

# Empowering consumers and furthering their interests – discussion paper

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**27 April 2016**

## Introduction

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1. The current regulatory controls on the charges and services that Heathrow Airport Limited (HAL) offers to airlines, and, ultimately, to consumers are due to expire on 31 December 2018. The CAA has therefore launched a review (called ‘H7’) of the appropriate regulatory arrangements that should be put in place after that date.
2. To initiate this review, we published a discussion document in March 2016<sup>1</sup> seeking views from all interested parties on the process, strategic themes, and the relevant issues that should shape the CAA’s methodology for the H7 review.
3. We are now hosting a series of seminars through which we would like to explore each of our strategic themes<sup>2</sup> in greater detail with interested stakeholders. The objective of the seminars is to help the CAA to develop its thinking on the overall design of the framework in these key areas ahead of our ‘Policy Update’ document in September 2016 which will set out our latest views on the approach to carrying out the H7 review.
4. This paper has been written to inform the ‘Empowering consumers and furthering their interests’ seminar on 27 April and aims to elaborate on our proposed approach in this area, particularly with respect to the establishment of the CCF.

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<sup>1</sup> [www.caa.co.uk/CAP1383](http://www.caa.co.uk/CAP1383)

<sup>2</sup> The four strategic themes are (i) Empowering consumers and furthering their interest (ii) Incentivising the right consumer outcomes. (iii) Increasing airport resilience; and (iv) Promoting cost efficiency and financeability. Separate seminars have been arranged to cover each of the themes.

## The CAA's primary statutory duty

5. The Civil Aviation Act 2012 (The Act) gives the CAA a single primary duty to further the interests of users of air transport services in respect of its economic regulation functions<sup>3</sup>. We stated in the discussion document that we intend to go much further than we have previously to put consumers at the heart of our airport economic regulation.
6. In particular, we propose to:
  - Establish an independent Consumer Challenge Forum (CCF) to play an important role in the process and to advise the CAA on the acceptability to consumers of HAL's overall business plan.
  - Work closely with the industry to ensure that the rich body of consumer research that exists is used to inform the H7 process so that the regulatory outcomes are grounded in an evidence-based understanding of the things that consumers value.
  - Understand better the perspective of cargo owners.
  - Consult with the CAA's Consumer Panel at key stages of the H7 process.

## Issues to consider

7. We would like to use the seminar to consider four key areas:
  - The overall approach we are proposing to further the interests of consumers, including setting minimum standards for the CCF through the provision of guidance.
  - Areas to consider in the establishment of the CCF including expertise, independence, membership, the appointment process and remuneration.
  - The terms of reference for the CCF.
  - A memorandum of understanding between the CCF and HAL.

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<sup>3</sup> Under the Act, users of air transport services are defined as present and future passengers and those with a right in property carried by the service i.e. cargo owners. For the sake of simplicity we use the term 'consumers' to mean both present and future passengers and cargo owners.

8. We provide a description of our overall approach in the remainder of this paper, with the draft guidance on minimum standards for the CCF available at Annex A and our current views on the characteristics of good consumer engagement at Annex B.

## **Overall approach**

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9. Noting the steps described above around how we wish to put consumers interests at the heart of our approach, a key consideration for the H7 review will be the extent to which HAL's business plan is deemed by us to be grounded in a robust understanding of the needs of consumers and is demonstrably aligned to meeting these needs. By 'consumers', we mean end users of the airport, i.e. passengers carried on flights to or from Heathrow, and owners of cargo that passes through Heathrow.
10. Although the idea that regulation should be underpinned by a sound understanding of the needs of its intended beneficiaries is hardly new, there are a number of ways that this goal could be achieved. Broadly, we see two options:
  - The first would be for us to take responsibility ourselves for understanding what it is that consumers value and specify desired consumer outcomes and incentives on the basis of what this consumer engagement tells us. This is essentially the approach we took for the previous Q6 review.
  - Alternatively, we could seek a more collaborative approach, by challenging HAL, as the regulated firm, to engage effectively with consumers, and propose the outcomes that will ensure that the regulatory framework is targeted at the things that consumers value. We note that other economic regulators, such as Ofwat and the Water Industry Commission for Scotland, have made significant steps towards this approach in recent years and we have sought to learn from their experiences, which are documented in more detail in the report on recent price review innovations published alongside our discussion document.

11. In principle, we believe that the collaborative approach offers considerable benefits over a more regulator-led model. For example, we believe that it would help to ensure that:
- The best use is made of consumer insight generated by the industry, reducing wasteful duplication of consumer research effort by the CAA;
  - Business planning and consumer insight functions are more joined up and responsive to each other, leading to a more linear and coherent price review process with less risk of potentially intrusive late-stage investigation by the CAA into consumer preferences; and
  - Consumer engagement and its impact on the regulatory regime becomes as much about the ‘journey’ as the ‘destination’ – we want a process that delivers good outcomes for consumers, but we want these outcomes and the evidence-based way in which they are formed to be internalised by HAL.
12. In practice, we will need assurance that the final business plan that HAL submits to us is based on robust, effective engagement with consumers and that it reflects their needs. We intend to do this by asking the CCF, to provide us with written reports on HAL’s initial and final business plans to help inform our decision on the regulatory settlement.
13. Although not the focus of this paper, we also intend the CCF to have an ongoing role in terms of scrutinising and challenging HAL on the implementation of its business plan, with the proposals set out in this document being relevant to the post-2019 H7 price control period as well as the 2016-18 H7 price review.

## **CFC scope**

14. For clarity, we do not currently expect the CCF to step into the shoes of the CAA and pore over the full range of traffic projections, opex, capex and other assumptions that will need to be assessed through the H7 review. This would be impractical for a group of the size envisaged and, in any case, we think it is important that we should continue to play a

significant role in scrutinising these proposals ourselves, assisted by the process of constructive engagement<sup>4</sup>.

15. Instead, we see the CCF as adding particular value in the area of outcomes based regulation, which is a key strategic theme for the CAA in H7 and will be the subject of a forthcoming industry seminar. Broadly, as the basis for its business plan, we want HAL to consult upon and develop:
  - A suite of consumer focused outcomes;
  - The measures of success that will be used to assess the delivery of those outcomes; and
  - The incentives that will be applied to ensure the outcomes are delivered.
  
16. We are therefore signalling that, for H7 at least, our particular interest lies in the CCF's views on:
  - In the first instance, **the quality of engagement carried out by HAL in order to understand consumers' needs** – if this is not done well then we are unlikely to see the business plan as credible (see Annex B for our view on the characteristics of good engagement);
  - If HAL succeeds on the first count, **the extent to which the outcomes that HAL intends to achieve reflect the needs of consumers and are supported by robust evidence**; and
  - **The appropriateness of the outcome performance standards (OPS) proposed by HAL** (for example, whether performance targets are sufficiently challenging).
  
17. That is not to say that our interest in these more strategic areas should prevent the CCF from challenging HAL on the evidence base for other aspects of its business plan, and making a case for us to consider the CCF's views in these areas. In line with our intention that the CCF has a

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<sup>4</sup> Further details of our proposed approach are set out in the discussion document (see Annex 8) and will be considered in greater detail through the 'promoting cost efficiency and financeability' seminar.

primary objective to act solely in the interests of consumers, it should therefore be empowered to scrutinise and challenge the aspects of HAL's business plan where it can add particular value. We believe that this approach provides a clear steer for the group, and the minimum set of activities for which it will need to be resourced by HAL, without being unduly restrictive. This should help to ensure that HAL carefully considers the consumer benefits of all of its proposals on the basis that any of them could be scrutinised by the CCF.

18. In order to realise the benefits set out above, we believe that the CCF needs to work closely with HAL throughout the business planning process. HAL will therefore need to be given a reasonable amount of discretion over how the CCF is set up and run – not least as the initial work of the CCF should align with HAL's business planning processes. We therefore welcome HAL's willingness to set up and run the CCF.
19. We are, however, very clear that CCF is an enhancement to existing processes rather than any replacement of CE between HAL and the airlines. We also wish to manage the risk of giving HAL too much influence over the CCF. We are aware that some stakeholders have similar concerns, particularly in relation to how the CCF's independence will be assured and how transparent its work will be. These issues are also of fundamental importance to us, as we want to be able to place weight on the CCF's views in our final determination. The credibility of the group is of the utmost importance to all stakeholders, and our proposed minimum standards are designed to ensure this credibility.

### **Draft guidance on minimum standards**

20. **We have therefore produced draft guidance setting out the minimum standards that we believe the CCF needs to operate to in order for us to attach weight to its conclusions, and for us and other stakeholders to be able to hold it to account.** These can be found at Annex A of this paper. While we intend for HAL and the CCF to work together to determine the appropriate operating model for the CCF, we would expect to see these minimum standards codified in the CCF's

corporate documents, which should include a Terms of Reference (ToR) governing the CCF's objectives and a Memorandum of Understanding (MoU) governing HAL's commitment to ensuring the CCF's effectiveness.

21. In summary the minimum standards we are proposing are:

- **Establishment of the CCF**
  - A clear and robust definition of independence.
  - An open and transparent appointment process for the CCF Chair, which is not controlled by HAL's executives.
  - Limited terms of appointment for CCF members and an overall cap on the duration of any member's appointment.
  - No direct remuneration of the CCF by HAL.
- **Terms of Reference for the CCF**
  - A primary objective to act solely in the interests of consumers, including ensuring that the CCF takes account of all relevant consumer insight in its deliberations, not just information provided by HAL.
  - A clear steer on the areas where the CCF's views are likely to be of particular interest to us.
  - A requirement for the CCF to raise concerns and make recommendations where it sees fit, with escalation to the CAA as a last resort.
  - A requirement to make all reports, along with comprehensive minutes of meetings, publicly available on HAL's website at the earliest opportunity.
- **Memorandum of Understanding between HAL and the CCF**
  - HAL must provide reasonably requested information to the CCF.
  - HAL must provide sufficient resources to the CCF, including administrative and analytical support.
  - HAL must facilitate the timely escalation of CCF concerns to its senior management.

- A 'comply or explain' requirement, where HAL must either address concerns raised by the CCF or explain formally in writing why it does not intend to do so.
- Relevant airline and other stakeholder views are able to be directly represented to the CCF, without the possibility of filtering by HAL.
- HAL must publish all CCF reports and information on the CCF's behalf on its website, and in a timely fashion.

## **Next steps**

22. Following the seminar we intend to finalise and publish our guidance in order that the process to recruit and appoint the CCF can begin, with a view to concluding this process by mid-July 2016.



# Draft guidance on minimum standards for the H7 Consumer Challenge Forum (CCF)

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## Section 1 Establishing the CCF

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### Expertise and experience

23. The CCF must have sufficient collective expertise and experience to make judgements on the quality of HAL's consumer engagement and the evidence of consumer needs and preferences underpinning HAL's business plan, and challenge HAL accordingly on these aspects.
24. We do not propose prescribing the exact expertise and experience that the CCF should have. However, at a minimum we would expect the CCF to collectively have a strong track record in the following four broad areas, coupled with an ability to empathise with the needs of end users:
- Consumer research and insight, including how the needs of consumers with particular requirements can be understood.
  - Evidence-based policy/strategy development.
  - Consumer policy and economic regulation, ideally with a sound understanding of outcome-based incentives.
  - Business delivery / major project implementation.

### Independence

25. The independence of the CCF is absolutely fundamental to its function: in order for the CCF to provide credible and effective challenge to HAL it must be independent of HAL. Furthermore, if the CCF is seen by other stakeholders as 'captured' or susceptible to capture by HAL, it will not be seen as legitimate.
26. In this context, 'independence' primarily relates to a CCF member's independence of HAL as the regulated provider. In the first instance, CCF

members must be free of any conflicts of interest that might interfere with their capacity to act independently of HAL and solely in the interests of consumers.

27. However, we recognise that simply being independent of HAL may not be sufficient, as this could in theory allow representatives of commercial parties operating at Heathrow to be appointed to the CCF (e.g. airlines, ground handlers, retail concessionaires etc.). Such parties have a commercial interest in the outcome of the H7 price review. In some cases these interests may not align with the interests of consumers. Accordingly, CCF members must have no commercial interests at Heathrow.

28. In practice, all of the above means that a CCF member must not:

- Be an employee of HAL or paid by HAL for any role other than that which they fulfil on the CCF;
- Be an employee of any commercial party currently operating at Heathrow;
- Have within the last three years been an employee of HAL or a commercial party currently operating at Heathrow, or have been paid by HAL or any such party for any role within the last three years;
- Have, or have had within the last three years, a material business relationship with HAL or any commercial party currently operating at Heathrow; and
- Take on any paid or unpaid role with HAL or any commercial party currently operating at Heathrow during the term of their appointment to the CCF, or within one year of that term coming to an end.

## **Membership**

29. It is important to strike an appropriate balance between the cost of operating the CCF, which will ultimately be borne by consumers, and having a range of expertise and experience on the CCF. Our view is that the CCF should have a minimum of five members; this should allow for sufficient coverage of the areas of expertise/experience set out above, plus the Chair, which is a role that typically requires additional capabilities.

30. The CAA's Consumer Panel is an independent body tasked with holding the CAA to account on its strategic objective to ensure choice and value for consumers, and as such has a clear interest in monitoring the work of the CCF. The CCF's ToR should therefore include a requirement to keep the Consumer Panel informed of its work. In addition, our view is that there may be merit in having at least one member of the Panel also being a member the CCF. Therefore, Consumer Panel members should be considered for appointment to the CCF.
31. While employees of commercial parties operating at Heathrow should not be appointed to the CCF, we consider there may be value in allowing current representatives of the broader industry (such as trade body employees) to be considered for appointment. Such candidates may bring valuable, in-depth knowledge of airport operations and regulation to the CCF's assessments of HAL's business plan; their direct connection to the sector may mean that they are better placed than 'individual' (i.e. non-aligned) CCF members to contribute such a perspective. As we explain below, we consider it essential that wider stakeholder views (particularly airlines) are able to be directly represented to the CCF. An industry representative on the CCF would be one way that this could be achieved, although not the only way.
32. Any value that corporate persons could bring to the CCF must be tempered by the need to ensure that the CCF does not become dominated by specialist interests, however broad. Therefore, in addition to meeting all of the other criteria set out in this document, any industry representatives should always be in a clear minority (i.e. a ratio of at least three individual members for every industry representative), and should never be appointed to the position of Chair. Rather, it should be the independent Chair's decision as to whether industry representatives are appointed to the CCF; a position should not be automatically reserved for them.
33. If an industry representative is appointed to the CCF, this should be in the form of a named individual, rather than a 'corporate seat' on the group.

This will help to ensure that such a member can be held individually accountable. A named individual would also provide continuity and better allow for the accumulation of expertise and experience within the CCF.

## **Appointment process**

34. The CCF's independence is crucial to its ability to provide credible and effective challenge to HAL. There is clearly potential for conflicts of interest in the appointment process, resulting in the appointment of members with personal ties or obligations to those making the appointments, and who may not put consumers' interests first.
35. therefore expect an open and transparent appointment process. Although we do not intend to be overly prescriptive, in our view, such a process would involve open advertising or the use of an external search consultancy, as well as the close involvement of the CCF Chair in the appointment of other CCF members. For the avoidance of doubt, we consider it particularly important that the appointment (and removal) of the Chair is not a process that is controlled by HAL's executives.
36. the appointment of the CCF Chair, we want to see the use of a tripartite appointment panel, involving representatives of HAL, airlines operating at Heathrow and the CAA, to give all key stakeholders confidence in the suitability of those appointed to the CCF.

## **Duration of appointment**

37. The overall duration of appointment should be capped, with a limit to each term of appointment. Our view is that three year terms with the Chair and members eligible for reappointment once (i.e. a cumulative maximum duration of six years) would strike the right balance between allowing enough time for a CCF member to become effective in their role and continuing to provide effective challenge to HAL.
38. As well as aligning with the UK Corporate Governance Code, a three year term would ensure that the initial appointment terms would straddle the H7 price review and the early part of the subsequent price control period.

This is important as our expectation is that independent challenge and scrutiny will be an enduring feature of the regulatory regime, that is to say it should be focused on the implementation of HAL's business plan, as well as its development.

39. We would expect HAL to maintain the continuity of the CCF's expertise and experience through its management of appointments, with staggered terms of appointment – as operated by the CAA with regard to our Consumer Panel – being one obvious way to do this. We would also expect HAL to run an open and transparent reappointment process to mitigate the risk of existing members seeking favour from those deciding on their reappointment.

## **Remuneration**

40. We do not believe that the CCF should be remunerated directly by HAL. Instead, the CCF should be paid by the CAA with its costs recharged to HAL. We note that there is little in the way of precedent for payment arrangements from other regulated sectors. In these sectors members of equivalent bodies have tended to be drawn from organisations with a prevailing statutory or commercial interest in the price review (e.g. in the case of Ofwat's Customer Challenge Group, members came largely from the Consumer Council for Water, the quality regulators and large industrial users of water).

## **Section 2**

### **Terms of Reference for the CCF**

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41. While the CCF and HAL should have considerable scope to develop their own working practices and prioritise their work, a publicly available, minimum Terms of Reference (ToR) will provide all stakeholders with certainty and confidence over the role and remit of the CCF and how we intend to take account of its views in H7.

## Primary objective

42. The primary objective of all of the members of the CCF should be to act solely in the interests of consumers, as defined in the Civil Aviation Act 2012. This should be explicit in the CCF's ToR, which should be agreed with HAL and published on HAL's website shortly after the CCF is established.
43. As stakeholders other than HAL, such as airlines, are likely to hold insight that is relevant to the CCF's deliberations, we would expect the CCF to ensure that HAL is continually challenged on how it has made use of this insight in the development of the proposals it brings to the CCF. (As set out below, we also expect HAL to ensure that other stakeholders' views can be directly represented to the CCF without the possibility of filtering by HAL.)
44. The CCF's ToR should also cover rules relating to the resourcing of the CCF, including meetings and operation, confidentiality arrangements, appointment/reappointment processes and duration of appointments. The CCF and HAL should also review the CCF's ToR from time to time, not less than every two years.

## Focus

45. We see a strong link between the CCF and our objective of introducing a more explicitly outcomes based form of regulation at Heathrow. We are therefore signalling that, for H7 at least, our particular interest lies in the CCF's views on:
  - In the first instance, **the quality of engagement carried out by HAL in order to understand consumers' needs** – if this is not done well then we are unlikely to see the business plan as credible (see Annex B for our view on the characteristics of good engagement);
  - If HAL succeeds on the first count, **the extent to which the outcomes that HAL intends to achieve reflect the needs of consumers and are supported by robust evidence**; and

- **The appropriateness of the outcome performance standards (OPS) proposed by HAL** (for example, whether performance targets are sufficiently challenging).

46. That is not to say that our interest in these more strategic areas should prevent the CCF from challenging HAL on the evidence base for other aspects of its business plan, and making a case for us to consider the CCF's views in these areas. In line with our intention that the CCF has a primary objective to act solely in the interests of consumers, it should be empowered to scrutinise and challenge the aspects of HAL's business plan where it can add particular value. We believe that this approach provides a clear steer for the group, and the minimum set of activities for which it will need to be resourced by HAL, without being unduly restrictive. This should help to ensure that HAL carefully considers the consumer benefits of all of its proposals on the basis that any of them could be scrutinised by the CCF.

## **Raising and escalating concerns**

47. The CCF must be able to present a credible challenge to HAL. As such, the ToR must require the CCF to raise concerns and make recommendations as it sees fit. In practical terms, our view is that this means the CCF being able to raise concerns with HAL's senior management, including its Board if necessary. HAL must have the right to respond before the CCF takes its concerns further. We would expect HAL to take all necessary steps to facilitate the escalation of concerns raised by the CCF within its management structure (see below).
48. Further escalation should be a last resort and HAL should make every effort to remedy the situation first (and the CCF should also allow a reasonable amount of time for this to happen). However, where the CCF has raised material concerns to HAL's management and believes that they have not been addressed satisfactorily, the CCF must be able to escalate such concerns to the CAA to deal with as we see fit. We believe it is necessary to put the force of regulation behind the escalation route in

order that the CCF has 'teeth'. This lever will be bolstered by requiring the CCF to produce and publish its reports and other documents.

## Transparency

49. Once the H7 timetable is finalised, we will specify the points at which we expect the CCF to report independently to us. We will expect the CCF to produce an interim report on HAL's initial business plan and a final report on HAL's final business plan, with a particular focus on the areas set out above. However, the CCF may report independently to us at any time, although, as set out above, we would expect it to raise any issues with HAL in the first instance and allow HAL a reasonable opportunity to respond.
50. To enable scrutiny of the CCF's work, as well as how HAL has responded to it, the CCF's reports to us must be made publicly available on HAL's website. Similarly, the agendas and comprehensive minutes for meetings between the CCF and HAL should also be made publicly available on HAL's website as soon as they have been agreed between the CCF and HAL.
51. Particular attention should be paid to ensuring that the process of engagement on specific issues is adequately described in the CCF's public reports. This could, for example, help prevent the outcomes of a dynamic engagement process, such as the CCF's eventual acceptance of HAL's response to challenge, being misconstrued as 'capture'. Keeping a 'challenge log', which could be appended to the CCF's reports to us, would be one effective way of doing this.
52. Finally, the work of the CCF should be particularly open to scrutiny by the CAA's Consumer Panel, which is tasked with holding the CAA to account on matters of consumer interest. The CCF Chair should therefore be obliged through the ToR to meet at appropriate intervals with the Consumer Panel and we would expect the Chair of the Consumer Panel to be consulted on these arrangements.



## **Section 3**

### **Memorandum of Understanding between HAL and the CCF to ensure the CCF's effectiveness**

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53. This section sets out the steps that HAL should take to ensure that the CCF is effective. These requirements should be formalised in a Memorandum of Understanding (MoU), which should be made publicly available on HAL's website.

#### **Providing information and analysis to the CCF**

54. The CCF will need to have access to detailed, high quality information, such as consumer research data, in order to perform its role effectively.
55. We recognise that there may be a tension between what the CCF requires and what HAL is willing to provide, given the costs of obtaining information and carrying out analysis on the CCF's behalf. Ultimately these costs will be borne by consumers. Information requests must therefore be reasonable (i.e. proportionate to the costs) and if the CCF and HAL cannot agree on whether a request is reasonable or not we would expect the CCF Chair to be able to raise a concern with HAL's management, escalating the concern to us if necessary.
56. Confidentiality and commercial sensitivity should not be reasons for declining an information request, as HAL should ensure that arrangements are in place for sharing such information with the CCF.

#### **Providing sufficient resources**

57. Similarly, the CCF is likely to need administrative support from HAL in order to perform its role. It may also, from time to time, require HAL to fund the provision of independent advice, such as from market research, regulatory or operational specialists. As with information requests, the CCF and HAL may disagree over the reasonableness of a request for resources. In such cases we would also expect the CCF to be able to escalate its concerns to HAL's management and, ultimately, to us.

## **‘Comply or explain’ requirement**

58. Although the CCF will not have decision making authority, it is essential that HAL listens and responds to its concerns. As such, where the CCF raises a concern under its ToR, we would expect HAL to take reasonable steps to address the concern, or explain formally in writing to the CCF why it does not intend to do so. These exchanges between the CCF and HAL could be published in the CCF’s reports to the CAA, which would also be made publicly available.

## **Ensuring other stakeholders’ views are directly represented to the CCF**

59. We recognise that HAL is not the only party in the industry with insight into the experiences and needs of consumers using Heathrow. For example, airlines operating at Heathrow have also told us that they hold a considerable amount of useful insight in these areas. As such, while it makes sense for the CCF to primarily face HAL (given that it is HAL’s business plan that is being scrutinised and challenged), it is important that the CCF also has access to relevant insight from airlines and other stakeholders in order that it can compare and contrast the findings of different parties’ evidence.
60. We intend to leave it to HAL and the CCF to decide how the direct representation of other stakeholders’ views (i.e. without the possibility of filtering by HAL) to the CCF should be facilitated. As noted above, in the case of airlines, one possible way to achieve this could be through the appointment of an industry representative to the CCF, who could be the main point of contact for airlines. Alternative approaches could involve the CCF holding sessions to engage with airlines and get direct feedback, or airlines establishing a committee to feed views into the CCF.

## **Making CCF reports and other documents publicly available**

61. We consider it essential that the CCF’s reports, minutes and other corporate documents, including the CCF’s ToR and the MoU between HAL and the CCF, are made publicly available on HAL’s website. This will

ensure that the CCF's work is transparent to all stakeholders and that it can be held to account effectively. With regard to meeting minutes in particular, these should be comprehensive, approved by the CCF Chair, and published on HAL's website as soon as possible after the meeting.

62. As the CCF is unlikely to have its own online presence, we would expect HAL to publish all reports and documents on its own website and ensure that key stakeholders are alerted as soon as they are published.

## Guidance on consumer engagement

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We do not intend to prescribe how HAL should engage with consumers as such an approach is unlikely to support the internalisation of evidence-based, outcomes-focused thinking within HAL that we want to see. It is for HAL to build these relationships, and take responsibility and accountability for ensuring it can effectively communicate and understand consumers' views. We see the CCF playing an important role in holding HAL to account on these points.

That said, we do expect HAL to use the full range of information at its disposal (including, for the avoidance of doubt, insight and intelligence from airlines and other stakeholders) and to carry out robust new consumer research where appropriate. HAL should follow good consumer research practice, and not seek simply to establish consumer support for the business plans it has already designed. Instead, HAL should genuinely seek to shape its plans to reflect the desires and needs of current and future consumers.

Ultimately HAL should look to the CCF for advice and challenge on its approach to consumer engagement, and how its findings should be interpreted. Nonetheless, we do believe that some high-level guidance on what good engagement looks like would be beneficial at the outset. The characteristics of good engagement set out below are adapted from a similar, non-exhaustive list developed by Ofwat for its 2014 price review (PR14).

### Scope

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- A continuous process, which builds knowledge, insight and understanding between HAL and consumers, not just one-off at business planning time.
- Proportionate to the materiality of likely impacts of overall plan or particular major capital projects on charges or service levels.
- Engaging with consumers on all elements of the plan – not predetermining what may or may not be of interest to them.

- Segmenting different consumer types where appropriate and using the right tools to elicit the views of each type, including business and leisure passengers, and those with particular needs.
- Seeking the views of those representing different local consumer interests (such as Age UK and disability groups).

## **Approach**

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- Evidence based, with facts gathered through an appropriate range of tools (such as market intelligence and insight from consumer complaints or feedback, surveys, focus groups, existing market intelligence, or revealed preferences).
- Understanding and balancing the differences between different consumer segments, including current and future consumers.
- Where appropriate, working with consumer representatives and stakeholders, not only in planning and conducting the engagement, but also in interpreting the responses.
- Objective and impartial – with an open approach to understanding and reflecting consumers' views on a range of issues, rather than consulting to generate support for a particular course of action.
- Seeking views on priorities and preferences, and offering choices based on a realistic set of price–service trade-offs, informed by clear and reasonable assumptions on costs and price impacts.
- Informing the development of business plans at every stage, not merely a validation tool once a plan is developed.
- Using reputable contractors (for example, members of the Market Research Society), and taking account of current good practice (such as that published on willingness to pay surveys and cost-benefit analysis).