

Response to CAA's CAP3286 Heathrow capacity expansion – update on the approach to the regulatory framework

August 2026

1. Introduction

The No 3rd Runway Coalition is the largest organisation campaigning against the expansion of Heathrow. Our membership includes local communities, parliamentarians, local authorities, trade unions and environmental NGOs. This submission constitutes our response.

The Heathrow Expansion National Policy Statement (HENPS) emphasises consumer choice and the benefits of airline competition, yet overlooks the reality that Heathrow is among the most expensive airports globally for passengers. Its regulated asset base model further entrenches its position as a quasi-monopoly, raising questions about whether genuine competition or consumer benefit is being delivered. Indeed, the Coalition believe it is not credible to justify a major new runway because of higher fares or capacity constraints when the overall result would be to impose far greater costs on passengers, taxpayers, communities and the wider economy.

We recognise that the CAA's statutory duty is to further the interests of consumers, and that this includes protecting them from excessive costs, unaffordable charges, and the socialisation of project risk. On that basis, we set out below our concerns regarding affordability, the risk that costs will be passed to passengers and taxpayers, the potential for cross-subsidy from the existing two-runway business, and the danger that expansion will be funded through unsustainable borrowing.

Our core position is that the regulatory framework must not be designed to enable finance for an unaffordable and environmentally unsustainable project at the expense of consumers and the public.

2. Affordability

The CAA states that any new regulatory framework must ensure that expansion is affordable and consistent with the passenger demand required to fill the new capacity. However, affordability is treated as an implicit assumption rather than a hard, quantified constraint.

We remain concerned that independent assessments place the total cost of a three-runway Heathrow in the region of £40–£62.5 billion, far above Heathrow Airport Limited's (HAL) own figures. Such cost growth makes the claim that expansion can be delivered without materially increasing airport charges untenable.

The CAA acknowledges that Heathrow's aeronautical charges are already high relative to comparator airports and are likely to rise further because of expansion costs. Indeed,

recent media reports indicate Heathrow are already seeking to recoup some of these costs from the airlines. This is a direct affordability red flag that should trigger a ‘stop or redesign’ test.

Airlines have explicitly called on the CAA to quantify affordability as part of H7 and H8 design, noting that the regulatory framework cannot be developed properly without this work. We believe the CAA should go further and place affordability as a central and robust condition. This should include a clear affordability stress test, setting a maximum permissible real-terms increase in airport charges per passenger consistent with realistic demand scenarios. Any scheme that cannot meet this test should not proceed.

3. Cost Risks

The Coalition is deeply concerned that the proposed framework will allow HAL to pass substantial expansion-related costs to passengers, with the risk of eventual taxpayer support if the project becomes unviable.

Significant change in the economic evidence base has taken place since the CAA consulted on the evaluation criteria in May 2026; the DfT have published the draft Heathrow Expansion National Policy Statement (HENPS) analysis, including updated Appraisal of the economic impact of the scheme. The latest DfT forecasts show that business demand has not grown in the way previously assumed, and the wider economic benefits claimed for expansion are directly contradicted by the negative net impact identified in the appraisal. This reveals the significant economic risks associated with expansion at Heathrow. The new information in the HENPS appraisal report means the CAA should:

- Develop a consumer stop-go test for any model: a gateway condition under which expansion capital enters the regulatory asset base only if the scheme still passes a cost-benefit assessment on latest construction costs, updated demand and environmental costs.
- Publish the analysis of risk allocation between users and non-users of the new infrastructure.
- Publish a low-demand stress test, setting out the consumer consequences under each shortlisted model if traffic materially undershoots the Current Trends forecast.

At present, none of the models determines whether an expansion should proceed. The case for a consumer stop-go is strengthened by the scale of the cost estimate. Indeed, the Steer estimate range of £19bn on a single programme, with no gateway condition attached, could place the entire variance on consumers, while risks should be taken on the developer.

The CAA’s own analysis distinguishes between scenarios where expansion costs are not passed through to consumers and those where they are. Yet the current framework’s

“cost pass-through” assumptions understate the extent to which additional airport charges will be reflected in ticket prices, particularly under downside demand scenarios.

In 2016 the CAA wrote to the Department for Transport about the scheme identifying key risks including that *“consumers’ interests are not properly reflected in the overall scheme design”* and that *“the scheme design is not affordable and financeable”*. These risks remain acute 10 years later and have not been adequately addressed in the proposed models.

The Coalition would like to see the following protections including in any future model:

- Cap and time-limit early cost recovery; to ensure any overrun above an independently set budget is wholly at HAL’s equity risk. These costs should not be recoverable from passengers if the project stalls or is cancelled.
- Require explicit modelling of full pass-through to fares under multiple demand scenarios, with results published as part of the H8 and expansion determinations.
- Ensure that any costs disallowed by the CAA for inefficiency or unjustified scope are borne by HAL and its shareholders, not socialised via alternative charges.

4. Preventing cross-subsidy from the existing two-runway business

The Coalition is concerned that the proposed regulatory model will permit HAL to cross-subsidise expansion from the existing two-runway business, thereby shielding expansion investors from risk while exposing existing passengers and airlines to higher charges.

The CAA is considering a single RAB for business-as-usual and expansion capex. This creates a clear route for cross-subsidy. Airlines and consumer groups have flagged the risk that HAL will allocate capex to the “expansion RAB” to capture higher allowed returns, while using the core business to smooth cash flows and protect credit metrics. Indeed, HAL’s level of debt and high gearing creates a strong incentive to blur the lines between core expenditure and expansion to preserve debt capacity and maintain credit ratings.

The Coalition would like the CAA to require any project to keep separate the expansion vehicle from the RAB. This should include strict rules preventing transfer of costs, revenues, or guarantees between the existing airport and the expansion project. We would also welcome the prohibition of the use of surplus cash flows or headroom from the two-runway business to service expansion debt or enhance expansion credit ratings. This should ensure that the allowed return on the expansion RAB reflects the full risk of the project, without implicit support from the core business.

5. No expansion funded by unsustainable borrowing or hidden public support

The Coalition rejects any regulatory framework that facilitates expansion funded by unsustainable borrowing or de facto public subsidies.

Ratings agencies have warned that Heathrow cannot afford a third runway without loading the business with billions more debt, jeopardising its credit rating and raising the risk of future state support. HAL's existing debt burden, combined with inflation-linked interest costs, already constrains its financial flexibility. The Coalition would like to see the CAA impose a 'no unsustainable borrowing' test: expansion financing plans must be credible under conservative demand and interest rate scenarios without requiring rating downgrades, covenant breaches, or future public guarantees.

Surface access upgrades, housing displacement, and local infrastructure needs are likely to generate additional public costs that are not fully priced into the scheme, creating a de facto taxpayer subsidy. The Government's own analysis has acknowledged that affordability is central to the successful delivery of expansion and that the applicant must demonstrate how its scheme is "affordable" in terms of charges to passengers. The regulatory model should require full accounting of these costs, with a presumption that any public expenditure triggered by expansion is treated as a project cost and deducted from the claimed "private finance only" benefit.

We would also welcome the CAA providing an assessment of who bears losses if expansion is delayed, scaled back, or underutilised, with a clear presumption that equity and HAL's creditors, not passengers or taxpayers, absorb those losses.

6. Strengthening capital governance

The Coalition welcomes the CAA's proposal for enhanced capital governance, including a new capital committee. However, this must be designed to protect consumers from cost overruns, not simply to reassure lenders that costs will be recoverable. Our view is that this could become another mechanism by which financial support from taxpayers may be sought should the project become unviable.

The CAA should provide the independent capital committee a strong mandate to challenge HAL's cost base, with published opinions and a formal route for the CAA to disallow capex from the RAB.

The Coalition believe that the regulatory framework does not incentivise HAL to grow the RAB unnecessarily, driving exceptionally high charges that harm consumers, businesses, and the UK economy. The CAA should ensure any long-term cost-of-capital framework is subject to strict efficiency targets and downside protections for consumers, not just financing certainty for HAL.