Heathrow
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Our ref: 0864/JHK/TT/L - By Email Only

3rd December 2020

Huw Merriman MP
Chair of the Transport Committee
House of Commons
London
SW1A 0AA

Dear Huw

Thank you for your letter of 6th November regarding the oral evidence I gave to your committee back in May. I was pleased to have the opportunity to talk to you and the Committee members on the challenges facing Heathrow, the impact of COVID-19 on the Aviation industry and the policies required to save the long-term future of our sector and those whose livelihoods and businesses depend on it.

Your letter was well timed, coming at the start of the second lockdown which exacerbated the significant issues the business was already facing. During September and October, our traffic figures showed an 82% reduction in passengers compared to the same time in 2019 and this has fallen further with the second lockdown. The economic impacts on trade, FDI and tourism are obvious as planes remain grounded.

Whilst we welcomed the Government's announcement of 'Test to Release' for international arrivals we need to continue to work towards the introduction of a Common International Standard for pre-departure testing. The news that the US and Italy have created a quarantine-free air corridor, demonstrates that there is no time to lose in maintaining the UK's competitiveness by securing these important international connections.

However, the announcement on support for business rates was less positive for Heathrow. The proposed reduction in business rates for Heathrow is only 7%, compared to an 82% reduction in passengers. Even the big supermarkets, which are booming, enjoyed a 100% waiver from business rates. And now they have made the decision to repay this given the significant surge in demand, it is vital the Government re-provide this to those sectors which have borne the worst impacts of the pandemic. We are also deeply concerned by the Government's decision to abolish tax-free shopping from 1st January, a decision which the Office of Budget Responsibility warned would make the UK less attractive to tourists compared to the likes of France and Italy. Reports from the foreign press highlighted that "*retailers in Paris are rubbing their hands… London is shooting itself in the foot"*.

These are just some of the key issues facing our business, are expanded upon in the note attached, where I have responded to each your questions in turn. I hope the detail included, plus your upcoming visit to the airport, provides you with a comprehensive update.

Do not hesitate to let me, or my team, know if you require further information in writing. Alternatively, I would be more than happy to provide further information on the points raised above or return to you and the Committee to provide clarity in the future.

Yours sincerely

John Holland-Kaye

John Holland-Kaye
Chief Executive Office

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Heathrow's current financial position and financial health before the crisis

In December 2019, we forecast passenger traffic to grow to 81.5 million in 2020 and for revenues to remain stable at just over £3bn. This would also been coupled with a positive outcome for consumers with a forecast decline in the average passenger charge, and over £1.1bn in capital expenditure committed for investment in 2020 alone – underpinning our commitment to grow and develop the airport for the future.

However, the impact of Covid-19 on these forecasts and our plans has been devastating. For the first 9 months of the year, Heathrow recorded a pre-tax loss of £1.5bn - with passenger numbers down 68.9% compared to 2019 and now forecast to be only 22.6m in 2020. This is also down from our original June forecasts of 29.2m in 2020, as the second wave and continued travel restrictions has made the immediate recovery impossible. In Q3 alone, passenger numbers remained down over 84% compared to 2019, with Q3 revenue falling 72% to £239 million and Q3 adjusted EBITDA falling to £37 million.

To respond to this catastrophic financial impact, we moved quickly to boost our liquidity by the end of October to around £4.5bn – raising an additional £1.4bn in the global bond markets. Cash reserves are therefore sufficient for the next 12 months – as long as we take measures to protect our finances - even under an extreme scenario with no revenue, and into 2023 under our current forecasts. However, whilst this has allowed Heathrow to remain open throughout the first and second national lockdown - allowing vital supplies and equipment to be brought into the UK, it has to be repaid. And overall, our credit has been downgraded from A- to BBB+ since the crisis started.

Impact of the pandemic on Heathrow Airport

As outlined above, Covid-19 and the restrictions put in place as a result of the pandemic, have had a catastrophic impact on our business. Passenger levels reduced by 97% during the height of the pandemic compared to 2019 and have not recovered to any sufficient scale required to aid our recovery.

For the first time, Paris Charles de Gaulle has overtaken Heathrow as Europe's busiest airport, with Amsterdam Schiphol and Frankfurt close behind – all threatening the UK's international connectivity which becomes even more vital with Brexit on the horizon. Further details of changes we have had to make to reflect this impact are outlined below.

Decisions taken by the business to reflect impact of pandemic (including staff changes)

The impact of Covid has meant that we have had to act quickly to reduce our monthly 'cash burn' – which currently stands at over £5m per day. These measures have included:

- Consolidating our operations to a single runway and temporarily shifting passenger operations out of Terminals 3 and 4 into Terminals 2 and 5.
- Utilising the Government's job retention scheme for around 4,000 colleagues.
- Implementing an executive pay waiver, a company-wide pay reduction, bonus cancellation, freezing recruitment and a significant organisational restructure in which we reduced our management team by 1/3 (~450 jobs).
- Cutting at least £300 million of operating costs.
- Cancelling or pausing over £650 million of capital projects.

It is against the backdrop of the significant financial impact of the pandemic, the lack of certainty over the future of the sector and the measures already taken above that we have also been discussing with our unions over new terms and conditions for our frontline colleagues.

During this process, our first priority has always been to protect as many frontline jobs as possible whilst offering a job at market-rate salaries above the London Living Wage for every one of our hardworking frontline colleagues who wants to remain with the business. This is not a commitment that I am aware has been made by any other CEO in the aviation industry.

While the majority of colleagues will see an increase in pay, no change or a small reduction, I do not underestimate the challenge that a double digit pay reduction will have on some colleagues who are currently paid significantly in excess of market rates. That is why we have proposed a generous buy down which protects their current salary for two years as well as offering the choice of a market leading voluntary severance scheme.

At the time of writing, 4,200 colleagues have chosen the new terms and only 360 have chosen voluntary severance – reflecting the scale of the package that we have offered. We are naturally disappointed that our unions have recommended a rejection of the offer and are planning strike action in December. The first strike date took place on 1st December and we activated a robust contingency plan that ensured Heathrow remained open and operated safely throughout the coordinated action.

Our contingency plans are in accordance with strict Department for Transport and Civil Aviation Authority requirements. We are also work with the Metropolitan Police to provide COVID-safe picket sites for those colleagues who do elect to go on strike. As a result of this planning and the reduced demand, we expect all scheduled flights to operate on strike days.

Engagement with local communities

Throughout the crisis we have understood the devastating impact this has had on our surrounding communities who rely so heavily on the airport both for employment, but also to support so many local businesses and organisations.

This is why we worked in collaboration with a number of our local MPs to contribute towards the West London Blue Skies Conference and at that conference, launched the Local Recovery Plan. The plan – led by Lord Blunkett – brings together the recommendations from Heathrow and its neighbouring local authorities, local enterprise partnerships and key partners, committed to enabling airport sector recovery and supporting local communities affected. The plan sets out a number of recommendations to be delivered by a new Heathrow Local Recovery Forum (HLRF), including:

- A dedicated Heathrow Job Centre Plus Service in partnership with the Department for Work and Pensions to support colleagues across Team Heathrow and the local community to access job search support and careers, information, advice and guidance.

- Seeking greater flexibility in the Government's employment support processes – such as temporarily introducing flexibility into how the Apprenticeship Levy can be used, and to providing support through reskilling and retraining opportunities to help people to stay in or find new employment.

In addition, the Heathrow Community Trust has been delivering for the local community despite the pandemic and despite the severe financial impact on the airport overall. The trust moved quickly to update its grant agreements so that funding awarded in previous years can be re-directed in the most expedient ways. Overall, funding awarded this year will support projects reaching over 78,000 beneficiaries – with 12.5% of new grants awarded going to BAME-led charities and 14% of new grants supporting projects for those with Learning Difficulties and/or Physical Disabilities.

Unfortunately, we have also had to make some changes to our local surface access provisions to reflect the significant financial pressures we are under – such as temporarily suspend the Heathrow Free Travel Zone and end some other local transport subsidies, effective from 1st January 2021. As soon as financial health is restored, we are committed to reinstating an improved programme of subsidised and sustainable travel for our colleagues and our local communities.

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Future Government assistance required

The impact of the UK Government quarantine policy and wider international travel restrictions has been devastating to our business – but the lack of support given to our sector by the UK Government has stifled any meaningful progress to recovery. I have summarised below a number of areas where it is vital the UK Government and our regulator take action.

Testing:
Whilst we welcome the recent recommendations of the Global Travel Taskforce (GTT) to implement a "test to release" regime to reduce the length of the quarantine for passengers they do not go far enough to bring demand safely and effectively in order to recover. We urge the Government to look further into pre-departure testing models - starting pilots and trials with some of our most important trading markets - and look into how best to implement rapid testing solutions in an Aviation environment.

Ultimately, the UK needs to lead to world in developing common international standards in testing to ensure global alignment in aviation to kick start the economy recovery we so desperately need.

Business Rates:
The recent decision to grant business rates support in Aviation is welcome, but the decision to cap support for individual airports at £8 million represents a small portion of the annual business rates at Heathrow. Government support will provide a 7% alleviation on our total bill. whilst passenger numbers have reduced by 82%.

Heathrow is one of the UK's largest business rates payers, with an annual bill of around £120 million and have so far have had no alleviation – despite the devastating loss in passenger numbers outlined. For context, the main UK supermarkets have been given granted £1.9bn in business rates alleviation, despite recording record growth and revenues this year. And now many major supermarkets have made the decision to repay this given the significant surge in demand they have witnessed; it is vital the Government re-provide this to those sectors which have borne the worst impacts of the pandemic.

We therefore believe the Retail Rates relief scheme should be extended to airports in England and Wales, granting 12 months business rates relief – as is the case in Scotland and Northern Ireland.

Duty-free changes:
The UK is a well-renowned destination for retail, however, the Government's decision to withdraw tax-free shopping from 1st January 2020 will mean the UK will become the only country in Europe not to offer tax-free shopping to international visitors – immediately putting thousands of jobs at risk across the UK, and inflicting irreversible damage on the retail, hospitality and travel sectors.

The Government should work with industry on quick, low to no-cost solutions to grasp the real opportunity for all of the UK in retaining tax-free shopping and extending it to EU travellers – as the European Union is doing for UK travellers. By taking this approach, the Government will ensure a level playing field and would unlock up to £1.1 billion of economic growth and support the creation of over 10,000 new jobs – mostly outside of London.

CAA Regulatory Period Adjustment:
Heathrow is price regulated, with a return set not by the market but by the regulator based on assumptions with limited upside and limited downside. There was an explicit recognition in the last price control period - Q6 - that it can be adjusted in the event of exceptional circumstances, which the CAA agrees has now occurred. However despite this, the CAA have failed to act on this issue - risking not only having to make further short-term decisions that may harm capacity and employment, skills and capability for us and our supply chain – but also the UK as a viable environment to invest if the regulator fails to follow through on its requirements. Conversely, clear regulatory support now could unlock positive new investment; protect jobs and keep the UK on track to having a competitive global hub.

We would ask that Government works with CAA to outline the risks of not granting an adjustment by the end of 2020. The best way to deliver an adjustment would be by freezing regulatory depreciation urgently (i.e. prior year-end), with final quantum of adjustments to be agreed following consultation.

Air Passenger Duty (APD):
Research has shown that this short term APD suspension (practically until the end of Summer season 2021) would save 45% of the air routes out of the UK that would otherwise be lost due to the impacts of the Covid-19 pandemic. This would be a critical shot in the arm to boost demand and we, along with Airlines UK, are asking for an emergency 12-month Air Passenger Duty (APD) waiver to be introduced by the Chancellor. This was already stated to be reviewed as part of the DfT's Regional Connectivity Strategy – but no policy decision has been made.