



Consumers and Markets Group

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Dear Stakeholder

REVIEW OF H7 TERMINAL DROP OFF CHARGE REVENUE ALLOWANCES

In our H7 proposals and decision documents, we stated our intention to undertake a review of the H7 revenue allowances for the Terminal Drop Off Charge (“TDOC”), towards the end of 2024.¹ I am writing to stakeholders now to start this review and to seek your views on this matter.

Annex A describes the background to the review and sets out some questions on which we would welcome stakeholders’ views.

Please submit responses and any relevant evidence to economicregulation@caa.co.uk by **Tuesday 28 January 2025**. In the meantime, please do not hesitate to contact me if you have any questions about this review.

We cannot commit to take into account representations received after this date. We expect to publish the responses we receive on our website as soon as practicable after the period for representations expires. Any material that is regarded as confidential should be clearly marked as such. Please note that we have powers and duties with respect to information under section 59 of the Civil Aviation Act 2012 and the Freedom of Information Act 2000. This letter and annex will also be published on the CAA website.

Yours faithfully

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¹ For example, see CAA H7 Final Decision (CAP2524), March 2023, paragraph 5.40.

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ANNEX A: REVIEW OF H7 TDOC REVENUE ALLOWANCES

BACKGROUND

Treatment of TDOC at H7 price review

Heathrow Airport Limited (HAL) introduced a Terminal Drop Off Charge (TDOC), of £5 per vehicle, in November 2021, shortly before the start of the H7 price control period (1 January 2022 to 31 December 2026). HAL has recently announced that the charge will increase to £6 per vehicle from 1 January 2025.²

As part of the price control review process, under the ‘single till’ approach to price regulation that applies to HAL, the CAA’s forecast of HAL’s revenue from commercial activities (including TDOC) is deducted from the CAA’s calculation of HAL’s overall revenue requirement, to determine the amount of revenue that HAL is allowed to recover through airport charges in the forthcoming price control period. Therefore, for the H7 review we made a forecast of TDOC revenues to be included in our H7 determination.

At that time, there was considerable uncertainty as to the amount of revenue that HAL would collect from TDOC during H7. One particular source of uncertainty was that, following the Parking (Code of Practice) Act 2019, the Government was expected to introduce a statutory code of practice for private parking which might have affected HAL’s ability to collect forecast TDOC revenues.

In our H7 Final Proposals (June 2022), we said:³

- *“we therefore intend to review the actual level of TDOC revenues around the second half of 2024 (following implementation of the legislation) to assess the actual impact of the legislation”;*
- *“if the effect of the legislation in practice is to remove the legal basis for the charge or to otherwise significantly reduce TDOC levels, then we would expect to remove or significantly reduce the allowances for TDOC revenues for 2025 and 2026 and to allow an upward adjustment to airport charges to compensate for the removed or reduced TDOC revenue allowances for 2025 and 2026”;* and
- *“on the other hand, if at that stage it is clear that the TDOC (or a successor charge with the same effect, such as a forecourt access charge) is expected to remain in place and generate revenues at a similar level to our current estimates of TDOC revenues, then we would expect to maintain our TDOC allowances within airport charges for the rest of H7”.*

² HAL Conditions of Use Airport Charges Decision 2025, 31 October 2024, Addendum 1.

³ CAA H7 Final Proposals (CAP2365), June 2022, paragraph 5.77.

The modifications to HAL’s licence to implement the H7 price control include (Condition C1.19) a terminal drop-off charge factor (“TDO_t”) for 2024, 2025 and 2026, with the following components:

- a mechanism which, in the event that legislation comes into force that prevents HAL from recovering the full amount of the forecast TDOC revenues, was intended to enable HAL to recover the shortfall in out-turn TDOC revenues (as compared to the forecast TDOC revenues) from airport charges; and
- a 65:35 risk-sharing arrangement, which was intended to address the risk of outturn TDOC revenues being higher than forecast, with 65% of the amount by which outturn TDOC revenue in any year exceeds forecast TDOC revenues in that year being deducted from airport charges in that year.

Developments since the H7 price review

In the event, the draft statutory code of practice for private parking was withdrawn in 2022 before it was enacted, and has not been re-introduced. While a non-statutory code of practice for private parking firms was introduced for members of the British Parking Association (“BPA”) and the International Parking Community (“IPC”) in 2024,⁴ we are not aware that this non-statutory code of practice is likely to have any significant impact on HAL TDOC revenues during H7.

Nevertheless, HAL’s actual revenues from TDOC to date appear to have been lower than forecast at H7 when allowing for inflation, as shown in Table 1 below.

Table 1: TDOC revenue during H7

| | Price Base | 2022 | 2023 | 2024 | 2025 | 2026 |
|--------------------------|----------------|-------------|-------------|-------------|-------------|-------------|
| CAA H7 Forecast (1) | 2020 prices | £38,877,951 | £37,061,427 | £44,151,959 | £45,185,513 | £43,792,217 |
| Actual (2) | Nominal prices | £37,200,000 | £40,000,000 | - | - | - |
| HAL Current Forecast (3) | 2020 prices | - | - | - | £39,322,000 | - |

Sources:

- (1) CAA H7 Final Decision (file: fds-opex-crs-tables-apr-23.xlsx published on CAA website)
- (2) HAL Regulatory Accounts. While TDOC revenues are separately identified in HAL’s 2023 Regulatory Accounts, they were not shown separately in HAL’s 2022 Regulatory Accounts. The 2022 figure shown in this table was subsequently provided by HAL to CAA.
- (3) HAL 2025 Airport Charges Consultation, 23 August 2024, pages 23, 31.

⁴ See <https://www.britishparking.co.uk/code-of-practice-and-compliance-monitoring>

In October 2024 HAL announced that the TDOC will increase to £6 per vehicle from 1 January 2025. According to HAL, its forecast of TDOC revenues for 2025, even allowing for this increase in the charge, remains below the CAA's H7 forecast (see Table 1). In setting 2025 airport charges, HAL has used the 65:35 risk-sharing licence mechanism referred to above to recover 65% of the forecast 2025 shortfall. In its 2025 airport charges consultation document, HAL calculated this would result in an increase in airport charge revenue in 2025 of £3.811m, calculated as 65% of the difference between the CAA H7 forecast of TDOC revenues for 2025 (£45.185m) and HAL's latest forecast for 2025 (£39.322m), increasing airport charges in 2025 by about 4.5 pence per passenger.^{5,6}

Airlines have expressed concern that it was not the CAA's intention for the 65:35 risk-sharing mechanism to be applied to shortfalls in TDOC revenue. The CAA's "Final Issues" decision on H7, citing the CAA's H7 review documents, stated that "*we consider that the approach set out in the Final Decision was designed to address the risk of revenues from TDOC being higher than forecast, not lower as has turned out to be the case*".⁷

Furthermore, airlines have argued that the shift to public transport caused by the introduction of TDOC will likely have resulted in increased public transport and car park revenues to the benefit of HAL, which should also be considered by the CAA as part of this review. In response, HAL has stated:⁸

"Since the introduction of TDOC in 2021, we have seen a significant shift in how passengers get to and from Heathrow. Public transport mode share now accounts for 45% of all departing passengers compared to 41% pre-Covid. The introduction of the Elizabeth Line in 2022 accounts for most of shift towards public transport, for which Heathrow receives only marginal revenue through the Rail Delivery Group onward travel mechanism. Forecourt usage continues to decline as a mode share with the 12-month moving average dropping from 49% at the start of 2019 to 46% of all departing passengers in July 2024. This equates to approximately 1.7m fewer visits (or 2.5m passengers) on the forecourt each year. The other private car mode shares (car parking and car rental) have remained relatively flat at approximately 9%-10% during this period and is aligned with the H7 forecasts."

The CAA's Final Issues decision on H7 also addressed HAL's argument that, in making adjustments for terminal drop off charge factor (TDO_t), the CAA's H7 TDOC revenue forecasts should be adjusted for inflation. HAL made this point in the context of arguing that the terminal drop off charge factor (TDO_t) in the licence should also apply in 2022 and 2023. The CAA clarified that the price control licence condition only applies from

⁵ HAL Airport Charges for 2025 Consultation Document, 23 August 2024, page 23.

⁶ HAL Conditions of Use Airport Charges Decision 2025, 31 October 2025, page 6.

⁷ Economic regulation of Heathrow airport: H7 final issues – decision (CAP3001), July 2024, paragraph 7.30.

⁸ HAL Conditions of Use Airport Charges Decision 2025, 31 October 2024, Addendum 1.

2024 and does not address differences between forecasts and outturns in 2022 and 2023. Nevertheless, we said that we would consider the more general question of inflation adjustment in the TDOC mechanism as part of the present review.⁹

We note that HAL did not make any adjustment for the terminal drop off charge factor in its 2024 airport charges, assuming that TDOC revenue for 2024 would be equal to the CAA forecast for 2024.¹⁰ However, HAL has stated that “*Any differences between the actual and forecast TDOC revenues which may arise in 2024 will be corrected through the “K” Factor when setting the 2026 airport charges*”.¹¹

KEY QUESTIONS FOR CONSULTATION

We invite stakeholders to submit their views on any aspect of these matters and in particular on:

1. the effects on TDOC revenues during H7 to date arising from the Parking (Code of Practice) Act 2019, and anticipated effects expected over the remainder of the H7 period;
2. the anticipated impact on HAL TDOC revenues during H7 as a result of the non-statutory code of practice for private parking firms introduced in 2024 for BPA and IPC members;
3. any evidence on the impact of the introduction of TDOC on other HAL commercial revenue streams (such as car parks and public transport modes) compared to forecasts made at H7; and
4. any other comments or information that you wish to submit in relation to any of the issues covered by this letter or the regulation of HAL’s TDOC charges more generally.

⁹ Economic regulation of Heathrow airport: H7 final issues – decision (CAP3001), July 2024, paragraphs 7.21 - 7.31.

¹⁰ See HAL Conditions of Use Airport Charges Decision 2024, 31 October 2023, page 6.

¹¹ See HAL Airport Charges for 2025 Consultation Document, 23 August 2024, page 11.