

Report
March 2026

H8 Constructive Engagement - Independent Reporter report – Round Three

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The logo for Steer, featuring the word "steer" in a bold, lowercase, sans-serif font.

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Appendices

There are no appendices in this document

1 Introduction

Constructive engagement

- 1.1 In September 2024, the CAA set out its draft guidance (CAP3031¹) on the Constructive Engagement process for Heathrow 8th price control review. The guidance provided the CAA's current views on the purpose and scope of each round of Constructive Engagement, the governance arrangements and outputs, as well as its own role in the process.
- 1.2 As part of its guidance, in discussion with stakeholders, the CAA agreed to the appointment of an independent reporter.

Independent Reporter role

- 1.3 As per CAA guidance, the role of the Independent Reporter is to be responsible for agreeing the outputs for each round of the Constructive Engagement process between HAL and airlines. HAL and the airlines jointly appointed the Independent Reporter by mid-October 2024.

Objectives of the Independent Reporter report

- 1.4 A report must be produced by the Independent Reporter at the end of each round that summarises the process followed and the key outcomes and conclusions. The report should be shared with HAL and airlines to check factual accuracy.
- 1.5 This report focussed on Round three of the H8 Constructive Engagement which took place between June and November 2025 and was designed to discuss HAL's business plan submission.
- 1.6 This should be appropriately targeted to allow in depth discussions of key issues and exclude areas where there is unlikely to be consensus and the CAA will need to consider evidence from a range of sources.

Organisation of this report

- 1.7 This report is organised as follows:
 - Chapter 2 provides an overview of the process and examines the exchange of information between the parties;
 - Chapter 3 focussed on the areas of consensus and differences amongst HAL and the airlines, at this stage of the engagement; and

¹ <https://www.caa.co.uk/publication/download/22894>

- Chapter 4 provides findings including an assessment of the Constructive Engagement against the CAA's CAP3031, lessons learnt and next steps.

2 Summary of the process and information exchange

- 2.1 In this report, we provide an overview of the process and examine the exchange of information between the parties during Round three.
- 2.2 A key element of context is the timeline, since all Round Three sessions, apart from the precursor session took part after the release of HAL’s Business Plan (BP) which was made available to airlines and the CAA week commencing 7 July 2025, on 11 July 2025. In addition, Round Three lasted longer than anticipated, ending by mid-November (it was planned to take place between July and September 2025), with many sessions programmed on a “need” basis after September.

Organisation of Round three meetings

Topics discussed

- 2.3 The table below presents the topics discussed during Round three.

Table 2.1: Topics presented and discussed during the formal Round 3 meetings

Meeting date	#	Focus	Detailed topics	Led by
12/06/2025 (Half-day meeting)	1	Precursor session	Recap	Airport
			H8 Investment scope	Airport
			Capital business case structure	Airport
			Wash-up	Co-chairs
31/07/2025 (Day-long meeting)	2	Kick-off session	Business Plan Overview	Airport
			Building Blocks (excluding capital)	Airport
			Capital Scope, Deliverability & Efficiency	Airport
			Next steps	Airport
			Wash-up	Co-chairs
29/08/2025 (Online, 2h)	3	Expert report Session	Aeronautical revenue benchmark	Airport
02/09/2025 (1h session)	4	MTI Working Group (First Session)	Response to HAL’s MTI Proposals	Airlines
			Wash-up	Co-chairs

11/09/2025 (Day-long meeting)	5	DD IDL strategy, Modernising Heathrow and financials	IDL Strategy	Airport
			Modernising Heathrow	Airport
			Responding to airline queries on financials – Commercial revenue and opex	Airport
			Wash-up	Co-chairs
30/09/2025 (Day-long meeting)	6	DD Capital efficiency and deliverability	Capital Efficiency	Airport
			Capital Governance Framework	Airport
			Capital Deliverability	Airport
			Wash-up	Co-chairs
16/10/2025 (Online, 1h)	7	MTI Working Group (Second session)	Airline Community MTI Baggage Proposal	Airlines
			Wash-up	Co-chairs
05/11/2025 (1h30)	8	Airline alternative business plan session	Airline Alternative Business Plan	Airlines
			Wash-up	Co-chairs
12/11/2025 (Day-long meeting)	9	DD Horseshoes and governance	Horseshoes	Airport
			Governance	Airport
			Wash-up	Co-chairs

Meeting chairing and attendance

2.4 All formal meetings took place in person in the immediate vicinity of Heathrow airport. The table below shows that the attendance by non-HAL staff was adequate according to the attendance arrangements already in place between HAL and airlines².

Table 2.2: Attendance of the formal Round 3 meetings by non-HAL staff

Meeting date	IATA co-chair	At least 2 airlines/alliances	AOC	CAA	IR
12/06/25	Yes	Yes (BA, VS)	Yes	Yes	Yes
31/07/25	Yes	Yes (AA, AC, BA, EI, IAG, LH, Star, VS) ³	Yes	Yes	Yes
29/08/25	Yes	Yes (AA, BA, IAG, VS)	Yes	Yes	Yes
02/09/25	Yes	Yes (BA, Star, VS)	Yes	Yes	Yes
11/09/25	Yes	Yes (BA, VS)	Yes	Yes	Yes

² Note that Steer is not aware of the detailed attendance arrangements in place between HAL and airlines, so has relied on what was stated on slide 5 of the Scene setting session.

³ Representatives from the Heathrow Passenger Forum also attended this session.

30/09/25	Yes	Yes (AC, LH, BA, IAG, VS)	Yes	Yes	Yes
16/10/25	Yes*	Yes (BA, Star, VS)	Yes	Yes	Yes
05/11/25	Yes	Yes (AC, BA, IAG, Star, VS)	Yes	Yes	Yes
12/11/25	Yes	Yes (AA, AC, BA, Star, VS)	Yes	Yes	Yes

Exchange of documents and information

- 2.5 Adequate and timely information exchange is an important part of the process of Constructive Engagement. Documents were exchanged usually before and/or after each formal or focussed session.

Timeline for documents related to meetings

- 2.6 The following tables show that the airport sent the majority of the documents seven days in advance of the day-long meetings as planned according to the governance arrangements⁴ of issuing pre-read at least seven, ideally ten days in advance of each Constructive Engagement session. In a useful improvement from Round 2, the airport issued pre-reads for all meetings, whether formal or “deep-dive”.
- 2.7 As in Round two, draft minutes often took longer than planned (seven calendar days after the meeting). Please refer to our Round Two recommendation on this point.

Table 2.3: Airport-led exchange of Round 3 meetings documents

Meeting date	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue	Draft minutes (plan)	Draft minutes (eff.)	Appr. minutes
12/06/25	05/06/25	N/A	23/06/25	19/06/25	20/06/25	25/07/25
31/07/25	24/07/25	24/07/25	N/A	06/08/25	14/08/25	03/11/25
29/08/25	22/08/25	26/08/25	29/08/25	05/09/25	12/09/25	23/10/25
02/09/25	Airline-led session. No HAL material issued			09/09/25	12/09/25	10/10/25
11/09/25	04/09/25	04/09/25	26/09/25	18/09/25	26/09/25	09/01/26
30/09/25	23/09/25	23/09/25	10/10/25	07/10/25	10/10/25	22/12/25
16/10/25	Airline-led session. No HAL material issued			23/10/25	24/10/25	17/11/25
05/11/25	Airline-led session. No HAL material issued			12/11/25	21/11/25	23/12/25
12/11/25	05/11/25	06/11/25	18/12/25	19/11/25	24/11/25	23/12/25

⁴ Note that Steer is not aware of the detailed governance arrangements in place between HAL and airlines, so has relied on what was stated on slide 5 of the Scene setting session.

- 2.8 When sessions were airline-led, they sent the majority of the documents seven days in advance.

Table 2.4: Airline-led exchange of Round 3 meetings documents

Meeting date	Pre-read issue (plan)	Pre-read issue (eff.)	Post-read issue
02/09/25	29/08/25*	29/08/25	No need to issue post-read material
16/10/25	09/10/25	14/10/25	No need to issue post-read material
05/11/25	29/10/25	23/10/25	No need to issue post-read material

(*) HAL's request for airline proposal was issued on 27/08/25 with a deadline of 29/08/25. On this occasion, it did not follow the CAA approach of asking for documents 7 days before the meeting.

Timeline for other information and documents provided

- 2.9 The table below show the main documents/emails that were sent outside of meetings.

Table 2.5: Important Round 3 ad-hoc documents/emails

Date	Theme	Details	Sent by
29/08/25	MTIs	Airline community counter proposals for MTIs and bonus/rebate measures.	Airlines (IATA)
14/10/25	MTI baggage	Airline Community MTI Baggage Proposal	Airlines (IATA)
23/10/25	H8 Alternative Business Plan	Airline community counter proposals and documents: <ul style="list-style-type: none"> H8 Alternative Business Plan (ABP) MTI proposals (previously presented on 02/09/25) Passenger forecast presentation (previously presented on 01/04/25) Commercial revenue report by Skylark 	Airlines (IATA)
03/12/25	MTI	Revised proposal on eligibility criteria	HAL

Quality and adequation of the information exchange

General communications management

- 2.10 There has been no change noted in Round Three from Round Two on the management of general communications to the airline community and other parties (CAA, IR) involved in Constructive Engagement: Heathrow continues to use its robust communication approach (as reported in Rounds 1 and 2).

Meeting minutes

- 2.11 There has been no change noted in Round Three from Round Two on the production of meeting minutes.

Response to requests for further information during CE sessions

- 2.12 An action log was created by HAL in order to manage the actions and responsibilities associated with each of the CE sessions. It tracked the actions that emerged from each of the days of engagement, with a unique reference code, owner, due dates and status update.
- 2.13 By the end of Round 3 (18/12/2025):
- From Round 1: one action was still outstanding (the same as at end of Round 1)
 - From Round 2: three actions were still outstanding (the same as at end of Round 2)
 - From Round 3: one action was outstanding with a third due for the start of Round 4.

Table 2.6: Status of the CE action log as of 18/12/2025

Round	Theme	Description	Due date	Action owner
One	Quality	Assess options to share NPS information with Heathrow	Exp.	Airlines
Two	Forecast	Share detail to the airline passenger forecast	Exp.	Airline (VS)
Two	Capex	Provide evidence of support for PCA investment for short-haul flying	Exp.	Airline (BA)
Two	MTI/Baggage	Share data on baggage timely delivery for T5	Exp.	Airline (BA)
Three	WACC	Share WACC report from alternative business plan in Round 4 of CE	Not exp.	Airline
Three	Capacity	Create an end of H7 version of the horseshoe	Exp.	HAL

Source: H8 action log. Note: “exp.” means expired, “not exp.” means not expired. Note 2: actions related to clarifications to be added on slides have not been added to this table.

Response to requests for further information related to the Business Plans

- 2.14 A Q&A log was created by HAL in order to manage the questions asked by the airlines in relation to HAL’s Business Plan, and in a second phase a second sheet was added to manage HAL’s questions in relation to the airlines’ alternative Business Plan. The file tracked the questions that emerged from the airlines, with a unique reference number, date set, topic and status update.

2.15 By the end of Round 3 (03/04/2026):

- From HAL's BP: HAL has responded to all 55 initial questions that were asked by the airlines on the Business plan. However, there were some initial questions marked closed by HAL for which airlines still seek more information as they did not always agree that the question had been fully answered. We detail in the table below the second ask of airlines and how HAL responded;
- From the alternative BP: no questions were open, as no clarification questions had been asked by HAL, since HAL chose not to ask any follow up questions during the in-person session.

Table 2.7: Remaining questions in the BP Q&A action log as of 04/03/2026

BP	Theme	Description	Status
HAL's	KPMG benchmarking report / opex	Additional specific technical questions	Open
HAL's	WACC	Cost of debt details (information on debt instruments)	HAL responded it was commercially sensitive to share data on this topic with airlines (but it did with the CAA).
HAL's	Opex	Underlying calculations of the opex forecast to allow airlines to recreate HAL's analysis, interpretation of expert reports, base year adjustments, justification for overlays, replicating HAL's calculations and questioning lack of bottom-up assessment	At aggregated level HAL responded. Concerning more disaggregation, HAL responded that its working model is a highly complex tool that integrates sensitive internal data and system-level information, and as such cannot be shared directly.
HAL's	Commercial including retail	Underlying calculations of the commercial revenues forecast (lack of bottom-up assessment and blanket target applied across categories)	At aggregated level, HAL responded. Concerning more disaggregation, HAL stated that apart from bureaux revenues, modelling for all other retail categories is aggregated, therefore unable to share further details.
HAL's	Depreciation	Provide a mapping of depreciation including fixed asset register (FAR)	HAL provided a summary response, but not FAR or detailed data on depreciation, asset life assumptions or original spend.

Source: Steer analysis of H8 CE Business Plan query log.

2.16 We have the following observations:

- On inclusion of the WACC in CE:
 - Discussions on cost of capital were specifically excluded from the scope of Round 2. Beyond this, we did not find mention in CAP3031 that WACC is specifically excluded from CE.
 - Airlines stated that the WACC is not a topic of CE because it cannot be subject to agreement between airports and airlines “as confirmed in H8 method statement”: we did not see reference to this in CAP3083.
- On the WACC:
 - All the parameters are crucial for the calculations of the WACC and the rationale justifying the choices made (where there is judgment to be used).
- On the sharing of information for the WACC:
 - As explained above, whilst the headline WACC recommended by the airline consultants was provided to HAL, airlines have not shared their consultant report which details their parameters (apart with the CAA) in Round 3. Airlines stated a number of times that they believe that “the onus is on the airport to produce assumptions and ranges on the WACC”.
 - As airlines do not believe that the WACC is part of the building blocks on which agreement has to be sought in CE, for them, sharing the airline-commissioned WACC report is not a formal step in the process.
 - In relation to the WACC report, HAL was disappointed that the airlines shared it only with the CAA during Round 3 (as airlines shared other relevant reports with HAL) but expect to receive a copy for Round 4. As seen in the table above, some parameters of HAL’s WACC have not been shared either with the airlines (although it has with the CAA). HAL responded that this approach is consistent with regulatory precedent in previous price control processes and that their working model is a highly complex tool that integrates sensitive internal data and system-level information, and as such, cannot be shared directly.
- Airlines have expressed the wish to be able to recreate HAL's opex or commercial revenue forecast using its top-down approach, as described in the main business plan document, but the spreadsheet provide hardcoded values. Airlines were also un-satisfied about the lack of information by cost category to allow them to perform a bottom-up cost assessment following CAA’s Business Plan guidance (CAP3083B).

Response to requests for further engagement

- 2.17 The topic of capital prioritisation has remained an important aspect of Round 3 for the airlines. We have not heard airlines calling for further sessions on capital prioritisation as such, but they have continued to call for further detailed information on the topic.
- 2.18 In mid-September, HAL shared some additional information with them, but by 05 November, airlines stated that prioritisation at a project-level had not been completed owing to “the lack of transparency, data quality, and governance required for meaningful engagement”. HAL opposed this view and considered it

had provided sufficient detail and met the CAA’s business planning guidance quoting that for example the business plan included 20 detailed business cases and supporting information.

- 2.19 In their Alternative BP, airlines submitted their views on capex, at capital envelope level, but not at a more detailed level for the same reasons quoted on 05 November.

Tone of the discussions and collaborative approach

- 2.20 There was respectful communication between attendees during the meetings held, even on points where they had different views.

3 Areas of consensus and areas of differences

- 3.1 In this chapter, we provide an overview of the areas of agreement and disagreement between HAL and the airlines. In this Round, as in previous Rounds, we did not identify individual differences between different airlines/airline groups/alliances.

Precursor session (pre-BP publication)

Recap

Summary

- 3.2 HAL presented a summary of airlines priorities that HAL had noted and how they had mapped them. The main points of discussion were focussed on:
- Airlines were disappointed that there had not been a prioritisation exercise involving the airlines to frame how the £16bn capital portfolio presented in earlier Rounds had been reduced to £10bn. Heathrow responded that the £10bn plan had been informed by Heathrow's interpretations of conversations in Round 1 and Round 2 and that explanations for what has been reduced would be in the Business Plan. *Note that the session immediately after the recap session (detailed just below) presented the scope of what had been reduced in the plan since early constructive engagement rounds.*
 - Heathrow explained that it had put together a balanced portfolio between priorities as it has many airline customers with different strategies and wants to offer them a choice.

Outcomes

- 3.3 There were no specific outcomes, as this was a recap session.

H8 investment scope

Summary

- 3.4 HAL explained how it had deprioritised £6bn (from £16bn to £10bn) in H8 capex (excluding £3bn for Modernising Heathrow) based on feedback from Round Two of constructive engagement. It presented different options on capital investment scenarios, including for the passenger terminals. In any case, discussions on H8 investment are complex because of potential 3R expansion interaction and H7 on-going capital plan processes (such as Modernising Heathrow).

Outcomes

3.5 The main points of disagreement were focussed on:

- What has been descoped: Heathrow clarified that only T2A Stage 2 and T2C have been taken out of Modernising Heathrow.
- The scope of H8 vs other capital programmes: For T2, Heathrow explained that it is in the H8 portfolio, but that costs were unclear at this stage as they may be influenced by the phasing of it. Airlines disagreed with the planning application costs for T2 as part of business as usual and not part of 3R expansion. Airlines stated that there was agreement at the Joint Steering Board meeting (the day before) to jointly write to the CAA to understand where costs sit.
- Airlines repeated their earlier point (made in the recap session) that they would want to have a prioritisation meeting for H7 and H8 capital as they do not feel they able to prioritise when they attend capex meetings as part of the business as usual process and lack visibility. They stated that they did not want to approve something when they do not understand the unintended consequences and deplored that they had not had conversation on what was remaining in terms of H7 capex as it is a key input for H8 capital. Heathrow clarified that its IFS (Independent Fund Surveyor) had assured their approach on gateway and programme lifecycles, and told them it is best practice.
- Airlines also stated that they would prefer to have detailed information on all the specific projects (and their timing), rather than on the themes as they were sometimes lost in the various themes and categories and could not easily compare them across slides. They called for an Excel file instead, which HAL provided in mid-August 2025.

Business cases reporting framework

Summary

3.6 In advance of the publication of its BP, HAL presented its approach to the business case reporting framework to the airline community. Heathrow explained that the 20 business cases would be completed by a spreadsheet to provide an easy way to access the data. A number of key elements were stated such as:

- The Business Cases have been built on the £10.3bn capital envelope plan;
- The Business Cases include the phasing of capital;
- In relation to opex efficiencies, the BP has more efficiencies than what is delivered by Business Cases directly.

3.7 The main comments and observations made by the airlines were in relation to the capital governance process and its links with the BP as they were concerned about the inclusion of some of the capex items:

- The CAA clarified that the capital governance process is the process to approve or not to approve the capex, whilst the BP is designed to set the capital envelope. For the CAA, the BP is “the starting point of the conversation, not the end of the process”.

- Heathrow also clarified that whilst the Business Cases have been developed for the £10bn option, the airline community can challenge it through the governance process, to which airlines responded that they would rather flag a project down at this stage than wait for a G2 decision.

Outcome

- 3.8 There were no specific outcomes, as this session was focussed on the information that would be provided, rather than the information itself.

Building blocks (excluding capital)

Traffic

Outcome

- 3.9 Traffic was not discussed in Round 3. Therefore no changes to the traffic forecast numbers made in Round 2, whether by HAL or the airlines should be assumed.

Non-aeronautical revenues

Summary

- 3.10 HAL presented the non-aero revenues component of the building blocks of the H8 plan on 31 July 2025. Airlines questioned the decrease in cargo revenues. HAL explained its views had been informed by discussions with cargo handlers and airline representatives, but was open to changes if this was not the airline position. HAL offered to discuss the International Departure Lounges (IDL) strategy in a Deep Dive session in response to airlines stating that they remained unclear on the strategy for these (i.e. in relation to increase in seats vs non-aero revenues).
- 3.11 The IDL deep-dive took place on 11 September and focussed on the general approach across all terminals and then in T3 in particular. HAL presented its levers to reduce over-crowdedness and find ways to increase revenue growth and create a compelling business case, and so was considering aspects such as branding, 5G connectivity, lounge spaces, etc. For T3, a key concern of the airlines specifically on non-aeronautical revenues was the rationale for investments in an ageing and space constrained facility noting that they stated that for T3 overall they wanted early delivery of investment. Airlines commented that investments appeared to be mostly in external-facing areas (such as central seating areas, not piers or gates) with few on consumer enhancements, which did not seem to match HAL's ambition.
- 3.12 During the same session, HAL provided more details on its forecasting approach for commercial revenues as well as on surface access and other specific topics that had been requested by the airlines (specifically tax-free and duty-free shopping). Airlines questioned HAL's approach to target all commercial revenues with the same assumptions rather than breaking them down per type of revenue. In addition, they challenged that commercial revenue estimates could not be linked to specific capex interventions.
- 3.13 On 05 November, airlines presented their alternative BP. Commercial revenues were £203m higher than HAL's. Airlines explained the difference as mainly

based on higher passenger and cargo forecasts, TDOC revenues, benchmarks of HAL against comparable airports, and overall approach to elasticities. They also shared that bottom-up analysis could not be done. HAL questioned the approach to the modelling (especially on VAT) noticing inaccuracies in the methodology used by airlines and highlighted issues with the revenue elasticity methodology leading to overestimations. Airlines responded that this was due to what they viewed as the lack of transparency over bottom up opex analysis which they had raised repeatedly with HAL.

Outcome

- 3.14 No agreement was reached on the commercial revenues key assumptions and outcomes in this round, even putting aside different traffic numbers between HAL and the airlines.

Other Regulated Charges

Summary

- 3.15 HAL presented the Other Regulated Charges (ORC) component of the building blocks of the H8 plan on 31 July 2025. It called for an evolution in approach, with inclusion of some new elements (business rates, CUSS, CAA licence fee) and changes for others (baggage, PRM, PCA and staff car parking). Changes were justified to incentivise behaviours to support better outcomes to consumers and operational efficiency. We summarise below the discussions held that day. HAL offered to discuss ORCs at Deep Dive session on financials. This did not happen during Round 3, but there was further discussion on ORCs during the presentation of the alternative BP.
- 3.16 Airlines disagreed that they and their ground handlers needed incentives as they operate in competitive markets. They pushed-back too on business rates being assigned to ORCs in H8, as they wanted HAL to have accountability for efficient management of these costs. They also objected to check-in desks and utilities being included in ORCs referencing the Grant Thornton report on the allocation of fixed costs/annuities to ORCs (that apply to both airlines and non-airlines).
- 3.17 The HAL approach linked to the baggage system and screening was of no interest to the airlines who on 05 November made a counter proposal to move the baggage cost element from ORCs into the aeronautical charges framework to align with the MTI framework. This was a new proposal for HAL, as the proposal had not been raised through CE before. HAL did not have time to consider on the day, but stated that MTIs should not be used in the context where HAL does not have control upon them. Airlines explained that their proposal is in line with their repeated feedback provided during CE, that in their views services with MTIs attached should be part of aeronautical charges to incentivise appropriate behaviours.
- 3.18 More generally, the airline community stated on 05 November that they were not happy with the direction that the ORC framework has been moving in the past few years. For them, the principles for MTIs is that as long as there is a service being provided by the airport, then it should be in the MTI framework.

- 3.19 Heathrow reminded airlines that the ORC framework allows them to receive monthly reporting on performance, costs as well as the ability to challenge, and to ask to be a part of the procurement process, whilst inclusion in the MTI framework would not offer the same visibility. In response, airlines shared their experience on ORC which is that they can only challenge through the consultation process on very large costs, even when escalating to the CAA.

Outcome

- 3.20 Whilst the airlines did not call for regulatory changes on ORCs as part of Round 3 CE, they have disagreed with many of the HAL's suggested approach on ORCs, especially business rates, baggage systems and utilities (electricity especially). No agreement was reached either on their counter-proposal.

Opex

Summary

- 3.21 HAL presented the opex component of the building blocks of the H8 plan on 31 July 2025. There were discussions on the 1.2% efficiency improvement assumption. HAL offered to discuss drivers for the forecasting approach used for this efficiency improvement assumption at a Deep Dive session on financials, which happened on 11 September. Questions were raised on what the impact of opex going through ORCs would mean.
- 3.22 In relation to the base year, airlines disagreed using 2024 representing an efficient baseline. HAL explained that opex efficiency had been demonstrated by the KPMG opex efficiency review. Airlines also queried the impact on opex without investment. On 11 September, HAL provided more details on adjustments included in the 2024 base year, inflation adjustments and on its forecasting approach of the 1.2% efficiency improvement on opex and £0.5bn efficiency target on capital costs but also explained that it is inefficient and difficult to forecast granular levels and therefore uses a top-down approach. However airlines disagreed on the choice of top-down approach for a large organisation like HAL, stating that as a result it was impossible for them or an external party to challenge or follow-through the numbers and understand how the 1.2% efficiency target had been derived. They objected to the lack of a bottom-up approach, questioned the justification of price pressures (including on wages) and had issues with the lack of differentiation between historical and future efficiencies.
- 3.23 On 05 November, the airlines presented their alternative BP. The alternative BP was presented in 2024 prices. Opex costs were £1.1bn lower than HAL's. It was not clear what efficiency improvement assumption has been used by the airlines, without access to the CEPA report (report commissioned by the airlines and provided to HAL), however lower opex costs derived from:
- Reduced costs from catch-up efficiency, price assumption adjustments, rates increases and other overlays; and
 - Increased opex costs: from traffic volume adjustments and efficiency adjustments.

- 3.24 HAL queried the level of efficiency assumed by the airlines and its impact between cost and service rates, and commented that a number of mistakes had been done in the modelling (such as on efficiency adjustments). It also highlighted that opex numbers had been built on the airlines' alternative capital envelope plan of £5.5 billion so were not totally comparable.

Outcome

- 3.25 On the IDL strategy, agreement/disagreement of the airlines is actually focussed on what projects will be included in the capital envelope, as well as how it will be delivered.
- 3.26 No agreement was reached on the opex key assumptions and outcomes in this round, even putting aside different capital envelopes between HAL and the airlines.

WACC and other financial elements

Summary

- 3.27 HAL presented the WACC component of the building blocks of the H8 plan on 31 July 2025. HAL detailed their assumptions for the cost of debt, asset beta, and inflation assumptions leading to a pre-tax real WACC of 6.76%.
- 3.28 On 05 November, airlines presented their alternative BP. Key changes compared to HAL's BP included depreciation lower by £1bn which reflects airlines adopting an average 20-year depreciation profile against the RAB (compared to HAL's 18 years) and HAL reflecting a more accelerated approach. Airlines suggested a WACC (pre-tax, real) of 4.83%, based on their own assumptions for a number of WACC components as they did not have access to HAL's cost of debt and fixed asset register.

Outcome

- 3.29 Unsurprisingly perhaps, there is no agreement on the key assumptions used by both parties, nor on the resulting WACC. There is also disagreement (as reported in paragraph 2.16) on the degree that WACC information has to be shared or not as part of CE.

Value for money / airport charges

Summary

- 3.30 HAL presented the airport charges component of the building blocks of the H8 plan on 31 July 2025, which on average (passenger charge) is £33.26 for H8, net of any business rates changes. HAL noted that a key area of uncertainty is the business rates as this is outside of HAL's control. The BP included what HAL thought (pre-autumn budget) was a reasonable amount for business rates. The CAA confirmed that the rateable value recently published by the Valuation Office Agency confirmed that HAL's view was not far off.
- 3.31 Some airlines complained about the charge in relation to international transfers. Airlines complained that HAL's BP lacked transparency of what is in and out of the charge and how it may change through H8, such as if property development was taken out of the till or if the third runway was granted approval. The airport disagreed with the view that its information lacked transparency and explained

that it could be that alternative property regulated projects are added on top of the £10bn capital envelope plan if it needs to be done within the single till.

- 3.32 On 29 August HAL provided a walk-through of a KPMG benchmark report of Heathrow Airport's aeronautical revenue per passenger with comparator airports for which data is available. Airlines were very critical and provided detailed comments of the report conclusions disagreeing with its main findings on a number of accounts, including "methodological flaws and inaccuracies with some adjustments applied arbitrarily". Airlines stated that significantly different results could be obtained depending on the use of the benchmark and the choice of comparator airports. Overall, airlines not only fundamentally disagreed with the report but also had issues related to a lack of clarity on the relevance and intended use of the report in the context of H8.
- 3.33 On the impact of the airport operating at capacity, whilst both parties agreed on HAL benefiting from economies of scale, there was also disagreement on the impacts of having reached capacity. Heathrow explained that the airport has to build "deeper" and in more complex ways, in one of the world most expensive markets for construction to get the same level of proposition of other airports. Overall, airlines stated that they fundamentally disagree with what the report stated.
- 3.34 On 05 November, airlines presented their alternative BP and airport charges resulting from all the alternative changes they suggested to propose an average charge of £24.90 across H8 (passenger charge).

Outcome

- 3.35 There is no agreement between HAL and the airlines on the H8 airport charge, with a variation of 32% between proposals across H8.

Capital building block

Capital efficiency

Summary

- 3.36 On 31 July, HAL presented on capital efficiency. HAL explained that capex costs are their best estimates at the moment and would go through governance and be assured by the Independent Fund Surveyor (IFS). Its £0.5bn efficiency target was higher than UK construction industry and based on construction benchmarks around best practice. Questions were asked on the need for clarity on comparisons and benchmarking used for the capital programme. This was done through a deep-dive session on 30 September.
- 3.37 There was also a discussion on the criticality of funding the asset replacement and maintenance to maintain the expected level of resilience. Airlines questioned why asset health had decreased but the asset base in statutory accounts had not decreased in the same way (this comment presumably refers to H7).
- 3.38 On cost drivers, some airlines questioned internal and external impacts with labour in terms of competing demands for contractors and sub-contractors.

They also had concerns on the assumptions made for cost inflation. HAL responded including references to the use of off-site construction and use of pre-fabricated elements. In the deep-dive of 30 September, HAL detailed further its strategy on this aspect. HAL also explained that since H7, it had operated a shift to be more strategic and forward-looking to drive the airport forward and have the community's attention on that.

- 3.39 On 30 September, HAL presented an overview of the efficiency of the H8 capital portfolio, with deep dives into specific elements such as benchmarking, cost drivers, airport comparisons and portfolio performance.
- 3.40 On the benchmarking of capital costs, HAL explained that it is used to assessing its costs through capital planning cycles, looking at detailed analysis in terms of peer group and age of their asset base. The Independent Fund Surveyor (IFS) who assesses Heathrow on its adherence to the process also benchmarks it externally and HAL stated that the IFS had concluded that every H7 investment it has reviewed has been deemed as value for money. A key element to consider when benchmarking Heathrow is that it has a lot of below-ground construction to create value out of a small space, whereas other airports do not have that.

Outcome

- 3.41 Beyond detailed and useful discussions on the topic, the main outcome on capital efficiency is that HAL is targeting an efficiency of 0.5bn on capital. However, if the H8 capital envelope is below £10bn, this would be reviewed and may not automatically be extrapolated linearly, as the airport would need to understand what is making up the main capital envelope.

Capital deliverability

Summary

- 3.42 On 31 July, HAL presented on capital scope, efficiency and deliverability. Most of the focus was on the former two elements, although on operational considerations, airlines had concerns with limited set-up of mitigation measures when not called for by them.
- 3.43 On 30 September, HAL presented a more in-depth overview of the deliverability of the H8 capital portfolio, including discussions on innovations, the capital governance framework and procurement, and operational considerations to a lesser extent.
- 3.44 On innovations, the discussion covered mainly pre-fabrication and modular build. The discussions on the capital governance framework are covered in the section below on *Proposed regulatory changes in the Business Plan*.
- 3.45 On procurement, HAL commented that at the beginning of H7 there was a large procurement process to select Tier 1 contractors. The new procurement approach of HAL will provide quicker route to Tier 2 and Tier 3 suppliers, if appropriate, and the ability to take incumbent performance back into accreditation.

Outcome

- 3.46 Delivery of capital is one the main responsibilities of HAL who is seeking a change in the one-size-fits-all approach to be less demanding on smaller projects. At the end of Round 3, discussions had not concluded on possible changes to DOs (whether on the principle for changes itself or on the changes themselves).
- 3.47 When airlines presented their alternative BP on 05 November, they stated that they did not believe that HAL's £10bn capital envelope was deliverable, based on historical context (Q6 and H7). Other and more detailed sources behind this statement were not shared in CE sessions nor in documents seen by the IR.

Scope, scale of the capex plan and prioritisation

Summary

- 3.48 On 31 July HAL presented on capital scope, efficiency and deliverability. The airport explained that 59% of H8 capital scope is already mobilised. On capital scope, airlines had many comments, such as looking for Terminal 4 opportunities to accelerate asset replacement with others more general such as not believing that a balanced portfolio approach is necessarily best, suggesting that targeting terminal customer experience could sometimes be better. Airlines were also unclear about the various programme segmenting done (such as Modernising Heathrow, Expanding Heathrow, etc) and stated that H8 capital was slightly blurred in terms of impact to charges. HAL responded by scheduling a deep-dive on Modernising Heathrow during 11 September and on terminal customer experience on 12 November.
- 3.49 In addition, HAL explained that its balanced approach was a result of having listened to customer priorities, such as to get charge affordability, where the airport would need to invest in opex efficiency and commercial revenues. It clarified that compared to capital costs, opex offers less opportunities to the airline community of scrutinising HAL's efficiency and performance.
- 3.50 On 15th August, HAL provided the airline community with spreadsheets reflecting the business case detail to support a prioritisation exercise, with an ask for responses by 9th September to support further CE discussions to reach agreement on capital. The airline community did not to complete this exercise as they quoted "a lack of transparency, data quality, and governance required for meaningful engagement". Airlines requested mandatory/compliance-related projects to be signposted. HAL explained that it had provided a spreadsheet offering airlines an opportunity to manipulate the assumptions to support the creation of alternative scopes, and that as the scope becomes more mature, engagement with airlines community would continue to refine the costs assumptions.
- 3.51 The Modernising Heathrow deep-dive took place on 11 September. It presented what it meant in the context of H8, and specifically on fuel farm expansion. On 12 November, HAL presented more information focussed on the investments around the passenger journey. The main points made in these 2 sessions are summarised below:

- 3.52 On general terminal capacity, space in the T3 IDL was discussed (please see above in the section on *non-aeronautical revenues building block component*). HAL also explained that there was a need in their plans for balanced growth between the two largest terminals (T3 and T5) which host two home-based carriers, and are also very constrained. Release of capacity will happen there through the Efficient Use of Existing Assets programme and T5 Capacity Optimisation programme.
- 3.53 It was also mentioned that some H7 rollover projects (like seating) would not be delivered until H8 but that a precise version of the roll-over for end of 2026 could be provided to the airlines. They responded by stating that the 12 November horseshoe capacity information was really appreciated (although noting it came after the airlines alternative BP). Airlines queried why check-in was the initial focus of Heartware, as airlines did not see it as an issue in T3, T4 or T5 or in red RAG status on capacity horseshoes assessments.
- On T3 specifically, detailed discussions were held on the location of CUSS kiosks, and the options under considerations for the check-in desks. Airlines called for bringing forward the spend on gates as currently this sits in H9. Improving the baggage reclaim hall, according to passenger research, is an issue that all parties share, yet no investments are planned there meaning that passenger perception will go backward due to other changes that will take place during H8.
 - Overall on T3, airlines stated that they support the terminal to receive investments, in fact more than is currently planned from HAL. They argued for T3 investments to be prioritised for delivery early in H8 to ensure most value for money. Horseshoe info from 12 November shows that in T3 the current and more acute capacity constraints are the IDL, bag system, bag make-up and stands.
 - On T5 specifically, HAL noted there was minimal H8 capital investment on the connections journey, and that it would be addressed through MTIs, with the main benefit nonetheless coming from coaching gates and more efficient use of bus waiting times. Horseshoe info from 12 November shows that in T5 the current and more acute capacity constraints are the IDL.
- 3.54 On better joining up the end-to-end journey for PRM/PRS passengers, HAL has planned capital investment to unlock the experience, including consideration of aspects such as sensory spaces. On the digital proposition, airlines made a point on the need for investment in biometrics, emphasizing them as critical (at check-in, gates and across the full journey) and with technology available in other airports. There were no detailed discussions on runway capacity, HAL explained that it would be considered under the Occupancy Review (outside of CE scope) On sustainability, whilst airlines support sustainability initiatives, there are some areas that they would prioritise over other aspects. Specifically they were concerned with the cost and benefits of the cycle route.
- 3.55 On 05 November, airlines presented their alternative BP, including views on capital prioritisation. They called for a much lower capital envelope (£4.1bn lower than HAL's) whilst retaining HAL's 0.5bn efficiency and stated their high level of dissatisfaction with the engagement on capital prioritisation stemming from:

- A too high-level of HAL’s capital envelope submission with a lack of detail regarding cost estimates with resulting difficulty to interpret H8 BP’s business cases at project level;
- The absence of a clear link between individual projects across the business cases and between investments to measurable outputs (such as between commercial revenues and capex) to allow them to “follow-through” the information provided to understand what the capex was made of, be able to break it down and stress-test it.

3.56 HAL responded that it offered extensive information on capital choices in business plan, business cases, and additional material, that 4 outcomes and 15 objectives had been set out at the start of the plan, and the overall picture and golden thread had been demonstrated in different ways (e.g. across the BP, via horseshoes, through the business cases, etc.), and a plan 5 years out would not have exact solutions and numbers at this stage of maturity.

Outcome

- 3.57 As in Round 2, airlines have kept asking about more detailed information to understand the scope of the capital envelope. On projects related to Modernising Heathrow, we understand that it will require airlines to consider what capital budget they will want to prioritise into H8 in relation to DCOs and enabling works, as this has not taken place during CE.
- 3.58 HAL provided a lot of specific information in this Round, but not as precise as the airlines called for (including a detailed spreadsheet with costs, benefits, interdependencies, purpose, etc) to allow them to prioritise projects, should the capital plan look different.
- 3.59 Therefore airline prioritisation at a project-level was not completed and airlines called for a reset in the approach used by HAL for its capital envelope. Instead, airlines focused on a more step-back level of charge review instead and in their alternative BP review, suggested a capital envelope of £5.5bn (£4.1bn lower than HAL’s) whilst retaining HAL’s 0.5bn efficiency. HAL was concerned that the alternative BP did not come with any form of scenario prioritisation and whether airlines were hoping for all the scope of the £10bn plan to be delivered for £5.5bn instead.
- 3.60 HAL suggested a Future Portfolio Group conversation to discuss the practicalities for 2026 whilst waiting on the H8 Initial Proposals. Airlines stated concern about the level of rollover if the CAA Initial Proposal is a lower than HAL’s £10bn capital envelope, and the difficult choices that will need to be made in this case.

Proposed regulatory changes in the Business plan

BP approach

Summary

- 3.61 HAL presented its H8 plan’s proposed regulatory changes in four areas:

- Adjust its measures, targets and incentives framework (Please refer to the discussion on MTIs below for more details);
- Evolve and update regulatory governance on smaller and technology-based capital projects (Please refer to the discussion on “regulatory governance framework changes” below for more details);
- Change the classification of noise-insulation costs from opex to capex; and
- Change the approach to property investment (Please refer to the discussion on Commercial property investment below for more details).

Outcome

- 3.62 All outcomes in relation to the first, second and fourth areas are covered in their respective sections below. In relation to the third area (change the classification of noise-insulation costs from opex to capex), there were no concerns expressed by the airlines in CE, but a recognition that it would need to be prioritised within the capital envelope.

Regulatory governance framework changes

Summary

- 3.63 On 30 September 2025, HAL stated that the capital governance process is complex and that the DOs are a part of a demanding governance process, with a “one-size-fits-all” (the governance process is fundamentally the same for a £5m or £50m engagement, and the levels of engagement and volumes of material are the same). The need to drive certainty at DO setting stage, means more intensive project management that slow delivery pace, requiring more resources leading cost implications.
- 3.64 Whilst HAL acknowledged that the regime was currently working, the airport with the community wants to review and improve the process, noting that its issue was with the volume of projects. It also stated that feedback from the airline community is that the volume of information that comes out of the governance approach is too much, and unsustainable. Airlines challenged this statement as for them the issue stems from the quality and consistency of the information provided. They asked questions, mostly technical to which HAL responded.
- 3.65 Changes to the governance framework were not discussed in their alternative business plan session led by the airlines on 05 November, but airlines highlighted that there is no regulatory mechanism or requirement for HAL to deliver projects “supported by airlines” under the current framework, rendering prioritisation activity non-binding.
- 3.66 On 12 November, HAL presented more information outlining concerns with the current capital governance framework and proposals for improvement. Heathrow manages the risk of not realising project benefits if they do not run in time or on cost and it must have a high degree of certainty at the investment decision which is seeing investments progress slower as HAL can no longer manage uncertainty into delivery.
- 3.67 However, the current ex-ante capex incentive framework means that Heathrow performance against the Delivery Obligations (DO) is used to adjust capex baselines for the purpose of reconciliation with out-turn expenditure. This drives

Heathrow to get the baseline right to minimise its risk, which leads to longer lead times. The airport explained that its proposal to evolve the DO structure will ensure DOs remain on 96% of the value of the portfolio but offer a reduction in governance volume of 30%. Numerous questions were asked by the airlines in relation to governance efficiency, airline approvals, programme-based approach vs business case or project-based, risks and baselines, project scheduling, penalties, etc.

Outcome on regulatory governance framework at the end of Round 3

- 3.68 The sessions held on 30 September and 12 November discussed issues and changes to the regulatory governance framework, with examples making reference to the administrative burden related to smaller projects. We did not hear any examples made in relation to technology-based capital projects (as announced on 31 July).
- 3.69 At the end of Round 3, no specific decision was reached. The last session concluded on HAL suggesting that a (future) workshop session would be valuable to discuss, coupled with a need for improvement on quality of information and what to get out of the governance process.

Commercial property investment changes

Summary

- 3.70 As in Round 2, HAL proposed to unlock investment in property across the campus through off-RAB developments and proposed revenue sharing models. Airlines reiterated that they want to keep the existing arrangement for commercial property investment as they fear it would undermine single-till regulation and distort incentives. They continued to disagree with the statement that there is a problem investing in property around the campus and reiterated their opposition against any changes to the boundary of the single till or compromising single till regulation.

Outcome

- 3.71 During this session, HAL suggested to have a deep dive on the commercial property pipeline and commercial property investment (as it had already prepared for a deep-dive on this topic in Round 2 which the airlines, having reviewed and rejected the proposal, declined to attend given no further developments), but this was not taken up by the airlines and so no specific deep-dive was organised in Round 3 on commercial property investment. On 05 November, airlines very clearly re-stated their opposition against any changes to the boundary of the single till or compromising single till regulation.

MTIs

Summary

- 3.72 Whilst a lot of work on MTI had been achieved in Round 2, and agreements reached on the majority of MTIs, there remained a number of areas of disagreement from Round 2 before publication of the BP that included principles, approach to the MTI bonus/rebate proposal, targets, weightings, etc.

- 3.73 On 31 July, Heathrow provided a summary of its BP proposals and explained that its MTI proposals demonstrated HAL’s willingness to accept having more “skin in the game” on areas of the passenger journey, which was emphasised to the airline community during CE Round 2”.
- 3.74 During the first deep-dive on MTIs where airline responded to HAL’s BP proposals on 02 September, they presented their response, through a structured presentation of areas of disagreement (areas where discussion or sharing of proposals has previously been undertaken but no agreement was reached to date), areas for further development (areas where some areas of agreement were made and/or where further discussion is needed to seek alignment) and areas for further understanding (areas where greater understanding is required). The discussions held on the day included exclusions, bonus, rebate, weightings, specific topics (Pre-Conditioned Air and baggage) and targets, but no agreement was reached.
- 3.75 In their slides, airlines explained that they disagreed on HAL’s proposed eligibility criteria and the doubling of the bonus allowance, stating that both these changes would reduce HAL’s risk exposure and would therefore need to be reflected in the cost of capital.
- 3.76 Following this, both parties agreed to schedule another MTI session to follow-up on outstanding topics of discussion (all in the “areas for further development” or “areas for further understanding”, but none in the “areas of disagreement” where views have remained entrenched in Round 3), in particular baggage and security, as well as through email where necessary.
- 3.77 On 16 October, a second deep-dive took place on Baggage Timely Delivery MTI and the airline proposal for a backstop to prevent major outages. In particular there were a lot of discussions on the target (98% vs 99%) and what it would mean.
- 3.78 On 05 November, as part of their alternative BP, airlines included a slide on MTI proposals. They re-stated their opposition to changes to the MTI principles. However, they noted some outstanding points that included security, baggage, TTS.
- Security: Retain the existing monthly measure but with a daily backstop. Align queue time targets across bonus and rebates.
 - Baggage: On-going discussion on the target for timely delivery (98% vs 99%) and airline request for a backstop to capture major incidents. On the backstop, HAL responded on 13 November and stated that is not in the best interests of the airlines and passengers.
 - TTS: Finalise the process for the changes to reflect the additional train capacity in T5 being delivered. Target and structure of the backstop to be agreed.
- 3.79 On 03 December, HAL informed the airlines that it had chosen to make some revisions to the eligibility criteria proposals in published business plan. We have not seen airline feedback to this change.

Outcome

- 3.80 Further conversations and detailed work took part in Round 3 on MTIs, especially in the areas where airlines judged that some change was possible. Therefore on outcomes, the picture is mixed:
- In some fundamental areas such as bonus cap, and what is under HAL’s control, there has not been agreement (nor discussions in this Round) between HAL and the airlines.
 - However on eligibility criteria, HAL has adjusted its proposal in December. Airlines response on this point is not yet known.
 - In other aspects of financial MTIs, there is also some disagreement that remains to date.

4 Findings, lessons learnt and next steps

Findings

4.1 In its guidance for Round three, the CAA indicated its views on:

- Scope;
- Purpose and desired outcomes; and
- Information and views to be provided.

4.2 In this chapter we present our findings for each of these areas.

Findings on scope

CAA guidance

4.3 With regards to scope, the CAA stated that its expectation for Round 3 was to discuss HAL's business plan submission.

Review of scope

4.4 HAL's Business Plan was submitted by mid-July 2025. A day-long session was organised 2 weeks later to provide a detailed presentation of the main elements of the Business Plan, noting that the precursor session had provided some guidance for airlines on what to expect on the structure of Business cases. No meetings took place during the month of August (except the last week), which provided airlines an opportunity to read, absorb and prepare questions related to the BP. Half of the questions asked by the airlines on the BP were sent in this period.

4.5 Additional sessions were scheduled at the request of both parties to present and clarify topics, including an airline alternative business plans and alternative MTIs proposals. Whilst a lot of discussion had already taken place on MTIs in Round 2, with Round 3 meetings on airline MTI proposals happening in early September, it took more time for the airlines and their advisors to prepare an alternative Business plan, suggesting that that they did not always have access to information as detailed as they would have liked. As a result, Round 3 which was initially planned for taking place between June and July, saw its timeline drift, effectively taking place between July and November instead.

- Traffic forecasts: engagement has been very limited on traffic forecast in this Round, noting that it had been thoroughly covered in Round 2. Traffic numbers in the BP did not change compared to what had been circulated before, so it appears normal that engagement was thin on this topic.

- Commercial revenues: there has been some detailed engagement in this Round on the topic including with a session dedicated to sharing benchmarking information.
- Operating expenditure: there has been some detailed engagement on opex in this Round, both in terms of strategy and discussions on the numbers.
- Other Regulated Charges: on this topic, discussions have been limited in this Round. A deep-dive was offered by HAL but not taken-up with the next stage being the airlines counter-proposal made during the alternative BP session.
- Key incentives: as in Round 2, there has been a lot of detailed and iterative engagement that has taken place in relation to some aspects of MTIs (the ones where airlines estimated that change was possible). However, as in Round 2, there has not been any sessions focussed on traffic incentives or on capex incentives.
- Commercial property investments were lightly discussed during Round 3 with HAL's proposal to move some property investment outside the single till to better incentivise these investments. However due to airlines' very clear refusal on the proposal expressed previously, engagement on the topic in Round 3 was minimal.
- On capex, a lot of engagement took place in this round including on the terminal specific aspects or capex efficiency or deliverability.
- On the WACC and other financial aspects (such as depreciation), there was engagement to an extent in this round. However, as explained in paragraph 2.17 above, disagreements did not only cover the choice of assumptions and resulting WACC, but also on the degree to which supporting information should and had (or not) been shared: the airlines did not share their WACC report with HAL (only with the CAA, arguing they do not have to and that based on precedent the onus is on the airport to provide assumptions and ranges), contrary to HAL who shared it with airlines and CAA, although airlines are nonetheless seeking more information on the cost of debt than what they found in the HAL report.
- On airport charges, there was engagement during this round including from the airlines who made a counter proposal. In their alternative business plan slides, airlines challenged that the 17% (which compares the average H7 outturn charge with the proposed H8 charge) increase stated by HAL does not represent the correct extent of the increase when calculating on a like for like basis (e.g. including business rates), with airlines' view is that increase rises up to 45.8% in real terms with current business rates.

4.6 Having reviewed the topics covered in CE detailed in Chapters 2 and 3 of this report, as well as the requests for more engagement on specific topics, our assessment is that on scope, the CAA expectation was fulfilled.

Findings on outcomes

CAA guidance

4.7 The CAA stated that its desired outcomes in this round would be to understand the views of HAL and airlines on the detail of HAL's business plan, identify areas of consensus and areas where views diverge.

Review of outcomes focussed on understanding the views of HAL and airlines

- 4.8 On **traffic forecasting**, Round 2 concluded with disagreement on the key assumptions and projections, in spite of detailed discussions and exchanges of information on underlying factors, assumptions and forecast numbers that have allowed HAL and airline stakeholders to clarify their respective views. HAL and the airlines had submitted (different) traffic forecasts during Round 2. In Round 3 both kept their views similar to Round 2, with no specific changes stated. Therefore the outcome on traffic forecast remains similar to that of Round 2.
- 4.9 On **commercial revenues** and **operating expenditure**, there was more information provided in the BP and through CE in Round 3 compared to Round 2 (see below on the quality of the information). However, no agreement was reached on the commercial revenues key assumptions and outcomes in this round and similarly, no agreement was reached either on the opex key assumptions and outcomes. The airlines challenged HAL's numbers for both elements in their alternative BP.
- 4.10 For **Other Regulated Charges**, there was no agreement on HAL's BP proposal to make some changes with airlines rejecting all changes on the topic. There was no agreement either by HAL of the airline's proposal to move the baggage systems into Aero charges.
- 4.11 On **key incentives**, as in Round 2 a lot of detailed and iterative engagement has taken place in relation to some of the remaining MTIs where agreement had not been reached in Round 2. In some fundamental areas such as bonus cap, what is under HAL's control, there has not been agreement between HAL and the airlines. However on eligibility criteria, HAL has adjusted its proposal in December. In other aspects of financial MTIs, there are some areas of disagreement that remain to date.
- 4.12 On the approach to **commercial property development**, as in Round 2, positions did not change and there was very clear disagreement between HAL and the airlines on moving commercial/real-estate property investment outside of the single till.
- 4.13 On **capex forecast**, whilst there was a lot of engagement that took place in Round 3, airlines have kept asking about more detailed information to understand the scope of the capital envelope (as in Round 2 – and Heathrow have repeatedly stated that the level of detail is not available, nor necessary to have available, at this stage of the process). Airline prioritisation at a project-level was not completed. Based on a three-step assessment analysis, they derived a capital envelope of £5.5bn (£4.1bn lower than HAL's) whilst retaining HAL's 0.5bn efficiency. As a result there was no discussion on **capex incentives**.
- 4.14 On the **WACC** and other financial elements, no agreement was reached on the key assumptions used by both parties, nor on the resulting numbers. On the **H8 airport charges**, with disagreement on all the components of the building blocks, there was naturally no agreement reached between HAL and the airlines, with a variation of 32% between their proposals across H8.

- 4.15 Therefore overall, in spite of more than 25 meetings since the start of Round 1 and significant time and effort spent in quality engagement, the CAA's Initial Proposals will be critical.

Findings on information and views exchange

CAA guidance

- 4.16 The CAA stated it's desire that information and views to be provided in this round would be met by HAL providing its full business plan, with supporting information, consistent with CAA guidance.

Review of the information exchanged

- 4.17 In relation to the business plan, the CAA guidance for the Business Plan was issued in March 2025: H8 method statement and business plan guidance (CAP3083) and H8 method statement and business plan guidance: Appendices (CAP3083A), as well as data tables for opex, revenues and capex.
- 4.18 We believe doing what would effectively be an audit of HAL's BP deliverables against the CAA's guidance included in the Method Statement would exceed the Terms of Reference for the Independent Reporter role.

Lessons learnt

- 4.19 We have no specific lessons learnt or best practices to suggest in this Round, beyond what has already been suggested in previous Rounds.

Next steps

- 4.20 Comments from the CAA will be carefully reviewed and addressed.

