals, including T5, where IAG operates. This suggests that T1/T2 has not required unusually high Opex compared with other baggage systems at Heathrow. Therefore, no higher Opex has been considered in the model.

² Whilst we acknowledge that future period charges will include the investment in the Programme, the eventual outcome is broadly present value neutral from an airline perspective. This is positive for airlines: regulatory intervention should seek an appropriate balance between the lower cost of capital of the asset provider and the higher discount rate of the asset users. In this case the investment profile was more aligned to the preferences of asset users, who ultimately paid less earlier.

Figure 2. Airlines savings based on extending the life of the existing baggage solution

Furthermore, the wider scope of today's programme cannot be attributed solely to deferral. It also reflects requirements that evolved independently of timing, including cyber security, safety, resilience, technology, capacity, enabling and demolition works, and changes requested through airline engagement.

The H7 estimates transparently incorporated both the permanent solution and the expenditure needed to sustain the legacy operation until replacement. The 2022 plan included approximately £169 million for T1 building asset replacement, £62 million for T1 baggage asset replacement and £60 million for IT replacement and relocation. These are lifecycle and continuity costs associated with operating the existing assets until replacement and should not be conflated with the cost of the new baggage system itself.

The available evidence also indicates that the underlying baggage-system cost has not increased in the manner implied by the headline comparison. Simply uplifting the 2007 estimate of £339 million by the Consumer Price Index, would lead to an adjusted amount of approximately £579 million in 2025 prices, while the G3 estimate for the T2A baggage system itself was approximately £552 million. Although the solutions are not identical and the comparison should therefore be treated cautiously, it does not support the proposition that delay alone caused the replacement-system cost to escalate from £339 million to £897 million. A more detailed response to the claim that Programme's overall cost evolution represents uncontrolled escalation is presented in the response below, on the claim related to 'The programme has experienced substantial cost escalation'.

A more accurate conclusion, therefore, is that the timetable required defined prolongation and lifecycle expenditure, while the wider scope and cost of today's programme arose from a combination of the permanent solution, evolved requirements and supporting works. The decisions balanced the cost of sustaining existing assets against the risks of committing major capital before demand and regulatory circumstances were sufficiently clear. The expenditure maintained operational continuity and preserved strategic flexibility rather than simply postponing an unchanged project, while saving more than £600m on avoided charges to airlines.

The programme has experienced substantial cost escalation.

IAG claims that the Programme's cost has risen materially over time, from an estimated £339 million in 2007 to £897 million at the G3 Gateway, with an upper bound of approximately £1 billion. In its account, this trajectory indicates substantial cost escalation as the Programme was deferred and its scope developed.

The £339 million and £897 million figures are not directly comparable. The £339 million estimate related to a 2007 proposal for a new baggage system as part of Phase 2 of the then Heathrow East Terminal development. That proposal assumed a different terminal layout and a different physical solution, located mainly beneath the proposed Phase 2 terminal envelope north of T2A. The 2007 estimate also covered only construction of the new baggage system. It excluded the work needed to keep the existing Terminal 1 baggage operation, building, services and supporting infrastructure in service until the replacement was ready.

By contrast, the £897 million G3 estimate from 2025 is connected to a programme-wide figure. In addition to the new T2A baggage system, it includes prolongation of the T1-based operation, building and services works, IT replacement and relocation, enabling works, demolition and decommissioning.

The headline movement from £339 million to £897 million therefore reflects a different solution, a much broader scope and a different price base; it is not a measure of cost escalation in an unchanged project. A narrower comparison provides a useful cross-check, although the two system designs are still not identical. Adjusted for CPI inflation, the £339 million estimate is approximately £579 million in 2025 prices. This compares with approximately £551.8 million at G3 for the new T2A baggage system itself, excluding the wider programme scope. On this basis, the available figures do not support the suggestion that the cost of the replacement baggage system alone rose from £339 million to £897 million.

It is also useful to note that most cost movement occurred before P2, i.e., at early stages of the Programme, when early design, surveys and investigations improved certainty, refined the scope and enabled a full delivery cost re-estimate to be carried out. That development should be distinguished from cost movement after the P2 baseline was established.

After P2, the principal identifiable changes totalled approximately £108.2 million and reflected specific, scope decisions:

- £48.6 million of additional demolition required to enable the T2A solution and support the future extension of T2, as the assets are situated within the proposed footprint of the extended terminal.
- £43.6 million arising from the move to a full T2 operation, additional T2 Directs HBS capability and airline-requested SME assurance.
- £16 million for the Plan B apron layout developed in response to stakeholder feedback and operational requirements.

Excluding these £108.2 million of identified post-P2 scope changes reduces the £897 million G3 estimate to approximately £789 million—broadly in line with the £787 million estimate approved at P2. This indicates that, once the cost of those specific strategic changes is removed, the underlying Programme estimate remained broadly stable between P2 and G3, and the Programme's Estimate at Completion remains within the approved P2 budget envelope, despite the additional scope and benefits incorporated since that gateway.



Figure 3. Reconciliation of IAG's £339m–£897m cost comparison

Independent review also provides an important cross-check. Arcadis reviewed Heathrow's option assessment and programme development and concluded that the selected solution appeared sensible, expressed confidence in Heathrow's option assessment process and did not consider the associated costs unreasonable given programme maturity. Any benchmarking evidence proposed by IAG should therefore be considered alongside independent assessment of the specific circumstances and scope of the Programme.⁴

Finally, cost control in the Programme also operated in the opposite direction of escalation. Before G3, the Programme identified approximately £90 million of capital efficiencies, while the estimated cost of prolonging T1-based assets in Tranches 1–3 fell from around £270 million at P2 to approximately £206 million at G3. These reductions demonstrate active challenge and offsetting savings alongside approved increases.

In conclusion, the £339 million-to-£897 million comparison is not like-for-like. It conflates different solutions, scopes and different price bases and materially overstates the underlying escalation. The evidence instead shows a stable post-P2 baseline, traceable change control, offsetting efficiencies and an Estimate at Completion within the approved budget envelope. The programme estimate increased as the design matured, inflation affected the price base and specific scope changes were approved.

⁴IAG's benchmarking places Heathrow towards the upper end of the comparator range, but this alone does not demonstrate inefficiency. A valid comparison must account for the Programme's broader scope, phasing, operational constraints and the need to maintain live airport operations during delivery.

Airlines and passengers have borne the cost of deterioration.

IAG claims that prolonged reliance on the ageing Terminal 1-based system has exposed airlines and passengers to recurring disruption and additional costs. In its account, outages and reliability issues have required rehandling, manual intervention and service recovery, with airlines bearing associated operating costs and passenger compensation while consumers have experienced delayed or misconnected baggage.

The evidence does not show the sustained deterioration in T2 baggage performance described by IAG. T2 continues to perform better than Heathrow as a whole. In June 2026, its Misconnect Rate was 9.4 per 1,000 passengers, compared with 18.6 Heathrow-wide; the respective moving annual averages were 11.2 and 14.4. The same pattern is evident in system-attributable performance: T2's In-System Missed Rate was 1.83 per 1,000 bags, compared with 2.50 Heathrow-wide, while the moving annual averages were 1.87 and 2.03. This performance was maintained while T2 handled volumes broadly at, and often above, pre-pandemic levels. Year to date, it processed 21.4 million outbound bags, broadly unchanged from the previous year.

The available evidence also provides an important cross-check on costs of operating the system. Since at least COVID-19, T1/T2's share of baggage-maintenance resources has broadly matched its share of baggage volumes. The same pattern is evident at other terminals, including T5, where IAG operates. This indicates that T1/T2 has not required unusually high maintenance expenditure relative to Heathrow's other baggage systems.

Targeted investment has helped sustain these results while the permanent solution is developed. Heathrow has replaced and strengthened T1 baggage assets, buildings, services and IT systems, and delivered improvements to out-of-gauge handling, transfer-dock indicators, purge points and the temporary baggage recovery facility. Planned measures agreed with airlines and handlers have also protected throughput when forecast check-in demand exceeds 2,000 bags per hour. These interventions are evidence of active risk management, not reliance on widespread or permanent manual workarounds. As pointed out above too, competently sustaining existing assets and maintaining performance levels, has allowed substantial savings for airlines in avoided charges.

It is always important to consider that not every baggage failure is caused by airport infrastructure. Heathrow monitors both overall outcomes and their underlying causes, distinguishing infrastructure failures from factors such as inbound punctuality, connection times, baggage messaging, late presentation, handler collection and aircraft loading. Heathrow remains accountable for its assets, but airport-level baggage outcomes reflect the performance of the whole end-to-end process.

Heathrow remains committed to further improvement. The main opportunities lie in continued collaboration with airlines and handlers to improve baggage messaging, transfer-bag availability, the management of late and non-standard baggage, collection and loading at output positions, and visibility of bags at risk of missing their connection.

Individual incidents may have disrupted passengers and imposed costs on airlines or handlers. Heathrow does not hold a complete quantified record of those third-party costs. However, the

aggregate evidence shows that targeted investment contained asset risk and that T2 performance remained comparatively strong.

The case for the Programme is therefore forward-looking. It will replace ageing infrastructure before increasing risks from obsolescence, maintainability and resilience lead to sustained service failure. The new system is also expected to reduce peripheral operational tasks and improve opportunities for greater resource efficiency for airlines in and handler operations. The evidence does not support IAG's broader claim that prolonged deterioration has already caused a sustained worsening of T2 baggage outcomes.

Benefits, whole-life value and programme maturity

The benefits are weak relative to the cost.

IAG claims that the Programme's quantified benefits are limited relative to its cost. In its account, the investment largely maintains existing capacity and service levels and reduces resilience and obsolescence risks, while the principal directly quantified benefit is a comparatively modest reduction in operating charges and other benefits are qualitative, modelled or dependent on future operating conditions.

The programme is primarily a resilience, obsolescence and continuity investment. Its benefits should therefore be assessed principally against the operational and financial consequences of continued reliance on ageing infrastructure, rather than solely by reference to incremental capacity.

The investment removes reliance on ageing Terminal 1 infrastructure, improves maintainability, reduces operational risk, supports future terminal development and enables estimated operating efficiencies of up to £8.6 million per year. Realising part of those efficiencies requires implementation through airline and ground-handler arrangements. Protecting critical airport infrastructure before failure occurs is a legitimate and necessary investment objective. Those objectives were established at P1 and translated at P2 into measures covering service, capacity, operational risk and operating expenditure, including Misconnect Rate, In-System Missed Rate, operational capacity, corporate risk reduction and operating-cost efficiency.

The strategic case was established at P1 and developed through later option assessment. Heathrow also considered a larger growth-led solution. The relevant value-for-money comparison is therefore against credible alternatives available at the time, rather than a hypothetical earlier replacement. As a comparison, the earlier Future T2 concept was estimated in 2018 at approximately £1.85 billion and would have required around ten years to construct showing how costly and lengthy a programme would be that could significantly uplift T2 capacity. Pursuing an equivalent option later would also have prolonged reliance on T1 for a further two to three years.

The selected solution was judged the most proportionate means of removing dependence on T1, maintaining current capacity and service levels, and delivering the first step of the baggage infrastructure required for a future T2 expansion. Arcadis independently reviewed Heathrow's option-assessment process and concluded that the selected solution appeared sensible and

that the evaluation approach was reasonable. Framed in this context, the selected solution preserved future expansion optionality. It should also be noted that during the Programme's development, Heathrow did not receive an alternative airline proposal that would address the underlying strategic need.

Some airline and handler benefits could not be quantified directly because the underlying operating-cost data was commercially sensitive and unavailable to Heathrow. Heathrow therefore commissioned an independent estimate, presented to the Strategic Airline Forum ahead of G3, which identified potential operating savings of up to £8.6 million per year. The estimate appropriately reflects that realisation depends in part on changes to airline and handler operating arrangements.

The benefits case is therefore that the Programme avoids increasing operational and asset risk, protects existing service, reduces future operating costs and preserves a proportionate pathway for later terminal development.

The business case lacks a robust whole-life value-for-money assessment.

IAG claims that the business case does not present a sufficiently integrated whole-life assessment of the Programme's costs, benefits and residual risks. In its account, the impact on charges, asset life, future capital requirements and the operating costs borne by airlines and handlers are not brought together clearly enough to demonstrate that the proposed scope and timing represent the best available value-for-money solution.

The business case addressed whole-life value across the principal decision factors: capital expenditure, operating impacts, asset condition, operational risk, resilience, deliverability, future flexibility and alignment with Heathrow's long-term masterplan. These considerations were presented across several analyses rather than in a single monetised model, and direct quantification of some airline and handler impacts was constrained by commercially sensitive data unavailable to Heathrow.

Value for money was tested by comparing materially different strategic options, rather than assessing the selected solution in isolation. The selected option was judged the more proportionate response. It maintains current capacity and service levels, removes dependence on T1 and delivers the first stage of infrastructure required for future T2 expansion, without the materially higher cost and longer delivery period of the growth-led alternative. Arcadis, acting as independent reviewer, considered the solution sensible, expressed confidence in Heathrow's option assessment and found the associated costs not unreasonable given the Programme's maturity.

The programme-level assessment also captured costs and benefits beyond the new baggage system. It included expenditure to sustain and retire the legacy operation—T1 building and baggage asset replacement, IT replacement and relocation, enabling works, decommissioning and risk allowances. Before G3, approximately £90 million of capital efficiencies had been identified. Heathrow also commissioned an independent assessment of airline and handler impacts, which estimated potential operating savings of up to £8.6 million per year; realisation depends in part on changes to airline and ground-handler operating arrangements.

The assessment was developed cumulatively through the approval process. P1 established the strategic need, objectives, benefits, scope and initial cost range. P2 enabled airline review of assumptions, requirements, scope, costs and reconciliations. P2T, G2 and G3 then progressively tested solution maturity, delivery readiness and the basis for commitment. Independent assurance supported the key decisions throughout.

It is also important to recognise the complexity of the Programme being assessed. Independent review by the IFS described the Programme as involving an unusually intensive level of stakeholder engagement, evolving operational requirements, extensive assurance activity and a prolonged development cycle.⁵ These characteristics make simplified cost-per-unit benchmarks less informative than a broader assessment of delivery constraints, stakeholder requirements, operational continuity and long-term strategic benefits.

The evidence therefore shows a substantive whole-life and value-for-money assessment, supported by option comparison, programme-wide cost and benefit analysis, successive gateway testing and independent assurance. For future large integrated programmes, bringing the principal capital, operating, risk and charge impacts together in one consolidated whole-life view could make that case simpler and quicker for stakeholders to test.

The business case considered capital expenditure, operating impacts, asset condition, operational risk, resilience, deliverability, future flexibility and alignment with Heathrow's long-term masterplan. It therefore addressed whole-life value across the principal decision factors, even though those factors were presented across several analyses rather than in a single monetised model, which could have also supported understanding. Direct quantification of some airline and handler impacts was ultimately constrained by commercially sensitive data unavailable to Heathrow.

The programme reached approval with unresolved issues.

IAG claims that the Programme reached the G3 approval stage while a number of material matters remained open or were deferred to later stages. In its account, these included further design development, the outcome of the HBS machine procurement and associated impacts, elements of the operating framework and the treatment of certain excluded costs, which weakened assurance that the Programme was sufficiently mature for approval.

The current ex ante framework requires Heathrow to establish cost certainty early enough to commit to Delivery Obligations. This requires a proportionate balance: enough certainty to commit responsibly, without prematurely resolving every residual matter where doing so would add cost and delay. G3 must therefore test whether the preferred solution, scope, cost range, delivery strategy and principal risks are sufficiently mature for commitment—not whether every later-stage activity is complete. The evidence shows that this threshold was met and remaining matters were subject to controlled closure plans.

Indeed, the route to G3 provided cumulative evidence of maturity. It included progressive solution sign-off, tender and design reviews, simulation and proving, operational-concept

⁵ Gardiner & Theobald IFS Governance and Process Review: T2A Baggage Handling System (BHS) Post G2 to G3 Review. 27 April 2026.

reviews, transition planning and testing walkthroughs. Airlines endorsed the proposed solution in principle, subject to specified technical matters being demonstrated, with actions assigned defined outputs and timescales.

Matters that remained to be completed after approval included detailed design, procurement and operational-readiness activities. Their existence was consistent with the purpose of G3 and did not, by itself, indicate that the Programme lacked sufficient maturity. Importantly, they were all identified, bounded and subject to appropriate later-stage controls.

Scrutiny was extensive and the process generated nearly 800 questions and actions: 331 questions and actions through solution sign-off, 178 questions across two immersion events, more than 164 stakeholder interactions during RIBA Stage 4, and more than 120 further questions and 80 completed actions during the final G3 period. Heathrow responded through analysis, workshops, evidence and defined actions, while cost, scope and risk continued to be reported through formal governance. Independent assurance supported programme progression while recording controlled open actions, some concerns raised late in the lifecycle and delays in obtaining evidence needed to resolve particular issues.

The request to accommodate container loads above the agreed 35–40 bag design basis illustrates the distinction between an unresolved deficiency and a late change request. Heathrow sought evidence of the operational and revenue impact in April 2025, but the supporting airline business case remained outstanding in July 2025. As the Independent Fund Surveyor noted, the absence of that evidence constrained resolution of the proposed change.

The evidence therefore supports a balanced conclusion. G3 did not mark the completion of every design, procurement or operational activity, and independent assurance appropriately tracked the remaining actions. However, the core solution, scope, cost and risk position had been developed and assured sufficiently for the decision being taken; residual matters were identified, assigned and managed through later-stage controls. They should not be conflated with approval of an undefined or immature programme.

G3 was required to determine whether the preferred solution, scope, cost range, delivery strategy and principal risks were sufficiently mature for commitment; it was not intended to complete every later design, procurement or operational-readiness activity. The project evidence suggests that the decision basis was understood, bounded and supported by defined closure plans for residual matters.

The evidence is robust in showing that the core solution, scope, cost and risk position had been developed and assured sufficiently for the decision being taken. Remaining design, procurement and operational-readiness activities were identified, assigned and managed through later-stage controls. Their existence should not be conflated with approval of an undefined or immature programme.

Stakeholders' participation and influence

Airline consultation did not amount to meaningful control.

IAG acknowledges that airlines, ground handlers and subject matter experts were extensively involved in developing the operating concept, requirements and design. However, it claims that this consultation did not provide airlines with equivalent control over programme approval, scope or timing, leaving Heathrow responsible for the key investment decisions and commitments.

Heathrow retained final responsibility for the investment decision, but airline engagement provided substantive influence over the evidence, requirements, scope and design considered through governance.

The evidence also shows a far broader engagement process than a simple sponsor-stakeholder relationship. Airlines retained extensive opportunities to scrutinise and influence the Programme through the ASG, SPG and the intensified engagement preceding G3. More than 140 airline-engagement sessions and meetings with other stakeholder were held between January 2024 and July 2025. Airlines also participated in assumptions reviews, draft business case reviews, immersion events, simulations, tender reviews and airline solution sign-off activities. The airline community requested independent Subject Matter Expert (SME) involvement, which Heathrow incorporated. In response to requests for additional assurance, Heathrow then held 16 further sessions and produced approximately 500 pages of supporting material before G3.

Against that background, IAG did not demonstrate the level of involvement required to make full use of the framework. Its representatives attended only 29% of ASG sessions and 46% of SPG sessions, not fully engaging with the powers and opportunities for scrutiny and influence available to it. This weakens any suggestions that Heathrow's posture or that the framework itself prevented effective challenge: governance rights can only deliver their intended value where stakeholders engage consistently and at the appropriate stages. More broadly, the IFS subsequently observed that some later requests and requirements from stakeholders would have benefited from earlier articulation and more detailed supporting information, highlighting that effective challenge depends not only on information provision by Heathrow but also on timely engagement by users.

It is also clear that airline input produced specific and material changes. At P2, airline feedback requested specific additions or changes concerning hold-baggage screening, out-of-gauge and super-out-of-gauge baggage, and transfer bags. Subsequent engagement drove the move from a split T1/T2 operation to a full T2 solution⁶, additional T2 Directs HBS capability, airline-requested SME assurance and the alternative Plan B apron layout. These decisions changed design, scope and cost: the airline scrutiny and SME assurance changes were estimated at £43.6 million, with Plan B adding approximately £16 million scope, rather than being confined to commentary on a fixed design.

Plan B provides particularly strong evidence of influence. Although the baseline solution had already passed P2T and G2, Heathrow reopened the design, undertook further analysis and

⁶ A full T2 solution incorporates transfers baggage (screening and sortation) capability within the baggage solution to be constructed in T2, rather than retaining transfers in T1 (i.e., split T1/T2 operation).

obtained formal approval for an alternative that better reflected stakeholder preferences and operational requirements. Airline engagement therefore altered an approved direction rather than merely commenting on a fixed proposal.

It should be noted that scrutiny was not limited to operational design. Before key gateways, airlines received business cases, scope definitions, assumptions, risks, cost estimates and waterfall analyses explaining movements between approval stages. Draft material was reviewed through working groups, the SPG and other stakeholder forums, with further information and revisions provided in response to questions. At P2, the Independent Fund Surveyor described the gateway documents as high quality and supported progression; no substantive objection to the approved solution direction was recorded from the identified airline representatives at G2.

Independent feedback also described the immersion events, simulations and vendor-selection process as engaging, insightful and transparent. This supports the quality of engagement, although the strongest evidence of meaningful influence is the record of material changes made to the Programme. Feedback included:

- “Confidence is building, massive change in discipline, this has been helped by the AIQ modelling and also the ABC game for ULD logistics.” (airline representative)
- “Feedback on approach to G3 and immersion events was a good, structured plan.” (airline representative)
- The Independent Fund Surveyor also recorded positive feedback regarding Heathrow’s immersion events, simulation activities, and vendor selection process, describing the approach as engaging, insightful, smooth, and transparent.

The evidence shows that engagement extended beyond consultation on operational details. Airlines influenced the governance and assurance process, tested cost and risk information, and secured material changes to requirements, scope and design. The IFS review findings support the broader principle that meaningful influence and challenge must be accompanied by corresponding responsibilities from all participants.

Contractual Commitments limited control and influence.

IAG claims that conditional, time-limited contractual commitments were made before the formal approval process was complete, so that rejecting or materially reshaping the Programme would have carried significant time and cost consequences. In its account, this constrained practical decision-making at G3 and meant that formal approval did not provide effective ex ante control over whether the investment should proceed.

Heathrow did not commit to any major commercial contracts prior to G3, nor did it adopt any position without airline visibility. The procurement approach, supplier selection process and preferred solution were subject to extensive stakeholder engagement and governance. Airlines and ground handlers were actively involved throughout the supplier selection process, including participation in tender reviews, supplier presentations, workshops and feedback sessions, which informed the selection of Beumer as the preferred baggage supplier.

Prior to the G3 submission, Heathrow undertook a detailed programme of commercial negotiations and targeted interventions with the supply chain, securing **over £90 million of cost**

reductions and value improvements while maintaining the required operational outcomes. This work strengthened affordability, reduced risk and improved delivery certainty before contractual commitments were finalised. Airlines remained engaged throughout this process through the programme's established governance arrangements.

Securing the cost certainty required by the regulatory framework and expected by airlines necessarily involves timely supply-chain engagement. Firm pricing depends on suppliers committing resources and maintaining terms across their own supply chains, which they can do only for limited periods. G3 must therefore operate within a defined commercial window. The existence of that window is not evidence that control had been lost; it is a practical condition of presenting decision-makers with reliable costs.

This, therefore, increased the importance of securing timely airline approval to enable contract execution within the validity periods of supplier offers. Heathrow advised that any delay to mobilisation could create a risk that suppliers would seek to reopen commercial negotiations, potentially resulting in increased costs and reduced commercial certainty. This is natural and expected: as a complex programme advances through successive approvals, deferral or rejection will naturally carry increasing schedule and cost implications.

Importantly, the evidence shows that decision-makers retained a genuine choice. Heathrow made clear, including during senior-management escalation, that mobilisation could be deferred. Any conditional or time-limited supplier arrangements therefore need to be distinguished from authorisation of the principal investment by reference to their purpose, approval status, financial exposure and termination consequences.

The gateway history provides further evidence that the Programme was not locked into a single configuration. After the baseline solution had passed P2T and G2, Heathrow reopened the design and developed Plan B in response to stakeholder feedback, materially changing the apron layout, scope and cost. Substantial redesign therefore remained possible after earlier approvals.

Scrutiny also continued late in the process. More than 140 airline-engagement sessions and meetings with other stakeholder were held between January 2024 and July 2025; in response to requests for additional assurance, Heathrow then held 16 further sessions and produced approximately 500 pages of supporting material before G3. This sustained challenge is consistent with an active approval process rather than one driven solely by delivery imperatives.

Against that backdrop, Heathrow presented the implications of delaying G3, including possible supplier renegotiation and a programme delay of up to nine months. These were decision inputs, not evidence that approval had already been given.

G3 therefore remained consequential. It determined whether the Programme should proceed on the defined scope, cost and risk basis and whether mobilisation and the principal contractual commitments should advance. The available evidence shows that the Programme remained capable of deferral and material redesign, that the consequences of the available courses were identified, and that G3 retained a substantive approval function.

Governance gives airlines challenge rights but not decision rights.

IAG claims that the governance framework allowed airlines to scrutinise and challenge the Programme but did not give them substantive decision rights over whether the investment should proceed. In its account, Heathrow retained control over approval, scope, timing and commitments, meaning airline influence did not amount to effective ex ante control of the capital decision.

Heathrow retained formal accountability for the investment decision and for ensuring the safe, efficient and timely delivery of airport infrastructure. That formal accountability should not be confused with an absence of airline agreement or influence.

Since Q6, the governance framework has required major investment proposals to be developed through engagement with the airline community and presented through stakeholder governance for review, challenge and agreement before Heathrow's final approval. For the T2 Baggage Programme, that process covered the strategic need, programme objectives, assumptions, scope, cost estimates, risks, requirements and preferred solution—not merely detailed operational design. As described above, airlines also participated in draft business-case reviews, immersion events, simulations, tender reviews and airline solution sign-off activities across more than 140 engagement sessions

The practical effect of that model is demonstrated by the Programme's evolution. Airline challenge contributed to the move from a split T1/T2 operation to a full T2 solution, the inclusion of additional T2 Directs HBS capability, the appointment of independent SME assurance and the development of Plan B after the baseline solution had already passed P2T and G2. These were material decisions affecting scope, design and cost, not peripheral consultation outcomes. The record also identifies airline-community agreement to several other consequential elements of the Programme, including the cost estimates at P2, for Tranches 1–4 P2T and for Tranche 5 P2T, alongside progressive endorsement of the solution before G3. Heathrow's final authority therefore operated after structured stakeholder review and agreement at the relevant stages, rather than in isolation from airlines.

Meaningful ex ante control does not necessarily require transferring the final decision to parties with different commercial interests. A unilateral airline veto could create its own risks, including delayed resilience investment, fragmented accountability and an inability to resolve differences within the airline community. The governance model instead combines substantive airline influence and independent assurance with a clear final line of accountability.

Because passengers fund efficient investment through airport charges, airline involvement is legitimate and can add value. Therefore, governance safeguards are timely access to clear information, independent assurance, transparent cost reconciliation and clear evidence of how airline challenge affected the proposal before approval. The programme applied each of these safeguards. As noted, the IFS subsequently observed that some later requests and requirements would have benefited from earlier articulation and more detailed supporting information from stakeholders, highlighting that effective challenge depends not only on information provision by Heathrow but also on timely engagement by users.

This allocation reflects Heathrow's role as programme sponsor and asset owner within the regulatory framework. Airlines exercised significant influence over scope, requirements, assumptions, assurance and delivery approaches.

Therefore, the evidence does not support the broader conclusion that airlines lacked meaningful ex ante influence: airlines reviewed and agreed key gateway positions, shaped the assurance arrangements and secured material changes to the Programme, while Heathrow retained ultimate accountability for deciding and delivering the investment.

Information asymmetry prevented effective challenge.

IAG claims that Heathrow retained greater access to, and control over, the information needed to assess the Programme, including its scope, costs, assumptions, exclusions and whole-life value. In its account, this information asymmetry limited airlines' ability to test alternatives, verify the investment case and challenge the Programme effectively before key decisions were taken.

As programme sponsor and asset owner, Heathrow naturally held more detailed information than individual airlines and was responsible for developing the business case and managing the supply chain. However, this does not automatically mean that stakeholders did not receive sufficiently timely, clear information and independent support to test Heathrow's recommendations before approval. The evidence shows that they did.

Throughout programme engagement to date, airlines were provided with business cases, scope definitions, assumptions, risks, cost estimates and supporting documentation in advance of key decision points or gateways. Draft P2 material was issued, reviewed through working groups and the SPG, revised following feedback and reissued before formal approval. Cost and scope movements were also reconciled between gateways. At P2, airlines received waterfall analyses explaining the movement from P1; subsequent tranche and G3 materials identified the principal changes, their cost impact and the associated governance decisions.

Information disclosure was supplemented by independent scrutiny. At the airline community's request, the programme introduced independent SME assurance, while the Independent Fund Surveyor reviewed programme maturity, documentation and readiness. The Independent Fund Surveyor described the P2 documents as high quality and supported progression through the relevant gateways; independent feedback also described the immersion events, simulations and vendor-selection process as transparent and well managed. This is external evidence that the material and process supported effective scrutiny.

The clearest evidence that information could be used to influence outcomes is the Programme's subsequent evolution. As highlighted before, airline review contributed to the full T2 solution, additional T2 Directs HBS capability, SME assurance and Plan B. Those changes materially affected scope, design and cost, demonstrating that challenge was not confined to commenting on a fixed proposal.

Furthermore, the record shows repeated disclosure, review and revision across P1, P2, P2T, G2 and G3. Stakeholders received material before decisions, could obtain clarification and independent advice, and secured changes to the proposal. Before G3, Heathrow provided approximately 500 pages of additional material and held 16 further sessions in response to

assurance requests. The priority for future programmes is to make this information more concise, clearly reconciled and available early enough to support efficient review.

A more consolidated presentation of whole-life costs and airline operating impacts could further improve the accessibility of the overall value-for-money case. This is a practical enhancement to information design, not evidence that airlines lacked the material needed to challenge the Programme.

Future governance can build on this foundation through an agreed core information set for each gateway, clearer reconciliation of scope and cost changes, earlier disclosure of exclusions and contractual exposure, and independent assurance commissioned against questions agreed jointly with airlines.

Therefore, the evidence does not support the conclusion that Heathrow was not under robust scrutiny and effective challenge: airlines received extensive information before gateways, benefited from independent assurance and secured material changes to the solution. The principal lesson is to improve the consolidation, timing, and presentation of information, rather than to conclude that the consultation process lacked substance.

Annex: Programme timeline



Figure 4. Simplified Programme Timeline

H7 case studies

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PCA Programme – Example of ineffective use of governance powers and diminishing returns from repeated scrutiny

The Pre-Conditioned Air (PCA) programme provides a compelling example of how governance can become less effective when stakeholders use their challenge powers to seek increasing levels of certainty that are not realistically achievable at the relevant stage of project development. The programme, valued at approximately £129 million, was developed to support Heathrow's Net Zero Plan by reducing aircraft reliance on Auxiliary Power Units (APUs) through the installation of PCA units across 75 stands in Terminals 2, 3 and 5. The strategic objective was well understood and widely supported: reduce emissions, improve air quality and lower fuel consumption while delivering long-term sustainability benefits.

However, throughout development, Heathrow faced a recurring pattern of challenge that often made progression dependent on obtaining levels of technical, operational and commercial certainty that could only realistically be achieved after supplier selection, detailed design and deployment. Airlines repeatedly requested increasingly detailed evidence regarding future operational utilisation, reliability, maintainability, aircraft compatibility, stand-specific arrangements, future user behaviour and long-term performance outcomes. Whilst these were legitimate areas of interest, many were inherently unknowable at the point they were being requested and would ordinarily be resolved through the subsequent stages of project development. Heathrow therefore found itself in the position of being asked to provide evidence that could only be generated after receiving approval to proceed.

This was compounded by inconsistent stakeholder behaviour in several areas. Airlines consistently challenged Heathrow to provide a more robust benefits case and greater evidence of operational benefits, yet only a single airline ultimately provided APU runtime data to support the analysis. Heathrow was therefore forced to use the limited information available as a proxy for the wider airline community. Subsequent challenge then focused on the assumptions used in the business case, despite those assumptions arising directly from the absence of the operational data that Heathrow had repeatedly requested from airlines. In effect, stakeholders challenged the credibility of assumptions while simultaneously withholding much of the information required to improve them.

A similar pattern emerged in relation to the technical solution. Heathrow undertook extensive technical assessment, supplier evaluation, operational trials, performance testing and maintainability reviews to assess the recommended solution. As the programme progressed, the evidence supporting the recommended approach continued to grow through engineering studies, supplier engagement and operational testing. Despite this, Heathrow was repeatedly required to revisit, explain and defend conclusions that had already been assessed through previous governance and assurance activities. While challenge is an important element of good governance, the repeated revisiting of previously assessed matters generated significant additional effort without materially changing the recommended solution or improving the overall investment proposition.

The governance process itself also became increasingly burdensome. Heathrow originally proposed a proportionate delivery approach involving three G3 events, allowing lessons from earlier phases to be incorporated while avoiding unnecessary process overhead and maintaining programme momentum. However, stakeholders sought additional governance stages, ultimately expanding the approach to six G3 events. This significantly increased the volume of governance activity, reviews, submissions and

information requests, despite the underlying PCA solution remaining fundamentally unchanged between phases. The principal differences between phases related largely to stand location rather than technology or delivery approach. As a result, governance activity increasingly exhibited diminishing returns, generating delay and effort without corresponding evidence of improved outcomes.

The consequences were significant. Heathrow devoted substantial time and resources to repeated technical papers, presentations, benefit analyses, supplier comparisons, assurance exercises and governance reviews. Programme momentum slowed, delivery timelines extended and decision-making became increasingly difficult. Resources that could have been focused on delivering consumer, operational and environmental benefits were instead redirected towards satisfying repeated requests for greater certainty and additional analysis. Yet there is little evidence that the cumulative effect of these repeated governance interventions materially altered the preferred solution, significantly changed the investment decision, or improved outcomes for consumers.

More broadly, this case demonstrates how governance can become ineffective when challenge ceases to be targeted at strategic decisions and instead becomes focused on repeatedly revisiting technical details that are already being addressed through specialist engineering and assurance processes. Airlines exercised extensive challenge rights throughout the programme, but often in a manner that sought certainty beyond what the project stage could reasonably provide, revisited matters already assessed, and delayed progression while offering limited additional value. The result was additional cost, extended timelines and reduced delivery momentum, ultimately delaying the environmental, operational and consumer benefits the programme was intended to deliver. The PCA programme therefore illustrates how ineffective use of governance powers can create substantial burden for Heathrow and, ultimately, for consumers, without clear evidence of corresponding improvements in investment outcomes.

Category	Summary
Project	Installation of PCA units across 75 stands in Terminals 2, 3 and 5 to reduce APU use and deliver carbon, air-quality and fuel-saving benefits under Heathrow's Net Zero Plan.
Project EAC	£129m
Headline Issue	Progression became dependent on technical, operational and commercial certainty that could not reasonably be achieved at the relevant stage. Repeated challenge, assurance and governance cycles increased effort and delayed decisions without materially changing the recommended solution or improving the investment proposition.
Timeline of key events and actions taken	<ul style="list-style-type: none"> • Development: Heathrow defined deployment across 75 stands and assessed technical options. Only one airline supplied APU run-time data, requiring Heathrow to use it as a proxy for wider benefits. • Evaluation: Supplier assessments, trials, testing and maintainability reviews strengthened the case for the ITW solution, but previously assessed matters were repeatedly revisited. • April 2025 – P2T approval: Caveats left scope, cost and value open, prompting further analysis and a de facto re-examination of the business case. • Further assurance: Requests covered utilisation, reliability, maintenance, compatibility and stand-specific arrangements—several of which could only be confirmed after appointment, detailed design or operation. • Governance expansion: Heathrow's proposed three G3 events became six, adding review cycles although the solution and delivery approach were substantially unchanged.

Category	Summary
Primary Root Cause	<ul style="list-style-type: none"> • Evidence gap: Airlines sought a stronger benefits case but provided limited operational data, leaving Heathrow to rely on proxy assumptions that were then challenged. • Repeated technical challenge: Matters already tested through engineering, supplier evaluation and assurance were repeatedly revisited without materially altering the ITW recommendation. • Premature certainty: Stakeholders sought outcomes that could only be validated through detailed design, deployment and operation, creating an approval–evidence circularity. • Diminishing returns: Successive reviews and the expansion from three to six G3 events increased burden and slowed decisions without clear improvement in outcomes.
Impact	<ul style="list-style-type: none"> • Delay and lost momentum: Repeated analysis, assurance and governance cycles prolonged progression and decision-making. • Additional burden: Resources were redirected to repeated papers, testing, cost refinement and stakeholder explanation. • Deferred benefits: Delay risked postponing carbon, air-quality and fuel-saving benefits. • Limited decision value: The additional scrutiny did not materially change the preferred solution or demonstrate improved consumer outcomes.
Governance Challenge Identified	<p>Disproportionate and poorly sequenced challenge created delay and burden without clear evidence of better investment outcomes.</p> <ul style="list-style-type: none"> • P2T caveats left fundamental matters open and triggered a de facto re-examination of the business case. • Challenge repeatedly revisited specialist technical conclusions rather than focusing on strategic value and consumer outcomes. • Requests sought certainty before the design, deployment and operation needed to produce it. • Expanding three G3 events to six added review cycles despite limited differences between phases.

Turnaround Management – Example of airlines seeking accelerated delivery while retrospectively increasing governance requirements

The Turnaround Management project illustrates how inconsistent stakeholder behaviour can create governance challenges and transfer disproportionate risk to Heathrow. The project will improve punctuality and turnaround performance through ramp information displays, aircraft stand sensors, airbridge monitoring systems and enhanced operational visibility tools. British Airways (BA), as the principal beneficiary of the Terminal 5 scope, pressed Heathrow to accelerate delivery and progress ahead of the normal governance sequence so that operational benefits could be realised sooner.

In response, Heathrow divided the project into two phases so that Phase 1, covering the priority Terminal 5 elements, could progress more quickly while Phase 2 followed. Airlines had also indicated that IFS involvement was not required. Heathrow therefore developed the delivery and governance strategy on that basis and accepted the risks associated with progressing Phase 1 before the full project had completed the normal governance process.

For Phase 2, Heathrow sought to use change control. That route was open under the applicable regulatory and governance arrangements because Phase 2 remained part of the same project and investment proposition rather than a wholly new project. Heathrow could, however, have agreed that route explicitly with airlines before making the submission. When airlines declined to approve the change control and instead required a further investment decision and later IFS involvement, the project had to revisit previously agreed approaches, rework submissions and undertake additional assurance activity after delivery planning was already underway.

The resulting delay and rework did not identify a material concern with scope, cost, schedule or benefits. Had the change control been approved, the project could have retained a single delivery order, captured procurement efficiencies and delivered the remaining operational benefits earlier. Instead, the additional governance increased project-management and assurance effort, exposed supplier resources and pricing to further risk, and delayed improvements to performance. These effects ultimately disadvantage consumers by increasing the efficient cost of delivery and postponing service benefits, without an evident improvement in the investment outcome.

While Heathrow could have sought prior agreement on the Phase 2 governance route, the wider outcome reflects an ineffective and inconsistent approach to governance by airlines: they pressed Heathrow to accelerate delivery outside the formal sequence, indicated that IFS was unnecessary, and then retrospectively increased governance requirements. This transferred disproportionate risk to Heathrow, which carried both the risks of acceleration and the delay, rework and additional cost caused by the later escalation. Approving the change control would have preserved appropriate oversight while supporting a single delivery order, procurement efficiency and earlier benefit delivery. The experience shows that airline governance should remain proportionate and stable once an accelerated approach has been jointly adopted; otherwise, unnecessary process increases efficient delivery costs and delays operational improvements, ultimately to the detriment of consumers.

Category	Summary
Project	Turnaround Management (Phases 1 & 2) is a £31.8m operational improvement project designed to improve punctuality, stand utilisation and turnaround performance. The project includes ramp information displays, stand and airbridge sensors, aircraft parking automation, and enhanced operational visibility tools to improve coordination between airlines, ground handlers and Heathrow operations teams.
Project EAC	£31.823m.

Category	Summary
Headline Issue	Airlines urged Heathrow to accelerate delivery, then changed the governance requirements after work was underway. BA pressed for the Terminal 5 scope to move ahead of the normal sequence, prompting Heathrow to split the project and proceed on the stated basis that IFS assurance was unnecessary. Although Heathrow could have agreed the Phase 2 route in advance, change control was reasonably available for the remaining scope. Airlines nevertheless rejected it and reinstated additional governance and IFS assurance, causing delay and rework without identifying any material issue with scope, cost, schedule or benefits.
Timeline of Key Events and Actions Taken	<p>February 2025: Turnaround Management was approved as a single project through the Tranche 8 process, with an EAC of £25.65m.</p> <p>October-December 2025: BA pressed for faster delivery of the Terminal 5 scope. Heathrow split the project into two phases so Phase 1 could progress more quickly, and the T5-only G2/G3 submission was approved. Airlines indicated that IFS involvement was not required.</p> <p>February-March 2026: Heathrow submitted Phase 2, covering the remaining scope. The submission was challenged over whether it should proceed as a separate investment decision or through change control.</p> <p>April-May 2026: Heathrow sought to progress Phase 2 through change control. This was a reasonably available route for an extension of the same project, but Heathrow had not agreed the approach with airlines in advance. Airlines declined to approve the change control and requested a further investment decision, despite raising no material concern with scope, cost, schedule or benefits.</p> <p>June 2026: Airlines requested that IFS be re-engaged, reversing the earlier position that IFS review was unnecessary and adding assurance requirements after delivery planning and supplier engagement were underway.</p>
Primary Cause	Inconsistent airline behaviour. BA pressed Heathrow to accelerate delivery ahead of the normal governance sequence, airlines indicated that IFS involvement was unnecessary, and the airline community subsequently rejected change control and retrospectively increased assurance requirements. This transferred disproportionate risk to Heathrow, which carried the risks of accelerated delivery while also absorbing the delay, rework and cost of additional governance.
Impact	The project incurred at least a four-month delay , repeated governance rework, additional assurance activity and increased project-management overhead. Approving Phase 2 through change control would have enabled a single delivery order, supported procurement efficiencies and brought forward the remaining operational benefits. Instead, late changes to the required route exposed supplier resources and pricing to further risk, while the additional governance did not identify a material issue with the investment proposition.
Governance Challenge Identified	Inconsistent airline behaviour resulted in disproportionate risk transfer. Airlines pressed Heathrow to accelerate delivery outside the normal governance sequence, indicated that IFS involvement was unnecessary, and then retrospectively increased governance and assurance requirements. Heathrow therefore carried both the risks of accelerated delivery and the delay, rework and additional cost caused by the later escalation. This unstable and disproportionate approach delayed operational benefits and reduced procurement efficiency, ultimately to the detriment of consumers.

RIDs (Ramp Information Display Screens) – Example of airlines seeking accelerated delivery while retrospectively increasing governance requirements

The T5 Ramp Information Display Screens (RIDs) project illustrates a clear inconsistency in airline behaviour. Airlines asked Heathrow to accelerate delivery of a project important to them, accepting that cost, design and project information would be less mature than under the standard investment process. Having secured earlier operational benefits, they then sought to apply the requirements and certainty of that standard process retrospectively. If Heathrow agrees to accelerate an airline-priority project on an exceptional basis, airlines cannot reasonably impose formal governance requirements after the event that could not have been satisfied at the point of commitment. Doing so exposes Heathrow to avoidable financial and delivery risks, with adverse consequences for consumers.

Acceleration meant proceeding before the project had reached the level of definition normally required under the standard investment process. Although the intended product was understood, installation surveys, stand conditions, electrical and communications requirements, solution design, cost and project duration were still being developed. At airlines' urging, Heathrow nevertheless made delivery commitments for a large-scale deployment, accepting greater uncertainty in order to realise benefits sooner.

Heathrow subsequently delivered 74 RIDs units across differing stand environments, enabling operational benefits to be realised earlier than would likely have been possible through the conventional governance route. Airlines then challenged the final cost and project duration by reference to expectations formed before the underlying design and delivery uncertainties had been resolved. This effectively imposed standard governance retrospectively: outcomes developed under an agreed accelerated route were judged as though Heathrow had followed the full process and possessed mature information at the outset.

The governance framework did not provide a proportionate exceptional route for an airline-priority project where stakeholders agreed the desired outcome but design, cost and schedule remained immature. Nor did it establish that, once acceleration had been agreed, subsequent scrutiny should be based on the uncertainties, tolerances and risk allocation accepted at that point rather than on formal requirements imposed retrospectively. Heathrow consequently bore the RAB, financial and delivery exposure associated with proceeding early.

This inconsistency affects both Heathrow and consumers. For Heathrow, it creates the risk that a decision to accelerate in response to airline priorities will later be assessed against governance standards that could not reasonably have been met under the agreed route. For consumers, it can increase costs through duplicated assurance, rework, dispute and delay; discourage timely investment and innovation; and weaken accountability for the trade-offs made to secure earlier benefits. Effective governance should therefore require the basis for acceleration—including maturity constraints, tolerances and risk allocation—to be agreed at the outset and preserved through subsequent scrutiny. Airlines should not be able to secure the benefits of acceleration and then retrospectively impose the full requirements of the standard process.

Category	Summary
Project	T5 Ramp Information Display Screens (RIDs) installed large screens on aircraft stands to provide pilots and handlers with turnaround information, including passengers and bags remaining to board and delay status. The project was accelerated to realise operational benefits before full design maturity had been reached.
Project EAC	£3.867m

Category	Summary
Headline Issue	Airlines required Heathrow to accelerate a project important to them before design, cost and schedule were mature, in order to secure earlier operational benefits. After Heathrow had acted on that request, airlines sought retrospectively to apply the full requirements and certainty of the formal investment process. This was inconsistent: Heathrow was expected to deliver at speed but later judged as though the standard governance route had been followed from the outset.
Timeline of Key Events and Actions Taken	<p>2025 – Airlines required acceleration: Airlines pressed Heathrow to proceed before full design maturity so that turnaround benefits could be realised sooner.</p> <p>2025 – Surveys and design developed: Installation surveys and the electrical and communications requirements were progressively defined as delivery planning advanced.</p> <p>2025 – Delivery commitments established: Commitments were made for a large-scale deployment despite continuing uncertainty over site conditions, final cost and project duration.</p> <p>2025–2026 – Deployment completed: Heathrow successfully installed 74 RIDs units and operational benefits began to be realised.</p> <p>Post-delivery – Formal governance applied backwards: Having secured accelerated delivery and earlier benefits, airlines challenged cost and project duration as though Heathrow had followed the full formal process and possessed mature information when the original commitments were made.</p>
Primary Cause	Root The framework did not prevent an inconsistent airline approach: requiring Heathrow to accelerate before normal project maturity, then retrospectively seeking to impose the full formal governance process. It did not record the uncertainty, tolerances and risk allocation accepted when acceleration was requested or require later scrutiny to remain consistent with that basis.
Impact	Heathrow delivered 74 RIDs units and brought forward benefits sought by airlines, but retained the cost, schedule, RAB and delivery exposure created by their request to proceed with incomplete information. The subsequent attempt to apply full formal governance backwards increased the risk of rework, duplicated assurance, dispute and delay, with associated costs for consumers and weaker incentives to accelerate future airline priorities.
Governance Challenge Identified	Governance allowed airlines to adopt inconsistent positions. Airlines could require Heathrow to accelerate before design, cost and schedule were mature, secure the resulting earlier benefits, and then seek to apply the full formal governance process retrospectively. The framework did not bind subsequent scrutiny to the exceptional basis on which delivery had been agreed, leaving Heathrow exposed to risks accepted in order to meet airline priorities.

BRS & Re-Flight Replacement – Example of airlines encouraging delivery outside governance while leaving Heathrow exposed to retrospective scrutiny

The BRS & Re-Flight Replacement project provides a clear example of how inconsistent stakeholder behaviour can undermine effective governance and transfer disproportionate risk onto Heathrow. The project replaced Heathrow's Common Use Baggage Reconciliation System (BRS) and Re-Flight platform, which support around 100 airlines, following the supplier's decision to withdraw support from April 2025. Without a replacement, Heathrow and its airline partners would have faced the loss of critical baggage reconciliation and re-flight capability from May 2025, creating a significant operational resilience risk.

Given the urgency of the situation, delivery was accelerated to ensure continuity of service and meet airline operational requirements. The existing ADB Safegate contract expired in April 2025 and the transition to the replacement Brock solution was completed in May 2025, ensuring that common-use baggage reconciliation and re-flight services remained operational. Heathrow therefore acted at pace to protect airport and airline operations, progressing delivery before the formal governance process had fully concluded.

While airlines supported and benefited from this accelerated approach, the governance framework did not provide a correspondingly agile route for approval and project close-out. Formal governance approvals continued after delivery had already taken place, with the project subsequently submitted for combined G2/G3 approval in June 2025. During this process the full programme scope and cost were finalised, increasing the funding requirement from £1.75 million to £4.049 million. As a result, Heathrow carried the investment and delivery risk associated with progressing a business-critical project before formal approval had been secured.

The consequence was that Heathrow assumed the risks of accelerated delivery while still being subject to the full governance process retrospectively. The replacement system was delivered successfully, operational resilience was protected and benefits were realised sooner than would have been possible under a conventional governance timetable. However, project approval, financial assurance and close-out activities continued after implementation, prolonging Heathrow's regulatory and financial exposure and delaying the point at which that exposure could be formally closed.

More broadly, this case demonstrates how governance challenges can arise when stakeholders seek the benefits of flexibility without accepting the corresponding governance implications. Airlines were comfortable for Heathrow to move quickly outside the normal approval timetable when doing so protected operational continuity and secured an outcome they strongly supported. However, the project was subsequently subjected to the same governance scrutiny and approval requirements that would have applied had delivery waited for completion of the standard process. This created an unbalanced allocation of risk, with Heathrow carrying the consequences of accelerated delivery while airlines retained the protections of the conventional governance framework.

The BRS & Re-Flight Replacement project therefore illustrates the need for stakeholders to engage consistently with governance arrangements. If airlines support accelerated delivery in exceptional circumstances, governance processes should provide a clear and proportionate mechanism for approving and closing those projects without exposing Heathrow to unnecessary regulatory, financial and delivery risk. Otherwise, Heathrow is placed in the position of taking risk to deliver urgent operational outcomes while still facing retrospective scrutiny once those outcomes have already been achieved.

Category	Summary
Project	BRS & Re-Flight Replacement: This project aims to replace Heathrow's Common Use Baggage Reconciliation and Re-flight Systems, which currently support around 100 airlines, following the vendor ADB SafeGate's decision to cease support from April 2025. A timely replacement is critical to ensure continued baggage reconciliation and re-flight services, as failure to act would leave both Heathrow and its airline partners without these essential operational systems from 1st May 2025.
Project EAC	£4.049m
Headline Issue	Delivery was accelerated outside the standard governance route to protect operational resilience and meet airline requirements. This enabled benefits to be realised sooner but created regulated asset base and financial exposure because investment was made ahead of a formal approval decision.
Timeline of key events and actions taken	<ul style="list-style-type: none"> • April 2025 Existing ADB Safegate BRS and Re-Flight service contract expired Replacement solution became business critical to avoid service disruption • May 2025 Transition from ADB Safegate solution to Brock solution completed Common-use baggage reconciliation and re-flight services successfully replaced • June 2025 Project submitted for combined G2/G3 approval Approval sought for £4.049m delivery budget and continuation of programme • June 2025 Business case updated to reflect full programme cost of £4.049m Funding requirement increased from £1.75m to £4.049m, requiring £2.299m uplift • June 2025 Governance review confirmed project remains manageable within Efficient Airport Programme Programme funding and delivery approach endorsed • June 2025 Scope formalised to include networking infrastructure, Vibes/ESB changes and transition support for AOC and Brock Full implementation scope baselined and approved for delivery • June 2025 Strategic move to cloud-based Brock SaaS platform documented Reduced dependency on legacy on-premise solutions and improved future procurement flexibility • June 2025 Risk assessment highlighted consequences of delayed replacement Programme recognised high operational and reputational risk if replacement was not delivered on time
Primary Root Cause	The governance route did not provide a proportionate mechanism for a mutually supported, time-critical project under £5m. Heathrow and airlines were aligned on the need and value, but the process did not clearly define how to approve accelerated delivery without leaving Heathrow exposed.
Impact	The project removed an operational and resilience risk and delivered benefits earlier than a standard waterfall governance process would have allowed. However, the investment decision and close-out were prolonged because approvals were sought after delivery, requiring actuals and delaying the point at which financial exposure could be removed.
Governance Challenge Identified	Governance was inconsistently applied: airlines were comfortable asking Heathrow to move outside governance to deliver outcomes quickly, but the formal process did not then provide an equivalent route to approve and close the project efficiently. Delivery obligations were effectively confirmed after delivery, reinforcing the need for a clearer exceptional route.

IE5 Motors Phase 1: Inconsistent airline assurance requirements delayed the project and caused significant loss of consumer benefits

IE5 Motors Phase 1 replaces baggage motor assets with higher-efficiency IE5 motors as part of a phased programme to improve operational resilience, reduce energy consumption and support proactive maintenance across Heathrow's baggage system. The case demonstrates the detrimental effect of inconsistent airline behaviour: airlines did not identify their assurance requirements at the agreed governance challenge points, but later changed their position during G3 and requested an IFS review after Phase 1 had progressed on the understanding that its £14.407 million EAC was below the £20 million threshold. This late change delayed delivery, increased project costs and reduced forecast 2026 benefits by approximately £1 million, representing a significant loss of benefits for consumers.

At the May 2026 SPG, the project was not endorsed because airlines raised concerns about engagement and operational risk following limited participation during G3. Heathrow responded through further sessions with British Airways, explaining operational mitigations including earlier evening access to relevant areas of the baggage system. Crucially, airlines did not request IFS involvement at this stage, during earlier engagement or through SPG Inform, even though these were the appropriate opportunities to clarify any additional assurance expectations.

In June 2026, British Airways Technical Assurance raised new questions about the wider IE5 roll-out business case, operational risk, quantified proactive-maintenance benefits and value for money. Airlines then adopted a new interpretation of the assurance criteria, arguing that IFS review was required because the potential combined EAC of Phases 1, 2 and 3 could exceed £20 million. This position had not been raised at the agreed earlier challenge points and relied on later phases that had only recently entered G3 design development, meaning sufficiently mature scope, cost and benefits information was not yet available.

Heathrow nevertheless undertook the additional IFS review and held further meetings with British Airways and Virgin. By July, British Airways had raised no further questions and indicated general support, with G3 endorsement planned to return to SPG in August. The late intervention extended the governance period by approximately three months: the Vanderlande implementation contract start moved from 1 June to 1 September 2026, G4 moved from August to November, and later milestones were pushed back. The EAC increased by £74,000, from £14.333 million to £14.407 million, owing to schedule movement and updated framework rates.

The delay materially reduced consumer benefits. No motors will now be installed within the 2026 scope, reducing forecast 2026 benefits from £1.052 million at G3 to £0.121 million—a loss of approximately £1 million. This outcome did not arise from any material change in Phase 1 scope, cost or risk. It resulted from airlines adopting a different assurance position after the agreed opportunities for challenge had passed, disrupting project delivery and delaying the energy, maintenance and resilience benefits that consumers would otherwise have received.

The principal governance failure was therefore not simply uncertainty over phased-programme thresholds, but the airlines' inconsistent use of the agreed process. Having not requested IFS involvement during earlier engagement, SPG Inform or the May SPG, airlines subsequently adopted a new programme-level interpretation during G3, relying on later phases for which mature scope, cost and benefits information was not yet available. This change reduced predictability, disrupted the project and caused a significant loss of consumer benefits. It also creates a wider precedent risk if stakeholders can retrospectively aggregate undefined future phases to trigger additional assurance for a current phase that is below the threshold. Effective governance requires assurance expectations to be raised early, criteria

to be applied consistently and agreed routes to be followed unless a material change justifies reopening them.

Category	Summary
Project	IE5 Motors Phase 1 is a baggage infrastructure upgrade programme that will replace older baggage conveyor motors across Terminals 3 and 5 with new IE5-rated high-efficiency motors. The project is intended to improve baggage system reliability, reduce energy consumption and maintenance costs, and deliver operating expenditure savings during H7 while supporting the long-term resilience of Heathrow's baggage infrastructure.
Project EAC	£14.407m (G3 estimate)
Headline Issue	Airlines did not identify an IFS requirement through the agreed earlier governance and engagement routes, but changed their position during G3 and sought to aggregate the potential value of Phases 1, 2 and 3, although Phase 1 was £14.407m and later phases were not sufficiently mature. This inconsistent approach was detrimental to project delivery: it caused a three-month delay, increased costs by £74k and reduced forecast 2026 consumer benefits from £1.052m to £0.121m—a loss of approximately £0.931m.
Timeline of Key Events and Actions Taken	<p>May 2026 SPG: The project sought endorsement but concerns were raised regarding airline engagement and operational impacts on baggage operations. At this stage, IFS review was not requested and had not been considered necessary due to the relatively low-complexity nature of the asset replacement project. Recent baggage issues in Terminal 5 also increased stakeholder sensitivity to operational risk.</p> <p>May-June 2026: Heathrow held additional engagement sessions with British Airways to discuss operational mitigations, including access arrangements and implementation planning.</p> <p>June 2026 SPG: Airlines raised additional questions relating to the wider business case, operational impacts, maintenance benefits and value for money. At this stage, airlines also took the position that the project should undergo IFS review because the combined value of Phases 1, 2 and 3 of the wider IE5 replacement programme was expected to exceed £20m, despite this not having been raised earlier during G3 development, SPG Inform discussions or previous governance reviews.</p> <p>June-July 2026: Heathrow undertook the IFS review process and held further engagement sessions with British Airways and Virgin Atlantic.</p> <p>July 2026 SPG: No further questions were raised by British Airways and the project received general support.</p> <p>August 2026 (planned): G3 endorsement expected following completion of the additional governance requirements.</p>
Primary Cause	Root The primary root cause was inconsistent airline behaviour: airlines did not raise and agree their assurance expectations at the established challenge points, but later adopted a new programme-level interpretation of the threshold during G3. This occurred after Phase 1 had progressed as a standalone project below £20m and while later phases lacked mature scope, cost and benefits information.

Category	Summary
Impact	The late governance intervention resulted in a three-month delay to the programme. The planned start date for the Vanderlande implementation contract moved from 1 June 2026 to 1 September 2026, with G4 moving from August to November 2026 and subsequent gateways also expected to move accordingly. The delay increased project costs from £14.333m to £14.407m, reflecting inflationary impacts and revised framework rates. Most significantly, expected 2026 benefits were materially reduced, with forecast 2026 benefits falling from approximately £1.052m to £0.121m because motor installations that had been planned for 2026 could no longer be completed within the year.
Governance Challenge Identified	The governance failure was the airlines' inconsistent and late departure from the agreed process. IFS involvement was not requested during project development, SPG Inform or the May SPG, but was introduced during G3 after Heathrow had addressed the operational concerns initially raised. The revised position retrospectively aggregated potential future phases that were not sufficiently defined, disrupting delivery, generating material consumer benefit loss and creating uncertainty and precedent risk for other phased programmes.

Electrification Programme – Airline inconsistency and unresponsiveness are undermining agreed governance and beginning to jeopardise H8

The H8 Electrical Network programme demonstrates that governance can be weakened not only by shortcomings in the framework itself, but also by how stakeholders engage with it. The programme will deliver critical upgrades to Heathrow's electrical network, increasing capacity, improving resilience and supporting future airport growth and electrification. Given its technical complexity and strategic importance, airlines requested that an independent Subject Matter Expert (SME) provide technical assurance, strengthen stakeholder confidence and support timely decision-making throughout project development.

Heathrow then undertook the work required to put that assurance in place. It led the procurement process, shortlisted suppliers and conducted evaluations with airline involvement. By March 2026, Heathrow and the AOC had jointly selected Turner & Townsend as the preferred bidder. At that point, the governance objective, selection process and intended appointment were aligned.

Airline behaviour then became inconsistent with that earlier position. Despite having requested the SME, participated in the selection process and agreed the preferred bidder, airlines did not respond to the contractual arrangements needed to formalise the appointment. Heathrow issued the tripartite agreement on 1 June 2026 and sought a response repeatedly throughout June and July, including follow-ups from both the project team and Heathrow PMO. No response had been received by the end of July, leaving the appointment unresolved and the overall process delayed by approximately five months.

This is not simply an administrative delay. The SME was intended to provide independent assurance at the earliest stages of project development, when it could most effectively inform option selection, design choices and stakeholder understanding. Airline unresponsiveness has prevented the programme from receiving the early scrutiny that airlines themselves considered necessary, while Heathrow has incurred the cost and effort of procurement and establishing the governance arrangements without securing the intended benefit.

The case therefore exposes an operational weakness in governance, rather than only a weakness in its formal design. Governance mechanisms cannot deliver effective assurance if stakeholders request additional rights or processes but then do not engage consistently or complete the actions needed to implement them. Here, airline approval rights have delayed, rather than strengthened, the assurance process. This ineffective engagement wastes resources, frustrates agreed decisions and is now beginning to jeopardise H8 by allowing the same behaviours that affected H7 to affect live programme development. Any future framework must therefore address both the design of governance and the discipline with which stakeholders use it, including clear expectations for timely responses, ownership and completion of agreed actions.

Category	Summary
Project	H8 Electrical Network (Electrification Programme) is a strategic infrastructure programme designed to address long-term capacity and resilience risks within Heathrow's electricity network. The programme will upgrade Heathrow's 33kV and 11kV electrical networks, improve network flexibility, create capacity for future airport growth and decarbonisation, and enable future integration with a National Grid connection. Electricity demand is expected to increase significantly over coming decades, making early planning and technical assurance critical to delivery.
Project EAC	The programme is currently at P1 and an EAC has not yet been established.

Category	Summary
Headline Issue	Airlines requested an independent SME at the outset to strengthen technical assurance and facilitate more effective governance. Heathrow then led the procurement process, involved airlines in evaluating bidders and jointly agreed Turner & Townsend as the preferred supplier. However, airlines did not respond to repeated requests to approve the contractual arrangements needed to make the appointment. This inconsistency between requesting additional assurance and failing to support its implementation has left a live five-month delay, weakened the governance process and is beginning to affect delivery of H8.
Timeline of Key Events and Actions Taken	<p>March 2026: Heathrow and the airline community jointly reviewed the final SME bidders and agreed a preferred supplier. Following evaluation, Heathrow and the AOC agreed the appointment of Turner & Townsend.</p> <p>March-May 2026: Heathrow progressed procurement activity and prepared contractual arrangements required to formalise the appointment.</p> <p>1 June 2026: Heathrow issued the draft tripartite agreement to the AOC for review and signature.</p> <p>12 June 2026: Heathrow followed up requesting a response.</p> <p>26 June 2026: Heathrow issued a further reminder seeking approval.</p> <p>24 July 2026: Heathrow PMO issued an additional follow-up request.</p> <p>29 July 2026: No response had been received despite repeated requests over a two-month period and despite prior airline support for the appointment.</p>
Primary Cause	Root The primary cause is inconsistent and unresponsive airline engagement with an agreed governance process. Airlines requested early SME involvement, participated in bidder selection and agreed the preferred candidate, but did not provide the approvals needed to complete the appointment despite repeated follow-ups. Heathrow completed the procurement and contractual work, but the governance mechanism could not operate as intended because the necessary stakeholder action was not taken.
Impact	The SME appointment has been delayed by approximately five months, reducing the opportunity for independent assurance to shape the programme at its formative stage. Heathrow and airlines have not received the technical advice they jointly agreed was necessary, and the resources invested in procurement have yet to produce the intended governance benefit. More importantly, ineffective engagement inherited from H7 is now beginning to jeopardise H8 by delaying assurance, weakening timely decision-making and creating avoidable delivery risk.
Governance Challenge Identified	<p>Inconsistent stakeholder behaviour. Airlines requested early independent SME support, participated in the selection process and agreed a preferred supplier, but then failed to provide the approval needed to appoint it.</p> <p>Unresponsive engagement. Heathrow completed the procurement and contractual work and issued repeated follow-ups, yet airlines did not respond within the period recorded.</p> <p>Operational failure of governance. The case shows that governance problems arise not only from framework design, but also from how stakeholders engage with and discharge their responsibilities under it. Approval rights intended to strengthen assurance instead delayed it.</p> <p>Emerging risk to H8. The ineffective behaviours evident in H7 are now affecting a live H8 programme, delaying early assurance and beginning to jeopardise timely programme development.</p>

Compass Centre Welfare Project – Example of governance challenge generating delay without improving the investment decision

The Compass Centre Welfare project provides a clear example of how governance effectiveness depends not only on stakeholders having the ability to challenge investment proposals, but also on that challenge being targeted at resolving the decisions that need to be made. The £15.7 million project was developed to address fundamental welfare, accessibility and Health & Safety requirements within the Compass Centre, including the expansion and refurbishment of toilet facilities, improvements to welfare areas and upgrades to underlying building infrastructure. Despite broad recognition of the need for investment and engagement with airline stakeholders, the project experienced a four-month delay to commencement and required substantially more governance activity than would ordinarily be expected.

Airlines' ability to scrutinise projects is important to the capital governance framework. During approval, they questioned optioneering, occupancy, delivery, compliance, costs, prioritisation, operational alternatives and scope. Heathrow responded extensively by updating submissions, providing supplementary papers and detailed written responses, and reflecting feedback in successive business cases.

However, effective challenge should progressively narrow the issues requiring resolution. Here, many questions were revisited after Heathrow had responded through updated packs, presentations, correspondence and engagement sessions. Cost breakdowns, occupancy and building acquisition assumptions, MoSCoW prioritisation and justification for scope elements recurred across forums despite further evidence and clarification. This cycle generated significant effort without materially changing the project.

Airline representatives acknowledged relatively early that the central issue was neither Heathrow's analysis nor the proposal's clarity. In April, airlines stated that "this isn't about the content" and recognised that Heathrow had explained the scheme clearly. Discussion instead shifted to whether Compass Centre welfare investment should take priority within Heathrow's wider capital portfolio. Although a legitimate strategic question, which Heathrow addressed through governance, this marked a shift from the detailed project-level scrutiny of earlier stages.

After identifying portfolio prioritisation as the principal issue, airlines reverted to interrogating scope, costs, assumptions, compliance and alternatives, including matters already addressed in packs, meetings and written responses. The debate moved from project-level challenge to portfolio prioritisation and back again, without any corresponding project change. Heathrow repeatedly revisited well-understood issues while the underlying prioritisation question remained unresolved.

Heathrow invested considerable effort responding to successive rounds of challenge, providing expanded option assessments, cost information, survey findings, procurement details, compliance justifications, supplementary presentations and consolidated response trackers. Yet the same themes resurfaced despite the information already supplied, increasing governance activity while delivering diminishing decision-making value.

Other inconsistencies further undermined the process. After airlines requested an ad hoc meeting, Heathrow organised a dedicated session with senior project representatives, including the Property Director. Insufficient airline attendance meant the discussion could not proceed and had to be rearranged. Heathrow therefore committed significant senior time to an engagement process stakeholders had requested but could not support.

Most importantly, the prolonged process produced no material change to scope, cost, delivery strategy or rationale. After several months of additional engagement, the project was approved broadly as

proposed. Initial questions were appropriate and added value, but repeated review of resolved issues did not materially improve the investment proposition or alter the decision. The principal consequence was a four-month delay to works and postponed welfare, accessibility and compliance improvements.

Category	Summary
Project	Compass Centre Welfare is a £15.66m welfare and building-infrastructure project intended to expand and refurbish toilet facilities, improve kitchenettes and welfare areas, enlarge the multi-faith room, relocate first-aid and shower facilities, address underlying plumbing constraints and ensure compliance with current building and accessibility standards.
Project EAC	£15.66m
Headline Issue	Airline scrutiny became repetitive and inconsistent rather than progressively narrowing the issues requiring resolution. Questions on optioneering, occupancy, compliance, costs, assumptions and individual scope elements were repeatedly revisited after Heathrow had supplied updated packs, supplementary analysis and detailed written responses. The focus and level of evidence requested also shifted across successive forums, requiring Heathrow to rework and re-present matters already addressed. This generated a four-month delay and substantial additional governance effort, with diminishing added value and no material change to scope, cost, delivery strategy or the eventual decision.
Timeline of key events and actions taken	<p>17 March 2026 – SPG Working Group: Heathrow presented the initial proposal. Airlines understood the need but requested further optioneering detail; the pack was updated.</p> <p>7–21 April 2026 – AMC SPC, FPG and SPG Working Group: Heathrow supplied costs and further analysis on surveys, standards, occupancy, delivery, alternatives and scope prioritisation. Airlines stated that “this isn’t about the content” and identified portfolio prioritisation as the reason for non-approval, but previously addressed project-level questions continued to recur.</p> <p>1–21 May 2026 – Further submissions and governance: Heathrow provided legal and compliance justification, MoSCoW prioritisation, cost detail and expanded options analysis. Airlines requested further justification and an ad hoc meeting after again withholding approval.</p> <p>2–10 June 2026 – Additional engagement: A dedicated session requested by airlines had to be abandoned because attendance was insufficient. Heathrow then circulated supplementary material, survey evidence, alternative accommodation costs and a consolidated response tracker.</p> <p>22–26 June 2026 – Resolution: Airlines recognised the condition of the facilities and the case for investment but continued to seek cost information. Heathrow issued a fully consolidated G2 pack; airlines provided caveated offline approval limited to toilet works.</p> <p>16 July 2026 – FPG: G2 was endorsed subject to the caveat, around four months after the approval process began.</p>
Primary Root Cause	The primary root cause was the repeated and inconsistent use of challenge. Airlines raised successive requests on scope, costs, assumptions, compliance and alternatives without consistently recognising evidence already provided or establishing a stable set of outstanding requirements. As the requested information and emphasis shifted between governance stages, Heathrow was repeatedly required to revisit completed analysis. This prevented challenge from converging, prolonged approval and delivered progressively less decision value.
Impact	The process delayed commencement of the Compass Centre toilet works by approximately four months , required repeated revisions to governance packs, supplementary

	presentations, detailed correspondence, additional meetings and senior management input, and postponed welfare, accessibility and compliance improvements. The additional scrutiny did not materially alter the project's scope, cost, delivery strategy or underlying rationale.
Governance Challenge Identified	Repeated and inconsistent challenge generated delay with diminishing added value. Initial scrutiny was appropriate, but subsequent rounds revisited matters already addressed and introduced shifting requests for further detail without a stable definition of what was required for approval. The cumulative process increased effort and delayed delivery while producing progressively less additional insight. Approval was ultimately granted on broadly the original basis.

Late challenge to T2 Space Optimisation DOs – Example of airlines not following agreed governance processes

The T2 Space Optimisation Delivery Obligation (DO) provides a clear example of airlines not engaging with the governance framework as intended. The project involves the relocation of 20 transfer ticket desks, construction of airline back-of-house facilities and delivery of three new retail units to improve passenger experience, optimise space utilisation and generate approximately £2.3 million per year of incremental commercial revenue. The project was originally scheduled to achieve approval in April but ultimately required escalation and was delayed until July, resulting in an approximately three-month delay to benefit delivery at this point.

The primary issue was disagreement over the structure of the project's Output Delivery Obligation. Under the governance framework and the Delivery Obligations Handbook, the proposed DO structure, measurement methodology and weightings are expected to be developed and presented at G2. Heathrow followed this process and presented an Output DO structure based on the principal project outputs. The approach was consistent with the DO Handbook, which states that outputs should typically be measured on a scalable basis where multiple deliverables contribute towards the project's purpose. Heathrow's proposal also reflected the methodology applied across other H7 projects.

Despite having visibility of the proposed structure at G2, airlines did not raise any formal concerns at that stage. Heathrow therefore progressed the project on the basis that the proposed approach was accepted and continued developing the project through governance. However, immediately before CPB approval, airlines formally challenged the Output DO structure and argued for an alternative pass/fail approach. Because the challenge was raised so late in the process, the matter could not be resolved through the normal governance route and instead required escalation to the Joint Steering Board. Heathrow was required to prepare additional analysis demonstrating that its proposal was consistent with both the DO Handbook and established H7 precedent.

Importantly, no material change had occurred in the project, its outputs or the proposed DO structure between G2 and approval. The issue was therefore not that new information had emerged, but that concerns were raised at the point of decision rather than at the point in the process specifically intended for challenge and discussion. As a result, a disagreement that could have been addressed constructively during project development became an approval-stage governance dispute requiring senior escalation.

More broadly, this case demonstrates that governance effectiveness depends not only on the framework itself but also on participants adhering to the agreed processes within that framework. By waiting until the point of approval to raise concerns that could and should have been raised at G2, airlines effectively bypassed the intended challenge process and reduced the opportunity for timely resolution. The result was avoidable escalation, delayed decision-making and a postponement of the consumer and commercial benefits associated with the project, despite no substantive new issue having emerged since G2. This illustrates how governance challenges can arise not only from shortcomings in governance design, but also from stakeholders failing to engage with established processes in a timely, consistent and proportionate manner.

Category	Summary
Project	T2 Space Optimisation involves the relocation of 20 transfer ticket desks, construction of airline back-of-house facilities and delivery of three new retail units within Terminal 2. The project is intended to improve passenger experience, optimise the use of terminal space and generate approximately £2.3m per annum of incremental commercial revenue. The project cost is approximately £13.0m.

Project EAC	£13.01m.
Headline Issue	Airlines raised objections to the structure of the project's Output Delivery Obligations (DOs) immediately before approval, despite the proposed DO structure having been presented at G2 and being consistent with the methodology applied across the vast majority of H7 projects. The late challenge resulted in escalation to the Joint Steering Board (JSB), delayed approval by approximately three months and postponed the delivery of project benefits.
Timeline of Key Events and Actions Taken	<p>G2: Heathrow presented the outline Delivery Obligation structure as part of the standard governance process. The proposed approach used scalable Output DOs based on the principal project outputs. No airline objections were raised regarding the proposed structure.</p> <p>G2-G3 period: Heathrow continued project development on the basis of the DO structure presented at G2, consistent with the DO Handbook and longstanding H7 precedent. The project included delivery of multiple outputs that could be delivered independently and which each contributed towards the overall project purpose.</p> <p>Immediately prior to CPB: Airlines formally challenged the proposed Output DO structure, arguing that the project should be measured through a single pass/fail obligation rather than a scalable output approach.</p> <p>JSB escalation: Because the objection was raised late in the governance process, the matter had to be escalated to the Joint Steering Board for determination. Heathrow prepared a detailed assessment demonstrating that its proposed DO structure was consistent with the DO Handbook and the approach applied across more than 100 H7 projects.</p> <p>Outcome: Resolution was only achieved following escalation, delaying project approval from April to July and postponing associated consumer and commercial benefits.</p>
Primary Cause	Root Airlines did not raise concerns about the proposed Delivery Obligation structure at the appropriate stage of the governance process. The DO Handbook requires the outline DO approach, proposed outputs and measurement methodology to be presented and discussed at G2. Despite having visibility of the proposed approach at that stage, airlines only formally challenged the structure immediately before approval, after substantial governance activity had already been completed.
Impact	The project experienced an approximate three-month delay in obtaining approval. Additional governance activity and management time were required to prepare detailed submissions, support JSB escalation and resolve the disagreement. The delay postponed delivery of the project's consumer, operational and commercial benefits, including improved passenger experience, more efficient use of terminal space and additional retail revenue.
Governance Challenge Identified	<p>Failure to engage through the agreed challenge process. Airlines did not raise concerns when the DO structure was first presented at G2, despite that being the stage specifically designed for discussion and challenge of Delivery Obligations.</p> <p>Late-stage introduction of objections. Concerns were raised immediately before approval rather than during project development, reducing the opportunity for issues to be resolved efficiently and constructively.</p> <p>Inconsistent application of established precedent. Heathrow's approach was consistent with the DO Handbook and with the scalable Output DO methodology applied across the overwhelming majority of H7 projects, yet was challenged only at the point of approval.</p> <p>Avoidable escalation. The timing of the challenge necessitated escalation to JSB, creating additional governance overhead without any substantive change to the project or proposed DO structure since G2.</p>

T2 Baggage Programme Delivery Obligations – Example of project-level DOs being ill-suited to large, complex programmes

The T2 Baggage Programme provides a clear example of the challenges associated with applying project-level Delivery Obligations (DOs) to large, complex and highly integrated programmes. The programme was identified as a Key Project, with a cost estimate of more than £500 million, a delivery period of approximately five years, significant operational integration requirements and numerous stakeholder interfaces. Heathrow explicitly recognised during governance discussions that projects of this scale differ fundamentally from routine capital investments and that a different approach to incentives and accountability may be required.

The challenge emerged during the process of agreeing the programme's Output DO. At the outset, all parties recognised that the DO Handbook contemplated special treatment for large projects and that the T2 Baggage Programme presented a unique governance challenge. Heathrow's initial proposal, presented in June 2025, adopted a relatively simple structure consisting of a single DO with output measurement based on four performance tests covering baggage system throughput and in-system performance. Given the programme's complexity and long delivery period, Heathrow also raised the possibility of alternative approaches, including multiple Delivery Obligations or different weightings between output, quality and timing measures.

However, over the following months the discussion evolved considerably. Through multiple PAWG sessions, technical workshops, SPG discussions and G3 review cycles, airlines sought increasingly detailed performance measures and proving requirements. The conversation expanded from four virtual performance tests to include whole-day simulations, actual bag trials, build-cell functionality tests, tug and dolly operations, roadway testing, can-store functionality and wider operational demonstrations. At the same time, airlines acknowledged that the programme represented an integrated operational system rather than a collection of discrete assets and observed that the traditional approach to Delivery Obligations might need to be fundamentally reconsidered.

The resulting DO structure differed significantly from a conventional project-level output measure. Rather than focusing on the delivery of physical assets, the agreed approach increasingly concentrated on operational capabilities and performance outcomes demonstrated through complex virtual and physical proving trials. The final framework incorporated multiple system-performance tests, end-to-end operational demonstrations and extensive testing protocols designed to provide confidence that the integrated baggage system would function effectively once operational. In practice, the Delivery Obligation evolved from a traditional asset-delivery mechanism into a capability-based assurance framework.

More broadly, this case demonstrates the limitations of applying conventional project-level Delivery Obligations to very large and complex infrastructure programmes. At the point of investment approval, programmes of this nature typically face significant uncertainty, evolving requirements, limited benchmarking opportunities and substantial external dependencies. As stakeholders attempt to anticipate future operational performance and delivery risks, Delivery Obligations can become increasingly detailed, burdensome and difficult to define. Rather than creating clear accountability, they risk encouraging extended negotiation over future scenarios that may not materialise for many years.

Category	Summary
Project	T2 Baggage Programme (Tranche 5) will deliver a new baggage system in Terminal 2A, including a new Individual Baggage Carrier (tote-based) system, high-level controls, SCADA, full can storage, empty ULD storage, and associated operational facilities. The programme was classified as a Key Project , with a P2T cost estimate of approximately £515m , a delivery period of around five years, significant operational integration requirements and multiple stakeholder interfaces.
Project EAC	£515.3m (P2T estimate; range £483m-£548m).
Headline Issue	The programme required an unusually extensive and resource-intensive process to agree Delivery Obligations (DOs). Over approximately three months, Heathrow and airlines engaged through multiple PAWG sessions, technical workshops, SPG discussions and G3 review cycles. During those discussions, the Output DO evolved from a relatively simple proposal based on four performance tests into a complex suite of capability-based and operational proving exercises. The process highlighted the difficulty of applying conventional project-level DOs to large, complex and highly integrated programmes where delivery outcomes depend on the interaction of multiple systems, assets and operational processes.
Timeline of Key Events and Actions Taken	<p>23 May 2025 PAWG: Initial discussion on the T2 Baggage DO. All parties recognised that the DO Handbook anticipated special treatment for large Key Projects. Heathrow highlighted the programme's scale, complexity, long delivery period and uncertainty, and suggested alternative approaches including multiple DOs or adjusted incentive weightings. Airlines expressed a preference for a single DO and indicated that achieving the right operational outcome was more important than delivery timing.</p> <p>6 June 2025 PAWG: Heathrow presented its first formal proposal comprising a single DO structure, 45% Output, 45% Quality and 10% Timing. The Output measure was based on four virtual performance tests covering in-system times and peak performance.</p> <p>4 July 2025 PAWG: Airlines proposed substantial changes, including increasing Output weighting to 60%, expanding testing requirements, introducing actual bag trials, whole-day simulations, build-cell testing, roadway testing and can-store functionality testing. Airlines also acknowledged that the programme's integrated nature might require a fundamental rethink of the traditional DO approach.</p> <p>8 July 2025: Dedicated workshop held between Heathrow and airline representatives to review and discuss the proposed testing regime and alternative approaches.</p> <p>29 July 2025 SPG: Heathrow presented a revised proposal incorporating many airline requests, including increased Output weighting, additional actual bag testing and expanded proving trials.</p> <p>August 2025 G3 Process: Further refinement of test methodologies, assumptions, exclusions and proving requirements continued through SPG and G3 review cycles before a final structure was agreed.</p>
Primary Cause	Root The programme's scale and complexity made conventional project-level Delivery Obligations difficult to define and apply. Unlike typical capital projects that produce discrete assets, the T2 Baggage Programme delivers an integrated operational system whose success depends on end-to-end functionality, software, controls, operational processes, stakeholder interfaces and performance under live operating conditions. As a result, stakeholders found it difficult to define a stable and proportionate set of project-level outputs that could appropriately capture successful delivery.

Impact	<p>Significant management time and governance effort were required to develop, negotiate and agree the Delivery Obligations. The process involved multiple governance forums, technical workshops, iterative revisions and extensive discussion regarding future operational scenarios that would not occur for several years. Rather than providing a simple accountability mechanism, the DO process evolved into a complex debate about future operational performance, testing methodologies, transition planning and system integration.</p>
Governance Challenge Identified	<p>Project-level DOs poorly suited to large integrated programmes. The programme could not easily be described through conventional asset-based outputs because delivery success depends on the interaction of multiple assets, systems, software, operators and operational processes.</p> <p>Excessive complexity and negotiation burden. The Output DO evolved from four relatively simple performance tests into a detailed framework covering virtual testing, actual bag trials, build-cell functionality, roadway operations and wider operational capabilities.</p> <p>Difficulty defining outputs before uncertainty has reduced. The programme has a five-year delivery horizon, substantial external dependencies and significant delivery uncertainty at the point of investment approval, making it difficult to lock down meaningful project-level obligations.</p> <p>Shift from asset outputs to capability outcomes. Both Heathrow and airlines ultimately moved towards measuring delivery through operational capabilities and proving trials rather than through individual physical assets, reflecting the limitations of traditional project-level DOs for programmes of this nature.</p>