



Consumers and Markets Group

Published on CAA website

10 April 2025

Dear Stakeholder

REVIEW OF H7 TERMINAL DROP OFF CHARGE REVENUE ALLOWANCES – CAA VIEWS FOLLOWING CONSULTATION

In our H7 proposals and decision documents, we stated our intention to undertake a review towards the end of 2024 of the H7 revenue allowances for the Terminal Drop Off Charge (“TDOC”) of Heathrow Airport Limited (“HAL”). On 12 December 2024 we wrote to stakeholders to start the review and to seek their views (See “Review of H7 Terminal Drop Off Charge Revenue Allowances”: www.caa.co.uk/CAP3071 (the “December 2024 Letter”)).

We received responses from eight stakeholders. These are summarised in **Annex A** together with the CAA’s current views following the consideration of those stakeholder responses.

Having concluded this review, we do not anticipate that we will undertake any further review of H7 TDOC revenue allowances during the H7 period. Furthermore, we do not consider that there is a compelling reason for the CAA to prioritise bringing forward a licence modification to change the operation of the TDOC adjustment mechanisms in HAL’s licence, either to take account of the symmetrical treatment of over/under recovery or to apply the adjustment to earlier years.

We will consult on the treatment of H8 TDOC revenues as part of the H8 review process.

Yours faithfully

Mark Clifton

MARK CLIFTON

Head of Economic Analysis

Civil Aviation Authority

5th Floor, Westferry House, 11 Westferry Circus, London E14 4HD

economicregulation@caa.co.uk

ANNEX A: REVIEW OF H7 TDOC REVENUE ALLOWANCES

SUMMARY OF CAP3071 CONSULTATION

HAL introduced a TDOC, of £5 per vehicle, in November 2021, shortly before the start of the H7 price control period (1 January 2022 to 31 December 2026). The TDOC increased to £6 per vehicle in January 2025.

Under the ‘single till’ approach to price regulation that applies to HAL, the CAA’s forecast of HAL’s revenue from commercial activities (including TDOC) is deducted from the CAA’s calculation of HAL’s overall revenue requirement to determine the amount of revenue that HAL is allowed to recover through airport charges in the price control period. Therefore, we made a forecast of H7 TDOC revenues as part of our H7 determination.

In addition, the modifications that we made to HAL’s licence to implement the H7 price control include (at Condition C1.19) a terminal drop-off charge factor (“TDO_t”) for 2024, 2025 and 2026 which covers:

- a mechanism which, in the event that legislation came into force that prevents HAL from recovering the full amount of the forecast TDOC revenues, was intended to enable HAL to recover from airport charges the shortfall in out-turn TDOC revenues compared to the forecast; and
- a 65:35 risk-sharing arrangement, which was primarily intended to address the risk of out-turn TDOC revenues being higher than forecast, with 65% of the amount by which out-turn TDOC revenue in any year exceeds forecast TDOC revenues in that year being deducted from airport charges in that year.

At the time of the H7 review, there was considerable uncertainty as to the amount of revenue that HAL would collect from TDOC during H7. One particular source of uncertainty was that, following the Parking (Code of Practice) Act 2019, the Government was expected to introduce a statutory code of practice for private parking which might have affected HAL’s ability to collect forecast TDOC revenues. We therefore said we would review the H7 TDOC revenue allowances before the end of 2024.¹

The December 2024 Letter noted that the draft statutory code of practice for private parking was withdrawn in 2022 before it was enacted, and has not been re-introduced. However, a non-statutory code of practice for private parking firms was introduced for members of the British Parking Association (“BPA”) and the International Parking Community (“IPC”) in October 2024.²

We further noted that HAL’s actual revenues from TDOC for H7 to date have been lower than forecast at the H7 review, when allowing for inflation, and were forecast by HAL to remain so in 2025 despite the increase in the TDOC charge implemented in January

¹ H7 Final Proposals, June 2022, at paragraph 5.77. (See www.caa.co.uk/CAP2365)

² See <https://www.britishparking.co.uk/code-of-practice-and-compliance-monitoring>

2025.³ In calculating airport charges for 2025, HAL cited the terminal drop-off charge factor (“TDO”) in its licence to recover, from 2025 airport charges, 65% of the forecast shortfall in 2025 TDOC revenues, amounting to about 4.5 pence per passenger.^{4,5}

We invited stakeholders to submit their views on any aspect of these matters and, in particular, on:

1. the effects on TDOC revenues during H7 to date arising from the Parking (Code of Practice) Act 2019, and anticipated effects expected over the remainder of the H7 period;
2. the anticipated impact on HAL TDOC revenues during H7 as a result of the non-statutory code of practice for private parking firms introduced in 2024 for BPA and IPC members;
3. any evidence on the impact of the introduction of TDOC on other HAL commercial revenue streams (such as car parks and public transport modes) compared to forecasts made at H7; and
4. any other comments or information that respondents wished to submit in relation to any of the issues covered by our December 2024 consultation letter or the regulation of HAL’s TDOC charges more generally.

³ See the December 2024 Letter at Table 1.

⁴ HAL Airport Charges for 2025 Consultation Document, 23 August 2024, page 23 (<https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/doing-business-with-heathrow/flights-condition-of-use/consultation-documents/2025-Charges-Consultation-Document.pdf>).

⁵ HAL Conditions of Use Airport Charges Decision 2025, 31 October 2024, page 6 (<https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/doing-business-with-heathrow/flights-condition-of-use/conditions-of-use-documents/2025/Heathrow-Airport-Limited%20Conditions-of-Use-Airport-Charges-Decision-2025.pdf>).

SUMMARY OF RESPONSES TO THE DECEMBER 2024 LETTER

HAL

HAL noted that the proposal to introduce changes under the Parking (Code of Practice) Act 2019 was withdrawn in 2022 and, as a result, it has not observed any impact on TDOC revenues. It was also Heathrow's view that, if later introduced as proposed, it will not be applicable to the airport. The BPA/IPC non-statutory code of practice for private parking firms came into effect on 1 October 2024 but HAL does not currently anticipate impacts on TDOC revenues as a result. However, HAL argued that the CAA's settlement for H8 should ensure that the necessary safeguards are in place to mitigate the risk of any future change to the code or its application that could generate undue losses to HAL or restrict HAL's ability to recover revenues.

HAL said that the way the 65:35 TDO mechanism is defined in its licence means that it applies equally to under-recovery as well as over-recovery and that this was the meaning of "risk-sharing". It considered that the CAA's interpretation as set out in its H7 Final Issues decision, that the mechanism was designed to address over-recovery, was inconsistent with the licence definition and with the previous statements of the CAA through the H7 consultation process and in its engagement with HAL. HAL argued that, if the CAA had intended to create an asymmetric risk-sharing mechanism, it would have been explicit about it, and the licence implementation would have also made this clear. It said the impact of the CAA's position is material: cumulative TDOC revenues from 2022-24 have been £130.2m, which it said was £12m below the CAA's forecast for those years in nominal terms (£142.2m).

HAL said that the introduction of TDOC has not led to higher revenues from other surface access modes compared to the assumptions made in the H7 Final Decision. It provided data which suggested that the mode shares for car parking, the Heathrow Express, and the Piccadilly Line are below the assumptions the CAA used in the H7 Final Decision. While there had been a modal shift towards the Elizabeth Line, HAL said this does not benefit it commercially.

HAL also argued that the TDO risk-sharing mechanism should take effect from the regulatory year 2022 as per the H7 Final Decision (rather than from 2024 when it was introduced into its licence), and that the TDO formula should allow for adjustments due to inflation which it said will otherwise penalise Heathrow with real terms losses due to price increases over time.

Looking forward, HAL said that TDOC is now a mature commercial revenue product and, for H8, it would be appropriate to treat it similarly to other commercial revenue streams and to remove the risk sharing allowance. Nevertheless, as the risk of regulatory or legislative changes affecting this area cannot be ruled out, it would be appropriate for the CAA to include an adjustment mechanism for H8 if drop-off charges can no longer be applied or any changes restrict Heathrow's ability to recover revenues.

Airlines

Airlines (British Airways/IAG/Aer Lingus/Iberia/Vueling) and the Heathrow Airline Community (“AOC/LACC”) said that the 65:35 TDO mechanism was only intended to apply to over-recovery in line with statements that the CAA made in its H7 Final Issues decision. They considered, therefore, that HAL had incorrectly applied the TDO mechanism to increase airport charges in 2025, and the CAA should instruct HAL to return this through either 2026 charges or a credit note.

Furthermore, they noted that it was HAL’s own commercial decision that TDOC had not been increased earlier, and consumers should not be liable for HAL’s own commercial decisions and forecasting errors. These airlines also considered that, if TDOC has resulted in a shift to other modes of transport, any additional commercial revenues generated due to TDOC should be returned to consumers, arguing that it was not the intention of the TDOC mechanism to provide HAL with a revenue guarantee.

AOC/LACC also noted that TDOC revenue targets for H7 were thoroughly assessed during the H7 price control review based on evidence submitted at the time, and included inflation (assumed TDOC increase to £6 in 2025-26).

Airlines also recommended that any assessment for the future treatment of TDOC takes place at the H8 price control review. If the TDOC is eventually deemed to be part of HAL’s other commercial revenues, the same efficiency targets should apply and there should be no revenue guarantee.

Heathrow Strategic Planning Group (“HSPG”)

HSPG supports TDOC as a means of promoting sustainable transport. It argued that income from TDOC should not be hardwired into the single till and used as a justification for lower airline fees, but instead should be hypothecated towards improvement in public transport options, with a focus on the transition to net zero. HSPG suggested that an approach similar to Luton Airport’s proposed Sustainable Transport Fund, funded from car park and drop-off charges to finance interventions aimed at improving sustainable travel options for accessing the airport, could be considered for Heathrow.

CAA VIEWS FOLLOWING CONSIDERATION OF RESPONSES TO CONSULTATION

Parking code of practice

It now appears that parking codes of practice, whether statutory or non-statutory, are not expected to have any material impact on TDOC revenues during H7. Nevertheless, the TDO mechanism in HAL's licence is in place to mitigate impacts should they arise during H7. For H8 TDOC revenues, we will further review this as part of the H8 process.

TDOC under-recovery

Our H7 Final Issues decision stated that the 65:35 TDO mechanism was intended to address the risk of revenues from TDOC being higher than forecast, not lower as has turned out to be the case.⁶

Nevertheless, we acknowledge that a statement in our H7 Initial Proposals is more nuanced, in its reference to the 65:35 risk-sharing mechanism applying to "any differences" between actual and forecast TDOC revenues in H7".⁷

We also note that the specification of the TDO mechanism in HAL's licence does not restrict the 65:35 sharing mechanism solely to over-recovery.

The differences between actual and forecast TDOC revenues are relatively modest considering the level of uncertainty at the time the H7 price controls were set, with the TDO adjustment representing approximately 0.2% of airport charges in 2025. We also note that consumers will still be better off (by 35% of the under-recovery) than if the H7 forecast of TDOC revenue had precisely reflected the out-turn.

For these reasons, we do not see a compelling case for pursuing a licence modification to seek to constrain the 65:35 mechanism solely to over-recovery.

Similarly, for consistency with the licence, we reject HAL's suggestion that the TDO mechanism should also apply to 2022 and 2023. These years pre-date the modifications made that implemented the H7 Final Decision and, therefore, the implementation of the TDO mechanism. As such, that mechanism applies only to 2024, 2025 and 2026.

Inflation in TDO formula

Noting HAL's concern that the TDO licence formula should allow for inflation, there was no intention at H7 to penalise HAL for the impact of inflation on out-turn TDOC revenues when calculating the TDO adjustment. We note that the "OTDO" term (out-turn TDOC revenue) and the "FTDO" term (forecast TDOC revenue) in Condition C1.19 do not specify the price base in which they should be expressed, but that the latter refers to the forecasts "set out in the CAA's final decision setting the price control applicable to the

⁶ Economic regulation of Heathrow airport: H7 final issues – decision (CAP3001), July 2024, paragraph 7.30. (See www.caa.co.uk/CAP3001).

⁷ H7 Initial Proposals, October 2021, paragraph 5.46. (See www.caa.co.uk/CAP2265)

Licensee for H7". Since these forecasts are expressed in 2020 prices,⁸ it would not seem unreasonable for OTDO amounts to be expressed on a consistent basis when calculating the annual TDO adjustment. We note that HAL indeed appears to have projected out-turn TDOC revenues for 2025 in 2020 prices, and compared this to the CAA's 2025 forecast in 2020 prices, when estimating the TDO adjustment for the purposes of 2025 airport charges.⁹

Other surface access revenues

Notwithstanding the surface access mode share data submitted by HAL, its revenue from car parking in H7 to date is presently materially higher than the H7 forecast, which HAL has told us is due to improvements in yield management. Revenue from other surface access modes over H7 to date appears to be broadly in line with the assumptions made when setting the H7 price control. Therefore, it does not appear to us that HAL has benefited unduly from growth in other revenue streams as a result of the introduction of TDOC. In any case, under single till regulation, growth in other commercial revenues would ultimately be reflected in forecasts of the same at future price reviews, potentially leading to lower airport charges at future reviews than would otherwise be the case.

H8 TDOC revenues

We will consider the treatment of H8 TDOC revenues as part of the H8 review process.

⁸ CAA H7 Final Decision, March 2023 (file: fds-opex-crs-tables-apr-23.xlsx published on CAA website). (<https://www.caa.co.uk/media/olop10vm/fds-opex-crs-tables-apr-23.xlsx>)

⁹ HAL 2025 Airport Charges Consultation, 23 August 2024, pages 23, 31 (<https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/doing-business-with-heathrow/flights-condition-of-use/consultation-documents/2025-Charges-Consultation-Document.pdf>).