

Economic regulation of Heathrow Airport: H8 initial proposals – Summary

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Summary

Introduction and overview

1. The document sets out our initial proposals for Heathrow Airport Limited's ("HAL") next price control - known as H8 - which will run from January 2027 to December 2031, replacing the current H7 arrangements that run until the end of 2026. Setting price controls for HAL is one of the CAA's core functions under the Civil Aviation Act 2012 ("CAA12"). Our primary duty under CAA12 is to further the interests of users of air transport service regarding the range, availability, continuity, cost and quality of airport operation services.
2. We have formulated these initial proposals on the basis of a "single till" whereby we make (i) projections of HAL's total efficient costs and (ii) projections of its "single till" revenues (commercial revenues such as from car parking and retail outlets, other regulated charges and revenue from cargo flights). We net these off against one another as described below to help ensure that airport charges are no higher than is necessary.
3. The projections of efficient costs are based on estimates of operating expenditure, regulatory depreciation of and return on the Regulated Asset Base ("RAB"). The RAB changes as new investment is added and regulatory depreciation is removed (allowing investment to be financed over its expected life, rather than in the year it is incurred). The price control is then calculated by dividing the overall projections of costs less the projections of single till revenues by our forecast of passenger numbers (over the period of the price control) to give an allowed level of price control revenue per passenger that HAL can collect from airport charges.
4. We are now consulting stakeholders on these initial proposals, and your feedback will play an important role in shaping the final proposals, currently planned for November 2026. This summary document sets out our broad approach to these initial proposals including:
 - the context for the review and the wider developments influencing these proposals;
 - how the initial proposals aim to deliver for consumers and incentivise efficiency;
 - the proposed approach to the main price control building blocks and the resulting level of airport charges; and
 - an overview of the statutory framework and next steps in the H8 process.

Overall context and process to date

5. In August 2024, we published a lessons learned document from our previous price control reviews of HAL and NERL (which provides price regulated air traffic services in the UK). This included a commitment to issue a draft and final Method Statement to set out the approach and process for H8, and the draft Method Statement was published in November 2024.
6. In January 2025, the Chancellor announced renewed Government support for a third runway and wider capacity expansion at Heathrow airport. In response, we wrote to industry in March 2025 outlining our intention to review the regulatory framework for expansion in parallel with the H8 price control review. Bearing in mind the extended timelines and uncertainties associated with capacity expansion we said that the H8 price control would be set on the basis of a two-runway airport. Issues relating to capacity expansion would be dealt with separately, but we retained flexibility to ensure that any interactions between the two programmes would be addressed in a way that best protects the interests of consumers.
7. We published the Final Method Statement for the H8 review in March 2025. This reflected stakeholders' feedback on the Draft Method Statement, airline and HAL discussions from Round 1 of Constructive Engagement, and broader policy developments, including the Government announcement on Heathrow expansion. It confirmed the timeline for the H8 review, our broad approach to setting the price control, included updated business planning guidance and set out an incentive for HAL to provide high-quality business plan information.
8. It also explained our priorities for the H8 price control review, including:
 - ensuring consistency and alignment between the H8 price control and the emerging regulatory framework for capacity expansion;
 - enabling efficient investment that benefits consumers;
 - strengthening incentives on service quality and environmental performance; and
 - airport charges should remain no higher than necessary through a combination of efficiency incentives, making allowances for efficient financing costs and ensuring any growth in HAL's RAB is sustainable.
9. We have also continued with our work on developing the regulatory framework for capacity expansion. In July 2025 we published a statement setting out the scope of this work and our work programme for 2025 and 2026. Since then, we have consulted on the treatment of early expansion-related costs and published a working paper exploring alternative regulatory models, with further publications planned for these workstreams in the second quarter of 2026.

HAL's business plan, airline engagement and our initial proposals

10. In July 2025, HAL submitted its business plan for the H8 price control period (the "H8 Business Plan"). In it, HAL proposed a 17% increase in average charges from around £28 (2024 CPI) to £33 (2024 CPI) per passenger, supported by a £9.5 billion (2024 CPI) capital expenditure ("capex") programme and set out proposals in relation to efficiency, service quality, consumer outcomes, and environmental improvements.
11. In October 2025, Heathrow airlines submitted an "Airline Alternative Plan", proposing an 11% reduction in charges to around £25 (2024 CPI) per passenger, supported by a capex envelope of £5.5 billion (2024 CPI). Airlines said that limited transparency prevented them from fully assessing HAL's capital plan and put forward their own views on operating efficiencies, commercial revenues, and service standards.
12. Between October 2024 and October 2025, HAL and airlines completed three rounds of Constructive Engagement, moving from high-level issues to detailed discussion of the key price control building blocks and then to discussions of HAL's H8 Business Plan in Round 3. Round 4, scheduled for April and May 2026, will focus on these initial proposals.
13. An overview of our initial proposals is set out below. In summary, we have carried out our own independent assessment of the H8 Business Plan and Airline Alternative Plan and worked to ensure that our approach is fully aligned with the interests of consumers. These initial proposals involve:
 - a substantial increase in the allowances for capital expenditure to promote the wider resilience of the airport and improvements in consumer services, including baggage handling and security;
 - enhancements to the service quality regime further to protect the interests of consumers; and
 - a proposed charge profile that is no higher than is appropriate given our projections of efficient costs.
14. In developing these initial proposals, we have made projections of the numbers of passengers that will use the airport, the levels of efficient costs, commercial revenues, regulatory depreciation and the appropriate return. These are the main assumptions (or "building blocks") that drive the overall level of the price control. Making projections of the efficient level of these building blocks is key to setting a price control that can deliver charges for consumers that represent value for money while also allowing HAL to fund further investment in the airport.
15. Three key factors have changed since the H7 price control review that have influenced the level of airport charges in these initial proposals. Firstly, passenger numbers have returned to, and started to exceed, their pre-pandemic

levels. All other things being equal, this puts downward pressure on airport charges per passenger. Secondly, the real cost of debt finance has increased significantly since the H7 review, putting upward pressure on the appropriate return and HAL's cost of capital. Thirdly, allowances for regulatory depreciation have risen in line with rising levels of capital expenditure. Both the increases in HAL's cost of capital and regulatory depreciation have put upward pressure on airport charges.

16. Given the relatively early stage of the H8 process and the degree of uncertainty in some of the building block analysis, we are setting out a range of airport charges for these initial proposals rather than a point estimate. The mid-point of our range implies an average charge over H8 of £28.80¹ compared to average charges over H7 of £28.40. Our mid-point is some 16% or £5.40 lower than HAL's forecast and some 25% or £5.80 higher than airlines' proposed approach.
17. As we said in the H8 Method Statement, we will adopt an appropriately coordinated approach to the H8 price review and our work on capacity expansion. If new issues emerge over the coming months that suggest we should adjust our approach to H8 in the light of such factors, then we will make appropriate adjustments when preparing our final proposals for the H8 price control to reflect these developments.

Delivering for consumers

Consumer engagement

18. We said in our H8 Method Statement that an in depth understanding of consumer views, gained through research and engagement, is an important part of making sure that the price control furthers the interests of consumers. We noted that HAL was going to carry out its own consumer research and engagement, as in previous price controls, and we strongly encouraged airlines and other stakeholders to provide supporting analysis and evidence.
19. In the H8 Business Plan, HAL told us that it directly engages over 350,000 passengers annually and engaged more than 10,000 consumers specifically in relation to the H8 price review. This was supported by Constructive Engagement with airlines and engagement with the Heathrow Passenger Forum². HAL used this evidence base to inform the H8 Business Plan, including by defining consumer "needs", setting 18 key priorities, and 15 objectives for H8.

¹ All figures in this chapter are expressed in 2024 CPIH prices unless stated otherwise.

²The Heathrow Passenger Forum is a sub-group of the Council for the Independent Scrutiny of Heathrow Airport. It monitors the end-to-end passenger experience and considers issues in connection with Heathrow Airport that would impact passengers.

20. We asked our consultants, Steer, to assess the completeness and robustness of HAL's evidence base in this area. Overall, Steer concluded that HAL's research programme is broadly robust and sufficiently comprehensive for the purposes of developing the H8 Business Plan. Some limitations were noted, however, including a relatively weak approach to understanding the priorities of cargo users and inconsistent coverage of surface access issues.
21. As part of its review of the completeness and robustness of the consumer research and engagement activity, Steer noted certain key themes emerging from multiple pieces of evidence. These themes included waiting times for baggage reclaim, terminal congestion, crowding and queuing, support for passengers with additional needs and airport delays and disruption.
22. Steer found that most of the consumer priorities identified by HAL in its business plan were well supported by the evidence, though some relevant issues (such as consumer priorities in respect of wayfinding, walking distances and seating) were not explicitly reflected in the H8 Business Plan, and the link between evidence and HAL's prioritisation of issues could have been clearer. While HAL has said there is a "golden thread" linking consumer insight to capital investment plans, airlines criticised the lack of clarity around outcomes and measurable benefits.
23. Our view is that HAL has made meaningful progress in developing its approach to consumer research and that no additional research was required to support these initial proposals.
24. The work we have undertaken in reviewing the evidence from HAL's consumer research programme has informed these initial proposals, in particular our assessment of HAL's capital expenditure programme and the development of Measures, Targets and Incentives ("MTIs"), including areas such as security, baggage, and services for Passengers with Reduced Mobility ("PRM"). However, opportunities remain for HAL to improve coverage of its consumer research (especially cargo and surface access), simplify its articulation of consumer needs, and more clearly link planned investments to consumer outcomes.
25. Looking ahead, we expect HAL to continue working with airlines and other stakeholders including passengers and cargo users on enhancing its understanding of consumers' priorities and more clearly linking planned investments with consumer outcomes and benefits.

Service quality

26. Service quality regulation delivers a core part of the CAA's duty to promote the interests of consumers under the CAA12. As part of the H7 price control review, we replaced the legacy Service Quality Rebate & Bonus scheme with an Outcome-Based Regulation ("OBR") framework implemented through the MTI scheme. The objective of this change was to focus regulation on the outcomes

that matter most to consumers and to recognise that many aspects of the services provided at Heathrow Airport rely on multiple parties (which can include HAL, airlines, ground-handlers and/or Border Force). In general, financial incentives apply to HAL where it has direct control over consumer outcomes and reputational incentives apply where delivery is shared.

27. The framework we created and implemented for the H7 price control, established six consumer outcomes and a balanced portfolio of financial and reputational measures. The consumer outcomes are:
 - an airport I want to travel from that offers me a good value choice of flights;
 - I am confident I can get to and from the airport;
 - I have a predictable and reliable journey;
 - I feel comfortable and secure at the airport;
 - I have an enjoyable experience at the airport; and
 - I feel cared for and supported.
28. In its H8 Business Plan, HAL proposed retaining the six consumer outcomes used for the H7 price control and evolving the MTI scheme to include new financial incentives for timely baggage delivery and passenger assistance satisfaction, switching to daily measurement for security queues, adjustments to T5 track transit measures, setting carbon targets, and the removal of several H7 measures.
29. It also proposed increased bonus incentives and new airline eligibility criteria to incentivise joint performance and a collective approach to service delivery. The eligibility criteria would include aspects of airline and ground handler performance that contribute to the measures for timely delivery of baggage, arrivals baggage reclaim, passenger security queues, and passenger assistance service measures. Under this proposal, if HAL were to incur a rebate for a service failure, airlines would only be eligible for their payment share if they had met their corresponding service level.
30. Airlines supported the introduction of financial incentives for baggage but opposed financial incentives on passenger assistance satisfaction, the changes to security queue measures, increases to the bonus pot, and the introduction of airline eligibility criteria for bonuses.
31. We support retaining the six outcomes and agree that the MTI scheme should be updated and improved rather than fundamentally redesigned. We are minded to support financial incentives for baggage delivery and passenger assistance satisfaction, but further analysis is required before determining whether we should support moving to daily security queue measurement, given concerns

about the level of challenge and calibration of the incentives. We do not support HAL's proposal to double the bonus pot and for these initial proposals have retained the H7 level of maximum upside (1.44% of airport charges). Further evidence is required before we can reach a decision on the use of eligibility criteria for airlines to receive rebate payments.

Resilience

32. Ensuring that Heathrow operates as a resilient airport that is able to avoid, withstand, adapt to and recover from disruption is an important part of these initial proposals and of our wider regulation of HAL. Resilience is essential to delivering predictable and reliable journeys for consumers and to supporting the efficient operation of the airport. Consumers view delays, cancellations, and baggage issues as major concerns.
33. The importance of resilience was evident following the power outage caused by a fire at the North Hyde substation in 2025. This interrupted the power supply to the airport and led to an extended closure over most of an operating day at the airport as the airport's systems were recovered. A review into the robustness and execution of HAL's crisis management plans found that there was a well-established command and control structure for major incidents which overall worked well. Nonetheless, the review also made recommendations for a number of improvements.³
34. Resilience at the airport depends on several interconnected elements:
 - capital investment to maintain existing assets and deliver new capacity, reducing bottlenecks and strengthening operational flexibility;
 - asset management and maintenance, ensuring that ageing infrastructure remains reliable even under pressure from increasing passenger volumes;
 - operational planning and resources, including the preparation and execution of contingency plans across both HAL and the wider airport community; and
 - service quality performance, to ensure reliable operations and support the continuity of key passenger processes.
35. HAL, airlines and consumer groups all expressed the view that resilience should be strengthened during the H8 period. HAL's proposals for strengthening resilience in the H8 period include targeted capital investment, asset maintenance, and a number of operational changes. Airlines emphasised the need for credible resilience, stronger baggage incentives and performance, timely asset replacement, and more effective recovery processes.

³ Kelly Review into the circumstances related to the closure of Heathrow Airport on 21 March 2025

36. Our initial proposals take a holistic approach that uses several regulatory levers to support resilience, including:
- setting a capital investment envelope for the H8 period that is based on project “need cases” and which will enable HAL to deliver critical resilience enabling capital investment programmes such as next generation security, power network upgrades, baggage system replacement and airfield infrastructure improvements. More detail on how we have defined this envelope is set out in Chapter 6 (Capex assessment);
 - using the OBR framework and the MTI scheme to incentivise reliability in critical areas such as punctuality, baggage performance, security queues and asset availability; and
 - the licence conditions that set expectations for operational management and contingency preparedness.
37. We support HAL’s overall focus on resilience and agree with stakeholders that, as traffic grows during the H8 period, it will be essential for HAL to maintain and strengthen the resilience of Heathrow’s infrastructure and operations. Our initial proposals aim to ensure that the airport remains able to cope with disruption, recover quickly and maintain high levels of service for consumers.

Incentives for efficiency

38. As with previous price control reviews, we intend to put in place incentive arrangements for the H8 period to promote efficiency, support effective investment and help ensure that HAL operates the airport in the interests of consumers. Building on the framework introduced in H7, our approach for the H8 price control seeks to preserve stability where arrangements are working well, while refining and enhancing aspects of the regime where experience shows improvements can be made.

Capex incentives

39. HAL appealed against our decision to implement the new capex efficiency incentives for the H7 period to the CMA. Following detailed consideration of these matters, the CMA supported our approach to the introduction of new forward looking capex efficiency incentives. These arrangements involve establishing project budgets and delivery obligations through a structured governance process, with HAL sharing a proportion of any over- or underspend. This approach came fully into effect only in 2024, because of the delays created by the appeal to the CMA. HAL has suggested some adjustments to simplify aspects of the governance process and most of these refinements can be explored through the HAL-airline governance framework. We are also open to suggestions from airlines and/or other stakeholders as to how these arrangements might be improved. See Chapter 8 (Regulatory incentives) for more discussion of these issues.

40. Suggestions for more fundamental changes to the regulatory arrangements that support and incentivise efficient capital expenditure are being considered as part of our work on capacity expansion at Heathrow airport. We expect to publish a further consultation on these matters in April or early May 2026.

Commercial revenue incentives

41. For commercial revenues, we continue to rely on the established “single till” model, under which HAL typically retains the benefits of growth in commercial revenues during the period of each price control and its success in growing commercial income helps reduce airport charges in future periods.
42. HAL has said that aspects of this framework have led to underinvestment in certain airport-related property due to insufficient incentives, pointing to nearby third-party development and longstanding stagnation of a number of commercial buildings inside and outside the airport perimeter. Airlines reject any alternative approaches that would distort or undermine the single till, to the detriment of consumers, while adding complexity and risk. We are of the view that HAL has not demonstrated a compelling case for an alternative approach for specific developments, but we remain open to further representations on these matters.
43. On Terminal Drop-off Charges (“TDOC”), HAL requested the removal of the H7 risk-sharing mechanism, arguing the charge has now matured. We are only likely to agree to this request if HAL makes a transparent and clear commitment to the level of TDOC charges over the H8 period.

Cost and revenue building blocks

44. The H8 price control will be based on projections of the efficient costs of running, maintaining and improving HAL’s operation of the two-runway airport in a way that protects consumers’ interests both now and in the future. In setting the price control we bring together our assessment of passenger forecasts, operating expenditure, capital investment, commercial revenues, other revenues and returns, to establish an efficient overall cost for delivering the services passengers rely on.

Forecast of passenger numbers

45. Our advisors, Steer, have developed forecasts for passenger numbers using a bottom-up approach based on forecast Passenger Air Transport Movements (“PATMs”), average seats per PATM and average load factors⁴ at a geographic market level across seven world zones. By using up-to-date and independent data sources and analysis, and incorporating stakeholder insights, we consider

⁴ Load factor is a measure of capacity utilisation, representing the percentage of available seat capacity filled by revenue-paying passengers

this forecast to be robust and well-evidenced, providing an appropriate basis for our initial proposals.

46. The “base case” passenger forecast for the H8 period, is shown in Table 1 alongside HAL’s and airlines’ forecasts. Each of the CAA and HAL forecasts incorporate a shock factor to reflect asymmetric non-economic downside risks such as severe weather, security events or geopolitical disruptions. Airlines do not support the use of such a shock factor and therefore, it is not applied to their forecast. Alongside this base case, we have also developed “low” and “high” passenger scenarios which are set out in Chapter 2 (Passenger forecasts).

Table 1: Comparison of CAA shocked, HAL shocked and airlines unshocked forecasts

Passengers (millions)	2027	2028	2029	2030	2031	H8 Total
CAA – with shock factor	85.9	86.7	87.7	88.6	89.4	438.3
HAL - H8 Business Plan – with shock factor	85.3	86.1	87.0	88.3	89.3	436.0
Airlines base – no shock factor	87.0	88.1	89.2	90.3	91.4	446.0

Source: HAL – H8 Business Plan, Airline Alternative plan, Steer report

Operating expenditure

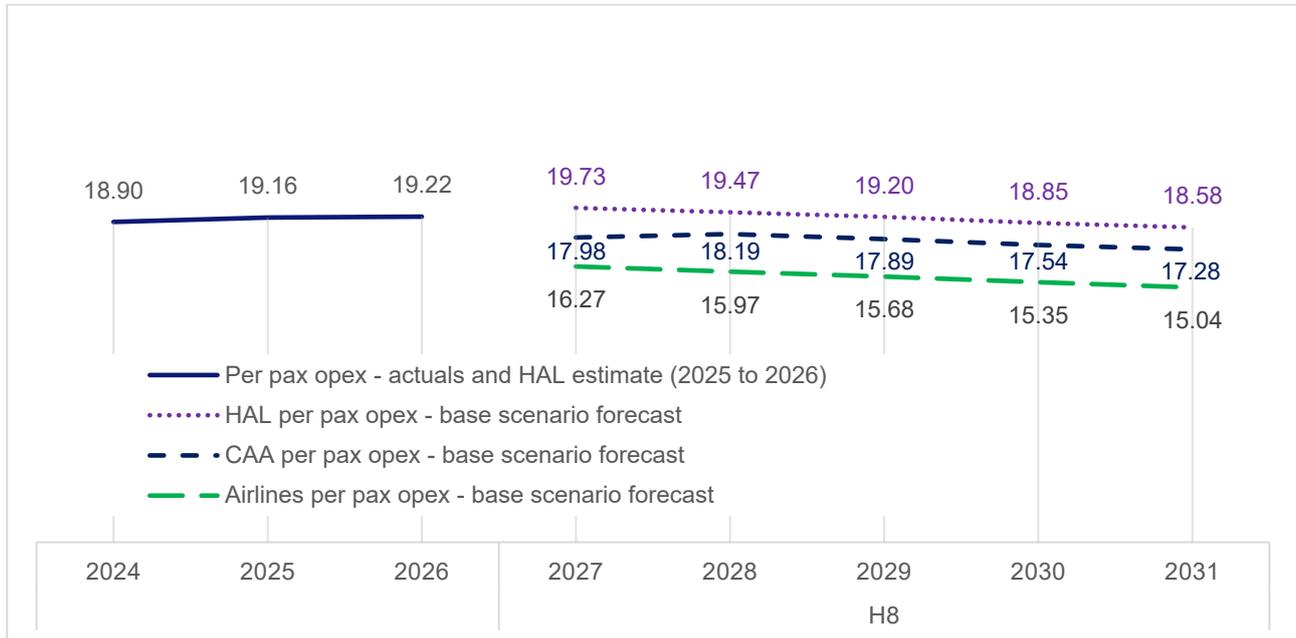
47. We engaged Europe Economics and York Aviation to support our assessment of HAL’s operating expenditure (“opex”) and commercial revenue forecasts, drawing on benchmarking, bottom-up assessments and detailed review of information provided by stakeholders.
48. Our proposed efficient opex allowance for H8 is £7,790 million (2024 CPIH)⁵ under the “base” passenger forecast: this is £564 million⁶ (6.7%) lower than HAL’s updated proposal, and £808 million⁷ (11.6%) higher than the airlines’ estimate. Figure 1 below, shows the comparisons on an opex per passenger basis.

⁵ £7,862 million in 2024 CPI

⁶ £569 million in 2024 CPI

⁷ £815 million in 2024 CPI

Figure 1: CAA proposed H8 opex per passenger versus HAL and airlines (£ 2024 CPIH)



Source: CAA analysis.

49. Business rates have become a major cost pressure for airports following a recent Valuation Office Agency revaluation, which has significantly increased liabilities for large airports. HAL expects its business rates bill to rise from about £0.6 billion in H7 (estimated in the H8 Business Plan submitted in July 2025) to around £1 billion in H8. We have included this update in these initial proposals and will continue to monitor this issue throughout the H8 price control review.

Commercial revenues

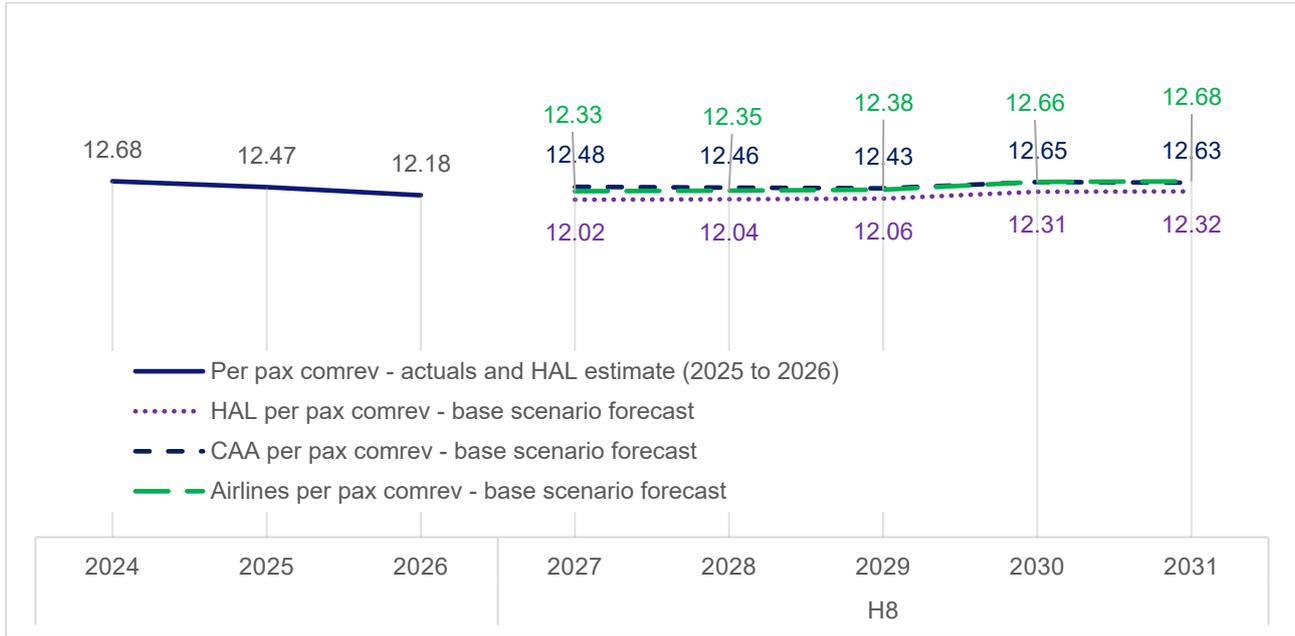
50. We have developed projections of commercial revenues using a similar method to that we used to develop our projections of opex. Under the “base” passenger forecast, our initial proposals estimate that HAL’s commercial revenues will be £5,493 million (2024 CPIH)⁸ over the H8 period. This figure is £195 million⁹ (3.7%) higher than HAL’s proposal and £74 million¹⁰ (1.3%) lower than the airlines’ proposal. Figure 2 below, shows the comparisons on a commercial revenue per passenger basis. Chapter 5 (Commercial revenues) sets out more detail on these matters.

⁸ £5,544 million in 2024 CPI

⁹ £197 million in 2024 CPI

¹⁰ £75 million in 2024 CPI

Figure 21: CAA proposed commercial revenue per passenger for H8 versus HAL and airlines (£, 2024 CPIH)



Source: CAA analysis.

Capital Expenditure

51. As part of the H8 Business Plan, HAL submitted a capex plan of around £9.4 billion (2024 CPIH)¹¹ for the H8 period, being roughly double the level expected during the H7 period. Airlines, by contrast, put forward an envelope of £5.4 billion (2024 CPIH)¹², raising concerns about insufficient detail, incomplete scoping and the deliverability of HAL’s much larger plan.
52. Our assessment recognises that capex forecasts inevitably carry uncertainty several years ahead and we have, therefore, used a framework designed to set a broad capex envelope, with the detail of individual projects to be worked out as the H8 period progresses through the capex incentive and governance arrangements noted above.
53. Consistent with our focus on the two-runway operation of the airport and our separate work on capacity expansion, we have removed capex projects associated with HAL’s "Modernising Heathrow" expansion programme and HAL’s proposal to convert noise and vortex mitigations from opex to capex. This reduced HAL’s plan from £9.4 billion (2024 CPIH)¹¹ to £7.7 billion (2024 CPIH).¹³
54. To create the “capex envelope” we use in these initial proposals, we then scored HAL’s projects on the consumer benefit, impact and likelihood of delivery for

¹¹ £9.5 billion in 2024 CPI

¹² £5.5 billion in 2024 CPI

¹³ £7.8 billion in 2024 CPI

each project. This analysis demonstrated that only around two thirds of HAL's proposed portfolio had a sufficiently strong "need case" to warrant inclusion in that capex envelope. Based on this analysis, we have set a capex envelope for these initial proposals of £5.4 billion to £6.1 billion, with a midpoint of £5.8 billion in 2024 CPIH.¹⁴

55. We also tested the efficiency of the programme through independent benchmarking by Steer. This assessment involved benchmarking the largest projects, representing more than half the value of the capex envelope and it shows HAL's cost forecasts to be at level broadly consistent with efficient costs.
56. The efficient H8 capex envelope of £5.8 billion (2024 CPIH) represents a significant uplift from H7 and Q6, reflecting the advantages of setting a sufficiently broad capex envelope that gives HAL the flexibility to significantly increase spending to maintain safe operations, protect asset performance, support resilience, meet statutory requirements and deliver targeted improvements within the constraints of a two-runway airport. Nonetheless, we also expect HAL to continue to seek out efficiencies and deliver a lower level of capex if this is consistent with a safe, secure and resilient airport that meets the needs of passengers.
57. In addition, we are undertaking a review of the efficiency of HAL's capital expenditure from 2019 to 2024. This work is described in more detail in Appendix I (Application of historical capex incentives). We expect to publish a further update on this work in the summer of 2026, to allow stakeholders to comment on these issues so that we can take account of those comments in developing our final proposals.

Financial framework

58. The financial framework that we set for the H8 price control review is central to ensuring that HAL can finance its activities and to our work to protect consumers by ensuring the price control allowances for the financing costs of investment are no higher than is necessary. Our initial proposals seek to provide a stable base for HAL to be able to continue to efficiently finance capital expenditure, while updating key elements of our approach to reflect new information and evolving market conditions.

Capital structure

59. We continue to base the price control on a "notional company" with an efficient financing structure rather than HAL's actual capital structure. This avoids embedding the consequences of HAL's financing choices into the price review and protects consumers from the higher risks and costs that could be associated

¹⁴ Our capex envelope in 2024 CPI ranges from £5.5 billion to £6.1 billion, with a midpoint of £5.9 billion.

with higher levels of debt finance. Having considered stakeholders' views, including airlines' suggestion of a lower gearing assumption, we propose to maintain the assumption that the notional company has 40% equity finance and 60% debt finance, consistent with the assumptions we made in developing the H7 price control.

Regulatory depreciation

60. On regulatory depreciation, we propose to retain the pragmatic approach we adopted for the H7 price control of using HAL's accounting depreciation as the basis for regulatory depreciation, adjusted to reflect our assessment of efficient capex. In broad terms, our projections show a similar level of regulatory depreciation and capital expenditure over the H8 period. We do not consider the airlines' proposal for a longer depreciation period (and so less regulatory depreciation during H8 and so a higher RAB at the end of the period and higher airport charges in the longer-term) to be supported by evidence that shows such an approach would be in the interests of consumers.

Tax

61. For corporation tax, we propose to continue the "pre-tax WACC" approach (which involves a relatively simple uprate to the cost of capital to create an allowance for corporation tax) used in previous price controls. It remains simple, transparent and generally well understood, as well as avoiding reliance on detailed modelling of HAL's tax arrangements, which could introduce unnecessary complexity and reduce transparency. We also intend to retain the existing mechanism that reconciles for differences between forecast and outturn tax rates.

Indexation

62. Consistent with wider developments, we propose moving from RPI to CPIH for indexation of the RAB and other components of the price control framework. CPIH is now the UK's headline inflation measure, offers broader economic coverage, avoids the statistical flaws and distortions associated with the RPI and aligns with regulatory precedent. The unavailability of medium-term CPIH forecasts, previously the key barrier to its introduction, has now been resolved through the OBR's publication of CPIH forecasts.

Traffic Risk Sharing and the asymmetric risk allowance

63. For traffic risk sharing ("TRS"), we propose retaining the mechanism used for the H7 price control to mitigate the impact on HAL of extreme traffic shocks and maintain clarity about the risks that HAL is expected to bear. We also propose to retain the "asymmetric risk allowance" established in the H7 price control, recognising that HAL faces greater downside than upside risk due to capacity constraints and the asymmetric nature of extreme traffic shocks. Both of these measures reduce the risk that HAL faces and, so, its cost of capital and, as a

result, in the longer-term, generate benefits for consumers through lower overall levels of airport charges.

The cost of capital

64. Our assessment of the weighted average cost of capital (“WACC”) for H8 reflects both established regulatory practice and the significant shift in financial market conditions since we set the H7 price control. In particular, interest rates and corporate bond yields have risen and stabilised at elevated levels.
65. We propose to maintain the long-standing 60% notional gearing assumption, finding no evidence to justify a departure from precedent. For the cost of equity, we propose to use beta estimates that we have derived from a comparator group of listed European airport operators using multiple estimation windows to ensure both relevance and statistical robustness. Combined with:
- a CPIH-real risk-free rate of around 2.33%; and
 - a total market return range of 6.7-6.9%;
 - this results in a cost of equity of around 7.45%.
66. For the cost of debt, we distinguish between embedded and new borrowing, using HAL’s actual debt data, market benchmarks, and allowances for efficient issuance and liquidity costs. This yields a CPIH-real embedded debt cost of 2.8% and a new debt cost of 3.9%, with new debt expected to comprise around 15% of the total through the H8 period. This means an overall CPIH-real cost of debt of 3.14%, compared to the equivalent allowance (that is as adjusted by CPIH) of 1.53% used for the H7 price control decision.
67. A series of cross-checks, including relative premia, market-to-asset ratios, and comparisons with other recent UK regulatory determinations, indicate that there is no case for selecting values at the top of our range. Our initial proposals use a range around our mid-point estimates of a CPIH-real cost of debt of 3.14% and a CPIH-real vanilla WACC of 4.87%. This is an increase from the equivalent WACC (that is as adjusted by CPIH) used for the H7 price control decision of 4.06%, with this change largely driven by the increase in the cost of debt noted above.

The range for the price control

68. The above building blocks are brought together in the calculation of price control revenue. For these initial proposals, we are using a range of assumptions for the WACC and passenger forecasts, including the consequential impact on opex and revenues. We will be undertaking further work on all the key building blocks and revenue drivers as part of our ongoing work on the H8 price control review and will seek to refine our projections of all these factors in developing our final

proposals. This means that our assumptions and projections of price control building blocks are provisional and subject to change as we continue our work.

69. In calculating the range of airport charges used in these initial proposals we have established two scenarios. Both scenarios use a coherent set of inputs – so for the high passenger scenario we have used opex and commercial revenue figures that are consistent with the high passenger volumes, and vice versa for the low scenario. Nonetheless, higher passenger numbers tend to reduce overall price control allowances per passenger and so we combine this with our low WACC assumption to give the low airport charge scenario, and vice versa.
70. Our two scenarios form a higher charges case and a lower charges case as summarised in Table 2 below.

Table 2: Summary of our initial proposals for H8 airport charges

Higher charges

£m 2024, CPIH-real	2027	2028	2029	2030	2031	Total
Operating costs	1,540	1,572	1,562	1,546	1,536	7,756
Regulatory depreciation	1,038	1,097	1,158	1,203	1,244	5,740
Allowance for asymmetric risk	10	20	26	27	27	110
Allowed return (incl. tax)	1,238	1,256	1,260	1,264	1,252	6,270
Gross revenue requirement	3,826	3,945	4,006	4,040	4,060	19,876
Commercial and other revenues (incl. ORCs)	-1,321	-1,324	-1,326	-1,351	-1,354	-6675
Net revenue requirement	2,505	2,621	2,680	2,689	2,706	13,201
Passengers, m	85	85	86	86	87	428.5
Unprofiled yield per pax	29.57	30.76	31.27	31.20	31.21	30.81
Profiled yield per pax	27.44	31.20	31.20	31.20	31.20	30.45

Lower charges

£m 2024, CPIH-real	2027	2028	2029	2030	2031	Total
Operating costs	1,545	1,580	1,572	1,559	1,551	7,806
Regulatory depreciation	1,038	1,097	1,158	1,203	1,244	5,740
Allowance for asymmetric risk	9	19	25	25	24	101
Allowed return (incl. tax)	1,036	1,051	1,055	1,058	1,048	5,247
Gross revenue requirement	3,628	3,746	3,809	3,844	3,866	18,894
Commercial and other revenues (incl. ORCs)	-1,337	-1,349	-1,360	-1,393	-1,405	-6843
Net revenue requirement	2,291	2,398	2,449	2,451	2,462	12,051
Passengers	86	87	89	90	91	443.1
Unprofiled yield per pax	26.59	27.44	27.64	27.28	27.02	27.20
Profiled yield per pax	25.79	27.50	27.50	27.50	27.50	27.16

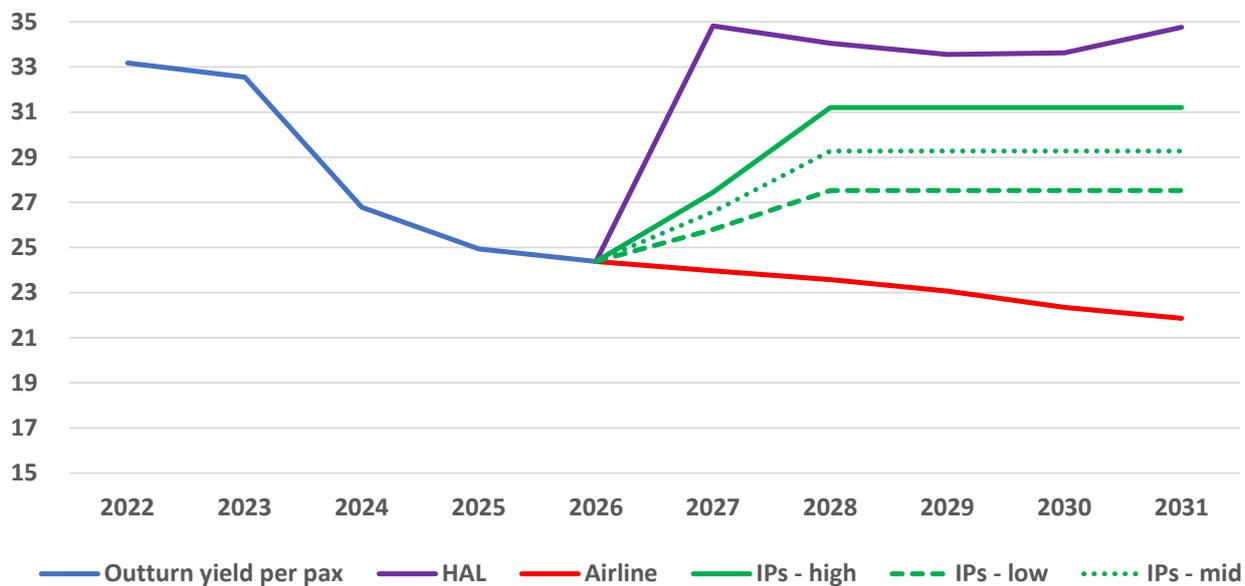
Source: CAA analysis

71. To strike a balance between stable charges in the years 2028-2031 while also not having a large step in charges in 2027 we have developed illustrative charge

profiles set at a level halfway between the 2026 charge and the level of the flat charge. Charges for 2028-31 are calculated to produce a flat profile for those years which preserves the underlying net present value of charges across the five-year period.

- 71.1 This profile, which we refer to as “step-flat” allows for a short period of phasing-in higher airport charges. We welcome views from stakeholders on the appropriate profile of charges we should assume in our H8 final proposals and final decision.
- 72. Figure 3 below shows the potential trend in charges from H7 to H8 under the various scenarios discussed in these initial proposals.

Figure 3 H7 actual (2022-2024) and forecast (2025-2031) airport charges, versus CAA, HAL and airline H8 forecasts



Source: CAA analysis

Note: The HAL and airline charges in figure 3 have been adjusted by the CAA to support a more like for like comparison. Airlines and HAL had differing views from the CAA on which items should be within the scope of ORCs which led to the charges, as submitted, being not directly comparable. These differences are discussed in more detail in Chapter 7 (Other regulated charges). In Figure 3 above we have replaced the HAL and airline view of ORCs with the CAA mid view of ORCs to enable comparison.

Holding cap for 2027

- 73. Given updates to the timetable for the H8 price control review, the H8 Method Statement noted that there may be advantages in setting a holding cap for 2027 based on our initial proposals (with revenues subsequently to be “trued up or down” on a net present value neutral basis over the five year price control period in our final proposals and final decision).
- 74. We currently envisage that the holding cap would consist of a profiled charge element derived from these initial proposals, with the possibility of an add-on to

allow for the recovery of the early costs of expansion that are being assessed as part of our work on capacity expansion.

75. Our current intention is to set the indicative level of the profiled charge for 2027 at a level between the low and high charge scenarios in these initial proposals i.e. between £25.79 and £27.44 (2024 CPIH-real). We intend to consult separately on the level of the one-year holding cap for 2027. This approach should also allow us to take account of policy on early costs, which we expect to be consulting on further in the second quarter of 2026.

Financeability

76. We have assessed HAL's financeability on the basis of the notional 60% geared company rather than using HAL's actual corporate structure.
77. While airlines did not offer any views on financeability, HAL argued that an A- credit rating should be targeted for H8. Our review of rating agency methodologies and the projected financing needs for the H8 period indicates that a BBB+ rating remains appropriate. This credit rating continues to offer HAL cost effective access to investment grade debt finance. This approach is consistent with our benchmarking of HAL's debt costs using its class A debt as HAL's class A debt is currently rated BBB+ by S&P.¹⁵
78. Our analysis shows that, under both the high and low charges scenarios set out in these initial proposals, the notional company would maintain comfortable headroom against the financeability thresholds we propose to use. Stress-testing of downside scenarios further demonstrates that the price control appears resilient to the variations in passenger volumes and the associated changes in the costs and revenues that we have modelled.
79. We have also assessed the equity financeability of the notional company using an assessment of the internal rate of return to shareholders and the profile of dividends. These indicators suggest that the overall package we propose would deliver a reasonable balance between returns to investors and protection for consumers, with no evidence that the proposals would materially weaken incentives for ongoing investment.

Other priority issues

Sustainability

80. Environmental sustainability is a key focus for the H8 period, reflecting the wider transition to net zero across the aviation sector. Our aim is to ensure that the price control allows HAL to meet its statutory obligations and supports

¹⁵ HAL's class A debt is rated A- by Fitch though we understand that investors tend to place greater reliance on the lower rating in cases where two agencies provide different rating views.

decarbonisation, improved air quality, noise management, waste reduction and biodiversity.

81. HAL's H8 Business Plan sets out a broad programme of environmental commitments, and our initial assessment, drawing on an independent review by our consultants, Steer, and discussion with the CAA's Environmental Sustainability Panel, finds that HAL has met expectations in articulating objectives and describing environmental benefits. However, there are also some weaknesses in its approach. For instance, targets are not always supported by sufficient evidence, with evidence gaps being particularly apparent in areas such as climate adaptation, heat decarbonisation and zero waste projects.
82. While spending on projects such as Airspace Modernisation and pre-conditioned air have proved cost-effective in their carbon savings, higher cost proposals, notably noise mitigation, require further justification for inclusion as capex and may be better considered in the context of our work on capacity expansion.

Business Plan Incentive

83. These initial proposals set out our initial assessment of the H8 Business Plan under the Business Plan Incentive ("BPI"), based on the submission received from HAL on 10 July 2025. That plan was tested against the nine BPI criteria set out in our Method Statement, covering compliance with guidance, clarity, consumer benefit, coherence, ambition, assurance, timeliness, responsiveness to follow-up, and late submissions.
84. Our review finds some strengths, notably; timely submission, generally clear structure, and well presented project level material but also shortcomings. In particular, HAL did not provide the required granularity and consistency in opex and commercial revenue forecasts, nor the specified breakdown of the costs of Other Regulated Charges ("ORCs"). Further, the plan does not consistently evidence and articulate a consumer "golden thread" linking research to prioritised outcomes and improvements and capex projects.
85. Across the seven criteria we assess at this stage, we judge HAL to have met three and not met four, with material gaps even where criteria were broadly met. Our initial assessment is, therefore, that the plan falls into the "low quality" rather than "high quality" under our BPI categorisation. This reflects concerns on consumer benefit, ambition (including baseline efficiency evidence and service quality enhancement), coherence across sections, and third-party assurance (particularly the absence of independent assurance over capex efficiency and limited transparency of assurance findings for consumer research).
86. We recognise that HAL has provided clarifications and further information since 10 July 2025. Our final proposals will consider all relevant material received since 10 July (and up to a sensible cut-off point to be determined). At this stage,

we do not intend to propose a reward/penalty for our BPI assessment. HAL has the opportunity to continue to provide us with information that may improve on its assessment ahead of our final proposals, where we intend to publish any proposed reward/penalty, if applicable. These issues are discussed further in Appendix F (Business plan incentive).

Other Regulated Charges

87. ORCs cover a range of services provided by HAL to airline and non-airline users such as electricity, water, staff ID, baggage systems and assistance for passengers with reduced mobility. Although these charges sit outside the main price control, they materially influence overall airport costs, are taken account of in our single till calculations, impact user experience and the effectiveness of the wider regulatory framework. Therefore, establishing appropriate regulatory arrangements for ORCs is consistent with protecting the interests of consumers.
88. HAL's H8 Business Plan proposed several changes to the scope of ORCs, including adding business rates, CAA licence fees and check-in desks/common-use self-service kiosks, removing taxi feeder park charges from the framework, and recovering all fixed costs through aeronautical charges (except for staff car parking). Airlines and non-airline users opposed many of these changes, highlighting concerns over weakened incentives, transferring more risk to users, insufficient engagement in the development of these proposals.
89. After assessing the evidence, we do not consider there to be a compelling case for changing the scope of ORCs at this stage. For our initial proposals, we therefore assume the same set of Specified Facilities will be covered by these charges as at present. We propose that ORCs should continue to include a reasonable allocation of fixed costs.
90. To strengthen incentives for efficiency and increase transparency, we propose a review of the licence requirements on HAL in respect of ORCs and to introduce a new obligation on HAL to explain any year-on-year increase in real ORC unit charges. We also intend to introduce new guidance that will address some of the uncertainties and asymmetries that can be created by HAL's approach to cost allocation. Under these arrangements we are proposing to cap the recovery of fixed costs from services where there is clear evidence that the charges that HAL would otherwise make for these services would be significantly out of line with external benchmarks.

Key questions for consultation

91. Each chapter and a number of the appendices identify issues for consultation and we welcome views on all aspects of these initial proposals and in particular on:

- Any aspect of our approach to consumer research and engagement including:
 - do you agree with the way we have used the findings from consumer research and engagement in developing these initial proposals?
 - do you have views as to any further steps HAL or the CAA should take with respect to consumer research and engagement, ahead of our final proposals?
- Any aspect of our approach to service quality and resilience including:
 - the consumer priorities arising from HAL's research and engagement and the extent to which those priorities are reflected in these initial proposals?
 - how consumer concerns about wayfinding and seating can be better addressed?
 - any additional information and evidence we should consider on our initial proposals not to take forward daily security queue measurement or airline eligibility rebate criteria?
 - whether there are further steps we should take in relation to the MTI scheme to help incentivise and improve future resilience?
- Any issues relating to our estimate of the capex envelope for HAL and in particular our initial proposals for a capex envelope of £5.4 billion to £6.1 billion for HAL over the H8 period.
- The approach to incentive arrangements set out in these initial proposals, in particular in relation to capex governance, the treatment of commercial property development in the single till, and the regulation of consumer facing charges such as terminal drop-off charges.
- The approach to setting the level and profile of the H8 price control and on assessing financeability.

Statutory framework and next steps

Our duties as economic regulator of HAL

92. In developing this consultation, we have had full regard to our statutory duties under the Civil Aviation Act 2012 ("CAA12"). A summary of these duties is set out in Appendix A. Key elements of our thinking on how our initial proposals enable us to discharge our duties under CAA12 are to be found in each chapter of these initial proposals.

Next Steps

93. We welcome views on all the issues raised in these initial proposals.
94. Please e-mail responses to economicregulation@caa.co.uk by no later than: **29 May 2026**.
95. Round 4 of Constructive Engagement will take place over April and May 2026 and will be specifically focused on reviewing, challenging, and refining the analytical and policy assumptions within these initial proposals.
96. We intend to publish our final proposals for the H8 price control in November 2026 followed by a final decision in April 2027.

Structure of our initial proposals document

97. The structure of these initial proposals is set out below.
98. Section 1 sets out details of our approach to consumer engagement, passenger forecasts and proposals for service quality regulation:
 - Chapter 1: Consumer engagement;
 - Chapter 2: Passenger forecasts; and
 - Chapter 3: Service quality and resilience.
99. Section 2 sets out details of our initial proposals for the main cost and revenue building blocks:
 - Chapter 4: Operating expenditure;
 - Chapter 5: Commercial revenues;
 - Chapter 6: Capex assessment;
 - Chapter 7: Regulatory incentives; and
 - Chapter 8: Other regulated charges.
100. Section 3 sets out details of our initial proposals for the cost of capital, financial building blocks, the price cap and financeability:
 - Chapter 9: Cost of capital;
 - Chapter 10: Financial framework; and
 - Chapter 11: Price cap and financeability.
101. Of the appendices:
 - Appendix A sets out a summary of our duties;
 - Appendix B provides a glossary of terms used in these initial proposals;

- Appendices C and D set out the draft licence modifications that we consider would implement these initial proposals; and
- Appendices E – L provide further information on the main issues set out in these initial proposals.