

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

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

**CAP 1592**



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## About this document

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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 regular basis. We produced our first report in February 2017. This update describes the progress that HAL and the airlines have made since we provided our last report in May 2017.

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# Introduction and summary

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## Introduction

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1. The Secretary of State for Transport (SoS) has requested, under Section 16 of the Civil Aviation Act 1982, that we review and advise him on how well HAL is engaging and responding to the airline community on the appropriate scope, design and costing of new runway capacity at Heathrow Airport.
2. Our update report to the SoS in May 2017<sup>1</sup> noted that HAL had made some progress against our previous recommendations, however, much remained to be done if the process for airline engagement was to be fully effective and deliver a preferred scheme design that had broad support from the airline community and properly reflected the interests of consumers. In light of this view, our May report identified ten areas of additional focus for HAL to lead on and address as a matter of urgency.
3. At that time, we expected to issue our next quarterly report to the SoS at the end of August 2017. However, following changes to the wider expansion timetable and the agreement by HAL and the airline community to revise the timetable for HAL's first DCO consultation (Consultation 1) to allow more time for the scheme development process, we agreed with DfT, HAL and the airline community to postpone our update on engagement by one month to September 2017.
4. In preparing this report, we asked HAL and the airline community to set out their views on progress over the last few months.

## HAL views

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5. HAL has said that the period since our May report has involved greater intensity in the engagement between HAL and the airline community (as well as with other stakeholders). HAL explained that it had listened and responded to airline community feedback by revising the timetable for Consultation 1, developing a new engagement roadmap and introducing reforms to governance arrangements including the Costs & Benefits Working Group (CBWG), Options Approval Group (OAG) and Airline Working Group (AWG). It has also said that it has committed significant resources to support this new structure and to improve governance administration<sup>2</sup> consistent with the recommendations in our May report.

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<sup>1</sup> <http://publicapps.caa.co.uk/modalapplication.aspx?appid=11&mode=detail&id=7990>.

<sup>2</sup> Paragraph 2.20 of May report

<http://publicapps.caa.co.uk/modalapplication.aspx?appid=11&mode=detail&id=7990>.

6. HAL has also explained that its new multi-level communications strategy allows for more tailored engagement with the airline community while the development of its draft consumer research and engagement strategy sets out its proposed approach to place passenger and cargo owner interests at the heart of an expanded Heathrow. In addition, HAL has highlighted the joint development of the Strategic Brief as an area of good airport-airline engagement.
7. It considers these developments have resulted in higher quality engagement which is a credible basis for developing a scheme that is capable of meeting the affordability challenge set by the Secretary of State. HAL considers it now has the right framework in place to move onto the next phase of engagement.

## Airline community views

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8. Feedback from the airline community has been generally positive about improvements in the engagement process since our May report, recognising the significant shift in HAL's approach. In particular, they consider HAL has shown increased sensitivity to their needs and is responding to key issues more effectively, and that HAL has identified constructive and collaborative solutions to a specific area of disagreement. They consider HAL's new multi-level communications strategy to be a marked improvement. There was also broad support for the revised consultation timetable and new engagement roadmap.
9. The airline community has welcomed the new governance arrangements including the CBWG, OAG and AWG, which have helped progress option development for some components and there is recognition of the considerable efforts underway to address the assembly stage that should deliver an outline Masterplan by mid-2018. While recognising these improvements, the airline community also consider they will require further refinement in the months ahead. The airline community also support the contributions being made by the Independent Fund Surveyor (IFS) that they consider has made progress in several areas particularly around HAL's cost estimating database (the Purple Book) and HAL's project management process and procedures.
10. While recognising that progress has been made, the airline community has a number of important remaining concerns:
  - the airline community has said affordability remains their primary concern and they still require more confidence that the emerging features of the scheme design are affordable. They also want HAL to make available more mature information/data on costs and benchmarking before Consultation 1. More generally, they consider there is a lack of early visibility on the material that will be included in Consultation 1;
  - HAL's revised timetable to prepare for Consultation 1 is still driving a challenging and possibly unrealistic schedule for meaningful engagement

on scheme development, particularly as governance structures are continuing to mature. The airline community considers it is important that HAL brings them along on this journey so that they can assimilate data, build understanding and consider an overall view of scheme design;

- the volume of data being provided remains an issue and the airline community considers there may be an opportunity to condense the material being generated from new fora so only the most salient points are covered; and
- HAL's recent requirements for a revised set of non-disclosure agreements has made it harder for airlines and their representative bodies to discuss issues in an open way and develop consensus.

## **Progress on May recommendations**

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11. HAL has made good progress in addressing a number of the key recommendations we made in the May report, particularly around governance and timetabling and some areas of communications and information provision. We very much welcome this progress. In a number of other areas such as consumer engagement and provision of information on cost efficiency and benchmarking, progress has been more limited. Nonetheless, we recognise that these areas are work in progress and if HAL retains the momentum it has recently established we would expect that it will be able to resolve these matters in the coming months.

12. The table below summarises our May recommendations and the progress we consider that HAL has made in delivering on these recommendations. Green indicates good progress has been made, amber indicates work in progress and red where more focus is needed.

Area of concern	Action	Progress	RAG
1. Governance	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.	HAL has developed a roadmap/engagement calendar that has been welcomed by the airline community.	Green
	b. Improve the quality and content of the governance protocol.	Albeit delayed, HAL and the airline community have agreed changes to the protocol.	Green
2. Communication and information provision	a. Develop a more tailored communications strategy to accommodate the diverse engagement requirements.	HAL has developed a multi-level tailored communications strategy, reformed its SharePoint site and introduced newsletters all of which have been welcomed by the airline community.	Green
	b. Provide more detailed information to make best use of the cost and price path model / ready-reckoner.	Good progress with the capital plan and dashboard presented at CBWG but more detailed information required on key components of price modelling.	Yellow
	c. Make sure that high quality information on cost efficiency and benchmarking is made available to airlines and the CAA.	Capital benchmarking information presented at JEB and IFS review of capital plan and programme management, but not enough progress at this stage to gain stakeholder confidence.	Red
	d. Enhance the effectiveness of the Affordability & Business Case Working Group (ABC).	Affordability & Business Case Working Group replaced with CBWG, which has made a positive start but we need to see more progress including the sharing of key data and supporting information.	Yellow
3. Affordability and	a. Provide more detailed information on the impact of emerging options.	While progress is being made via reformed AWGs and OAGs, more progress is needed on assessing affordability, trade-offs and	Yellow



Area of concern	Action	Progress	RAG
optioneering		implications for future users.	
	b. Develop a process for providing carefully justified explanations on why various options are or are not being taken forward with the airlines.	<p>Some progress with more nuanced methodology for discontinuing options (grey process) as part of the evaluation process.</p> <p>Masterplan Scheme Development Manual being revised to reflect feedback from consultation.</p> <p>Starting to gather requirements on components through AWGs but more clarity on how requirements will be evaluated, taken forward or made dormant/discontinued.</p>	
4. Timetable	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.	With airline community input, HAL revised timetable for Consultation 1 to no earlier than December 2017. HAL has also developed the detailed roadmap / engagement calendar.	
5. Consumers	a. Develop and implement an appropriate consumer engagement strategy.	<p>Good progress and joint development of Strategic Brief.</p> <p>Also, draft consumer research and engagement strategy issued but more work is needed.</p>	

## Assessment and further actions required

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### *Overall assessment of progress since May report*

13. Overall, we are encouraged by the progress that HAL and the airline community have made in the intervening period since our May report. We have observed a further step-change in the quality, intensity and maturity of the engagement process with the previous governance arrangements being over-hauled in favour of a more joined up, streamlined and inclusive approach, which was agreed with the airline community in advance of implementation. We also welcome the considerable effort and flexibility shown by HAL in accommodating the airline community's needs, including the commitment of additional resources to ensure governance fora such as the AWGs operate effectively.

### *Next steps - an integrated approach and areas for additional focus*

14. As the scheme development process matures, it is becoming clear how key areas of the programme are becoming more interdependent and how integrated they need to be in order to enhance effective and meaningful engagement. In particular, there is a need to understand interactions between different areas and understand how components can be best integrated together. This will maximise the opportunity to develop a Masterplan that reflects an efficient design, is affordable and meets the needs of the airline community and consumers.

15. Such an integrated approach needs to be prioritised to enhance meaningful engagement. It also needs to be embedded in HAL-airline community engagement processes and governance arrangements. This will allow affordability modelling to be fully integrated into the process and ensure that the views of the airline community and consumers are taken into account in a coordinated way.

16. At this stage of the engagement process, the areas of additional focus that we expect HAL to prioritise and integrate into its overall approach are:

- a) **Consumer engagement** - HAL has recently issued its draft strategy for engaging consumers during the H7 price control review and capacity expansion process. While we view this as a step in the right direction we consider that further work and discussion will be required by HAL to secure the support of its Customer Challenge Board (CCB) and airlines, and that HAL should address these issues as a matter of priority.
- b) **Cost information and benchmarking** - much more detailed information and analysis will be required to provide all stakeholders with assurance that capacity expansion can be delivered efficiently.

- c) **Detailed information to support affordability modelling** - we have been encouraged by the good progress HAL has made in developing its overall plans in response to the expectation that capacity expansion should be delivered at close to current airport charges. Nonetheless, it is imperative that HAL builds on its overall vision for affordability by providing more information on the key building blocks of its affordability calculations, and carries out additional robust and compelling analysis where appropriate.

17. Our detailed assessment of these issues and our recommendations for further areas of focus for HAL are set out in more detail in Chapter 2.

#### *Future reporting arrangements*

18. Fortnightly reporting by HAL to the airline community and us was appropriate when HAL was reporting against the broad range of recommendations identified in our May report. Given that HAL has made good progress in completing a number of these recommendations, we consider that a more focused approach is now required. On balance, we consider that monthly updates to the airline community and us will now provide an appropriate process for HAL to report on progress.

## **Next steps**

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19. We have agreed with the DfT that our next update report to the SoS will follow HAL's Consultation 1 in January 2018 or early February 2018. At this stage, we expect this to focus on Phases (ii) and (iii) of the Section 16 ToR that is:

- Phase (ii) identifying and evaluating the outputs from the engagement process, predominantly the changes made to the scheme design; and
- Phase (iii) assessing the effectiveness of the engagement process.

20. Phase (ii) requires us to critically assess the extent to which the engagement process has developed tangible changes to the scope design and cost of the runway scheme. As part of our information request to HAL and the airline community for this report, we received some initial views on Phase (ii). To help inform our assessment of the next stage in the engagement process, we are inviting HAL and the airline community to build on these initial views by working together to produce a joint statement setting out their views on the 9 key deliverables specified in Phase (ii) ToR. To the extent that it is possible, we also welcome the joint statement also covering emerging views on the 7 key deliverables in Phase (iii). Further details on these proposals are set out in Chapter 2.

## Document structure

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21. This document has the following structure:

- Chapter 1 – overview of developments in airport-airline engagement since May report.
- Chapter 2 – assessment and expectations for next steps on engagement.

## Chapter 1

# Overview of developments in airport-airline engagement since May report

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- 1.1 To provide context for our assessment of progress in chapter 2, this chapter summarises:
- a) the approach we have taken in producing this update report;
  - b) the key milestones/developments and progress made since our May report; and
  - c) the key issues and concerns HAL and the airline community have identified that need to be addressed before Consultation 1 is published.

## CAA's approach in assessing airport-airline engagement

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### *Approach*

- 1.2 The ToR require the CAA to provide its view 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. In assessing how well HAL has done this, we recognise that effective and meaningful engagement is a two way process. In ensuring we produce a balanced and objective assessment of the effectiveness of airport-airline engagement under the ToR, we have adopted an evidence based approach, seeking the oral and written views of HAL and the airline community.

### *CAA monitoring activity between June – September*

- 1.3 In developing our views and monitoring progress on engagement for this update, we have built up an evidence base from a number of sources including:
- 1) regular bilateral engagement with HAL, including our review of a detailed information submission provided by HAL setting out its views on progress on key engagement issues;
  - 2) regular bilateral engagement with airlines and airline representative bodies, including our review of detailed submissions made by a number of these parties setting out their views on the key engagement issues;
  - 3) our ongoing review of HAL's fortnightly updates on the actions and recommendations made in our May report;

- 4) regular engagement between us and the Independent Fund Surveyor (IFS) that acts as an adviser to both HAL and the airline community on whether the programme is progressing in a reasonable manner as well as providing assurance on cost efficiency;
- 5) initial analysis that has been carried out by Arcadis (as our technical advisers) on capacity expansion issues; and
- 6) our regular attendance at Heathrow expansion airline events as well as the majority of the governance groups that are relevant to capacity expansion.

## **Engagement process since May report**

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- 1.4 Since issuing our May report, there have been a number of developments in the airport-airline engagement process that we have summarised below. These developments not only cover progress made in the areas specified by our May report but also other relevant developments that impact on the overall effectiveness of engagement.

### **Timetable and pace of expansion programme ahead of Consultation 1**

#### *May recommendations*

- 1.5 In summary, our May report recommended that HAL should 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. We also recommended that HAL should assure itself and the airline community that its engagement process would robustly support the publication of Consultation 1 which was then scheduled for publication in August 2017. We said that this should demonstrate that HAL had fully sought, taken into account and responded to airline views on the options for the broad scheme design.

#### *Progress on delivery*

- 1.6 Shortly after we issued our May report, HAL undertook a review of the expansion timetable and workload necessary to support the delivery of Consultation 1 in August 2017. A series of workshops were held between HAL and airline representatives to discuss HAL's approach, airlines' concerns and the further information that would be shared with airlines in advance of Consultation 1. The workshops established that the airline community's main concerns were lack of visibility on key issues, limited time for discussion and identifying key subject matter experts and circulating material back to their respective businesses. Further, there were important concerns about the time available to assess and discuss broad topics such as affordability.
- 1.7 In July, it was concluded that launching Consultation 1 in August would be unrealistic and that a HAL and airline working group should be established to determine new timings. As a result, the date for publishing Consultation 1 was

changed until no earlier than December 2017. There is now a regular agenda item at the Joint Expansion Board (JEB) that reviews the readiness for Consultation 1 to track progress. HAL has also scheduled two further Consultation 1 workshops in October.

- 1.8 In parallel to this, HAL developed a new Airline Engagement Calendar which was shared with the airline community in July setting out the scheduled HAL-airline meetings to the end of 2017 and provides the airline community with visibility as to which issues will be discussed in advance. It also identifies the key HAL internal governance meetings that take place. The calendar is designed around reformed governance arrangements including the JEB, AWG, OAG, CBWG, Consultation 1 workshops, working groups for Category B planning costs and early Category C construction costs.

#### *Feedback from stakeholders*

- 1.9 HAL considers it has now delivered an effective roadmap tailored to the needs of the airline community, centred around new governance arrangements and a revised Consultation 1 timetable. There was broad support from the airline community for the new engagement calendar which they consider has helped them plan their general and subject matter expert resources more effectively until the end of 2017. There was also recognition that HAL is attempting to provide clarity on meeting structure and content of AWGs and OAGs and this is an improvement on previous efforts in this area.
- 1.10 More generally on the overall pace of programme, there remains some concern among the airline community around HAL's continued drive to hit deadlines and get material ready for Consultation 1, and that this may be driving a potentially unrealistic schedule.

### **Communications and information provision**

#### *May recommendations*

- 1.11 In May, we recommended HAL develop a more tailored communications strategy to accommodate the diverse engagement requirements of the airline community. We said that this should encompass the redesign of the SharePoint 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.

#### *Progress on delivery*

- 1.12 In June 2017, HAL consulted on its new multi-level airline communication strategy tailored to the needs of different airlines. This separately identifies six different categories of airlines based on their level of engagement in the programme. The strategy also sets out information sharing protocols for each of the airport-airline governance boards concerning expansion and sets out specific

timeframes for the sharing of pre-reading materials and minutes. This approach was finalised in July.

- 1.13 In June, HAL's SharePoint site for the airlines was made easier to use and the document library was split into several sections to allow airlines to quickly access the information they require.
- 1.14 HAL has also developed a monthly newsletter with key information and the main areas of progress that have occurred during the last month. This is targeted at those airlines that are not able to engage as much as others in the expansion process.
- 1.15 Two non-incumbent airlines have expressed an interest in understanding more about the expansion programme, but were unable to attend meetings as these airlines lacked the necessary resources. Since May, HAL has continued to engage with non-incumbents but notes that these airlines have very limited resources to engage fully with the complex issues associated with capacity expansion.

#### *Feedback from stakeholders*

- 1.16 The airline community considers HAL's communications strategy has improved significantly, although they will continue to review its effectiveness going forward. Similarly, we have received feedback that the SharePoint site is much improved and easier to navigate. There was also feedback that airport/airline community events in May and July have been effectively run, well-organised and provided a good overview on progress of expansion. In particular, it was noted that through the July session, airspace issues were properly highlighted and the programme of work to address emerging issues appeared comprehensive.

## **Governance arrangements**

#### *May recommendations*

- 1.17 In our May report we recommended that HAL should improve the quality and content of the governance protocol. We expected the protocol to be a comprehensive, consolidated, well signposted and clear point of reference for all governance arrangements, and to be kept up to date. The protocol should also address the airline community's concerns on information provision by developing, agreeing and setting out consistent information protocols.
- 1.18 We also noted that the airline community had concerns about HAL's execution on governance administration. For example, information not consistently being provided sufficiently in advance to the correct airline representatives and this impeding timely and effective engagement. The airline community also said that HAL needed to improve the process of forward planning and signposting future



discussions as well as improving record keeping across all expansion related governance fora.

### *Progress on delivery*

- 1.19 The HAL airline community governance working group met a number of times and there has been extensive consultation on governance arrangements. There has been a willingness to engage, good progress has been made, and significant efforts have been made by HAL and the airline community to finalise the protocol. Nonetheless, while progress made and agreement reached in many areas, there remained some areas which HAL and the airline community disagreed and which led to delay in finalising the protocol. Those issues related to the interactions between the planning process and airport/airline engagement and in particular around decision making roles of expansion fora. As of 15 September the protocol was provisionally agreed and will be distributed for broader consultation in September. Finalisation is anticipated in early October 2017.

### *Feedback from stakeholders*

- 1.20 The airline community has responded positively to the new governance structure, which includes the OAG, AWG and CBWG. The airline community has said that HAL has engaged in a more meaningful way since the May report, through the more efficient structure. However, they have expressed concerns about how all the components of the engagement and governance process will be pulled together to facilitate delivery to the milestone dates that have been set.
- 1.21 While governance administration (including getting material for meetings out in advance and on the SharePoint site) has significantly improved, the airline community has provided examples where further improvement would be desirable. For instance, meeting minute taking could be more consistent and there is still the occasional late delivery of papers.

## **Masterplan/scheme development processes**

### *May recommendations*

- 1.22 We recommended that HAL:
- provides more detailed information on the impact of emerging options;
  - should discuss and agree with the airline community 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 information should include any explicit or implicit trade-offs that may be associated with affordability objectives and implications of these for future users;

- should provide higher quality, more joined up information in explaining the interactions between the masterplan development, optioneering and evaluation process;
- should 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 the process by which “blacked” options can be brought back into the evaluation process and timeframes for this.

### *Progress on delivery*

- 1.23 There has been some good progress in this area, with HAL beginning to provide more joined up information in explaining the interactions between Masterplan development, requirements and evaluation processes and how engagement with the airline community fits into this. In particular, HAL consulted on its Masterplan Scheme Development Manual. This outlines the 18-month process to develop Heathrow’s Masterplan (which will be submitted as part of HAL’s DCO application).
- 1.24 HAL has been running AWGs to gather the airline community’s requirements for the Masterplan, focussing on pulling together the airline community’s feedback with input from their technical experts. This will enable HAL to understand their needs in relation to the design and operation of the expanded airport and to take them into account in developing the design of the scheme and the Masterplan.

### *Feedback from stakeholders*

- 1.25 HAL considers it has worked closely with the airline community and committed significant resources on the content of the AWG and OAG engagement sessions, to empower airlines to drive the agenda for these meetings and to focus on issues of most interest and concern.
- 1.26 The airline community has said the introduction of the AWG is much welcomed and has enabled their experts to engage, validate the need for, and identify potential solutions or best practices at component level. The airline community has also recognised the considerable efforts that HAL has put into AWGs to address component assembly and moving towards an outline Masterplan by mid-2018.
- 1.27 The airline community has noted that the focus of the programme is now changing to engagement by experts to validate the components within the emerging design. As there are many interdependencies both within and between components, a key challenge, especially for the airline community, will be maintaining an overall view of scheme design and the factors driving affordability. Consequently while progress has been made more time is needed

to assess whether the arrangements are sufficiently robust to ensure that key outcomes are delivered.

- 1.28 The airline community has also told us that while they recognise AWGs have been well run, the wider governance process around managing requirements for the Masterplan and the wider roll up into scheme design is not yet fully clear. We received particular feedback from airlines that choose not to attend OAG that while governance has significantly improved it is difficult to understand fully how the various forums work together. Of particular concern is how HAL will make sure that all necessary parties are informed and involved in key decisions through the JEB.

## **Affordability and provision of cost information**

### *May recommendations*

- 1.29 Our May report made several recommendations on affordability, including that HAL should:
- provide more detailed information to make best use of the cost and price path model / ready-reckoner. 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, benchmarking and procurement is made available. 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; and
  - enhance the effectiveness of the Affordability & Business Case Working Group (ABC Working Group) including by incorporating this group more directly into the overall governance structure (feeding into OSG and JEB etc) and providing it with high quality documentation and supporting information.

### *Progress on delivery*

- 1.30 In August, HAL replaced the ABC Working Group with the Costs and Benefits Working Group (CBWG). At the CBWG meeting on 31 August, HAL presented a scenario which set out the basis for Heathrow's view that there is the potential to deliver capacity expansion while maintaining airport charges per passenger close to current levels in real terms through to 2035.
- 1.31 Regarding cost-efficiency and benchmarking information HAL has said its latest proposals substantially reduce the cost of the overall scheme compared to the design assessed by the Airport Commission. The IFS has also reported on the

costs of HAL's 'quicker and cheaper' scheme and highlighted a number of areas where it considered that HAL needed to do more work, including on benchmarking and the allowances it was including for risk.

- 1.32 At the JEB in June, HAL provided the airline community with an update on capital benchmarking and how it uses historical data from developments at Heathrow and wider data from national and international projects. The session also highlighted potential opportunities in understanding more clearly key cost drivers within the capital plan and how benchmarks could be used to help inform design choices.
- 1.33 HAL has also been developing in more detail its high level procurement timeline through to the start of construction. The timeline sets out a forward view of key procurement activities and identifies the key enablers and activities that are necessary to inform either the over-arching procurement strategy or individual elements of the strategy. The timeline was shared with the airline community at the JEB in September.

#### *Feedback from stakeholders*

- 1.34 HAL has recently set out its latest proposals which reduce the cost of the overall scheme. HAL considers that this new framework has led to tangible results such as identifying options for capital plans that have the potential for delivering capacity expansion with airport charges close to current levels in real terms.
- 1.35 Affordability remains the primary concern of the airline community for the expansion programme and they want to ensure that HAL is progressing the cost identification and efficiency work to enable the accurate modelling of affordability. The airline community welcomed the new CBWG and noted some useful evidence had been presented around the future path of charges and considers HAL deserves credit for making progress on these issues. Nonetheless, they consider that they need more granular detail to understand the modelling and underlying assumptions.
- 1.36 The airline community considers it is critical that this more in depth analysis emerges in the next quarter and expect to see significant progress on demonstrating and validating scheme affordability. This should mean a greater degree of shared confidence around scope, risks, costs (including inflation) and schedule all before Consultation 1. The airline community also supports the work of the IFS on these matters.
- 1.37 They have also welcomed HAL's intentions around its review of the procurement process including seeking airline community engagement. More generally, the airline community supports the investigation of any reasonable means of reducing the project management, development and construction costs associated with expansion.

## Consumers

### *May recommendations*

- 1.38 In May, we set out our expectation for 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 CCB and having due regard to the interests of cargo owners.

### *Progress on delivery*

- 1.39 HAL has told us that the Strategic Brief sets out the vision and ambition for expansion, which considers the interests of passengers and cargo owners. HAL and the airline community have been progressing development through the Strategic Brief Working Group, which is now going through final review with the aim that it will be finalised in November.
- 1.40 On 31 August, HAL consulted the airline community and the CAA on its draft consumer research and engagement strategy for H7 and expansion, which summarises the work HAL has already undertaken as well as describing its strategy for future work. To engage with airlines on these issues, HAL has established a monthly engagement forum, 'Outcomes Consumer Research and Engagement meeting'.
- 1.41 Cargo was addressed in Airline Working Group 2 held on 18 August. The airline community representatives attended with their cargo subject matter experts. DHL, a specialist cargo operator at Heathrow, attended and gave its views on the future of cargo and how the master plan options should reflect the need for cargo facilities. HAL has also met with the Freight Transport Association (FTA) which has asked to be involved in any discussions that relate to cargo, including road access around Heathrow.

### *Feedback from stakeholders*

- 1.42 The airline community acknowledges that HAL has made progress with its consumer research and engagement strategy but said it has been relatively slow to engage them on this subject. They also have concerns as to whether consumer engagement is properly integrated in its overall strategy and note that HAL has left relatively little time for consultation.
- 1.43 More generally both HAL and the airline community have been engaging with the CCB, with several airlines conducting bi-lateral sessions with the CCB. The airline community considers there is still a lot of work to be done in this area to ensure that the process takes proper account of their own consumer research.

## Other issues raised by airlines

- 1.44 The airline community have also identified a number of areas where they would welcome further detailed information from HAL including in relation to: Category B planning costs and early Category C construction costs (primarily land purchase and compensation costs); and the impact of a possible increase in the air traffic movement (ATM) cap prior to capacity expansion including, for example on resilience. The airline community has also stressed the importance of HAL continuing to invest in the current airport infrastructure, particularly T3 and T2 baggage infrastructure, to continue to improve the airport experience for passengers.

## Other developments

### *Arora announcement on expansion*

- 1.45 In July 2017, the Arora group, a major landowner and property developer around Heathrow, announced its own alternative proposals for capacity expansion at Heathrow. It considers that these plans could be delivered at lower cost than the plans HAL submitted to the Airports Commission. We understand that some airlines have been engaging with Arora and are interested to explore whether aspects of Arora's plans can be taken forward. We have also met Arora and explained it can respond to our consultations on the regulatory framework for HAL, alongside other stakeholders.

### *Non Disclosure Agreements*

- 1.46 On 13 July, HAL wrote to the airline community, advising that a new set of Non Disclosure Agreements (NDAs) would be issued the following week for agreement at the earliest opportunity to enable confidential information to continue to be shared with the airlines. As at 8 September, of the 24 NDAs issued to key airline contacts, 18 had been completed with 6 outstanding. HAL has now sent new NDAs to the remaining airlines and licensed ground handlers that operate at Heathrow.
- 1.47 The airline community has stated that the requirement to sign a new NDA has hampered the progress of the engagement process. In particular, limiting airline discussions to only those airlines which have signed the new NDA has made engagement and the task of representative organisations more difficult, restricting the ability to secure consensus across a full range of airlines.
- 1.48 We expect the airline community to observe the NDAs and protect any confidential information they receive as part of the section 16 process. However, this does not mean expansion related engagement is only limited to HAL as we recognise there may be a need to draw data and benchmarks from a variety of sources.

## Chapter 2

# Our assessment and expectations for next steps on engagement

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## Introduction

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- 2.1 This chapter sets out our:
- overall assessment of progress since May report; and
  - expectations on next steps for the engagement process.

## Overall Assessment

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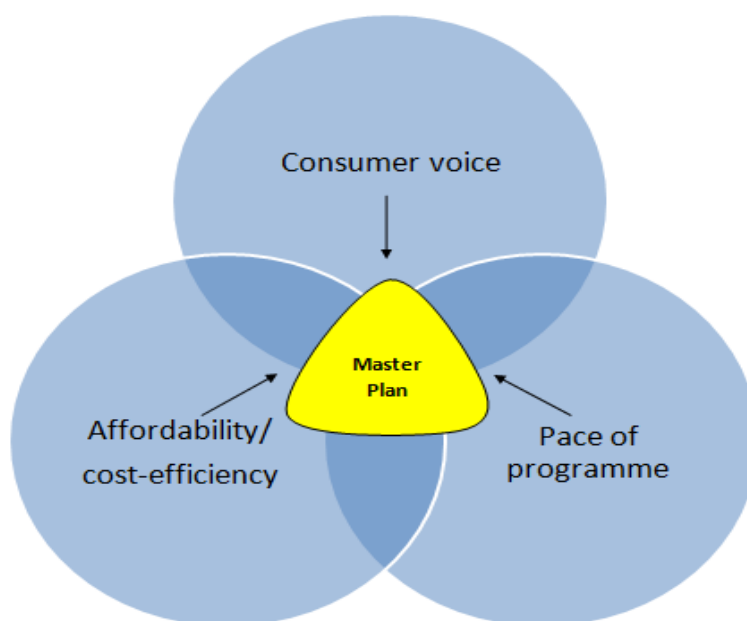
- 2.2 We are encouraged by the progress that HAL and the airline community have made on engagement in the period since our May report. We have observed a further step-change in the quality, intensity and maturity of the engagement process with the previous governance arrangements being over-hauled in favour of a more joined up, streamlined and inclusive approach, which was agreed with the airline community in advance of changes being implemented. HAL has also developed a revised timetable, communications strategy and engagement plan all of which have been well received by the airline community. We also welcome the considerable effort and flexibility shown by HAL in accommodating the airline community's needs, including the commitment of additional resources to ensure governance fora such as the AWGs operate effectively.
- 2.3 Nonetheless, feedback from the airline community and our own observations suggest that there are a number of important areas where progress is needed as HAL prepares for Consultation 1. These remaining areas of focus are set out below.

## Expectations on next steps for an integrated approach to engagement

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- 2.4 The aim of the Section 16 process is to ensure that the scheme meets the reasonable needs of airlines and consumers, and in particular that the design of the scheme is fit for purpose, cost-efficient and affordable. Our review of engagement is focused principally through the lens of our primary duty to consumers under the Civil Aviation Act 2012.
- 2.5 As the scheme development process matures, with almost one year since the Government's announcement of Heathrow as its preferred location for capacity expansion, it is becoming increasingly clear that key areas of the programme need to be better coordinated to enhance effective and meaningful engagement.

- 2.6 The ultimate aim should be the convergence on a Masterplan that is cost efficient, affordable and reflects the needs of airlines and consumers. The pace of the overall programme is a key driver in achieving this. These key interdependencies are illustrated below.



- 2.7 Over the coming months, a more integrated approach to assessment needs to be prioritised to enhance meaningful engagement. This should ensure that the engagement governance arrangements can properly encompass affordability modelling and the information necessary to ensure that the scheme design properly reflects the interests of consumers.
- 2.8 This is a priority because the expansion programme is presently looking at components of the scheme in significant detail. This needs to be supported by appropriate consideration of trade-offs and affordability issues as components start to be assembled together. It is therefore important that HAL and the airline community adopt an integrated approach to this assessment. This was recognised by the IFS who recommended HAL should continually track the development of Masterplan components and test the assembly of these against the capital plan to inform affordability modelling.



## Consumer engagement

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- 2.9 We welcome the joint development of the Strategic Brief. We understand this has been a highly collaborative process with HAL demonstrating that it has listened and responded to the airline community's feedback, and willingness from all parties to engage meaningfully. HAL has also recently issued its draft plans for engaging consumers through H7 and capacity expansion. While we view this as a step in the right direction we consider that much more detailed work and discussion will be required to obtain the airline community and CCB support in this area and that HAL should address this as a matter of priority. In particular, we are concerned that the draft strategy does not have enough focus on expansion and there is insufficient information on how HAL intends to meaningfully bring the consumer voice into the design process. We plan further engagement with HAL on how best to improve the draft strategy.
- 2.10 We also consider HAL should involve the airline community more fully in developing and progressing the strategy and make best use of their existing consumer research.
- 2.11 On the whole, we consider that much remains to be done to ensure that engagement is focused on furthering interests of passengers and cargo owners and we expect HAL to bring the consumer voice into the expansion process much more over the next quarter. Next steps for HAL include:
- improving the quality and content of the draft strategy by working with the CAA and the CCB;
  - bringing the airline community more directly into the development of the strategy and ensuring that the process benefits from their access to research and information on consumer experiences and needs;
  - considering how best to bring a consumer voice into governance fora like AWG and CBWG so that decisions on areas such as surface access, baggage, connectivity, terminal design, and resilience are informed by evidence which clearly links to consumer priorities and preferences;
  - ensuring that the consumer strategy takes into account the interests of cargo owners; and
  - providing evidence that the consumer voice has been reflected in the process and relevant fora, possibly through a consumer register similar to the registers already developed to record the requirements of the airline community and other stakeholders.

## Interaction and integration of Masterplan/scheme development processes

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- 2.12 We welcome progress made with the new governance structures and the increasing amount of information on how different Masterplan processes interact. However this has been identified as key area for further improvement by the airline community and HAL should provide more clarity on how different Masterplan processes (such as component options development, sub-assembly, requirements, evaluation and governance fora) interact and work together. We note that discussions on this are already built into the Engagement Calendar but HAL must ensure there is an integrated approach within and amongst these processes, including:
- addressing the gap between components and sub –assembly stage and the linkage between orange and green reviews;
  - building on governance arrangements for managing processes (such as registers and trackers);
  - reviewing how many decisions are being rolled forward from one OAG to the next to better support an effective process and to determine if more time should be allocated to allow airlines to review the material; and
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  - considering if it could better condense the material for AWG meetings so that they focus more on the most important and salient points.

## Cost information and benchmarking

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- 2.13 As part of the JEB discussion in June, HAL provided an overview of its approach to applying external benchmarks. This included some benchmarking at facility level as well as the benchmarking of non-construction elements such as on overhead costs, risks and inflation. HAL also proposed to extend its benchmarking to cover further information on traditional airport assets and other assets (M25 bridge, highways etc).
- 2.14 While this was a useful insight in to HAL's approach in this area, as it currently stands we consider that the information that has been available on benchmarking is insufficient to enable the airline community or us to assess the cost efficiency of the scheme design.
- 2.15 Without substantial further information on these matters airlines will not be able to judge the cost efficiency of HAL's proposals and there will be a significant gap in the information we require to be able to report to the SoS that the engagement process has been a success. For these reasons, we recommend that HAL should prioritise these matters over the coming months. This should include

HAL working closely with the CAA's technical advisors (Arcadis) and the airline community to urgently develop a new work stream which will focus on the cost assessment issues as set out in the terms of reference for our section 16 reporting. This should include the early identification of a plan to provide stakeholders with assurance that capacity expansion can be delivered efficiently including details of HAL's plans for taking account of the recommendations made by the IFS.

## **Detailed information to support affordability modelling**

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- 2.16 HAL has made good progress in developing an overall vision for delivering capacity expansion at close to current airport charging levels in real terms. Nonetheless, it is imperative that HAL continues to build upon this progress by providing and discussing more detailed and granular information on the key drivers of charging levels and updates its analysis as the scheme design continues to evolve.
- 2.17 We expect HAL to do this by establishing an affordability baseline with full supporting information and explanations of the key assumptions that HAL is making. This should include an updated version of the cost and price path model that was shared with airlines earlier in the process. HAL should work with the airline community to develop a process for agreeing key assumptions, supporting information and modelling as soon as possible.

## **Joint statement/evidence base**

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- 2.18 Our next update report is currently scheduled for early 2018. At this stage, we expect this to focus on Phases (ii) and (iii) of the Section 16 ToR:
- Phase (ii) - identifying and evaluating the outputs from the engagement process, predominantly the changes made to the scheme design; and
  - Phase (iii) - assessing the effectiveness of the engagement process, of the section 16 ToR.
- 2.19 Phase (ii) requires us to critically assess the extent to which the engagement process has developed tangible changes to the scope design and cost of the runway scheme. As part of our information request to HAL and the airline community for this report, we received some initial views on Phase (ii). To help inform our assessment of the next stage in the engagement process, we are inviting HAL and the airline community to build on these initial views by working together to produce a joint statement setting out their views on the 9 key deliverables specified in phase (ii). To the extent that it is practicable we would also welcome the joint statement emerging views on the 7 key deliverables in phase (iii).

*Our expectations for joint statement/evidence base*

- 2.20 We are looking for a clear audit trail and evidence base, documenting and evidencing key changes to scheme design, structured around but not limited to the key deliverables in phase (ii) in the ToR. The two overarching themes we expect to be reflected throughout are (1): the impact of changes on affordability/cost-efficiency; and (2): the requirements of the airline community and the requirements of consumers. We also expect this document to show the chronology of and key reasons for changes in scheme design. In particular the document should to the extent practicable:
- set out and explain the impact of changes to the scheme on affordability and cost-efficiency;
  - set out and explain with supporting evidence the extent to which changes impact the interests of existing and future passengers and cargo owners and how changes are expected to impact the services;
  - explain areas of disagreement and reasons for this, steps taken to resolve and highlight where engagement has had positive effect in resolving issues;
  - set out and explain in summary form proposals advocated by HAL or the airline community which were discontinued or excluded and the rationale for this;
  - in respect of options that remain under consideration explain and signpost aspects of scheme design preferred by HAL and the airline community respectively, going into greater detail where there are disagreements on key elements of the scheme design; and
  - provide evidence on how HAL and the airline community's favoured scheme designs achieve an appropriate balance between cost efficiency, reducing risks, and reflecting passengers and cargo owners interests.
- 2.21 HAL and airline community should agree a joint approach on scope, approach and timelines for producing the joint statement/evidence base.