

Interim report on the progress of airport-airline engagement on new runway capacity at Heathrow airport - May 2017

Advice to the Secretary of State for Transport under Section 16 of the Civil Aviation Act 1982

CAP 1549



Published by the Civil Aviation Authority, 2017

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Aviation House,
Gatwick Airport South,
West Sussex,
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About this document

This document is our latest update to the Secretary of State (SoS) for Transport on how well Heathrow Airport Limited (HAL) has engaged with and responded to the airline community on the appropriate scope, design and costing of new runway capacity at Heathrow Airport.

The Terms of Reference (ToR) for this work require us to provide reports on a quarterly basis. This update describes the process that HAL and the airlines have followed since we provided our initial health check in February. It also sets out our views on the progress towards the recommendations we made in that report¹, principally in relation to governance, affordability and timetabling. We include a number of further actions and recommendations that we expect HAL to progress urgently prior to our next update report in August 2017.

¹ [Letter to DfT February 2017](#)

Executive summary

Introduction

1. The Secretary of State (SoS) has requested that we review and advise him on how well HAL has engaged with, and responded to, the airline community on the appropriate scope, design and costing of new runway capacity at Heathrow Airport.
2. In our February health check we noted that although the engagement process was at a relatively early stage both sides had shown a real willingness to engage with each other in good faith and to make progress. We also highlighted HAL's special responsibilities to take the initiative and bring forward information in the most helpful way practicable, to ensure that airlines understood the information, and to actively resolve problems in a timely and appropriate way.
3. We made three specific sets of recommendations for HAL to urgently address in relation to governance, affordability and timetabling. We also identified five areas which would require additional focus from HAL over the coming months.

Progress since February

4. HAL has made some progress in delivering on the issues set out in our February recommendations and in relation to the areas of additional focus. However, much remains to be done if the process for airline/engagement is to be fully effective and deliver a preferred scheme design that has broad support from airlines and properly reflects the interests of consumers.
5. An example of the progress made is that a new governance structure for the capacity expansion programme has been agreed to sit alongside the existing arrangements for governing capital expenditure. This new structure is currently bedding down but substantial discussions have taken place through various working groups and the key decision making bodies of the Options Steering Group (OSG) and the Joint Expansion Board (JEB). HAL has also shared its cost and price path model with airlines that have signed non-disclosure agreements (NDAs). This should help these airlines understand the impact on the affordability of airport charges from any changes in the expected level and timing of the capital programme.

Airline views

6. There are areas where much less progress has been made. For example, airlines remain concerned about HAL's proposals for a summer consultation, the

processes for effective exploration of options and understanding the implications of options on overall scheme affordability.

7. Airlines have told us that HAL appears committed to the process of engagement and has been open to sharing and reflecting new ideas in its developing plans. Despite this progress, airlines have reported to us a number of ongoing and fundamental concerns around HAL's communication strategy, the quality of information it provides and the depth and robustness of the discussions on options and affordability. These concerns include:
 - HAL's communications strategy and provision of information, including a lack of a tailored communications strategy, a lack of high quality information on cost-efficiency and benchmarking, and concerns about HAL's approach to procurement;
 - Airlines' perception of a lack of progress in addressing affordability issues and the need for better processes to decide on which options should be assessed further and which should be dropped; and
 - timetabling and the relatively rapid pace now required on issues such as affordability and option selection in order to deliver (in a robust and appropriate way) HAL's proposals for a summer consultation.
8. In addition to these concerns, we note limited progress on developing and implementing a plan to ensure that the engagement discussions have properly taken into account the views of passengers and cargo owners.
9. The process is continually evolving and at the time of drafting this report HAL has been providing further information and taking additional steps to address some of these issues. We have no reason to doubt HAL's commitment to making a success of airline engagement, but we remain concerned that significant progress is required across a range of issues. Without this there is a risk that HAL's commitment will not translate into a successful outcome of an agreed overall scheme design that is in the best interests of the aviation community and consumers.
10. In contributing to a mature and meaningful engagement process, we also expect the airlines to continue to engage constructively through bilateral and multilateral channels.

Further actions required

11. In light of our comments above, we are taking the opportunity through this report to identify a number of additional areas for HAL to lead on and address as a matter of urgency. In particular, we expect HAL to complete each of the actions summarised below and report to us and to airlines on progress on a fortnightly basis, starting on Friday 16 June 2017.

Area of concern	Action
1. Governance	<ul style="list-style-type: none"> a. Urgently develop a roadmap with key consultation and engagement requirements tailored to the needs of the airline community, with a particular focus on the proposed summer consultation. b. Improve the quality and content of the governance protocol.
2. Communication and information provision	<ul style="list-style-type: none"> a. Develop a more tailored communications strategy to accommodate the diverse engagement requirements. b. Provide more detailed information to make best use of the cost and price path model / ready-reckoner. c. Make sure that high quality information on cost efficiency and benchmarking is made available to airlines and the CAA. d. Enhance the effectiveness of the Affordability & Business Case Working Group (ABC).
3. Affordability and optioneering	<ul style="list-style-type: none"> a. Provide more detailed information on the impact of emerging options. b. Develop a process for providing carefully justified explanations on why various options are or are not being taken forward with the airlines.
4. Timetable	<ul style="list-style-type: none"> a. HAL should assure itself and the airline community that its engagement process will robustly support its chosen date for issuing its summer consultation. The assurance exercise should demonstrate that it has fully sought, taken into account, and responded to airline views on the options for broad scheme design.
5. Consumers	<ul style="list-style-type: none"> a. Develop and implement an appropriate consumer engagement strategy.

Next steps

12. Capacity expansion is an unprecedented and very complex programme so the delivery of the best outcomes for consumers requires HAL to adopt a fully collaborative, well-organised and effective process with the airline community and other stakeholders. We do not question HAL's commitment to this objective but we expect a step change in terms of execution and implementation to deliver the best outcomes for consumers.

13. In particular, HAL must make progress in taking forward the actions in this report and win the confidence of the airline community so that it will be able to develop and agree a robust and appropriate set of overall options for scheme design. It should not prematurely rule out options and where practicable should agree with airlines on the broad range of options to be included for consultation. This includes options in relation to the length and position of the third runway and whether it is necessary for the new runway to cross the M25 motorway. Such assessments should have regard to the requirements set out in the draft National Policy Statement (NPS) and, in due course, the requirements of the final NPS. Otherwise there is a risk that if HAL goes ahead with its proposals for a summer consultation it will not be sufficiently robust to support the orderly selection of an appropriate final scheme design next year. This may risk HAL having to undertake further consultations later in the process, leading to unnecessary delays in the overall process.
14. To encourage a more focused and timely resolution of key issues we expect HAL to urgently take forward the actions and recommendations summarised in the table above and to report to us and airlines on progress on a fortnightly basis, starting on Friday 16 June 2017. If necessary we will make further interim recommendations and would expect HAL to take urgent action to address these, ahead of our next formal report to the SoS in August.
15. We hope these steps will facilitate improvements in airport/airline engagement, but ultimately responsibility for improving the process lies with HAL. It has a special position in terms of access to information and resources, which should allow it to deliver significant improvements in the engagement process.
16. We also acknowledge that the engagement process is developing and that some of the recent changes may go some way to address certain actions and recommendations in this report. For instance, we have had positive feedback about recent discussions at the Options Steering Group and that HAL is starting to provide more information on cost efficiency and benchmarking. Nonetheless, if engagement is to be successful it is for HAL to demonstrate that it is fully meeting all reasonable airline concerns.
17. Our next update report will be issued at the end of August followed by our final advice to the SoS in November 2017. For the August report we expect to focus on the extent to which the engagement process has led HAL to make improvements to the scope, design and cost of the scheme design.

Document structure

18. This document has the following structure:
 - Chapter 1 includes an introduction and background; and

- Chapter 2 reports on airport/airline engagement between February 2017 and May 2017.

Chapter 1

Introduction and background

- 1.1 To provide context for our assessment of progress this chapter summarises:
- the process that we have followed in producing this assessment; and
 - the key steps in HAL and airline engagement since October 2016.

CAA monitoring activity

- 1.2 In developing our views and monitoring progress on engagement for this quarterly update, we have built up an evidence base from a number of sources including:
- a detailed information submission provided by HAL in response to our request. This document sets out HAL's views on progress in key areas;
 - regular bilateral engagement between us and HAL;
 - regular bilateral engagement between us and airlines and airline representative bodies;
 - regular bilateral engagement between us and the Independent Fund Surveyor (IFS) who act as an impartial adviser to both HAL and the airlines on whether the programme is progressing in a reasonable manner as well as providing assurance that objectives are being delivered in an efficient way;
 - our attendance at the immersion sessions as well as the key governance groups that are relevant to capacity expansion including the Programme Coordination Board (PCB), the Economic Regulation Update Group (ERUG), Options Steering Group (OSG), the Capital Portfolio Board (CPB) and the Joint Expansion Board (JEB); and
 - our review of the information that HAL has posted on its capacity expansion extranet site.

The process leading to our February 2017 report

October 2016

- 1.3 In October 2016 the Government announced that its preferred location for the expansion of airport capacity in the South-East of England was the Heathrow north-west runway. Following the Government's announcement, the SoS requested, under section 16(1) of the Civil Aviation Act 1982, that we review and advise him on HAL's engagement with the airline community on the appropriate scope, design and costing of new runway capacity. The ToR provided for an

initial health check in February 2017, followed by interim reports in May and August and a final report in November 2017.

- 1.4 The ToR² require the CAA to focus on three broad areas:
1. reviewing the engagement process;
 2. identifying and evaluating the outputs from the engagement process, predominantly the changes made to the design of the scheme; and
 3. assessing the effectiveness of the engagement process.
- 1.5 We wrote to HAL in October 2016 setting out our expectations with respect to capacity expansion emphasising the importance of engaging with airlines to help drive efficiency and value for money³. In particular, we explained that we expected:
- HAL to undertake a thorough and meaningful process of strategic engagement with the airline community over the options for the design of the scheme, including the scope, project phasing and expected impact on future airport charges; and
 - Airport-airline engagement to be deeper, more comprehensive and productive than that associated with business-as-usual discussions.

December 2016/January 2017

- 1.6 During December 2016 and January 2017, HAL initiated the engagement process by running a series of immersion sessions to bring the airlines up to speed and to begin the discussions in key areas. HAL has made the presentation material and other outputs from these sessions available on a capacity expansion extranet site.

February 2017

- 1.7 In February, we provided our initial health check to the DfT on whether HAL had made a good start and whether its plans for the remainder of 2017 were appropriate. We noted that in a relatively short period of time there had been extensive dialogue between HAL and the airlines across a broad range of topics. We had seen a real willingness from all parties to engage in good faith and to make progress. Nonetheless, the airline community had identified challenges and difficulties with the way the process had started. We noted this was not necessarily surprising given the timescales for and complexity of the capacity expansion programme.

² [The terms of reference](#)

³ [Letter to HAL](#)

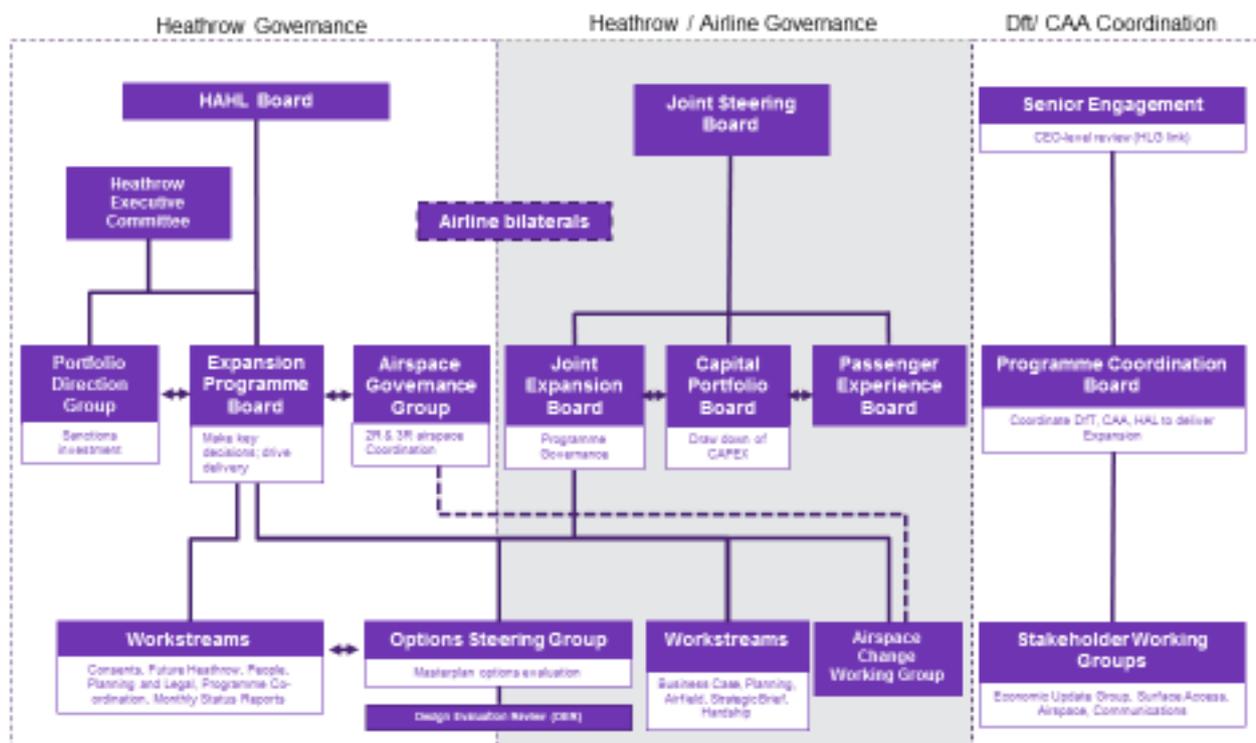
- 1.8 We also noted that HAL had very significant advantages over the airlines in terms of information, dedicated resource and expertise. For that reason, we made it clear that we expected HAL to be able to demonstrate that it is contributing more to problem solving, and showing more focus and urgency in ensuring that issues are tackled effectively and resolved in a timely and appropriate way. We identified three specific recommendations for HAL to lead on and urgently address;
- clarifying the **governance** process;
 - responding to the airlines view that the **affordability** of future charges should be prioritised; and
 - dealing with airlines' concerns relating to the proposed **timetable**.
- 1.9 In addition, we identified a number of other areas which would need additional focus by HAL and the airline community as the process progressed, and we expected to address in future quarterly reports including:
- emerging evidence on cost efficiency, including benchmarking and HAL's likely procurement strategy;
 - emerging evidence on affordability;
 - explicit or implicit trade-offs that may be associated with affordability objectives and the implications of these for future passengers and cargo owners;
 - the extent to which engagement discussions have taken into account the views of (i) passengers and (ii) cargo owners and how best to involve the Heathrow Consumer Challenge Board; and
 - the extent to which HAL have provided engagement opportunities for airlines not currently operating at the airport.

The process March 2017 to May 2017

Airport- Airline Engagement

- 1.10 Since we issued our health check in February, there has been significant airport-airline engagement. HAL and the airlines have agreed a Governance Protocol, and established a number of governance fora and working groups. These fora involve co-working on the Strategic Brief, Airspace Change, Business Case, and Planning as well as key decision making groups such as the Options Steering Group and Joint Expansion Board. The agreed Protocol expands on the Q6 Capital Investment Protocol required under HAL's economic licence. A summary of the agreed governance structure is set out below.

Expansion Governance



Heathrow
Making every journey better

1.11 HAL hosted a third 'Airline Update Session' (also referred to as immersion session) over 15 and 16 May to report on progress in a number of areas to a wider section of the airline community. As well as general updates from the CAA and DfT, these sessions also covered:

- HAL's draft response to the National Policy Statement;
- HAL's consultation strategy;
- airspace change;
- the Masterplan Scheme Development Manual;
- capital estimating/benchmarking and procurement principles;
- options assessment;
- affordability and financial drivers;
- choices and commercial opportunities;
- delivering cost effective terminals;
- airline feedback to HAL; and
- scheme development.

- 1.12 In addition to this multilateral engagement, bilateral engagement between HAL and some airlines continues.
- 1.13 To address the affordability challenge, HAL and the airline community through the OSG and the JEB have been focussing on scrutinising the capital plan for expansion. Major revisions to the proposed masterplan have been made, leading to reductions in the forecast costs. Further work is ongoing to validate these options and take them forward to consultation.
- 1.14 A workshop was held with officials from the Planning Inspectorate attended by HAL, the CAA and a number of airlines to better understand requirements of the planning process.
- 1.15 Some initial progress on understanding passenger views has been made through an introductory meeting with the Heathrow CCB.

Requests from HAL to the airline community

- 1.16 Through its information submission to the CAA, HAL has told us that the airline community has responded well to the establishment of the new governance groups following initial concerns that the airlines were not dedicating sufficient resources to the Programme. However, HAL has urged that airlines should not underestimate the degree to which the level of engagement will continue to grow as the process gets further into the detail of expansion. HAL has requested that airlines continue to review their allocation of resources to the discussions and engagement on capacity expansion.
- 1.17 In addition, HAL has said that for the airline engagement process to continue to shape and improve the programme, a far greater level of information sharing and collaborative working is required from all parties. HAL has said it will commit to sharing more information on business case modelling as well as ensuring more consistent timescales with information sharing to support governance meetings are met. From the airlines, HAL has requested that they share their future network strategies and forecasts for passenger growth. HAL considers this will allow it and airlines to jointly focus resources on other financial levers, in addition to capital cost, including operational cost efficiencies and commercial opportunities to reduce the charge to future passengers further still.

Chapter 2

Airport-airline engagement between February – May 2017

What this chapter covers

- 2.1 This chapter sets out our views on the airport-airline engagement between end of February and end of May 2017 in relation to:
- the progress made by HAL against the recommendations in our February update;
 - areas of concern identified by the airline community; and
 - other areas of concern based on our own observations of the process in the context of our statutory duties and the requirement of the ToR.
- 2.2 This chapter also sets out further recommendations for HAL to address airlines' concerns and to improve airport-airline engagement over the coming months.
- 2.3 In our February update we noted HAL's special responsibility to take the initiative and bring forward information in the most helpful way practicable, to ensure information is properly understood, and to actively look to resolve problems in a timely and appropriate way. We also made three specific sets of recommendations for HAL to urgently address and highlighted five areas which would require additional focus from HAL over the coming months⁴.
- 2.4 HAL has made progress in delivering on the issues set out in our February recommendations and in relation to the areas of additional focus. However, much remains to be done if the process for airline/engagement is to be fully effective and deliver a preferred scheme design that has broad support from airlines and properly reflects the interests of consumers.
- 2.5 In particular airlines have expressed concerns about:
- the Governance arrangements, which airlines consider are work in progress and there is a need to get the governance framework to work better in practice;
 - HAL's communications strategy and provision of information, including a lack of a tailored communications strategy, a lack of high quality information on cost-efficiency and benchmarking, and concerns about HAL's approach to procurement;

⁴ See chapter 1 above for more information.

- the lack of progress in addressing affordability issues and the need for better processes for deciding on which options should be assessed further and which should be dropped;
- timetabling and the relatively rapid pace now required on issues such as affordability and option selection in order to deliver (in a robust and appropriate way) HAL's proposals for a summer consultation; and
- other issues such as the capacity planning and the treatment of future slots.

2.6 In addition to these matters it is also important that HAL's proposals and engagement discussions reflect the views of passengers and cargo owners.

2.7 We address these areas below setting out progress made against our February report, where relevant, and further recommendations for HAL in addressing airlines' concerns.

2.8 Our further recommendations and actions for HAL are summarised at the end of this chapter.

Governance

February recommendation

2.9 We recommended that both HAL and the airlines prioritise governance, planning and resourcing to agree a Governance Protocol by 1 April 2017. We said that this should include a roadmap for how the engagement process will develop in the period up to November 2017 with details of meeting dates, terms of reference for the various groups, consultation milestones, deadlines, information protocols and other relevant issues that will better enable all sides to plan their resourcing and engagement in the process.

2.10 We also said we expected HAL to urgently clarify with airlines how the airline engagement processes link with HAL's proposed DCO consultations, including explaining the requirements for the first consultation due in the summer of 2017 and setting out how airlines can raise new issues after this point and still influence the final scheme design.

Progress

2.11 HAL and the airlines agreed a governance protocol by the 1 April 2017 deadline. Agreement was reached that the Expansion programme will be governed at the newly created Joint Expansion Board (JEB), which will provide formal sign off of the decisions made at the detailed working groups that feed into it. These include, amongst other groups, an Options Steering Group (OSG) and an Affordability & Business Case Working Group (ABC). The capital expenditure that falls within the current price control period will continue to be governed at the

Capital Portfolio Board (CPB). The JEB reports to the Joint Steering Board (JSB).

- 2.12 HAL has also created an extranet site to assist with the sharing of information with airlines and developed an Expansion Programme Decisions Pipeline containing the dates for each of the key evaluation and decision milestones related to master planning options for expansion programme.
- 2.13 HAL has stated that the Governance Protocol, combined with the Decisions Pipeline and the Terms of Reference for each Governance group should provide sufficient information for airlines to adequately resource the engagement process.

Airline concerns

- 2.14 Airlines have told us they are generally content with the governance structures although there is only limited experience of operating under the protocol to date. We welcome the effort that both sides have invested in agreeing new governance arrangements in a relatively short time scale.
- 2.15 Nonetheless airlines have raised a number of concerns on how the governance framework works in practice, as set out below.

Lack of an adequate roadmap and clarity on process, in particular HAL's approach to its summer consultation

- 2.16 Feedback from airlines suggests that the existing decisions pipeline is not sufficiently clear or comprehensible and the process of pink, orange and green reviews and links with HAL's gateway approach to the master plan development are not fully understood.
- 2.17 Airlines have a number of concerns with clarity over the process and approach to the summer consultation and want HAL to make substantial progress on these issues before it can reasonably proceed with this consultation. Airlines have understood from HAL that it will be difficult to introduce new options at a later date that were not covered in the first consultation and therefore this raises the premium on HAL making sure it has a high quality process and assurance that it has properly sought, considered and responded to airlines views.

Quality and content of governance protocol

- 2.18 Airlines have suggested that HAL should make further improvements to the quality and content of the governance protocol. At present, it does not include enough detail and needs to be updated with the ToR for each forum, which should clearly signpost whether they are for current airport operations (business as usual), H7 or expansion and to set out their purpose (whether for discussion or decision-making), their attendance and any escalation processes.

- 2.19 In particular, some airlines have suggested that the ABC should be embedded more directly into the overall governance arrangements, linking more closely with the OSG and JEB, as airlines consider affordability to be fundamental to all aspects of expansion. They also consider that ToR for the ABC group is not sufficiently clear and that meetings are not robustly minuted.

Governance administration

- 2.20 Airlines recognise that HAL is committed to engaging with them and acknowledge this is a complex programme, but they have concerns about HAL's execution. For example, information is not consistently being provided sufficiently in advance to the correct airline representatives and this impedes timely and effective engagement. Airlines have also said that HAL needs to improve the process of forward planning and signposting future discussions as well as improve record keeping across all expansion related governance fora.

Dealing with these concerns

- 2.21 In dealing with these concerns we recommend that HAL takes the following actions:
- **Urgently develop a roadmap with key consultation and engagement requirements tailored to the needs of the airline community, with a particular focus on the proposed summer consultation.** HAL should work closely with the airline community on a clear, accessible and comprehensible overarching roadmap for how the engagement process will develop, including key milestones and deadlines where airline input is needed in the gateway process and how this fits into the governance structure. This should be easily accessible on the extranet site and regularly updated and communicated to the airline community.
 - **Improve the quality and content of the governance protocol.** While we welcome the progress made in agreeing the governance protocol and fora, we expect the protocol to be a comprehensive, consolidated, well signposted and clear point of reference for all governance arrangements, and to be kept regularly updated. The protocol should also address airlines' concerns on information provision by developing, agreeing and setting out consistent information protocols. The latest governance monthly cycle arrangements should be reflected in the protocol.

Communications and Information provision

February Recommendation and progress

- 2.22 We said in February that we expect HAL to take fully into account the inevitable asymmetries between the parties, bringing forward relevant information in the most helpful way practicable to airlines, taking the lead on developing a range of

creative options to help solve problems that emerge, and engaging in ways that airlines find helpful.

Airline concerns

Lack of a tailored communications strategy

- 2.23 We have heard consistent feedback from the airline community that the process currently suffers from the lack of a coherent, joined up and tailored communications strategy. There are more than 80 separate airlines operating at Heathrow, with diverse interests and resources. Various airlines told us that they wanted different levels of information and levels of involvement and it is clear that one size will not fit all. Some airlines want deep bilateral engagement and some prefer to use multi-lateral channels. The current flow of information from HAL is too little for some who would prefer much more granularity and detailed information to help them understand the rationale and assumptions behind costed options.
- 2.24 Others have said that they are overloaded with detail and information and would prefer more high level, targeted and concise communications. In particular, we note that there is no direct representation from airlines in Terminals 2 and 4 on the OSG, although some do attend the JEB. This will affect the level of detail and the timing of the information that they receive, as well as their ability to influence outcomes. We have heard that HAL has often relied on the AOC and LACC to summarise and disseminate this information, but these bodies are not necessarily best placed to carry out this role, which they consider should fall to HAL. Some airlines have told us that at present they feel unable to participate as adequately as they would like in the process.
- 2.25 We note at the time of drafting that HAL, the AOC and the LACC have recently agreed to jointly develop a more tailored information strategy. We welcome this development and would encourage all parties to reach agreement on this as soon as possible.

Lack of information on costs and assumptions

- 2.26 We have heard a number of concerns from airlines that they have not been given sufficient information on the potential costs of the various options and the assumptions HAL has made on the option selection criteria and pre-expansion growth to enable them to properly understand which are the most affordable options. Airlines also want more information to understand the key building blocks and how changes to these will flow through to affect their future airport charges.

Lack of high quality information on cost-efficiency, benchmarking and procurement

- 2.27 Feedback from airlines is that HAL has not provided enough benchmarking information, especially international comparators and for other major

infrastructure schemes outside aviation. Some airlines have also expressed dissatisfaction with the level of information provided by HAL on its procurement strategy noting they had not been made aware that HAL's procurement code of practice had been published on its website.

Dealing with these concerns

2.28 In dealing with these concerns we recommend that HAL takes the following actions:

- **Develop a more tailored communications strategy to accommodate the diverse engagement requirements.** To accommodate the broad range of airline needs, HAL urgently needs to develop a tailored communications strategy that should be embedded in the governance protocol. The strategy should encompass the redesign of the extranet site to ensure that it is intuitive, user-friendly, regularly updated, and tailored so different airlines can find the level of detail they want quickly.
- **Provide more detailed information to make best use of the cost and price path model / ready-reckoner.** In addition to the capital costing scenarios set out in the Affordability Roadmap, we expect HAL to provide further information on the cost of expansion. This should include providing assumptions, sensitivities and scenarios on all of the building blocks that lead to airport charges, with sufficient supporting information to enable airlines to understand and evaluate the impact on charges.
- **Make sure that high quality information on cost efficiency and benchmarking is made available to airlines and the CAA.** We expect HAL to address the airlines concerns around information on cost-efficiency, benchmarking and procurement. This information should enable all stakeholders to make informed assessments of the cost efficiency of the scheme design, including with reference to cost benchmarks of other airports and comparable infrastructure projects.
- **Enhance the effectiveness of the ABC working group** including by incorporating this group more directly into the overall governance structure (feeding into OSG and JEB etc) and making high quality documentation and supporting information available to all interested airlines and the CAA. There should be an agreed overall work programme that provides the airlines with confidence that they will receive the information required to enable them to reach informed conclusions on the overall affordability envelope.

Affordability and option selection

February recommendation

- 2.29 We supported HAL's commitment to share its cost and price path modelling and related information with those airlines that had signed an appropriate non-disclosure agreement (NDA). We said this should involve responding to questions and suggestions from airlines, embedding knowledge, and defining the key milestones for further model and scenario/sensitivity development by 1 April 2017.
- 2.30 We also recognised that the present base case may need to be qualified and caveated, but that HAL should provide a sufficient level of detail for stakeholders to understand the key assumptions and building blocks. HAL should also develop a process with the airlines that facilitates the effective exploration of options, scenarios and sensitivities. Airlines are keen to see the impact on charges in the round so it is important that the information set includes data relevant to both the capacity expansion programme and HAL's existing business.

Progress on affordability

- 2.31 HAL has developed and provided a ready reckoner model to airlines that have signed an NDA. This enables the user to explore and understand the impact of changes to the various building blocks that lead of airport charges i.e. passenger numbers, capital costs, financing costs etc.
- 2.32 HAL has also established the ABC working group to address concerns and test scenarios using the cost and price path model / ready-reckoner. Various scenarios were demonstrated in April to explain variations in passenger growth, assumptions, depreciation, capital cost and EBITDA values over different time periods and specifically to address the peak charge period prior to the runway opening.
- 2.33 HAL also presented an affordability roadmap at the OSG and JEB which it went through in more detail at the May immersion session. This presentation provided further information on the estimating process, procurement strategy, options progress and financial drivers.
- 2.34 HAL has recently published its Masterplan Scheme Development Manual for consultation. This sets out the discontinuation rules and evaluation criteria for assessing options. It directly references to affordability criteria so that assessments should consider the impact on costs and charges. In addition, the Heathrow Expansion Strategic Brief is being re-drafted in a collaborative process with the airline community to enable more focus on affordability to be embedded within the document.

Progress on Option selection

- 2.35 Since our February recommendation, HAL has engaged with the airline community on its master plan development, optioneering and the evaluation process for scheme design. This engagement has primarily taken place at the weekly OSG meetings and in relevant working groups.
- 2.36 The OSG has included airport-airline discussions on substantive topics like the location of runway, satellites, terminals and aprons, runway length, earth works, capacity planning/forecasts as well as airspace change. This is a forum where the CAA has generally observed genuine and meaningful airport-airline engagement on a regular basis. We also note the OSG has attendance from a range of airlines, the representative bodies and the IFS who all consistently provide valuable challenge and input to HAL. However, the lack of direct representation from airlines based in Terminals 2 and 4 at this forum could affect their ability to influence the outcomes from these discussions.
- 2.37 In the Immersion Sessions HAL provided more detailed information on master plan development, optioneering and the evaluation process for scheme design. This brought together information that had been provided in various governance fora and also provided an update on how options were being progressed through the work streams and which would be taken through to pink, orange and green gateways in the decisions pipeline and master plan development process

Airline concerns

- 2.38 We welcome the detailed information HAL has provided on its master plan development, optioneering and evaluation process. However, there have been some concerns from the airlines that the process has not been communicated or explained in a timely or sufficiently joined-up manner that helps airlines understand the interactions between various documents. For example the links between the master plan funnel, decisions pipeline and master plan manual were not made clear until recently, with the latest details only being brought to the most recent OSG meetings in May.
- 2.39 Some airlines have raised concerns about the lack of information on how various scheme components interact and the lack of carefully justified explanation on why various options are or are not being taken forward under the discontinuation and evaluation criteria. In particular, regarding the evaluation process, airlines have questioned how “blackened” (also known as “parked”) options can be reopened and taken forward at a later date.
- 2.40 Some airlines also raised concerns around lack of information on unknown risks and assumptions such as third party contributions on surface access and the release of early capacity. At the time of drafting this report HAL had only provided relatively high level costings for the various runway location options (including the impact on the M25) which is a particular concern for airlines.

Dealing with these concerns

- 2.41 It is imperative for HAL and the airlines to have a detailed, well-informed and mature dialogue around the impact that expansion will have on the affordability of airport charges. HAL must assist this process by making available to airlines sufficient information and assumptions so effective discussions can take place.
- 2.42 While we welcome the steps that HAL has taken we consider progress in this area must be significantly stepped up. In dealing with these concerns we recommend HAL should:
- Provide more detailed information on the impact of emerging options. HAL should discuss and agree with airlines the type of cost and other information that airlines require and the format in which it should be presented to enable them to sensibly evaluate developing options. This should include any explicit or implicit trade-offs that may be associated with affordability objectives and implications of these for future users. HAL needs to provide higher quality, more joined up information in explaining the interactions between the masterplan development, optioneering and evaluation process in more detail.
 - Develop a process for providing carefully justified explanations on why various options are or are not being taken forward with the airlines. This should include an audit trail to demonstrate in more detail how options have been considered, evaluated and discontinued and process by which “blackened” options can be brought back into the evaluation process and timeframes for this. HAL should develop explanations of underlying assumption and risks and explain their impact.

Timetabling and ensuring airlines can engage with the pace of programme

February recommendation

- 2.43 We expected HAL to develop, justify and keep under review, a clear plan and timetable so airlines could fully understand what is required of them by when. In developing this plan and timetable HAL was to consult with and take into account the reasonable concerns of airlines. HAL was expected to justify the sequencing of information provision, decision making milestones and other key aspects of the timetable and ensure that these matters were fully understood by airlines. HAL was not to unduly constrain airlines ability to influence the scheme by its summer consultation and make clear how airlines could continue to influence scheme design during and after this consultation. We also asked HAL to be clear about the priorities, key risks and those issues that are on the critical path for timely delivery.

Progress

- 2.44 HAL has explained to us that it considers the first year of mobilising a programme of this scale to be critical to the ultimate success of the overall programme. With such a large number of options being considered and evaluated at this early stage of development, HAL has stated that it is impossible to provide a planning horizon beyond three months particularly as this is the stage when it is engaging with airlines substantively for the first time on these matters. HAL considers that as we move through 2017 and options are discontinued, further clarity will be understood on the next phase of the design development and this will allow for detailed planning over a longer time horizon.
- 2.45 It has also said that opening the runway in 2025 remains the principal long term planning assumption which is driving the key milestones of the summer consultation and subsequent steps in the planning process.
- 2.46 HAL considers that the immersion sessions in December 2016 and January 2017 explained to airlines the process by which scheme options to be consulted upon in the DCO consultations would be chosen. HAL states that the process by which those options can be influenced is understood by the airline community and their representatives are now members of the weekly OSG that develops those options.
- 2.47 To support understanding in the wider airline community of the DCO process, particularly those not involved directly in the work of OSG, HAL facilitated a briefing by the Planning Inspectorate. The 2-hour long session on 27 April 2017 provided the opportunity for airlines to receive information directly from the Planning Inspectorate officials in relation to DCO process, including the pre-application consultation requirements.

Airline concerns

- 2.48 2.48 The timetable, especially in relation to the summer consultation, continues to be a key area of concern of airlines. Some airlines have told us they are very concerned with the current pace of the programme particularly if this comes at the cost of good decision-making. They advocate increasing the amount of time available for engagement time before HAL issues its summer consultation. Some airlines are not convinced that adding a few months of further engagement before this would prejudice the overall timetable and doing so would help de-risk problems arising at a later date especially if there were stark differences in view between HAL and the airline community.
- 2.49 We have also detected some ongoing confusion around the status of the summer consultation, in particular whether a substantive new option could be added afterwards as a result of the consultation responses. Airlines have told us their understanding is that, as the second consultation is the statutory consultation under the Planning Act 2008 on the final chosen scheme, it cannot

contain new options that have not already been floated in the summer consultation, unless HAL wishes to carry out an additional round of consultation before issuing its statutory consultation.

Dealing with these concerns

- 2.50 HAL has acknowledged the airline community feedback in various governance fora that it is progressing the options development work very rapidly. HAL states that it keeps the schedule under constant review particularly in relation to the timing of the summer consultation and this may be reviewed again once a Government has been formed following the General Election in June 2017.
- 2.51 We consider that airline concerns on timetable are pivotal to the overall success of airport-airline engagement and they must be addressed as a matter of urgency. In dealing with these concerns we recommend HAL should take the following actions:
- **HAL should assure itself and the airline community that its engagement process will robustly support its chosen date for issuing its summer consultation. The assurance exercise should demonstrate that it has fully sought, taken into account, and responded to airline views on the options for broad scheme design.** In doing so HAL should:
 - assure itself that it has limited the risk of prematurely foreclosing design options (including those that could reasonably emerge) that may require further consultation;
 - robustly justify the set of options going forward to its consultation, including responding to airline feedback;
 - provide persuasive evidence based feedback to airlines about any options they have discussed that it has not chosen to take forward to its summer consultation; and
 - review how it can mitigate any potential tension between the date for the summer consultation and the subsequent timetable for capacity expansion.

Passenger, cargo owner and other stakeholder views

February health check

- 2.52 In our February health check we set out that we expected HAL and the airlines to place additional focus on the extent to which engagement has taken account of passenger and cargo owner views.
- 2.53 We also said that we expected HAL and airlines to place additional focus on the extent to which HAL has provided engagement opportunities for airlines not currently operating at the airport

Progress

- 2.54 The evidence we have received indicates little progress by HAL in directly addressing the views of passengers and cargo owners and HAL has not properly developed the process for reflecting consumer views in the development and design processes.
- 2.55 We remain of the view that the consumer interest is a fundamental issue underpinning all discussions on affordability, cost-efficiency and other service quality outputs – and therefore it needs to be considered at every stage of the expansion process, particularly the relatively early stages of the optioneering and evaluation processes.
- 2.56 **We expect HAL to develop and implement a consumer engagement strategy** by August setting out how it intends to bring a consumer voice in to the expansion process, including by involving the newly formed independent Consumer Challenge Board (CCB) in an appropriate way. This strategy should also have due regard to the interests of cargo owners and we expect HAL to prioritise this by building up an evidence base on cargo owner views.
- 2.57 HAL has demonstrated a willingness to engage with airlines not currently operating at Heathrow to best understand their operating models and how new entrants might assist with the volume growth necessary to make capacity expansion a success. Two such airlines expressed an interest in understanding more about the expansion programme, but were unable to attend meetings due to a lack of available resources on their side.
- 2.58 As part of our recommendation 2(a) on developing a tailored communication strategy we expect HAL to take account of new entrant airlines.

Other views

Capacity planning

- 2.59 Some airlines have noted the importance of the sequencing of the slot allocation and capacity planning process as part of wider expansion programme. There has been some discussion in OSG on capacity planning and forecasting with the assumption that the existing EU Slot Regulations will continue to apply. Most recently, there has been discussion at the May immersion sessions that expansion presents an opportunity to rethink capacity planning, correct issues associated with current capacity constraints and strengthen resilience. We consider there is scope for these issues to be brought forward into a working group or at the OSG.

Summary of the recommendations set out in this chapter

Area of concern	Action
1. Governance	<ul style="list-style-type: none"> a. Urgently develop a roadmap with key consultation and engagement requirements tailored to the needs of the airline community, with a particular focus on the proposed summer consultation. b. Improve the quality and content of the governance protocol.
2. Communication and information provision	<ul style="list-style-type: none"> a. Develop a more tailored communications strategy to accommodate the diverse engagement requirements. b. Provide more detailed information to make best use of the cost and price path model / ready-reckoner. c. Make sure that high quality information on cost efficiency and benchmarking is made available to airlines and the CAA. d. Enhance the effectiveness of the Affordability & Business Case Working Group (ABC).
3. Affordability and optioneering	<ul style="list-style-type: none"> a. Provide more detailed information on the impact of emerging options. b. Develop a process for providing carefully justified explanations on why various options are or are not being taken forward with the airlines.
4. Timetable	<ul style="list-style-type: none"> a. HAL should assure itself and the airline community that its engagement process will robustly support its chosen date for issuing its summer consultation. The assurance exercise should demonstrate that it has fully sought, taken into account, and responded to airline views on the options for broad scheme design.
5. Consumers	<ul style="list-style-type: none"> a. Develop and implement an appropriate consumer engagement strategy.