



## CONSUMER CHALLENGE BOARD (CCB)

### CHALLENGE LOG VERSION 6 – 15/09/2019

Challenge Log No	Area	CCB Challenge	Response and Follow Up	Status
<b>Comments on HAL's Work</b>				
1	Quality of HAL's consumer engagement strategy	<p>The CCB role is:</p> <ul style="list-style-type: none"> <li>• to critique and scrutinise HAL's consumer engagement, and</li> <li>• to comment on the degree to which that engagement is driving HAL's business planning and the extent to which the "golden thread" of consumer engagement and insight is reflected in the content of the business plan.</li> </ul> <p>In previous updates of this Challenge Log, the CCB had noted and welcomed the publication of the Consumer Engagement Strategy, and the progress made in terms of increasing awareness and use across the business. The CCB had become concerned that, while there have been a number of individual workstreams which have driven a considerably richer understanding of HAL's consumers, there did not appear to be a clear line of sight to the "golden thread" which should be driving the development of the H7 business plan.</p> <p>At its meeting of 19 August with HAL, the CCB felt a measure of reassurance of a more coordinated approach to business planning on the part of HAL, and the role of consumer engagement in driving this. However, significant concerns remain. It is therefore still not totally clear to the CCB if, and how, the over-arching, integrated strategy, rather than the component parts, is delivering its purpose and what it set out to achieve, and is in line also with the good practice principles on consumer engagement; nor who in HAL has the single overview of the process. The CCB has previously requested a report on the overall progress of the Consumer Engagement Strategy and, with only a few months to go until the publication of the Initial Business Plan, we are now seeking this assurance on the strategic outcomes of delivery in addition to the regular</p>		<p><b>Amber</b> →</p>

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		series of reports on the individual work package inputs. The CCB would welcome a narrative report on this topic.		
2	Quality of HAL's consumer engagement driving master-planning and Expansion plans	<p>The CCB published its report into the degree to which consumer engagement has driven HAL's masterplanning in June 2019. The report can be found <a href="#">here</a>:</p> <p>The CCB has had the opportunity to discuss its report with relevant stakeholders, including HAL, the airline community, the CAA, and the DfT. Major follow-up items are dealt with in more detail below.</p>		Amber →
3a	WTP Outcome/ Aggregate Benefit Study	<p>The CCB has questioned the level of the WTP valuations, requesting clarifications and external validations, whereas HAL have consistently accepted the results.</p> <p>The results suggest that consumers are willing to pay a significantly higher passenger charge to enjoy marginally enhanced service levels. This appears to contradict the "affordability challenge" and is at odds with observations on the direction of price in the wider consumer air travel sector. Neither HAL or Systra has provided any commentary that adequately provides a persuasive explanation for this variance.</p> <p>On the 18 March the CCB received a debrief on the Aggregate Benefit Study (ABS). The results of the ABS broadly agree with those from the previous WTP study. The recommendation from Systra is that the original WTP valuations do not require any further scaling (beyond the 66 percentile). However, and importantly, HAL can point to the WTP and Aggregate Benefit Study as two independent robust consumer</p>		Green →

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		engagement projects that produce results that are aligned.		
3c	Cost Benefit Analysis	<p>On 10 July HAL shared with the CCB the ICS Valuations and Cost Benefit Analysis (CBA) report. The CCB highlighted that the CBA was based on the original WTP values, as opposed to the agreed scaled values. A second version of the report was produced on the 13/8, with an additional CBA section based on the scaled values. Though it is worth noting that the report's central scenario was still based on the unscaled WTP values.</p> <p>Challenges:</p> <ul style="list-style-type: none"> <li>• Has HAL now accepted that the scaled WTP will form their central (or perhaps only) CBA scenario featured in the IBP?</li> <li>• Does HAL accept that even using the scaled WTP values the CBA still produces results that are not credible (with particular reference to baggage loading)?</li> <li>• The report concludes that the CBA has not found the upper boundary of consumers' willingness to pay for investment. The CBA analysis would carry more credibility if at least some investment opportunities were found not to be cost beneficial. There is a risk that either HAL is not being ambitious enough in its investment plans or that the WTP/consumer benefits are inflated.</li> </ul> <p>Thinking about the coming Initial Business Plan (IBP) the CCB would encourage HAL to adopt a holistic and consistent approach to their understanding of consumers' willingness to pay for service improvements and expansion. We suggest that their approach should be firmly based in the results of their own consumer engagement.</p> <p>Currently the WTP, the design of the Choices research, the 'affordability</p>	<p>It should be clarified that the central scenario of the revised CBA report used the 67<sup>th</sup> percentile values as the central case. However, for the purpose of demonstrating how the analysis worked, the mean values were used.</p> <p>Heathrow confirmed, in a note provided on the 11<sup>th</sup> September, that the scaled WTP values will form the only scenario used for prioritization of investment in the IBP.</p>	<p style="text-align: center;">Red ↓</p>

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		<p>challenge’ and the CBA all appear to point towards different interpretations of consumers’ expectations, priorities and willingness to pay.</p> <p>The CBB will scrutinize and constructively challenge the IBP for consistency and credibility in HAL’s understanding of consumers’ willingness to pay (as represented in the CBA sections) for planned investments in H7 and expansion.</p>		
4	Appropriate reflection of vulnerable consumers in HAL’s business planning	<p>The CCB aims to ensure effective consumer engagement underpins HAL’s business planning process and considers the needs of a wide range of consumers who are potentially vulnerable when using the airport. This includes those with hidden disabilities as well as Passengers with Reduced Mobility (PRMs), and other groups of consumers that struggle to access or obtain a satisfactory level of service at the airport.</p> <p>HAL continues to progress in-depth research focusing on the needs of passengers who might benefit from extra care while travelling through Heathrow, and the CCB welcomes HAL’s commitment to this area of the research and engagement strategy. The research is yet to be completed and so the CCB has not seen the full findings in detail. As in Version 5 of our Challenge Log, we have maintained a green RAG rating and look forward to seeing how the research findings will be reflected in HAL’s business planning and masterplanning processes. We remain concerned that HAL’s learning on vulnerability is still absent from some key areas including, for example, masterplanning and surface access. The CCB expects to see an understanding of and approach to vulnerability embedded across all areas of HAL’s work.</p>		<p>Green →</p>

5	Quality of consumer engagement and research to inform surface access plans	<p>HAL’s evolving Surface Access Strategy is driven by the requirement to meet the National Policy Statement (NPS) conditions for Expansion: that by 2030, 50% of passenger journeys to/from Heathrow be via public transport, and that construction and operation not cause the UK to violate air quality standards. Whilst the CCB understands and supports the importance of this undertaking, the CCB has urged HAL to develop a comprehensive strategy driven by the consumer perspective, with this “golden thread” overcoming fragmentation by mode, provider, on / off-airport, and the hardware / software split between infrastructure and services.</p> <p>Instead, the currently drafted Surface Access Strategy, presented as a significant part of the public Airport Expansion Consultation underway between 18 June and 13 Sep, makes little reference to the consumer. Whilst the planning consultation has a variety of different audiences, the absence of the consumer view means that the Surface Access Strategy cannot be said to be obviously consumer-driven.</p> <p>In fact, HAL has undertaken a considerable amount of consumer engagement on Surface Access issues. HAL’s April synthesis of 30 recent pieces of consumer research on surface access highlighted three key themes: Speed, Ease and Trust. Consumers seek a seamless, reliable journey which minimises stress. Cost is evaluated in the context of value for money in achieving this. Trust is based on personal experience, and therefore familiarity and habit, with little awareness of alternatives. HAL can, and should, use and develop its knowledge of the consumer view to improve user choice, knowledge, and benefits – fostering the change in use of surface access entailed in meeting the NPS objectives.</p> <p>The emphasis on compliance rather than the consumer has shaped both what HAL has chosen to research and how. Aside from the Ultra-Low</p>		<p>Red →</p>
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		<p>Emissions Zone (ULEZ) and Heathrow Vehicle Access Charge (HVAC) discussed in Challenge 13 below, other recent exercises in consumer engagement on surface access serve as examples of the difference between a compliance and a consumer orientation.</p> <ul style="list-style-type: none"> <li>• In April HAL tested messages about its future actions on transport projects, but the messages emphasised HAL and conveyed little about benefits to consumers.</li> <li>• In the August in-person workshop of select UK members of Horizon (HAL’s online consumer panel), participants, unprompted, brought up the links between surface access, environmental concerns, and trade-offs between private vehicles and public transport in availability, time, number of changes and accessibility – i.e. Speed, Ease and Trust.</li> <li>• The increasingly widespread recognition of these links suggests that HAL can deepen its consumer engagement on strategic and quantified choices beyond proposing an ULEZ charge and HVAC – including informing consumers about the Passenger Service Charge (PSC) and trade-offs between the PSC and public transport improvements.</li> </ul>		
6	Quality of consumer research and engagement to inform consumer priorities on the arrivals experience	Previously, the CCB have expressed concern that HAL was not undertaking any dedicated consumer research to understand how consumers would like to see things improved in respect of the arrivals experience. We were therefore pleased to receive a report setting out work done by HAL to consolidate all consumer insights in respect of the arrivals journey and identify gaps where further consumer research could be undertaken. We are satisfied that this was a very comprehensive piece of work which identified a number of general themes and identified options for HAL to improve the arrivals process. In addition, the report also identified gaps for possible future research.	As we presented at the 19 <sup>th</sup> August 2019 CCB meeting the follow-up Ethnographic Research on Arrivals is planned for Q1 2020.	Amber ↑

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		<p>The CCB commends the approach taken to consolidate the arrivals insights but is not aware of any follow up research planned at this stage. It is suggested that consideration should be given to determining which actions are to taken forward in H7 and confirm timescales for any follow up research to be undertaken.</p>		
7	<p>Airport operational resilience</p>	<p>As required by the CAA, HAL’s resilience plans are produced in collaboration with airlines and other organisations operating at the airport to ensure passenger inconvenience is minimised during disruptions.</p> <p>The CCB has been seeking to understand, for some time, what resilience related consumer engagement is being carried out in the development of HAL’s business plan.</p> <p>This also pertains to the proposed interim (2 runway) Expansion from 480k to 505k ATMs, around which there does not appear to have been any consumer engagement to date.</p> <p>Until very recently, the CCB had not seen any substantive evidence that consumer engagement has been a central part of HAL’s approach.</p> <p>At the end of July, HAL shared with, and gave the CCB, the opportunity to comment on, a research brief on operational resilience. HAL responded positively to the CCB’s input and incorporated it into the final brief. This has now been reflected in what is a very promising proposal by the contracted agency, Populus.</p> <p>The CCB looks forward to seeing the outcomes of the research but remains concerned about the timing. Resilience is a critical area at the heart of the consumer experience and the overall airport operation and efficiency. Although this research is timed to finish in the autumn, the CCB understands that planning for the Interim Business Plan (IBP) is well-advanced and is concerned that the timing of the research outputs will mean that the consumer voice in resilience planning will not be adequately</p>		<p>Amber ↑</p>

		<p>reflected in the IBP.</p> <p>In addition, HAL launched a consultation on airspace as a part of the broader Expansion planning. The CCB expects consumer engagement and insight to be a key part of its airspace strategy and remains concerned that there is no plan for HAL to undertake this.</p>		
10	Quality of engagement from airlines in respect of consumer engagement	<p>The CCB recognises that the evolving relationship between the airlines and HAL is more positive than has historically been the case. We do, however, note continued concern around the timeliness of the airlines' input to the process. The CCB has only recently received an airline response to Version 5 of our Challenge Log which was published in April 2019.</p> <p>As in its response to Version 4, the LACC continues to express a fairly high level of concern and dissatisfaction with some key aspects of HAL's engagement.</p> <p>As the Business Plan deadline approaches and masterplanning gathers pace, it is critical that there is open, timely and constructive engagement between HAL and the airlines.</p>		Amber →



<p>11</p>	<p>Engagement with future consumers</p>	<p>HAL should ensure that research and engagement is proactive and seeks to determine consumers’ needs, wants and priorities. This should include the views of those consumers who do not currently use the airport, and the needs of future consumers. For example, the increase in capacity post-Expansion should economically result in a reduction in overall ticket prices, as a result of increased competition. In turn, this may attract new and different consumers including a greater number of more budget-minded to use Heathrow.</p> <p>Expansion will also likely open-up new destinations and HAL should consider whether consumers from these geographies are likely to have different requirements from the current destination mix.</p> <p>The CCB would expect HAL to engage more widely with bodies representing for instance the different demographic, economic and geographic characteristics of future consumers to understand their requirements.</p> <p>The CCB received a presentation on econometric modelling of future pax numbers but this is not sufficient to address our concerns as it does not encompass meaningful work on the future profile of consumers passing through their airport and what they would need and want.</p> <p>The CCB has only seen HAL’s plans to engage with young consumers (Generation Z project) and is concerned about the absence of any strategy to gain consumer insights across the range of demographics and backgrounds that will encompass the consumers who will use the airport in the future.</p> <p>The CCB commented on two iterations of HAL’s Generation Z brief and indicated to HAL that it remained cautious about the clarity of the research objectives. Having now seen the proposal by HAL’s preferred supplier, the CCB still has a continuing concern that the overarching objectives of the proposal as written are not geared towards understanding the aspirations</p>	<p style="text-align: center;">Red ↓</p>
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		<p>of the broad range of future consumers who might use Heathrow but are very limited to young people who currently use Heathrow. In particular, the hypotheses put forward suggest that airlines and destinations are unlikely to change which is fundamentally at variance with the concept of Expansion and attracting future consumers who may come from different demographic backgrounds.</p> <p>The CCB has not seen any significant progress in this area since the last published challenge log.</p>		
12	Quality of consumer engagement driving outcomes-based framework and business planning process	<p>The CCB was previously encouraged that the OBR/SQRB regime was developing in a way which is consistent with consumers' values and priorities, although had become concerned that at this stage of the IBP preparation, the identification of proposed outcomes should be further advanced than appears to be the case.</p> <p>The CCB has received presentations on HAL's developing approach to formulating an OBR framework for outputs and incentives and incorporating relevant SQRB inputs. In addition, the CCB has previously communicated to HAL its expectation that SQRB measures should be justified with supporting consumer insight. While it is accepted that some of the SQRB measures which will carry forward to the H7 outcome framework, are enabling measures rather than consumer outcomes in their own right, the CCB believes that some element of consumer engagement to validate these should still be possible and undertaken.</p>	It is not the case that Heathrow's December IBP will be high-level or will not include detail on outcomes, performance commitments or rewards and penalties. The IBP will set out the outcomes Heathrow will look to achieve through the implementation of its plan, alongside the proposed measures, targets and incentives for the period. These will then be subject to further consumer testing and review with stakeholders.	Amber ↑

		<p>HAL has committed to ensuring that all elements of the OBR (including SQRB components) will reflect the entirety of the insights gained via the Consumer Engagement Strategy and not just the WTP attributes and values. HAL has also committed to ensuring comprehensive consumer testing of all aspects of OBR.</p> <p>At its meeting on 19 August the CCB received a presentation from HAL which provided some assurance that there is a plan of consumer engagement, which will provide input to the development of outcomes which are based on what consumers find valuable.</p> <p>The CCB notes, however, that much of this consumer engagement is scheduled for the period between the IBP and FBP, and that the IBP will be high-level, and unlikely to include detail of proposed consumer outcomes, performance commitments on the part of HAL, or associated rewards and penalties. As this, important, aspect of business planning will coincide with the period of Constructive Engagement with the airlines, the CCB has a concern that insufficient attention might at this point be paid to consumers' views.</p> <p>The challenge to HAL is to continue to articulate the process, timelines and key milestones to ensure the CCB's meaningful involvement in the development of the IBP.</p>		
13	Consumer engagement relating to the development of surface access charge proposals	<p>At the time of the CCB's previous Challenge Log in April, HAL completed its initial qualitative consumer research on its proposed Heathrow Vehicle Access Charge (HVAC). The CCB pointed out some weaknesses, and suggested quantitative research be done before positing a price range.</p> <p>Despite this, in its June 2019 public consultation HAL posited HVAC prices which are estimated in traffic models to induce a reduction in car use, rather than supported by the initial consumer research. The posited price range is roughly equivalent to the PSC paid by passengers today, 20% of a week's car parking charges, and 5-10 times access fees charged at</p>	<p>Since version 5 of the challenge log Heathrow has shown the CCB Populus work on the HVAC was both qualitative and a significant quantitative survey. As already discussed, this research did not post a price range but asked passengers to state 4 price points ranging from too cheap to make a difference up to too expensive therefore meaning they would change their</p>	Amber →

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	<p>almost every other UK airport. As such a significant consumer charge, the basis on how it might be charged, the consumer benefits of the charge and its public transport alternatives, and how these are communicated, should have a strong evidence base.</p> <p>In July HAL commissioned further research on whether and how the HVAC will induce modal change from car to public transport, focusing on southern and western regions where car is currently the dominant means of travel. The CCB considers that this project carries some of the same weaknesses as the earlier work.</p> <ul style="list-style-type: none"> <li>• The research was not driven by consumer interests but took as its starting point “HAL needs to do this.”</li> <li>• There is no attempt to understand or to articulate any benefits to the consumer, either directly in smoother journeys (by car or public transport) or indirectly (by contributing to reduced congestion, or in the greater fare and flight choice with Expansion enabled by greater use of public transport).</li> <li>• Rather than no assumptions about the appropriate level of HVAC, the research will have pre-set price points. The CCB is concerned to understand how the price points are determined and why.</li> <li>• This imbalanced approach tests one potential “stick” on one mode without sufficient context on how all future transport alternatives compare on the “carrots” important in consumer decisions: Speed, Ease and Trust. The transport choices of 2030 need to be visualised in comparable detail, including costs, to those of today’s car travel in order for consumer feedback to be informed and useful.</li> <li>• There doesn’t appear to be further exploration of the positive attitudes found in the initial research towards dedicating any HVAC proceeds</li> </ul>	<p>behaviour.</p> <p>The optimal price point coming from this research aligned with the expected range that came from the transport models at the time.</p>	
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		toward public transport.		
14	Lack of Consumer Awareness of Passenger Charge	<p>The CCB notes the limited level of consumer awareness of the departing passenger charge amongst HAL consumers. In order to increase transparency and work towards an on-going dialogue with consumers, the CCB suggests that HAL consider activities to raise awareness of the passenger charges across HAL's entire customer base. The CCB questions whether HAL can demonstrate 'high quality engagement' whilst the vast majority of passengers are unaware of the fact that they are paying consumers.</p> <p>We also have a further concern as to the extent to which this lack of awareness is colouring or biasing the output of HALs consumer engagement. If respondents are not fully aware of their relationship with HAL (i.e. as paying consumers) then it is possible to argue that all research output should be treated with caution.</p>	Heathrow is planning to undertake research to better understand consumer perceptions of the passenger service charge and how/ whether this forms part of their perception of affordability.	Amber New
15	Consumer Engagement on the rebate mechanism associated with the SQRB/OBR scheme?	<p>The CCB would encourage HAL to consider undertaking consumer engagement on the incentive and rebates mechanisms to be adopted in H7 to understand consumer preferences. Under the current regulatory arrangements, any rebates arising as a result of the SQRB/OBR schemes go to the airlines with no mechanism to ensure consumers benefit directly. In addition, this approach results in future consumers potentially benefiting from the rebates arising from service performance experienced by existing consumers.</p> <p>While the CAA has confirmed that they have no plans to change their approach to the regulatory regime for H7, consumers' views on this issue have never been explored. The CCB encourages HAL to undertake engagement to gain the consumer perspective on this issue. This could underpin the design of the incentives/rebates as far as the regulatory regime allows in H7 as well as informing future consideration of the most appropriate approach.</p>	<p>We would ask the CCB to review their comments in this draft log as these are effectively challenges to CAA policy.</p> <p>As clarified with the CCB on 19 August, Heathrow intends to test the proposed incentive scheme with consumers as part of post-IBP engagement. This will include testing both the level of the incentive and the mechanism for payment.</p>	Amber New

## Appendix 1: Closed Challenges

Challenge Log No	Area	CCB Challenge		Status
3a	Quality of Willingness To Pay (WTP) Survey	<p>HAL's major qualitative and quantitative WTP engagement early in its Consumer Engagement Strategy has progressed well. CCB commented on the quality of the research design, influencing a Passenger Prioritisation Survey to identify the 15 attributes to be ranked in the WTP.</p> <p>CCB would expect that the research programme and WTP support the development of the business plan and can assist in identifying potential cost increases and reductions to assist in the prioritisation process.</p>		Blue
8a	Structure of HAL working with the CCB	CCB welcomes HAL's implementation of a more consistent and timely approach to CCB meetings and improvement in its tracking, sharing and management of information and feedback.		Blue
8b	Clarifying respective role in the constructive engagement process	The role of the CCB in the Constructive Engagement phase has still to be finalised. The CCB is concerned that there could be alteration of the outcomes from consumer engagement that the CCB reviewed in the initial business plan. HAL and CAA are open to understanding how CCB can have an enduring role to drive a culture of consumer engagement.	Ongoing dialogue with CAA established. CCB to propose how best it can support the Constructive Engagement process.	Blue
9	Consumer input post business planning	CCB has identified a potential risk that consumer input does not extend beyond agreement of the business plan and price control with the CAA and, as a result, proposals can be changed without consumer input.	CCB plans to clarify this risk with CAA. CAA has not yet defined a policy, however, is aware of this risk and open to reviewing the future role of CCB.	Blue