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31 July 2025

**Subject: Heathrow application to increase the H7 capex allowance**

Dear Andrew,

As you know, Government has set out its objective to enable the delivery of an operational third runway at Heathrow by 2035, with applications for planning consent coming forward in time to enable decisions to be made this Parliament by 2029.

Heathrow is moving at pace to meet this objective. On 31 July Heathrow submitted its expansion proposal to Government, and we are in a position to immediately begin development of the DCO and initiate key enabling workstreams to meet the Government's stated timelines.

To enable this, we are writing to you to request an increase of £320m (2024p) to the H7 capital cap set out in Condition C in Heathrow's licence for expansion related costs. Please note this includes the £20m up to September that we sought CAA confirmation that efficiently incurred costs are recoverable.

We welcome the support for expansion that you outlined in your recent CAP3144 document and the commitment you have made to establish the regulatory framework for delivering expansion. Our request for an increase to the capital cap is focused on enabling the timely delivery of the benefits to airport users identified in the CAA's scoping paper.

Heathrow's H7 licence sets out both a total cap on the capital Heathrow can spend over the H7 period and the process for increasing the cap if:

- A. It is in the interests of consumers to undertake capex projects that were not included in the calculation of the cap.
- B. Over the H7 period, Heathrow expects to incur a cumulative capex of a value more than the H7 total available capex allowance.

Given the unforeseeable nature of this expenditure at the time of the H7 settlement and the significant benefits to users an expanded Heathrow will generate through increased capacity and connectivity, enhanced competition, improved cargo handling and, ultimately, lower fares, we consider that criterion A is met.

Our capital plan for the H7 period, as agreed with airlines, is forecast to cover the full allowance of £4.7bn set out in Heathrow's licence. This means that, without an uplift to the cap, Heathrow would not be able to make the necessary investments in gaining planning

permission within the H7 period to meet the Government's objective or to ensure the timely delivery of these significant benefits to consumers, without breaching its licence.

For the avoidance of doubt, this letter should not be seen as undermining the CAA's planned consultations on the regulatory framework for expansion or the treatment of planning costs. Heathrow accepts that the regulatory treatment of these costs will be subject to the outcome of the CAA's broader consultation processes and is prepared to engage constructively in this process.

However, given the tight timescales to ensure delivery in line with Government requirements, Heathrow is requesting confirmation that the proposed additional capital spend is compliant with Heathrow's licence requirements regarding the total quantum of capital investment.

To support this, Heathrow is also requesting confirmation of the CAA's previously stated position that this spend is recoverable if deemed to be economical and efficient.

Heathrow has consulted and sought airline agreement on initial expansion investment £10m with limited success<sup>1</sup>. The airline community considers that expansion related costs should be governed in line with the future regulatory framework on expansion that needs to be put in place<sup>2</sup>. In light of this, we have not sought to engage specifically with airlines on the increase in the cap at this stage. We will continue to engage constructively with airlines through the CAA's process to increase the cap as required by the CAA. In addition, as the CAA develops the regulatory treatment of planning permission costs, we would like to work with the CAA to find a suitable solution that does not undermine Heathrow's ability to invest at pace.

In line with Condition C1.14, the attached submission provides the information required by the CAA to support our application to lift the capital cap. This includes:

- The scope of the proposed additional capital spend to support gaining planning permission for expansion
- The cost information available in relation to this expenditure.

We look forward to your response and we ask that the CAA provide a decision on this application by September 2025. A decision by September 2025 will allow us to continue to work towards Government's objective to enable planning consent in this parliament by 2029. Any delay beyond September 2025 is likely to compromise this objective. Should you require any further information or wish to discuss this request in more detail, please do not hesitate to contact me directly or my team.

Yours sincerely,



Mike King  
**Director of Regulation & Economics**

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<sup>1</sup> A joint escalation letter from Heathrow and airlines is planned to be submitted to the CAA.

<sup>2</sup> Comments made at the Heathrow Airport Future Portfolio Group, 14 April 2025.

## **Cost estimates for H7**

In January 2025 the Chancellor made a call for proposals for Heathrow capacity expansion by summer 2025, with the goal of securing Development Consent Order (DCO) approval by 2029 and a new runway operational by 2035. This demanding timeline was also emphasised in Government's letter dated 30 June: *"The Government's clear objective is to enable the delivery of an operational third runway by 2035, with applications for planning consent coming forward in time to enable decisions to be made this Parliament."*<sup>3</sup>

The Chancellor included Heathrow's capacity expansion as a centrepiece of Government's strategy for UK growth and highlighted that the third runway would boost investment, increase exports, and make the UK more open and connected. The growth opportunity from Heathrow is immense. Based on the 2024 review done by Frontier Economics, a third runway would deliver around 0.43% incremental GDP by 2050, with a cumulative monetary value of annual GDP uplifts over the period 2024-2050 of £66 billion in net present value terms.

Our plans will have significant benefits to consumers as an expanded Heathrow will generate increased capacity and connectivity, enhanced competition, improved cargo handling and, ultimately, lower fares.

Our proposal, submitted on 31 July 2025, advances a new, third runway to the north-west of the airport, with the associated airspace routes, terminal capacity, rail / road links and community / environmental mitigation measures. The current scheme is very similar to the one which was the basis for the Airports National Policy Statement (ANPS) designated in 2018 and still valid today – *"it will remain in place until it is withdrawn, amended or replaced"* (ANPS 1.21). Therefore, our proposal benefits from three years of options review and down-selection by Heathrow and the Airports Commission (2012 – 2015) and three years of work on detailed design, development and public consultation by Heathrow (2017 – 2020).

These plans leverage the extensive engagement with airlines and substantive work up to and post the pandemic. All reviews of plans and options for runway lengths and locations done since last year confirm the proposed scheme's effectiveness in engineering and cost, maximising benefits for consumers and airlines. *Critically, the reviews confirm it is the only solution capable of meeting the ambition of DCO consent by 2029 because it draws on strong foundations of existing work.*

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<sup>3</sup> [Letter to potential promoters of Heathrow expansion - GOV.UK](#).

An overview of the cost estimate is shown below.

**Table 1. Current cost estimates for the Expansion Programme in H7**

£m 2024 prices	2025	2026	H7
<b>Programme Management</b>	8	36	44
<b>Development Consent Order</b>	44	92	136
<b>Premobilisation Phase</b>	10	0	10
<b>Property</b>	4	80	84
<ul style="list-style-type: none"> <li>• <b>Compulsory Purchase Zone residential bond</b></li> </ul>	■	■	■
<ul style="list-style-type: none"> <li>• <b>Major bilateral agreements and feasibility</b></li> </ul>	■	■	■
<b>Deliver the capacity</b>	5	41	46
<b>Grand total</b>	<b>71</b>	<b>249</b>	<b>320</b>

#### **Programme Management – £44m**

Programme management activities include actions to set up the programme itself and to develop the proposed scheme solution.

Setting up the programme involves several key activities: defining programme objectives, outcomes, and scope to align the sponsor and stakeholders; developing target operating models to build, transform, integrate, and transition capabilities; establishing supply chain and commercial arrangements to ensure legal and commercial alignment and incentivisation; and creating a baseline to understand the required resources, including time, cost, carbon, and sustainability.

Develop the solution entails solution development, systems and assets. It will enable further development and maturity of the wider scope including, for example: conducting option assessments to determine optimum solutions and support development of the business case; work to inform the cost and schedule, identify enabling works and early works, identify and manage interfaces with existing projects and programmes, and support and underpin preparation of the planning applications.

We have estimated the Expansion Programme management costs based on Q1 2025 actuals incurred on Modernising Heathrow and then prorated this for the full year as a baseline. Although this is a low baseline, given that the Modernising Heathrow programme was not fully resourced in Q1<sup>4</sup>, we build on it for Expanding Heathrow, and we have uplifted this number in line with the additional activities expected for the Expansion Programme.

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<sup>4</sup> Q1 2025 activities under Modernising Heathrow programme had 63 FTE of which 29% are Heathrow colleagues.

## **Development Consent Order - £136 million**

The Expansion Programme proposes large-scale major development with an increase in passenger capacity of over 10 million people per annum (mppa). Therefore, the Expansion Programme is classified as a Nationally Significant Infrastructure Project (NSIP) under Section 23 of the Planning Act 2008. Consequently, a DCO is required prior to the start of construction.

We have estimated costs related to developing the DCO application and following the statutory process based on initial estimates from discussions with suppliers as well as our professional judgement and long-standing experience of capital projects in Heathrow's live-environment.

Given Government's timeframes, the consenting activities for both Modernising and Expanding Heathrow would have to run in parallel. We are planning to combine the activities to avoid running parallel but separate consenting processes which would result in duplication of effort, increased spend, and run the risk of consultation fatigue and confusion with both statutory consultees and the public. There would have also been a risk that the first consenting application be held/delayed until the second one got to the similar stage. A single DCO application for the Expansion Programme will seek to optimise the process, reduce risks of delays, support broader stakeholder engagement and understanding, and help ensure a coordinated approach and assessment to the Expansion Programme.

We have broken down our activities to gain the consent into three phases:

### **a) Prepare Statutory Consultation (DCO Phase 1)**

- Develop the scheme design
- Data gathering to support surface access modelling
- Undertake surface access modelling
- Produce statutory consultation documentation, including Preliminary Environment Information Report (PEIR)
- Develop property policies for acquisition and community policies for compensation
- Carry out ongoing stakeholder engagement
- Undertake Statutory Consultation
- Progress pre-application with the Planning Inspectorate

### **b) Prepare DCO submission (DCO Phase 2)**

- Analyse Statutory Consultation feedback
- Update the scheme design to have regard to the consultation feedback
- Undertake further surface access modelling
- Complete an Environmental Impact Assessment and prepare the DCO Environmental Statement
- Agree mitigation measures to address the impacts of the final scheme
- Produce the DCO submission document and submit to the Planning Inspectorate

**c) Respond to the DCO application (DCO Phase 3)**

- Engagement with the Planning Inspectorate during the DCO Examination Process
- Attend hearings and provide written representations
- Manage change(s) to the scheme throughout the process
- It is likely that the Consultation would commence in 2026 and dependant on feedback received, the submission of the DCO would follow in 2027.

**Premobilisation Phase - £10 million**

This cost enables development of our proposal, including Government engagement on policy issues, airline engagement, and the development of a programme which maximises the pace of capacity delivery and project affordability and to start consenting activities to protect the timeline for a project consent by 2029.

To deliver this, investment in specialist resources (policy, legal, finance, planning, cost estimating, business case development, surveys, consenting) is required, as well as the establishment of a programmatic approach to coordinate the engagement with Government and other stakeholders.

A breakdown of Premobilisation costs – £10 million incurred up until July 2025 – has been shared with the CAA in our letter from 17 July 2025.

**Property - £84m**

We know that expansion will displace many land users, community facilities, and require significant road diversions. The property workstream includes land, residential and commercial property purchases required to create the space to enable the construction of the infrastructure.

Our Masterplan for expansion is well-developed, addressing complex engineering, planning, and environmental challenges. The aim is to minimise disruption, with relocation plans for unavoidable cases, ensuring facilities serve their communities. Ongoing community engagement will refine these plans. Therefore, cost projections are based on mitigating the impact on our communities most affected, to the levels set out in the ANPS, and on those commercial operators who require significant lead times to relocate their businesses.

This requires spend to be incurred early in the process and pre DCO consent to provide the necessary certainty and lead times but also to help enable the target construction date when vacant possession of land is required for the commencement of the earthworks programme.

a) Compulsory Purchase Zone residential bond launch [REDACTED]

We estimate there are over [REDACTED] homes in the Compulsory Purchase Zone (CPZ)<sup>5</sup> of the ANPS red line scheme boundary<sup>6</sup>, suggesting that [REDACTED] will be required to move home and vacate their properties. These properties will require to be demolished to construct the new third runway. Securing the properties on time with vacant possession (people have moved and the property is empty of belongings) is crucial to support construction timelines.

In order to mitigate the impact on communities and home owners in the CPZ, we plan to launch an early Bond from early 2026 whereby those being displaced can enter into a contract with Heathrow that outlines the financial/compensation offer that they will receive and gives them approximately [REDACTED] to find a new home, complete on the purchase and eventually move houses. At that point Heathrow will buy their property from them. We anticipate starting to acquire homes from early 2026 alongside the issuing of bonds to acquire properties in future years. This approach will provide homeowners a much greater degree of flexibility and control [REDACTED] in a more manageable timeframe where lots of people will be searching for new homes either in local villages and towns or elsewhere.

Being able to launch the Bond in early 2026 and start acquiring homes also avoids a long period of delay after a positive decision is made to proceed. [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED] Our approach to have the Bond up and running ready to be launched in early 2026 and to start acquiring homes is the right thing to do for our neighbouring communities most affected by our proposals.

To launch the Bond, Heathrow will need to set up and establish a Home Relocation Service, which will take place largely during 2025. This service is intended to work closely with affected homeowners, in particular those with additional needs, in guiding them through the project, the proposals and the process of selling their home to Heathrow, acknowledging that for many, this will be daunting and the first time that they might have moved home in their lifetime.

The Home Relocation Service will act as the interface with local communities and those affected by the Expansion Programme and will target those who most need support in relocation. [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

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■ A Compulsory Purchase Zone (CPZ) is a designated area where land or property can be acquired by a public body, even without the owner's consent, through a Compulsory Purchase Order (CPO).

<sup>6</sup> ANPS red line scheme boundary refers to the outer limit of a development site, including any land needed for access, car parking, and other associated areas. It is essentially a visual representation on a location plan that defines the extent of the proposed development and is crucial for ensuring clarity and accuracy in planning applications.

- [REDACTED]

- [REDACTED]

We anticipate that [REDACTED] homes ([REDACTED] of expected total) will require Heathrow to buy their homes in the first year of launch. The cost for setting up the Home Relocation Service, preparing to launch the Bond early 2026, and buying the first tranche of homes is anticipated to be [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

b) Major bilateral agreements and feasibility - [REDACTED]

Major agreements and feasibility studies involve purchasing and relocating businesses affected by the recommencement of the consenting process after the 2020 project pause.

We have a plan to accelerate engagement for the Expansion Programme and mitigate impacts on key landowners and businesses. This focus is launch of property support policies at the point of a positive decision to proceed with the consenting process for major displaced users.<sup>7</sup>

Our strategy will target commercial business occupiers, who will be categorised based on their scale, difficulty, known challenges, and major displaced users. These major displaced users are critical to the third runway project and are timely, challenging, and expensive to relocate.

[REDACTED]

[REDACTED]

- [REDACTED]

- [REDACTED]

- [REDACTED]

- [REDACTED]

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- [REDACTED]



- [REDACTED]  
[REDACTED]
- [REDACTED]
- [REDACTED]

In 2020, Heathrow had bilateral agreements with major displaced users, paused when the previous expansion project halted. These need to be revived, with associated costs. Those agreements covered relocation optioneering, design and feasibility work, professional fees and planning costs, project fees and teams. To resume discussions with major displaced users, Heathrow must commit to new contractual agreements, underwriting costs for mobilising project teams.

The estimated amount needed for H7 is [REDACTED] required for the remainder of 2025. The rest of 2025 will be used to set up new contracts and resume discussions from 2020. The estimate is based on our previous work and estimates developed during pre-Pandemic expansion discussions. [REDACTED]  
[REDACTED]

### **Deliver the capacity - £46m**

This area of work includes the key diversion required to create the site – these include the River Diversions, Motorway Diversions, Road Diversions and Major utility Diversions.

The design for all these elements will need to be progressed further both spatially and technically as part of the DCO process as they will help inform the land required for Compulsory Purchase Order, as well as the delivery mechanisms to undertake the works. To this end, we'll need to understand the airfield design so the Roads, Rivers, Motorway and utility design can be meaningfully progressed.

To develop cost estimates we have considered the initial design to enable procurement to allow earlier delivery. Standard industry percentages for design have been applied.