

Statutory Charges FY2025/26

Extraordinary Consultation Response Document

CAP3188

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Executive Summary

The Civil Aviation Authority (CAA) consulted stakeholders on a proposed increase to the funding cap for its economic regulation work supporting Heathrow Airport's expansion. The proposal aimed to raise the cap from £4.5 million to £8 million for FY2025/26 to address a projected shortfall and maintain delivery momentum.

This funding supports the CAA's role in enabling the Government's strategic objective of expanding Heathrow, with planning consent targeted by the end of the current Parliament and operational readiness by 2035. The proposal aligns with the CAA's funding principles of sustainability, equity, accountability, and clarity.

The consultation, held from 15 September to 13 October 2025, received five responses, including from Heathrow Airport Limited and airline representatives. While stakeholders acknowledged the need for adequate funding, comments were received regarding:

- The potential pass-through of costs to airport users.
- The justification for the scale of the increase.
- The need for transparency and efficiency in future funding decisions.

This document sets out our responses to stakeholder comments, clarifying cost recovery expectations, outlining how the proposed funding will be used, and highlighting the measures we have in place to ensure delivery efficiency and value-for-money practices.

Following consultation with both stakeholders and the Secretary of State for Transport, and with agreement from HM Treasury, the CAA will implement the proposed increase to £8 million, effective 1 December 2025. This ensures continued regulatory support for Heathrow's expansion while upholding financial discipline and stakeholder accountability.

Consultation Background and Summary of Responses

Context for the Proposals

The expansion of Heathrow Airport is a strategic priority for both the CAA and the UK Government. Planning consent is targeted by the end of this Parliament, with operational readiness expected by 2035. The CAA's economic regulation work is a critical enabler of this process. This extraordinary consultation was initiated to address financial and delivery risks associated with our regulatory responsibilities in this area. The proposal aligns with the CAA's core funding principles:

- **Sustainable:** Charges should be set to recover the full cost of service provision, including overheads, depreciation, and cost of capital.
- **Equitable:** The regulated entity (the 'user') should fund the services they consume.
- **Accountable:** Charging structures must be justified with a clear rationale, aligned to the effort incurred and demonstrate value-for-money to stakeholders.
- **Clear:** Charging structures should be consistent, simple and predictable across schemes to ensure fairness and ease of understanding.

Scope of the Consultation

We proposed an amendment to the FY2025/26 Regulation of Airports Scheme of Charges to increase the funding cap for our economic regulation work related to the development of Additional Runway Capacity (R3) at Heathrow Airport. The current cap of £4.5 million is projected to result in a shortfall of up to £1.5 million in FY2025/26, with further increases required in FY2026/27. To mitigate this risk and maintain delivery momentum, we proposed raising the cap to £8 million.

This proposal reflects:

- Government support for Heathrow expansion.
- The CAA's role in enabling timely and effective development.
- Alignment with our funding principles and the Managing Public Money framework.

Stakeholder Feedback

The consultation ran from **15 September to 13 October 2025**. We received five responses, including submissions from Heathrow Airport Limited (HAL) and representatives of the commercial airline sector.

Key Themes from Feedback:

Stakeholders broadly understood the need for adequate funding to enable the CAA to fulfil its regulatory duties. However, several points of feedback were raised:

- **Cost Pass-Through:** Respondents from the airline sector queried whether increased statutory charges should not be automatically recoverable by Heathrow Airport Limited through higher airport charges.
- **Proportionality and Justification:** Stakeholders requested further detail on the basis for increasing the cap from £4.5m to £8m, with a request to understand steps taken to deliver cost efficiency.
- **Transparency and Accountability:** Stakeholders emphasised that any future uplifts to be exceptional, time-bound, and transparently consulted.

Our response to comments from stakeholders is included below:

You said	Our response
Will the increase in regulatory costs relating to capacity expansion be recoverable by Heathrow Airport Limited through future airport charges?	Our current expectation is that these costs will be recoverable by Heathrow Airport through airport charges in future years. This, however, is subject to consideration in future price control reviews and further information will be provided to stakeholders in due course. For context, the year-on-year increase from a cap of £3.5m to the proposed cap of £8.0m equates to approximately 0.2% of Heathrow’s annual operating costs, or approximately 5p for each passenger using Heathrow Airport.
How will the additional funding requested be used by the CAA?	The original charging cap for FY2025/26 of £4.5m was set without the knowledge that capacity expansion would be a central Government policy. The proposed cap of £8m was calculated based on the known increase in costs to the CAA from the capacity expansion workstream being undertaken at the time the consultation was launched. This amounted to a

You said	Our response
	projected in-year shortfall of £1.5m, rising by a further £2m in FY2026/27 based on the full 12-month costs associated with internal resources and third-party contractors. This funding is being used to stand up a team of 13 who will deliver most of the economic regulation capacity expansion workstream. Alongside this, we engage technical experts outside of the CAA where specialist knowledge is required. This hybrid approach ensures we have access to the necessary skills to deliver this workstream whilst closely managing our cost base.
What mechanisms will be in place to ensure transparency and accountability in future funding decisions?	Over the past two months the CAA has been building its financial plans for FY2026/27 in greater detail. This has highlighted that further utilisation of third-party resources are likely to be required across both the capacity expansion and price controls review workstreams, meaning that a further extension to the charging cap will need to be proposed. The rationale for this extension and the supporting information will be included in the CAA's charging consultation for FY2026/27, to be published on 10 November 2025. Alongside this, we recognise that the combined cap for multiple workstreams may impact the transparency of our charging model for our stakeholders. Consequently, we will be proposing to split the capacity expansion charging cap out from the existing economic regulation charge. The CAA seeks to provide financial transparency and accountability through: • Formal consultations with stakeholders and the Secretary of State for Transport before implementing changes. • Proactive stakeholder engagement, including open dialogue about funding requirements and uncertainties. • Adherence to the Managing Public Money framework, which mandates clear governance and financial

You said	Our response
	discipline, including agreement for proposed changes to the charging structure with HM Treasury.
How can you demonstrate efficiency in our work on economic regulation?	Recognising our responsibilities to deliver value for money in discharging our duties, we have sought to drive efficiency in our economic regulation work through the following actions: • We deliver as much of our economic regulation programme as possible using in-house resources. • Where we use consultants, this has a clear purpose, for example providing assurance on technical matters, and we use competitive tender processes in accordance with procurement legislation and the Managing Public Money framework, ensuring that we receive value for money in the services we procure. • We actively manage resourcing and external spend to ensure the programme is operating in a proportionate and targeted manner. Where roles or external costs are no longer required these are removed from budgets. • The ringfenced cost recovery charging mechanism means that we only bill what we spend, there is no under or over recovery of costs in this work. • We discuss our consultancy work and programme progress with Heathrow Airport Limited and other stakeholders at regularly scheduled meetings to provide transparency over our resource utilisation.

Final Recommendation

Following the consultation and internal review, the CAA recommends implementing the proposed increase in the funding cap to **£8 million** for the remainder of FY2025/26. This change will take effect from **1 December 2025**.

We remain committed to delivering value-for-money services, supporting sector growth, and maintaining transparency in our regulatory approach.