

## **Report by Heathrow Consumer Challenge Board (CCB) on development of HAL's Expansion masterplan**

On 22<sup>nd</sup> May 2018, the CAA wrote to the CCB, formally requesting the CCB's assistance through the provision of a report to the CAA on how well HAL has reflected consumers' views and other evidence on consumer preferences in its masterplan. At the time of the CAA's request, it was envisaged that there would be earlier sight of the masterplan than has in fact been the case. It was not until April 2019 that the CCB was sighted on a sufficiently final plan to enable a response to the CAA's request. In the meantime, through regular contact with HAL, and the periodic issue and updating of its Challenge Log, the CCB has been able to keep all stakeholders apprised of its views and challenges, as the masterplan has been through its various stages of iterative development.

At its meeting on 15<sup>th</sup> April 2019, the CCB received a slide presentation from HAL, which described the masterplan on which the public consultation, scheduled to commence in June 2019, will be based. The CCB was surprised not to have received a document summarising the content of the masterplan and underlying assumptions from HAL, however, now feels that it has sufficient sight of the masterplan proposals to respond to the CAA's request of 22<sup>nd</sup> May 2018. The CCB understands that there will be a lot more supporting information available when the statutory consultation is launched.

### Process of HAL's masterplan development and consumer engagement

When the masterplanning process began, HAL's Consumer Engagement Strategy had not been developed, and the process of masterplanning appears to, at that stage, have been based on general strategic principles, rather than driven specifically by a planned and systematic programme of consumer engagement. The strategic principles were then informed by an initial synthesis of historical consumer research (KPMG May 2018) to develop evaluation success criteria. Since then HAL has formulated its Consumer Engagement Strategy, stepped up its consumer engagement in a variety of topics and channels, and completed a comprehensive 2-phase synthesis of historical and contemporaneous consumer insights (Blue Marble 2018-2019). The Blue Marble synthesis concluded that to the date of carrying out their work, there had been no consumer engagement on Expansion per se, or the timing, components, or passenger charge costs thereof.

HAL undertook a workshop with Horizon community members on expansion in September 2018 and have now shared their future plans for consumer engagement around masterplanning. The CCB welcomes these plans as evidence of a consumer-driven approach but would encourage Hal to ensure further development of the masterplan is directly informed by the consumer engagement plan.

In the last 6 months HAL has been able to check masterplanning options back against a more detailed, recent and comprehensive set of evaluation success criteria. This improved validation, however, is done through analysis dominated by operational, planning and community, more than consumer, considerations. This approach is consistent with the previous (but now changing) mindset of regulatory compliance, rather than HAL's planning being driven from the outset by consumer needs.

### The Masterplan itself and consumer views

Notwithstanding the foregoing comments around process, and on the basis of the detail so far seen by the CCB, there do not appear to be major elements of the masterplan as it stands, which are contraindicated by the themes which have emerged from other consumer engagement work undertaken to date. However, dedicated consumer engagement on the the masterplan is still required in future to fill this gap.

The CCB is surprised that the planning of such a major infrastructure programme, with all its multiple inherent unknowns, could be supported without a dedicated comprehensive programme of consumer engagement to support expansion planning driving the process from the beginning.

### The “Affordability Challenge”

During the past year external stakeholders other than consumers have raised an “affordability challenge” which has been described as “close to current levels of charges”. We note this definition hasn’t been agreed nor defined in detail. There is also no visible consumer source for this “affordability challenge”. Instead, there appears to be a risk that HAL could be making trade-offs between the “affordability challenge” and features which existing insights show that consumers find desirable. The CCB cannot see evidence of consumer engagement around these trade-offs, and/or whether consumers would accept a certain increase in the airport charge in return for features they find valuable.

The CCB is cognizant of the views of the airline community on this topic, and that Government has also stated its support for the approach of keeping the passenger charge at, or close to, the current level. However, the CCB has been asked by stakeholders on more than one occasion whether there is consumer support for this policy regarding the passenger charge. Objectively, we have to report that we have found none. Much research seen by the CCB demonstrates that consumers have no idea of the existence of the passenger charge, or how much it is. Consumers are conscious of price and value but make this assessment in the context of the total journey cost.

The only objective, consumer sourced, evidence of the balance between airport charges and incremental improvements in quality of service at Heathrow is to be found in the HAL commissioned Willingness To Pay and Aggregate Benefit studies. The results of both of these projects indicate that consumers would be willing to pay a higher charge in return for improvements in service. Although the CCB has questioned the level of the Willingness To Pay valuations and external validation, HAL has accepted the findings of both studies.

There is a risk that these findings contradict the “affordability challenge”, a challenge that it appears HAL is working to meet. The CCB encourages HAL to undertake more specific engagement among consumers to validate or otherwise the “affordability challenge” as it has not so far been able to offer any persuasive thinking to resolve this apparent contradiction.

### HAL’s “Expansion Consumer Benefits Report”

The CCB is pleased to note that HAL’s increasing consumer orientation is evidenced by HAL’s production of a comprehensive “Expansion Consumer Benefits Report”. The CCB has encouraged HAL to produce this document and has had the chance to comment as it has been developed.

The “Expansion Consumer Benefits Report” dwells on the benefits of specific elements to be constructed. It is more muted on the major benefits to consumers of increasing unconstrained capacity. This remains of primary importance as HAL proceeds to consider the pace of facilities construction. As the CCB understands it, the planned speed of development of terminal and other infrastructure to enable capacity expansion may be constrained by the “affordability challenge”. It is not apparent to the CCB that any consumer engagement has taken place around the speed of additional capacity coming on stream. It may be that consumers would countenance a certain increase in passenger charge, if that resulted in more quickly delivering benefits of increased choice of flights and carriers, and a resulting reduction in fares. Such a reduction, driven by increased competition at the airport, might well be considerably greater than any increase in passenger charge which enabled it.

The consumer benefit validation section of the report seeks to demonstrate how consumer insight has shaped key decisions. In many instances the consumer insight referenced in the report does not provide relevant and persuasive robust consumer evidence to support masterplanning decisions. Of particular concern is its overreliance on qualitative work and its associated verbatim and researcher commentary, which is not supported by robust quantitative findings. In supporting masterplanning the report states that HAL has access to 1,200 commissioned pieces of consumer insight, yet just two qualitative market researchers supply 20% of all referenced insights.

#### Consumer engagement and research informing surface access plans in the context of Expansion

The CCB welcomes the significant step-up in HAL’s consumer engagement regarding surface access. In recent months HAL has undertaken consumer research on: current parking offer and wayfinding, Western Rail Link, choice of surface access modes to/from the airport, coach transport, communications strategy, and emissions and vehicle access charges.

Much of this research is driven by Expansion: HAL is looking at how it can meet the public transport take-up and air quality obligations stipulated in the June 2018 National Policy Statement (NPS) with existing and new transport services and practices. In the CCB’s view, HAL is not taking the consumer perspective as the starting point. The consumer journey is door-to-door, involving limited information, multiple modes on and off-airport, dispersed geographies, and uncertain timing and cost. Considerations such as whether passengers are travelling singly or as a group, whether costs are borne by the consumer or the employer, timing and purpose of the journey, and familiarity with the destination come into play.

The CCB would like to see HAL develop an informed and evidence-driven Consumer Surface Access Strategy which:

- Brings together these various efforts into a comprehensive approach driven by the consumer perspective, overcoming fragmentation by mode and provider
- Tracks a “golden thread” showing where consumer views are (or are not) addressed in surface access planning, in real time rather than after planning has been completed
- Uses consumer engagement to help shape projects headed by other bodies (as HAL is doing now for Western Rail Link).

### Consumer engagement relating to the development of surface access charge proposals

The CCB is commenting specifically on surface access charges because initial indications of the scale of the charge under consideration — £10-£20 for a single leg access charge have been quoted — considerably outweigh any likely change to the passenger charge of (currently) around £20. This level of increase in cost to the consumer considerably outweighs any probable change in the passenger charge. As such it represents a major consumer issue requiring, in the CCB's view, detailed consumer engagement.

The CCB acknowledges the importance of the NPS public transport requirements and welcomes HAL's initial work on testing with consumers ideas that will help HAL attain the NPS objectives, such as a vehicle access charge.

However, because HAL's initial research on consumer attitudes to vehicle access charges was not driven by the consumer perspective, we are concerned that the results will be too weak to inform and shape successful innovation and implementation of a vehicle access charge as one element of a surface access strategy.

- The proposition tested in consumer research was only a negative – a cost – with no corresponding benefit to the individual consumer or to airport users as a whole.
- No context was provided for the vehicle access charge, which is a charge on one leg of one mode, versus other available surface access journeys. Since the consumer perspective is the door-to-door journey, the consumer weighs factors such as reliability, convenience, journey time, and total cost (as evidenced by much other transport user research by HAL).
- The queries did not reflect that the ultimate cost of the charge will vary: it might be incurred once, twice, or not at all (by a business traveller claiming expenses, or exempt disabled passengers).
- So far HAL lacks quantitative consumer research on the level of charge existing and future consumers would be willing to pay set against the context of existing and future surface access options and costs.

We are also concerned that the June consultation may indicate a range of possible access charges which have not been assessed against robust research on what consumers would be willing to pay and HAL's transport impact assessment models. The CCB encourages HAL to undertake robust, contextualised, quantitative research on consumers' willingness to pay vehicle access charges as part of their airport transport choices and link the results to the impact assessment model before any proposals are set out in the June consultation document. We would also encourage HAL to consider how any vehicle access charge revenues would be used by HAL, as consumers indicated that how funds would be used, such as for public transport, congestion, or environmental improvements, was a significant factor in the acceptability of charges.

### Understanding the needs of future consumers

The expansion of Heathrow is a long-term project and, consequently, anticipating the needs and preferences of consumers decades hence is a difficult, but necessary, part of masterplan development. The CCB has been encouraged to see HAL's thinking around the mega trends which may shape the future, via HAL's "Our Future Airport" work. The CCB encourages HAL to build further on this thinking, via proactive consumer engagement.

This should include the views of those consumers who do not currently use the airport, and the needs of future consumers. For example, the increase in capacity post-Expansion should

economically result in a reduction in overall ticket prices, as a result of increased competition. In turn, this may attract new and different consumers, including a greater number of more budget-minded ones, to use Heathrow. Expansion will also likely open up new destinations and HAL should consider whether consumers from these geographies are likely to have different requirements from the current destination mix.

The CCB would expect HAL to engage more widely with bodies representing for instance the different demographic, economic and geographic characteristics of future consumers to understand their requirements. To date, the CCB has received a presentation on econometric modelling of future pax numbers but this does not encompass meaningful work on the future profile of consumers passing through the airport and what these passengers are likely to need and want. HAL has also shared its plans to engage with young consumers (Generation Z project) with the CCB. The CCB commented on two iterations of HAL's Generation Z brief and indicated to HAL that it remained cautious about the clarity of the research objectives. Having now seen the proposal by HAL's preferred supplier, the CCB still has a continuing concern that the overarching objectives of the proposal as written are not geared towards understanding the aspirations of the broad range of future consumers who might use Heathrow, but are very limited to young people who currently use Heathrow. In particular, the hypotheses put forward suggest that airlines and destinations are unlikely to change, which is fundamentally at variance with the concept of Expansion and attracting future consumers who may come from different demographic backgrounds.

As a result, the CCB remains concerned about the absence of a robust strategy to gain consumer insights across the range of demographics and backgrounds that will encompass the consumers who will use the airport in the future.

#### Going forward/ next steps

Overall, the CCB is encouraged by the increasing emphasis being placed by HAL on understanding the needs of its consumers, and the reflection of this into its business planning, including the development of the masterplan. For example, we welcome the development of the Horizon on-line community, its use in the development of the masterplan to date, and HAL's stated intention to step up its use of the Horizon community going forward, as Expansion planning gets into more granular detail. We would therefore wish this report to be viewed as balanced rather than negative, and to act as a prompt and source of suggestions as to areas in which HAL can build further on its consumer engagement, so as to ensure that the expanded Heathrow truly meets the needs and aspirations of those who will pay for it.

#### **Appendix – alternative supplier(s)**

The CCB is aware that competitive expansion plans have been put forward, by organisations other than HAL. One of these organisations, the Arora Group, has published plans on its website, is conducting a parallel public consultation to HAL's, and has stated its intention to submit its own Development Consent Order.

The CCB is clear that its remit does not extend to considering the consumer engagement undertaken by Arora, or any other competitor to HAL; HAL is the current and regulated monopoly licensee. However, should the CAA in future consider it would be appropriate to consider the consumer engagement undertaken by organisations other than HAL, the CCB would be able and willing to provide independent scrutiny on any such consumer engagement.