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By email only

To whom it may concern

HSPG response to CAP1722: Economic regulation of capacity expansion at Heathrow: policy update and consultation

Please see below a response to this consultation by the Heathrow Strategic Planning Group (HSPG). The response below is structured to reflect the four key areas of the consultation – overall timetable and interim price control, promoting economy and efficiency, alternative delivery arrangements, and surface access costs.

HSPG is a group of 14 local authorities, Local Enterprise Partnerships and the Colne Valley Regional Park CIC (list of members at the end of this letter) around the airport that are working jointly to practically and proactively shape the expansion of Heathrow airport, regardless of support or opposition to such expansion, and maximise the benefits and minimise the impacts. HSPG is mainly funded through a Service Level Agreement (SLA) with Heathrow Airport Ltd (HAL) to directly input into the evolution of the Development Consent Order (DCO) scheme/masterplan at pre-application stages, and has some Government funding to support the production of some joint spatial planning work. HSPG members provide resource through staff and associated resources.

Overall timetable and interim price control

It would seem necessary given the stated ‘slippage’ in HAL’s DCO timetable that the interim price control period be extended. It would correct that the main/new price control is not determined until the DCO is granted (if indeed it is). It would seem that CAA are suggesting that HAL submit its price control business plan at the end of 2019 to feed into CAA’s timetable that the new price control is agreed in 2022, post DCO consent.

HSPG is concerned that HAL’s price control business plan would be based on the content of its masterplan/DCO scheme that is planned for statutory consultation in the summer of 2019. However, we would point out that although HSPG is engaged in shaping HAL’s masterplan prior to statutory consultation, we (and other stakeholders and consultees) would expect the masterplan to change to take on board consultation responses. This may mean that the scheme is not ‘fixed’ and there cannot be guaranteed certainty to the business plan and thus to an agreed main price control.

Certainty comes with any granting of DCO consent to HAL, this is the point at which the price control business plan and new price control should be considered and agreed, and (expanded on further in response) picking up all compensatory and mitigation requirements agreed through the DCO.

Although HSPG is engaged in shaping HAL's masterplan and there are some key elements that we are in agreement with, there are many areas of the masterplan and the overall DCO scheme that we are not in agreement with or have little or no information on. For example, there HSPG has not had sight of the HAL's Surface Access Strategy and the measures proposed to be delivered (and costings behind these), and HSPG is not as yet convinced that there will be a comprehensive package of environmental improvements and mitigation delivered. We have requested to HAL that we see and can input comprehensively into the complete DCO package well before statutory consultation but this does not seem likely to happen given HAL's focus on commencing statutory consultation in six months' time. As such, there will be significant responses from HSPG and its members individually on the DCO scheme statutory consultation, and thus likely to be significant changes.

A general point related to the above is that CAA's focus seems to be on the impact of prices on the 'consumer'. It is paramount that when considering prices, which emanate from HAL's expansion costs, that the CAA consider that HAL's costs incorporate all those that are necessary to implement the DCO scheme as and if granted by the Secretary of State, including all compensatory and mitigation measures, including through planning obligations and conditions. HSPG and its members need to be sure that where possible all its requirements are met through the scheme, and this needs to be reflected accurately in the costs put in front of the CAA when considering future price controls. Such costs may be higher than are currently budgeting for, the CAA need to be aware of this. If such costs have a significant knock on effect on the 'consumer' then the CAA and HAL, perhaps together with Government, will need to consider an alternative funding mechanism in which all DCO requirements are met (and other key infrastructure is provided) but also consumers are not adversely affected. HSPG does not want consumers to be adversely affected (bear in mind that many residents living around the airport within HSPG local authority areas are 'consumers' of the airport too) but it is key that such residents and local authority areas are not impacted negatively by airport expansion and costs are borne by them.

HSPG doesn't have a definitive position on a commercial deal between HAL and the airlines in place of an interim price control, but would query why this would be needed – the CAA's role here is to regulate HAL and if a commercial deal were to proceed then would CAA be able to apply appropriate scrutiny and regulation?

Promoting economy and efficiency

Chapter 2 of the consultation document sets out a case for a possible modification to HAL's licence to protect the interests of consumers by providing for a new condition further promoting the economical and efficient operation and maintenance, and timely development of Heathrow airport.

Whilst HSPG does not have a definitive position on this, if such a new condition would mean that HAL is regulated in the same way that other regulated businesses are, and that it provides further regulatory tools between price control reviews, then this would seem to make sense.

The suggestion in the consultation document is that the condition would apply to the interim price control (pre grant of DCO consent) and the new price control (post DCO consent). To reflect the points made above in the Interim Price Control section, if the condition is applied it must, in ensuring

the economy, efficiency and timely development of the airport, ensure that HSPG and member requirements are built into HAL's costs, at pre-DCO grant stage and post DCO grant stage. Costs need to be considered holistically, i.e. not just on the consumer but costs that include all the necessary measures to ensure a highly sustainable scheme with a full package of compensatory and mitigation measures.

Alternative Delivery Arrangements

The inclusion of additional delivery bodies and the competition and challenge that this may bring could be beneficial to the expansion project in principle, if this helps to provide the full package of requirements that HSPG and its members are seeking, and provides the efficiency and economy that the CAA is focussed on. The Innovation Partners process could be highly beneficial to the expansion scheme overall.

The Arora Group's intentions/proposals (proposals for the western terminal and for the airport as a whole) have been singled out in the consultation. To date HSPG has not had engagement with the Arora Group on its proposals for the airport, but it would seem that their proposals are not nearly as developed as HAL's and they are at a much earlier stage in any DCO process. While there may well be merits for some of the Arora Group ideas to form part of the expansion project in some way (although these ideas are currently not known), HSPG is concerned generally that there would be a confusing and complex situation if, on the planning side, two different DCO applications were submitted to the Planning Inspectorate (and potentially granted), and on the regulatory framework side how this would affect the licensing arrangements. The infancy of Arora's proposals also compounds issues around the price control timetable.

It is paramount that the additional work on understanding Arora's proposals and how realistic they are suggested in the consultation document is undertaken and completed as soon as possible, until that has been completed the waters are muddied. HSPG would be concerned going forward about the level of control HAL would have over the entire expansion project if an alternative developer were also involved – HSPG's objective would be to ensure that all of its requirements are met within the expansion project, this may prove more difficult if HSPG is dealing with more than one party. If the Arora Group's proposals are sound and realistic and come forward, HSPG needs to be able to engage to influence them in the same way as it currently does with HAL.

Surface Access Costs

The same point as made above in other sections is pertinent here – surface access costs (whether attributed to construction or operational phases) need to be built in where possible all of HSPG's and its members requirements, so that they can be built accurately into any business planning that results in the setting of future price controls. While it is not the duty of the CAA to ensure that the Airport NPS surface access requirements are met, presumably it is the CAA's responsibility to ensure that HAL have costed all required surface access costs in its price control business plan.

To date, HSPG has not had sight of HAL's Surface Access Strategy (SAS) and the measures included within it and associated costs. Again, to counter the CAA's focus on consumer interests, the interests of local authority areas and their residents, business and other organisations need to be considered to ensure that appropriate measures are incorporated in HAL's expansion scheme (and by other providers where relevant) and that these costs are not borne by the local authorities.

It is considered though that a successful SAS that would deliver the modal shift targets in the ANPS should include numerous measures that are beneficial to consumers, both financially and in convenience, through providing more accessible public transport to and from the airport that is cheaper and more reliable than using private vehicles (e.g. more direct local bus services in a potential free fare zone).

It is recommended that the CAA scrutinise surface access costs in relation to the ANPS targets. A key concern that HSPG has is the proposed level of car parking (approx. 69,000 car parking spaces) which, according to HAL information is roughly equivalent to the existing levels of car parking for the airport (the proposed would see a very significant reduction in staff parking but replaced by passenger parking). HSPG believe that if HAL is going to meet the ANPS modal shift targets that this level of parking should be much reduced, and as such parking should not be considered as a significant revenue stream.

General points

In addition to the above points related to the chapters in the consultation document, we would make some further observations/points.

In terms of 'who pays' for much of the costs that result from the expansion project, it seems mostly that the CAA's focus is on knock-on costs to the airlines and thus prices that consumers pay (presumably the focus being on airline fares). If this is a key funding mechanism for airport expansion, this seems flawed, with the consumer taking up too much of the brunt. As mentioned above in the response to the interim price control section, the CAA, HAL, together with Government and other agencies should consider alternative funding mechanisms in which all DCO requirements are met and also all other necessary infrastructure is provided but also consumers are not adversely affected. There has to be a point for example where central Government has a role in financing elements of infrastructure and the expansion scheme given its support for it

To emphasise the points made above, much of the focus appears to be on costs of the expansion scheme that inevitably lead to costs to the consumer, and result in the price controls. HSPG would emphasise that when assessing costs that these are not assessed in pure terms but in relation to the benefits that they bring (linked to satisfying HSPG requirements for the DCO scheme). CAA also need to ensure that there are adequate industry-standard contingencies built factored into costs

HSPG believe that across all regulatory regimes that the increase in Air Traffic Movements (ATMs) provided for in the ANPS should be linked to the fulfilment of objectives and deliverables in a phased basis, particularly environmental and transport related. Measures such as those to tackle poor air quality and to improve public transport access need to be in place and seen to be effective before the full ATM level in the ANPS is permitted to be reached. This is something that HSPG will push for in the DCO.

I hope that the above consultation response is helpful, please don't hesitate to contact me with any queries.

Yours sincerely,



Alan Hesketh
HSPG Manager on behalf of HSPG (members below)

Full HSPG members:

- ❖ Bucks County Council
- ❖ Colne Valley Park CIC (Community Interest Co)
- ❖ Enterprise M3 LEP (Local Enterprise Partnership)
- ❖ London Borough of Ealing
- ❖ London Borough of Hounslow
- ❖ Runnymede Borough Council
- ❖ Slough Borough Council (accountable body for HSPG)
- ❖ South Bucks District Council
- ❖ Spelthorne Borough Council
- ❖ Surrey County Council
- ❖ Thames Valley Berkshire LEP
- ❖ Bucks TV LEP
- ❖ Royal Borough of Windsor and Maidenhead
- ❖ Elmbridge Borough Council