Consumers and Markets Group

Heathrow Airport Limited (HAL)

Airline and other stakeholders

By email and website publication

25 August 2026

H8 price control review – *ex post* review of capex efficiency

In March 2026, we published initial proposals for the H8 price control review of Heathrow Airport Limited (HAL) and said that we would publish an update on the *ex post* capex efficiency review in the summer of 2026.[1]

Context

Our approach to incentives for capital efficiency changed at the H7 price control when we introduced forward looking capex efficiency arrangements. These arrangements have been applied to projects approved at Gateway 3 ("G3") of the HAL-airlines capital governance process from 1 March 2024 onwards. For earlier capex, we rely on a backward looking (or "*ex post*") efficiency assessment of the capex that HAL has incurred. Our previous *ex post* efficiency review covered expenditure up to 31 December 2018. This *ex post* capex efficiency review covers capex incurred by HAL from 1 January 2019, which is the cut-off date of our last *ex post* review, up to 31 December 2024.

There are challenges with *ex post* efficiency reviews, in particular the precedents that have been established by the Competition and Markets Authority ("CMA") suggest that it is for the regulator to demonstrate clear inefficiency in the level of underlying expenditure. Nonetheless, in the absence of stronger incentive arrangements for capital efficiency, they remain a useful and appropriate approach to protect consumers and encourage efficiency.

[1] CAA, *Economic regulation of Heathrow Airport Limited: H8 Initial Proposals, Appendices E – L,* March 2026 (CAP 3232F), paragraphs I25 to I27 (link).

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Initial views for consultation

We are now publishing the independent *ex post* assessment of capital efficiency for the period between January 2019 and December 2024, conducted by our consultants, Steer, for consultation.

Our initial view is that Steer has undertaken a systematic and reasonable review in line with the Demonstrably Inefficient or Wasteful Expenditure ("DIWE") test that both CMA and the CAA have used in *ex post* reviews of capital expenditure in the aviation sector. The process that Steer has adopted has included engagement with airline stakeholders to help identify projects that should be subject to scrutiny and information that should be considered. Steer has also engaged closely with HAL and the Independent Fund Surveyor ("IFS") throughout the review process. This included regular meetings, facilitated by the CAA, to clarify details in IFS reports, to discuss how projects were delivered in practice, and to test the rationale behind key decisions. The IFS and HAL also provided additional explanations where documentation alone was insufficient to establish a clear understanding of each project's performance.

In formulating our final proposals for the H8 price control, we will consider Steer's findings and stakeholders' responses to this consultation in order to inform our views on:

- the results and conclusions of the *ex post* review; and
- whether as a result of these results and conclusions there should be any adjustment made to HAL's opening regulatory asset base ("RAB") for the H8 period.

Steer have identified costs inefficiency in relation to 2 projects:

- Eastern Campus Logistics and Compliance: this project experienced delays in delivery and cost overruns driven by an immature design of the Early Bag Store ("EBS") requirements, which led to duplication of works in the form of manual handling of early bags and increase in testing effort. Steer has concluded that these errors, delays and associated cost increases were avoidable and attributable to shortcomings in defining the EBS design by HAL and/or its contractors and has quantified the inefficiency at £4.8 million; and
- Runway resurfacing - Southern Runway: the project experienced a cost overrun of £0.9 million arising from errors related to driver licensing requirements. Steer concludes that these errors could have reasonably been anticipated and avoided through appropriate checks to appropriately identified licensing needs earlier, enabling contractors to recruit suitably qualified drivers from the outset.

Our initial views include:

- it is not clear that materiality or nature of the issues identified with the runway resurfacing project identified above and discussed further in the Steer report are so significant as to warrant a RAB adjustment. The level of capex associated with this project is over £100 million, with the identified inefficiency both less than 1% of the spending and less than £1 million. We also note that, bearing in mind the overall complexity of HAL's capital expenditure programme, it is not reasonable to assume that the delivery of the programme will be entirely free from error;

- the position in relation to the Eastern Campus Logistics and Compliance project appears to be materially different. Having an appropriately mature scheme design is a key feature of an efficient approach to capital management and budgeting and the identified inefficiency of £4.8 million is a significant proportion (about 28%) of the project's overall spend of £17 million;
- it is also appropriate to consider whether any of the issues identified by Steer indicate systematic failings by HAL across a range of projects that might suggest a broader dis-allowance of capital expenditure is appropriate. Our initial view is that we have no evidence of wider systematic failings and so there is no case for considering a broader based adjustment to HAL's RAB; and
- the broad approach to the *ex post* capital expenditure review and any adjustments that flow from this review should not undermine the established principle that the incentive regime associated with HAL's price control arrangements should be consistent with a 'fair bet'. This principle means that investors have a reasonable opportunity to earn a fair return given the likely impact of the incentive arrangements on shareholder returns – and is an important part of the regulatory framework that supports the overall financeability of future investment at Heathrow airport. We note that an adjustment to HAL's RAB of £4.8 million would not appear to undermine the principle of a fair bet, in the context of the broad package of incentive arrangements that allow for upside and the level of HAL's RAB, which is in excess of £20 billion.

Consultation period

We welcome views from stakeholders on the Steer's *ex post* capital efficiency assessment and our initial views on these matters as set out above by **5pm on Friday, 25 September 2026**, by email to economicregulation@caa.co.uk. If you have any questions related to this report, please contact Sonia Sousa at Sonia.sousa@caa.co.uk.

Next steps

We will consider stakeholders' views on the Steer's *ex post* capital efficiency assessment and the further evidence they wish to submit to us. We will consider this information in forming our views on whether there should be any adjustment made to HAL's opening RAB as part of our final proposals for the H8 period, which we aim to publish towards the end of 2026.

Yours sincerely

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