

Report  
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# H8 Constructive Engagement - Independent Reporter report – Round one

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Civil Aviation Authority  
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There are no appendices in this document

# 1 Introduction

## **Constructive engagement**

- 1.1 In September 2024, the CAA set out its draft guidance (CAP3031<sup>1</sup>) on the Constructive Engagement process for Heathrow 8<sup>th</sup> price control review. The guidance provided the CAA's current views on the purpose and scope of each round of Constructive Engagement, the governance arrangements and outputs, as well as its own role in the process.
- 1.2 As part of its guidance, in discussion with stakeholders, the CAA agreed to the appointment of an independent reporter.

## **Independent Reporter role**

- 1.3 As per CAA guidance, the role of the Independent Reporter is to be responsible for agreeing the outputs for each round of the Constructive Engagement process between HAL and airlines.
- 1.4 HAL and the airlines jointly appointed the Independent Reporter by mid-October 2024.

## **Objectives of the Independent Reporter report**

- 1.5 A report must be produced by the Independent Reporter at the end of each round that summarises the process followed and the key outcomes and conclusions. The report should be shared with HAL and airlines to check factual accuracy.
- 1.6 This report focussed on Round one of the H8 Constructive Engagement which took place between October and December 2024 and was designed to identify airline customers' priorities on overarching issues such as service quality, investment and traffic forecasts, and seek to reach agreement on high level options to inform the business plan.

## **Organisation of this report**

- 1.7 This report is organised as follows:
  - Chapter 2 provides an overview of the process and examine the exchange of information between the parties;
  - Chapter 3 focussed on the areas of consensus and differences amongst HAL and the airlines, at this stage of the engagement; and

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<sup>1</sup> <https://www.caa.co.uk/publication/download/22894>

- Chapter 4 provides findings including an assessment of the Constructive Engagement against the CAA's CAP3031, lessons learnt and next steps.

## 2 Summary of the process and information exchange

2.1 In this chapter, we provide an overview of the process and examine the exchange of information between the parties.

### Organisation of Round one meetings

#### Topics discussed

2.2 The table below presents the topics discussed during Round one. This provided an exhaustive consideration of relevant aspects of engagement in relation to H8. No stakeholders expressed the view that there were issues with the scope.

**Table 2.1: Topics presented and discussed during Round one meetings**

Meeting date	Theme	Detailed topics	Led by
17/10/2024 (1h meeting)	-	Scene-setting	Airport
11/11/2024 (day-long meeting)	1	Heathrow's strategy	Airport
		Capacity: <ul style="list-style-type: none"> <li>Masterplan overview</li> <li>Heathrow current capacity</li> <li>Capacity changes in H8 and beyond</li> <li>Assumptions around H8 entry and exit points</li> </ul>	Airport
		Demand and traffic forecasting: <ul style="list-style-type: none"> <li>Methodology</li> <li>Assumptions</li> <li>H8 emerging demand</li> <li>Shocks</li> <li>Busy-days</li> </ul>	Airport
		Day 1 wash-up	Co-chairs
12/11/2024 (day-long meeting)	2	Customer: <ul style="list-style-type: none"> <li>Passenger satisfaction performance and consumer trends</li> <li>Ambitions for happy passengers</li> </ul>	Airport



			<ul style="list-style-type: none"> <li>Emerging H8 priorities for passenger experience</li> </ul>	
			Airline focus, priorities and requirements for H8	Airlines
			Opportunities for better collaboration on passenger journey	Airport
			Day 2 wash-up	Co-chairs
03/12/2024 (day-long meeting)	3	Operational performance	Measures, service quality targets and incentives	Airport
			Operational performance: <ul style="list-style-type: none"> <li>H7 service quality metrics, capacity constraints and performance</li> <li>Thoughts on H8 priorities</li> <li>Baggage</li> <li>Punctuality</li> <li>Security</li> </ul>	Airport
			Resilience	Airlines
			Day 3 wash-up	Co-chairs
12/12/2024 (day-long meeting)	4	Capital choices	Recap on capital envelopes, programmes initiated in H7, H8 emerging capital choices	Airport
			Creating capacity: modernising Heathrow and occupancy	Airport
			Assets: <ul style="list-style-type: none"> <li>Asset renewals</li> <li>Technology</li> </ul>	Airport
			Customer: <ul style="list-style-type: none"> <li>Passenger experience and services</li> <li>Commercial revenue</li> </ul>	Airport
			Sustainability, carbon and energy	Airport
			Day 4 wash-up	Co-chairs
13/12/2024 (day-long meeting)	5	Regulated asset base (RAB) and affordability	RAB overview and discussion on: <ul style="list-style-type: none"> <li>How the RAB works</li> <li>Capital constraints and asset efficiency</li> <li>WACC</li> <li>Depreciation</li> <li>Investment properties</li> </ul>	Airport
			Affordability	Airlines
			Day 5 wash-up Round one wash-up	Co-chairs

2.3 The programme displayed in the table above included focus, as required by the CAA, on traffic forecasting (theme 1), investment programmes (themes 1, 4 and

5), service quality (themes 2 and 3) and resilience (themes 1 and 3), with opportunity for airlines to contribute and lead presentations.

- 2.4 Note that there was also a meeting which took place between HAL and airlines on 02/12/2024 under a Long Term Planning forum but was not part of the Constructive Engagement for H8 (therefore not attended by Steer). We understand that, in relation to any cross over with CE, this meeting focussed on the investment programme, capacity and long-term demand.

### Meeting chairing and attendance

- 2.5 All meetings took place in person in the immediate vicinity of Heathrow airport.
- 2.6 In spite of the relatively short timescales, two co-chairs were appointed (one appointed by Heathrow airport (from HAL Regulatory team) and one appointed by the airlines (from IATA) respectively who effectively supported the preparation and chairing of balanced discussion during Round one of the Constructive Engagement.
- 2.7 The table below shows that the attendance by non-HAL staff was adequate according to the attendance arrangements already in place between HAL and airlines<sup>2</sup>.

**Table 2.2: Attendance of Round one meetings by non-HAL staff**

Meeting date	Theme	IATA co-chair	At least 2 airlines/alliances	AOC	CAA	IR
17/10/2024	Scene-setting	Yes	Yes (AA, AC, BA, BI, CA, CZ, EH, EI, IAG, LA, ME, QF, Star, TK, TP, UA, VS)	Yes	Yes	Yes
11/11/2024	Theme 1	Yes	Yes (BA, IAG, Star, UA, VS)	Yes	Yes	Yes
12/11/2024	Theme 2	Yes	Yes (BA, Star, UA, VS)	Yes	Yes	Yes
03/12/2024	Theme 3	Yes	Yes (AA, BA, IAG, UA, VS)	Yes	Yes	Yes
12/12/2024	Theme 4	Yes	Yes (BA, IAG, Star, UA, VS)	Yes	Yes	Yes
13/12/2024	Theme 5	Yes	Yes (BA, IAG, UA, VS)	Yes	Yes	Yes

## Exchange of documents and information

- 2.8 Adequate and timely information exchange is an important part of the process of Constructive Engagement.

<sup>2</sup> Note that Steer is not aware of the detailed attendance arrangements in place between HAL and airlines, so has relied on what was stated on slide 5 of the Scene setting session.

## Timeline for documents related to meetings

- 2.9 The following tables show that the airport sent the documents two weeks in advance of the day-long meetings as planned four times out of five. This was against a target based on governance arrangements<sup>3</sup> of issuing pre-read at least seven, ideally ten days in advance of each Constructive Engagement session. This was not the case for the initial scene-setting meeting, but this was only a short meeting on rules of engagement with relatively short notice for its organisation.
- 2.10 Minutes took longer than planned (seven calendar days after the meeting) for the first three themes, due to the complexity of note taking and reviewing (airlines requested additional time to provide feedback in relation to the minutes).

**Table 2.3: Airport-led exchange of Round 1 meetings documents**

Meeting date	Theme	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue	Draft minutes (plan)	Draft minutes (eff.)	Appr. minutes
17/10/24	Scene-setting	N/A	11/10/24	N/A	29/11/24	07/11/24	N/A
11/11/24	Theme 1	31/10/24	31/10/24	15/11/24	19/11/24	22/11/24	N/A
12/11/24	Theme 2	31/10/24	31/10/24	15/11/24	19/11/24	22/11/24	N/A
03/12/24	Theme 3	22/10/24	26/10/24	N/A	10/12/24	16/12/24	N/A
12/12/24	Theme 4	05/12/24	05/12/24	N/A	20/12/24	16/01/25	N/A
13/12/24	Theme 5	05/12/24	05/12/24	N/A	20/12/24	16/01/25	N/A

Note that the initial Scene-setting session has not been included in the table above as it did not cover any H8 Constructive Engagement material. Draft minutes issuing date has been coded as green, due to airline requests for more time, therefore not enabling the airport to deliver against plan. In addition, the end of year holiday did not completely allow the reviews of minutes as per plan.

- 2.11 Airlines presented their views on three occasions. Documents were in advance as planned on the majority of occasions.

**Table 2.4: Airline-led exchange of Round 1 meetings documents**

Meeting date	Theme	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue
17/10/2024	Scene-setting	N/A	N/A	N/A
11/11/2024	Theme 1	N/A	N/A	N/A

<sup>3</sup> Note that Steer is not aware of the detailed governance arrangements in place between HAL and airlines, so has relied on what was stated on slide 5 of the Scene setting session.

12/11/2024	Theme 2	05/11/2024	05/11/2024	N/A
03/12/2024	Theme 3	Unclear	26/11/2024 29/11/2024	N/A
12/12/2024	Theme 4	N/A	N/A	N/A
13/12/2024	Theme 5	06/12/2024	09/12/2024	N/A

## Quality and adequation of the documents exchanged

### *Meeting minutes*

- 2.12 The responsibility for taking and issuing minutes fall on the airport. Draft meeting minutes were circulated on the dates indicated above (see Table 2.3), inviting meeting attendees for their feedback, before being officially issued.
- 2.13 Meeting minutes were well organised, with a complete list of attendees, and a record of the discussion by topic (following the chronological order of the day of the meeting), with actions/recommendations linked to each topic discussion.
- 2.14 The minutes included the initials of the presenter, allowing the reader to understand who stated what point in retrospect.
- 2.15 The document circulated by Heathrow for the scene setting session indicated that “minutes, including any actions, and notes of any agreements and disagreements to be distributed”. We note that the first three sets of minutes reviewed at this stage of Round one noted few areas of disagreement between attendees: this seems accurate.

### *Response to requests for further information*

- 2.16 An action log was created by HAL in order to manage the actions and responsibilities associated with them. The airline co-chair reviewed the owners for airline actions and checked whether actions were general airline community action or appropriate for a specific airline. The log reviewed at the end of December included actions up to Theme 2 and will therefore be expanded.

## Tone of the discussions and collaborative approach

- 2.17 Many attendees reflected publicly that there was respectful communication between attendees over all the meetings held so far, even on points where they had different views. Steer supports this view as it observed that attendees engaged in Round one meetings with a good spirit.

## Common definitions that could be used more consistently going forward

### Terminology

- 2.18 It was mentioned during the first session on Round One on 11/11/2024, that it would be useful for all to use the same terminology and therefore to carefully differentiate between:

- Related to “consumer/customer”, the following definitions were suggested:
  - Consumer: a (potential) passenger, i.e. a person/business travelling or considering options for travel through Heathrow (for itself/another passenger/a load of cargo)
  - Customer: a passenger, an airline, a cargo operating company, ground handlers, airport tenants, surface access users. In effect, any party bringing some form revenue to the airport would be a customer
- Related to business/premium passenger, the following definitions were suggested:
  - Business passenger: a passenger travelling for the *purpose* of conducting business (such as client meetings, attending a conference for professional purposes, etc). This passenger may travel in any type of cabin.
  - Premium passenger: a passenger travelling in a “premium cabin”, i.e. first class and business class.
- Related to “PRM/PRS”, it was suggested to be clear on the distinction:
  - PRM (Passenger with Reduced Mobility). This is a regulatory requirement to be provided as per Assimilated Regulation (EU) No. 1107/2006. Costs for the provision of PRM assistance are included in the Other Regulated Charges (ORC).
  - PRS (Passenger Requiring Support): passengers who need support. Includes the PRM but is a wider passenger segment than just PRM.
- Related to “capacity/utilisation” in terminals, it was suggested to be clear on the distinction between the three terms:
  - Declared Capacity: how many passengers can be handled in a terminal, for a given level of service and a given state of operations manifesting in planning limits set based on hourly (or other) capacity of each terminal’s infrastructure; their purpose is to ensure demand does not exceed capacity.
  - Theoretical Annual Capacity: The maximum number of passengers that the airport could theoretically handle if its facilities operated at their maximum hourly capacity 24/7, 365 days a year. Example formula: Theoretical Annual Capacity = hourly capacity × 24 × 365.
  - Utilisation: how many passengers are effectively handled in a terminal.

2.19 Related to business/premium passenger, it remains unclear to Steer whether “premium passenger” includes or not passengers travelling in premium economy cabin as this was not clarified during the meeting. It might be airline dependent to an extent. However, this is not an issue.

## 3 Areas of consensus and areas of differences

- 3.1 In this chapter, we provide an overview of the areas of agreement and disagreement between HAL and the airlines. At this stage, there were no individual differences that were expressed between different airlines/airline groups/alliances. This may come later on, or individual airlines may express their unique views to HAL through other forums.
- 3.2 At this stage of the engagement, there were many areas requiring more details and further discussions, with only very few precise areas of disagreement. Related to areas of agreement, one could take the view that “no disagreement being stated” implies “*de facto* agreement”. Under this assumption, there can be an ample list of those because discussions took place in good spirit. However, we would rather not use this approach and think it is safer to be conclusive on areas of agreement mostly later on in the process: this is because we anticipate that when options will become more apparent, with choices and difficult trade-off to be made, remaining areas of agreement will be more limpid (and probably fewer than now). That said, we have nonetheless sometimes reported on perceived areas of agreement which are important to present at this stage.
- 3.3 Therefore, we would highlight that our understanding of the positions of HAL and airlines is valid at the end Round one but is likely to evolve as the Constructive Engagement further progresses. This is the reason why the reporting mostly takes the form of tables, so that evolving views during later rounds can be updated easily and their status tracked (if required).

### **| Theme 1 on Strategy, capacity and traffic**

#### **Heathrow’s strategy**

##### *Summary*

- 3.4 HAL presented Heathrow’s recently refreshed strategy, envisioning opportunities and challenges rather than tackling crisis. The presentation then described Heathrow’s strategy beacons, that help ensure the airport has a clear direction and priorities. It then focussed on opportunities and challenges, including capacity, digital transformation, passenger demographics, sustainability, route and aircraft mix, and operational challenges.

## Outcomes

**Table 3.1: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Heathrow's strategy**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Ambition vs affordability	Further discussion needed	Airlines were concerned of the implications of being an extraordinary airport (and what it meant) on affordability (including how charges need to be compatible with service levels and more efficiently delivered infrastructure). The airport clarified that while Heathrow's strategy framing of the issues is mature, there was scope to further develop what it means for the more specific planning for H8, and the opportunities and challenges involved.
Strategy	Further discussion needed	Airport and airlines are aligned around the end goal of providing excellent services and passenger experience. However, more discussions are needed on how/the pace/the costs for reaching this.

## Capacity

### Summary

- 3.5 Heathrow presented its current thinking with regards to modernisation, maintenance and long-term capacity uplift including the Modernising Heathrow Plan. The information presented reflected discussions that are taking place in parallel in other forums. The presentation then focussed on Creating Capacity in the short-term covering plans to support capacity growth ahead of the long-term modernising Heathrow programme.

### Outcomes

**Table 3.2: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Capacity**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Masterplan	Further discussion needed	Airlines questioned the masterplan and in particular quite strongly on the phasing, costing and immediate term prioritisation (noting that the biggest part of the investments would not be spent during H8): they stated that projected costs seemed too high and the plan duration too long. They also questioned the cost-benefit relationships. The airport explained that the masterplan is not set, but considers the cap of the 2R system and the physical constraints of the airport.

		Note that there was discussion on 02/12/2024 (in the Long-Term Strategy Forum, outside of H8 engagement) where the capital programme was further discussed.
Current capacity constraints	Further discussion needed	Airlines had multiple queries in relation to forecasts and capacity uplifts: they questioned the baseline numbers at airport level, noting changes compared to previous years, but also whether summer 2024 was a good starting base. They also questioned how terminal capacity had been defined and established, the assumptions on resilience and utilisation, as well as the numbers compared to estimates in alternative plans. The airport explained that capacity is not static, that there is no unique way at defining capacity given this and that it is based on the nature of existing traffic, occupancy and operation and that it had considered the demand-driven utilisation of each terminal.
Future capacity projections	Further discussion needed (likely to happen through other forums as well)	The airlines questioned the reliability of the demand-driven growth projections and the break-down of capacity per sub-program activity, highlighting the need for more detailed understanding of supporting evidence and ranges considered.  The airport explained that numbers were at this stage an approximation and developed based on aspirations to achieve beyond current operations. It also stated that more detailed information is being shared through other existing forums.

## Presentation on demand and traffic forecasting by HAL

### Summary

- 3.6 HAL presented Heathrow’s approach to unconstrained passenger forecasting for H8 with numbers indicating growth coming largely from increased seats per movement (mainly due to the movement cap of the traffic) as well as from changing passenger profiles (connecting vs. point-to-point, business vs leisure, etc), stricter application of the slots rules. This will result in the need for airlines to make choices around service levels and resilience.
- 3.7 Overall, there was agreement in the general trends of the forecast and an understanding on the methodology used by HAL for the production of the numbers. Nonetheless there are some specific areas where there are some disagreements that will be explored further in Round 2.

### Outcomes

**Table 3.3: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Demand and traffic forecasting**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
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Forecasting methodology	Further discussion needed	There was no disagreement on the use of two models (a demand-one and a supply one) or on other aspects of the methodology at this stage
Forecasting assumptions	Further discussion needed	<p>There was no disagreement on key assumptions tailored to the airport's profile at this stage:</p> <ul style="list-style-type: none"> <li>• Assumptions for the demand model: <ul style="list-style-type: none"> <li>– Econometric inputs;</li> <li>– Passenger mix;</li> </ul> </li> <li>• Assumptions for the supply model: <ul style="list-style-type: none"> <li>– Movements;</li> <li>– Seats per movements;</li> <li>– Load factors;</li> <li>– Approach to shocks;</li> </ul> </li> </ul>
Forecasting assumptions	Further discussion needed	Heathrow indicated that it would be highly relevant to have greater exchange with airlines on their forecasting approach, Heathrow hasn't had access to that type of information previously; H8 could be chance for more joint work on key metrics.
H8 traffic projections	Area of agreement	No disagreement was stated in relation to the H8 unconstrained traffic projections that were shared at this stage.

## Theme 2 on Customer

### Presentation on customer trends, passenger satisfaction, passenger proposition and priorities for H8 by HAL

#### Summary

- 3.10 HAL presented Heathrow's consumer engagement work, the various qualitative and quantitative research commissioned, and the five pillars identified on airport experience. It then presented changes in passengers needs and behaviours, and Heathrow's ambitions for customer proposition in H8 and five priority pillars of action.

#### Outcomes

**Table 3.4: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Customer trends, passenger satisfaction, passenger proposition and priorities for H8**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Passenger insights into airport experience	Area of agreement	Heathrow is keen to repeat the same exercise in H8 that as carried out in H7 by an independent research agency appointed collectively by Heathrow and AOC to provide independent view of airport related passenger insights the airlines hold. Airlines agreed it would be useful for H8.

Airline choices on performance and services (PRM/PRS)	Further discussion needed	Heathrow stated that it wants to focus on the wider PRS segment (such as possibly on better wayfinding), but that it comes with choices to consider for H8, in relation to the price review process (with the need to have separate discussion on PRM services that are purely ORC).
Benchmark on customer satisfaction performance	Further discussion needed	Airlines stated it is more important to understand performance based on how Heathrow sees it is performing vis-à-vis its own goals and objectives, and less about comparative airports, especially in the context of its level of charges.  Airlines did not recognise that 95% of passengers rate Heathrow as Good/Very Good/ Excellent as presented.
Airline choices on innovation	Further discussion needed	HAL asked airlines to identify where they need Heathrow's support to deliver innovation.
Airline choices on passenger experiences	Further discussion needed	HAL asked airlines where it should be aiming for in terms of passenger experience aspirations.
Airline choices on premium experience	Further discussion needed	Airlines were asked for their requirements in relation to premium services such as space for airline lounges, etc as this will influence capital plans and collaboration opportunities for H8

## Presentation on airline focus, priorities and requirements for H8 by the airlines

### Summary

- 3.11 The airlines presented their areas of focus, priorities and requirements for H8. They discussed “affordability, “consumer and resilience” and “infrastructure and capacity”. They provided some contextual elements for H8 and airlines’ five strategic priorities for 2027-2031.

### Outcomes

**Table 3.5: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Airline focus, priorities and requirements for H8**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Airline choices on affordability, resilience and capacity	Further discussion needed	HAL asked airlines how they would prioritise between these three elements.
Airline choices on innovation	Further discussion needed	There was agreement that certain level of automation (such as ramp automation, operational processes and biometric) can help airlines reduce their costs. Heathrow asked airlines what automation aspirations they have for H8

Airline choices on level of service	Further discussion needed	Heathrow would like more information on those aspects of the service that affect more airlines' cost to help the airport support efficiencies.
Resilience	Further discussion needed	Heathrow wants to know the resilience pinch points for the airlines to tailor its responses in terms of design and operations. Airlines stated the need to have aligned definitions of capacity and utilisation (as discussed in Session One the day before) to allow a clear conversation about resilience.
Resilience vs growth	Further discussion needed	Airlines wants to understand how H8 fits into Heathrow's long-term strategy and understand data to evaluate trade-offs.
Sustainability (environmental)	Further discussion needed	All agree of the importance of Net Zero targets, but airlines are keen that investments are targeted.

## Presentation on opportunities for better collaboration on passenger journey by HAL

### Summary

- 3.12 Heathrow highlighted operational areas where there are opportunities for further collaboration that can help improve passenger journey and add value to airlines' proposition. There was focus on three opportunity areas: data sharing and resourcing, control posts, colleague search, and turnaround time, and baggage performance.

### Outcomes

**Table 3.6: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Opportunities for better collaboration on passenger journey**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Data sharing and resourcing	Area of agreement	A common baseline of data for H8 could help improved communication, personalised experience, wayfinding and better response to disruptions.
Data sharing and resourcing	Area of agreement	There was agreement on the potential to improve call to gate process, but noting that some trade-offs would need to be agreed on crowding, passenger experience, commercial revenues, etc
Travelling on time/passenger experience and process	Further discussion needed	Airlines raised questions trying to understand the nature of proposed collaboration, and whether they fit best as element of H8 or regular business as usual as well as the ability to progress on these in time for Business Plan submission.
Stand allocation and availability	Further discussion needed	It was noted by HAL that it was difficult to manage stand allocation as effectively as possible given capacity constraints, and without further data and collaboration. It

		was linked to the wider discussion on growth vs resilience.
Baggage	Area of disagreement	The airlines expressed strong concerns with the performance of Heathrow’s baggage system. There was disagreement between airport and airlines on baggage outage statistics. HAL expressed a need for a wider understanding of the inputs into the baggage system from wider Heathrow customers and stakeholders, given it is a collective and interconnected element of the airport operation. Airlines noted the interplay but that there was a need to be clear on the overall operation of the baggage journey and the system’s performance itself.
Baggage	Further discussion needed	Airlines would like to better understand what HAL is proposing for H8 for its baggage system, in terms of options and costs.

## Theme 3 on Operational performance

### Presentation on measures, service quality targets and incentives by HAL

#### Summary

- 3.13 HAL presented Heathrow’s performance measures and incentives and explained the inception of the H7 measures and incentives framework, building up on lessons from the SQRB scheme in place in Q6 as well as the comprehensive programme of consumer engagement and research done by the airport.

#### Outcome

**Table 3.7: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Measures, service quality targets and incentives**

Topic	Disagreement / Further discussion/ Agreement?	Reasons stated
HAL’s level of control/influence	Further discussion needed	Related to the “horseshoe” diagram representing the degree of control/influence of HAL on various airport processes, airlines questioned some of the choices made on the diagram. HAL highlighted the figure is a construct meant to help the understanding and visualisation of the multistakeholder character of the task and importance of collaboration.
Reputational damage	Area of agreement	There was agreement that both HAL and airlines collectively can suffer from reputational damages, though airlines challenged it was primarily them that suffered when it came to baggage. There was also agreement that reputational damages for the airport mostly affect connecting passengers who have more choice than point-to-point ones either directly

		through their booking decisions or those of travel agents worldwide.
Reputational damage	Area of disagreement between airlines and HAL	There was disagreement on who bears the financial costs of reputational damages.
Incentives for HAL	Further discussion needed	Airlines stated that when operational matters do not deliver as planned (such as on baggage, delays, etc), it is often them who have to "pick the bill" (i.e. compensate the passenger or address costs). Airlines would like to make sure there are the right incentives for the airport to somehow contribute to these costs.
Supplier outsourcing	Further discussion needed	Airlines would like the airport to be accountable for the delivery of the performance of the suppliers, when contracted out (such as NATS or PRM service providers) HAL outlined that even when suppliers are contracted out, there might be a limit on the operational impact of changed terms (i.e. NERL decisions that impact NATS tower)
Financial measure	Further discussion needed	HAL is keen to know and discuss which measures airlines would like to see evolving.
Financial measure	Area of agreement	There was agreement that Hygiene Safety Testing was not relevant anymore and should be removed from H8.
Financial measure	Further discussion needed	Related to Baggage Misconnect Rate (which is a reputational incentive only in H7), airlines would like baggage to be subject to a financial incentive for H8. The airport agreed to consider such a move, provided that 1) it focusses on the component where HAL has control upon, 2) that the measure does not drive the wrong behaviours. HAL mentioned it is currently working through this suggestion and will have a more detailed discussion in Round 2 for this topic.
HAL rebate/bonus structure	Further discussion needed + for CAA to consider	Airlines said that they were concerned about the double cap in place on the rebate (overall maximum cap of 7% with a cap on each indicator), in contrast with the bonus structure. CAA confirmed that if Heathrow were to hypothetically underperform on a measure for six months, the CAA would take additional measures including requirements on specific plans to address issues.
HAL rebate/bonus structure	Further discussion needed + for CAA to consider	On a potential change to the rebate/bonus structure for H8, airlines mentioned the possibility to remove the bonus (or evolve over time to retain the level of challenge for Heathrow). HAL did not support the removal of bonuses and responded that removing bonuses would require considering the overall risk and reward balance of the framework.
Financial measure (PRM/PRS)	Area of agreement	Common desire to consider measures and targets of at Passengers Requiring Support (PRS), of which Passengers with Reduced Mobility (PRM) are a segment

## Presentation on operational performance by HAL

### Summary

- 3.16 The presentation looked at existing capacity pinch points and ongoing activities to address them, the financial and reputational measures related to capacity performance, monthly performance across measures (with a horseshoe deep-dive) as well as wider metrics outside the MTI scheme that are tracked by Heathrow. It was followed by three other deep-dives into baggage, punctuality and security.

### Outcomes

**Table 3.8: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Operational performance**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Terminal capacity constraints	Further discussion needed	Related to the “horseshoe” diagram representing capacity constraints today, airlines asked for clarifications regarding the RAG assessment of specific areas, e.g. departure lounges and baggage. They also asked for an understanding of the costs of addressing these, especially the “reds” in the RAG assessment.
Terminal capacity constraints	Area of agreement	Heathrow and airlines agreed that addressing “reds” may mean accepting them in some cases as there is a need to consider the overall picture and ways to address all issues
Performance measure (Airfield)	Further discussion needed	Calculation of metric on airfield resilience is complex. Heathrow is considering whether to change it.
Performance measures	Further discussion needed	Heathrow mentioned some other possible changes it is considering related to TTS at Terminal 5 (F12), jetties (F14), FEGP (F15), pre-conditioned air (F17) and pier-served passengers (F18).
Performance measure (Quiet nights)	Further discussion needed	Airlines raised concerns with the approach to ‘Quiet Nights’ targets, indicating they do not agree with the current one as it damages airlines’ operations – their preference is for a greater degree of flexibility on night noise management. HAL noted important considerations around local communities and sustainability goals, but stated it is open to discuss its interaction with the set of wider operational performance metrics for H8.
Performance measure (PRM/PRS)	Area of agreement	PRM satisfaction is measured through QSM survey; Heathrow is looking to improve its score but noted infrastructure constraints. Airlines want the service for PRM to improve (airport has commissioned a study with BA on it). Airlines agree with the aspiration on PRM level of service.
Baggage	Area of disagreement between HAL and airlines	Airlines disagreed with the balance of responsibility between the stakeholders involved in the baggage process that was presented, arguing that HAL’s

		responsibility, at least indirectly, is bigger than what is being suggested. There were different (and slightly entrenched) views on the extent of reputational damages versus baggage compensation costs.
Baggage	Further discussion needed	Airlines are keen to explore options presented for improvement on baggage performance, understand the business case to allow prioritisation against items in list for capital choices.
Punctuality (tower/airfield)	Further discussion needed	There was emphasis on Heathrow's ability to influence NATS to improve their performance and support better runway flow rate. There is a common interest in engaging on this to understand responsibility allocation. However, views were different on whether airlines should have sight, and some say regarding the NATS contract with HAL.
Punctuality choices	Further discussion needed	Airport and airlines agreed that punctuality is an area which requires further engagement owing to its knock-on impacts, resilience requirements. Airlines also stated that they need to understand punctuality performance baseline and then what that means for H8 on capital investment or service quality considerations.
Security choices	Further discussion needed	Airport and airlines agreed that security is an area which requires further engagement to understand the cost benefit implications of potential changes related to security processes, especially on levels of redundancy.

## Presentation on resilience by the airlines

### Summary

- 3.24 Airlines presented Heathrow's capacity constrained reality and the growing risks around operational events that affect the normal flow of the business, the need for fast recovery after disruptive events. They then defined resilience and discussed different aspects of it.

### Outcomes

**Table 3.9: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement - Resilience**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Factors affecting resilience	Area of agreement	Airports operate as part of a network environment, where they do not control all the factors that influence capacity and resilience (such as ATC, slot management, etc).
Airline priorities on capacity	Further discussion needed	HAL would like to obtain a detailed understanding of airline priorities (i.e. what the airlines want for H8) and/or for beyond so that it can build a timeline of its interventions.

Capacity (growth vs resilience) and cost trade-offs	Further discussion needed	The airlines would like to understand what the trade-offs (in terms of plans, but also costs) between growth and resilience are, especially at macro level and not just at a strategic level so that informed decisions can be made.
Incentives	Further discussion needed	Airlines suggested the introduction of new financial incentives linked to baggage and tower performance.
Tower/runway capacity	Further discussion needed	It was highlighted that runway/airfield capacity and provision of service is a primary operational lever. Airlines would like to see the service provider (NATS) to deliver the capacity as stated in the NATS/HAL contract. Airlines also further highlighted that there may be limits on contract impact on capacity, but would review regarding tower resource.
Process (DVC)	Area of agreement	It was discussed that there was a lack of compliance of airlines and that there needed a Demand versus Capacity (DVC) process that worked better on the day with the ability to adapt.  The current DVC process was discussed including overall compliance and opportunities to improve. Agreement to look at as part of ongoing engagement (as opposed to H8 CE)

## Theme 4 on Capital choices

### Presentation on current and capacity creation by HAL

#### Summary

- 3.32 HAL presented its views on the H8 capital envelope. Firstly it reminded attendees about the six H7 strategic programmes in place, provided a high-level estimation of the H8 investment impacts on the RAB and then presented emerging cost ranges estimates. It then asked airlines for their views on the balance of benefits and outcomes within the portfolio. Afterwards the presentation focussed on creating capacity including better use of existing capacity.

#### Outcomes

**Table 3.10: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Capital choices/capacity**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Capital envelope and choices	Further discussion needed	A number of discrepancies between the slides in relation to the budget of the hoppers, what was included or not compared to the titles of the slides was noted as well as the need to clarify other slides.



Capital choices	Further discussion needed	<p>Airlines mentioned that they would like more details on the options so that they can better understand the trade-offs as they stated being unable to establish priorities at a high-level (as per matrix exercise – slide 7). They wanted better granularity, and would like to understand for instance all the projects behind "punctuality" so that airlines know which one they want.</p> <p>The airport is nonetheless very keen to know the outcomes that airlines are looking for (i.e. what it should invest on) and explained that it is after broad choices at this stage rather than detailed project by project views.</p> <p>The co-chairs agreed to think of how further discussion could take place.</p>
Occupancy	Further discussion needed	<p>Airlines asked about occupancy plans and associated capex to ensure alignment on capital assumptions / requirements.</p> <p>HAL and airlines agreed that the overlap and interfaces between ongoing capacity growth discussions (including the Occupancy Review) and the H8 Constructive Engagement create process challenges.</p>

## Presentation on assets by HAL

### Summary

- 3.39 HAL presented its asset renewal plans and projections on asset compliance. It presented H8 choices and benefits at high level, with a focus on investment on baggage in H8. It then presented on technology and data assets with its long-term vision for investments in this area.

### Outcome

**Table 3.11: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Assets**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Asset renewal	Further discussion needed	Airlines agreed with the need to adequately maintain assets. They stated that they would like to understand decisions about extending asset lives vs impact on costs, as well as having more information between asset management and depreciation.
Technology	Further discussion needed	Airlines stated that they would like to better understand the benefits/options. The airport highlighted that it was keen to hear from airlines CIOs but that it was hard to predict the future of technology, so important to be remain agile in plans.

Innovation	Area of agreement	There was agreement of the value of technology and automation
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## Presentation on customer experience, services and commercial revenues by HAL

### Summary

- 3.40 HAL presented its ideas on investments in passenger experience, including on surface access, terminal crowding and comfort, passenger flows, and improved passenger environment. It then explained one stop security investments that could be made in H8.

### Outcomes

**Table 3.12: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Customer experience, services and commercial revenues**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Punctuality	Further discussion needed	Airlines mentioned that punctuality should include reliability of the schedules.
Passenger satisfaction vs commercial revenue	Further discussion needed	There is a trade-off between pax experience/satisfaction and commercial revenue (such as on space for waiting areas vs shopping areas), which will require further discussions. In particular the strategy on balancing passengers between the international departure lounge and gates.
One stop security	Further discussion needed	It was noted that it could require significant costs in H8 and needed airline inputs.
Commercial revenues	Further discussion needed	As per capital choices, the airlines mentioned that they would like more details on airport's revenue strategies and goals. The airlines also requested the options so that they can better understand the trade-offs as they stated being unable to establish priorities at a high-level (as per matrix exercise – slide 7). The airport is nonetheless very keen to know the outcomes that airlines are looking for (i.e. what it should invest on).

## Presentation on sustainability, carbon and energy by HAL

### Summary

- 3.43 HAL presented its approach on decarbonisation and energy transition, including actions on airspace modernisation, EV chargers, heating systems and access to the required electric supply. It then covered noise performance and

management schemes as well as other sustainability topics (waste, water, biodiversity, etc).

### Outcomes

**Table 3.13: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Sustainability, carbon and energy**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Innovation (taxi-bots)	Further discussion needed	Airlines asked if HAL could consider taxi-bots as taxiing times at Heathrow can be 25 mins on average. The airport will reflect.
Electric supply access	Area of agreement	All agreed that this is absolutely crucial. Heathrow mentioned that it would like to go faster. Airlines were supportive but mentioned trade-off to consider.
Noise management	Further discussion needed	The airport highlighted that there were much more significant benefits in being proactive on noise management than on trying to minimise costs. It also added that the current pace on noise insulation was not fast enough. Airlines were concerned of whether funds were ring-fenced.

## Theme 5 on Regulated asset base (RAB) and affordability

### Presentation on an overview of the RAB and capital constraints

#### Summary

- 3.44 HAL made a technical introduction on the RAB and the WACC, where it explained some of the choices to be made in terms of the regulatory depreciation profile, its impact on charges and the treatment of indexation in the WACC. Related to capacity constraints, cost assurance methods were presented as well as a benchmark on construction costs and risk factors. HAL then presented on property investments for H8 and three alternative ideas on regulatory mechanisms to boost investments particularly in landside non-terminal property.

### Outcomes

**Table 3.14: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – RAB and capital constraints**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Cost assurance	Further discussion needed	Airlines were concerned of the methodology and sample used by the cost assurer in relation to Heathrow's construction costs vs other airports.

Construction costs	Further discussion needed	Airlines queried the potential disconnect between construction costs in London and the cost of charges at LHR compared to other places. The airport replied that a direct comparison was not possible and flagged the need to understand wider financial/ ownership/ operational differences at other airports.
Investment properties	Area of agreement	The transparency provided in slides 40 and 41 was commended.
Evolution of the till from single to hybrid	Area of disagreement	Airlines disagreed with the view of the airport that the single till was slowing HAL's investments in property. There was an openness from the airlines to consider the matter of commercial property investments within the single till; noting this was an area the CAA had indicated they would also be reviewing.  HAL suggested a focused change to the single till framework to unlock underinvestment in commercial property and presented three options for property to be outside of the single till. There were varying views expressed as per meeting minutes but airlines suggested other remedies within the till, such as reductions in the WACC or setting commercial revenues for the assets in question (detailed in airline response to CAA consultation).
Investment properties	Further discussion needed	Airlines stated that they would like to better understand the full benefit of improved and higher property investments.

## Presentation on affordability by the airlines

### Summary

- 3.49 Airlines presented their views on affordability based on three areas of focus: containing the Maximum Allowable Yield (through a review of assets, consideration of inflation assumptions and cost optimisation and targeting), reducing airline operating costs and reviewing OCRs.

### Outcomes

**Table 3.15: Areas of disagreement or areas where further discussion is needed before knowing if there is agreement or disagreement – Affordability**

Topic	Disagreement/ Further discussion/ Agreement?	Reasons stated
Procurement	Further discussion needed	Airlines stated that they would like to be more involved on major contracts in relation to costs and quality of service levels. HAL indicated that some

		work could be done with the airlines on this topic, but that there are commercial sensitivities as well.
Airline operating costs	Further discussion needed	Airlines stated that they would like to examine total costs (sum of HAL costs and airline operating costs) to inform their choices on capital programmes. The airport asked if there was a list of airline priorities for reducing their operating costs and to understand the benefits that airlines expect.
ORC	Further discussion needed	Airlines would like to discuss on the role they can play on the largest five ORC contracts (oversight/approver/etc) in H8

## Overall

3.50 Overall findings on areas of consensus and areas of differences are provided in Chapter 4.

# 4 Findings, lessons learnt and next steps

## | Findings

### Findings on consensus and areas of differences

- 4.1 The quality of the discussion was good and allowed to highlight a number of findings on aligned views and areas with less consensus. Overall there were few areas of disagreement at this initial stage.
- 4.2 One of the key messages that was made by the airline community was their appetite for “growth in a resilient way” in H8. They rejected a scenario focussed solely on resilience that would have put a cap on growth noting there was a need to consider the balance of capacity growth alongside resilience, as well as costs, time-to-deliver, and passenger experience. A second message from the airlines was on operational reliability (especially baggage as they noted their current dissatisfaction in this area) and initial preference for Heathrow being one of the top airports for passenger experience across certain segments. A third message was that affordability is particularly important and needs to be fully considered and demonstrated, both within H8 and beyond. This does not necessarily mean “minimum costs”, rather that airport services are efficient and that minimum costs are the starting base of the airlines for the level of service required, with the aspiration to invest in areas where benefits are clear and aligned with airlines’ and airport interests. Airlines also stated their desire for wider involvement on contracts where Heathrow tenders but service is provided to carriers (NATS, PRS, etc).
- 4.3 Areas of consensus included an alignment around the end goal of providing excellent services and passenger experience. Stakeholders are recognised the benefit of working together on collecting passenger insights in advance of H8. Further benefits of data sharing were highlighted including in relation to operational aspects. The improvement of the wider PRS segment was also agreed to be one of the emerging priorities for H8, whilst recognising that this will exclude the cost-pass through mechanisms of the PRM OBR. In addition there was another consensus on the value of technology and automation to ultimately drive costs down.
- 4.4 What Round One highlighted very well is the importance that the right level of information is shared to ensure that there is clarity around the elements that relate to H8 and Constructive Engagement. This is an aspiration for both airport and airlines, which will require careful consideration for the following rounds, so

that decisions on the options and choices can be taken (at airport level but also tailored for each area of interest/terminal of the airport as much as possible).

- 4.5 The degree of information to be shared must indeed allow, where possible, for airlines to understand the trade-offs between forecast and plans, growth, resilience, reliability, scale of magnitude of benefits (and for whom), interdependencies, pinch-points and affordability, and to prioritise H8 areas of focus.
- 4.6 This would ideally be a dynamic and iterative process at strategic level as well as at a macro-level, but it may be constrained by the short time scales and the complexities of airport businesses. In any case, Round One has shown that there is a need for all stakeholders to understand better the entry point into and what the baseline of H8 is expected to be on all relevant aspects so that there can be a constructive discussion on options for H8 (and beyond occasionally).
- 4.7 There were also some calls on both sides to consider further the risk and reward approach of the current regulatory arrangements: the airport called for commercial property to be considered outside the single till to better allow the redevelopment of areas at the airport that require it, whilst airlines would like to see some changes to the airport performance incentive scheme, including on baggage performance. Whilst there was agreement on some minor aspects of changes to the latter, there was a disagreement on the former but an openness for further discussion on property investment solutions.

### Findings on information exchange

- 4.8 From examining the topics detailed in Table 2.1 and attending the presentations and discussions of all sessions, we observe that HAL provided information for each of the five themes on the current/H7 situation, before presenting its emerging views on options. This was an important step, but there remained some areas of discussion to further understand the basis that the H8 options are being delivered against (i.e. what the baseline for the start of H8 is) as well as the trade-offs.

**Table 4.1: Review of Round one desired information and views exchange**

CAA stated desired information and views to be provided	Steer’s findings
In advance, HAL to provide views on traffic forecasts and impact of future traffic on strategic approach to investment, service quality and resilience	<ul style="list-style-type: none"> <li>• Information was provided in advance by HAL.</li> <li>• Information on traffic forecasts was provided.</li> <li>• Information on approach to resilience, service quality and resilience was provided at high-level, but mostly separately so not allowing yet for an understanding of the trade-offs between these elements. This was probably to be expected at this stage as the airport wanted to understand airlines’ priorities related to these elements.</li> </ul>
In advance, HAL to provide views on initial priorities for investment, with any available supporting analysis on the costs and benefits of different possible options for key choices	<ul style="list-style-type: none"> <li>• Information was provided in advance by HAL.</li> <li>• Information on costs was provided at a high-level in Theme 2 and Theme 4.</li> <li>• Information on the benefits was provided at a very high-level, and did not easily link with the information on costs. This was probably to be</li> </ul>

	<p>expected at this stage as the airport wanted to understand airlines' priorities on investments, but would be useful information to provide ahead of Round two.</p>
<p>In advance, HAL to provide views on high-level forecasts for investment and service quality performance over H7 and priorities for improvement in the next period</p>	<ul style="list-style-type: none"> <li>• Information was provided in advance by HAL.</li> <li>• High-level forecasts for investments were provided.</li> <li>• Service quality performance information was provided.</li> <li>• Priorities for improvements was provided.</li> </ul>
<p>During Constructive Engagement, airlines to provide initial views on main priorities for service quality and investment</p>	<ul style="list-style-type: none"> <li>• During the discussion, airlines provided some of their initial views. However they often did not provide very detailed views as they wanted more information to so.</li> <li>• As a result the airport remains unclear on the relative weight between priority areas of airlines for H8.</li> </ul>

## Findings on outcomes

4.9 In the table below we compare the desired outcomes of Round one as stated by the CAA with our findings on Round One. Overall we assess that there was a real engagement from both sides which has allowed constructive exchange of initial views at this stage. However, the next round will be crucial to see how information can go further and support the airport business plan development.

**Table 4.2: Review of Round one desired outcomes**

CAA stated desired outcomes	Steer's findings
<p>To understand the views of HAL and airlines on the key priorities for the H8 period, in terms of investment, service quality levels and resilience</p>	<p>At a high level, this was achieved with a suitable exchange of information from both sides through the slides presented. However an enhanced sharing of information would be valuable to inform the decision making that will be needed in the next round.</p>
<p>To discuss the broad benefits and costs of strategic investment options and, where practicable, seek to reach consensus on these</p>	<p>At a high level, this was achieved with a suitable exchange of information from the airport. However, no consensus was reached, mainly because airlines aspire to get more understanding of the investment trade-offs. With more detailed data, this seem to be an outcome achievable in next rounds.</p>
<p>To discuss and seek to reach consensus on the approach to forecasting traffic levels and the impact on investment, service quality and resilience</p>	<p>At this stage, there was broad agreement on the demand and forecasted traffic levels. However there was less consensus on the levels of capacity constraints, how much capacity was left, whether this included resilience and reliability plans and for what service quality. This was probably due to a lack of detailed information at this stage.</p>
<p>The outputs should enable HAL to develop its business plan for H8 with a clear understanding of airlines' priorities</p>	<p>As noted above, there remains a need for further information exchange and alignment with key parallel inputs, for example Long-Term Planning and Strategy and airline bi-lateral engagements, for HAL to be in a position to have a clear</p>



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	understanding of the airlines' priorities to feed into its business plan.
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## | Lessons learnt

- 4.10 We suggest that due dates are added in the log next to all actions so that the wait on document exchange is managed a more proactively or there will be a risk of delays.

## Control Information

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