

# Economic regulation of Heathrow Airport: H8 Initial Proposals Section 1: consumer engagement, passenger forecasts and service quality

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## Chapter 1

# Consumer engagement

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## Introduction

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- 1.1 Our primary duty under CAA12 is to further the interests of consumers. To inform our approach to discharging this duty it is important that we develop a thorough, evidenced based understanding of the preferences and needs of consumers using Heathrow airport. This chapter explains our approach to these matters for the H8 price control review.
- 1.2 In this chapter, we provide:
- a summary of relevant aspects of the H8 Method Statement and Business Plan Guidance;
  - an overview of the consumer research and engagement commissioned by HAL and the key priorities and outcomes that HAL adopted in the H8 Business Plan following this research and engagement;
  - our review of this evidence, covering:
    - the completeness and robustness of HAL's evidence base;
    - HAL's use of this evidence base in characterising consumers' needs and priorities; and
    - links from these consumer needs and priorities to the wider H8 Business Plan.
  - a discussion of how the findings from consumer research and engagement has informed the development of these initial proposals, including to our assessment of capital expenditure and service quality; and
  - next steps including key issues for consultation.

## H8 Method Statement and Business Plan Guidance

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- 1.3 Our H8 Method Statement and Business Plan Guidance said that an in depth understanding of consumers' views, gained through research and engagement, is an important part of making sure that the price control furthers the interests of consumers. We noted that HAL would lead on carrying out its own consumer research and engagement, and we strongly encouraged airlines and other stakeholders to provide supporting analysis and evidence. We said that we did not expect to carry out our own consumer research unless a significant gap was identified and we were best placed to lead the research.

- 1.4 In the Business Plan Guidance, we set out our expectations for HAL's conduct and use of consumer research and engagement to inform the development of its H8 Business Plan. We set out specific points and issues for HAL to consider and address, including:
- to engage with a range of stakeholders;
  - to provide full transparency on its research activities;
  - to give full weight to consumer priorities in the Constructive Engagement process;
  - various considerations relating to the consumer research itself;
  - the provision of assurance on the quality of its consumer research and engagement;
  - being clear as to how consumer engagement has shaped and influenced proposed outcomes in the H8 Business Plan; and
  - to the extent practicable, demonstrate a clear link between consumer insights and its future plans.
- 1.5 Our initial assessment of HAL's consumer research and engagement activities against each of the specified points is provided in Appendix F (Business plan incentive). In summary, we found that HAL met most of the points we asked it to consider and address, but had not met all of the requirements set out in the Business Plan Guidance. For instance, there were shortcomings in relation to the clarity of the links between its consumer research and other elements of its H8 Business Plan, including the delivery of improved outcomes for consumers from its capital expenditure. There were also shortcomings in respect of its provision of assurance in relation to its approach to consumer engagement and research.

## Overview of HAL's consumer research and its view on the resulting consumer outcomes, priorities and objectives

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- 1.6 HAL said its approach to consumer engagement for the H8 price control review built on that used for its H7 business plan by incorporating feedback, best practice from across other sectors, and emerging consumer priorities.<sup>1</sup>
- 1.7 It said that it made use of both ongoing consumer research and surveys, and specific H8-focused engagement, for example to address either knowledge "blind spots" or trending topics, such as consumer attitudes to sustainability. HAL stated that it directly engages with 350,000 passengers annually, through structured quantitative surveys, in-depth interviews, and real-time feedback

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<sup>1</sup> See Chapter 3 (pages 55 - 74) of HAL's H8 Business Plan.

devices. In addition, HAL said that it engaged with over 10,000 consumers as part of its H8 focused engagement.

- 1.8 HAL also explained that its overall programme of research had been undertaken alongside Constructive Engagement for the H8 price control, which involved airlines and the Heathrow Passenger Forum.
- 1.9 There are several summaries of consumer needs and priorities in the H8 Business Plan, building on the underlying research and engagement. Key among these are:
- the five (enduring) “needs” from H7,<sup>2</sup> split into six consumer outcomes - see Figure 1.1 further below. For each of its capital expenditure business cases, HAL notes which of the five consumer needs (alongside other priorities) the case addresses. The H8 Business Plan also shows how each of the financial and reputational incentives of the Measures, Targets and Incentives (“MTIs”) scheme (which are intended to incentivise HAL to focus on the overall outcomes that matter to consumers) map against the six consumer outcomes it has proposed for the H8 period;
  - 18 key priorities, split across the six outcomes for the H8 period. Each priority has associated initiatives for the H8 period and cross references to other parts of the H8 Business Plan containing more detail, as part of HAL’s “golden thread approach”;<sup>3</sup> and
  - 15 objectives for the H8 period, “developed from stakeholder insights obtained through discussion and research”.<sup>4</sup>

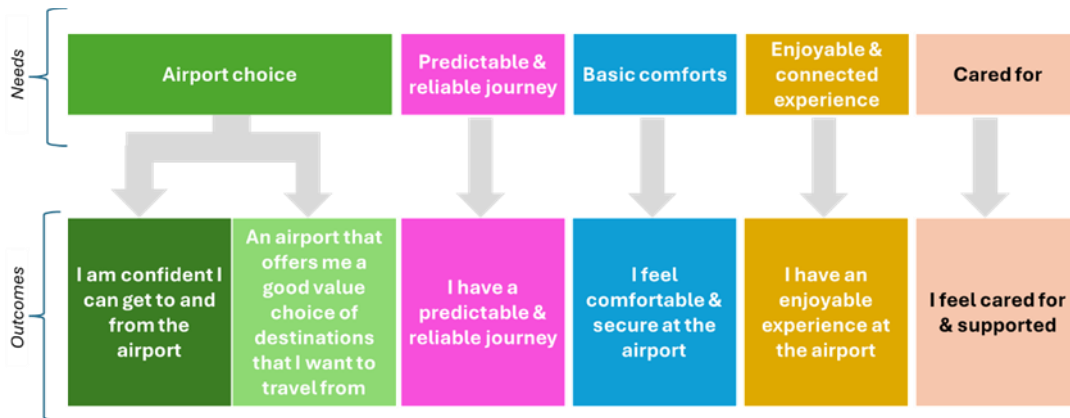
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<sup>2</sup> Reconfirmed by HAL through synthesis of evidence by Blue Marble (Blue Marble, Synthesis of Consumer Insights: review and validation of consumer needs, 2025).

<sup>3</sup> HAL describes the “golden thread” as being the thread from consumer and stakeholder views to its planned activities and investments. Figure 18, page 48 of the plan shows the golden thread approach as comprising 5 elements: listening; learning; embedding; testing and developing

<sup>4</sup> Other representations include 46 “core themes” in Table 25 of the plan, 23 “areas” of potential focus in Table 32 of the plan (also referred to as “core themes” and “consumer needs”), 43 “passenger priorities” in Table 33 of the plan, five passenger and stakeholder H8 “priorities” on page 46 of the plan, and HAL’s 6 “beacons” (“designed to deliver benefits to customers and align with CAA’s duties” – page 17 of the plan) and 3 “foundations” (“the non-negotiables that all stakeholders and customers expect from us” – page 14 of the plan).

**Figure 1.1: HAL’s five consumer needs and their relationship with its six consumer outcomes**



Source: Steer, H8 Consumer Research Review Summary Report, pg 6

## Review of consumer research and engagement

### Completeness and robustness of the evidence base

- 1.10 Our consultants, Steer, reviewed HAL’s consumer research and engagement activity, considering the robustness and completeness of the research, and identifying key themes. A summary of the findings of Steer’s review is published alongside this document.<sup>5</sup>
- 1.11 Steer identified six key themes corroborated by multiple pieces of research in HAL’s body of evidence. These six themes are shown in Figure 1.2 below. Within each theme, the Figure shows (in bold) which of HAL’s five consumer needs they address.

<sup>5</sup> H8 Consumer Research Review Summary Report, Steer.

**Figure 1.2 Six key themes identified by Steer**



Source: CAA presentation of six key themes identified in Steer’s H8 H8 Consumer Research Review Summary Report

- 1.12 A key conclusion from this part of Steer’s review was that “HAL’s research has generally been found to be robust and conducted in line with good market research principles.”<sup>6</sup> Steer highlighted some concerns (which we set out below), but concluded these “do not materially question the robustness of the evidence base compiled by HAL for the purposes of generating the H8 business plan”.<sup>7</sup>
- 1.13 Heathrow Passenger Forum, following review of the H8 Business Plan and Constructive Engagement sessions with HAL, stated its view that “Heathrow has a robust programme of consumer engagement compared to other regulated sectors ... ”<sup>8</sup>
- 1.14 Steer highlighted the following concerns with HAL’s evidence for the H8 period:

<sup>6</sup> Para 2.6, H8 Consumer Research Review Summary Report, Steer.

<sup>7</sup> Para 2.19, H8 Consumer Research Review Summary Report, Steer.

<sup>8</sup> Pg 3, the Heathrow Passenger Forum Submission Following the 3<sup>rd</sup> Round of Constructive Engagement, 18 Nov 2025.

- HAL’s cargo sector research evidence appears less well developed than its passenger research;
- HAL has not provided primary research on consumers’ views of minimum acceptable service levels across key areas; and
- some of the research was carried out some time ago, inconsistent sample sizes in some studies across terminals and an absence of prioritisation in some studies.

## **HAL’s use of the evidence base in characterising consumer’s needs and priorities**

1.15 Steer reviewed in detail the “lines of sight” between the consumer research and various of the consumer needs and priorities that HAL identified, to establish how well founded they were.

- Five consumer needs: these are a broad framework for consumer interests and relatively comprehensive for passenger experience. However, Steer noted “HAL does not always use the five needs throughout the body of HAL-commissioned research and the Business Plan, which resulted in the line of sight being less clear than it otherwise might be”.<sup>9</sup> In addition, Steer noted there is no equivalent for cargo.
- 18 key consumer priorities: Steer found “Most of the 18 consumer priorities are well evidenced in the HAL body of research and are consistently reflected as high priorities by consumers”<sup>10</sup>. However, Steer also noted that:
  - some of the 18 priorities have a lower weight of evidence than others (most particularly, smooth cargo operations and sustainable transport links). This doesn’t materially question the robustness of these priorities, but may introduce uncertainty;
  - some issues identified in HAL’s research as either high or medium impact, appear not to be specifically reflected in the priorities (as set out in Table 34 of the H8 Business Plan), even though we might expect them to have been, given their relative importance. These are long walking distances, wayfinding (improved signage), and seating; and
  - the 18 key priorities are not prioritised between themselves.

<sup>9</sup> Para 2.8, H8 Consumer Research Review Summary Report, Steer.

<sup>10</sup> Para 3.9, H8 Consumer Research Review Summary Report, Steer.

- 15 H8 objectives: Steer note “HAL has made decisions and trade-offs in order to generate the final set of 15 objectives through the process of constructive engagement amongst other activities. It would, however, be helpful for the Business Plan to be more explicit in this regard – setting out which and how different priorities have been determined, clearly noting what was not being progressed, as well as the areas of focus.”<sup>11</sup>

1.16 In its report, the Heathrow Passenger Forum stated “We believe that Heathrow has ... effectively triangulated the wants and needs of consumers”.<sup>12</sup>

### **Links from the consumer priorities to the wider H8 Business Plan**

1.17 We have also considered links from the consumer needs and priorities developed by HAL to its wider H8 Business Plan. These links are important in showing both that HAL’s future plans were informed by consumers’ priorities and that the plans are aligned with those priorities.

1.18 Some of these links are evident, for example:

- MTIs included in the OBR framework are each linked to one of the five consumer needs;
- each of HAL’s business cases includes a “strategic fit” section which identifies the needs to which it relates;
- the four elements of HAL’s consumer strategy link to one or more of the needs;
- initiatives and relevant sections of the H8 Business Plan are shown for the 18 key consumer priorities; and
- capital expenditure is presented by key consumer priorities and “beacon” / “foundation”. The latter are terms used by HAL in articulating its strategy. HAL has three foundations which it states are “non-negotiables that all stakeholders and customers expect from us” and six beacons which “focus on topics such as creating Value for Customers, Creating capacity and our role as champions for People and Planet.”<sup>13</sup>

1.19 The H8 Business Plan refers to a “golden thread”, something also discussed in Constructive Engagement. HAL outlines this as an approach<sup>14</sup> through which it

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<sup>11</sup> Para 3.7, H8 Consumer Research Review Summary Report, Steer.

<sup>12</sup> Pg 3, the Heathrow Passenger Forum Submission Following the 3<sup>rd</sup> Round of Constructive Engagement, 18 Nov 2025.

<sup>13</sup> Page 14 of HAL’s H8 Business Plan.

<sup>14</sup> Figure 18, page 48 of HAL’s H8 Business Plan.

aimed to embed a golden thread from consumer and stakeholders' views to activities across its plan.

- 1.20 Airlines were critical of HAL's lack of a golden thread, both in round 3 of Constructive Engagement and in their Airline Alternative Plan, citing the absence of a link from HAL's proposed investments to measurable outcomes for consumers. Towards the end of round 3 of Constructive Engagement, we note that HAL provided further articulation of the impact of proposed investments by each terminal and key consumer touch points in their journey through the airport (such as check-in, security and departure lounge).
- 1.21 In this context, the Heathrow Passenger Forum stated "More needs to be done to communicate the overarching Heathrow passenger proposition ...".<sup>15</sup> And that "we do feel that, compared to other regulated sectors, this work should have been taken further to produce a clear cost-benefit analysis for each set of initiatives".

### Summary of the findings from our review

- 1.22 Overall, we consider that HAL's approach to consumer engagement used for the H8 Business Plan represents continued and welcome progress from that used in the H7 price control review.

### Completeness and robustness of the evidence base

- 1.23 It is evident that HAL has developed and used a substantial body of research to inform its H8 Business Plan, building on its approach for the H7 period. Informed by our own review, and supported by Steer's findings, we concluded that no further consumer research by us or HAL was necessary for us to develop these initial proposals.
- 1.24 However, we consider there are opportunities for HAL to improve the coverage of its research in future, for example, through additional research on the views of cargo owners and on minimum acceptable service levels (see para 1.14 above).

### HAL's use of the evidence base in characterising consumer's needs and priorities

- 1.25 We also consider that HAL's articulations of consumers' needs and priorities is generally supported by its research and engagement, even if this was not always readily apparent. Although we do not see the need for any changes ahead of our final proposals, in future, a simpler and more consistent articulation of consumers' needs (see para 1.15 above) may help to make clearer to stakeholders how activities are linked to consumer needs (and potentially better embed the "consumer voice" within HAL's business plan and future activities).

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<sup>15</sup> Pg 3, the Heathrow Passenger Forum Submission Following the 3<sup>rd</sup> Round of Constructive Engagement, 18 Nov 2025.

- 1.26 As noted in para 1.15, long walking distances, wayfinding, and seating were identified in HAL's research as either high or medium impact issues. We recognise that walking distances are challenging to address within existing infrastructure. However, we would expect HAL to consider ahead of our final proposals whether and how wayfinding and seating are factored into the identified 18 key priorities and, in particular, in relation to MTIs (see Chapter 3 Service quality and resilience) and, if appropriate, its plans for capital expenditure.

### **Links from the consumer priorities to the wider Business Plan**

- 1.27 There are linkages from consumer needs and priorities to other aspects of the H8 Business Plan. However, we agree with the Heathrow Passenger Forum that more could have been done to articulate the overall passenger (and consumer) proposition, particularly in terms of aggregate outcomes. We expect HAL to continue discussing with airlines the consumer outcomes and links to the capital programme ahead of our final proposals, to inform views on the capital expenditure envelope and priorities within it.
- 1.28 More broadly, as reflected in our assessment in the Business Plan Incentive (see Appendix F), we consider there are opportunities to improve the scope and transparency of independent, third-party assurance of HAL's consumer research and engagement in future.

### **Use of consumer research in developing these initial proposals**

- 1.29 In developing these initial proposals we have taken into account:
- the broad completeness and robustness of the consumer research evidence that has been developed by HAL; and
  - HAL's work on consumer needs and priorities and the six themes identified by Steer (see figure 1.2).
- 1.30 In particular, consideration of consumer needs informed by research and engagement is a key driver of our work on quality of service, MTIs, our approach to assessing HAL's proposed capital expenditure programme and our envelope for allowed capital expenditure.
- 1.31 As part of the H8 price control review, we are considering the evolution and updating of the current MTI scheme. This scheme is intended to incentivise HAL to deliver outcomes that matter to consumers. It is important, therefore, that any changes to the scheme are informed by a clear understanding of consumers' priorities, as informed by research.
- 1.32 As set out in further detail in Chapter 3 (Service quality and resilience), in line with the themes from the consumer research, we will focus our consideration of changes to MTIs by strengthening incentives in the areas of baggage systems

and passengers with reduced mobility (“PRMs”). Also, as noted in para 1.26, there are some relatively important issues that are not obviously reflected in the priorities HAL has identified in the H8 Business Plan. In Chapter 3 (Service quality and resilience), we note our expectation that HAL should consider the seating and wayfinding issues in relation to MTIs ahead of our final proposals.

- 1.33 Our approach to establishing an efficient capital expenditure envelope for HAL in the H8 period includes a “needs assessment”. This is an assessment of the strength of each project’s “needs case” in furthering the interest of consumers.<sup>16</sup> The assessment framework was developed and informed by the consumer priorities identified through research. The assessment factors in the net benefit to consumers, including the likelihood of the benefits materialising. Overall, this approach has identified a capital expenditure envelope consistent with the needs and preferences of consumers. For instance, it will allow HAL the flexibility to increase spending on asset resilience, which will be important in minimising the risks of delays and queuing, that can be associated with asset failures. Chapter 6 (Capex assessment) provides further detail.

## Next steps and key questions for consultation

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- 1.34 Based on the findings from our review of consumer research, we expect HAL to continue engaging with airlines on consumer outcomes, including in relation to the outputs from its capital expenditure programme. We also expect HAL to respond on whether, and how, wayfinding and seating are incorporated in its priorities for the H8 period. Regarding the other opportunities for improvements that we have identified, we expect HAL to consider these as part of its programme of consumer research and engagement during the H8 period.
- 1.35 We welcome stakeholders’ views on any aspect of our approach to consumer research and engagement and, in particular, the following key consultation questions.
- Do you agree with the way we have used the findings from consumer research and engagement in developing these initial proposals?
  - Do you have views as to any further steps HAL or the CAA should take with respect to consumer research and engagement, ahead of our final proposals?

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<sup>16</sup> A needs case was not conducted on projects that had passed through the “G3” gateway nor for those pre-G3 projects that received support from airlines.

## Chapter 2

# Passenger forecasts

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## Introduction

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- 2.1 The number of passengers using Heathrow Airport is of central importance to the overall economics of the airport, and the passenger forecast we make is a key driver of our calculation of the maximum level of allowed airport charges. It is also an important driver of our forecasts of operating costs (as discussed in Chapter 4, commercial revenues (as discussed in Chapter 5) and capital expenditure (as discussed in Chapter 6). All these matters then feed into our assessment of the affordability of HAL's airport charges and the ability of HAL to finance its activities.
- 2.2 In our price control calculations the passenger forecast is used as the "denominator" for translating the revenue requirement that we consider is appropriate for HAL to be able to generate into a maximum "yield per passenger" which is used by HAL to set airport charges. The passenger forecast is also important for other elements of the price control, including the calibration of the Traffic Risk Sharing mechanism discussed further in Chapter 10 (Financial framework).
- 2.3 An appropriate passenger forecast helps to ensure that the airport charges HAL sets are no higher than necessary to recover its efficient costs and to provide an appropriate return, and is an important part of our work to further the interests of consumers.
- 2.4 This chapter sets out our view of passenger forecasts over the H8 period which we have used to develop our initial proposals and is structured as follows:
- a summary of what we said on passenger forecasts in the H8 Method Statement and Business Plan Guidance;
  - a summary of our consultant's (Steer) approach to developing passenger forecasts;
  - a summary of HAL and airline approaches to developing passenger forecasts;
  - a comparison of methods and key assumptions made by Steer, HAL and airlines in making passenger forecasts;
  - our initial proposals for our forecast of the number of passengers using Heathrow Airport during H8, together with comparisons with the forecasts made by each of HAL and airlines; and

- key issues for consultation and next steps.

## H8 Method Statement and Business Plan Guidance

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- 2.5 In our Method Statement and Business Plan Guidance document, we confirmed that we had commissioned Steer to support us in developing an independent traffic forecast for H8.
- 2.6 We also set out the expectation that HAL and airlines would work together to reach a joint view on a reasonable range of forecasts for the H8 period, recognising that this would require transparency and engagement during Constructive Engagement. Furthermore, we stated that in the event that agreement could not ultimately be reached, HAL and airlines should submit their respective positions to us for consideration.
- 2.7 In the Business Plan Guidance, we required HAL to present a traffic forecast which included three scenarios (high, low and base case) and explain how it had taken airlines' views into account in developing these forecasts. We asked that HAL provide sufficient detail to allow for its traffic scenarios to be properly scrutinised and understood.

## Business Plan Incentive

- 2.8 As part of the Business Plan Incentive (see Appendix F), we have assessed the approach taken by HAL and the data provided with HAL's H8 Business Plan and compared it to what we said in the Method Statement and Business Plan Guidance. In summary, we found that while there is not a single jointly agreed view in the H8 Business Plan, the range in the level of forecasts used between the airlines and HAL is relatively narrow.

## Steer's approach to developing H8 passenger forecasts

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- 2.9 Important context for passenger forecasting at Heathrow is that, as well as existing physical terminal capacity constraints, there is an external constraint on the annual number of Air Transport Movements ("ATMs") at the airport which arose from the T5 planning decision in 2001.<sup>17</sup> This is set at 480,000 ATMs each year. The airport has continually operated at a level approaching this cap (>473,000) since 2016, excluding the years in which the Covid-19 pandemic had a material impact. However, it first operated at a level in excess of 473,000 in 2007 and then again in 2008 and 2011.
- 2.10 Since Steer's appointment, there have been a number of bilateral discussions between the airlines, HAL and the CAA which have helped to inform the work carried out by Steer.

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<sup>17</sup> [Heathrow \(Terminal 5\) - Hansard - UK Parliament](#) (Accessed 4 Dec 2025)

- 2.11 Steer has developed its forecasts using two models: the “London Area Unconstrained Demand Growth Forecast” (using a “top-down” econometric approach) and the “LHR Passenger Throughput Model” (using a “bottom-up” approach). We consider that a bottom-up approach is most appropriate given the annual cap on ATMs at Heathrow.
- 2.12 This bottom-up approach forecasts passenger numbers using the subset of Air Transport Movements used for passenger flights (known as Passenger Air Transport Movements abbreviated as “PATMs”), average seats per PATM and the proportion of those seats that are occupied. In summary:
- Annual passenger numbers = annual PATMs x average seats per PATM x average load factor**
- 2.13 The passenger forecasts presented by Steer can be understood as the multiplication of the input parameters at three scenario levels (low, base and high) to derive the overall total at these three levels. A bottom-up forecast for 2025 was also produced based on airline schedules and a detailed regional/airline model for each of the parameters.
- 2.14 In order to estimate the input parameters, Steer’s LHR Passenger Throughput Model is based on more detailed assumptions at a regional and airline level using:
- world zone market mix – the destinations served from Heathrow were grouped into seven geographic areas; and
  - airline group mix – the airlines using Heathrow were divided into eleven main groups.
- Forecasts were then developed at the overall market level based on assumptions made at the geographic and airline group level for:
- the volume of annual PATMs;
  - evolution of seat density per PATM; and
  - evolution of % load factors per PATM.
- 2.15 For example, a forecast increase in the proportion of long-haul flights by an airline would be expected to drive up the expected number of seats per PATM due to an assumption that larger aircraft would be used for long haul flying.
- 2.16 These assumptions have been informed by a review of:
- historical trends;
  - discussions with stakeholders (HAL, AOC/LACC, individual airlines and the slot co-ordinator ACL);

- a review of material presented during Constructive Engagement; and
  - industry knowledge.
- 2.17 A range of views has been compared and combined by Steer, and judgement applied in order to determine the proposed input parameters used in modelling.
- 2.18 In preparing its forecasts, Steer assumed that any existing constraints on terminal capacity will be relieved through other aspects of the H8 Business Plan (for example, capital expenditure spending on physical infrastructure).
- 2.19 Given the 480,000 ATM cap has an upper bound and that it is accepted that the airport is operating at or near this constraint, Steer's modelling is most sensitive to the other determinants of total passenger numbers - the seats per aircraft and the load factor.
- 2.20 Within the ATM cap there will be a small number of non-Passenger ATMs, including Cargo only flights and cancelled scheduled flights that Steer has accounted for in its analysis.
- 2.21 Steer's report setting out the detailed method and assumptions behind the forecast is published alongside these initial proposals<sup>18</sup>.

## Stakeholders' views

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### HAL

- 2.22 Similar to Steer, HAL has used a top-down econometric demand model with a bottom-up supply model tailored to Heathrow's specific constraints:

*"The **demand model** uses Oxford Economics inputs on GDP, population, and fuel costs to estimate unconstrained air-travel propensity through a two-stage regression, first linking journeys per capita to income and then distributing total journeys between country pairs based on fares and structural market factors.*

*The **supply model** builds traffic from Heathrow's operational capacity, airline fleet plans, and seat configurations, accounting for the 480 k ATM cap, slot-utilisation rules, and fleet-delivery delays.*

*The two models are calibrated and tested through a **Monte Carlo** simulation that applies probability distributions to PATM, seat, and load-factor inputs to define P30, P50, and P70 outcomes."<sup>19</sup>*

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<sup>18</sup> H8 Passenger Traffic Forecasts, Steer

- 2.23 HAL has applied a shock factor of -0.84% to the annual passenger forecast to reflect the risks of shocks within period resulting from asymmetric non-economic downside risks (such as adverse weather, volcanic eruptions, terrorist events and international conflicts), that lead to acute falls in passenger numbers and which are difficult to predict, but where the occurrence in the forecasting period is likely enough that applying a factor to take account of such events is appropriate to improve the accuracy of the forecast for that period. The method behind the calculation is considered further below.
- 2.24 HAL provided an initial forecast during Round 2 of Constructive Engagement. This was subsequently updated for the H8 Business Plan with an upwards adjustment to the seats per PATM as a result of airline feedback<sup>20</sup> as set out in Table 2.1 below.
- 2.25 HAL's forecast assumes that terminal capacity constraints will be addressed through various capital expenditure projects, which it proposes will increase capacity by 10 million passengers a year (mppa) by 2031.
- 2.26 The table below shows HAL's total passenger forecast by year for the H8 period both before and after applying the shock factor. Forecasts shown are the "P50" forecasts which are the equivalent to Steer's base scenario.

**Table 2.1: HAL H8 Passenger forecast**

Passengers (millions)	2027	2028	2029	2030	2031	H8 Total
HAL (P50 unshocked)	86.0	86.9	87.7	89.0	90.0	439.7
HAL (P50 shocked)	85.3	86.1	87.0	88.3	89.3	436.0

Source: HAL – H8 Business Plan

## Airlines

- 2.27 The airlines' forecast<sup>21</sup> has been developed using over twenty years of data. Historical passenger numbers, capacity and load factor data have been reviewed and insights combined with publicly available fleet information to generate a monthly forecast for the period to 2031. By developing the forecast at a monthly

<sup>20</sup> HAL's total unshocked H8 passenger forecast was increased from 436 million in Constructive Engagement to 439.7 million in the H8 Business Plan (compared with the airlines total of 446 million). The application of a shock factor of -0.84% reduces this total to 436 million.

<sup>21</sup> The airline community provided a passenger number forecast during Round 2 of Constructive Engagement in April 2025 and has used these numbers to support the Airline Alternative Plan. Further detail on the underlying input assumptions used were shared with the CAA and Steer in September 2025.

level, the assumptions made are designed to reflect seasonal patterns, particularly for load factor and increases in off-peak utilisation.

- 2.28 Airlines' high, base and low scenarios have been estimated by adjusting the key input assumptions.
- 2.29 Given the commercial sensitivity around airlines' plans and sharing with competitors, the airlines' forecast includes assumptions based on the historical data and evolution of the key parameters, as well as a shared view among the airlines around general trends.
- 2.30 The airlines consider the inclusion of a Shock Factor to be double counting risk and that the input assumptions they have used account sufficiently for the in-period asymmetric risk. The airlines' forecast is set out in Table 2.2 below.

**Table 2.2: Airlines' H8 Passenger forecast**

Passengers (millions)	2027	2028	2029	2030	2031	H8 Total
Airlines (base)	87.0	88.1	89.2	90.3	91.4	446.0

Source: Airline Alternative Plan

## Comparison of methods and key assumptions

### Overview

- 2.31 The supply side approach to the forecasts provided by each of Steer, HAL and airlines forecasts is broadly consistent, with (unshocked) annual passengers being a function of PATMs, seat density and load factor. Each of Steer and HAL also considered a demand model based on economic factors but have identified that the airport ATM constraint indicates that a bottom-up supply model is more appropriate. The airlines have not explored a demand model.

### Keys areas of difference

- 2.32 The variations in the overall passenger number forecasts presented by HAL, the airlines and Steer result from either:
- (a) differences in the approach used and information available to estimate the supply model inputs; or
  - (b) different assumptions made on the appropriate input values.
- 2.33 Key differences in approach, and information available to estimate model inputs, are summarised below.

## 2025 passenger forecast

- 2.34 The airlines' forecast is based on growth rates applied to input factors which means that their H8 forecast is sensitive to the assumed 2025 starting point. Given the forecast was originally made in April 2025, there was a greater uncertainty around those numbers than the numbers now available. The airlines' forecast of 84.9 million passengers for 2025, which is higher than the HAL P50 forecast (84.2 million) and Steer's forecast (84.4 million). The impact of this assumption compounds over the H8 period. The number of passengers using Heathrow in 2025 is now available and was 84.5 million.
- 2.35 Steer had the opportunity to use more up to date information in its forecasts than would have been available to HAL at the time when it submitted its own forecasts as part of the H8 Business Plan. Steer's 2025 forecast has been recalibrated against reported actual traffic to the end of September 2025.

## Monthly or annual estimation

- 2.36 The airlines have considered the seat density and load factor inputs at a monthly level in order to reflect seasonal variations and recognise the potential for greater off-peak utilisation.
- 2.37 Passenger numbers have then been estimated at a monthly level before aggregating to calculate annual totals.

## Monte Carlo approach

- 2.38 HAL used a Monte Carlo approach as a way to reflect the uncertainty and interdependency of the inputs. This approach is more technically complex with a further layer of computation and the outputs are dependent on statistical assumptions made around the probability distributions used, both individual and joint. For example, it is apparent from the P30, P50 and P70 values provided for the input parameters that the PATMs distribution is not symmetrical, with a greater downside range than upside, but it is not clear how this has been calibrated.

## Latest information available

- 2.39 As noted above the timing of the presentation of the H8 Business Plan in July 2025 has meant that Steer has been able to use more up-to-date information in developing its forecast, including outturn airport traffic data up to September 2025. Since the publication of the H8 Business Plan further significant information has been made public by the airlines on their future fleet plans (for example, VAA's planned reconfiguration of its wide body aircraft)<sup>22</sup>.

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<sup>22</sup> [From terminal to touchdown VAA - A premium experience](#) (Accessed 4 Dec 2025)

## Assumptions on input values

- 2.40 Differences in the assumptions made by HAL, airlines and Steer on the appropriate input values are summarised below. Note that these values do include the impact of a shock factor, which as explained further below is to the overall passenger totals rather than the inputs themselves.
- 2.41 The table below shows the assumptions made for the number of annual PATMs for a base level passenger total scenario by year throughout H8. Overall, HAL, airlines and Steer all assume similar numbers of PATMs, with little or no increase over the period.

**Table 2.3 Comparison of Passenger ATMs assumptions**

PATMs (thousands)	2027	2028	2029	2030	2031	H8 Average
HAL (P50)	473.8	474.5	473.8	473.9	473.9	474.0
Airlines (base)	474.0	474.0	474.0	474.0	474.0	474.0
Steer (base)	474.2	474.5	474.6	474.8	475.0	474.6

Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

- 2.42 The table below shows the assumptions made for the number of seats per PATM for a base level passenger total scenario by year throughout H8.

**Table 2.4 Comparison of Seat density assumptions**

Seats per PATM	2027	2028	2029	2030	2031	H8 Average
HAL (P50)	225.2	226.6	228.9	231.9	234.1	229.3
Airlines (base)	223.8	224.8	225.8	226.7	227.8	225.8
Steer (base)	226.0	228.0	229.0	231.0	233.0	229.4

Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

- 2.43 Seats per PATM are underpinned by assumptions on:
- (a) relative proportions of short-haul and long-haul flying wide body larger aircraft (with greater seat numbers); and
  - (b) relative proportions of premium to economy passengers (where reconfiguration to allow for more premium passengers results in a lower overall number of seats)
- 2.44 The base forecasts made by Steer and HAL each have similar trajectories for the average seats per PATM, ranging from:

- HAL’s P50 forecast of 225.2 in 2027 to 234.1 in 2031; and
- Steer’s forecast of 226 in 2027 to 233 in 2031.

2.45 Each forecast is based on fleet analysis and public information. Steer has been able to incorporate latest published information on VAA’s widebody reconfiguration program, which reduces the seats on those aircraft to prioritise premium passengers.

2.46 The airline’s base forecast is for lower average seats per PATM, going from 223.8 in 2027 to 227.8 in 2031. However, their passenger forecasts combines these assumptions with higher load factor assumptions, giving higher traffic forecasts overall.

2.47 The table below shows the assumptions made for the load factor for a base level passenger total scenario by year throughout H8.

**Table 2.5 Comparison of Load factor assumptions**

Load factor (%)	2027	2028	2029	2030	2031	H8 Average
HAL (P50)	80.6%	80.8%	80.9%	81.1%	81.2%	80.9%
Airlines (base)	82.0%	82.7%	83.3%	84.0%	84.7%	83.3%
Steer (base)	80.8%	81.0%	81.2%	81.4%	81.5%	81.2%

Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

2.48 Steer has considered this by global region and has assumed consistency with historical growth rates. Steer extrapolated these to forecast an increase in the load factor from a 2024 outturn of 80.7% to a forecast 81.5% in 2031.

2.49 HAL has assumed only marginal increases in load factor with P50 forecast value in 2031 reaching 81.2%. Throughout the period the P30 and P70 values are approximately + / - 1 percentage point different from the P50 base value.

2.50 The airlines have assumed load factors ranging from 82.0% in 2027 going up to 84.7% in 2031. These are higher than either Steer or HAL and reflect the airlines’ view that there is greater potential for increase given the current seasonal variation in load factors.

**Areas of alignment**

2.51 During Round 2 of Constructive Engagement, HAL and the airlines shared initial forecasts which were relatively close and there was alignment in a number of areas. HAL’s P50 H8 total passenger forecast was 436 million passengers, compared with the airlines’ total of 446 million. For its H8 Business Plan, HAL adjusted its forecast traffic upwards slightly, but this is offset by the application of

a shock factor, so its forecast of the total number of passengers using the airport during H8 passengers remains at 436 million.

2.52 From Constructive Engagement, it was apparent that there are a number of areas of alignment between HAL and the airlines in expectations around market trends. These are that:

- i. there will be a declining share of connecting passengers and increase in point to point passengers;
- ii. growth will be focused on leisure traffic; and
- iii. there will be growth in the number of premium passengers.

2.53 Areas where HAL and the airlines' views diverged were:

- i. supply factors – how delayed aircraft deliveries might have an impact on traffic forecasts;
- ii. the extent of the potential for larger aircraft to be used at the airport;
- iii. whether a reduction in business traffic is a temporary or a permanent shift; and
- iv. the application of a shock factor to the forecasts.

## Our Initial Proposals

2.54 Given that Steer's forecast used up to date and independent data sources and analysis alongside stakeholder assumptions and knowledge, we consider it to be well-informed and robust, and that it provides an appropriate evidence base to inform our initial proposals.

2.55 We also note that the range of values between the base forecasts produced by HAL and the airlines is relatively narrow: the total differential over the H8 period is approximately 10 million passengers or 2.2%. Steer's forecast totals are slightly higher than HAL's P50 values, but lower than HAL's P70 high case and the airlines' forecast.

2.56 Taking these matters into account, our base passenger forecast used for these initial proposals including the key assumptions used are set out in Table 2.6 below.

**Table 2.6 Unshocked base forecast including key assumptions**

	2024 (actual)	2025	2026	H8 2027	H8 2028	H8 2029	H8 2030	H8 2031
Annual PATMs (thousands)	471.3	473.7	474.0	474.2	474.5	474.6	474.8	475.0

	2024 (actual)	2025	2026	H8 2027	H8 2028	H8 2029	H8 2030	H8 2031
Average seats / PATM	221	222	224	226	228	229	231	233
Load Factor	80.7%	80.3%	80.5%	80.8%	81.0%	81.2%	81.4%	81.5%
Passengers (millions)	83.9	84.4	85.5	86.6	87.5	88.4	89.4	90.2

Source: Steer report

2.57 Table 2.7 below also shows the corresponding low and high case scenarios that have been developed by Steer to inform these initial proposals.

**Table 2.7 Unshocked Steer forecasts by scenario**

Passengers (millions)	2024 (actual)	2025	2026	2027	2028	2029	2030	2031	H8 Total
Low	83.9	84.4	84.9	85.4	85.9	86.4	86.9	87.4	432.1
Base	83.9	84.4	85.5	86.6	87.5	88.4	89.4	90.2	442.0
High	83.9	84.4	85.7	86.9	88.1	89.4	90.6	91.9	446.9

Source: Steer report

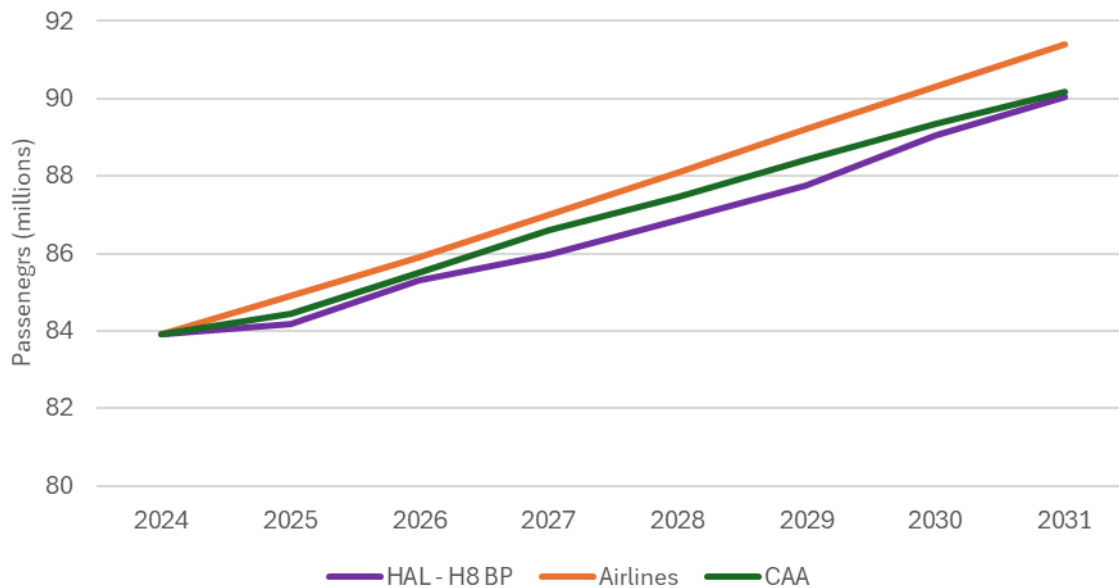
2.58 Table 2.8 and Figure 2.1 below compare our base case to those proposed by HAL and the airlines.

**Table 2.8: Comparison of unshocked forecasts to H8 Business Plan and Airlines**

Passengers (millions)	2027	2028	2029	2030	2031	H8 Total
CAA (base)	86.6	87.5	88.4	89.4	90.2	442.0
HAL (P50)	86.0	86.9	87.7	89.0	90.0	439.7
Airlines (base)	87.0	88.1	89.2	90.3	91.4	446.0

Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

2.59 The graph below shows the comparison by year of the unshocked base total passenger forecasts for H8, also including years prior to H8 from 2024.

**Figure 2.1: Comparison of unshocked forecasts to H8 Business Plan and Airlines**

Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

## The shock factor

- 2.60 We consider that the shock factor is an appropriate tool for producing a risk-weighted forecast for the purpose of a price control. This is because the shock factor takes account of asymmetric non-economic downside risks (such as adverse weather, volcanic eruptions, terrorist events and international conflicts), that lead to acute falls in passenger numbers and which are difficult to predict, but where the occurrence in any four or five year forecasting period is likely enough that applying a factor to take account of such events is appropriate to improve the accuracy of the forecast for that period.
- 2.61 We included a shock factor adjustment for the passenger forecasts included in the Q6 and H7 price control reviews and the use of the shock factor was supported by the CMA in its decisions on the H7 price control appeals.<sup>23</sup>
- 2.62 In the H8 Business Plan, HAL has applied the method it used in H7, but has extended the data period to include 2024. On this basis, the updated shock factor it has calculated is -0.84%.
- 2.63 As part of the traffic forecasting work, the CAA requested that Steer audit HAL's calculation of the shock factor for H8. The scope of this work was to:

<sup>23</sup> [CMA's FD in the H7 Heathrow Airport Licence Modification Appeals](#)

- a) verify the calculation sheet provided for H8 replicates the methodology used previously to derive the H7 -0.87% shock factor;
- b) verify the workings for the extension to H8 and calculation of -0.84%; and
- c) clarify the assumptions used for the Covid period and for the start of the data.

2.64 Steer has reviewed the calculation of the revised shock factor that HAL has applied for H8 and has confirmed that the calculation has been undertaken in line with the method used for H7 and that the calculations are consistent with the method and correct. A summary of the method for calculating the shock factor is included in Steer's report.

2.65 There is a period of time that has been excluded from these calculations as a result of the impact of the Covid-19 pandemic, which is the full calendar years 2020 to 2023. The data set used has been extended from the data set used for the H7 price control and starts in 1991.

### Applying the shock factor

2.66 Applying the shock factor of -0.84% to the unshocked forecasts provided by Steer gives an H8 base forecast of 438.3m passengers as set out in Table 2.9 below.

**Table 2.9: CAA Low, Base and High Scenarios including H8 shock factor adjustment**

Passengers (millions)	2024A	2025	2026	2027	2028	2029	2030	2031	H8 Total
Low	83.9	84.4	84.9	84.7	85.2	85.7	86.2	86.7	428.5
Base	83.9	84.4	85.5	85.9	86.7	87.7	88.6	89.4	438.3
High	83.9	84.4	85.7	86.2	87.4	88.6	89.9	91.1	443.1

Source: Steer report

2.67 Comparing the forecasts after applying the shock factor to the Steer and HAL figures demonstrates a narrow range. If a shock factor of -0.84% were applied to the airlines' forecast, this would reduce the 446.0m total to 442.3m, which is around 1% higher than Steer's forecast total for the H8 period. This is summarised in Table 2.10 and Figure 2.2 below.

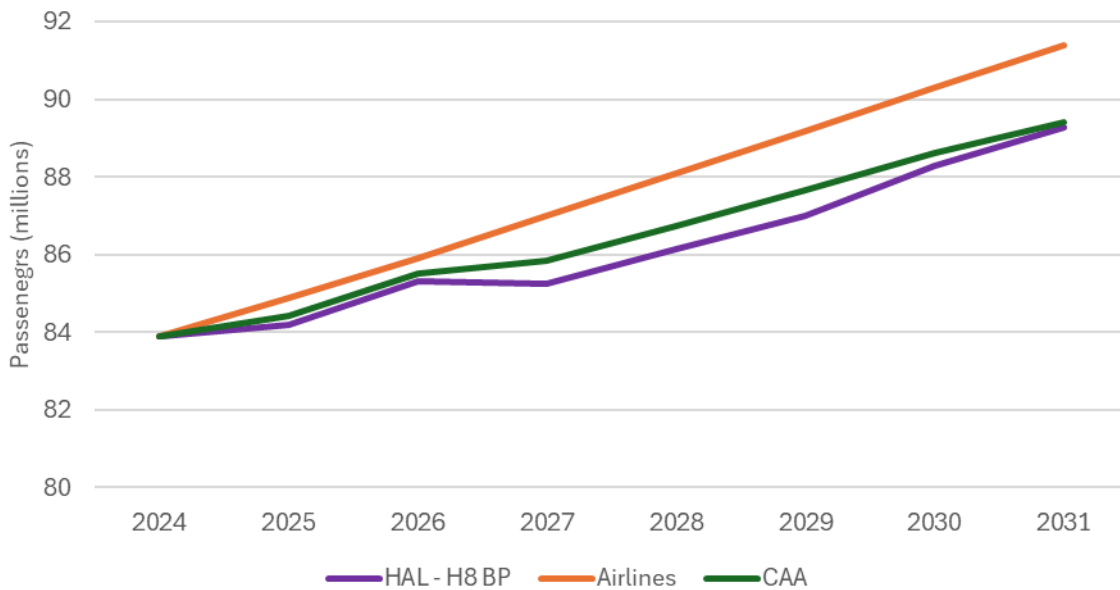
**Table 2.10: Comparison of CAA shocked, HAL shocked and airlines unshocked forecasts**

Passengers (millions)	2027	2028	2029	2030	2031	H8 Total
CAA – with shock factor	85.9	86.7	87.7	88.6	89.4	438.3
HAL - H8 Business Plan – with shock factor	85.3	86.1	87.0	88.3	89.3	436.0
Airlines base – no shock factor	87.0	88.1	89.2	90.3	91.4	446.0

Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

2.68 The graph below shows the comparison by year of the base total passenger forecasts for H8, also included years prior to H8 from 2024. The shock factor has been applied to both the HAL and CAA forecasts for H8, but not the airlines’ who disagree with its application.

**Figure 2.2: Comparison of CAA shocked, HAL shocked and airlines unshocked forecasts**



Source: HAL – H8 Business Plan, Airline Alternative Plan, Steer report

## Key issues for consultation and next steps

2.69 Views are invited from stakeholders on any aspect of the issues raised in this chapter and in particular the appropriateness of the passenger forecasts that we have used as the basis for these initial proposals.

2.70 The passenger forecast for the H8 period that we propose to use will be subject to ongoing review and development prior to the publication of our final proposals in November 2026 and final decision in April 2027, including:

- consideration of the consultation responses to these initial proposals;
- ongoing publication of outturn traffic numbers at Heathrow will enable us to develop a clearer picture of the evolution of the level of passenger traffic prior to the commencement of the H8 price control;
- continued stakeholder engagement will allow for further information to be incorporated as appropriate, (for example on aircraft configuration) and we would encourage the provision of such information within consultee responses; and prior to making our final decision, we intend to update the calculation of the shock factor to include data from year 2025.

## Chapter 3

# Service quality and resilience

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## Introduction

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- 3.1 This chapter sets out our initial proposals on service quality and resilience, both of which are important to our work to further the interests of consumers.
- 3.2 The H7 price control introduced an Outcome Based Regulation (“OBR”) framework with a Measures, Targets and Incentives (“MTI”) scheme. This focuses the regulation of quality of service on the overall outcomes that consumers experience in relation to service quality at the airport, while also continuing to provide incentives on HAL to meet the needs of its airline customers, which also supports the overall quality of service to consumers.
- 3.3 It is also important to consumers that the airport is resilient, runs smoothly and is able to recover quickly when something goes wrong. Therefore, it is important that HAL has appropriate incentives to continue to maintain, and where necessary improve, resilience during the H8 period. The importance of ensuring a resilient operation, and maintaining continuity of service, was evident following the closure of the airport for part of a day caused by the fire at North Hyde electricity substation in March 2025. In this chapter, we explain how we have considered resilience as it relates to updates we are proposing to the MTI scheme. We explain the weight we have given to these matters in establishing the capex envelope for H8 in Chapter 6 (Capex assessment)
- 3.4 In this chapter, we set out:
- background information on:
    - resilience at Heathrow Airport;
    - the Outcome Based Regulation framework; and
    - our method statement and business planning guidance in relation to these matters;
  - a summary of stakeholder views including
    - HAL’s H8 Business Plan proposals
    - other stakeholder views including the Airline Alternative Plan; and
  - our views and initial proposals on service quality and resilience issues, including key issues for consultation.

## Background

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### Resilience

- 3.5 Resilience at Heathrow Airport is a key priority for consumers, airlines and the wider airport system and it is supported by the MTI scheme through measures that incentivise robust operations, help reduce the likelihood of incidents and support recovery when disruption occurs. It is influenced by a range of factors, including airport infrastructure, asset management, operational planning and the ability of the airport community to manage and respond to disruption. While some sources of disruption are outside HAL's direct control, effective contingency planning and strong operational processes can mitigate the impact of disruptive events on passengers.
- 3.6 The electricity substation fire at North Hyde, which led HAL to close the airport for part of a day in March 2025, highlighted the importance of resilient service delivery. HAL commissioned Dame Ruth Kelly to conduct a review which concluded that HAL's command and control structure worked well overall, but made recommendations to improve effectiveness in responding to future disruptive events, including those relating to the power supply.

### The Outcome Based Regulation framework

- 3.7 For the H7 price control we introduced an outcome-based regulation framework which expanded on the previous approach to service quality regulation that focused almost exclusively on the airport operation services that were directly in HAL's control. The OBR framework allowed for a broader approach and comprised service quality indicators underpinned by evidence of what consumers value.
- 3.8 The OBR framework comprises:
- outcomes: overarching objectives that identify the most important aspects of airport operation services that consumers value;
  - measures: specific performance measures that indicate progress towards one or more outcomes;
  - targets for each measure, based on evidence and taking account of consumer preferences and the scope for performance improvements;
  - incentives to meet these targets, which may be either financial or reputational; and
  - a "continuous improvement" approach that allows the OBR framework to be updated during the H7 period.
- 3.9 For H7 we adopted six outcomes which we considered covered the main aspects of airport operation services that are important to consumers. These are:

- an airport I want to travel from that offers me a good value choice of flights;
- I am confident I can get to and from the airport;
- I have a predictable and reliable journey;
- I feel comfortable and secure at the airport;
- I have an enjoyable experience at the airport; and
- I feel cared for and supported.

3.10 Within the OBR framework we specified the Measures, Targets and Incentives (“the MTI scheme” that was formed of 36 measures, including:

- 20 measures with financial incentives. These were mainly carried over from the previous service quality scheme and focused on indicators of airport operation services within HAL’s direct control that have a direct or indirect bearing on the passenger experience, such as security queue times, wayfinding, availability of terminal equipment, runway performance and passenger satisfaction survey measures.
- 16 measures with reputational incentives. These were mainly new and focused on indicators of airport services that were not wholly within HAL’s control and where it could play an influencing and coordination role with other stakeholders to deliver outcomes that consumers value, such as departures flight punctuality, baggage system delivery times, immigration queue times, and some passenger satisfaction survey measures

3.11 For the measures with financial incentives a set of rebates was specified for each stating the proportion of revenues that HAL should repay to airlines if it missed the relevant target. For four of these measures directly affecting the passenger experience (cleanliness, wayfinding and security queue times for passenger central and transfer search) we also put in place a range of higher performance outcomes that would entitle HAL to receive a bonus.

3.12 During the H7 period a mid-term review of the OBR framework was held to address issues that were not able to be resolved in time for the start of the H7 period. We made the following updates to the OBR framework:

- the introduction of a carbon emissions measure with a reputational incentive based on HAL’s existing annual carbon reporting definition total greenhouse gas emissions which consumers viewed as a priority;
- an increase to the target for the Wi-fi satisfaction measure which has a financial incentive and is based on a QSM passenger survey;

- the setting of targets for the Airport Departures Management and Airport Arrivals Management measures, and for the “An Airport that Meets My Needs” QSM passenger survey measures. When the H7 decision was made we were unable to set targets for these three measures with reputational incentives due to the lack of performance data available at the time.

## H8 Method Statement and Business Planning Guidance

- 3.13 In the H8 Method Statement, we said that incentivising HAL to deliver a high standard of service quality and resilience is one of our priorities for the H8 price control. We said that we would retain the OBR framework introduced in the H7 Final Decision, with the priorities for the H8 price review reflected in the MTI scheme and included in the Licence. We said that we would consider whether new outcomes or new measures should be introduced and whether to change the balance of incentives across the various measures. We also said that it would be important to provide strong incentives in relation to key consumer priorities and maintaining resilience during the H8 period, and these considerations may require new or enhanced financial incentives.
- 3.14 Our H8 Business Planning Guidance confirmed that the existing OBR framework would continue to operate, but the MTIs should evolve so that they better incentivise the delivery of outcomes and reflect the elements of operational performance that are important to consumers, including those passengers requiring assistance.
- 3.15 We said that resilience would be an important priority in the H8 period and beyond. We noted that with passenger numbers back above 80 million per year, and HAL developing plans to expand capacity within the existing two runway airport, it would be essential to both maintain and improve operational and asset resilience and surface access to and from the airport. In addition, HAL should consider what actions are needed to ensure that the airport is resilient to climate change.

## Stakeholder's views

- 3.16 Throughout the Constructive Engagement process stakeholders considered service quality and resilience issues during the main Constructive Engagement meetings and through a series of MTI “deep-dives” and working group sessions between HAL and the airline community. HAL has also consulted with the Heathrow Passenger Forum to provide feedback and challenge on the H8 Business Plan. In addition, the airlines have submitted their Airline Alternative Plan (in response to HAL’s Business Plan).

## HAL's business plan proposals

- 3.17 HAL’s consumer engagement identified 18 priorities which included bags travelling with passengers, connections experience, a fully accessible airport,

travelling on time, less crowding, reduced anxiety about security and queues, and basic comforts such as seating and cleanliness.

- 3.18 It also used this research to propose changes to measures and targets within the MTI scheme to address quality of service and resilience issues and to help inform the proposed allocation of rebate and bonus incentives. Its proposals for allocating incentives were informed by a combination of consumer research, airline and other stakeholder engagement and airport benchmarking.
- 3.19 To incentivise joint performance and a collective approach to service delivery and resilience HAL proposed the introduction of eligibility criteria (based on airline and ground handler performance) that airlines would need to achieve before they could receive rebates in relation to:
- timely delivery of baggage:
  - arrivals baggage reclaim:
  - passenger security queues for central search and transfer search; and
  - passenger assistance service measures.
- 3.20 HAL noted that investments and improvements in the operational resilience of the airport will also allow it to deliver improvements in service resilience and capacity in the short to medium-term for areas such as baggage and punctuality.

### Resilience

- 3.21 HAL highlighted how its MTI proposals will support resilience more broadly noting the focus on departures punctuality, baggage performance incentives and passenger security queue time proposals. It also noted that its proposals will maintain:
- the Runway Operational Resilience measure and the financial incentive on runway availability;
  - asset availability targets for aircraft stand infrastructure (stands, jetties, entry guidance systems, fixed electrical ground power) at 99 per cent (98 per cent for pre-conditioned air); and
  - availability targets for lifts, escalators and travelators at 99 per cent to enable passenger movement throughout the terminals.
- 3.22 HAL said that these measures are fit for purpose and support resilient operations.

### The wider OBR framework and the MTI scheme

- 3.23 As explained in Chapter 1 (Consumer engagement) it proposed to retain the six broad categories of consumer outcomes set for the H7 period.<sup>24</sup> In relation to measures it proposed the following updates:
- security central search and transfer search for passengers should be measured on a daily rather than monthly basis;
  - Terminal 5 track transit system measure should be based on adherence to a planned timetable agreed with Terminal 5 airlines rather than on train availability alone;
  - timely delivery of baggage metric should specify delivery within 20 minutes of departure (rather than 30 minutes of departure) to align with airline minimum connecting times; and
  - removing the measures for hygiene testing, percentage of UK population within 3 hours public transport of Heathrow and the “An Airport that Meets My Needs” measure.
- 3.24 HAL also proposed the following updates to targets:
- changing passenger Security targets for Central and Transfer Search from percentage of queue times met to number of 15-minute period queue times not met, and aligning the central and transfer search targets for bonus payments;
  - increases to the targets for the helpfulness/attitude of security staff, overall satisfaction, customer effort, and helpfulness/attitude of airport staff measures ;
  - decreases to the targets for enjoy my time at the airport, ease of access to the airport, airport departures management (outbound taxi-time) and airport arrivals management (inbound taxi-time) measures;
  - focusing on punctuality and regularity to drive operational improvements and improve departure punctuality from 66 per cent to over 80 per cent albeit with a slight reduction in the departure punctuality target;
  - setting a target for baggage misconnect rate of more than 99 per cent of passengers’ bags flying as planned, achieving a reduction in passenger injuries and for the carbon emissions measure proposing to align targets with

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<sup>24</sup> The six consumer outcomes for H7 covered the main aspects of airport operation services that are important to consumers and are: An airport I want to travel from that offers me a good value choice of flights; I am confident I can get to and from the airport; I have a predictable and reliable journey; I feel comfortable and secure at the airport; I have an enjoyable experience at the airport; and I feel cared for and supported.

HAL's Net Zero Strategy (15% reduction from 2019 in the air, and 45% reduction on the ground) by 2030.

- 3.25 It also suggested maintaining a maximum rebate incentive of 7 per cent of airport charges revenues and to expand the maximum bonus incentive to 2.85 per cent of airport charges revenues for the H8 period with additional bonus measures focused on the key consumer priorities of overall satisfaction, departures punctuality and baggage misconnect rate.
- 3.26 HAL proposed the following updates to incentives:
- retain “knife-edge” rebate incentives for all measures, but introduce “sliding-scale” incentives for passenger security measures of central search and transfer search;
  - remove the rebate incentive from the passenger security central search 5-minute queue measures, slightly decrease the rebate incentive for the passenger security central search 10-minute queue measure and increase the rebate incentive for helpfulness/attitude of security staff;
  - introduce new financial incentives for timely baggage delivery and passenger assistance service satisfaction (for passengers with reduced mobility – “PRM”) measures that previously had reputational incentives only;
  - decrease the rebate incentives for cleanliness, wayfinding, wi-fi performance, staff search, lifts/escalators/travelators and check-in infrastructure availability;
  - introduce new bonus incentives for certain measures that previously had reputational incentives due to there being accountability across a number of stakeholders and over which HAL has partial influence only. These form part of HAL's “sharing in success approach” with airlines and include bonuses for:
    - overall satisfaction;
    - departures punctuality; and
    - baggage misconnect rate;
  - introduce new bonuses proposed by airlines as part of constructive engagement for:
    - control posts; and
    - staff search;
  - increase the bonus incentives for passenger security central search 5-minute queue and transfer search; and
  - remove the bonus incentive for wayfinding and decrease the bonus incentive for cleanliness.

## Airline and other stakeholder views

3.27 Airlines and the Heathrow Passenger Forum took part in Constructive Engagement and following the publication of HAL's H8 Business Plan they shared their views on HAL's MTI proposals. Airlines submitted their own Airline Alternative Plan. Separately the Heathrow Passenger Forum shared their Constructive Engagement round 3 report.

### Resilience

3.28 In the Airline Alternative Plan, the airline community identified the need for significant and balanced improvements to resilience to ease operational challenges and strengthen operability. They noted that a stable operational platform for the H8 period would be key to accommodating growth and delivering on customer expectations for predictable and reliable journeys.

3.29 Airlines said that avoiding cancellations, missed bags and providing a reliable, punctual operation has customer, cost and capacity benefits. They said that the airport should be able to:

- cope with off-schedule events, to maintain the plan, and perform effectively without failure, in the face of changing conditions or variables that may require additional capacity and headroom to be available;
- adapt to changing circumstances through the operational day: the flexibility to respond to disruption events and to change to an alternative mode of operation if needed; and
- recover quickly from a disruption event and complete the operational day, with runway, baggage system and stand capacity used in a way to minimise on-the-day cancellations and bags not travelling with passengers.

3.30 The Heathrow Passenger Forum also focused on the importance of risk management and the need for credible resilience. It supported initiatives which would deliver a more reliable and even safer airport, while noting that work must be done in a way which minimises passenger disruption. The Heathrow Passenger Forum noted that with increased passenger numbers, the recovery period following disruption can be very disruptive for passengers and said that the recovery from an incident should include a radically increased level of communication with the whole travel ecosystem, including travel agents and consolidators as well as airlines.

### The wider OBR framework and the MTI scheme

3.31 Airlines said that the MTI governance framework should be focused on HAL as the regulated entity, and on its performance. On that basis airlines rejected HAL's proposed rebate eligibility criteria as they would encroach upon competitive services offered by airlines and ground handlers. They also noted

that airlines already had significant financial incentives and gave the example of baggage where airlines incur significant financial compensation costs where bags do not fly with their passengers. Airlines also stated that services covered by the MTI scheme should be part of aeronautical revenues to incentivise cost management and performance.

- 3.32 They said that MTI targets should be realistic but challenging and that they should be based on an assumption of continuous improvement and reflect investment benefits. They also stressed that setting challenging and improving targets should not in itself be a reason for HAL to justify additional costs.
- 3.33 Airlines disagreed with the principle of bonuses and said that, if used, bonuses should only reward genuine outperformance. They did not support an increase in the size of the maximum bonus incentive for the H8 period. They said that where bonus incentives are applied, they should mirror a relevant rebate incentive and that the bonus incentive percentage should be no more than half of the rebate incentive percentage.
- 3.34 During Constructive Engagement, airlines proposed that measures for control posts and staff search should have bonus incentives applied to them. Following the publication of HAL's H8 Business Plan, airlines have also said the check-in infrastructure availability measure should have a bonus incentive as well. Overall, airlines have suggested that the existing 1.44 per cent maximum bonus incentive be retained and split over six measures as opposed to four in the H7 period. Airlines did not support HAL's proposal to apply a bonus incentive to three existing measures with reputational incentives as these are dependent on the performance of other stakeholders.
- 3.35 Airlines made the following points on HAL's proposals for measures and their associated metrics.
- Security queue measurement for passenger central search and transfer search should not be changed to daily but remain on monthly measurement, as at present. Despite calling for a move to daily measurement, they cited the lack of reliable historical performance data meaning new performance targets could not be set with confidence. Airlines preferred to retain the measures from the H7 period in the run-up to the introduction of automated per-passenger measurement systems during the H8 period which would also improve resilience.
  - Daily backstop measures for the central search and transfer search measures should be introduced for queues longer than 25-minutes but they did not propose incentive arrangements for these.

- They agreed with HAL's proposed change to the timely delivery of baggage metric so that it would be measured 20-minutes pre-departure instead of 30-minutes to align with airline minimum connecting times conditional on a tighter target being set.
- A monthly backstop measure should be introduced alongside the timely delivery of baggage measure where a fixed rebate per missed bag would be payable to airlines capped within the proposed total incentive for this departing baggage measure.
- They agreed in principle to the T5 Track Transit System measures moving to a service day metric reflecting forecast passenger demand, subject to agreement on the number of cars that make-up the capacity of each train. Airlines also supported a backstop measure similar to the existing two-train measure but said agreement had not been reached on either of these matters.
- The scope of the availability of check-in infrastructure measure should be extended to include baggage input belts leading from self-service bag drops and check-in desks as well as the availability of self-service kiosks and self-service bag drop units which would improve resilience.
- The definition of the Pre-Conditioned Air availability measure should be updated to include a serviceability definition to require provision of pre-conditioned air at specified volumes, pressure and temperature.
- They proposed to remove measures for hygiene testing, percentage of UK population within three hours of public transport to Heathrow and the An Airport that Meets My Needs measure.

3.36 Airlines made the following points related to HAL's proposals for targets.

- They did not indicate support for HAL's proposed security queue target changes and said the existing security targets for central search, transfer search and staff search should all be retained.
- For the timely delivery of baggage measure, they proposed a higher target of 99 per cent of bags delivered pre-departure compared to the existing 98 per cent target to avoid a higher likelihood of missed bags. They considered that this would align better with a target missed connection rate of 10 bags in every 1000. However, they noted that if their backstop proposal was accepted they would agree to HAL's 98 per cent target.
- The availability of check-in infrastructure target should be increased from 98 per cent to 99 per cent (as previously argued for in the OBR Mid-Term Review).

- The pre-conditioned air availability target should be increased from 98 per cent to 99 per cent and also apply to serviceability as new equipment is installed across the airport (as previously argued for in the OBR Mid-Term Review).
- They also proposed that the Terminal 5 track transit system service day measure target should be 98 per cent as proposed by HAL but airlines would also want a 99 per cent back-stop target in place for 2-train availability subject to overall agreement on these measures and train capacity.

3.37 Airlines were aligned with HAL's target proposals for other existing measures with financial incentives and did not provide a detailed view of targets for measures with reputational incentives.

3.38 In relation to HAL's proposals for incentives, airlines:

- did not agree with moving security queues to daily measurement, they did not indicate support for HAL's proposed incentive changes. For central search and transfer search measures they opted to retain the current financial rebate incentives and reduce the current financial bonus incentives;
- agreed with HAL's proposal for the timely delivery of baggage measure to move to having a financial rebate incentive for performance in view of baggage system outages which they identified as a key issue;
- did not support HAL's proposal for the PRM assistance service satisfaction measure to move to a financial rebate incentive as they see performance levels should be adequately incentivised and managed as part of the passenger assistance service contract already covered under the Other Regulated Charges ("ORC") framework;
- proposed that the financial rebate incentives for cleanliness and wayfinding measures should be reduced by half and for the cleanliness financial bonus incentive to be reduced by over two-thirds and the wayfinding bonus incentive to be removed entirely;
- did not support HAL's proposed changes to decrease the financial rebate incentives for staff search, wi-fi performance, lifts/escalators/travelators availability, and check-in infrastructure availability or to increase the rebate incentive for helpfulness/attitude of security staff: instead, they preferred to retain the current financial rebate incentives;
- they agreed with HAL's bonus incentive for staff search and proposed a higher bonus incentive for control posts as these are both seen as critical in facilitating airline and airport performance for consumers;
- proposed a financial bonus incentive should be applied to availability of check-in infrastructure; and

- proposed that financial bonus incentive payments should not apply where an alleviation or exclusion is in place for a measure or if a disruption event with a material impact on performance occurs. Airlines noted that during H7, HAL had earned multiple bonus payments for security queue performance at times where significant exclusions were in place for the installation of new equipment as part of the Next Generation Security programme.

3.39 The Heathrow Passenger Forum made the following points on service quality issues:

- HAL should use metrics, beyond the current MTI reporting, to clearly highlight the starting point, progress and destination of the passenger proposition in the H8 period;
- HAL should focus on improving passenger flow, reducing congestion, improving wayfinding, and improving the passenger connections experience, citing baggage as a critical passenger issue; and
- it supported HAL's proposals to also focus on elements of the airline community's performance alongside its own.

3.40 It also said that the proposed MTIs should deliver the correct mix of risk and reward, indicating support for an increased maximum bonus incentive, but noted there was ongoing engagement between HAL and airlines on these matters.

## Our views and initial proposals

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3.41 This section sets out our views and initial proposals on service quality and resilience. In formulating our approach to these matters we have also considered our duty under the Equality Act 2010. Where we are addressing over-arching airport performance (for example, security queue times and consumer satisfaction measures) our proposals should benefit different consumer groups in similar ways and so should not have any adverse impact on equality of opportunity. Where particular measures may require specific consideration under the Equality Act 2010 we have highlighted this.

### Approach

3.42 As part of our work assessing HAL's H8 Business Plan and developing our proposed approach for resilience issues and the OBR framework and the MTI scheme for the H8 period, we have attended all relevant Constructive Engagement sessions between HAL, airlines and the Heathrow Passenger Forum. Our assessment is that HAL and airline engagement in this area was effective and detailed, and was able to build on the comprehensive review to introduce the OBR framework in the H7 period and the OBR H7 Mid-Term Review which concluded in November 2025.

- 3.43 Following the publication of our Method Statement and HAL's Business Plan, relevant additional information has become available, which we have considered in developing our views:
- airlines have submitted their Airline Alternative Plan;
  - the third round of Constructive Engagement has concluded;
  - HAL and airlines provided further updates and comments on their proposals;
  - we have carried out a detailed analysis of historical performance by each MTI; and
  - Steer, has delivered its report on HAL's consumer research and engagement and provided a view as to how well consumer priorities have been reflected in HAL's business plan.
- 3.44 We remain of the view that the continuation of the OBR framework, and the MTI scheme, introduced for the H7 period and the use of financial and reputational incentives within it, provides appropriate incentives for HAL, and for wider airport performance and resilience. However, we support the evolution of the OBR framework, although we note that it has been in place for less than three years.
- 3.45 Our initial assessment of HAL's approach and proposals against the requirements of the Business Plan Guidance is set out in Appendix F. In summary, HAL has broadly met the Business Plan Guidance in this area, drawing on its consumer engagement and research to make proposals in relation to quality of service and outlining an approach to resilience that covered service levels, capital investment and asset replacement.

### **Links to Consumer Research**

- 3.46 As part of Steer's review of the completeness and robustness of consumer research and engagement, it noted some key emerging themes. From a service quality perspective Steer highlighted the importance of:
- baggage delivery and reclaim;
  - congestion and queueing;
  - passengers requiring support (PRS) / passengers with reduced mobility (PRM) accessibility; and
  - delays and disruption.
- 3.47 Steer also noted the 18 consumer priorities that HAL referenced across its business plan and within its proposals for the OBR framework and the MTI scheme. Ensuring bags travel with passengers and improving baggage waiting times were identified as a key priority for consumers. Steer also found there was

evidence supporting a focus on punctuality, security, accessibility and reducing over-crowding and queuing.

- 3.48 Our assessment is that the proposals brought forward by HAL focus on some of these consumer priorities including financial incentives for baggage and PRM measures and maintaining equipment availability targets. Addressing these consumer priorities and maintaining performance for increased passenger demand over the H8 period will be important.
- 3.49 However, we note that some of the consumer priorities identified were not clear in HAL's H8 Business Plan proposals including in relation to walking distances, wayfinding, seating availability and baggage waiting times. We note that HAL has de-prioritised way-finding by suggesting a reduced rebate incentive and removing the bonus incentive. Walking distances are challenging to address as these are a product of the infrastructure and in the absence of new terminal development cannot necessarily be mitigated in a cost-effective way. Seating availability does appear to be an issue which has not been addressed in the H8 Business Plan, but we note that HAL's airline eligibility rebate criteria do cover baggage reclaim waiting times which are a key consumer priority.
- 3.50 Bearing in mind the priority given by consumers to these aspects of service quality, we would expect HAL to address the issues related to wayfinding and seating in response to these initial proposals.

## Resilience

- 3.51 We agree that maintaining and improving resilience is essential to delivering predictable and reliable passenger journeys. Our consultant's assessment of HAL's consumer research identified that travel delays emerged as a key stress point for consumers. In addition, the CAA's Departing Passenger Survey for 2023 and the IATA Global Passenger Survey for 2024 identified that reduced exposure to delays and disruption played a key role in improving passengers' satisfaction.
- 3.52 We also agree with HAL's assessment of its consumer research that resilience plays a key role in delivering the consumer outcome "I have a predictable and reliable journey" and that, from a passenger perspective the scenarios most likely to have a significant negative experience on passenger experience are delays, cancellations and missing baggage.
- 3.53 The MTI scheme should support delivery of a resilient operation through asset availability measures, security process measures and wider reputational measures. HAL will need to ensure that performance against these measures is maintained for increased passenger volumes.
- 3.54 Nonetheless, the incentives provided for HAL's performance by the MTI scheme alone cannot deliver resilience as it operates alongside capital investment, asset

management programmes and operational procedures. In our work on capex summarised in Chapter 6 we have ensured an appropriate weighting for resilience spending in formulating our initial proposals for the H8 capex envelope. In this wider context the MTI scheme supports, and helps hold HAL accountable for, the level of resilience underpinning service delivery.

### **Rebates and bonuses**

- 3.55 As set out above, the overall financial incentive approach proposed by HAL:
- maintains the size of the maximum rebate incentive of 7 per cent of airport charges revenues;
  - doubles the size of the maximum bonus incentive from 1.44 per cent of airport charges revenues to 2.85 per cent in order better to “balance” rebate and bonus incentives and to accommodate an expanded group of bonuses.
- 3.56 We do not support HAL’s proposal to double the size of the maximum bonus incentive. HAL’s rationale is for this to provide more balance between the overall level of maximum rebate and bonus incentives. However, it is not clear that this takes reasonable account of the historical evidence which indicates that, since the introduction of the MTI scheme, HAL has earned more in bonuses than it has paid in rebates. We consider that HAL’s performance in the H7 period to date suggests that the existing incentive arrangements do provide a reasonably balanced approach to incentives and have seen no evidence that they are inconsistent with the principle of a ‘fair bet’.
- 3.57 We note that airlines have maintained their previously-expressed opposition to the concept of bonuses. At the same time, they have supported applying a bonus incentive to additional measures (control posts and staff search) as proposed by HAL. Overall, we consider it appropriate to retain both the H7 caps at 7 per cent of airport charges revenues for rebates and 1.44 per cent of airport charges revenues for bonuses.

### **Incentive allocations**

- 3.58 HAL’s proposed changes to the level of potential rebates and bonuses for each measure in the MTI scheme are based on the report it commissioned from ICS Consulting (“ICS”). ICS described its analysis as evolving the rates applicable during the H7 period through “a triangulation process drawing on four independent evidence lenses”: the Consumer lens, the Stakeholder lens (comprising airlines and the Heathrow Passenger Forum), the Business Plan lens, and an Airport benchmarking lens.
- 3.59 Our concerns with the approach used by ICS include:
- the subjective judgements on the:

- weighting applied to the four different evidence “lenses”; (for example the balance between the input from airlines operating from Heathrow compared with benchmarking against Gatwick)
  - percentage rates used to weight different consumer priority levels across the four evidence “lenses”
  - thresholds used to determine change categories (that is, where a large/small increase/decrease or no change in H7 rate is required)
- how evidence has been mapped to specific MTI measures;
  - the use of absolute percentage point values to categorise or to apply changes rather than a proportional approach; and
  - the different approaches used for rebates and bonuses where the rebate rates are proposed as changes from H7, whereas the bonus rates are derived from the measures proposed by HAL and with reference to the rebate rate proposals for the H8 price control.

3.60 While HAL’s approach to allocating incentives does consider historical performance to some extent, our view is that this should be given greater weight in revising the allocation of incentives going forward. Furthermore, we consider that the thematic priorities identified by Steer from its review of the consumer research should be reflected in the proposed allocations. As a result, we are minded to not support the overall set of incentive allocations proposed by HAL.

3.61 We will consider further whether there should be changes in the approach to incentive allocations and how best to incorporate the consumer priorities identified by Steer in our work to develop final proposals. For initial proposals the licence modifications for Schedule 1 retain the current H7 incentive rates pending update following further consideration ahead of final proposals.

### **MTI scheme changes**

3.62 Where HAL and the airline community have agreed to retain existing measures we support these outcomes. Changes to the scheme are considered further below.

### Security search daily measurement and other proposals

3.63 The benefits of moving to daily security queue measurement for central and transfer search remain unclear and our assessment of HAL’s proposals indicate a number of issues. HAL has indicated that the increased variance of a daily reported metric compared with a metric averaged over a month should be recognised and accounted for by adjusting the metric, target levels and incentives applied to maintain an equivalent level of performance challenge. Specifically, HAL proposed changes to the metric (change to the number of 15-

minute period breaches), targets (equivalent breach targets lower than current percentage targets) and incentives (removing the 5-minute queue measure for rebate incentives and adopting a sliding-scale for 3-6 daily breaches for central search and 5-6 breaches for transfer search). We consider that taken together these all appear to weaken the level of incentive provided by the approach to daily measurement in comparison to the existing monthly measurement approach.

- 3.64 For example, removing the 5-minute queue measure for rebate incentive purposes effectively would mean that any queue times between 5-10 minutes would no longer count as a breach. In addition, the proposed sliding-scale rebate proposal would mitigate the size of any rebates payable. The number of breaches required on a daily level over the course of a month would need to significantly increase to generate the same rebate incentive payment. The consequence would be a reduced overall incentive on HAL.
- 3.65 Furthermore, we are concerned that the time-slice measurement proposals may not provide a similar level of incentive to the existing monthly measurement approach. Splitting the available incentive on a daily basis could potentially dilute the overall incentive under which currently one-sixth of the total available annual rebate can be incurred for a monthly failure that could be triggered by a small number of days within the month. If the equivalent rebate were to be calculated in proportion to the number of days that failed in the month, the amount payable would be significantly reduced. We also are concerned that the full benefits of the Next Generation Security programme may not have been properly accounted for in HAL's proposals.
- 3.66 Transfer search applies specifically to passengers who are changing planes airside, and from an operational perspective the service demand is generally more peaky than Central search which caters to passengers presenting themselves more consistently over time. For transfer search, we recognise the intention to harmonise the measure with central search using the same metric for a 10-minute queue time for the rebate incentive and a 5-minute queue time for the bonus incentive. However, on the rebate incentive, we do not consider that aligning the metric alone would necessarily constitute the same basis of measurement, because HAL proposes different targets for when the rebate applies.
- 3.67 We note the airlines' proposals for 25-minute queue time "backstops" to be introduced for central and transfer search. However, we consider that Heathrow security performance following the moves to Next Generation Security has been strong with consistent achievement of bonuses and so the need for a backstop appears limited. Given the 10 minute queue times are set on a percentile basis rather than an average, a further target would be focused on a small proportion

of passengers and the administrative burden it would present appears disproportionate.

- 3.68 At this stage we do not support the package of proposed changes for security central search and transfer search measurement. The potential impact of simultaneous changes to the form of the metric, the target set and the level of potential rebate per breach is not clear, and there is a risk of unintended consequences that outweigh the benefits of maintaining the current performance challenge.
- 3.69 We propose that the existing measures, targets and incentives used during the H7 period will continue into the H8 period. We consider that monthly measurement will maintain an effective incentive, and that the benefits of the Next Generation Security programme investment will further improve performance and resilience. Additionally maintaining the current measures will provide a known performance baseline to introduce Automated Queue Measurement during H8. Nonetheless, we remain open to further representations on these matters.

#### Financial rebate incentives for departing bags and PRM passenger assistance

- 3.70 As set out in our Method Statement and reflected in HAL's business plan there is a high consumer priority given to baggage performance and accessibility issues. We consider that applying a financial rebate incentive to the timely delivery of baggage measure and the PRM satisfaction measure reflects the importance that consumers place on them. We have also considered our proposals for the PRM satisfaction measure in light of our duty under the Equality Act 2010.
- 3.71 For the timely delivery of baggage measure we support the agreement between HAL and airlines to update the metric from measuring baggage delivery from 30-minutes to 20-minutes prior to departure, so that it better aligns with airline minimum connection times for transfer passengers. We address HAL's proposals to include an airline eligibility rebate criterion below.
- 3.72 The airlines' proposed backstop measure would use a fixed rebate for each individual missed bag. This would take effect for the first missed bag and so would operate ahead of the existing timely delivery of baggage measure. We consider that this would act more as a primary measure and less as a backstop for the timely delivery of baggage measure. In addition the incentive target would be met instantly with no opportunity for HAL to meet or out-perform such a target. On balance we do not consider that airlines have provided sufficient evidence to justify these changes.
- 3.73 We do recognise, however, that ensuring that significant baggage outages are reflected in the timely delivery of baggage measure is a priority. We consider that further assessment of the sensitivity of this measure should be undertaken to understand the extent to which significant baggage outages and their impact on

resilience are reflected and will inform further proposals. We are also of the view that given its importance to consumers there would be advantages in a financial incentive applying to the timely delivery of baggage metric (although we recognise a range of stakeholders influence the timely delivery of baggage).

- 3.74 We note the airlines' position that they do not support a financial incentive for the PRM assistance service because contractual service levels are already in place. While noting airline views we consider that this does not mean that this important element of service delivery should not also be reflected in the MTI scheme. The inclusion of a measure would provide transparency of consumer satisfaction in this important area in addition to the contractual service levels.
- 3.75 Applying a financial incentive to the PRM satisfaction measure is also appropriate in light of our duty under the Equality Act 2010. An incentive for the quality and consistency of service that HAL provides advances equality of opportunity to use airport operation services for this group of consumers. This would work in addition to the separate contractual service levels, and will ensure due focus and transparency of performance.
- 3.76 At this stage we propose that both the timely delivery of baggage measure and the PRM assistance service satisfaction measure move from reputational incentives to financial incentives based on HAL's proposals. The timely delivery of baggage financial rebate incentive would be measured against a target of 98 per cent of bags being delivered to aircraft 20-minutes prior to departure. The passenger assistance satisfaction measure incentive would be measured against a HAL Quality of Service Monitor (QSM<sup>25</sup>) survey score target of 4.00.

#### Financial bonus incentive proposals

- 3.77 Both HAL and airlines have proposed that a number of existing reputational incentive measures should have financial bonus incentives applied to them.
- 3.78 HAL's rationale for its proposals to apply bonus incentives to the measures of overall satisfaction, departures punctuality and baggage misconnect rate is that these focus on the most important consumer outcomes. We note that in the H7 period, all of these measures have reputational incentives because they are not solely delivered by HAL and are delivered by other stakeholders. We agree with HAL that these satisfaction, punctuality and baggage measures are all key consumer priorities that are fundamental to the passenger journey. Nonetheless,

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<sup>25</sup> QSM refers to Quality of Service Monitor which is HAL's passenger survey tool for tracking passenger satisfaction with elements of Heathrow's operation and service on a scale of 1-5 scale - Extremely Poor (1), Poor (2), Average (3), Good (4), to Excellent (5). See the Licence granted to Heathrow Airport Limited: at <https://www.caa.co.uk/media/j1wl20vi/20260101-heathrow-airport-limited-licence.pdf>

we need to consider carefully whether HAL should be subject to financial incentives for service delivery that is facilitated by others.

- 3.79 In this light, we are not as part of these initial proposals intending to apply bonus incentives for HAL to the measures for overall satisfaction, departures punctuality and baggage misconnect rate as these are delivered by HAL in conjunction with airlines and other stakeholders. We will consider further the position on the overall satisfaction measure for final proposals as this reflects HAL's overall performance and resilience across both measures with financial and reputational incentives, but do not think there is a case for financially incentivising HAL with respect to departures punctuality and baggage misconnect rates.
- 3.80 We note that, although airlines have maintained their previous opposition to the concept of bonuses, they have agreed with HAL that a bonus incentive should be added to the existing financial rebate incentives in place for the control posts measure of operational vehicle queue times entering the airport and security queue times for staff search areas. We have previously applied bonus incentives to measures that cover service performance issues that have a direct impact on the consumer experience, such as cleanliness, wayfinding and passenger security and we consider that the staff search and control post measures are key enablers of the passenger and cargo journey through the airport and support a resilient operation.
- 3.81 We propose that staff search and control posts measures should have bonus incentives applied to them in line with HAL and airlines' agreement during Constructive Engagement. For initial proposals the licence modifications for Schedule 1 do not specify bonus thresholds and allocations pending update following further consideration ahead of final proposals.

#### Terminal 5 track transit system

- 3.82 Noting the ongoing engagement on the Terminal 5 track transit system availability measures, we are minded to accept the service day timetable change agreed by HAL and airlines. At this stage we propose to retain the existing T5 track transit system measures for 1-train and 2-train availability but with an expectation these will be replaced, at a later date, with an updated measure of agreed timetable patterns based on forecast passenger demand and the number of cars forming each train, and an overall train availability measure as a backstop to be included in our final proposals.

#### Carbon emissions target

- 3.83 Following the introduction of the carbon emissions at the H7 OBR Mid-Term Review, we consider that HAL's proposal to apply a target based on its Net Zero Strategy 2030 goals for carbon emissions is appropriate. We will engage with

HAL further to understand the scope for incorporating updated targets to apply through to the end of the H8 period in 2031.

### Removing measures

- 3.84 We are minded to support the proposed changes to remove the following measures for:
- hygiene safety testing – these are time-based measures of completed Covid tests;
  - the percentage of UK population within three hours' of public transport to Heathrow – introduced to incentivise investments and initiatives to expand the passenger catchment the airport serves; and
  - the “An Airport that Meets My Needs” satisfaction measure – part of a group of passenger satisfaction survey measures to assess the airport’s performance in relation to the H7 outcomes.
- 3.85 The hygiene testing measures introduced during the Covid pandemic are no longer required and the public transport measure is of limited effect as no new major public transport infrastructure serving the airport will come into operation during the H8 period up to 2031. Based on HAL’s rationale that the service elements measured by the “An Airport that Meets My Needs” measure are reflected across other satisfaction measures and, in particular, the Overall Satisfaction measure, we are minded to accept its removal but will review this further as part of the next round of constructive engagement with HAL and airlines.

### Reputational measure updates

- 3.86 Where HAL has proposed other changes to reputational incentives and targets, we intend to engage further on these with airlines during Constructive Engagement and provide updated views in our final proposals. These HAL proposals include:
- Overall satisfaction – increase QSM score target from 4.26 to 4.35;
  - Customer effort (ease) – increase percentage target of passengers reporting ‘easy’ or ‘very easy’ from 91 per cent to 91.6 per cent;
  - Enjoy my time at the airport – decrease percentage target of passengers reporting ‘enjoyable’ or ‘very enjoyable’ from 80.5 per cent to 77.1 per cent;
  - Ease of access to the airport - decrease QSM score target from 4.44 to 4.38;
  - Helpfulness/attitude of airport staff – increase QSM score target from 4.36 to 4.37;

- Baggage misconnect rate – introduce a missed bags target of 9.8 bags per 1000 passengers;
- Departures Punctuality – decrease percentage target of flights taking-off within 15 mins of scheduled departure time from 80.5 per cent to 77.1 per cent; and
- Passenger injuries – introduce an average target of 0.32 passenger injuries per million passengers per year to be achieved in 2031.

3.87 For the airport arrivals management and airport departures management targets, we consider that our final decision in the OBR mid-term review will continue to apply for the H8 period. We note that some of the proposed decreases in targets are marginal (such as for departures punctuality with a 0.3 per cent reduction), so at this time we are minded to retain the existing 80.5 per cent target. We are minded to support the new targets that have been proposed by HAL for the baggage misconnect rate and passenger injuries.

3.88 For initial proposals the licence modifications for Schedule 1 retain the current H7 targets for all existing measures pending update following further consideration ahead of final proposals, and include the two new targets for baggage misconnect rate and passenger injuries.

#### Other Airline proposals

3.89 We will consider changes that the airlines have proposed to update the scope of the measure for check-in infrastructure (to include baggage input belts) and the definition of the measure for pre-conditioned air (to include serviceability) but do not make specific proposals at this time. We note that the current licence condition for pre-conditioned air specifies that measurement is of “the percentage of time serviceable and available for use”. We will engage further on these matters during Constructive Engagement. We do not support the airlines’ proposal to apply a bonus incentive to the check-in measure, noting the scope for out-performance is limited given that the target is set at 98 per cent, but we remain open to further discussions between HAL and airlines on this during Constructive Engagement.

#### **Airline Eligibility Rebate criteria**

3.90 While we agree with HAL’s aim that it should deliver better outcomes by driving consumer-focused behaviour across the airport, including in areas where outcomes are jointly achieved by HAL and others, we note that the OBR framework and reputational incentives already specifically support this approach by covering aspects of service quality that are not fully within HAL’s control. These measures subject to reputational incentives typically include high-level consumer indicators (such as overall satisfaction and feeling safe and secure) as well as more specific aspects of service quality (such as punctuality and immigration queues). HAL’s proposed “sharing in success” approach would

include airline eligibility rebate criteria and the introduction of bonus incentives for key consumer measures of satisfaction, punctuality and baggage delivery for measures that are not fully within HAL's control but are provided in conjunction with airlines, ground handlers and others.

- 3.91 Nonetheless, we are open to HAL's proposals for airline eligibility rebate criteria, particularly where they may be in support of delivering specific measures identified as consumer priorities such as baggage, and support delivery of a resilient operation. We note that the proposed eligibility criteria will only affect the share of a rebate paid to airlines on the occasions when HAL's performance has not met the relevant target in the first instance. In areas such as arrivals baggage reclaim availability, the likelihood of HAL not meeting its target, based on historical performance, is relatively low. As a consequence the airline eligibility criteria, and the withholding of a particular airlines share of a rebate payment, would rarely be triggered.
- 3.92 There may be benefits to consumers in the measures proposed and we note that consumer research indicates that arrivals baggage delivery waiting times are a priority for consumers. There would also appear to be potential consumer benefits in airlines providing passenger forecasts to inform HAL's security staffing plans and in reflecting airline and ground-handler performance within the overall departing baggage process where it can impact performance. However, the extent to which either would have a material impact on overall performance is unclear.
- 3.93 For PRM assistance service pre-notification rates, the need and benefit is unclear. We note that, as the level of HAL's charges for these services is already predicated on the pre-notification that airlines give, airlines have a strong commercial incentive to provide notification as early as possible. In this light, the potential for additional consumer benefit would appear to be relatively low for this eligibility criteria.
- 3.94 Further consideration needs to be given to the benefits and impacts of these proposals, particularly on introducing these arrangements on a targeted basis for timely delivery of baggage and central security and transfers searches. We note that the Heathrow Passenger Forum supports this broad approach and we will further consider their views, alongside HAL and airline views, in formulating our final proposals. Evidence and views from HAL and airlines on the potential impact on rebate incentives, and the extent to which these impact the overall level of consumer benefits that maybe achieved, will also be considered.

## Summary of our initial proposals

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- 3.95 Our approach to developing these initial proposals for quality of service and resilience focuses on key consumer priorities including:

- baggage delivery and reclaim;
- reducing congestion and queueing;
- improving the experience of passengers requiring support (PRS) / passengers with reduced mobility (PRM) accessibility; and
- reducing delays and disruption.

3.96 We agree that resilience plays a key role in delivering predictable and reliable journeys for consumers and that delays, cancellations and missing baggage all have significant impacts. The OBR framework should support delivery of a resilient operation to meet increased passenger volumes.

3.97 Our initial proposals retain the broad framework for outcomes and MTIs set at H7, and the overall balance of bonuses and rebates and the broad allocation of incentives. We consider that these cover the main aspects of airport operation services that are important to consumers and that we should build on the introduction of OBR at Heathrow airport over H7.

3.98 As part of this approach to maintaining the OBR framework and addressing resilience issues that important improvements can be made in relation to:

- the timely delivery of departing baggage measure:
  - we support the agreement between HAL and airlines to update the metric from measuring baggage delivery from 30-minutes to 20-minutes prior to departure;
  - given its importance to consumers a financial incentive should apply to the measure;
  - we will conduct further analysis to understand whether significant baggage outages are appropriately reflected in this measure and how best to incentivise the reduction in the number of such incidents and the impact on consumers;
- maintaining the availability target for lifts, escalators and travelators to meet increased passenger demand over the period;
- introducing new service day timetable metrics for the Terminal 5 track transit system subject to HAL and airline agreement;
- applying a financial incentive to the PRM assistance service satisfaction measure;
- maintaining the target for departures punctuality to support operational performance;

- setting a target for the baggage misconnect measure as passenger volumes are forecast to rise over the period; and
- applying bonus incentives to the staff search and control post measures in line with HAL and airlines' agreement during Constructive Engagement.

3.99 We have also said that we remain open to further evidence of consumer benefits in relation to:

- HAL proposals for:
  - passenger security queue measurement for central and transfer search;
  - a bonus incentive for overall satisfaction;
  - eligibility criteria for security queues, departing baggage and arrivals baggage delivery performance;
- Airline views on the check-in infrastructure availability and pre-conditioned air measures.

3.100 A summary of the proposed measures, targets, types of incentives and next steps for these can be found in Appendix E (OBR proposed measures).

## Next Steps

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3.101 Following on from these initial proposals, and the progress made to date between HAL and airlines, we anticipate further discussion with HAL and airlines in the next round of Constructive Engagement on service quality and resilience issues.

3.102 We would welcome stakeholder's views on any aspect of our approach to service quality and resilience and in particular on the following areas:

- the consumer priorities arising from HAL's research and engagement and the extent to which those priorities are reflected in these initial proposals?
- how consumer concerns about wayfinding and seating can be better addressed?
- any additional information and evidence we should consider on our initial proposals not to take forward daily security queue measurement or airline eligibility rebate criteria?
- whether there are further steps we should take in relation to the MTI scheme to help incentivise and improve future resilience?