

Heathrow Airport Ltd

High Quality Governance and Incentives for Expansion

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Contents

1. Executive Summary	3
2. Summary Proposals	5
3. Expansion requires bespoke governance to deliver benefits to consumers.....	6
4. Developing a bespoke governance approach for Expansion.....	9
5. Enhanced assurance	11
Emerging proposals.....	12
6. Value adding stakeholder involvement.....	15
Emerging proposals.....	17
7. Intelligent incentives.....	20
Emerging proposals.....	21
8. Way forward	25
Annex: Mapping proposals against key criteria	27

1. Executive Summary

This governance proposal protects the c.£3 billion a year consumer benefit from expansion by driving timely delivery and cost efficiency. It directly leverages stakeholder expertise and introduces a step-change in independent assurance, strengthening decisions, building trust and maintaining pace on the critical path.




1.1. Heathrow approaches the airport's expansion (Expansion) with a clear starting point: **it must be delivered in partnership with Civil Aviation Authority (CAA) and airlines**. We understand that the opportunities and risks arising from Expansion's scale and complexity extend beyond Heathrow to airlines and passengers, and we acknowledge and share CAA's focus on consumer protection. Therefore, success depends on working together openly and constructively to get governance right from the outset. **Trust, confidence and transparency are as critical as technical design.**

1.2. **Timely delivery of Expansion is itself a core consumer protection measure:** every year of delay defers the capacity that reduces fares, relieves congestion and increases choice - costing £3bn in lost consumer value that will never be recovered. For infrastructure of this scale, governance is one of the most important determinants of timely delivery. Poorly calibrated governance has been shown repeatedly to drive delay and cost overruns, eroding consumer benefit through higher prices, deferred connectivity and reduced resilience. Getting governance right is therefore essential: policy choices on assurance, stakeholder involvement and incentives will directly determine whether consumers realise the benefits of Expansion or bear the cost of avoidable delay.

1.3. Given the national significance, complexity and interdependencies of Expansion, **governance cannot replicate Heathrow's business as usual (BAU) capital framework**. The existing model was designed for discrete, repeatable investments. Expansion is a multi-billion-pound, multi-year megaproject involving statutory processes, third-party delivery partners, high uncertainty, novel infrastructure and activities that sit on the critical path for delivering once-in-a-generation consumer and economic benefits. Applying uniform controls, project-level governance (and Delivery Obligations) would introduce friction, slow progress and undermine consumer outcomes.

1.4. Successful megaprojects respond to complexity through **bespoke governance** - governance calibrated to differences in scale, risk, uncertainty and delivery control, and capable of evolving as designs mature and risks crystallise. Expansion's regulatory framework should deliberately apply these proven lessons, using governance, assurance and incentive mechanisms that are well understood and effective, and adapting them proportionately to Expansion's specific characteristics.

1.5. This paper sets out our emerging thinking on how to do that. We propose a bespoke governance framework built around **four governance templates**, reflecting the fundamentally different characteristics and challenges across the Expansion portfolio:

-  • **DCO:** highly time critical- and governed by statutory and Government timetables, without direct asset delivery.
-  • **Property:** where land acquisition and assembly sit on the critical path and risks are concentrated in valuation, negotiation, timing and legal completion.
-  • **Core aviation infrastructure¹:** delivery of core airport assets in line with established capital delivery models (e.g., expanded airfield, T2/T3); and



- **Novel infrastructure:** High risk, low precedent enabling programmes with requirements, scope and delivery plans largely defined by policy (primarily the ANPS) or third party (e.g., utilities).

1.6. These four templates provide a practical basis for tailoring governance - strengthening confidence and transparency while protecting pace on the critical path - including:



- **Enhanced assurance:** introducing Joint Independent Assurance (JIA) to provide expert, ongoing challenge. This is a significant step-change in the quality, timeliness and detail of assurance available to airline, CAA and Government without compromising schedule or diluting accountability.



- **Value adding- stakeholder involvement:** Our proposals give airlines and consumers clearer, more structured influence where their expertise adds value — without slowing delivery. This approach secures all the intended benefits of stronger airline involvement, without the delays, conflicts of interest or complexity associated with a CAA-chaired Capital Investment Committee.



- **Intelligent incentives:** We move beyond granular project-level incentives towards programme- and tranche-level incentives that focus on outcomes that matter for consumers. Ex-ante incentives will be used wherever forecasts are robust, with JIA-led real-time verification where uncertainty is higher — ensuring Heathrow always faces meaningful efficiency pressure on all scope, at all times.

1.7. Our intention is to ensure scrutiny is high quality, well targeted and focused on enabling timely delivery of new infrastructure and its associated benefits, while providing robust assurance on cost efficiency. **We believe these proposals demonstrate that pace and strong oversight and assurance are not trade-offs but can be achieved together through well designed governance.**

1.8. We recognise that airlines, as the primary users and long-term funders of the infrastructure, have an **inherently reasonable expectation of appropriate involvement and robust assurance** that costs are efficient and decisions are well founded. We share the airlines' objectives — visibility, assurance, confidence — but believe the Heathrow Reimagined proposal for a Capital Investment Committee introduces significant risks to pace and accountability. Our proposals offer the same benefits, without the drawbacks: they give assurance and strengthen decision making and value for money, while preserving clear accountability and protecting the programme's critical path.

1.9. We are also committed to **supporting the CAA** in discharging its statutory duties. Our proposals are explicitly aligned with consumers interests and with the deliverability, timeliness and financeability tests we articulated in our CAP3195 response, as demonstrated in the Annex. We would like the CAA to consider this proposal in the context of its Spring Consultation on long-term regulatory models, and in particular if it is looking for practical application of models 1a, 2 and 4a.

1.10. This paper is therefore offered as a **constructive basis for engagement** with the CAA and airlines. We welcome challenge, refinement and co-design through the forthcoming consultation, and we are committed to working closely with the CAA and the airline community to shape a governance framework that is credible, workable and trusted - one that reflects the realities of running the airport and secures long term benefits for passengers.

2. Summary Proposals

Governance Template	Tool	Consumer Outcome
<p>DCO</p> <p>[REDACTED]</p>	<p>Assurance: JIA provides ongoing legal, schedule and real-time cost assurance.</p> <p>Stakeholder involvement: Airlines engaged for transparency; relevant third parties (e.g., utility companies) involved as required.</p> <p>Incentives: No ex-ante incentives at this stage; assurance and JIA real-time cost review provide confidence.</p>	<p>Timely DCO approval is essential to delivering new capacity and consumer benefits; delays directly postpone improvements to service, choice and reliability. Because Heathrow has limited control, continuous JIA legal and schedule assurance protects consumers from slippage, rework and unnecessary cost, while targeted assurance maintains financeability and keeps the programme viable for consumers.</p>
<p>Property</p> <p>[REDACTED]</p>	<p>Assurance: JIA supplies specialist property/transaction assurance and real-time cost review.</p> <p>Stakeholder involvement: Engagement with communities and authorities; airlines involved for visibility, not case-by-case approvals.</p> <p>Incentives: Early reliance on real-time cost review, moving to ex-ante only when post-DCO certainty and control improve.</p>	<p>Fast, well-governed land assembly protects consumers by keeping the programme on track and avoiding delays to future capacity and service improvements. JIA assurance ensures value-for-money and early risk identification in complex transactions. Certainty and financeability improve post-DCO, allowing for potential <i>ex ante</i> incentives to be employed.</p>
<p>Core Aviation Infrastructure</p> <p>[REDACTED]</p>	<p>Assurance: JIA delivers integrated, continuous assurance over delivery, forecasts and incentive governance.</p> <p>Stakeholder involvement: expertise-led airline with appropriate decision rights matched by capability/accountability. SLAs to ensure pace and manage conflict of interests.</p> <p>Incentives: Ex-ante incentives governed by JIA, Programme level incentives allow optimisation choices and avoid early decisions lock-in.</p>	<p>These assets directly enhance consumers' journeys through greater capacity, reliability and service quality. Predictability supports efficient delivery, disciplined governance and calibrated incentives that protect affordability. JIA involvement prevents late-stage surprises for customers, helping ensure timely, reliable and financeable delivery of high-impact consumer benefits.</p>
<p>Novel Infrastructure</p> <p>[REDACTED]</p>	<p>Assurance: JIA provides enhanced technical and cost assurance and oversees any shift toward ex-ante incentives.</p> <p>Stakeholder involvement: Engagement with relevant third parties (e.g., utilities, National Highways); airlines involved for transparency.</p> <p>Incentives: Ongoing live cost review, with selective transition to ex-ante incentives when information certainty supports it.</p>	<p>Enabling and novel works are foundational to unlocking consumer benefits - delays here would postpone runway opening and improvements in resilience and choice. JIA's enhanced technical and cost assurance protects consumers from uncertainty, inefficiency and cost escalation. As certainty improves, proportionate incentives and safeguards support financeability and sustained delivery of consumer outcomes.</p>

3. Expansion requires bespoke governance to deliver benefits to consumers

Governance design is central to consumer outcomes. Experience shows that one-size-fits-all governance, early fixation of baselines and fragmented decision rights are primary drivers of delay and cost escalation. For capacity-constrained infrastructure, delay directly harms consumers by deferring capacity, sustaining congestion and increasing costs. A whole-programme, whole-life perspective is equally key: for assets of this scale, operating and maintenance costs can materially exceed construction costs, meaning early project decisions lock in long-term performance and value. Governance for Expansion must therefore be explicitly designed to protect pace on the critical path. This requires moving away from one-size-fits-all controls and towards bespoke arrangements that reflect differences in risk, uncertainty and delivery control as projects mature. Bespoke governance is not a procedural preference - it is essential to safeguarding consumer outcomes, affordability and long-term performance.

3.1. As set out in our response to CAP3195, megaprojects are unique in scale and complexity with material variation across the portfolio.² There are fundamental differences across at least five key programme dimensions: degree of delivery control, timetable criticality, stakeholder and interface complexity, cost and scope certainty, and overall risk profile.

3.2. Authoritative evidence consistently shows that governance which fails to reflect these differences is a primary cause of poor delivery outcomes. In complex megaproject environments, applying uniform governance frameworks - regardless of risk, uncertainty or delivery control - has repeatedly driven delay and cost escalation, ultimately undermining consumer benefits³. Quantitative (see Table 1) confirms this clear and repeatable relationships between governance quality, delivery outcomes and cost performance.

3.3. Poor governance during design and construction also impacts long -term operation performance. For infrastructure of this scale, operating and maintenance costs over the asset's life can exceed construction costs. Decisions on quality, resilience and maintainability therefore have lasting impacts on reliability and total cost. A governance framework that focuses only on short term capital cost savings, lacking whole-life perspective, risks locking in higher maintenance costs, poorer performance- and reduced resilience over the life of the asset.⁴

Table 1. Poor governance drives cost escalation and delays⁵

Poor governance drives failure	Mitigation
<ul style="list-style-type: none"> Each new stakeholder to a megaproject raises total costs on avg by 0.7-1.2% 	<ul style="list-style-type: none"> Appropriately calibrated stakeholder engagement, including tightly defined veto rights, support timely delivery while protecting consumer interests.
<ul style="list-style-type: none"> Cost growth declines by ~0.5 p.p. per one-point increase in front-end engineering design accuracy 	<ul style="list-style-type: none"> Sufficient time to achieve design maturity before delivery targets are locked in, as mature design before building is associated with improved cost and schedule reliability and fewer late changes.
<ul style="list-style-type: none"> Each additional year of delay increases project costs by an average of ~4.6%, with effects compounding over time. Permit and clearance approvals account for approximately 13% of procurement delays in contracts above US\$100 million 	<ul style="list-style-type: none"> Dedicated or fast-tracked regulatory oversight for nationally significant infrastructure can reduce delays and improve cross-stakeholder coordination.

Poor governance drives failure	Mitigation
<ul style="list-style-type: none"> ▪ Costs increase by ~33% on average with each additional “owner” added to a megaproject. ▪ Integrated Project Delivery shows a ~15 pp reduction in project cost overruns compared with Design–Bid–Build (which averages ~20% overruns). 	<ul style="list-style-type: none"> ▪ Clear governance structure and accountability. Single “owner” with integrated operating company is associated with better delivery and more reliable performance by bringing clear roles, responsibilities, and accountabilities to parties and empowering decision making.

3.4. Major programmes such as HS2, the Chicago O’Hare Modernization Program and Berlin Brandenburg Airport illustrate how governance failures can erode consumer outcomes.⁶

- a) Degree of delivery control: Governance relied on standard, nonadaptive models despite mounting delivery risks. This resulted in blurred sponsor and shareholder roles, fragmented accountability and limited ability to intervene when supply- chain- performance deteriorated, reducing effective control over outcomes.
- b) Timetable criticality: As risks crystallised over time, governance failed to adapt to growing timetable criticality, leading to repeated delays and, in the case of Berlin Brandenburg Airport, cancelled openings.
- c) Stakeholder and interface complexity: Fragmented objectives, breakdowns in trust and leadership churn reflected failures to manage complex stakeholder interfaces. Extensive veto and approval rights, poorly defined roles and misaligned incentives exacerbated coordination failures between sponsors, delivery bodies and contractors.
- d) Cost and scope certainty: Premature lock-in of scope, cost and delivery targets before design maturity led to late changes, repeated re-approvals and rework, undermining cost reliability and value for money.
- e) Overall risk profile: As risks increased, governance arrangements failed to evolve. Infrequent and poorly timed approvals, combined with limited intervention capability, meant emerging risks were not surfaced or mitigated early, driving both schedule slippage and cost escalation.

3.5. These failures were not incidental. They arose because governance frameworks were not calibrated to the evolving risk profile of the programme, relying instead on standardised structures that proved unable to cope with rising complexity. These examples provide clear lessons.

3.6. Complexity, especially at the front end - through novel structures, unclear roles, misaligned risk allocation and incentives - is a primary driver of delay and loss of confidence. Delays in early phases can be harmful to stakeholders’ confidence and affect the remaining of the programme: introducing governance mechanisms that are unfamiliar to stakeholders, difficult to operate in practice, or poorly understood risks prolonged bedding-in periods, duplication, and uncertainty at precisely the point where clarity and momentum matter most.

3.7. Furthermore, governance arrangements that focus narrowly on process compliance, siloed assurance at discrete approval gates - without sufficient regard to interfaces, system level interactions, or the overall value of timely delivery - can themselves become a source of consumer harm. An emphasis on sequential approvals, early fixation of baselines, dispersed veto rights, and poorly targeted assurance

may reduce perceived risk at a component level, but at the expense of programme level delay that materially increases prices, reduces choice and erodes long term consumer benefits.

3.8. Delay is highly detrimental to consumers: it both defers the delivery of benefits and increases costs. For capacity constrained infrastructure such as Heathrow, timely delivery is therefore itself a core consumer protection mechanism – and CAP3201 appropriately recognises that securing net consumer benefits depends on the timely delivery of additional capacity. Delays postpone capacity that would otherwise relieve congestion and scarcity rents, enable new routes and frequencies, and expand airline choice. These impacts are irreversible: lost consumer benefits, connectivity gains, and economic value cannot be recovered at a later date. Delay therefore entrenches higher prices and reduced choice - and each year of delay is estimated to impose economic losses on consumers of around £3bn per annum, primarily through higher fares.⁷

3.9. Timely delivery is also closely linked to financeability and efficiency. Schedule overruns are a major driver of cost escalation in their own right – evidence shows that each additional year of delay increases project costs by an average of ~4.6%, with effects compounding over time.⁸ Delay increases exposure to political change, weakens investor confidence and raises financing costs. Longer programmes incur higher fixed running costs and materially higher financing costs, as also detailed in our CAP3195 response.

3.10. Taken together, authoritative reviews converge on a consistent conclusion: effective megaproject governance must be bespoke, risk based and adaptive, aligning project stage decisions with long term value creation, efficient operation and sustained consumer benefits. This is not a matter of preference, but a precondition for avoiding delay and cost overruns.

3.11. The Office for Value for Money (OVfM) review of budgeting and governance in megaprojects concludes that bespoke governance in privately funded megaprojects - reflecting differing risk and uncertainty profiles rather than relying on a single control framework - strengthens decision making, improves cost control and provides greater flexibility in managing affordability. The National Audit Office (NAO) review of governance in megaprojects emphasises that governance must be iterative and capable of evolving as risk, complexity and maturity change.⁹

3.12. Recent UK programmes have deliberately embedded these lessons. Initiatives such as Thames Tideway, Ofgem's Accelerated Strategic Transmission Investment (ASTI) framework and Network Rail's SPEED programme demonstrate the value of bespoke, risk-based governance, with clear decision rights, proportionate assurance and flexibility to adjust arrangements as projects mature.¹⁰

3.13. Expansion presents a clear opportunity for the CAA to follow a similar positive direction. Enabling timely and efficient delivery of Expansion - based on planning consent in 2029 - is both Government policy and central to the CAA's statutory duties. Bespoke governance is therefore not a procedural preference, but a primary determinant of whether Expansion delivers lower airfares, greater choice and improved resilience for current and future consumers.

3.14. For avoidance of doubt, this does not mean existing governance is no longer required – these proposals pertain specifically to the period involving expansion investment and will need to be reviewed for efficacy once that period is complete. Moreover, even during the expansion period there will be between £500m-£1bn of ongoing long-term asset replacement, the appropriate governance of which maybe more appropriately achieved through the existing framework, separate from expansion.

4. Developing a bespoke governance approach for Expansion

Expansion is not a single project, but a portfolio of fundamentally different activities, each with distinct risk profiles, delivery constraints and value drivers. Treating these activities as if they require the same governance approach would add friction, slow decision-making and reduce effectiveness. A bespoke framework is therefore essential. The four proposed governance templates—DCO, Property, Core aviation infrastructure and Novel infrastructure—provide a clear, practical way to differentiate governance across the programme. They create a shared understanding of where delivery control sits, how critical path risk arises, and how to deliver assurance, stakeholder involvement and incentives to add most value. This structure enables proportionate oversight, avoids premature commitment, and allows governance to evolve as certainty improves. By applying proven megaproject practice in a targeted and implementable way, the templates strengthen accountability, protect pace and support confident decision-making across Expansion.

4.1. The significant variations across megaprojects programmes are amplified in Expansion, which comprises multiple billion-pound complex programmes with materially different characteristics and delivery challenges. In particular:

- a) Control over delivery: Some activities are tightly prescribed by external stakeholders, statutory, policy, or regulatory requirements, limiting Heathrow's discretion over scope, sequencing, and delivery approach.
- b) Timetable criticality: Some activities sit on the critical path, with potential system-wide impacts if delayed, while others allow greater flexibility in sequencing and timing.
- c) Stakeholder and interface complexity: Several elements involve stakeholders and delivery partners not typically engaged in Heathrow projects, such as National Highways and utility companies, increasing coordination and dependency risks.
- d) Cost and scope certainty: Well defined, repeatable activities support earlier forecasting and tighter cost control. By contrast, novel interventions with limited precedent introduce higher uncertainty requiring progressive cost management and bespoke governance as designs and delivery solutions mature.
- e) Varied risk profiles: Expansion involves materially different risk types, with elements such as property acquisition carrying financial and legal risks distinct from asset delivery.

4.2. To address this complexity in a more nuanced and informed way, we propose distinguishing four governance templates to characterise the Expansion portfolio (Table 2). These templates provide a structured lens through which to understand the diverse nature of Expansion and to tailor its regulatory and governance arrangements more effectively - ensuring they are high quality, proportionate, and give stakeholders confidence in the programme's timely - and efficient delivery.

4.3. The specific composition of templates is an evolving matter and will require joint work to be refined, with elements clearly and appropriately allocated (e.g., scope classification between Core aviation and Novel should be set through a defined agreed process). We include an indicative cost estimate for each template, solely presented to provide a view of programmes' relative dimension. These numbers should not be used for other purposes or analyses.

Table 2. Expansion governance templates

Programme	Est. Capex	Purpose and nature	Key characteristics	Governance implications
DCO	[REDACTED]	Securing statutory approvals culminating in a Development Consent Order (DCO); no asset or direct benefit delivery, just unlocks a legal framework to build.	Highly time-critical; governed by statutory and Government timetables; extensive mandatory consultation; externally defined milestones and decision points, materially impacting costs.	Governance is centred on statutory and promoter decision points; explicitly recognises legislative constraints and limited delivery discretion.
Property	[REDACTED]	Acquisition and assembly of land and property interests required to deliver Expansion and associated mitigation.	Large number of individual transactions. Risks concentrated in valuation, negotiation – with possible obstructive / litigious counterparties and community sensitivities-, timing and legal completion; activities range from routine purchases to strategically significant transactions, involving both residential and commercial properties as well as re-provision.	Governance focused on acquisition strategy, budget setting and proportionate approval of transactions; controls scaled to value and risk rather than uniform processes.
Core aviation infrastructure	[REDACTED]	Delivery of core airport infrastructure broadly aligned with established regulatory and delivery models (e.g. Q6/H7, major terminals).	Largest programme by value; airline involvement well-understood; significant scope for value engineering, scope optimisation and cost-performance trade-offs.	Governance structured to enable effective airline engagement in value and affordability decisions while managing conflicts of interest and protecting delivery timelines.
Novel infrastructure	[REDACTED]	One-off enabling investments required for Expansion, with limited precedent and elevated delivery risk (e.g. road and river diversions, major enabling works).	High cost and schedule uncertainty; scope largely externally determined by third-party interfaces and policy; reliance on specialist contractors and external expertise.	Bespoke governance with enhanced scrutiny and assurance; focus on execution, commercial strategy and contract management; potential project-specific arrangements where appropriate.

4.4. Building on the four governance templates, the following chapters set out our principles and emerging thinking for a long-term governance framework for Expansion. The proposals move away from a one-size-fits-all model towards a more targeted approach, tailoring assurance, stakeholder engagement and incentives to differences in risk, delivery capability and timetable criticality to support timely and efficient delivery.

5. Enhanced assurance

Strong, independent assurance is central to confidence in Expansion. The proposed Joint Independent Assurance (JIA) provides a step-change in transparency and credibility for the CAA and airlines, offering ongoing, expertise-led insight into cost, schedule and deliverability. We believe the JIA should be jointly appointed by Heathrow and airlines, with CAA approval, ensuring independence from any single stakeholder. It should report to Heathrow, the CAA, airlines and Government, providing transparent, expert, system-wide assurance that supports - not replaces - decision-making. Its powers should be focused on reviewing, verifying and advising on cost, schedule, risk and deliverability, including assuring cost forecasts for ex-ante incentives and governing transitions to ex-ante regimes. The JIA should provide authoritative, early challenge that strengthens confidence, protects pace on the critical path and safeguards consumer outcomes.

5.1. Heathrow supports high quality independent assurance as key for the success of Expansion. Qualified, unbiased, third-party perspective can validate that infrastructure is designed and developed in compliance with defined standards, promoting confidence in the programme progress, protecting investments and managing risks in such a complex, high-stakes environment. Assurance therefore has value to Heathrow, Airlines, CAA, and Government helping decision-making through constructive challenge, early corrective action, and mutual trust.

5.2. The NAO and the Major Projects Association set out clear best practice for effective assurance. Assurance should first be independent of delivery organisations, so it can provide genuine challenge. It should be focused on outcomes, testing whether projects are deliverable and deliver the intended benefits, rather than checking compliance with process. Assurance should also be proportionate, with the level of scrutiny scaled to risk, cost, complexity and uncertainty. Finally, it should be decision led, prioritising timely, decision- -relevant insight over unnecessary reporting.¹¹

5.3. Recent megaprojects such as Thames Tideway and HARP demonstrate how these best practices can be applied. In these models, a competitively appointed independent technical assurance body provide expert scrutiny of cost, schedule, technical maturity, delivery risk and construction readiness. This body does not make decisions or deliver projects, but validates evidence to inform regulatory and intervention decisions, strengthen cost discipline and improve transparency for stakeholders (see Figure 1). This model offers the basis for our emerging proposals.

Figure 1. Thames Tideway Independent Technical Assurance

Tideway Tunnel's Independent Technical Assessor (ITA) was established at project inception under the Liaison Agreement **between the Secretary of State, Thames Water Utilities Limited and Bazalgette Tunnel Limited**. Provided by Mott MacDonald under a £12.3m competitively tendered contract from 2015–2031, **the ITA is engaged on behalf of all parties** to the Liaison Agreement – that form the Liaison Committee - not a single client, underpinning its independence and credibility.

Under the Thames Tideway Tunnel Liaison Agreement, the ITA does not manage delivery or make investment decisions. **Its role is to review and advise on technical, cost and delivery performance, providing objective expert input to inform oversight by the Liaison Committee.**

As an impartial "watchdog" it reviewed, for example, project progress, costs, risks, and delivery milestones for the £4.2bn super-sewer to prevent overruns. It reported to a Liaison Committee delivering quarterly scheduled assessments plus ad-hoc advice on disputes or variations.

The **Cunliffe review** (Independent Water Commission review of the water sector) commended its use: "There are key lessons to be learnt from the use of an Independent Technical Assessor during the construction of the Thames Tideway Tunnel. This was a successful approach to supervising the delivery of infrastructure, and the assessor was able to objectively and independently review and assess the ongoing project performance and delivery, primarily in relation to project costs and schedule."

Emerging proposals

5.4. Building on this experience, our objective for Expansion is to put in place a materially stronger and more comprehensive assurance framework - one that is proportionate to the scale, complexity and risk of the programme. This framework must provide airlines, the CAA - and Government - with transparent access to information, a clear and effective ability to challenge, and confidence that the programme is being delivered efficiently and on time.

5.5. The centrepiece of our proposed model is the introduction of Joint Independent Assurance (JIA). JIA is not a marginal enhancement of the existing Independent Fund Surveyor (IFS) role (see Figure 2); it represents a necessary step change in assurance to reflect the fundamentally different scale, risk profile and complexity of the Expansion programme. The proposals set out below represent an initial articulation of this step change and will require further development and testing before being embedded in policy. Heathrow is keen to work collaboratively with airlines and the CAA to shape the detailed design of JIA, including its composition, powers and accountabilities.

5.6. For the avoidance of doubt, the IFS will continue to have a role in assuring ongoing capital investment (e.g. the £500m - £1bn p.a. required for long term asset replacement) and believe the role of the JIA is required for expansion investments only.

Principles informing the JIA

5.7. The JIA is informed by recent best practice assurance models used on major UK megaprojects, including HARP and Thames Tideway. It is designed to provide assurance through early engagement, deep technical expertise supporting ongoing informed decision-making throughout the project lifecycle. JIA's activities should be underpinned and moderated by clear duties safeguarding consumer benefit,

including for example in relation to timely delivery, efficiency, and financeability. Other design principles would include:

- a) **Mandated and joint appointment:** JIA assurance should be structural and not optional. Heathrow will commission this assurance, in consultation with airlines, and CAA will have to approve it.
- b) **Joint accountability and independence:** JIA's independence is achieved not only through joint appointment but multi-party reporting too. It would report to, inform, and advise equally Heathrow, CAA, airlines, and Government.
- c) **Integrated ongoing assurance:** Different from the IFS, JIA assurance would support the programme through ongoing engagement across key phases of delivery. This integrated and ongoing approach enables earlier and more effective challenge, reduced risk of late surprises, and avoidance of duplicated or conflicting reviews across stakeholders. In doing so, JIA is intended to strengthen transparency, build trust and support timely decision making.
- d) **Information access:** The JIA should be entitled to receive information, documents and explanations reasonably required to perform its role. This entitlement should apply across the project parties, not only Heathrow as the project sponsor.
- e) **Expertise led assurance and stakeholder roles:** Assurance under JIA would be explicitly expertise led, with stakeholder involvement determined by where the most relevant knowledge and experience reside. Consistent with the governance templates: airlines would have a clearer and more structured role in assuring Core aviation infrastructure, reflecting their operational insight; non-Core or novel scopes would be subject to more independent assurance.
- f) **Proportionate assurance calibrated to risk:** JIA would introduce a more sophisticated, risk-based calibration of assurance intensity, aligned to different governance templates, and the specific risk profile of each scope. Lower risk activities would be subject to streamlined and standardised assurance, avoiding unnecessary burden. Higher risk or more novel elements of Expansion would receive targeted and enhanced scrutiny. This represents a deliberate shift away from a largely uniform assurance approach towards one that is proportionate and value-adding.
- g) **Reporting:** The JIA would produce regular reports to support investment and delivery decision-making, enabling oversight and dispute avoidance and resolution.

JIA's remit and powers

5.8. The scope and remit of JIA would be set at a breadth and scale appropriate to Expansion, reflecting the multi-disciplinary risks inherent in the programme and the need for ongoing integrated, system-wide assurance rather than siloed reviews. As in the ITA model, JIA's role would be contractually focused on *reviewing, evaluating, commenting, verifying and advising* activities.

5.9. While supporting decision-making, the JIA shall *not* have powers to set budgets, instruct contractors, approve or reject expenditure, stop works, direct delivery, arbitrate disputes beyond providing independent evidence, or override decisions made by Heathrow, the CAA or Government.

5.10. At the outset, JIA's remit could include:

- a) **Cost assurance and verification:** The JIA will review and provide assurance of programme estimating processes and forecasts. As part of this, it would also raise risks of potential overruns flagging this to stakeholders early on.

- b) Incentives assurance: As a deliberate enhancement in relation to the TIA model developed by Ofwat, the JIA shall also have a strong role in the governance and implementation of the incentive regime. It will challenge and assure the application of and the quantum of ex-ante targets (including assurance of the cost forecast for ex-ante incentives, monitoring of performance). Where ex-ante incentives are not appropriate initially, JIA will provide ongoing real-time efficiency verification. Wherever possible, this would transition to ex-ante incentives – a process to be governed by the JIA based on pre-defined criteria and triggers. JIA will be responsible for confirming that these criteria have been met and for formally endorsing any transition (see further detail in Incentives section below).
- c) Property assurance: The JIA would also conduct property acquisition assurance, considering acquisition strategy, cost estimates, and individual transactions.
- d) Programme and schedule assurance: As the IFS today, the JIA would review and assess credibility and performance of programme management approach and reporting gateway submissions.
- e) Technical assurance: The JIA would provide independent technical assurance, reviewing engineering matters and other technical issues that may arise as the projects progress. This could include high level requirements evolving into design assurance for high-risk areas (e.g., life-safety).
- f) Procurement: Involvement of the JIA in procurement would be a deliberate enhancement in relation to Ofwat's ITA model. This could be done through oversight of procurement strategy and delivery, review of contractor gain share and pain share, collaboration share mechanisms and ultimately assessing whether consumers benefit from projects being delivered by third parties.
- g) Other assurance areas: Further enhancements in relation to Ofwat's model could include financial assurance - assuming a sole promoter with an open-book approach to the business case, the JIA could perform independent verification of business case modelling and assumptions – and legal assurance - reviewing compliance with DCO and other legal requirements during consent and property acquisition stages.

Figure 2. Assurance today

The Independent Fund Surveyor (IFS) is a jointly appointed, independent assurance role, commissioned by Heathrow and the Airline Community, with a recognised **duty of care to the CAA**. It is a trusted and well-established component of Heathrow's capital governance framework, providing independent assurance that major capital decisions are evidence based, deliver value for money, and align with approved business cases. The IFS plays a critical role in supporting regulatory compliance and investment confidence, while giving airlines **credible third-party assurance** that capital is being managed efficiently and transparently in the consumer interest. In practice, the IFS also improves decision quality by identifying cost, schedule, delivery and risk issues early, enabling timely corrective action.

What the IFS is: The IFS is a **targeted assurance role**, applied to designated *Key Projects* rather than the full capital portfolio. Projects are identified based on complexity, airline or passenger impact, strategic importance and/or capital value (typically above £20m), **usually at the P2 tranche gateway**. Beyond gateways, the IFS provides **post G3 assurance** through structured reviews of monthly project information, offering real time independent insight into emerging risks and performance¹².

What the IFS is not: The IFS is **not a portfolio wide reviewer, not a decisionmaker, and not a delivery body**. Accountability for investment decisions and delivery remains with Heathrow's project and programme teams. The **Northern Runway Combined G2/G3** decision illustrates this value in practice. Early, intensive IFS engagement resolved issues ahead of the investment decision, supporting airline confidence. Airline feedback recognised the value of the IFS engagement, noting that the assurance and clarity provided were helpful and that the level of effort and early engagement supported confidence at the investment decision point. This enabled offline approval without the need for an additional forum discussion, demonstrating how well-timed assurance can strengthen confidence while improving governance efficiency.

6. Value adding stakeholder involvement

Airlines have an inherently reasonable expectation to be appropriately involved in decisions that affect long-term cost, operability and service quality, and to be assured that those decisions are well-founded and transparent. Our proposals strengthen confidence for airlines and the CAA by providing clearer, more structured involvement that is focused on where airline insight adds greatest value. By distinguishing engagement from formal governance, the framework ensures airlines have meaningful visibility and influence, always supported by independent assurance, without dispersing accountability or introducing delay. This provides stakeholders with confidence that decisions are robust and evidence-based, while ensuring the programme can move at pace and deliver benefits to consumers. We believe this approach captures the intended benefits of a Capital Investment Committee (as proposed by Heathrow Reimagined) without risking pace, conflict of interest or novel/complex role of the CAA leading capital governance.

6.1. We recognise the value of effective stakeholder involvement and the contribution that consumers, airlines and the CAA can bring through diverse perspectives and expertise. Governance design must therefore account for (a) the inherently valuable views that stakeholders have being incorporated into design, (b) the inherently reasonable need for stakeholders to be assured that costs are efficiently incurred and (c) the value to consumers of timely delivery.

6.2. As primary users of Heathrow's infrastructure, airlines in particular should play a meaningful role in shaping expansion design. Furthermore, as efficient costs are recovered through the RAB, it is reasonable for airlines to expect robust assurance. Their interest in the balance of costs and benefits, and in being

assured that costs incurred are efficient, is both legitimate and should be appropriately reflected in the governance framework.

6.3. Airlines can provide valuable operational insight (e.g. turnaround times, baggage systems, terminal flows) as well as forward looking intelligence on fleet mix, routes and demand. This input, including the provision of robust data and evidence, is critical to developing well founded business cases that deliver improved operating efficiency and lower long-term costs for airlines. We believe that this requires enhanced involvement of stakeholders, with commensurate investment by them in capability, resourcing and accountability. Where stakeholders seek greater influence, this must be matched by responsibility for the quality, timeliness and consistency of inputs.

6.4. Recognised best practices show that to enable this involvement effectively, successful megaprojects require tailored governance and involvement models, clearly distinguishing between areas suited to broad co-design and those that require- sponsor or expert- led decision- -making.¹³ Lessons from megaprojects also reveal that governance must also actively manage conflicts of interests between stakeholders; failing to do so will generate overly complex governance structures, blurred responsibilities and ineffective decision -making.¹⁴

6.5. Heathrow's current business as usual (BAU) capital governance illustrates why applying these lessons in practice is challenging, and therefore why Expansion cannot simply replicate BAU arrangements. In 2025 alone, projects at G3 ranged in value from £1.8m to £552m, with retrospective governance extending to projects of around £130k. This wide dispersion highlights the limitations of applying standardised stakeholder involvement and approval models across a highly heterogeneous portfolio. Furthermore, experience from both the H8 Business Plan and the pre2020 Heathrow Expansion Programme further shows that airlines are many times unable to reach a single, unified position, reflecting diverse business models and priorities. In this context, unanimity requirements or implicit veto rights can materially slow decision making and reduce efficiency (see Figure 3).

6.6. Expansion, with significantly greater scale, uncertainty and interdependence, would amplify these issues, reinforcing the need for differentiated governance arrangements that apply stakeholder involvement and decision rights proportionately and where they add most value.

Figure 3. Stakeholder governance today

Airline engagement can add significant value through operational insight and challenge and has on many occasions helped improve design quality and efficiency. Under the current capital governance framework, we have noted enhanced project management and stakeholder engagement especially during the early stages of project development.

However, experience also suggests there are **practical limits to consensus-based governance**, particularly where incentives differ and where decision rights are not fully aligned with delivery accountability or risk ownership. These observations are intended to inform more effective governance design, while recognising the continuing value of airline engagement. Key issues observed include:

- **Focus on commercial priorities.** The Next Generation Security Checkpoint programme was a legally mandated investment, fully reviewed and allowed by the CAA under H7, with a statutory delivery deadline of June 2024. Although the programme progressed through established governance from summer 2022, airline endorsement was not secured by the December 2022 milestone required to maintain programme certainty. Extended engagement—particularly on the Terminal 3 Central Search Area—contributed to delay, requiring Heathrow to proceed at risk to avoid statutory non-compliance. This highlights the challenge of relying on consensus where regulatory obligations and commercial considerations do not fully align.
- **Proportionality for lower value investments.** In some cases, extensive governance has been applied to small scale projects with limited consumer or delivery risk. For example, the Rail Access Controls fire safety replacement (under £0.5m) was delayed by around two months despite IFS confirmation that costs were reasonable, underscoring the need for clearer proportionality thresholds.
- **Importance of right capability.** For highly technical or routine assets, independent or specialist assurance can be more effective than broad stakeholder review. The replacement of end-of-life digital advertising towers in Terminal 5 experienced delays following airline challenge, despite being non aeronautical and technically straightforward.
- **Diversity of airline business models.** During development of the H8 Business Plan, airlines were unable to complete a committed capital prioritisation exercise, reflecting differing operating models and reinforcing the need for governance arrangements that function without unanimity.

Emerging proposals

6.7. Drawing on these lessons, we propose a robust mechanism to harness the value that consumers, airlines and the CAA can bring to Expansion delivery. Stakeholder participation should be explicitly focused on enabling the delivery of the benefits the new infrastructure is intended to provide, with the four governance templates guiding and tailoring the appropriate form of involvement for different elements of the programme.

6.8. For example, in securing the DCO, Heathrow must submit an application that captures both the airport's position and the perspectives of third-party stakeholders (such as National Highways and Thames Water), which should be engaged through appropriate forums. Airline involvement should be more proportionate in this context, as many decisions relate primarily to programme delivery and third-party interfaces, with independent assurance having a clear role. For avoidance of doubt. Airlines should still have transparent access to design and cost information provided to the JIA, but it would be for the JIA (through its role in cost assurance and technical advice) to evaluate and comment on whether the scope chosen is expected to provide the best outcome for consumers .

6.9. In contrast, for Core aviation, lessons from T2 and T5 construction point to a need to involve airlines more closely in decision-making, enabling co-development of solutions that support future operating models and exploring how currently non-Heathrow airlines could also contribute input. Their input will undoubtedly improve the chosen solution and they will have an informed view of whether the benefits of the solution justifies the cost.

6.10. Following this rationale, we propose stakeholder involvement takes two forms in Expansion: stakeholder engagement – where stakeholders are consulted/informed but do not approve decisions - and stakeholder governance - where stakeholders must approve project decisions.

6.11. This is a complex area where further work is required and we welcome working with the CAA and airlines to develop the detail, especially to ensure airlines are provided with appropriate involvement and assurance in cases where their role is characterised by engagement rather than decision-making governance.

6.12. As outlined above airlines' role is important, legitimate and should be appropriately reflected in the governance framework. Claims for the creation of a **Capital Investment Committee** - tasked with scoping, budgeting, financing and tendering capex schemes - reflects airlines' clear desire for greater participation in Expansion delivery. However, given the scale, complexity and national significance of Expansion, it is essential that any arrangements are well thought through and grounded in established best practice without introducing unintended complexity or risks (Figure 4).

Stakeholder engagement

6.13. Stakeholder engagement would focus on providing airlines with effective oversight and transparency over capital investment, supported by access to timely information and independent assurance from JIA. Airlines could be sighted on in a targeted and proportionate way – such as being informed about and sighted on investments to progress major road works or logistical elements like the rail head – enabling informed challenge without diluting accountability for delivery. Independent assurance from JIA will therefore provide technical capability and appropriate challenge to delivery. Consumers too need meaningful place in Expansion delivery discussions. Their participation can be facilitated through dedicated forums, working alongside the CAA.

Stakeholder governance

6.14. Stakeholder governance should be representative and proportionate, drawing on the expertise of airlines, the CAA, and consumers where it adds value, while avoiding unnecessary complexity or delay. Airline engagement would be structured through programme level forums with clearly defined roles and decision rights on relevant investment decisions (for example, stands, taxiways, and system upgrades), and designed to reflect the interests of future airlines as well.

6.15. To support timely decision-making, governance would include clear accountability mechanisms, such as approval SLAs, fast track escalation for schedule critical issues, and explicit arrangements to manage conflicts of interest, supported where appropriate by independent expert input. In addition, we expect to implement tailored gateway processes that are calibrated to each of the four governance templates. We are already developing and testing internally these revised gateway cycles and will share these with the CAA for consideration in due time.

Figure 4. Capital Investment Committee

Heathrow Reimagined's proposal to establish a CAA-chaired **Capital Investment Committee (CIC)** - tasked with scoping, budgeting, financing and tendering capex schemes - reflects a clear desire from airlines for greater transparency, assurance and confidence in Expansion delivery. **We recognise these underlying aims and agree that any governance framework must give airlines clear visibility over costs, meaningful assurance on efficiency, and stronger confidence that decisions are grounded in consumer benefit.**

However, as currently conceived, the CIC model would introduce significant practical challenges:

- **Blurred accountability and increased complexity.** Introducing a new, regulator-chaired decision-making body at project level would add material layers of process and approval, creating risks to timely delivery and, ultimately, to consumer benefit. Established megaproject experience shows that successful delivery depends on distinguishing where stakeholder input adds value and where sponsor- or expert-led decisions are required. In these models, regulators set the framework and provide oversight - not chair project-level investment decisions - precisely to avoid blurred accountabilities, complexity and delay.
- **Breaking the link between investment decisions and operational accountability.** Separating asset ownership from control over maintenance and enhancements weakens the essential link between project decisions and asset realities. This risk is amplified in Expansion, which must integrate input from non-aviation delivery partners such as National Highways and deliver outcomes for future airlines and consumers whose needs are not necessarily represented by incumbent carriers. A CAA-chaired CIC would struggle to reconcile these competing requirements while retaining the pace and coherence needed for a complex programme. We have submitted evidence to the CAA in our response to CAP 3195 that demonstrates loss of control will materially drive increases to cost of capital as well as costs overall.
- **Undermining basic tenets of UK economic regulation.** A regulator-chaired decision making body would run counter to basic principles to economic regulation, including requiring the regulator to make and/or oversee decisions that it is not best placed to make, undermining stakeholders ability to appeal decisions made by the regulator and limiting independence of regulated companies to invest, operate and maintain according to requirements set out in its licences.

7. Intelligent incentives

Well-designed incentives are essential to confidence in both delivery and financeability. For Expansion, Heathrow proposes a progressive incentives framework that moves beyond rigid, project-level approaches towards a more transparent and credible model aligned to risk, forecast certainty and delivery control focused on programme and tranche outputs. Ex-ante incentives will be applied across Expansion wherever practicable, based on appropriate control over delivery and confidence in cost forecasts, with calibration reflecting the level of risk being borne. Where uncertainty is higher and ex-ante incentives are not appropriate initially, ongoing, real-time assurance by the Joint Independent Assurance (JIA) will provide confidence on cost efficiency and value for money without distorting delivery decisions. Wherever possible, real-time assurance will transition into ex-ante incentives as designs mature and risks reduce. This approach aligns incentives with reality, balances risk and reward to manage costs effectively, and provides the CAA and airlines with confidence that Expansion decisions are robust, transparent and well-founded.

7.1. Heathrow recognises that a well-designed incentive regime is fundamental to confidence for both airlines and consumers, who ultimately pay for Expansion over the long term through the regulatory framework. They need to be confident that the right efficiency drivers are in place, that risks are appropriately managed, and that costs are incurred efficiently in the consumer interest.

7.2. We are therefore clear that there should be no element of the Expansion capital programme that is not subject to meaningful efficiency incentives and to robust governance and assurance. Where ex-ante incentives cannot be applied from the outset, Heathrow will remain subject to ongoing, real-time verification and oversight by the Joint Independent Assurance (JIA), as set out below. This approach reflects the scale and complexity of Expansion, including cost uncertainty, external dependencies and delivery risk, and is fully aligned with the CAA's objectives on consumer protection, timely and efficient delivery, and financeability.

7.3. Effective incentive design depends fundamentally on the quality of cost forecasts and the degree of control over delivery and change. Where forecasts are robust and delivery risks are well understood and manageable, incentives can be set with confidence and used to sharpen delivery discipline. Conversely, where scope, cost or delivery outcomes are materially influenced by external factors - such as statutory processes, third party interfaces or novel technical risk - early fixation of incentive parameters can distort behaviour, increase costs and undermine value. Incentives must therefore be aligned to the realities of delivery, rather than applied uniformly.

7.4. Established principles for major capital programmes¹⁵ demonstrate that incentives are most effective when they are focused on outcomes that matter to consumers, offer proportionate risk reward trade-offs, and allocate risk to those best placed to manage it. Getting this balance right is critical not only for delivery performance, but also for financeability: where risk is allocated in a way that is misaligned with forecast certainty or delivery control, the cost of capital increases, ultimately raising programme costs borne by consumers.

7.5. Well-designed incentives therefore balance the interests of current and future passengers, create meaningful consequences for underperformance, and avoid transferring excessive or poorly understood risk in circumstances of high uncertainty. These recognised best practices also highlight the need for a differentiated incentives framework - one that evolves as designs mature, evidence improves and delivery control increases - supporting cost efficiency, timely delivery and investor confidence.

Emerging proposals

7.6. We want to build on the ambition and principles set out above to design an incentive regime that drives the right behaviours in Expansion, supporting focus on outcomes and what ultimately matters to consumers.

Design principles

7.7. We propose incentives should follow the design principles listed below. The appropriate form of incentives will vary by governance template and stage of delivery.

- a) Shift away from granular, project level delivery obligations towards incentives linked to programme and tranche delivery of higher-level outputs (e.g., runway opening, capacity release or critical sub-milestones such as elements associated with land assembly or major displacement processes). In all cases, the form and strength of any incentive would be calibrated to Heathrow's degree of control over delivery to maintain the appropriate risk-reward balance.
- b) Programme level incentives: Replace blanket project level incentives with a layered framework combining programme, tranche and project level tools that can evolve over time. This would include progressive baselining and staged commitment, with incentive targets set as designs mature and evidence improves, and early phases focused on option development for novel or first of a kind elements before binding commitments are made (see example in Figure 5).

7.8. Calibrated sharing rates: Calibrate sharing rates to forecast certainty, with stronger incentives applied where costs and outputs are well understood, and more limited or staged exposure where uncertainty is higher. This avoids perverse behaviours that can arise from uniform incentives, such as excessive contingency, premature risk transfer, or scope locking at immature stages.

- a) Independent incentive assurance and governance: The JIA will provide independent assurance over the application and calibration of ex ante incentives, including assurance of cost forecasts, performance monitoring, and governance of any transition from ongoing real time verification to ex ante incentives.
- b) Proportionate reopeners and fast-track decisions: Use proportionate reopeners and ongoing real time verification by the JIA for genuinely novel elements where uncertainty cannot reasonably be resolved ex ante. Where necessary, fast track regulatory decision making for critical path incentive issues should be used to protect the overall programme schedule.

7.9. For avoidance of doubt: every part of Expansion, at any time, will face either ex-ante incentives or JIA-verified real-time efficiency review — there is no part of the programme without meaningful efficiency pressure.

Figure 5. Incentives in Ofgem's ASTI framework¹⁶

Ofgem's Accelerated Strategic Transmission Investment (ASTI) framework provides a clear precedent for moving away from sequential, project by project regulation (the previous LOTI framework) towards a programmatic approach for the delivery of strategically linked infrastructure. ASTI was introduced to **enable timely delivery of a portfolio of major onshore transmission reinforcements required to meet Government objectives.**

A central feature of ASTI is the introduction of a time-based Output Delivery Incentive (ODI), embedded in transmission licence conditions. The ODI rare linked to delivery of **defined strategic outputs, with incentives anchored to agreed target dates for overall transmission capability rather than to individual construction contracts or work packages.** "Consumer benefits will only be realised when the necessary strategic transmission capability is delivered."

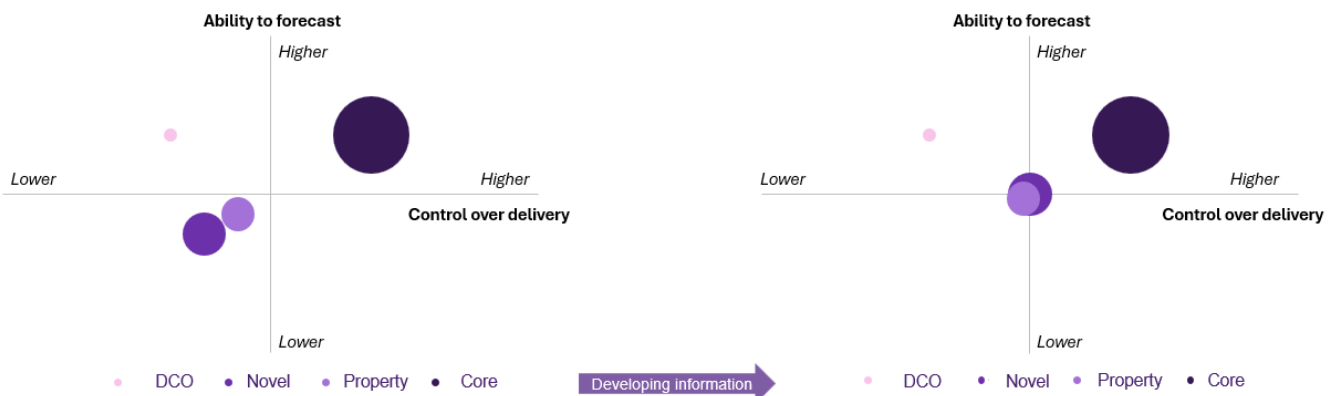
ASTI also demonstrates how incentives can be implemented **progressively and proportionately, with risk exposure aligned to the maturity of information.** Ofgem allows Pre Construction Funding (PCF) to support early option development, routing, environmental assessment and supply chain engagement without fixing final scope, cost or delivery baselines. As designs mature, outputs, funding and delivery dates may be refined through formal reopener processes, including where material scope changes arise. Exposure to reward or penalty under the ODI applies only once outputs and delivery dates are sufficiently mature.

Importantly, **ASTI recognises heterogeneity across projects within a strategic programme.** Given the different asset types and innovative technologies involved, Ofgem does not apply a single uniform performance standard. Instead, bespoke minimum availability standards are set for each project at Project Assessment (PA), ensuring that incentives and performance expectations are tailored to the technical characteristics and delivery risks of individual assets while remaining aligned to programme level objectives.

Suitability of ex-ante methodologies

7.10. Our proposed approach is based on the use of ex-ante incentives, combined with ongoing, real-time verification JIA. Wherever possible, this real-time assurance is intended to transition into ex-ante incentives as designs and information mature (see Figure 6).

Figure 6. Governance templates' forecasting and delivery control over time (NB. indicative starting state and future aspirational state as we move into delivery) (**bubbles' sizes are proportionate to programme costs; their position in the matrix is qualitative and illustrative only**)



7.11. The choice between distinct incentive methodologies and the appropriate timing and sequencing for their application will vary according to governance template and programme stage and should also build on the experience applying the current H7 ex-ante framework (Figure 7). In principle this means:

- a) Ex-ante incentives can be considered where Heathrow's has higher ability to develop more robust cost forecasts and degree of control over delivery and unforeseen change. This is where capex investments are well understood and repeatable, can be contracted and sequenced with a higher degree of certainty, and pose limited delivery or customer risk, such that the potential of any forecasting errors to materially affect service outcomes or consumer benefits is smaller. This includes the Core Aviation programme, which alone represents c. 65% of Expansion costs.
- b) Ongoing real time verification by the JIA is appropriate where investments are novel, complex, externally driven or subject to significant unobservable risks. In many such cases, this assurance is expected to transition progressively into ex-ante incentives as designs mature, risks reduce and delivery control improves (for example, in later tranches of the Novel programme or the Property programme post DCO). This transition will be governed by the JIA based on predefined criteria and triggers. JIA will be responsible for confirming that these criteria have been met and for formally endorsing any transition.
- c) In a small number of cases, ex-ante incentives may not be appropriate at any stage. For example, earthworks within the Novel template involve high levels of geological uncertainty that would distort incentives if baselines were fixed too early. In these circumstances, enhanced ongoing real-time verification by the JIA provides the appropriate confidence on cost efficiency and value for money.
- d) As outlined above, through its embedded role, the JIA will underpin the incentives framework by providing clear, credible and transparent incentive governance. It will assure the application and calibration of ex-ante incentives, monitor performance, and govern transitions from ongoing real-time verification to ex-ante incentives as certainty improves.
- e) Where ongoing real time verification applies, the JIA will assess incurred expenditure against need, timeliness and efficiency on an ongoing basis, rather than through periodic retrospective review. This represents a material evolution from previous approaches and provides earlier challenge and greater confidence for all stakeholders. Further work will be undertaken to refine where this ongoing approach is proportionate and value adding, reflecting the scale, risk and nature of different projects.

Figure 7. Incentives today

Experience under the **H7 framework** provides important lessons for the design of governance and incentives for Expansion. Recent Expansion consultations, including CAP3149 and CAP3195, note that the H7 ex-ante incentive framework has operated for only a limited period and highlight clear limitations in applying a similar approach to Expansion, where outputs and delivery obligations are harder to specify and verify.

Key lessons include:

- **Project level incentives are distortionary.** Expansion delivers the majority of its consumer benefits only when systemwide outcomes are achieved—most notably at runway opening and subsequent terminal capacity release. Fixing incentives at individual project level risks discouraging optimisation across the programme, constraining value adding resequencing, scope refinement or descoping. Certainty at project level is therefore achieved at the expense of flexibility, pace and efficient systemwide delivery.
- **Megaproject forecast reliability and benchmarking are limited.** As recognised in CAP3149 and CAP3195, early cost forecasts for large, long duration and highly interdependent programmes are subject to material uncertainty. Where costs cannot be robustly estimated upfront or lie largely outside Heathrow’s control, strong *ex ante* incentives increase the risk of inefficiency, windfall gains or underfunding rather than protecting consumers.
- **The current framework is granular and burdensome.** Under H7, agreeing Development Outlines at G2, approving them at G3 and managing them through delivery has resulted in over 900 DOs across around 480 projects, creating more than a thousand approval and assurance touchpoints. Applied to Expansion, this level of process intensity would materially slow decision making, increase transaction costs and divert management effort from delivery.
- **Incentive design has direct implications for risk and financeability.** CAP3195 appropriately recognises that replicating the H7 framework—with uniform sharing rates and project level DOs—would be inappropriate for Expansion. Given low forecast reliability and limited benchmarking, strong -ex-ante cost incentives can amplify risk, threaten programme viability- and undermine financial robustness. A KPMG analysis has previously shown that, consistent with finance theory and precedent, incentives and risk sharing mechanisms must be calibrated to Expansion’s risk profile, with safeguards that maintain- investor confidence, including an adequate risk premium - potentially higher than that for BAU. We are now updating this review.¹⁷

8. Way forward

Working in close partnership with the CAA and airlines is central to how Heathrow approaches Expansion. We recognise that the risks and rewards of Expansion are shared, and that effective governance must command confidence across all stakeholders. Experience from major infrastructure programmes shows that poorly calibrated governance can itself drive delay and cost escalation, with lasting consequences for consumers. Bespoke governance is therefore essential - not as an abstract ideal, but as a practical means of protecting pace and consumer benefits. Expansion is too large and nationally significant to experiment with untested models; instead, it requires the application of proven megaproject lessons. Heathrow is committed to collaborating with the CAA and airlines to develop governance, assurance and incentives that are transparent, proportionate and trusted, providing confidence without compromising delivery momentum. We would welcome these proposals being reflected and further developed through the CAA's forthcoming consultation, as part of a shared effort to enable timely, efficient and financeable delivery and secure long-term value for consumers.

8.1. This paper is offered as a constructive contribution to the CAA's ongoing work on Expansion and as a basis for continued collaboration. They reflect a shared understanding that the risks associated with Expansion - cost, schedule and deliverability - extend beyond Heathrow to airlines and consumers, and that governance design will be a determining factor in whether those risks are effectively managed.

8.2. Experience from major infrastructure programmes is clear that poorly calibrated governance is a primary driver of delay and cost escalation. Uniform or overly rigid governance frameworks, premature fixation of baselines, and dispersed or unclear decision rights increase approval friction, slow decision making and reduce the ability to adapt as risks crystallise. For capacity constrained infrastructure such as Heathrow, delay is not a neutral outcome: it directly erodes consumer benefits by deferring capacity, sustaining congestion rents, and increasing costs that are ultimately borne by users.

8.3. For Expansion, this risk is magnified by scale and complexity. Bespoke governance, that is calibrated to differences in risk, scale, uncertainty and delivery control, is therefore not a matter of preference but a prerequisite for timely delivery and consumer benefit realisation. Governance must be designed to enable pace on the critical path, while ensuring that assurance, stakeholder involvement and incentives are targeted where they add most value.

8.4. It is equally important that governance supports a whole programme, whole life perspective. For infrastructure of this scale, operating and maintenance costs over the life of the asset will materially exceed construction costs. Governance arrangements that focus exclusively on short term capital efficiency risk locking in higher long term operating costs, reduced resilience and poorer value for consumers. Early decisions must therefore be taken with a clear line of sight to long term operational performance and value creation.

8.5. Heathrow recognises the valued role of airlines in governance, both as future users of the infrastructure and as parties exposed to long term cost recovery through the regulatory framework. Airlines have inherent and reasonable need for robust, independent assurance that costs are efficient and decisions are well founded. Heathrow is committed to working with the CAA and airlines to develop assurance and involvement mechanisms that meet this need, while preserving clear accountability and avoiding arrangements that risk slowing delivery on the programme's critical path.

8.6. Against this backdrop, Expansion should not be approached as an opportunity to test experimental governance models. Given its national importance and challenging timescales, the priority must be to apply proven megaproject lessons - in particular, that bespoke governance is essential to prevent delay and protect consumer benefits.

8.7. Our proposals are explicitly aligned with the CAA's statutory duties and with the deliverability, timeliness and financeability tests articulated in CAP3195 and our response to it, as demonstrated in the mapping in the Annex (Table 3).

8.8. Ahead of the spring consultation, and following its publication too, we would welcome further joint work with the CAA to refine the detailed design and implementation of Expansion governance, including ensuring coherence between arrangements for early Expansion costs and the enduring regulatory framework. Heathrow would welcome engagement with the CAA to:

- a) consider how it presents model 1 (a & b), 2 and 4a in its next Spring consultation.
- b) confirm the proposed four template governance framework as a practical lens for differentiating regulatory treatment across the Expansion portfolio.
- c) develop the design, remit and independence of Joint Independent Assurance, including its role in assurance, incentives and procurement.
- d) establish how stakeholder involvement can be structured to add value while preserving clear accountability and protecting the programme's critical path; and
- e) consider how a combination of ex-ante incentives and JIA's ongoing real time reviews of costs can be implemented coherently across Expansion.
- f) determine the appropriate timing and sequencing for introducing the different elements of proposed governance and incentive mechanisms across the four governance templates.

8.9. We view this paper as a basis for continued collaboration and are committed to working constructively with the CAA to develop a governance framework that commands stakeholder confidence and supports the long-term benefits that Expansion is intended to deliver.

Annex: Mapping proposals against key criteria

Table 3. How proposals address criteria for effective delivery

Element	Proposal	Consumer interests	Deliverability	Timeliness	Cost-efficiency	Financeability
Programme-level governance	Adopt programme-level governance using four tailored templates, reflecting the materially different characteristics within the Expansion	Focuses on broad outputs and delivery benefits rather than isolated projects. Supports cost discipline, long-term optimisation and quality decision.	Supports clear decision rights and sequencing that help execution across the portfolio. Provides airlines with clearer governance structures and accountability.	Aligns governance to critical path and interdependencies.	Strengthens discipline where risks are highest. Allows tailored incentives and enhanced assurance and challenge.	Controls matched to risk and uncertainty.
Incentives	Dynamic mix of ex-ante and ongoing real time cost verification by JIA; programme-, and tranche level incentives focused on high-level outputs.	Reduces windfall and under-funding risk that could endanger viability of the programme and delivery of benefits.	Avoids perverse incentives that undermine delivery decisions.	Avoids rigid processes, targets and immature baselines that delay delivery.	Rewards efficient spend as designs mature.	Appropriate risk remuneration supports investability.
Assurance	Introduce Joint Independent Assurance providing integrated and ongoing assurance aligned to risk and governance templates.	Independent challenge on cost and deliverability, governance of incentives.	Provides timely, expert challenge to support decision-making and delivery readiness.	Early challenge and decision-led assurance avoids late rework.	Gives airlines trusted, independent visibility of programme progress and risks. Provides incentive governance.	Strengthens confidence in cost control and timely delivery, supporting risk management.
Stakeholder involvement	Differentiate engagement from governance; target involvement to expertise and risk.	Consumer and airline interests represented.	Clear roles and escalation paths support timely execution.	Prevents decision delays.	Avoids cost escalation from over-governance or delays due to decision delays.	Reduces regulatory and approval risk.

¹ For the avoidance of doubt, Heathrow proposals for H8 Capital Governance means we do not propose that either Minor Works or Property Development be included in “Core Airport Infrastructure”.

² In addition to the main response document to CAP3195, see also Supporting Documents 1, 6, and 7.

³ Office for Value for Money (2025). Study on the governance and budgeting arrangements for mega projects; National Audit Office (2025). Governance and decision making in megaprojects; Stewart Review. Major Transport Projects Governance and Assurance Review: The HS2 Experience.

⁴ Office for Value for Money (2025). Study on the governance and budgeting arrangements for mega projects; Infrastructure and Projects Authority (2021). Project Route map Handbook - Setting up projects for success; World Economic Forum (2024). Implementing a life-cycle approach to infrastructure: A policy roadmap for cities (Model Policy).

⁵ Data in Table 1 is drawn from Supporting Document 1 submitted with our CAP3195 response.

⁶ Office for Value for Money (2025). Study on the governance and budgeting arrangements for mega projects; National Audit Office (2020). High Speed Two: A progress update; National Audit Office (2024). HS2: Update following cancellation of Phase 2; House of Commons Committee of Public Accounts (2024): HS2 and Euston Tenth Report of Session 2023–24; House of Commons Committee of Public Accounts (2025): HS2: update following the Northern leg cancellation; DfT (2025). Stewart Review. Major Transport Projects Governance and Assurance Review: The HS2 Experience; Abgeordnetenhaus Berlin (2018). BER II Final Report; Hertie School (2015). The case of the BER Airport in Berlin-Brandenburg; Gemünden, H.G. (2024). Impact of and causes for poor economic performance of BER Airport; Federal Aviation Administration (2005). O’Hare Modernization Program; Federal Aviation Administration (2015). Re-Evaluation of the O’Hare Modernisation Environmental Impact Statement.

⁷ Frontier Economics (2025). Heathrow Expansion CBA.

⁸ Flyvbjerg et al. (2004). What Causes Cost Overrun in Transport Infrastructure Projects.

⁹ Office for Value for Money (2025). Study on the governance and budgeting arrangements for mega projects; National Audit Office (2025). Governance and decision making in megaprojects.

¹⁰ See Supporting Document n. 1 of our response to CAP395 submitted on 20 January 2026.

¹¹ National Audit Office (2025). Governance and decision making in megaprojects. National Audit Office (2010). Assurance for high-risk projects; Committee of Public Accounts (2025). Governance and decision making on major projects. Major Projects Association (2019). *Assurance of major projects: What is assurance and why do we need it?* Available at [527highlightsassurance.pdf](#)

¹² Beyond the gateways, the IFS continues to provide post-G3 assurance through structured reviews of monthly project information. However, the level of engagement differs depending on whether a project received its investment decision after 1 March 2024. For these projects, the IFS produces a quarterly one-page report, summarising its findings from a desktop review of the monthly management information provided by Heathrow. For projects that reached their investment decision before 1 March 2024, the IFS maintains a more intensive level of post-G3 engagement, including the production of a monthly report and attendance at project management meetings.

¹³ National Audit Office (2025). Governance and decision making on mega-projects; Institution of Civil Engineers (ICE) (2025). *How can the UK deliver its biggest infrastructure projects?* Available at [How To Make Better Decisions On Infrastructure Mega-Projects? | Institution of Civil Engineers \(ICE\)](#)

¹⁴ Oakervee Review of HS2 (2020); National Audit Office (2023). High Speed Two: Euston; Office for Value for Money (2025). Governance and decision making on mega-projects.

¹⁵ National Audit Office (2025). Private finance for Infrastructure; National Audit Office (2025). Governance and decision making in megaprojects; Flyvbjerg et al. (2003). How common and how large are cost overruns in transport infrastructure projects?

¹⁶ Ofgem (2022). Decision on accelerating onshore electricity transmission investment; Ofgem (2025). Accelerated Strategic Transmission Investment: Material Scope Change and Early Construction Funding; Ofgem (2023). Accelerated Strategic Transmission Investment Guidance and Submission Requirements Document; Ofgem (2023). Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment.

¹⁷ KPMG (2019). Analysis of Risk and Returns for R3. Submitted alongside Heathrow's H7 Initial Business Plan.