

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

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

CAP 1549



Published by the Civil Aviation Authority, 2017

Civil Aviation Authority,
Aviation House,
Gatwick Airport South,
West Sussex,
RH6 0YR.

You can copy and use this text but please ensure you always use the most up to date version and use it in context so as not to be misleading, and credit the CAA.

Enquiries regarding the content of this publication should be addressed to: robert.toal@caa.co.uk

Contents

About this document	5
Executive summary	6
Introduction	6
Progress since February	6
Airline views	6
Further actions required	7
Next steps	8
Document structure	9
 Chapter 1	 11
Introduction and background	11
CAA monitoring activity	11
The process leading to our February 2017 report	11
October 2016	11
December 2016/January 2017	12
February 2017	12
The process March 2017 to May 2017	13
Airport- Airline Engagement	13
Requests from HAL to the airline community	15
 Chapter 2	 16
Airport-airline engagement between February – May 2017	16
What this chapter covers	16
Governance	17
February recommendation	17
Progress	17
Airline concerns	18
Communications and Information provision	19

February Recommendation and progress	19
Airline concerns	20
Dealing with these concerns	21
Affordability and option selection	22
February recommendation	22
Progress on affordability	22
Progress on Option selection	23
Airline concerns	23
Dealing with these concerns	24
Timetabling and ensuring airlines can engage with the pace of programme	24
February recommendation	24
Progress	25
Airline concerns	25
Dealing with these concerns	26
Passenger, cargo owner and other stakeholder views	26
February health check	26
Progress	27
Other views	27
Capacity planning	27
Summary of the recommendations set out in this chapter	28

About this document

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

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

¹ [Letter to DfT February 2017](#)

Executive summary

Introduction

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

Progress since February

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

Airline views

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

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

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

Further actions required

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

Area of concern	Action
1. Governance	a. Urgently develop a roadmap with key consultation and engagement requirements tailored to the needs of the airline community, with a particular focus on the proposed summer consultation. b. Improve the quality and content of the governance protocol.
2. Communication and information provision	a. Develop a more tailored communications strategy to accommodate the diverse engagement requirements. b. Provide more detailed information to make best use of the cost and price path model / ready-reckoner. c. Make sure that high quality information on cost efficiency and benchmarking is made available to airlines and the CAA. d. Enhance the effectiveness of the Affordability & Business Case Working Group (ABC).
3. Affordability and optioneering	a. Provide more detailed information on the impact of emerging options. b. Develop a process for providing carefully justified explanations on why various options are or are not being taken forward with the airlines.
4. Timetable	a. HAL should assure itself and the airline community that its engagement process will robustly support its chosen date for issuing its summer consultation. The assurance exercise should demonstrate that it has fully sought, taken into account, and responded to airline views on the options for broad scheme design.
5. Consumers	a. Develop and implement an appropriate consumer engagement strategy.

Next steps

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

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

Document structure

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