HEATHROW STRATEGIC PLANNING GROUP

FAO Tony Caccavone
Surface Access Director
Heathrow Airport Limited
Via Email

19 April 2021

Hypothecation of Forecourt Access Charge Income

Dear Tony,

At the last meeting of the Heathrow Strategic Planning Group's (HSPG) Surface Access Group on 16 March we discussed Heathrow Airport Limited's (HAL) proposal to introduce a Forecourt Access Charge (FAC).

At that meeting HSPG agreed in principal support for this charge, given it's potential positive contribution towards achieving a modal shift away from private car user by airport users. We do however retain concerns that the income from the charge is currently not proposed to be hypothecated for surface access improvements.

It is HSPG's view that hypothecation would improve significantly the acceptability of the charge to those having to pay it. This will include a significant number of residents living in our communities, particularly those living to the west of the airport who often have limited options in accessing the airport other than by car.

We note this position was backed up by research commissioned by HAL in Feb 2020 (Incite/ Kin + Carta report). The following findings from this report are highly relevant to the issue of hypothecation:

- *People will need to be convinced and reassured this isn't just a revenue-generating tax.*
- *Acceptability depends on trusting that the money will eventually circle back to benefit their own experience, particularly: Airport facilities, Public transport access, Surrounding road improvements, other Environmental improvements*

At our meeting, we heard the arguments put forward by HAL around potential cons of hypothecation. In general, our perception was that many of those cons related to potential difficulties in securing internal agreement for such an approach, and to navigating a 'hostile environment' for hypothecation expressed by the Airlines, and to some extent from the regulator.

Whilst these matters are no doubt important considerations for HAL in respect to the implementation pathway, it is not clear to us that they should be material in determining whether hypothecation is the appropriate approach. This is particularly the case given the income from this charge will be ongoing for many years to come, and without discrete consideration and careful management would quickly be hardwired into the single till, acting only to affect lower airline fees. Such an outcome cannot be considered compatible with the current focus of local and national policy to reduce carbon emissions and would be a missed opportunity to affect a step change in sustainable surface access to the airport.

We understand one potential argument for not hypothecating is that, by providing additional funding into the single till, it may be possible to unlock further action on reducing carbon emissions from flight through, for example, providing for lower airport chargers for low emission planes. This is an admirable aspiration, and a rational way of incentivising reduced emissions from by far the most polluting element of airport operations. However, we note there is no guarantee currently that this will be how income from forecourt access charge will be employed, nor any obvious regulator support for that approach. More fundamentally, we also question whether the FAC, what is effectively a tax on those who have poor public transport access to the airport, should be used to pay for this, or whether a sliding scale within airport charges themselves could be adopted. This could, for example, be the application of higher charges on more polluting planes offsetting lower charges on less polluting ones. I am sure that with some creative thinking a workable and acceptable proposition could be constructed, the overall aim being to reduce carbon emissions from flights quickly and within a sustainable financial framework.

We have also heard that hypothecated charges can often suffer from a lack of management consideration within airports regulated in the way Heathrow is, and therefore appetite to keeping the level of charge under review in future years may be more muted than if this income was fed into the single till. Given that various research papers such as those from the Airports Commission have suggested that the value of an airport access charge to achieve meaningful behaviour change amongst passengers seems likely to be significantly higher than the proposed £5 FAC, any impediment to keeping the charge level under constant review for its effectiveness in achieving the policy imperative of achieving modal shift would be a concern to HSPG. Once again though this seems to be a function of an administrative architecture that is open to reform if required, and HSPG and no doubt other independent fora such as HATF, could help HAL colleagues keep due focus on the issue.

We also understand that there is some nervousness that hypothecating charge income would lead to pressure to withdraw other funding for surface access measures currently provided via the single till. This is a particular concern in respect to the funding of larger projects HSPG members support, such as rail enhancements, or the Southern Road Tunnel, which likely could not be funded in wholly from income form and hypothecated forecourt access charge. Once again, it is not clear to us why the hypothecation of this new charge would prevent HAL from allocating additional sums for surface access improvements with good business cases and clear benefits to passengers to the regulator as appropriate.

In short, we believe the arguments against hypothecation are largely a desire to have the simplest possible administration of the charge to expedite its delivery, 'the path of least resistance', rather than the optimum approach to achieve our shared goals to deliver sustainable surface access outcomes. We also sympathise with the understandable economic imperative to increase revenue after a bruising year for the airport, however we do not think that should unduly influence the approach taken to an income stream that will be in place for many years from now, long after growth and profitability of the airport has returned.

HSPG therefore request formally that the matter of hypothecation of income from the FAC is considered in detail by HAL. Alongside an option for the straight hypothecation of all income, we note that there are many different models that could be explored. These include hybrid arrangements with a percentage of the income hypothecated, or a 'windfall' payment should amounts exceed a set level. The important outcome is that this new charge is seen to provide for important new funding streams, the benefits from which are clearly visible to those who are paying it. Such funding streams could support a step change in provision of infrastructure for enhanced public transport and active travel, not just on the campus but also around the airport (on HSPG members' networks). Such wider improvements will be necessary if HAL is to achieve the modal shift aspirations set out in your emerging new Surface Access Strategy. Supporting such enhancements through partnership working will generate significant goodwill, and likely additional funding contributions, helping to unlock a virtuous circle in investment in the sub-region that is to the benefit of all.

HSPG members stand by to work with you to make such a partnership in enhancing infrastructure across the sub-region a success and we believe the right regulatory treatment of this new income stream may be crucial in making that shared vision a reality. We welcome further discussions on the matter and would invite you to come to our next meeting at 2pm on 13 May to update us on progress towards implementation of the FAC, and respond to the concerns raised in this letter.

Yours sincerely,

Paul Millin,
Chair of HSPG Surface Access Group, On Behalf of HSPG members