

Consumers and Markets Group



25 September 2025

Update on the regulatory treatment of the early costs of capacity expansion at Heathrow airport

Introduction

In January 2025, the Government announced its support for capacity expansion at Heathrow airport (“expansion”) and asked interested parties to bring forward proposals by the end of July 2025. Two potential promoters of expansion made representations to us (in June 2025 and July 2025) on the regulatory treatment of “early costs”. These are costs for delivering expansion that are to be incurred by potential promoters before the Government takes a decision on whether to grant a Development Consent Order (“DCO”).

Following these representations, we published a consultation in August 2025 (the “August 2025 Consultation”) on the recovery of early costs incurred in 2025 and 2026.¹ We said that we expected to publish our decision on the principles and approach to the recovery of early planning costs by Heathrow Airport Limited (“HAL”) by the end of September 2025. We also said that we would set out our timetable for future work and further decisions on early costs, and provide our updated view on recovery of costs by other promoters with credible and appropriately mature proposals. We received eight responses to our consultation,² which we have published on our website.

This document provides an update on how we will proceed in relation to the recovery of early planning costs incurred by HAL in 2025 and the first half of 2026, taking account of stakeholders’ views. We also update our views on the recovery of other early costs to

¹ CAA, Heathrow Capacity Expansion – consultation on regulatory policy on early costs, CAP 3149, August 2025. See www.caa.co.uk/CAP3149

² We received responses from AOC/LACC, Airlines for America, Arora, BA, Council for Independent Scrutiny of Heathrow Airport (CISHA), HAL, Heathrow Strategic Planning Group (HSPG) and IAG.

Civil Aviation Authority

Head Office, Aviation House, Beehive Ring Road, Crawley, West Sussex, RH6 0YR

London Office: CAA, 5th Floor, Westferry House, 11 Westferry Circus, Canary Wharf, London, E14 4HD

Email: selina.chadha@caa.co.uk

be incurred by HAL in 2025 and 2026 (including land, property acquisition and enabling works costs), and the recovery of early costs incurred by other promoters with credible and appropriately mature proposals in 2025 and 2026. We also set out our timetable for taking further decisions on these matters.

In the August 2025 Consultation, we said that our approach to the recovery of early costs would be guided by our statutory duties and we sought stakeholders' views on a range of options for the treatment of early costs. In line with this and the consultation, we consider the following issues are particularly relevant to our assessment of early costs:

- our approach should encourage an appropriate degree of competition in the infrastructure for, and provision of, airport operation services to drive more efficient costs, innovation and better service quality for the benefit of consumers;
- at the same time, our approach should;
 - avoid consumers funding significant and unnecessary duplicate or wasteful planning costs or early construction costs,
 - provide incentives for efficiency, and
 - seek to ensure that any recovery of costs is reasonably smooth over time to avoid any undue increase in airport charges.

It is also important that our approach supports and complements Government policy where appropriate, so that there is a timely, suitably coordinated, efficient and effective approach to these matters, consistent with our statutory duties.

The August 2025 Consultation also set out four main options for the treatment of early expansion costs at Heathrow airport.³

Airline responses to the August 2025 Consultation

Airline responses to the consultation expressed the view that no costs should be permitted prior to a successful DCO, broadly in line with our "Option 4". They drew comparisons with private sector projects where bidding costs are made "at risk" with no expectation of recovery unless the project is successful. Airlines also said that our Option 4 would avoid the risk of consumers funding speculative or failed proposals,

³ See [CAP3149](#), para 1.17.

maintain a level playing field among promoters, and should inherently drive stronger cost control because the promoter's own money would be at risk.

An airline included a range of detailed arguments and proposals in relation to early costs, in support of its basic proposition that there should be no recovery of early costs by HAL, the Arora Group, or any other promoter at this stage of the process. These included:

- there should be no recovery of early costs incurred before the Government selects a scheme promoter;
- the regulatory treatment of costs incurred by the promoter after selection by the Government (such as costs to prepare and obtain a DCO, early acquisition of properties and/or land, planning and consenting costs) must be determined within the scope of the CAA's review of the regulatory approach to capacity expansion at Heathrow airport as announced in July 2025;
- early costs and pre-DCO costs incurred after the Government selects a scheme promoter should only become reimbursable to the successful promoter once a DCO has been secured; and
- should a promoter not be selected by the Government by 31 October 2025, the CAA should ensure that any pre-DCO costs incurred by any promoter are agreed with the airline community in advance, and these costs should not be reimbursable through the H7 regulatory framework.

We consider there to be serious limitations in applying Option 4 (no recovery of early costs) or variations on this option as suggested by the airlines. Promoters are responding to a clear Government request for plans for expansion and the Government's preferred timetable. We remain of the view that not allowing for the recovery of efficient planning costs could have the unintended consequences of promoters abandoning capacity expansion, slowing down the planning process and/or reducing the quality of planning work.

Furthermore, HAL operates under an established regulatory framework where the incentive arrangements and cost allowances should constitute a "fair bet" in the context of a regulated rate of return. This suggests that HAL should expect (though not be guaranteed) to recover efficiently incurred costs through cost allowances or incentive arrangements, even in the circumstances where capacity expansion and its role as a promoter remain uncertain. In principle, this is the same approach as we would take to provide for the recovery of any efficient costs that we expect to be incurred in the interests of consumers.

Nonetheless, airlines have raised important points about:

- avoiding unnecessary and inefficient costs; and
- making sure there are incentives for efficiency and successfully obtaining a DCO.

These matters are addressed below.

HAL's response to the August 2025 Consultation

HAL stressed that it was seeking a clear policy decision on the regulatory treatment for the first stage of HAL's early costs for expansion and that this should be applicable to early costs incurred in both 2025 and the full year of 2026. It said this would be key to providing all stakeholders with clarity and certainty, allowing it to keep momentum in its plans for capacity expansion. HAL said these costs could be added to its regulatory asset base ("RAB") with cost oversight and scrutiny through *ex post* reviews by the CAA.

It also said that it is strongly opposed to any proposal to amend its licence to require HAL to recover costs from airlines and consumers on behalf of any alternative promoter(s). HAL argued this proposal would fall outside the scope of the powers granted to the CAA by the Civil Aviation Act 2012 ("CAA12"), lacks demonstrated consumer benefit, has no proper UK regulatory precedent, and introduces significant legal and timetable risks.

We remain of the view that the regulatory framework for HAL should provide it with the expectation that it will recover efficiently incurred early costs. Nonetheless, the broad framework that HAL has suggested in terms of a commitment for cost recovery across both 2025 and all of 2026, adding these costs to its RAB and carrying out *ex post* efficiency reviews would appear to have a number of disadvantages. These include providing relatively weak incentives for efficiency and there being no clear mechanism or approach to dealing with the costs of alternative providers and dealing with any inefficient duplication of costs. We discuss further the regulatory framework for cost recovery below.

The Arora Group's response to the August 2025 Consultation

The Arora Group welcomed and strongly supported the CAA's recognition of the potential benefits of competition in delivering expansion at Heathrow airport. It noted that the ability of alternative promoters to recover early costs would be fundamental to establishing a level playing field for competition. The Arora Group also said that HAL's

relatively high costs illustrate the risks inherent in considering only the existing monopoly provider's approach to capacity expansion.

Other responses to the August 2025 Consultation

We received a number of other responses to the August 2025 Consultation, including from the Heathrow Strategic Planning Group. For the avoidance of doubt, we do not consider it would be in the interests of consumers for costs incurred by local authorities that might be associated with expansion to be recovered from consumers through airport charges.

Update on our approach to the broad options for cost recovery

Following our consideration of the responses to the August 2025 consultation, **we are minded to allow the recovery of the efficient early planning costs that HAL incurs in 2025 and the first half of 2026.** This is broadly consistent with option 1B from the August 2025 consultation. In the August 2025 consultation we explained our intention to clarify the position on the recovery of HAL's early costs for 2025, but noted that costs incurred in 2026 would warrant further consideration given the advantages of avoiding unnecessary duplication in cost recovery and the possible advantages of greater co-ordination of the work of competing promoters. We set out below that we are not at this stage going to reach a decision on early enabling costs (including land and property purchases) because of the particular problems associated with the possible duplication of costs.

Bearing in mind the importance of providing a reasonable degree of certainty to HAL for its planning work in 2025 and early 2026 to keep momentum with the timetable, we are setting out an approach to HAL's planning costs for both 2025 and the first half of 2026. This will also provide time for us to further consider issues around the coordination between potential promoters and allow us to take into account any Government announcements on promoter schemes, before we provide an update later this year on our approach to the recovery of early planning and enabling works costs.

We also remain of the view that it will be appropriate for other promoters with credible and appropriately mature proposals to be able to recover efficient early planning costs that are incurred during the same period. This is broadly consistent with option 3 from the August 2025 Consultation.

This approach should be in the interests of consumers by facilitating competition for expansion and providing incentives for each promoter to make sure early costs are

efficient and support a successful DCO application. It also supports the Government policy and timetable for expansion, consistent with the interests of consumers.

The section below discusses the regulatory framework for the recovery of HAL's costs. Our further work on these matters and our further work on the approach to other promoters with credible and appropriately mature proposals are discussed in the following sections on implementation and next steps.

Approach to the recovery of HAL's costs

In August 2025 Consultation, we discussed possible mechanisms to enable the recovery of early costs and asked for views on approaches to incentivise and limit early cost recovery to efficient levels.

Respondents generally noted the need to ensure that, whatever approach is ultimately taken, any costs that are reimbursed must be efficiently incurred with appropriate governance arrangements in place. However, a variety of views were expressed on how this should be reflected in the cost recovery mechanism.

HAL said that a bespoke approach that builds on the H7 framework would be appropriate. It suggested that the *ex post* efficiency reviews, which were a feature of the previous expansion framework, could be considered, but that incentives and cap mechanisms would not be proportionate for early costs that enable a DCO to be granted by 2029. It said that more complex mechanisms could be considered for early costs incurred from 2027 onwards because, by then, costs and timescale estimates would be more mature and discussions with Government would be more advanced.

One particular concern expressed by airlines was the apparent inclusion of early enabling costs in HAL's estimates. We agree that the treatment of these costs (as distinct from planning costs associated with applying for development consent) requires further consideration in order to mitigate the possibility of wasteful or duplicative expenditures (such as land acquisitions for alternative schemes).

Bearing in mind the importance of both encouraging efficiency and supporting the timely delivery of capacity expansion, we are proposing the following approach to the treatment of early planning costs incurred in 2025 and the first half of 2026 by HAL:

- early planning costs that are assessed to be efficiently incurred will be recoverable through HAL's RAB and airport charges, under a new mechanism, with efficient costs only recovered through charges after an *ex post* review of costs conducted by the CAA in a way consistent with our statutory duties;

- we will include requirements for (i) independent audit of costs; and (ii) *ex post* efficiency assessment of costs on a timely basis, including consideration of whether any costs have been unnecessarily or avoidably duplicated across promoters;
- we will apply incentives for efficient costs and a successful DCO application. Our previous policy prior to covid-19 was to allow recovery of 85% of early costs in the event of an application for a DCO either being unsuccessful or withdrawn without good reason. We consider this incentive rate could be amended, for example to 75%, to provide stronger incentives for efficiency (noting the difficulties we have previously identified with the effectiveness of *ex post* reviews). Nonetheless, it would only be appropriate to apply these penalties in circumstances within the reasonable control of HAL, and not because of a change in Government policy or approach. We had also previously suggested applying a 105% incentive rate for a successful DCO application, so that the incentive package would be consistent with the principle of a “fair bet”. The “fair bet” principle remains relevant to the new arrangements, though we will consider whether the incentive is required when looking at risk and reward in the round; and
- we will require timely and regular submissions of forecast and outturn costs, with supporting justifications.

As noted above, we will seek to avoid the recovery of any wasteful or duplicative expenditures, as this would not be in the interests of consumers. We also note the potential for enabling costs (such as for land acquisitions) to act as a barrier to competition. We are, therefore, not minded to include the costs of early enabling works, including land and property costs, in the above policy until we have carried out further work with potential promoters to understand these issues and whether there are potential solutions (for instance in relation to coordination and the sharing of information) to mitigate our concerns.

We will undertake further work to develop the details of the above framework and we will provide a further update on this work in our November 2025 document discussed below.

Implementation

HAL has suggested that the existing uncertainty mechanism⁴ in its licence for expanding the H7 capital expenditure envelope could be considered for early costs in 2025 and 2026. However, at the time that mechanism was designed and included in HAL's licence, it was not expected that it would be used for expansion costs as the H7 price control was explicitly focused on a two-runway airport and we said that issues relating to expansion would be addressed separately. Furthermore, there are advantages in clearly separating expansion costs from HAL's other capital expenditure and accounting for them separately, given the alternative incentive and governance arrangements that will apply. We consider a licence modification will be the appropriate approach to enable the recovery of the early costs HAL incurs in 2025 and 2026.

For other promoters with credible and appropriately mature proposals, we will consider further the appropriate arrangements to enable efficient early planning costs to be recoverable on an equivalent basis to HAL. HAL's response to the August 2025 Consultation has suggested that a modification to its licence to recover costs from airlines and consumers on behalf of any alternative promoter(s) falls outside the scope of the powers granted to the CAA by the CAA12. We are considering the issues that HAL and airlines have raised about the statutory basis for our approach and will update our views as part of the next steps set out below.

Next steps

We expect to provide a further update on our approach to the recovery of early planning and enabling works costs in November 2025. This will include draft modifications to HAL's licence to enable the recovery of early costs in 2025 and 2026, as well as details of the mechanism for recovery of other promoter costs as appropriate.

Any modifications to HAL's licence would need to follow the statutory process for consulting on licence modifications, which, under the CAA12, can be subject to appeal by certain parties to the Competition and Markets Authority ("CMA"). We would propose to publish the statutory consultation on modifications to HAL's licence in early 2026, which would give effect to our proposals.

We also intend to complete and publish our assessment of other promoter plans and whether they are credible and appropriately mature in 2026. This assessment will

⁴ Mechanism to increase the H7 capex envelope using the process set out in the Licence known as the "uncertainty mechanism".

depend on our detailed technical assessment of plans and the Government's approach to updating the Airports National Policy Statement.