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

CAP3289

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Introduction and Summary

Introduction

1.1 On 29 January 2025, the Government announced its support for the development of a third runway and associated infrastructure at Heathrow Airport and invited potential promoters to submit proposals for expansion by the summer of that year. On 25 November 2025 ("the Government's 2025 Announcement"), the Government further announced that the proposal from Heathrow Airport Limited ("HAL") would be used as the scheme to inform its review of the Airports National Policy Statement ("ANPS")[1]. On 18 June 2026, the Government published the Draft Heathrow Expansion National Policy Statement ("HENPS"), on which it is currently consulting.[2] The HENPS updates the ANPS and sets out:

- the Government's policy on the need for increased capacity at Heathrow Airport;
- why the Government has selected the Heathrow Northwest Runway scheme for the purposes of its ANPS review; and
- the specific requirements that any promoters of such a scheme would need to demonstrate in order to make an application for development consent.

1.2 We refer to the development of a third runway and associated infrastructure as "expansion". Potential promoters of expansion incurred costs in responding to the Government's 2025 request for proposals to assist its policy development, and will need to continue incurring costs before the Government decides whether to grant planning consent for expansion, if they decided to pursue planning consent. These "early costs" may include:

- the costs of preparing any application for planning consent;
- costs relating to land acquisition; and
- costs of enabling works to support the timely delivery of expansion.

1 HM Treasury, Government backs Heathrow expansion to kickstart economic growth, January 2025. Also: Department for Transport, Realising the benefits of expansion at Heathrow Airport - GOV.UK, October 2025 and Department for Transport, Heathrow Airport Limited's third runway proposal will be basis for expansion - GOV.UK, November 2025

2 Department for Transport, Draft Heathrow Expansion National Policy Statement - GOV.UK, June 2026

1.3 Expanding Heathrow Airport has the potential to deliver significant benefits for consumers[3] by easing capacity constraints, enabling more airlines to serve consumers, allowing more consumers to use the airport, and increasing competitive pressure on fares. Increased capacity is also expected to widen the choice of destinations, improve flight frequency, and improve resilience.

1.4 As well as creating benefits for consumers, expansion would involve very significant extra costs for construction and operation, which will increase airport charges at Heathrow and create upward pressure on airfares. While we are continuing to examine and assess the balance between likely costs and benefits, the information we currently have available suggests that there are plausible scenarios where the benefits of expansion would significantly outweigh the likely extra costs to passengers arising from higher airport charges.

1.5 Bearing all these circumstances in mind, we have been developing regulatory policy on the treatment of the early costs of expansion to prevent unnecessary delays to the expansion programme which could result in the potential loss or deferral of benefits to consumers. This reflects our assumption that, without a policy to allow recovery of early costs, promoters would be unwilling or unable to invest in developing their proposals, leading to delays in the process and, consequently, in the delivery of benefits to consumers.

1.6 This document sets out the CAA's final decision and statutory notice of modifications to the licence granted to HAL by the CAA under the Civil Aviation Act 2012 ("the Licence")[4] to address the regulatory treatment of certain early costs incurred by potential promoters of expansion. It is limited to the treatment of early costs incurred by HAL in 2025 and 2026 and by Heathrow West Limited/Arora Group ("HWL") from January 2025 to November 2025. It follows our draft decision on the issues published in April 2026 (the "Draft Decision"), in which we sought views on the proposed approach to the regulatory treatment of these costs.[5]

1.7 Our decision also includes consumer protections in the form of:

- cost caps;
- independent assurance of costs;

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3 In this final decision, we refer to "consumers". Our statutory duties (discussed below) are to further the interests of "users", who are defined as passengers, those with "a right in property" (cargo) carried by air transport services and include future users. We use the term "consumers" to cover the whole range of users.

4 CAA, Licence granted to Heathrow Airport Limited, January 2026 version

5 CAA, CAP3201 Proposals on the regulatory treatment of early costs of capacity expansion at Heathrow airport, December 2025

- transparency requirements;
- reopener mechanisms;
- arrangements designed to minimise any duplication in costs between competing proposals; and
- an *ex post* efficiency review.

Taken together these arrangements are designed to further the interests of consumers, promote competition, enable credible promoters to make timely progress with their plans for expansion and encourage efficiency.

1.8 We issued an initial consultation in August 2025 (the "August 2025 Consultation")[6] and an update in September 2025 (the "September 2025 Update")[7] on the recovery of early costs. In these, we said that we considered recovery of the efficient early planning costs incurred by each of HAL and HWL would be in the interests of consumers but also set out some concerns around recovery of the costs of property acquisitions and enabling works.[8] We further updated our policy in December 2025 ("the December 2025 Consultation"). In April 2026, we published our Draft Decision on these matters, which is summarised below.

Summary of the Draft Decision

1.9 On the basis that the evidence available at the time showed there were plausible scenarios in which there would be net benefits to consumers from expansion, and that some of these benefits would be lost if expansion were to take longer to be delivered than would otherwise be the case, the April 2026 Draft Decision, proposed to allow:

- HAL to recover efficient early costs incurred during 2025 and 2026, up to a cap of £320 million (2024 prices) so that it could reasonably access the resources to continue with its work on expansion; and
- HWL to recover up to £4.3 million (2025 prices) incurred in developing its proposal before the Government's 2025 Announcement.

1.10 We said that the final caps set for costs incurred by both HAL and HWL would be subject to further assessment of their cost submissions and retained the position

[6] CAA, CAP3149 Heathrow Capacity Expansion – consultation on regulatory policy on early costs, August 2025

[7] CAA, CAP3173 Update on the regulatory treatment of the early costs of capacity expansion at Heathrow airport | UK Civil Aviation Authority, September 2025

[8] These include for example the costs of early work on site preparation; work required to agree contracts for purchase and reprovisioning (or otherwise) of commercial property; and professional and consultancy work fees, in particular in respect of valuation.

set out in the December 2025 consultation of extending the scope of our policy on the recovery of early costs within the cost caps to include certain limited early property acquisition and enabling works.

1.11 In order to protect consumers, we proposed to introduce the following measures:

- A cap of £320 million on the early costs incurred in 2025 and 2026 that HAL would be able to recover that was based on the forecast provided by it in July 2025, to limit the risks placed on consumers arising from escalating costs. HAL would need to provide additional evidence in advance if it wished to exceed this cap to explain why it would be in the interests of consumers for it to do so and for CAA to consider. In the Draft Decision we did not propose increasing the cap to £450 million as requested by HAL in response to the December 2025 Consultation.
- An *ex post* review (that is a review to start in 2027) of all of HAL's early costs incurred in 2025 and 2026 to identify any inefficient and/or wasteful early costs and any costs not incremental to those that HAL is already able to recover as part of the H7 price control decision, so that any such costs would not be recovered from consumers.
- Arrangements to avoid unnecessary duplication of costs, including between competing promoters. These arrangements would include an explicit consideration as part of our *ex post* review of whether HAL has responded promptly and appropriately to requests from other promoters to share relevant analysis or studies which are not commercially confidential.
- A "reopener" provision in the event of a material change in circumstances, and consistent with our broader approach to managing regulatory risk in a project of this scale and complexity.
- An obligation on HAL that it should take account of the uncertainties about the expansion scheme in developing its plans and arrangements for early costs, so in the circumstances of a change of approach, for example because of a revised ANPS, it could change its plans in an efficient and agile way. We would review this as part of the *ex post* efficiency assessment.
- The appointment of a third party to provide independent and ongoing expert assurance of the efficiency of HAL's early costs.
- Requirements for transparent reporting of early costs, supported by timely and regular submissions of forecast and outturn costs, with supporting justifications and evidence.

1.12 The December 2025 Consultation stated that HWL's work on its plans for expansion at the point of the Government's 2025 Announcement appeared to have created a credible and appropriately mature proposal for expansion. As a result, in our Draft Decision, we proposed allowing HWL to recover its efficient early costs up to that date by means of a mechanism set out in the Licence. We also asked for more details on HWL's costs.

Feedback on the Draft Decision

1.13 We received eleven responses to the Draft Decision, from HAL, HWL, and a range of airlines and their representatives: Aer Lingus, Airlines for America, Heathrow Airline Operators Committee / London Heathrow Airline Consultative Committee / International Air Transport Association ("AOC/LACC"), British Airways ("BA"), EasyJet, IAG, Iberia, Virgin Atlantic ("VAA"), and Vueling.

1.14 Airlines and their representatives firmly opposed the proposals set out in the Draft Decision to allow HAL to recover £320 million of early expansion costs from airlines and passengers during 2025 and 2026, prior to the granting of a DCO. More broadly they argued that no recovery of costs by any promoter should be permitted before a DCO is granted, but that if costs are to be recovered, stronger consumer protections should be put in place.

1.15 HAL was overall supportive of the CAA's proposal to allow recovery of efficient costs it incurs in 2025 and 2026 but had some comments on the consumer protections proposed by the CAA. HAL also said that:

- we should re-consider the evidence it has provided and increase the cap to £450 million (2024 prices), to cover commercial property acquisition activities in 2026, and reallocate funds originally allocated to the DCO for modernisation work as part of the H7 portfolio to early costs, reflecting a single combined DCO;
- the estimate of the real costs of capital of 3.3% to be applied to allowed early costs for 2025 and 2026 was too low; and
- it continued to oppose both the principle of recovering HWL costs, as well as the proposed mechanism, via the Licence.

1.16 HWL welcomed our proposals to allow recovery of costs it incurred up to the Government's 2025 Announcement but said that the CAA's policy has not yet created a level playing field between competing promoters. HWL said that we should accelerate and strengthen the introduction of proposed arrangements for avoiding any unnecessary duplication in costs between competing promoters and where appropriate ensure information is shared between promoters in a reasonable and timely way.

Developments since our Draft Decision

1.17 Since publication of the Draft Decision, the context for expansion has continued to evolve.

1.18 On 18 May 2026, HWL announced that it was intending to apply for a DCO in November 2027 for a proposed scheme, developed with a team of industry experts, which includes a new western terminal as well as the phased development of the third runway. HWL has explained that the first phase of its scheme could be operational by 2035, meeting the Government's timeline for expansion.[9]

1.19 On 18 June 2026, the Government published the draft HENPS for public consultation, which provides an updated planning and policy framework against which any future DCO application for a Northwest Runway scheme would be assessed.[10] This consultation represents a significant milestone in the expansion process. The draft HENPS establishes a statement of Government policy on need, scheme requirements, and assessment criteria against which any application for development consent will be assessed. The public consultation on the draft HENPS will be open until 1 September and followed by Parliamentary scrutiny and then be subject to a Parliamentary vote prior to taking legal effect.

1.20 Alongside the HENPS, further analytical work has also been published by the Government, including updated appraisal material incorporating revised aviation forecasts, environmental evidence and economic impacts. We discuss the implications of this updated appraisal for consumers and the development of regulatory policy further below and in chapter 2 (Evidence we have considered on benefits to consumers).[11]

1.21 During this period, we have also continued to develop our approach to regulating expansion at Heathrow, publishing two additional documents in relation to the future regulatory framework, a consultation in May 2026 and a further update earlier this month.[12]

HAL and HWL cost submissions

1.22 In May 2026, HAL and HWL provided updated submissions in relation to costs incurred in 2025 and 2026, and up to November 2025 respectively. These submissions informed an assessment by our consultants, Steer, of these costs

9 Our proposal - Heathrow West | A Better Heathrow

10 Draft Heathrow Expansion National Policy Statement - GOV.UK

11 Draft Heathrow Expansion National Policy Statement Appraisal of Sustainability - GOV.UK

12 CAA, CAP3251 Consultation on a shortlist of regulatory models, May 2026 and CAP3286, Update on the approach to the regulatory framework, July 2026.

and the Steer report is being published alongside this final decision.[13] We have considered the information provided by HAL and HWL, Steer's assessment and the responses to the Draft Decision in formulating our position on the cost caps in this final decision.

Summary of evidence we have considered on the cost and benefits to consumers of expansion

1.23 In our Draft Decision, we considered a range of existing analytical and stakeholder evidence on whether expansion would deliver benefits to consumers. This included: the Department for Transport's 2017 appraisal of South East airport capacity, the independent review of evidence on "scarcity rents" at Heathrow produced by the Institute of Transport Studies at Leeds University, Frontier Economics' Heathrow expansion cost-benefit analysis, which identified potential passenger benefits (for example, fare reductions, increased choice and wider economic gains), and further information from airlines.

1.24 In chapter 2 (Evidence we have considered on benefits to consumers) we summarise evidence that is relevant to our assessment of the likely impact of expansion on users, including new information that has become available since the Draft Decision. This new information includes views and evidence submitted by stakeholders in response to the CAA's Draft Decision, DfT's updated appraisal of expansion published in June 2026 alongside the HENPS, and analysis commissioned by the CAA.

1.25 DfT's updated expansion appraisal indicates that expansion will deliver net benefits to consumers in the range £35-55 billion (present value terms, 2024 prices) under the DfT's two main scenarios. The lower end of the range assumes that airlines pass through to consumers a proportion of the higher airport charges that will be required to fund expansion, while the upper end of the range assumes airlines absorb the higher airport charges and so earn significantly lower profits. We intend to engage with DfT over the coming months to better understand their modelling, any limitations and any relevant implications for the estimates of net benefits to consumers of expansion.

1.26 This new information does not impact our view that scarcity rents are likely to exist at Heathrow Airport but that there remains a range of assessments of its scale. We plan to undertake further analysis relating to the scale of scarcity rents at Heathrow and will draw further on this in developing our policy on early costs incurred from 2027 onwards.

1.27 These plausible scenarios include those identified in the DfT's latest appraisal and implied by the work that has suggested that significant scarcity rents exist at

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[13] Steer, CAP3289C Early costs scrutiny for Heathrow expansion, July 2026

Heathrow Airport, including the work commissioned by HAL from Frontier Economics. In these scenarios additional capacity reduces the effects of airport congestion and scarcity, increasing competition between airlines, with the increases in airport charges that are needed to fund expansion being largely absorbed by reductions in airline profitability. There are also potential additional benefits to consumers through improved service quality, with passengers benefiting from more frequent flights, greater choice of destinations and enhanced resilience to delays and disruption. Across these scenarios, the scale of consumer benefits depends on the extent to which current capacity constraints are contributing to higher fares and restricted choice, and on how the costs of expansion are shared between airports, airlines and passengers.

1.28 On balance, the existing body of evidence, including evidence which has become available since we published our Draft Decision, does not contradict the position we set out in our Draft Decision. Therefore, it remains our view that there are plausible scenarios where the benefits to consumers from expansion at Heathrow Airport would significantly outweigh the likely extra costs to passengers from higher airport charges, and that a proportion of these benefits would be lost if expansion were to be unduly delayed.

1.29 We have considered the representations made by airlines that scarcity rents at Heathrow Airport are much lower than has been suggested and that large increases in airport charges at Heathrow Airport could restrict demand growth and damage the interests of consumers. We also note that the independent report we have commissioned on slot values at Heathrow Airport highlighted the need for caution in relying on available on slot transaction data to infer the total level of scarcity rent across all the airlines and slots at Heathrow Airport.

1.30 We are continuing to assess all the evidence in relation to scarcity rents, consumer benefits and the costs to passengers of expansion, and expect this evidence base to continue to evolve. Nonetheless, for the purposes of this final decision our clear view remains that there are advantages to consumers making allowances for early costs and avoiding undue delays to the development of the plans and proposals for expansion, while continuing to carry out further work in parallel on the likely costs and benefits to consumers of expansion.

1.31 We will set out an updated assessment of the costs and benefits to consumers of expansion and the implications of this assessment for the regulatory treatment of early costs in 2027 and beyond. The intention is to publish this consultation in October 2026 and for the updated assessment of the costs and benefits of expansion to include:

- our views on the robustness and reliability of econometric estimates of scarcity rents at Heathrow Airport;
- further information on the expected costs of capacity expansion;

- our assessment of the implications of the DfT's appraisal of the costs and benefits of expansion for consumers; and
- updated analysis of information provided by airlines and other stakeholders, including on the likely impact of higher airport charges on the willingness of airlines to take additional slots at Heathrow Airport and for passenger numbers to increase to fill the available capacity.

1.32 This will allow us to take an updated view on whether we should continue to make allowances for early costs and whether these should be increased to allow for a greater level of land acquisition and other enabling work.

Summary of our final decision on the recovery of early costs incurred in 2025 and 2026

1.33 Having considered the responses stakeholders have provided to the April 2026 Draft Decision, further information provided by both HAL and HWL and other stakeholders, analysis by our consultants and other available information, we have updated our proposals for the recovery of early costs incurred in 2025 and 2026 for this final decision. In summary, we are:

- confirming our intention to allow HAL to recover the efficient early costs of expansion it incurs in 2025 and 2026 up to a cap of £320 million (2024 prices). This cap is further supported by additional information provided by HAL and by our consideration of the findings of our consultants Steer, as explained in chapter 4 (Regulatory arrangements to protect consumers). Based on Steer's initial and high-level scrutiny, £208 million of HAL's submission for 2025 and 2026 early costs has been assessed by Steer as passing all scrutiny criteria. We will continue to engage with HAL and request additional evidence in relation to these costs before determining the final amount which should be added to HAL's RAB through an *ex post* review, within the £320 million cap. We have not increased the cap on early costs incurred in 2025 and 2026 to £450 million as requested by HAL in response to the Draft Decision;
- within the cap of £320 million, allow HAL to recover planning costs and certain limited (i) land and property acquisition costs, and (ii) enabling costs. The recovery of all early costs will be subject to the arrangements for the *ex post* efficiency review discussed below, with any cost recovery limited to efficient costs;
- confirming that the actual amount of early costs to be recoverable in respect of 2025 and 2026 will be determined by the CAA following an *ex post* efficiency review of the early costs incurred, which will include consideration of whether HAL has taken all reasonable steps to avoid the unnecessary duplication of costs;

- retaining the additional proposed protections to further the interests of consumers set out in the December 2025 Consultation, including:
  - (i) the appointment of an independent technical expert to provide ongoing monitoring and assurance of costs;
  - (ii) arrangements designed to avoid any unnecessary duplication in costs;
  - (iii) the introduction of a “reopener” provision to be used should there be a change of circumstances;
  - (iv) requirements for the transparent reporting of costs discussed further in chapter 4 (Regulatory arrangements to protect consumers); and
  - (v) capping the returns that HAL will be able to earn on early costs and updating the allowed return figure used in the Draft Decision from the bottom of the H7 real cost of capital of 3.3%, to the midpoint of the H7 range of 4.0%. This is explained further in chapter 4 (Regulatory arrangements to protect consumers) and chapter 6 (Implementing our policy and making changes to the Licence).

1.34 We are also allowing HWL to recover up to £4.14 million (2024 CPI prices) of early costs it incurred up to the Government’s 2025 Announcement, in order to act in a way consistent with our statutory duty to promote competition where appropriate in the provision of airport operation services. In due course we will also carry out an *ex post* efficiency review of HWL’s costs. These matters are explained further in chapter 5 (Recovery of other promoters’ early costs).

1.35 Our decision in relation to early costs incurred by HAL and HWL has the effect of increasing the maximum revenue yield for 2026 from £ 26.221 (2026 prices) to £26.372 (2026 prices), or an increase of 0.58%.

Our duties under CAA12

1.36 The work that we have undertaken on these proposals has been guided by our duties in the CAA12. Our primary duty under CAA12 is to further the interests of users of air transport services (we refer to such users as “consumers” in this final decision) regarding the range, availability, continuity, cost and quality of airport operation services. Where appropriate, we must further the interests of consumers by carrying out our functions in a manner which we consider will promote competition in the provision of airport operation services. In performing these duties, we must have regard to the matters set out in our "secondary duties” (including the need to secure that HAL is able to finance its provision of airport operation services).

1.37 A summary of our duties under CAA12 is set out in Appendix A.

Structure of this document

1.38 The remainder of this document sets out stakeholders' views and our final decisions for the recovery of early costs incurred by HAL in 2025 and 2026 and by HWL up to the Government's 2025 Announcement. It is structured, as follows:

- Chapter 2: Evidence we have considered on benefits to consumers, summarises evidence we have considered on the likely benefits of expansion for consumers, and our views on this evidence;
- Chapter 3: Recovery of early costs by HAL, sets out the overall approach for early costs incurred by HAL in 2025 and 2026;
- Chapter 4: Regulatory arrangements to protect consumers, addresses the level of the proposed cap on early costs and safeguards for consumers;
- Chapter 5: Recovery of other promoters' early costs, addresses the recovery of other promoters' early costs, including early costs incurred by HWL prior to the Government's 2025 Announcement;
- Chapter 6: Implementing our policy and making changes to the Licence, addresses the implementation of our proposals;
- Appendix A: Summary of our statutory duties;
- Appendix B: Glossary of terms used in this final decision;
- Appendix C: Additional material in relation to stakeholders' responses; and
- Appendix D: The notice under section 22(6) CAA12 setting out modifications to the Licence to implement this final decision.

Next steps and implementation

1.39 This document sets out our final decision in relation to the recovery of early expansion costs incurred by HAL in 2025 and 2026, and by HWL before November 2025.

1.40 We are issuing a Notice of Licence modifications under section 22(6) of CAA12 set out in Appendix D and providing explanatory text which summarises our reasoning and rationale for the Licence modifications we are making to implement this Final Decision.

1.41 HAL, as the Licence holder, and any provider of air transport services whose interests are materially affected by the final decision (typically airlines operating from Heathrow), may apply to the CMA within six weeks of the publication of this Final Decision for permission to appeal our decision to modify the Licence under section 25 of CAA12.

1.42 An appeal may be brought on the grounds that (i) the decision was based on an error of fact, (ii) the decision was wrong in law, or (iii) an error was made in the exercise of a discretion (see section 26, CAA12).

1.43 In October 2026 we intend to consult further on the regulatory arrangements for early costs for 2027 through to the Government's decision on DCO applications, which it expects to make in 2029. This consultation will also include:

- consideration of costs incurred by HWL in 2026 in progressing its DCO application; and
- our updated assessment of the costs and benefits to consumers of expansion and the implications of this assessment for the regulatory treatment of early costs.

Chapter 2
Evidence we have considered on benefits to consumers

Introduction

2.1 In this chapter we summarise the findings of reports and analysis available on the likely benefits to consumers from capacity expansion. We also provide our emerging views on this evidence, including as it pertains to our decision in relation to the recovery of early expansion costs incurred by HAL in 2025 and 2026, and by HWL between January and November 2025.

2.2 We first summarise the evidence we considered as part of our Draft Decision, then summarise stakeholders' views in response to that consultation. We then provide an overview of further evidence which has become available since the publication of our Draft Decision, including as a result of the publication by DfT of the HENPS, and associated economic appraisal report; evidence submitted by stakeholders; and analysis we have commissioned.

2.3 Finally, we set out our current view of the likely benefits of expansion for consumers and the implications of that assessment for the final decisions set out in the remainder of this document.

The Draft Decision

2.4 In the Draft Decision, we reviewed and summarised the findings of a range of evidence submitted by stakeholders and available in the public domain on the potential benefits to consumers from capacity expansion. These were:

- the appraisal of Heathrow expansion undertaken by the DfT in 2017, which informed the ANPS published in 2018;[14]
- a report from the Institute of Transport Studies at the University of Leeds ("ITS Leeds") commissioned by the CAA in 2019, to review the body of evidence on scarcity rents;[15]
- a cost benefits analysis of expansion report commissioned by HAL from Frontier Economics ("Frontier") in 2025;[16] and

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14 Department for Transport, Airport expansion: updated cost and benefits appraisal - GOV.UK, October 2017

15 Institute for Transport Studies, Independent Peer Review of Recent Research on the Existence of Scarcity Rents at Heathrow, August 2019

16 Frontier Economics, Heathrow Expansion CBA, August 2025

- three pieces of evidence submitted to us by IAG.[17]

2.5 The most significant benefit to consumers from expansion identified in the analysis published by DfT and by Frontier related to a reduction in fares due to a reduction in scarcity rents at the airport. Both analyses assume that in the absence of expansion, scarcity rents exist at Heathrow and will grow through time as demand increases, so that fares for passengers using Heathrow are higher than they would be if the airport were not capacity constrained. If Heathrow Airport were to expand, the level of scarcity rent would fall as the increased capacity would provide more scope for competition between airlines and less "pricing off" of excess demand, and so there would be downward pressure on fares to passengers.

2.6 We stated that we agreed with the conclusion of the 2019 ITS Leeds review that scarcity rents were likely to exist at Heathrow. However, we also recognised the significant uncertainty surrounding the scale of these and the extent to which they would be reduced by expansion. We said we would continue to review the available evidence and undertake our own analysis relating to scarcity rents.

2.7 We said that we expected capacity expansion at Heathrow had the potential to deliver other significant benefits to consumers including via:

- enabling airlines to offer a broader range of connectivity;
- increased flight frequencies to destinations already served; and
- reduced delays and improved resilience.

2.8 Nonetheless, we also noted the importance of considering the potential impact on consumers from the higher airport charges that will be necessary to fund expansion. We recognised that higher airport charges would adversely impact airline profitability, resulting in a range of potential airline responses that could adversely affect consumers. We said we would continue to review the evidence relating to how higher airport charges could affect airline behaviour and the consequence for the impacts of expansion on consumers.

2.9 Overall, our draft conclusion was that there were 'plausible scenarios' in which the benefits of expansion would significantly outweigh the likely extra costs to users associated with higher airport charges. More broadly we said that we considered the proposed approach set out in the December 2025 Consultation remained appropriate to further the interests of consumers by seeking to support

[17] This includes IAG's response to our November 2025 working paper on regulatory models; Oliver Wyman, LHR Affordable Capex Envelope: Report (Phase 1), March 2026; IAG Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, March 2026

the timely delivery of expansion and seeking to avoid the loss of consumer benefits from unnecessary delay.

2.10 We said that we would set out an updated position in this final decision, taking account of:

- DfT's updated appraisal of the economic case for expansion,
- further information provided by stakeholders, and
- our own analysis or analysis we have commissioned.

Stakeholders' views

2.11 Aer Lingus, BA and Iberia, which are all part of IAG, said that the consumer benefits case for capacity expansion was unproven and weakly evidenced, particularly given that the proposed intervention would impose direct and unavoidable costs on passengers. They added that the CAA's "plausible scenarios" test was inadequate and made the following comments regarding the evidence on which the CAA relied:

- The CAA had not commissioned any independent, up-to-date cost-benefit analysis to support its conclusions. Instead, it relied on a 2017 DfT appraisal – now approaching a decade old – together with an August 2025 analysis commissioned and funded by HAL itself.
- The primary benefit relied upon in the Draft Decision was the claimed elimination of alleged scarcity rents. That claim was contested and rested on analysis that had been subject to substantive methodological criticism by stakeholders.
- The Draft Decision did not demonstrate that these benefits were likely to materialise at a scale or within a timeframe that would outweigh the near-term costs borne by consumers. For customers, the downside was clear and immediate: higher airport charges passed through into ticket prices. By contrast, any benefits were uncertain, contingent on multiple future decisions, and likely to arise many years into the future, if at all. In these circumstances, reliance on the existence of "plausible scenarios" in which consumers might benefit was not an adequate basis for regulatory intervention. Proportionality required a reasonable degree of confidence that benefits were likely to exceed costs, not merely that they were conceivable.

2.12 BA also added that the CAA's own external advice on the costs of expansion had identified a cost range sufficiently wide to place net consumer welfare in negative territory under plausible scenarios.

2.13 Airlines for America (“A4A”) made similar comments regarding user benefits from expansion. It said that the CAA’s Draft Decision relied on the existence of “plausible scenarios” in which expansion may deliver net benefits to consumers. However, the consultation itself acknowledged significant uncertainty in both the existence and scale of these benefits. In A4A’s view, forcing consumers to fund early stage development costs was unfair and unreasonable where the benefits were uncertain.

2.14 IATA/AOC were concerned that the CAA continued to advance cost recovery proposals in the absence of a complete and independent assessment of consumer benefits. They said that while the Draft Decision referenced the importance of enabling expansion to deliver future benefits, they considered that there remained no confirmed view on whether expansion delivered net consumer benefit, and no clear linkage between costs being approved today and demonstrable consumer outcomes. In their view this represented a fundamental sequencing issue. In any robust regulatory framework, costs should only be approved once benefits were clearly established and independently verified.

2.15 IAG was supportive of additional capacity at Heathrow. However, it said that expansion must be delivered in a manner that was affordable and aligned with airline economics, consumer interests and the UK's long-term growth objectives. These objectives would not be met unless the regulatory framework governing pre-construction activity promotes robust cost control, appropriate risk allocation and effective regulatory scrutiny from the outset.

2.16 IAG added that uncompetitive airport charges negatively impact the whole aviation ecosystem as they affect ticket prices and therefore passenger demand, business investment decisions, supply chains, connectivity and the competitiveness of the UK aviation sector internationally. It considered that the regulatory framework governing Heathrow expansion must therefore reflect the reality that the consequences of inefficient expenditure or cost escalation extend far beyond the airport operator itself.

2.17 HAL welcomed the CAA’s independent assessment of the consumer benefits of expansion and noted that there had been an extensive body of work that investigated scarcity rents and estimated the consumer benefits of expansion, including the independent studies from the Airports Commission (2017) and ITS Leeds (2019). HAL then commented on the following key questions and areas for further investigation raised in the Draft Decision.

- In response to the CAA's comment of significant market developments in the aviation sector since the pandemic, it said that downward adjustments in UK long-run growth forecasts strengthened, rather than weakened, the economic case for expansion. It said that a lack of infrastructure investment had been identified as a significant barrier to economic growth in London and the South East. Reductions in growth prospects pointed to increasing consumer harm from underinvestment. According to HAL this was aligned with Green Book guidance, which noted that standard partial equilibrium appraisal approaches are not sufficient to capture the market impacts of 'transformational' investments.
- HAL said that the aviation market had recently exhibited symptoms of capacity constraint as the Airports Commission (2017) predicted: the UK experienced higher airfare inflation compared with the EU since the pandemic and that BA achieved a 15% operating margin[18] in 2025, twice the global IATA average.
- In response to the CAA's comments that the Frontier cost benefit analysis of expansion omitted certain consumer benefits (frequency and reduced delays), but also the cost passthrough of airport charges to airfares, HAL said that the incremental aeronautical revenue to fund expansion was less than the quantum of scarcity rent that airlines earned at Heathrow. In its view it would be profitable for Heathrow to continue to operate at capacity during the peak of the airport charge profile associated with expansion. In the circumstances of capacity expansion, airlines would adjust airfares to maximise revenue. If they chose to pass through some portion of airport charges, this would increase their total revenue relative to the case where they chose not to pass through any of the charge increase. It also said that Frontier had not underestimated the costs of expansion.

2.18 HAL also said that it does not consider IAG's reasoning persuasive in relation to the existence of scarcity rents at Heathrow (IAG stated that scarcity rents do not exist in their May 2026 submission to DfT and CAA). It noted that:

- IAG evidenced that BA could charge more in airfares on a flight from Heathrow than a flight from Gatwick to the same destination (average of £36 per short haul passenger). This according to HAL was evidence of a scarcity rent;

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[18] An operating margin (sometimes referred to as just a "margin") measures operating income (revenue minus some operating costs) relative to the total revenue earned, and before accounting for interest and tax expenses. It is expressed as a percentage; a higher operating margin tends to imply a higher level of profitability.

- in the absence of the capacity constraint this magnitude of price difference would be competed away; and
- IAG had not explained how slots at Heathrow could command high prices in the absence of scarcity rents.

2.19 It also commented on the Oliver Wyman study on expansion affordability commissioned by IAG, which we referenced in the Draft Decision and said it had a number of limitations including:

- the estimated current airline margins relied on input assumptions available to IAG only and cannot be replicated independently;
- the estimated margins for non-IAG airlines (~5%) were not consistent with observed airline behaviours;
- the estimated affordable increase in charges (£4.50-5.50) was difficult to reconcile with observed airline behaviours;
- the proposed limit on the expansion capital plan (£30 billion) appears arbitrary and rests on opaque building block assumptions; and
- contextual information in the report was inaccurate or misleading.

2.20 HAL concluded that an efficient and effective early cost recovery mechanism was essential to delivering the benefits of expansion, and that delay to expansion would result in a loss of consumer benefit. HAL said that the regulatory framework for early costs should be calibrated not only to avoid inefficient spend, but also to avoid avoidable delay to a project whose consumer benefits the CAA had itself recognised.

2.21 In addition to HAL and airlines, we also received a response to our Draft Decision from a think tank – The New Economics Foundation ("NEF"). Its submission raises the following points relating to the impact of expansion on consumers:

- Demand for business air travel has been consistently overestimated by the DfT and other forecasters. Heathrow's business-travel market share has fallen sharply, with all recent growth in the London airport system coming from leisure passengers. NEF consider that business passengers are relatively less responsive to increases in fares, such that the greater the proportion of passengers traveling for business, the more fares could rise at a capacity constrained airport (i.e. scarcity rents would be higher). If the DfT, and other, modelling overestimates future growth in business passenger demand then the associated estimates of the consumer benefits associated with expansion reducing scarcity rents would also be overestimated.

- Most analysis of the impact of expansion on scarcity rents (including those projected by Frontier) rely on estimates of the responsiveness of passenger demand (price elasticities of demand) produced by DfT, which are suited only to small price changes. NEF note that most of the estimated benefits of expansion are projected to occur many years after the new runway is open, when assumed capacity constraints coupled with the use of DfT elasticities result in ticket prices being estimated to rise rapidly due to sharply increasing levels of scarcity rent. Demand may be far more responsive to price than assumed; adjusting for this would significantly reduce the estimated benefit of expansion in reducing scarcity rents.
- The government has clearly stated that any surface access improvements associated with Heathrow expansion must be privately financed. The scale of these costs and how they would be paid for need to be considered in assessing the impact of expansion on consumers.

2.22 NEF raised several other points in its submissions including asserting that the current regulated asset-based funding model creates perverse incentives for inefficient spending and that the new infrastructure should be paid for by users of the new landing slots only. We consider that these comments are more relevant to our work on regulatory models. We will therefore consider these issues as part of the next phase of that work.

Further information provided by stakeholders

Slot Asset Values Exist Without Excess Airline Returns, submitted by IAG, May 2026[19]

2.23 In May 2026, IAG submitted a paper to the DfT and CAA – responding to the slot price analysis conducted by Frontier in 2019[20] (which was referenced by Frontier in its 2025 cost-benefit analysis of Heathrow expansion[21]). The IAG paper argues that inferring a passenger-paid scarcity rent[22] congestion premium from slot prices is theoretically flawed and lacks support from airline profitability data. It also argued that slots can trade at high prices without that as proof of excess returns for airlines.

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19 IAG, Slot Asset Values Exist Without Excess Airline Returns, May 2026. This paper was not submitted in response to the Draft Decision on early costs, but we have summarised it here as it is part of the evidence base on the benefits of expansion to consumers.

20 Section 3 of Frontier Economics, Estimating the Congestion Premium at Heathrow, May 2019

21 Frontier Economics, Heathrow Expansion CBA, August 2025

22 The IAG paper users the term “congestion premium” to refer to scarcity rent, mirroring language used by Frontier.

2.24 For context, Frontier's 2019 analysis looked at Heathrow slot transactions to estimate a congestion premium at the airport. It argued that an airline is willing to pay for a slot because of slot scarcity and the expectation of being able to earn a premium over and above long-run marginal cost ("LRMC"). Frontier's approach was as follows:

- first, it used slot transaction data to calculate an average price per slot across a sample of eight transactions;
- second, based on the price paid for a slot, it calculated a stream of annual congestion premium cash flows expected to arise from operating that slot, such that the two values were equal in present value terms. It assumed a 10-year investment horizon and 7.5% rate of return;[23] and
- third, it multiplied the annual estimated premium per slot by the total number of slots at Heathrow to get an airport-level annual estimated premium.

2.25 IAG's critique of Frontier's analysis centred around three main interrelated points:

- <u>Slot values reflect a bundle of benefits and rights, not a route-level premium</u> – it said Frontier's method was wrong because it reflects a logical error, in that it assumes an airport slot's entire value is equal to the present value of a single revenue stream (a route-level congestion premium) when actually a slot's price reflects asset scarcity and capitalises multiple sources of value, most of which are unrelated to a route-level congestion premium or operating performance. It said because of this, high slot prices can be consistent with normal commercial returns. It also said:

  i. network economics mean that individual spoke routes can be loss making but still valuable to an airline's overall network because of what they contribute to the system. This value is capitalised in slot prices but does not show up as fares significantly higher than costs on the spoke route and has nothing to do with a passenger-paid fare premium; and

  ii. slot rights are effectively conferred in perpetuity and so Frontier's use of a 10-year investment horizon overstates any inferred premium by about 94 per cent.

[23] The logic is that the net present value of the premium earned per year should be greater than or equal to the price paid for the slot for the investment to be profitable or, at the very least, neutral in net present value terms. Otherwise, a rational investor would not purchase the slot.

- If there was a congestion premium being earned by airlines, it would be visible in airlines' profits, costs, load factors or fares, yet this has not been the case.[24] Further, if operating at Heathrow generated a congestion premium, airlines would compete to enter and stay rather than cut capacity, exit routes or sell their slots, as has been observed. It said Frontier's analysis of a premium relative to LRMC is an inappropriate benchmark since in theory this excludes enterprise-level overheads (such as head office costs) and therefore fares could be above LRMC without any congestion premium being earned. Instead, it said the relevant benchmark is to compare an airline's returns against its full cycle-average cost of capital and that, on average, airlines operating at Heathrow do not clear that benchmark.
- Frontier's estimates cannot be reconciled with other evidence – it said Frontier's scaling of a congestion premium to the airport level was wrong because:
    i. it generalises from a thin sample based on the marginal buyer which does not reflect the average slot holder's economics, nor that different slots may have different value based on their characteristics;
    ii. omits IAG's acquisition of British Midland International from calculations which biases estimates upward, since the average price for a slot in that deal was considerably lower than others in Frontier's sample; and
    iii. that Frontier's scaled, airport-level estimate of a congestion premium is inconsistent with the estimated total airline operating profits (or earnings before interest and taxation, "EBIT") at Heathrow. To further illustrate this point, IAG use Virgin Atlantic's use of slots as collateral for a $745 million USD loan[25] to estimate the value of the total slot portfolio at Heathrow and, in turn, what earnings this would imply for airlines.

2.26 IAG concluded that there is no evidence of a premium and that increased airport charges arising from current expansion plans will have significant impacts on airlines and consumers, including by leading to increased fares, capacity reductions and airlines exiting Heathrow.

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24 For more information on the argument put forward, see: IAG, Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, March 2026

25 For example of coverage, see Virgin Atlantic uses Heathrow slots as collateral for $745m Apollo loan

Heathrow Expansion Appraisal report, published by the DfT in June 2026[26]

2.27 The DfT published its updated appraisal of the proposed expansion of Heathrow airport alongside the Draft HENPS. The appraisal assesses the impacts of Heathrow expansion on the UK compared to a scenario in which Heathrow does not expand. This includes impacts to passengers, as well as impacts on airlines, Government, the wider UK economy and environmental impacts.

2.28 The appraisal monetises three categories of passenger benefit:

- **Consumer Surplus**: increased capacity reduces scarcity rents, and therefore the costs that users of Heathrow and some other capacity constrained airports pay, while enabling more passengers to travel to and from Heathrow.
- **Frequency Benefits**: expansion enables airlines to offer more flights to the same destination at different times, which benefits passengers as they are more likely to be able to travel at their preferred time.
- **Delay Benefits**: increased capacity reduces delays due to congestion and enables the airport to recover more quickly from disruption (for example, due to bad weather).

2.29 The appraisal draws on updated forecasts produced using the DfT's aviation modelling framework. The DfT has recently published these outputs[27] along with details of the modelling framework.[28]

2.30 In simple terms, the starting point for the model is to forecast passenger demand within market segments at the UK level. It then allocates passenger demand to individual airports based on a range of factors that have been observed to best explain passengers' choice of airport historically. When an airport within the model reaches defined capacity limits, a "shadow cost" is applied to the costs passengers face to use that airport. The level of shadow cost applied at each constrained airport is the minimum required to ensure that the number of passengers choosing to fly from the airport (and associated flights) does not exceed its available capacity. The level of shadow cost applied at a constrained airport increases as demand increases.

2.31 The appraisal report focuses on the results of two versions of a central 'Current Trends' scenario, which the DfT considers to be the most likely estimate of future market conditions. The first version – labelled "no pass through" – assumes that

26 Department for Transport, Heathrow expansion appraisal report (HEAR), June 2026

27 Department for Transport, UK aviation forecast 2026 - GOV.UK, June 2026

28 Department for Transport, DfT aviation modelling suite 2026, June 2026

the additional airport charges required to fund expansion are not passed through to consumers. The second – labelled “cost pass through” – assumes that airlines seek to pass through some of the additional charges to consumers.

2.32 In the “cost pass through” version the extent to which the assumed increase in airport charges due to expansion is passed through to passengers depends on the level of “shadow cost” applied at Heathrow in that year under the “no pass through” version. If the level of shadow cost at Heathrow is greater than the additional charges, none of the additional charge is passed through to consumers (it is assumed to be absorbed by airlines). The lower the shadow cost is relative to the assumed additional charge in any given year the greater the proportion of the additional charge that is passed through to consumers.

2.33 The appraisal report recognises that the impact of expansion on airport charges will depend on a range of uncertain factors. The assumed increase in airport charges used in the modelling are based on information provided by HAL. The report makes clear that HAL’s charge estimates have been used solely to illustrate the potential impact of the charges and does not represent any commitments on costs, Government views on the regulatory approach or any agreed position on the future level or distribution of airport charges.

2.34 Table 2.1 below presents the passenger benefits presented for the two versions of the Current Trends scenarios.[29] It shows that the “No pass through” case delivers benefits to passengers of £55 billion (in 2024 prices, discounted to 2024 over a 60-year appraisal horizon), almost all of which come from lower fares and user entry. In the “Cost pass through” case, it shows benefits to passengers of £35 billion.

Table 2.1: DfT estimates of passenger benefits under central ‘Current Trends’ scenario, all passengers

2024 prices, discounted to 2024, £bn	**"No pass through"**	**"Cost pass through"**
Lower fares and user entry	52.1	32.7
Frequency benefits	2.2	1.8
Delays	0.9	0.8
Total	**55.2**	**35.3**

Note: 60-year appraisal horizon, using a 3.5% real discount rate for first 30 years, then 3% for the next 30 years, in line with HM Green Book

2.35 The appraisal report explains that passenger benefits are not confined to Heathrow Airport. When Heathrow expands, the additional capacity attracts new passengers and draws passengers away from other airports. This reallocation of

29 The values differ from those in the main body of the published appraisal report as they include impacts on all passengers, whereas the main body of the report presents the impacts on UK residents only, in line with government appraisal guidance.

passengers reduces congestion at those other airports, benefitting the passengers which use them.

2.36 It also explains that recently approved capacity expansions to Luton, Stansted, London City and Gatwick are all taken into account in both the baseline case and the Heathrow expansion case, and that, while Heathrow's third runway becomes operational in 2035, passenger volumes at the airport are constrained until terminal capacity upgrades occur in 2038, 2049 and 2054.

2.37 The appraisal report highlights limitations in the DfT's ability to model the impact of the assumed levels of additional higher airport charges on consumers. It explains that this results in the model underestimating the extent to which the additional charges are passed through to consumers in higher fares and therefore overestimating the level of passenger demand at Heathrow in some years. The report indicates that under the "cost pass through" version of the Current Trends scenario, a proportion of the £24.8 billion assumed scheme costs (net present value, 2024 prices) would be borne by consumers. The report does not state, however, what proportion of the £24.8 billion the DfT expects to be borne by consumers. Adjusting for this would reduce the benefits to passengers presented in table 2.1. The report recognises that the DfT's modelling, and therefore the appraisal more generally, does not fully capture airline behaviour, particularly short-term commercial responses.

2.38 The appraisal report does not show how the estimated consumer impacts of expansion vary through time. However, it does present the model outputs relating to how the impact of expansion on air traffic movements[30] (ATMs), airline seats and terminal passengers[31] per year vary over the modelled period. This shows that, at the UK level, the modelling indicates that expansion would have a relatively limited impact in the period to 2045 (expansion increases UK ATMs by 0.7% in 2045) but that its impact would then grow rapidly in the final years of the modelled period (in the final modelled year expansion increases UK ATMs by 7.7%).

30 The number of aircraft take off and landings.

31 A terminal passenger is a passenger joining or leaving an aircraft at a reporting airport. As such, a person on a domestic flight would be counted as two terminal passengers (once at both the departing and arriving airport).

CAA analysis

Slot Transaction Analysis to Estimate Economic profit at Heathrow Airport, published in July 2026[32]

2.39 In June 2026 we commissioned our delivery partner Grant Thornton ("GT") to conduct analysis of airport slot transactions at Heathrow Airport to consider what inferences could be reasonably drawn about the existence of scarcity rents at Heathrow Airport. We commissioned this work to:

- help inform our views on Frontier's 2019 slot price analysis; and
- produce independent and updated analysis of these matters.[33]

2.40 The report states that using slot prices at a capacity constrained airport like Heathrow to infer something about scarcity rents is based on the assumption that a slot's price reflects an airline's expectation of the future benefits (or economic profits) of operating that slot, which might include scarcity rents.[34] Theoretically, scarcity rents arise because capacity constraints and excess demand to fly to and from Heathrow mean fares (and therefore the value generated by operating the slot) are above what would be expected in an unconstrained market where airlines can feasibly enter and apply competitive pressure on fares.

2.41 GT note that the slot price should be treated as an upper bound estimate of any scarcity rents, since a slot's price may also reflect other benefit streams, such as access rights, redeployment optionality and strategic positioning. However, it also notes that these other benefits largely derive their value from the capacity constraint itself and would not command the prices observed at an unconstrained airport.

2.42 The analysis uses slot transaction data from IBA[35] and economy ticket price data from RDC Apex,[36] two separate aviation intelligence platforms. It uses a sample of eight slot transactions between 2014 and 2024.

2.43 GT's approach converts observed slot transaction values into an equivalent annual economic profit[37] in a way similar to the 2019 analysis by Frontier. It uses

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32 CAP3289A Slot Transaction Analysis to Estimate Economic Profit at Heathrow Airport, July 2026

33 Separately (see next section) we asked GT to review stakeholder responses. GT's views on that paper confirmed the usefulness of conducting this analysis.

34 An airline would be willing to pay up to the present value of future economic profit they are expecting to earn from operating that slot.

35 www.iba.aero

36 www.rdcaviation.com/products/apex

37 By equating the slot price to the stream of discounted future benefits, one can rearrange to find the required implied annual economic profit.

assumptions about investment appraisal horizon and the required rate of return, then expresses this on a per slot transaction, per flight and per-passenger basis, as well as a percentage of average economy ticket prices.

2.44 To convert the estimated annual economic profit per flight into an estimate per passenger, GT:

- uses estimated load factors and aircraft capacity from the IBA slot transaction dataset, IATA and ICAO, based on 2025 flight activity, to determine the number of passengers flying on each route that the slot transactions relate to;
- for each slot transaction, calculates the median of a 30-day and 90-day single economy ticket price respectively across all routes operated by the slot purchaser using that slot, and then takes the average of those two medians to give an overall estimate of the average economy ticket price;[38] and
- assumes scarcity rents only apply to traffic not transferring at Heathrow – about 73.3 per cent of passengers[39] – because for transfer passengers there are substitutes available (for example, Schiphol in Amsterdam) and there is therefore greater price competition.

2.45 Table 2.2 below summarises the main results of the analysis and presents the outcomes in terms of implied economic profit per flight, per passenger and as a proportion of an average economy ticket price (as constructed above).

Table 2.2: GT slot transaction analysis results summary (2026 prices)

Time horizon	Rate of return	£ per flight	£ per passenger	% of economy ticket price
10 years	**10%**	£4,100-15,500	£19-93	6-25%
30 years	**7.5%**	£2,200-8,300	£10-49	3-13%

Note: Table constructed by CAA based on findings from CAP3289A

2.46 When looking at the median point of the ranges presented in the table above:

- per flight economic profit was estimated at £5,400 and £2,900 (2026 prices) for the 10-year, 10% rate of return and 30-year, 7.5% rate of return scenarios respectively; and

38 This was to capture the fact that ticket prices are time sensitive and tend to be higher closer to date of departure.

39 Based on the 2024 CAA Departing Passenger Survey.

- per passenger economic profit was estimated to be £29 and £16 (2026 prices) for the 10-year, 10% rate of return and 30-year, 7.5% rate of return scenarios respectively, which corresponds to 12% and 6% of an average economy ticket price.

2.47 These results are broadly in line with Frontier's 2019 estimates when adjusted for inflation (to 2026 prices) and differences in unit of measurement.

2.48 However, GT lists several limitations of the analysis as well as reasons why it has not attempted to extrapolate the results to produce an airport-wide estimate of aggregate airline economic profits:

- fare data for ticket classes other than economy was sparse, and so the analysis only takes account of economy ticket prices. GT recognised that economic profit expressed as a percentage of ticket prices should therefore be treated as an upper bound, since economy fares are typically lower than premium cabin fares;[40]
- slot values are likely to vary depending on the characteristics of the routes they can be or are used for, such as time of day, long or short haul, the destination, degree of competition or airlines involved. It said it had not tried to determine how representative the sample is of these different characteristics;
- the sample reflects those willing to buy and trade rather than a comprehensive or random sample of slot values, and so observed slot prices are likely to be informative about the value of scarce capacity at the margin but not necessarily representative of the average value of all slots at Heathrow;
- because route competition is an important profit driver, the value of some transactions may partly reflect the degree of airline market power as well as the scarcity of airport capacity; and
- some of the transactions may reflect changes to aviation demand because of the impact of the Covid-19 pandemic and, so, the three transactions in the sample between 2020 and 2024 may not be equivalent data points to the five completed between 2014 and 2019.

Airline profitability: conceptual framework and review of stakeholder submissions, published in July 2026[41]

2.49 We also commissioned GT to produce a report outlining a conceptual framework for airline economic decisions and what that might tell us about the likely airline

40 However, we note this should not matter in absolute terms.

41 CAP3289B Airline profitability: conceptual framework and review of stakeholder submissions July 2026

response to increases in airport charges. The report includes an assessment of the evidence submitted by IAG and HAL relevant to our review of the evidence relating to the existence of scarcity rents and the airline response to the higher airport charges needed to finance expansion.[42] The purpose of this report is to inform our assessment of this evidence.

2.50 The framework (following ITS Leeds)[43] treats air travel not as a single market but as a set of overlapping 'sub-markets', defined across routes, passenger types, booking horizons and time of travel, each of which could be analysed according to the conditions prevailing within it. The framework links profit maximisation that airlines are trying to achieve, the levers they use to do so – pricing, service capacity and network configuration – and the conditions in each sub-market, to outcomes for fares, service and profitability, in order to identify the conditions under which scarcity rents would be expected to arise.

2.51 It concludes that scarcity rents are expected to be strongest where airlines have a greater degree of market power (due, for example, to the existence of capacity constraints), where substitutes are weakest and where demand is least elastic (noting that these factors are typically correlated). For the same reason, an increase in aeronautical charges would not be expected to pass through to fares in full assuming the capacity constraint remains fixed: part of the incidence falls on scarcity rents earned by airlines and part on passengers, with the relative proportions depending on factors such as demand elasticity and the competitive constraint from other airports, hubs and modes. However, where no capacity constraint or other sources of market power were to remain, and the market was assumed to reach a perfectly competitive equilibrium, all scarcity rents would disappear (and be passed on to consumers through lower ticket prices) whilst increases in charges would be passed on to consumers in full.

2.52 GT's assessment of the evidence from stakeholders examines whether:

- economic theory supports the possibility of a scarcity rent at Heathrow;
- the submissions provide empirical evidence on its existence, scale or incidence; and

42 The evidence reviewed includes: the IAG paper Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow submitted to us by IAG in March 2026 and summarised in the draft decision; the IAG paper "Slot Asset Values Exist Without Excess Airline Returns" submitted to us by IAG in May 2026 and outlined above; Frontier/HALs response to the points made by IAG in relation to their analysis of scarcity rents, submitted to us as part of HAL's response to the draft decision as outlined above; and the Oliver Wyman paper LHR Affordable Capex Envelope: Report (Phase 1) submitted by IAG in March 2026 and summarised in the draft decision.

43 Institute for Transport Studies, Independent Peer Review of Recent Research on the Existence of Scarcity Rents at Heathrow, August 2019

- the conclusions each party draws are proportionate to the strength and limitations of its evidence.

2.53 These are assessed against GT's conceptual framework; no new empirical analysis is undertaken, so its assessment is limited to the internal logic, theoretical consistency and evidential weight of the submissions.

2.54 In relation to the IAG paper on scarcity rents, GT notes that Heathrow operates at capacity (a fact not disputed by IAG), which is a condition under which theory suggests scarcity rents would be expected to arise. From an empirical perspective, GT sees validity in many of IAG's analyses and criticisms of Frontier's estimate of scarcity rents. It views these as reasons to potentially narrow where in the supply chain any rent may sit, and to treat Frontier's quantification as a potential overestimate. GT considers that IAG has established that a large, evenly-captured, airline-retained rent is difficult to identify in the airline accounts; but do not rule out a rent that is concentrated on particular routes and slots, shared with others or held in the value of slots rather than taken as profit. The reasonable inference from the evidence is therefore that the scale and incidence of any scarcity rent are uncertain, not that the scarcity rent is absent. On that basis, the evidence does not, in GT's view, justify removing the scarcity rent from the appraisal, though it is a legitimate reason to test its scale carefully with further analysis, and to seek evidence at route, slot and segment level.

2.55 GT has also reviewed the IAG paper on slots and has assessed the five substantive tests contained in the paper. While it sees some value in each of these arguments, GT concludes that they can only establish that Frontier's estimate of the scarcity rent is likely to be an upper bound. GT does not consider that the paper provides convincing evidence that scarcity rents do not exist at Heathrow.

2.56 In relation to the Oliver Wyman ("OW") paper GT suggests that this bears mainly on a related question – how the costs of expansion would be shared – while HAL and Frontier argue directly that a substantial premium already exists. GT considers that the evidence supports the qualitative propositions that incremental charges of sufficient scale would erode airline margins and induce some capacity reallocation, and that affordability depends on the level and phasing of expansion capex. However, GT highlights a range of concerns with the assumptions used in the analysis underpinning OW's conclusion that increases to charges above £4.50-5.50 per passenger would result in margins falling below a viable level. Of most significance, GT questions OW's assumption that, because revenue management is being used to maximise revenues, airlines would not choose to pass through any increase in airport charges. GT suggests that partial pass-through is more likely, with the level of pass through varying across different market segments. GT also questions OW's use of the distribution of airlines historical margins to define a threshold below which airlines would leave the airport. It notes that this distribution describes how often airlines have earned low margins, not the level at which carriers withdraw capacity.

2.57 GT concludes that the conclusion of OW's analysis – airlines could absorb £4.50-5.50 per passenger in incremental charges before margins fall below a minimum viable level – represents one possible scenario and does not define an established affordability ceiling. The OW report also models how airlines would move capacity away from Heathrow if charges rose too far. GT notes that OW assumes whole groups of carriers relocate once the group's average profit margin falls below a threshold, but that GT's conceptual framework suggests instead these decisions are made route by route, and that Heathrow's network and hub economics would slow any relocation for many carriers. GT therefore concludes that the modelled response in OW's analysis is likely to overstate how readily capacity would leave.

2.58 Drawing on both economic theory and its review of the stakeholder evidence, GT concludes that scarcity rents are likely present at Heathrow, although their scale and location in the supply chain are materially uncertain. The analyses by IAG, OW, HAL and Frontier all rely on assumptions GT has been unable to verify.

Our views

Updated DfT appraisal

2.59 As explained above the DfT has published an updated appraisal of Heathrow expansion alongside the draft HENPS. The report was only published in June and there has been limited time for us (and other stakeholders) to understand the detail of this analysis. As outlined above, the results indicate that there would be net benefits to consumers due to Heathrow expansion estimated to be worth £35-55 billion in present value terms (2024 prices) under the 'Current Trends' scenario the DfT considers most likely.

2.60 We particularly welcome the DfT's attempt to take account of the likelihood of airlines passing through (at least partially) higher airport charges in their updated appraisal report. However, as highlighted in the appraisal report, we note there are limitations in the DfT's ability to model the impact of higher airport charges within its aviation modelling framework, and in the way it represents airline responses to higher airport charges more generally.

2.61 Over the coming months we will engage with the DfT to better understand its analysis and we will take this into account in developing our policy on early costs for 2027 and beyond. This will include consideration of:

- the limitations in DfT's modelling of higher airport charges;
- different assumptions about how expansion affects airport charges;

- how appraisal results change when input assumptions, including but not limited to those identified by NEF in its response, are varied;
- the approach to estimating consumer benefits at airports other than Heathrow;
- assumptions on capacity at Heathrow and other airports; and
- the profile of consumer benefits over the appraisal period.

2.62 We recognise that the material published by DfT is new and has not yet been subject to stakeholder feedback through the consultation process on the HENPS. We also recognise that the DfT's analysis may change over time as new evidence emerges. Nonetheless, we take some comfort from the fact that the appraisal results do not contradict or undermine our view, as set out in the Draft Decision, that there are plausible scenarios in which expansion will deliver substantial benefits to consumers.

Review of wider evidence relating to scarcity rents

2.63 We have continued to review the evidence submitted by stakeholders relating to the scale of scarcity rents at Heathrow. As noted above, to support this review we commissioned our delivery partner GT to undertake two pieces of work discussed above. In the first, we commissioned GT to conduct analysis of available data on Heathrow slot transactions to consider what inferences could be drawn about the existence and scale of scarcity rents at Heathrow. In the second, we commissioned GT to develop a simple conceptual framework and to use it to assess the arguments and evidence set out in papers submitted by stakeholders.

2.64 The estimates of economic profit per flight produced by GT for the sample of transactions they considered are similar in magnitude to the equivalent estimates that could be obtained using the transactions considered in Frontier's analysis from 2019. Nonetheless, we agree with GT that there are strong reasons to be cautious in extrapolating from the estimated economic profit from a small sample of transactions to estimate the aggregate level of scarcity rents across the entire airport in the way that Frontier did in its 2019 analysis. Not only do the samples of transactions analysed capture a very small, and potentially unrepresentative, proportion of slots at Heathrow, but the analysis indicates that the implied economic profit per flight varies significantly across them.

2.65 In relation to the other criticisms of Frontier's slot analysis made by IAG, we tend to agree that Frontier's assumption that, on average, airlines expect to recoup slot transactions in ten years is likely to result in an upper bound estimate of the expected economic profits at Heathrow. On the other hand, assuming an infinite payback period, as IAG suggests, would be an extreme assumption that would likely lead to an underestimate.

2.66 We consider another important argument made by IAG is that the scale of Frontier's estimate of scarcity rents is not observed in airlines' actual results. This is the same argument made in "Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow" that was submitted to us by IAG in March 2026 and outlined in our Draft Decision. We have outlined GT's critique of this document as part of its "Airline profitability: conceptual framework and review of stakeholder submissions" paper above. We agree with GT that the evidence presented by IAG appears to indicate that scarcity rents of the scale estimated by Frontier are difficult to reconcile with observed data on airline profitability. However, we also agree that the evidence is insufficient to conclude that scarcity rents do not exist at all. In particular, GT has highlighted ways in which significant scarcity rents could exist without being reflected in airline accounting profits.

2.67 The evidence we have reviewed does not contradict or undermine our view, as set out in our Draft Decision, that scarcity rents are likely to exist at Heathrow, but that there is significant uncertainty about their scale. We plan to undertake further analysis relating to the scale of scarcity rents at Heathrow and will draw on the findings in developing our policy on early costs incurred from 2027 and beyond.

Airline response to higher airport charges

2.68 We have also reviewed the evidence relating to airlines' behavioural response to the increases in airport charges required to fund expansion. This includes commissioning GT to support us in assessing the arguments made in the report "Affordable capex envelope" produced by OW, submitted to us by IAG in March 2026 and summarised in the Draft Decision.

2.69 In line with GT's conclusions, we agree with OW that there is a risk that sufficiently large increases in airport charges could lead to airlines reallocating capacity and that this could create a self-reinforcing dynamic. However, we recognise a number of the limitations in OW's analysis that GT has highlighted. In particular, we do not agree with the rationale given for assuming that airlines would not pass any of the increase in airport charges needed for expansion through to their passengers or that it is reasonable to assume away the existence of scarcity rents in the way the report does. We also share GT's concerns about the use of the distribution of airlines' historical observed margins as representing a threshold below which airlines would exit Heathrow. The OW report presents data that shows that some airlines operate persistently below the assumed threshold without exiting, which suggests the threshold may have been set too high. We also agree with GT that the report underrepresents the uncertainty surrounding many of its assumptions. For these reasons, we regard the conclusion that increases of charges of more than £4.50-5.50 per passenger

(2024 prices) would result in airlines shifting capacity to other airports as speculative and it appears to lack a rigorous underlying basis.

2.70 We also asked GT to look at previous examples of significant increases in airport charges and what effect they had on outputs. GT examined data on numbers of flights and passengers, load factors, aircraft size and the proportion of passengers connecting for:

- Heathrow when its charges increased to cover the cost of building Terminal 5; and
- Amsterdam Schiphol when it increased airport charges following the covid pandemic (fare data was also examined for this event).

2.71 On balance we have decided we can only place very limited weight on this analysis as it represents just two instances of charges increases and there were other confounding factors which could also have affected the data in the time periods studied. However, in both cases, there was no clear evidence from the data of any significant effect on demand from the observed increases in airport charges.

Summary and next steps

2.72 Having reviewed the stakeholder submissions and other evidence outlined in the Draft Decision and above, our view remains that there are plausible scenarios in which expansion will deliver substantial net benefits to consumers and a proportion of these benefits would be lost if capacity expansion were to be unduly delayed.

2.73 These plausible scenarios include those identified in the DfT's latest appraisal and implied by the work that has suggested that significant scarcity rents exist at Heathrow Airport, including the work by Frontier. In these scenarios additional capacity reduces the effects of airport congestion and slot scarcity by allowing airline entry and increasing competition between airlines, with the increases in airport charges that are needed to fund expansion being largely absorbed by reductions in airline profitability. There are also potential additional benefits to consumers through improved service quality, with passengers benefiting from more frequent flights, greater choice of destinations and enhanced resilience to delays and disruption. Across these scenarios, the scale of consumer benefits depends on the extent to which current capacity constraints are contributing to higher fares and restricted choice, and on how the costs of expansion are shared between airports, airlines and passengers.

2.74 We have considered the representations made by airlines that scarcity rents at Heathrow Airport are much lower than has been suggested and that large increases in airport charges at Heathrow could restrict demand growth and damage the interests of consumers. We also note that the independent report we commissioned on slot values at Heathrow Airport highlighted the need for caution in relying on available slot transaction data to estimate the total level of scarcity rents across all the airlines and slots at Heathrow. We are continuing to assess all the evidence in relation to scarcity rents, consumer benefits and the costs to passengers of expansion. Nonetheless, for the purposes of this final decision our clear view remains that there are advantages to consumers in us making allowances for early costs and avoiding undue delays to the development of the plans and proposals for expansion, while continuing to carry out further work in parallel on the likely costs and benefits to passengers of expansion.

2.75 We will set out an updated assessment of the costs and benefits to consumers of expansion and the implications of this assessment for the regulatory treatment of early costs in 2027 and beyond. The intention is to publish this consultation in October 2026 and for the updated assessment of the costs and benefits of expansion to include:

- our views on the robustness and reliability of econometric estimates of scarcity rents at Heathrow Airport;
- further information on the expected costs of capacity expansion;
- our assessment of the implications of the DfT’s appraisal of the costs and benefits of expansion for consumers; and
- updated analysis of information provided by airlines and other stakeholders, including on the likely impact of higher airport charges on the willingness of airlines to take additional slots at Heathrow Airport and for passenger numbers to increase to fill the available capacity.

2.76 This will allow us to take a better-informed view on whether we should continue to make allowances for early costs and whether these should be increased to allow from a greater level of land acquisition and other enabling work.

Chapter 3
Recovery of early costs by HAL

Introduction

3.1 This chapter sets out our final decision on the overall approach to recovery of the early costs incurred by HAL in 2025 and 2026. It summarises:

- our Draft Decision on these matters; and
- stakeholders' views in response.

3.2 We then set out our views on the issues raised by stakeholders, and our final decision on recovery by HAL of early costs incurred in 2025 and 2026.

The Draft Decision

3.3 The Draft Decision proposed to add early costs incurred by HAL in 2025 and 2026, subject to a cap of £320 million (2024 prices), to HAL's RAB, with a subsequent *ex post* efficiency review and a true-up to ensure that only costs assessed as efficient are ultimately recovered. We also set out a package of protections for consumers which are discussed further in chapter 4 (Regulatory arrangements to protect consumers).

3.4 Our overall rationale was that without an allowance for the recovery of early costs, HAL would have insufficient regulatory certainty to proceed in a timely and appropriate way with its work to support expansion and prepare a DCO application. This in turn could cause undue delays to the expansion programme and the loss of consumer benefits. The evidence available indicated that there were plausible scenarios in which the benefits of expansion would significantly outweigh the likely extra costs to passengers arising from higher airport charges and undue delays to expansion would lead to a loss of a proportion of these consumer benefits.

3.5 The approach in our Draft Decision was designed to mitigate the risk that HAL may slow down or pause work on expansion in the absence of reasonable certainty on the recovery of early costs. On this basis we considered that our Draft Decision to allow the recovery of efficiently incurred early costs would further the interests of consumers. We also noted that our Draft Decision was consistent with the general principle that a regulated entity should expect to be able to recover efficiently incurred costs.

3.6 We also explained that we did not agree with alternative approaches proposed by airlines whereby HAL could rely on future outperformance or higher returns to offset early costs. These arrangements would either be too uncertain or would require commitments to higher levels of return in future that would likely not be in the interests of consumers. We also considered comparisons with commercial infrastructure projects to be inappropriate given HAL's regulated status, which constrains its ability to earn market-based returns in the future.

3.7 The Draft Decision emphasised that our approach for costs incurred in 2025 and 2026 would not set a precedent for our approach to costs incurred in 2027 and subsequent years. Policy on costs incurred in 2027 and afterwards would take into account the draft revised ANPS, updated analysis on the costs and benefits to consumers of expansion and our work on the broader regulatory framework for expansion at Heathrow Airport.

Stakeholders' views

HAL

3.8 HAL agreed that an efficient and effective early cost recovery mechanism would be essential to delivering the benefits of expansion, and that delay to expansion would result in a loss of consumer benefits.

HWL

3.9 HWL considered that the CAA had not yet created a level playing field between HAL and HWL and that HAL's cost recovery arrangements for 2025 and 2026 create asymmetry because HAL can assume that its expenditure up to £320 million cap is recoverable through the RAB, subject only to an *ex post* efficiency review, whereas HWL has the burden of demonstrating that its 2026 proposals deliver consumer benefits. HWL stated that this disparity is inconsistent with the "level playing field" principle because it risks undermining effective competition between promoters and entrenching HAL' s position by virtue of incumbency rather than competitive merit.

3.10 HWL also said that a binding obligation is required on HAL to share relevant information with competing promoters.

Airlines

3.11 The AOC, and airlines including BA, Virgin, Vueling, EasyJet, Iberia and Aer Lingus did not support the Draft Decision and suggested that HAL should proceed at risk with early expansion activity until a DCO is granted. BA said that early costs should remain at the promoter's risk until a DCO is secured, to ensure promoters are incentivised to undertake preliminary expansion activities in a prudent and efficient manner. The AOC, while supportive of expansion at Heathrow, remains opposed to the recovery of costs by promoters prior to DCO approval.

3.12 BA, Virgin and the AOC all said that the Draft Decision was inconsistent with the CAA's duty to further the interests of consumers. BA further reiterated its concern that the CAA's policy would give undue precedence to speed of delivery and adherence to the Government's preferred timetable over the CAA's statutory duties to act in the interests of consumers

3.13 BA and Virgin both emphasised that 2025 and 2026 early costs represent only the initial phase of a substantially larger programme, and that the Draft Decision risks establishing a regulatory precedent that could subsequently be relied upon to justify increasingly large categories of speculative pre-consent expenditure. Virgin requested a transparent breakdown of all pre-consent expenditure categories prior to any decision on cost recovery.

3.14 BA, Virgin and the AOC also raised concerns that permitting HAL to recover the costs of early land acquisition, enabling works and securing control of strategic assets, ahead of the ANPS and the outcome of the CAA's review of Heathrow's future regulatory model, would effectively pre-determine the outcome of that review, and foreclose alternative third-party delivery models before they have been properly assessed. BA noted that HAL will have informational advantage derived from the consumer funded preliminary works suggested that this would prevent alternative promoters from playing a genuine role in expansion.

3.15 IAG recommend that early enabling activity, such as property purchases, should be outsourced to an independent third party acting on behalf of all promoters, and that a binding commitment should be placed on HAL to provide full and timely access to information to all prospective promoters in the absence of such an arrangement. The AOC similarly argues that, in the absence of such an independent third-party arrangement, it is essential to create a level playing field by imposing a binding commitment on HAL to provide full and timely access to relevant information to all prospective promoters.

3.16 Related to their fundamental concern about HAL's informational advantage, derived from consumer-funded preliminary works, airlines also raised concerns about the need to avoid duplicative costs between HAL and alternative promoters.

3.17 The AOC suggested that since the Draft Decision, cost uncertainty and risk have increased, and that this requires stronger cost controls and consumer protections on HAL than are currently proposed. Virgin also noted that since the publication of the Draft Decision new evidence from the technical and cost efficiency assessment[44] undertaken by our consultants, Steer, suggests HAL's cost

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44 Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport final report, January 2026. Available here: www.caa.co.uk/CAP3238A

estimates are not reliable and the estimates are optimistic which re-enforces the need for controls beyond what is included in the Draft Decision.

3.18 BA noted that the decision to allow early costs risks that Heathrow expansion will proceed on the basis of a cost envelope that is fundamentally incompatible with affordability and a credible positive consumer benefits case. It is noted that this comment relates to wider early costs and not just those incurred in 2025 and 2026. The AOC stated that the CAA has not undertaken a holistic assessment of the combined impact on consumers of increasing airport charges under H8, early expansion cost recovery, and full expansion.

3.19 Vueling, Aer Lingus and BA raised concerns about both the CAA's consultation process and the substance of the April 2026 Draft Decision, submitting that the compressed timeframe between the close of consultation and the publication of the Draft Decision raises questions about whether stakeholder responses received sufficient consideration, given the complexity and significance of the issues involved. Vueling also said that the Draft Decision fails to substantively engage with credible alternatives put forward by respondents, while BA said there were serious deficiencies in the CAA's reasoning, consultation process and proposed regulatory framework.

3.20 We also received a response from the NEF arguing that the proposed new infrastructure should be paid for by the new users and that the CAA should redesign its RAB model on this basis. The NEF said that a 'user pays' principle was strongly recommended by ICAO, and had been deployed in other airport expansion projects around the world such as Sydney, Brisbane, Copenhagen, Vienna and Frankfurt.

3.21 The NEF said that embracing the 'user pays' principle would create incentives for HAL to put more care into its business plan. It would also ensure HAL shoulders more commercial risk in order to yield a commercial gain. The NEF considers that the current RAB design encourages expansion-at-any-cost' by relying on a cross-subsidy from existing users of existing infrastructure.

Our views and final decision

3.22 Stakeholders made a range of points in response to the Draft Decision, including whether early costs should be recoverable before a DCO is granted, the implications for consumers, the potential impact on competition between promoters, the risk of creating precedents for future cost recovery, the adequacy of consumer protections and cost controls, arrangements for information sharing, and the consultation process. In this section we address those issues by theme.

3.23 Having carefully considered all representations received, we remain of the view that allowing the recovery of efficient early costs incurred by HAL in 2025 and 2026, subject to the safeguards set out in this Final Decision, furthers the interests of consumers in line with our statutory duties by facilitating timely progress on expansion, and therefore the realisation of consumer benefits associated with expansion, while maintaining appropriate protections against inefficient expenditure.

3.24 We set out our views on the future regulatory framework that should apply to expansion in our May 2026 consultation on a short list of regulatory models and our July 2026 update on the approach to the regulatory framework. These documents include options for a longer-term framework, including the approach to RAB and returns. We will need to consider the approach to profiling of charges, including between existing and new users, as part of the work on implementation of the regulatory framework. We note that this document is focused on the recovery of relatively limited early costs incurred in 2025 and 2026.

Recovery of costs before a DCO is granted

3.25 We have carefully considered the points made by airlines, the AOC and IAG on the appropriateness of HAL recovering early expansion costs prior to obtaining a DCO. We note that airlines, the AOC and IAG do not support allowing HAL or other promoters to recover early expansion costs prior to obtaining a DCO. While alternative approaches exist, including those set out by airlines, we continue to consider that the approach set out in our Draft Decision best supports timely delivery of capacity expansion at Heathrow and would be a proportionate and effective way of avoiding the loss of consumer benefits that would be associated with undue delays.

3.26 Airlines have re-iterated the view that HAL should proceed entirely at risk with early expansion activity until a DCO is granted. We remain of the view set out in the Draft Decision that a central risk and difficulty with this approach would be that, without reasonable regulatory certainty, HAL could be incentivised to slow or pause its work. This would risk stalling progress on capacity expansion and delay the realisation of consumer benefits.

3.27 We also remain of the view set out in the Draft Decision that we do not consider that the prospect of HAL outperforming a future regulatory settlement is a sufficient substitute to early cost recovery. We consider that it would be impracticable at this stage to calibrate alternative arrangements in a way consistent with the "fair bet" principle, given the likely uncertainties associated with expansion. Without such alternative incentive arrangements in place HAL cannot reasonably be expected to rely on the prospect of higher future returns to compensate for the risk of non-recovery now.

3.28 We note the comparisons drawn by some airlines between pre-DCO spending and development expenditure in a commercial infrastructure project, where the risk of that expenditure being recoverable at a future date is a risk the sponsoring company and its investors bear themselves. We consider this comparison to be of limited relevance, because HAL is subject to price regulation and so cannot rely on earning commercial returns in the future to compensate for that risk.

3.29 Bearing the above in mind, we remain of the view that there are advantages to consumers in making regulatory allowances for early costs, rather than seeking to finance expansion as a commercial project with a commensurate level of return, which would likely delay expansion and could ultimately lead to a higher level of airport charges.

3.30 We also consider that our broad approach addresses points raised by some stakeholders that the regulatory framework should not place other promoters at a disadvantage to HAL. As we explain in more detail in chapter 5 (Recovery of other promoters' early costs), our view is that allowing promoters other than HAL with credible and appropriately mature proposals to recover their early costs provides a degree of competition between promoters and has created advantages to consumers through promoting efficiency and evaluation of a wide range of expansion options. Our decision in relation to recovery of early costs incurred by HWL up to the Government's 2025 Announcement is based on these benefits to consumers from other promoters being involved in the expansion process, as explained in more detail in chapter 5 (Recovery of other promoters' early costs).

3.31 Our decision also seeks to strike an appropriate balance between current and future consumers. Adding efficiently incurred 2025 and 2026 early costs to HAL's RAB, with associated financing cost recovery, supports the timely delivery of expansion and long-term efficiency and investment planning, links current demand (including unmet demand) to future capacity, and avoids placing an undue burden of future investment (and the possibility of elevated commercial returns) on future users.

3.32 Based on the reasons we set out above, we consider that, in the particular circumstances of 2025 and 2026, providing a mechanism for the recovery of efficiently incurred early costs is an appropriate way to discharge our primary duty to consumers.

Precedent for costs incurred from 2027 onwards

3.33 BA and Virgin have suggested that early cost recovery provides a regulatory precedent for larger categories of pre-DCO expenditure. The framework we are putting in place for recovery of costs for 2025 and 2026 should not be regarded as setting a precedent for our approach to costs incurred from 2027 onwards. It has been calibrated to address a specific set of circumstances, including the planning and preparatory activities undertaken in response to a clear Government request for potential developers to bring forward proposals, the interim periods before the Governments 2025 Announcement and its recent consultation on HENPS in June 2026, and the advantages to consumers in avoiding undue delays in expansion.

3.34 From 2027 onwards, we should have better information available on the overall costs and benefits of expansion and more information on the expected level of early costs between 2027 and date of the Government's expected decision on DCO applications. We will also be able to consult on our broad approach to these matters ahead of developers incurring costs, that will support greater flexibility in decision making with respect to these matters.

3.35 These changing circumstances will mean it is appropriate to reconsider the regulatory treatment of early costs and the level of any such cost allowances, the scope for stronger cost controls and delivery incentives. We intend to consult on our proposed approach to these matters in October 2026.

3.36 In relation to Virgin's request for greater transparency on HAL's early costs, a summary of these costs for 2025 and 2026 can be found in chapter 4 (Regulatory arrangements to protect consumers), and a more comprehensive breakdown is available in the Steer report published alongside this decision.

Impact of recovery of early costs on development of expansion scheme

3.37 We recognise the concern raised by BA, Virgin and the AOC that activity undertaken and funded for 2025 and 2026 now should not inappropriately close down options that are being considered as part of the wider review of how the expansion programme is delivered and regulated.

3.38 The outcome of the HENPS process, our work on early costs in 2027 and beyond, the grant of a DCO and the CAA's ongoing review of Heathrow's future regulatory framework remain the points at which decisions on the scope, configuration and delivery of expansion will be taken. Early cost recovery under this Final Decision does not pre-empt, constrain or set a precedent for those decisions, nor does it confer on HAL any entitlement to recover costs beyond the end of 2026.

3.39 We do not consider that the categories of expenditure incurred during 2025 and 2026 are of a scale or nature that would make alternative delivery models impracticable or predetermine future decisions on governance, ownership or delivery arrangements. Nor would it be practicable or reasonable to attempt to put in place for 2025 or 2026 the arrangements for property purchases that have been suggested by airline stakeholders, with an independent body taking forward these activities. No such body currently exist or could be reasonably set up to take forward the activities associated with early costs in 2025 and 2026.

3.40 We are also considering arrangements that aim to protect consumers from cost duplication, and we expect HAL to cooperate reasonably with alternative developers. These matters are discussed further in chapter 5 (Recovery of other promoters' early costs).

3.41 The risk of delaying some of the activities associated with early costs, and the consequent risk to consumer benefits being lost, needs to be weighed against the risk identified by stakeholders that early activity narrows future options. This final decision reflects the CAA's judgement that this balance is best struck by allowing recovery of efficient early costs, subject to the cap and *ex post* review, rather than by risking delays in activities and the possible delay to capacity expansion.

3.42 This judgement is supported by the assessment in chapter 2 (Evidence we have considered on benefits to consumers) of the plausible scenarios where expansion creates significant benefits for consumers. We do not accept that this approach inappropriately favours timely delivery of expansion over cost efficiency. Rather it is a balanced assessment of the likely costs and benefits of expansion and provides an approach that furthers the interest of consumers in uncertain circumstances. Chapter 4 (Regulatory arrangements to protect consumers) also sets out our approach to regulating early costs in a way designed to encourage efficiency.

Information sharing and duplication of costs between promoters

3.43 Both HAL and HWL agree on the need for information sharing between promoters. HAL has stated that this should be achieved through a clear and workable process. HWL, AOC and IAG have all suggested a binding commitment should be applied to HAL. Airlines consider information sharing arrangements should apply to address cost duplication. We consider that proportionate mechanisms to facilitate the sharing and transfer of relevant work between promoters can help protect consumers from inefficient duplication of costs, while supporting competition where alternative promoters emerge. We deal with these matters further in chapter 5 (Recovery of other promoters' early costs).

Need for stronger cost controls

3.44 The AOC and Virgin argued that that stronger cost controls and consumer protections are needed than are currently proposed. Consumer protection and cost control arrangements are set out in chapter 4 (Regulatory arrangements to protect consumers). We are not proposing significant changes to the arrangements set out in the Draft Decision, which were designed to ensure HAL will recover only efficient and appropriate costs.

Impact on passenger charges

3.45 BA states that early cost recovery by HAL creates a risk that expansion will be unaffordable for consumers and inconsistent with a credible benefits case. The

AOC has noted that a holistic assessment of early costs, full expansion and H8 costs on consumer prices is required.

3.46 The impact of this final decision on airport charges will be relatively modest. The allowed return on the 2025 and 2026 early costs will be added to HAL's RAB, rather than the full level of costs being recovered from charges in those particular years. The expected impact on the outturn allowed yield for 2026 will be around £0.097 (2026 prices) compared to airport charges of £26.221 (2026 prices).[45] Further details on the Licence modification that will put these changes into effect are set out in chapter 6 (Implementing our policy and making changes to the Licence).

3.47 We intend to address wider issues in relation to the likely costs and benefits of expansion in a consultation planned for October 2026. This will inform our views on any regulatory allowances for early costs from 2027 onwards, when there is the prospect of the projections of early costs increasing significantly to encompass land, property and enabling costs. As part of our work on these matters, we will consider the impact on airport charges in the round, taking into account the cumulative effect of early cost recovery, the evolving costs of expansion, and the business-as-usual costs. Bearing in mind the evolving context of expansion, we are of the view that this is a proportionate and reasonable approach to these matters.

CAA consultation process

3.48 On the consultation process, we do not accept airlines' characterisation of it as inadequate. We have carefully considered and responded to the views of respondents across a series of consultation papers and the further responses received following the publication of our Draft Decision. We have also considered a wide range of analysis and evidence in formulating our approach to this final decision. Further details of our process are set out in Appendix C.

3.49 We have considered the alternative suggestions put forward by airlines stakeholders including that promoters of expansion proceed "at risk" in relation to early costs. On balance we consider that the approach set out in this final decision should better further the interests of consumers.

Summary and next steps

3.50 Our final decision, consistent with our Draft Decision, is to allow HAL to recover the efficient early costs it incurs in 2025 and 2026.

3.51 Further protections for consumers, in terms of the regulatory arrangements that have been designed to ensure only efficient costs are recovered from consumers

45 HAL, Decision - 2026 Airport Charges and Conditions of Use, October 2025.

are discussed further in chapter 4 (Regulatory arrangements to protect consumers).

3.52 Arrangements for implementing policy are discussed in chapter 6 (Implementing our policy and making changes to the Licence) and in the statutory notice of modifications to the Licence in Appendix D.

Chapter 4

Regulatory arrangements to protect consumers

Introduction

4.1 Chapter 3 (Recovery of early costs by HAL) explains our decision to allow HAL to recover through airport charges the efficient early costs of capacity expansion that it will incur in 2025 and 2026. This chapter explains the approach that we will take to promote economy and efficiency by HAL in incurring these costs and sets out how we will protect consumers from:

- the consequences of HAL incurring inefficient or inappropriate early costs; and
- any inappropriate escalation in early costs.

4.2 The protections in this chapter are designed to ensure that early costs are both tightly controlled and subject to robust scrutiny through cost caps, defined returns, independent oversight, transparent reporting, and opportunities for efficiency reviews of early costs that have been incurred. These measures support our statutory duties by furthering the interests of users of air transport services regarding the availability and cost of airport operation services.

4.3 This chapter sets out our updated views and final decision on these consumer protection measures. We have developed these through our consideration of issues raised by stakeholders in response to the Draft Decision, further analysis, and assessment of additional information provided to us since publishing our Draft Decision.

4.4 This chapter covers the following issues:

- incentive arrangements based on the success of a DCO application;
- scope of the early costs incurred in 2025 and 2026 to be recovered by HAL;
- a cap on early costs incurred in 2025 and 2026;
- our approach to *ex post* efficiency reviews;
- ongoing cost reporting arrangements;
- appointment of an independent cost expert;
- reopener provisions and withdrawal from expansion;
- the allowed return on early costs incurred by HAL; and

- a summary of our final decisions on these matters.

Incentive arrangements based on the success of a DCO application

The Draft Decision

4.5 In the Draft Decision, we did not propose to introduce incentives linked to the success or failure of HAL's DCO application or to outcomes where commercial considerations might prevent HAL from proceeding with its plans for capacity expansion.

4.6 We said that such incentives would be disproportionate in light of other safeguards set out in our proposals, which are designed to:

- limit HAL's ability to recover its early costs;
- cap its returns; and
- provide an obligation on HAL to take account of the uncertainties associated with capacity expansion in incurring early costs.

4.7 We also committed to reconsidering our approach to cost efficiency and incentives in our work on early costs incurred in 2027 and beyond.

Stakeholders' views

4.8 HAL supported the proposal not to introduce incentives linked to the success of a DCO application for 2025 and 2026 costs, noting that this work has been undertaken in response to Government policy, and that it would be inappropriate to expose Heathrow to further risks in relation to matters that will ultimately be decided by Government.

4.9 BA did not comment on incentive arrangements based on the success of a DCO application for 2025 and 2026 costs, but it did propose that the CAA should introduce a clawback mechanism for consumer-funded early costs from 2027 onwards. It suggested this could take the form of a contingent repayment obligation triggered if HAL withdraws from expansion or fails to obtain DCO by a specified long-stop date, and that the obligation could reduce proportionately as defined construction milestones are met and be calculated net of any demonstrable residual value retained by HAL.

Our views and final decision

4.10 Stakeholder feedback to both this consultation and previous ones, reflects a range of views in relation to incentives based on the success of a DCO application. Creating a balanced set of incentives on HAL to appropriately manage risks, including the principle that any incentive package should be a 'fair bet' for the licensee, remain the key considerations informing our approach on this issue. Such incentives will protect the interests of consumers by encouraging cost efficiency while avoiding any undue upward pressure on financing costs.

4.11 Our final decision, consistent with the Draft Decision, is to not introduce incentive arrangements based on the success or failure of HAL's DCO application for costs incurred in 2025 and 2026. We remain of the view that the package of caps on costs, reviews of cost efficiency and external assurance is sufficient to protect consumers. Going further at this stage would likely not be proportionate and could create additional risks and increase HAL's financing costs. Bearing this in mind we remain of the view that our overall approach to these matters is consistent with furthering the interests of consumers.

4.12 Nonetheless, we acknowledge the point raised by BA and that it may be appropriate to reconsider these matters in the context of early costs incurred from 2027 onwards, particularly if there is a significant increase in the level of cost allowances.

Scope of the early costs incurred in 2025 and 2026 to be recovered by HAL

The Draft Decision

4.13 In the Draft Decision, we proposed that certain efficient land and property acquisition costs, as well as early enabling costs, should be in scope of early costs which can be recovered in 2025 and 2026. We explained that allowing recovery of such costs enables HAL to make wider preparations for expansion, including the construction programme, rather than confining activities only to planning issues. We also acknowledged the risk that not providing this certainty could lead to delays in the timetable (and the associated loss of benefits to consumers).

4.14 We acknowledged the concerns expressed by airlines about recovery of early costs, including land, property and enabling costs, ahead of a DCO being granted, but considered that they will be addressed by the enhanced oversight we are proposing through the *ex post* efficiency review.

4.15 We also disagreed with airlines that the land and property costs within the scope of our cap would foreclose alternative delivery models or be a barrier to competition, given they the limited allowances for these costs. We said that we were not setting a precedent for the treatment of land and property costs in 2027 and beyond, and we would reconsider these issues, particularly in light of the prospect that HAL might request much higher allowances for land, property and enabling costs from 2027 onwards.

Stakeholders' views

4.16 HAL welcomed the CAA's confirmation that the scope of early costs includes land, property and enabling costs, noting that their inclusion appropriately reflects the activities required to support the delivery of expansion for the benefit of consumers. It also referenced the need to undertake engagement with affected landowners during the pre-application and examination stages of the DCO process, stating that deferral of this activity increases the risk of delay, challenge or refusal of compulsory acquisition powers. HAL noted that it is committed to working with us to provide its forecast of property and enabling costs from 2027 and beyond.

4.17 BA reiterated its view that the most consequential risk in our proposed approach is less related to the quantum of this expenditure for 2025–2026, and more what the expenditure does for future options. It noted that early expansion activities – particularly land and property acquisition, design development, and engineering feasibility work – progressively define the scope, configuration, and delivery model of the eventual scheme.

4.18 Airlines generally shared the view that allowing HAL to recover early costs associated with land acquisition risks materially prejudicing future competition and alternative development proposals, before the planning process has properly concluded.

Our views and final decision

4.19 Our final decision, consistent with the Draft Decision, is to allow the recovery of certain limited efficient land and property costs incurred in 2025 and 2026. We consider that allowing these costs enables HAL to make wider preparations for expansion, including the construction programme, rather than confining activities only to planning issues. Not providing this certainty could be disruptive, particularly given the relatively advanced stage HAL is at with respect to its programme of work for 2025 and 2026. Such disruption and the prospect of associated delays to the timetable could lead to a loss of a proportion of the consumer benefits of the scheme, as discussed in chapter 2 (Evidence we have considered on benefits to consumers) and chapter 3 (Recovery of early costs by HAL).

4.20 Given the limited materiality of the forecast land and property costs for 2025 and 2026, we do not consider that allowing HAL to recover some of these costs will foreclose alternative delivery models or act as a barrier to competition.

4.21 Consistent with the approach in the Draft Decision, we are not setting a precedent in relation to land, property and enabling costs for 2027 and beyond. These issues will be considered again for the period after 2026, particularly as HAL's projections of these costs in 2027 and beyond may be very significantly higher than the levels of these costs in 2025 and 2026.

Cap on early costs incurred in 2025 and 2026

The Draft Decision

4.22 We proposed to retain the approach of a flexible cap for early costs incurred by HAL in 2025 and 2026, on the basis that it would:

- allow for flexibility where additional expenditure is required to secure benefits to consumers, acknowledging that pre-DCO costs can be uncertain;
- support a high-quality planning application and potentially reduces long-run costs, by enabling HAL to undertake an appropriate range of studies, consultation and design work in a timely way; and
- reduce the overall risk to timescales of HAL's application for a DCO and the overall project that would arise if HAL were to choose to reduce or delay time-critical investment under a fixed cap.

4.23 To ensure consumers are only bearing efficient early costs, we proposed maintaining a high bar for making any increases to the cap. We also stated that based on the information we had received to date from HAL, we did not consider that any of the additional costs proposed by HAL (taking the total for costs incurred in 2025 and 2026 to £450 million) should be included in the cap. However, we did not rule out further updates to the cap, should additional evidence be provided.

4.24 We also explained that our assessment up to that point of HAL's cost forecasts for 2025 and 2026 was based on submissions developed in the context of an expansion programme that was not mature. Following discussions with HAL about its work to develop a more detailed bottom-up forecast for costs incurred in 2025 and 2026, we explained that we would be conducting a further assessment of these costs in advance of our final decision to ensure the level of the cost cap is justified and appropriate.

4.25 Finally, we emphasised that the position taken in the Draft Decision did not prejudge the approach we will take to incentivising and/or controlling any early cost allowances from 2027 onwards, on which we could continue to work with stakeholders to consider and finalise.

Stakeholders' views

4.26 HAL did not agree that the £320 million cap is set at a level that will enable the successful delivery of a DCO submission and subsequently the timely delivery of an operational runway. It said that the proposed cap would require HAL to defer or slow their planned property activities in 2026, affecting the critical path and increasing the risk that the DCO timetable cannot be met.

4.27 HAL also requested that:

- both the process for seeking increases to the cap and the CAA's assessment of requests is proportionate, clearly defined and timely, to reflect the maturity and pace of the DCO process and to support the Government's objective of securing a DCO in 2029; and
- an independent technical property advisor is appointed to support the process of acquiring commercial properties moving forward and provide the necessary pace and agility to support efficient property and land acquisitions, while safeguarding the interests of consumers.

4.28 Airlines reiterated their concerns regarding the proposed approach to the cap, stating that a flexible cap is not appropriate and would not protect consumers from inefficient costs. They submitted that the cap must be fully assured, strictly binding, and cannot be subject to routine adjustment or upward revision, in order to provide robust protection for consumers.

4.29 BA also considered a binding cap was important to ensure strong commercial discipline and appropriate incentives. It suggested that expenditure in excess of the cap should not be recoverable from consumers without a further *ex ante* determination by the CAA, following public consultation. They also argued that the evidential burden must rest with HAL to demonstrate that any additional expenditure is necessary, efficient, and in consumers' interests, with a high threshold applied.

Additional evidence and analysis

4.30 The table below presents the breakdown of the two early cost submissions we received from HAL, one for £320m (2024 CPI) submitted in July 2025, and further submissions for an additional £130m (2024 CPI) in December 2025 and in January 2026, in response to our December 2025 Consultation. The table shows both the original July 2025 and subsequent submissions, disaggregated by cost component and the year the costs were or are forecast to be incurred.

Table 4.1 HAL's early expansion cost submissions

(£m, 2024 CPI)	FY 2025 Actuals	FY 2026 Forecast	Total
HAL July 2025 submission			
Programme Management and Control	**7**	**65**	**72**
Programme Contingency	[redacted]	[redacted]	[redacted]
Central Programme Costs	[redacted]	[redacted]	[redacted]
Programme Management office	[redacted]	[redacted]	[redacted]
Programme Procurement	[redacted]	[redacted]	[redacted]
Masterplan, Scheme Design and Consenting	**25**	**144**	**170**
Masterplan / Requirements	[redacted]	[redacted]	[redacted]
Scheme Development	[redacted]	[redacted]	[redacted]

Planning	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Detailed Design Development	**-**	**30**	**30**
Non Airport Design Development	-	30	30
Expanded Airfield	**-**	**42**	**42**
Procure the Space	-	42	42
Recoverable Opex	**-**	**6**	**6**
Total July 2025 submission	**32**	**288**	**320**
HAL uplift submission			
Modernising Heathrow	-	44	
Early commercial - property acquisition	-	30	
Colnbrook Logistics Centre (CLC)		56	
Total May 2026 uplift submission	**-**	**130**	**130**
Grand total	**32**	**418**	**450**

Source: HAL, July 2025 submission and May 2026 updated view of December 2025 submission.

4.31 Since publishing our Draft Decision, we have commissioned Steer to perform a high-level scrutiny of these early cost submissions. Steer's analysis was conducted between May 2026 and July 2026. The high-level scrutiny focused on whether the early expansion costs submitted to the CAA are justified, relevant, timely, sufficiently evidenced, and deliver expected outputs for activities that are reasonably expected to take place in 2025 and 2026.

4.32 In the time available and with the information promoters could make available to us at this stage, the cost scrutiny we requested Steer to perform is targeted and high-level in nature. It does not constitute a full cost audit, site-specific property valuation exercise, or *ex post* cost efficiency assessment. Stakeholders have also not had the opportunity to comment on Steer's findings and, therefore, Steer's report has not benefited from further review or refinement following stakeholder comments on those findings.

4.33 As we explain in the next section, we plan to conduct an *ex post* assessment of the early expansion costs incurred in 2025 and 2026 at a later date. We are open to receiving further evidence and information from HAL and other stakeholders and we will take this into account as part of the *ex post* review.

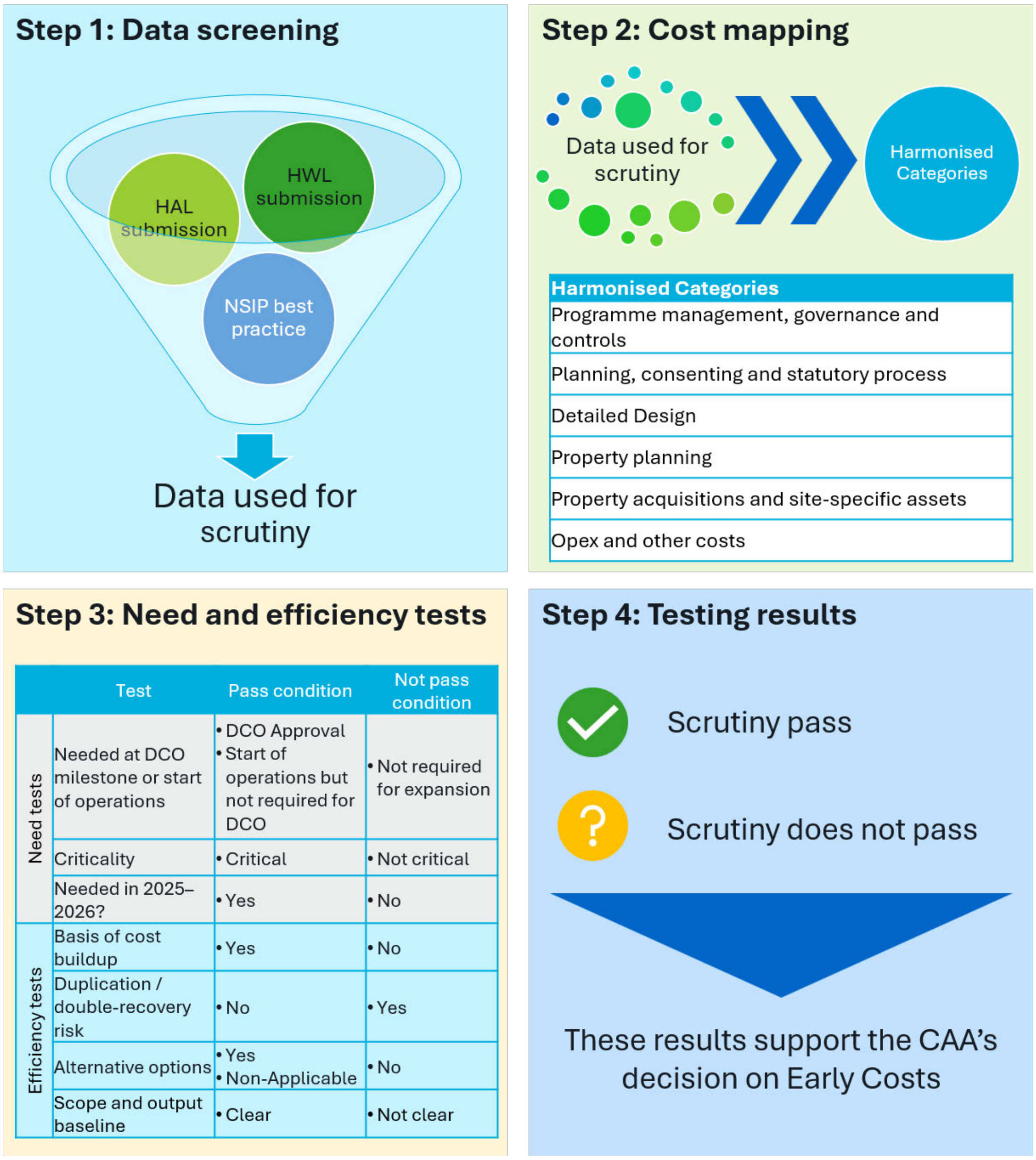
4.34 The Steer report published alongside this final decision,[46] details the method and the findings. In summary (and illustrated in the figure below) Steer's method comprises the following four steps.

- **Step 1: Data screening,** clarifying with promoters the cost categories submitted; obtaining additional granularity where required; confirming price bases and source documents; and identifying when costs were incurred.

[46] Steer, CAP3289C Early costs scrutiny for Heathrow expansion, July 2026

- **Step 2: Cost mapping**, allocating the submitted costs to six harmonised cost categories to improve consistency, comparability, traceability, and identification of potential overlaps, duplications, evidence gaps, or disaggregation issues.
- **Step 3: Need and efficiency testing**, testing the costs categories against seven scrutiny tests, comprising three tests related to technical ‘need’ and four tests related to high-level efficiency of the costs incurred.
- **Step 4: Testing results**, establishing whether the costs meet the high-level scrutiny conditions, based on the level and maturity of the evidence available at this stage.

Figure 4.1 Early cost high-level scrutiny method



Harmonised Categories
Programme management, governance and controls
Planning, consenting and statutory process
Detailed Design
Property planning
Property acquisitions and site-specific assets
Opex and other costs

	Test	Pass condition	Not pass condition
Need tests	Needed at DCO milestone or start of operations	• DCO Approval • Start of operations but not required for DCO	• Not required for expansion
Need tests	Criticality	• Critical	• Not critical
Need tests	Needed in 2025–2026?	• Yes	• No
Efficiency tests	Basis of cost buildup	• Yes	• No
Efficiency tests	Duplication / double-recovery risk	• No	• Yes
Efficiency tests	Alternative options	• Yes • Non-Applicable	• No
Efficiency tests	Scope and output baseline	• Clear	• Not clear

Source: Steer report.

4.35 Costs that meet the scrutiny conditions across all seven tests are deemed, by Steer, as passing the high-level technical scrutiny and our consultants see no technical reason for the CAA to exclude these costs from the early expansion cost cap. We note that costs that meet the scrutiny conditions at this stage may still require further information to support a future *ex post* efficiency review or allow the CAA to monitor delivery against the stated scope and outputs.

4.36 Some costs do not meet all scrutiny tests. We agree with our consultants' view that we should not interpret this outcome as automatic evidence that a cost is unnecessary or inefficient. Such outcome can be a function of the information available at this stage being insufficient or insufficiently mature to reach a technical view on need and/or efficiency at this stage. We determine the appropriate treatment of these costs taking account of the findings from Steer's technical scrutiny alongside stakeholders' responses, and the CAA's statutory duties.

4.37 To inform our view on the appropriate treatment of costs that do not pass Steer's technical scrutiny, we have asked Steer to explain:

- the issues found and the further information that would be required to form a clearer view about the need (justification, relevance, and timing) of the costs incurred, and
- the outputs that, from a technical point of view, we would expect promoters to deliver for the level of cost they have submitted.

4.38 The table below shows the summary results of the high-level scrutiny of HAL's early costs (with the Steer report providing a greater level of granularity and more explanation of the results). The table shows that:

a) Out of the £320 million (2024 CPI) early costs HAL submitted in July 2025, £208 million meet all the scrutiny conditions. These costs relate primarily to two of HAL's cost categories, 'masterplanning, scheme design, and consenting' and 'portfolio management and control'. Based on Steer's analysis and with the information available at this stage, we consider it appropriate to include £208 million (2024 CPI) within HAL's early costs cap. We note that we may still require further information about these costs to support a future *ex post* efficiency review and/or monitoring delivery against the stated scope and outputs.

b) The full £130 million (2024 CPI) uplift that HAL submitted in May 2026 and £112 million of the £320 million (2024 CPI) HAL submitted in July 2025 did not meet all of Steer's scrutiny conditions. This outcome is primarily due to uncertainty over timing and insufficient evidence to rule out risk of duplication. Further detail is set out below on some of the categories of costs not passing the scrutiny conditions.

- **Modernising Heathrow** (£44 million, 2024 CPI): with the information available at this stage, substantial risks remain that these costs largely overlap with planning and consenting costs. The evidence also fails to demonstrate the additionality of these costs over and above the expected synergies from conducting a single DCO covering both the expansion and the modernisation of Heathrow Airport.
- **Early commercial property acquisition** (£30 million, 2024 CPI) **and CLC acquisition** (£56 million, 2024 CPI): the evidence is insufficient to demonstrate that the acquisitions, option payments, and access arrangements are required for the DCO milestone or need to be committed during the early-cost period of 2025 and 2026, rather than at a later stage of planning or delivery where the valuation evidence, site-specific need cases, and recoverability assumptions are more mature.
- **Expand airfield, procure the space** (£42 million, 2024 CPI): the evidence indicates that these property and land activities could support the DCO and compulsory acquisition case. However, the evidence leaves unresolved the risks of overlaps with other property-related workstreams and allowances, including 'property referencing and negotiation activities', 'commercial property costs', 'CLC acquisition costs' and previous property-related activities.
- **Other categories (for example 'staff accommodation', figure redacted):** Steer acknowledge that these costs may be necessary to support programme mobilisation, but the cost has been assessed as "no pass" because HAL has not yet provided sufficient evidence to demonstrate the spend is required now, and why it is required in addition to existing accommodation available to HAL.

Table 4.2 Scrutiny results of HAL early cost submissions

(£m, 2024 CPI)	HAL submission (Total)	Steer scrutiny testing	
		Pass	Not pass
HAL July 2025 submission			
Portfolio Management and Control	**72**	**47**	**26**
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Masterplan, Scheme Design and Consenting	**170**	**156**	**13**
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Detailed Design Development	**30**	**0**	**30**
Non Airport Design Development	30	0	30

Expanded Airfield	**42**	**0**	**42**
Procure the Space	42	0	42
Recoverable Opex	6	**5**	1
Total July 2025 submission	**320**	**208**	**112**
HAL May 2026 uplift submission			
Modernising Heathrow	44	0	44
Early commercial - property acquisition	30	0	30
Colnbrook Logistics Centre (CLC)	56	0	56
Total May 2026 uplift submission	**130**	**0**	**130**
Grand total	**450**	**208**	**242**

Source: Steer report

Our views and final decision

4.39 Our decision is to retain the cap for costs incurred by HAL in 2025 and 2026 at £320 million (2024 CPI prices), for the reasons explained below.

4.40 We note that £208 million of the costs submitted by HAL as part of its May 2026 submission passed all of the criteria considered by Steer as part of their technical assessment. This represents 65% of the original HAL submission of £320 million (2024 CPI prices).

4.41 While Steer's scrutiny identified evidential gaps and potential duplication risks for some expenditure categories, it did not demonstrate that those costs were unnecessary or inefficient in principle. Stakeholders have also not had the opportunity to comment on Steer's findings and, therefore, Steer's report has not benefited from further review or refinement following stakeholder comments on those findings.

4.42 We regard Steer's scrutiny as an initial assessment that has informed our determination of the appropriate level of the cap and will also help shape our future *ex post* review of these costs. For example, it will assist in identifying cost categories for which we may seek additional information and evidence from HAL. As noted above, costs that satisfied Steer's scrutiny criteria may nevertheless require further evidence to support a future *ex post* efficiency review and to enable the CAA to monitor delivery against the stated scope and outputs.

4.43 We are open to receiving further evidence and feedback from stakeholders in response to the findings in Steer's report and will take this additional information into account as we develop, consult on and implement the methodology for our *ex post* review.

4.44 The £320 million (2024 CPI) allowance should be viewed as a cap on recoverable early costs rather than an approved budget for individual activities. Within that overall cap, HAL is responsible for exercising appropriate judgement on the scope, timing and sequencing of expenditure necessary to progress the expansion programme towards a DCO, while demonstrating that costs are efficient and represent value for consumers.

4.45 We recognise that Heathrow modernisation forms an integral part of the proposed expansion programme and that a single, combined DCO has the potential to deliver planning, consenting and programme efficiencies compared with pursuing separate consenting routes. However, given the concerns identified through the technical scrutiny regarding potential overlaps with planning and consenting activities, we consider that HAL should provide further evidence of the specific efficiencies expected from the single-DCO approach and demonstrate clearly how the associated modernisation costs are additional, appropriately allocated and not duplicative of costs already included elsewhere in the early-cost programme. This information will be important both for ongoing regulatory monitoring and for any future assessment of the efficiency and recoverability of these costs.

4.46 We also do not consider it appropriate to increase the cap to accommodate the additional commercial property costs proposed by HAL at this stage. While we recognise that certain property acquisition, option and access activities may ultimately support the development of the expansion scheme and the preparation of a DCO application, the evidence currently available does not provide sufficient assurance that these costs need to be committed during the period under consideration for this decision, rather than at a later stage. Steer's technical scrutiny identified continuing uncertainty regarding the timing and necessity of these expenditures, and we have not seen sufficient evidence to demonstrate that bringing forward additional property-related spending would materially improve the prospects of achieving the relevant planning milestones. In these circumstances, increasing the cap would risk allowing consumers to bear additional cost exposure before there is adequate clarity on the scope, timing and value of the activities proposed.

4.47 Moreover, the technical assessment highlighted potential overlap between the additional commercial property activities and other property-related workstreams already included within HAL's programme. Given these risks of duplication, together with the inherent uncertainty surrounding future property requirements as the scheme develops, we consider it appropriate to maintain the cap at its current level. This approach preserves incentives for HAL to prioritise expenditure within the existing allowance, while allowing us to consider any future property requirements against a more mature evidence base and a clearer understanding of the role those activities will play in supporting delivery of the expansion programme.

4.48 Given that the cap represents a maximum recoverable amount rather than an automatic entitlement, and in light of the proposed *ex post* efficiency review, independent monitoring, and reporting requirements, we consider that retaining the £320 million cap appropriately balances the need to facilitate timely development of Heathrow's expansion proposal, which would avoid delays to consumer benefits, with protecting consumers now from inefficient expenditure.

4.49 We will engage with HAL and other stakeholders, following the publication of this final decision, to discuss Steer's high-level scrutiny and obtain further evidence around early costs incurred in 2025 and 2026, to inform the methodology and approach for our *ex post* review of these costs, as explained in the next section.

Our approach to *ex post* efficiency reviews

The Draft Decision

4.50 In the Draft Decision, we acknowledged the concerns raised by airlines about the limitations of, and weak incentives associated with *ex post* efficiency reviews. Nonetheless, we also reiterated our view that an *ex post* review is the most practical and reasonable approach given the nature and context of costs incurred in 2025 and 2026.

4.51 We clarified that:

- we did not intend to apply the DIWE efficiency test in the same way as in the Q6 or H7 reviews of capex, as early expansion costs raise different issues compared to standard capex;
- the use of an *ex post* review for 2025 and 2026 costs should not be viewed as setting a precedent for early costs incurred from 2027 onwards; and
- any third parties supporting the work should be sufficiently expert in large and complex planning applications and land, property and enabling costs.

4.52 Finally, to provide further clarity on our approach, we proposed the following tests apply in our *ex post* review of early costs incurred by HAL in 2025 and 2026. We stated that any disallowances would relate to costs that:

- are not incremental to the cost allowances made in setting the H7 price control and/or that have been inappropriately allocated to expansion activities;
- were incurred earlier than appropriate/necessary;

- are duplicated and so would otherwise be recovered twice, such as (i) any duplication of costs funded through the H7 price control, (ii) costs duplicated between potential promoters and (iii) cost duplicated from activities completed prior to the covid-19 pandemic. In assessing this, we will consider whether HAL has responded promptly and appropriately to requests from other promoters to share relevant analysis or studies which are not commercially confidential and fully cooperate with the independent assessment of these matters;
- unduly reduce potential competition where HAL has not taken appropriate steps to avoid these costs;
- could have been procured more efficiently;
- property purchase costs, where more efficient alternative approaches could have been adopted; and
- associated with lobbying and/or not directly associated with preparation of the planning application for expansion.

Stakeholders' views

4.53 HAL agreed that costs should be subject to an *ex post* review but felt that the CAA's proposals in some cases extended beyond reasonable bounds, by introducing requirements that neither directly related to cost efficiency, nor were proportionate. They also sought further clarity on how a number of the proposed tests in the *ex post* review would operate in practice, noting that:

- HAL expects to take reasonable steps to avoid duplicative costs but are concerned about the practical application and assessment (referencing circumstances in which information cannot reasonably be shared due to commercial sensitivity and contractual restrictions) and sought greater clarity on the proposed process;
- the test around duplicative costs and sharing information between promoters is not sufficiently clear in its purpose or in how it is intended to operate, and in HAL's view, extends beyond an assessment of efficiency. On this basis, HAL considered that this element should not form part of a cost efficiency test unless the CAA can provide greater clarity on its purpose and how it would be applied in practice; and
- further clarity is required on how the tests focussed on efficient procurement and property purchase costs will be assessed in practice. HAL proposed to work with the CAA to develop practical guidance to provide a clear and objective framework for assessment moving forward.

4.54 Airlines expressed continued concern that the *ex post* review will not effectively protect consumers, and that stronger *ex ante* controls and clearly defined thresholds are necessary to ensure that costs remain efficient, justified and in the interests of consumers. BA argued that by the time the *ex post* review is undertaken, evidential constraints will make it difficult to reconstruct the basis for individual spending decisions.

Our views and final decision

4.55 Our final decision is to retain the overall approach set out in the Draft Decision and undertake an *ex post* efficiency review of costs incurred by HAL in 2025 and 2026 to inform the level of costs to be added to the RAB. We continue to be of the view that an *ex post* review is the most practical and reasonable way to assess efficiency and establish whether any disallowance for inefficiency might be appropriate, given the particular nature of these costs and the timing of the underlying work programmes that HAL is undertaking.

4.56 There are significant practical limitations around the timing of costs being incurred making any forward-looking assessment particularly difficult. We also note that the circumstances of early costs in relation to 2025 and 2026 are very different to HAL's "business as usual" costs which are assessed through the standard price control review process and incentive arrangements.

4.57 We acknowledge the request for clarification and further details sought by HAL regarding how specific tests in the *ex post* efficiency review would operate in practice. We are committed to working with HAL and other stakeholders, following the publication of this final decision, to provide further detail and clarity on how the *ex post* review will be implemented in practice. We note that:

- any assessment of costs that we make in the *ex post* review will be proportionate and will take into account the information reasonably available to HAL at the time it committed and incurred costs. We will not be seeking to make decisions informed in an inappropriate way by hindsight;
- as explained above, in advance of this final decision, we commissioned our consultants Steer to perform a high-level scrutiny of HAL and HWL's early cost submissions. The high-level scrutiny focused on whether the early expansion costs submitted to the CAA are justified, relevant, timely, sufficiently evidenced, and deliver expected outputs for activities that are reasonably expected to take place in 2025 and 2026. We asked Steer to identify what further information would be required to form a clearer view about the need (justification, relevance, and timing) of the costs incurred, and we expect that the areas identified by Steer are ones where we will ask that HAL provides additional evidence as part of its *ex post* review submission. We will also consider feedback we receive on the Steer report as part of our *ex post* review;

- we have commissioned Steer to support us in providing further clarity on the type of cost information, level of cost detail, and supporting evidence that should be gathered and submitted in relation to early costs incurred in 2025 and 2026, to facilitate our *ex post* review of these costs. Steer will also provide views on the method that the CAA should apply for any such *ex post* review. This will be informed by previous cost information and lessons learned from earlier expansion-related expenditure and *ex post* reviews, including costs incurred in 2019 and 2020 where relevant; and
- as part of the *ex post* review we will, within the broad framework established by this final decision, consult on the detailed application and approach to the *ex post* review, and the initial findings from that review, before setting out any final decision on the levels of costs to be recovered from airport charges. We encourage HAL and other stakeholder to work constructively with us during this process.

4.58 We also note HAL's concerns regarding the test relating to duplicative costs and sharing of relevant information with other promoters. We acknowledge there may be circumstances in which information cannot reasonably be shared due to commercial sensitivity and contractual restrictions. While there may be justified limitations on sharing of information and analysis, we consider that it remains important that promoters are not incurring costs (and asking consumers to fund those costs) where they can be reasonably avoided.

4.59 We have commissioned our external advisors Steer to provide their technical view of the list of items of information that should be shared between HAL and other promoters (and specifically HWL, given their potential status as a promoter going forward) in order to avoid duplication of costs as much as reasonably possible. Steer's assessment will consider what information is technically necessary for the preparation of the planning application, and feasible to obtain and be shared. They will also consider whether any items could be jointly commissioned by HAL and HWL, and whether on the basis of a technical assessment HWL should share certain information with HAL.

4.60 We intend to share the outputs of the Steer work with stakeholders in due course, and discuss how this will feed into the *ex post* efficiency test, as part of the implementation of our approach.

4.61 In addition to the factors and considerations set out immediately above the *ex post* review will take account of the approach summarised in paragraph 4.52 above.

Ongoing cost reporting

The Draft Decision

4.62 In the Draft Decision, we proposed that HAL should report regularly on expenditure incurred in relation to early expansion activities during 2025 and 2026. We considered that ongoing reporting would improve transparency, allow stakeholders to understand how expenditure was evolving over time and support effective regulatory oversight.

4.63 We proposed that reporting should include information on actual expenditure and forecasts of future expenditure. We considered that these reporting arrangements would support the CAA's monitoring of costs and inform subsequent regulatory assessments, including any *ex post* review of expenditure.

Stakeholders' views

4.64 Airlines generally supported transparency and reporting requirements but argued that reporting alone would not provide sufficient protection for consumers. BA, Aer Lingus, Iberia, Virgin, Vueling and the AOC/LACC considered that stronger controls on expenditure and more robust regulatory safeguards were required alongside reporting requirements to ensure that costs remain efficient, justified and in the interests of consumers.

4.65 HAL supported the principle of ongoing reporting and transparency. HAL stated that it was willing to work with the CAA and airlines to implement reporting arrangements, provided that reporting requirements remained proportionate and focused on information relevant to monitoring expenditure.

4.66 HWL supported transparent reporting arrangements and emphasised the importance of applying equivalent reporting expectations across promoters where costs may ultimately be recovered from consumers.

Our views and final decision

4.67 Having considered stakeholders' responses, we have decided to retain the ongoing reporting arrangements proposed in the Draft Decision.

4.68 We continue to consider that regular reporting is an important component of the wider package of consumer protections. Reporting provides transparency over expenditure, supports regulatory oversight and informs future assessments of costs. We acknowledge airlines' concerns that reporting alone does not provide sufficient protection for consumers. However, reporting requirements form part of a broader framework that also includes expenditure caps, independent assurance and *ex post* efficiency reviews.

4.69 We have therefore decided to proceed with the reporting arrangements proposed in the Draft Decision. The Steer report[47] on the costs that HAL and HWL have incurred during the initial period, that is discussed above and is being published alongside this final decision, provides a helpful disaggregation of costs into standard categories. This will form the starting point for our discussions with stakeholders on the most appropriate format for cost reporting.

Appointment of an independent cost expert

The Draft Decision

4.70 In the Draft Decision, we proposed that HAL appoint an independent cost expert to provide assurance over early expansion expenditure incurred during 2025-26. The purpose of the independent cost expert would be to provide additional scrutiny of expenditure and support confidence that costs being incurred were appropriate and consistent with the overall framework established by the CAA.

4.71 We said that independent cost assurance would complement the proposed reporting requirements, expenditure caps and *ex post* efficiency review, forming part of a wider package of consumer protections.

4.72 For early costs incurred in 2025 and 2026, we considered that HAL appointing the assurance provider remains the most expedient and timely approach. In particular this should provide scope for a rapid appointment and integration within HAL's business processes and managements structures. Nonetheless, we proposed to strengthen the procedural safeguards for independence, and explained that we expected HAL to develop a shortlist of potential candidates for this role within six weeks of the publication of the Draft Decision. The CAA would approve the terms of reference and, in consultation with airlines, approve the final choice of cost expert.

4.73 In relation to early costs incurred from 2027 onwards, we said that we would retain the option of directly appointing an independent cost expert. This approach would maximise independence, accountability and scrutiny in the regulatory process.

Stakeholders' views

4.74 Airlines generally supported the appointment of an independent cost expert but argued that the expert should be demonstrably independent of HAL and accountable to the CAA. They said that HAL, as the regulated entity, should not be permitted to lead the procurement, appointment and management of any advisory structure going forward. Several airlines considered that airlines should

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have a role in the appointment process and in determining the scope of the expert's work.

4.75 HAL supported the principle of independent assurance but raised concerns that some aspects of the proposed arrangements could duplicate existing governance and assurance processes. HAL sought greater clarity regarding the role, responsibilities and reporting requirements of the independent cost expert.

4.76 HAL also provided further views on the appointment of the independent assessor and has developed a shortlist of possible candidates, which has been shared with the CAA for our feedback. HAL said that any appointment process should be practical and proportionate, while enabling the independent assessor to be put in place quickly enough to support the 2025 and 2026 early costs framework.

4.77 HWL supported independent assurance arrangements and stated that, in the interests of consistency and equal treatment, comparable assurance requirements should apply to all promoters where appropriate.

Our views and final decision

4.78 Having considered stakeholders' responses, we have decided to retain the independent assurance arrangements proposed in the Draft Decision.

4.79 We consider that an independent cost expert would provide an important safeguard for consumers by increasing transparency and providing additional scrutiny of expenditure incurred by HAL. This additional assurance will help ensure spending is efficient, should reduce the risks of inefficient spending and is an important part of our work to ensure that consumers only fund efficient costs. Overall, this approach should further the interests of consumers. While we acknowledge airline comments regarding governance and appointment arrangements and will work with HAL and airlines to ensure that the arrangements adopted provide appropriate independence while remaining proportionate to the scale and nature of the expenditure being incurred.

4.80 We have therefore decided to proceed with the independent cost expert arrangements proposed in the Draft Decision.

4.81 We are working with HAL to determine the next steps for the appointment of the intendent cost expert, including agreeing the terms of reference for this expert and developing a short list of potential providers.

4.82 We note that the role of the independent cost expert will be distinct from that performed by Steer in its high-level scrutiny of costs incurred by HAL during 2025 and 2026. The independent cost expert's work should complement and, where relevant, build upon Steer's analysis, rather than duplicate it.

Reopener provisions and withdrawal from expansion

The Draft Decision

4.83 In the Draft Decision, we proposed the introduction of reopener and withdrawal provisions to address the risk that circumstances could change materially during the period covered by our decision. We considered that these mechanisms would provide an important safeguard for consumers by allowing the CAA to revisit aspects of the framework where underlying assumptions were no longer valid.

4.84 We proposed that these provisions could be used where there were material changes in government policy, project development, expenditure forecasts or other relevant circumstances. We said that retaining flexibility with respect to any costs that had not been incurred before a material change crystallised would be as important given the uncertainty associated with expansion.

Stakeholders' views

4.85 Airlines generally supported the inclusion of reopener provisions but argued that the circumstances in which a reopener could be triggered should be clearly defined. BA, Aer Lingus, easyJet, Iberia, Virgin and Vueling also considered that stronger consumer protections, including clearer true-up, disallowance and clawback arrangements, were required to ensure consumers were not exposed to costs where circumstances changed materially, development consent was not obtained or expansion did not proceed.

4.86 HAL supported the inclusion of a reopener mechanism and agreed that it was appropriate to provide flexibility where there were material changes in circumstances. HAL emphasised that any reopener arrangements should operate in a predictable and proportionate manner.

4.87 HAL also reiterated its position on withdrawal or cessation rights. It said that the approach to recovery of efficiently incurred early costs, where HAL withdraws from expansion for genuine business reasons, should be codified in the Licence rather than set out only as a CAA policy position. HAL said this certainty was important to support investment decisions and mobilise capital for expansion. It also requested further clarity on how the reopener mechanism would operate in practice and whether it would be implemented in the same way as cessation rights.

4.88 HWL did not object to the principle of reopener provisions and generally supported mechanisms that allow the regulatory framework to respond to significant changes in circumstances.

Our views and final decision

4.89 Having considered stakeholders’ responses, we have decided to retain the reopener provisions proposed in the Draft Decision. We consider that a reopener is appropriate given the early stage of expansion and the uncertainty around project scope, timetable, costs and government policy. It provides a targeted safeguard for consumers by allowing the CAA to respond where there has been a material change in circumstances that may affect the basis on which cost recovery was allowed, while still providing HAL with a reasonable degree of regulatory certainty.

4.90 We have also considered stakeholder comments on withdrawal or cessation from expansion. We remain of the view that HAL should be able to recover efficiently incurred early costs where it withdraws from expansion for genuine business reasons. However, any such recovery would remain subject to the wider consumer protection arrangements set out in this decision, including the cost cap, ongoing reporting, independent assurance and the *ex post* efficiency review. In the circumstances of a reopener, we would allow efficient early costs already incurred but reopen the cap to limit the recovery of future efficient costs to only necessary and efficient future costs required to close down the early cost programme in an efficient way. We would make this assessment on a case-by case basis. HAL would be able to recover its efficient costs in the circumstances where it had a genuine business reason for withdrawing from expansion and it did so in an appropriate, timely and efficient way. In these circumstances, in carrying out the *ex post* review of costs we would also consider whether HAL had taken reasonable account of uncertainty in incurring costs, and we would have the flexibility to adjust cost allowances if HAL had incurred costs unnecessarily.

4.91 We note that these arrangements do not go as far as some of the airline suggestions for cost dis-allowances. We consider such an approach would violate the principle of a ‘fair bet’ and would act as a significant disincentive on HAL to incur early costs in a timely and appropriate way, which would not be in the interests of consumers.

4.92 As we explained in the Draft Decision we do not consider that it is necessary or proportionate to include a specific provision in the Licence on cessation rights for the purposes of this decision, which relates to early costs incurred in 2025 and 2026.

4.93 We have therefore decided to proceed with the reopener and withdrawal arrangements proposed in the Draft Decision.

The allowed return on early costs incurred by HAL

The Draft Decision

4.94 In the Draft Decision, we confirmed our view that efficient early costs should be included in HAL's RAB. We said that the allowed revenues for 2026 under HAL's price control should be increased to provide the equivalent of 1.5 years return on costs incurred in 2025 and 0.5 years return on costs incurred in 2026.

4.95 We proposed to calculate this adjustment using a pre-tax RPI-real weighted average cost of capital ("WACC") of 3.30%, which is the bottom of the range used to inform the H7 price control Final Decision. We said that we were conscious of the advantages in providing clear incentives on HAL not to overspend, as capacity expansion is at a relatively early stage and does not yet benefit from the certainty of planning permission. We also noted that the risk profile of early costs is different and lower compared with forward looking capital programmes, as a significant proportion of the costs has already been incurred.

Stakeholders' views

4.96 HAL stated that the WACC proposed in our April 2026 Draft Decision is below the cost of new debt, and this is difficult to reconcile with CAA's duty to ensure HAL is able to finance its activities. It said that our Draft Decision is an outlier against regulatory precedent and is a marked step away from previous practice of using the WACC that would have occurred if the expenditure had been anticipated at the time of the previous decision.

4.97 HAL also challenged our view that expansion investment is lower risk, stating that no supporting evidence or analysis was provided and that the WACC should reflect expected risks at the time the investment decision is taken, when recoverability was subject to greater uncertainty. It said that the average real cost of new debt (including issuance costs) in the CAA H7 Final Decision is 4.33% for H7 and 4.75% for 2026, and this requires a real pre-tax WACC greater than either 6.31% or 6.56%.

4.98 Airlines reiterated their view that any return should be limited to the cost of debt. Some airlines linked this view to the fact that the expenditure is taking place before DCO is granted or to limitations of the safeguards and incentives proposed in our Draft Decision. BA stated that risk has been removed and that cost recovery is guaranteed subject only to the DIWE test, though it also stated that HAL should earn a full WACC once DCO is granted. easyJet stated that costs recovered early through regulatory financing should not be included in the RAB or be rewarded with a WACC.

Our views and final decision

4.99 We remain of the view, as set out in the Draft Decision, that efficient early costs should be included in HAL's RAB, and that the revenues allowed under HAL's price control for 2026 should be increased to provide the equivalent of 1.5 years' return on costs incurred in 2025 and 0.5 years' return on costs incurred in 2026.

4.100 Stakeholders expressed different views about the risks associated with HAL's early costs and how these should be reflected in the WACC. HAL has said that it should be allowed a significantly higher WACC, while airlines have argued the WACC should be limited to the cost of debt.

4.101 We have reassessed the broad position set out in the Draft Decision in the light of stakeholder representations.

4.102 This has included reconsidering whether HAL can reasonably finance early costs on the basis of a WACC at the bottom of the H7 range. While this was broadly consistent with the financeability analysis that supported the H7 price control review we acknowledge that early costs are spending commitments over and above the H7 capital expenditure envelop. In this context there is some force in the argument that we should carry out an additional supporting check on financeability. We note the estimate of the cost of new debt for HAL in the H8 IPs of a real 3.93%. As this is above the WACC of 3.3% in the Draft Decision and the cost of equity must axiomatically be higher (because of higher relative risk) than the cost of debt finance then this constitutes significant evidence that the level of return should be higher. The mid-point of the H7 real WACC of 4.01 % would therefore seem to be a more robust estimate of the appropriate level of return.

4.103 This approach would also take account of HAL's representations that the Draft Decision marked a step away from previous practice of using the WACC that would have occurred if the expenditure had been anticipated at the time of the previous decision.

4.104 While this is a higher level of return than in the Draft Decision, as set out above, we consider that the increase is a more robust estimate of the appropriate level of return. Further the estimate remains in line with the approach suggested by airlines. This should mean that HAL is able to recover efficient costs, but at the same time avoiding any undue incentives on HAL to incur higher levels of spending to earn higher returns. The overall impact on airport charges and consumers will also be relatively modest given it will apply to early costs over a two year period.

4.105 We note HAL's suggestions that its cost of debt should indicate an even higher WACC, but also note its point about the importance of consistency with the established practice of allowing expenditure at the mid-point of the WACC. On balance we are of the view that using the mid-point of the H7 WACC is reasonable and proportionate and given the sums involved would not jeopardise

HAL's ability to finance its provision of airport operation services in the area for which the Licence is granted.

4.106 Therefore, our decision is to allow a (pre-tax RPI-real) return of 4.01% on HAL's 2025 and 2026 efficient early costs. This is the mid-point of the range that informed the H7 Final Decision and is also consistent with the approach set out in our December 2025 Consultation. We note that this approach would be consistent with the approach used for three other mechanisms in the Licence that seek to adjust the price control to reflect the return on additions to or deductions from HAL's RAB: the allowed capex adjustment, the traffic risk sharing adjustment and the additional correction factor.

4.107 We do not rule out in future applying a specifically-chosen WACC to certain costs incurred by HAL or others, especially where the impact on airport charges is likely to be more significant. However, for HAL's efficient early costs in 2025 and 2026, we consider that applying a WACC of 4.01%, the same as that used in similar existing licence mechanisms, best meets our duty to carry out our regulatory activities in a way that is proportionate and consistent.

4.108 As noted in chapter 6 (Implementing our policy and making changes to the Licence) the impact of the change in WACC estimate on airport charges and consumers is relatively modest. It is also consistent with the range that informed the Draft Decision. Bearing these factors in mind we do not regard this change as being so significant as to warrant further consultation with stakeholders.

Summary and next steps

4.109 In order to further the interests of consumers and to encourage economy and efficiency on the part of HAL, our final decisions on the following regulatory arrangements, for costs incurred in 2025 and 2026, are to:

- not introduce incentive arrangement based on the success or failure of HAL's DCO application;
- include the recovery of certain limited efficient land and property costs within the scope of early costs to be recovered by HAL;
- introduce a flexible cap on HAL's recovery of early costs, set at £320 million, while maintaining a high bar for making any increases to the cap;
- undertake an *ex post* efficiency review of the costs that HAL incurs, to provide incentives for efficiency, support arrangements to avoid the duplication of costs and to protect consumers from the recovery of inappropriate costs through airport charges;
- introduce ongoing cost reporting arrangements, to promote transparency and provide a strong starting point for subsequent *ex post* efficiency reviews;

- require the appointment of an independent cost expert to support the delivery and assessment of the efficient levels of early costs incurred;
- maintain provisions for "reopening" these arrangements if a material change of circumstances arises, and the ability for HAL to recover efficient early costs that it had incurred were it to withdraw from the capacity expansion programme for genuine business reasons; and
- allow HAL to earn a (pre-tax RPI-real) return of 4.01% on HAL's efficient early costs, to be included in HAL's opening RAB for the period of the H8 price control.

4.110 Our approach to the required modifications to the Licence to implement these decisions is described in more detail in chapter 6 (Implementing our policy and making changes to the Licence) and Appendix D.

Chapter 5

Recovery of other promoters' early costs

Introduction

5.1 This chapter sets out our final decision on the recovery of early expansion costs by HWL for the period between January 2025 and the Government's 2025 Announcement. Our approach has been updated having considered stakeholders' feedback to the Draft Decision and other developments which have taken place since the publication of that Draft Decision.

5.2 Our final decision addresses:

- the rationale for allowing recovery of HWL's costs up to the Government's 2025 Announcement and the level of costs to be recovered; and
- the mechanism for the recovery of HWL's costs up to the Government's 2025 Announcement.

5.3 In relation to these issues, we summarise our Draft Decision, stakeholders' views in response to the Draft Decision, and then set out our final decision.

5.4 In this chapter we also discuss and provide an update on our approach and timescales for the assessment of costs incurred by HWL's since the Government's 2025 Announcement, information sharing between promoters and our intention to consult on these matters in October 2026. For the avoidance of doubt, we are not setting out any proposals or decisions in relation to costs incurred by HWL since the Government's 2025 Announcement in this document. HWL's early cost recovery (for costs incurred in the period between January 2025 and the Government's 2025 Announcement) under this Final Decision does not pre-empt, constrain or set a precedent for any future decisions the CAA may take, and nor does it confer on HWL any entitlement to recover costs beyond the Government's 2025 Announcement.

Recovery of HWL's costs up to the Government's 2025 Announcement

The Draft Decision

5.5 Building on the December 2025 Consultation and having taken account of stakeholders' responses, the Draft Decision proposed that promoters other than HAL with credible and appropriately mature proposals at the relevant stage should be able to recover their efficient early costs because:

- having a degree of rivalry between promoters would have advantages to consumers in that it should promote efficiency and evaluation of a wide range of expansion options;
- it could provide benefits to consumers by creating a "level playing field" to promote competition in the planning of capacity expansion; and
- a policy consistent with our previous consultations on the matter (for example our September 2025 Update and December 2025 Consultation) would promote confidence for investors and potential new entrants in the overall regulatory regime and would contribute to keeping financing costs and costs to consumers lower than they would otherwise be.

5.6 We explained that the assessment undertaken by our consultants, Steer, of HWL's July 2025 submission found that it was sufficiently complete and robust to carry out a high-level technical and cost efficiency assessment. Based on this assessment, we considered the planning work by HWL up to the Government's 2025 Announcement was credible and appropriately mature.

5.7 Bearing the above in mind, our Draft Decision proposed that HWL should be able to recover up to £4.3 million of costs (2025 prices) incurred up to the Government's 2025 Announcement.

5.8 We said that the level of costs to be recovered would be subject to further assessment to ensure costs are set at an appropriate level given the activities undertaken by HWL and that they were incurred directly for planning capacity expansion (for example they are not lobbying costs).

5.9 Other elements of our Draft Decision included:

- that the recovery of HWL's costs should be implemented through modifications to the Licence; and
- recovery of costs incurred after the Government's 2025 Announcement would only be considered if HWL's plans were credible and appropriately mature in the light of that announcement, if it would provide clear benefits to consumers, and HWL's proposals align with relevant specifications for the scheme.

5.10 We also set out that we will protect consumers from duplication of costs between promoters by:

- undertaking an *ex post* efficiency review of costs incurred by all promoters during 2025 and 2026; and
- on a forward-looking basis, exploring potential mechanisms to facilitate sharing of relevant non-confidential information between promoters.

Stakeholders' views

5.11 HWL supported our proposed approach for recovery of its costs up to the Government's 2025 Announcement. It sought further clarity on what evidence would be needed for the CAA to complete its assessment of costs incurred before November 2025. Its response also discussed our approach to costs it has been incurring since the Government's 2025 Announcement.

5.12 HAL opposed the CAA's Draft Decision to allow HWL to recover early costs through a mechanism in the Licence. It stated that the CAA must be satisfied that doing so meets its statutory duties and said that:

- the CAA should not allow recovery of HWL's early costs on deliverability grounds unless and until (i) HWL explains how its proposals would not cause serious detriment to Heathrow's statutory undertaking; and (ii) HWL explains how its consenting strategy would work in relation to HAL's own DCO and how HWL's DCO application could be considered to be in accordance with the ANPS, which related to expansion as an integrated project;
- HWL had not demonstrated credible, incremental consumer benefits compared to the counterfactual (HAL progressing the main scheme alone). HAL further claimed that evidence from multi-operator airports (for example, JFK, LAX) showed worse passenger outcomes, lower efficiency, and reduced resilience; and
- allowing cost recovery would create material harm through increased risk of delay, duplication of work and additional governance burdens.

5.13 HAL further argued that the CAA has failed to demonstrate that allowing HWL to recover its costs would be in consumers' interests and has not adequately explained why it has departed from its previous 2023 position, when it concluded that HWL's work was undertaken at its own risk and had not been shown to deliver consumer benefits. HAL stated that HWL's proposal was not selected because of fundamental design, financial and operational shortcomings and did not meaningfully improve or challenge its own expansion scheme.

5.14 HAL also disputed the CAA's reliance on the Steer assessment of HWL's scheme and the benefits of rivalry, noting the CAA took a different view on the proposals made in relation to "Heathrow West" in 2023.

5.15 Airline stakeholders raised broader issues around the recovery of early costs, which are discussed in more detail in chapter 3 (Recovery of early costs by HAL), and suggested that there should be no recovery of early costs by any promoter before a DCO was granted.

Additional evidence and analysis

5.16 In May 2026 we commissioned our technical advisors, Steer, to undertake a review of the underlying activities that led HWL to incur £4.3 million of expansion related costs up until the Government's 2025 Announcement. The purpose of the Steer review was to assist the CAA in determining whether the cap is set at an appropriate level and whether the early costs incurred by HWL up to November 2025 were justified and relevant.

5.17 To enable Steer to undertake this review, HWL made a submission to the CAA detailing the costs it had incurred before the Government's 2025 Announcement. We also undertook follow up engagement with HWL to seek clarifications on elements of its cost submission.

5.18 The table below presents the breakdown of the early costs that HWL submitted to us, by cost category. We note that HWL confirmed that the £4.27 million costs it submitted to us were expressed in 2025 prices, which was the year HWL said the costs were incurred. As we are setting the early expansion costs cap in 2024 CPI prices, we converted HWL's cost submission into the 2024 CPI, which results in the corresponding amount of £4.14 million.

Table 4.1 HWL's early expansion costs incurred up to November 2025

(£million, 2024 CPI)	Up to Nov 2025 (Nominal)	Up to Nov 2025 (2024, CPI)
Planning and Design	**0.56**	**0.54**
Engineering design	[redacted]	[redacted]
Environmental assessments	[redacted]	[redacted]
Master planning	[redacted]	[redacted]
Professional and Legal Services	**0.44**	**0.43**
Planning consultants	[redacted]	[redacted]
Legal services	[redacted]	[redacted]
Program Management	**0.06**	**0.06**
Estimating	[redacted]	[redacted]
Schedule design	[redacted]	[redacted]
Internal staff costs	**3.05**	**2.95**
Stakeholder and Community engagement	**0.16**	**0.16**
Total	**4.27**	**4.14**

Source: HWL, May 2025 submission.

5.19 Steer has applied the same high-level scrutiny method to HWL's submission as was used for HAL, which we summarise in chapter 4 (Regulatory arrangements to protect consumers) and is explained in detail in the Steer report.[48]

48 Steer, CAP3289C Early costs scrutiny for Heathrow expansion, July 2026

5.20 The table below shows the results of the high-level scrutiny of the early costs that HWL submitted to us. It shows that the full £4.14 million (2024 CPI) early costs incurred and submitted by HWL meets Steer's scrutiny conditions.

Table 4.2 Scrutiny results of HWL costs

(£m, 2024 CPI)	HWL submission Up to Nov 2025	Steer scrutiny testing Pass
Planning and Design	**0.54**	**0.54**
Engineering design	[redacted]	[redacted]
Environmental assessments	[redacted]	[redacted]
Master planning	[redacted]	[redacted]
Professional and Legal Services	**0.43**	**0.43**
Planning consultants	[redacted]	[redacted]
Legal services	[redacted]	[redacted]
Program Management	**0.06**	**0.06**
Estimating	[redacted]	[redacted]
Schedule design	[redacted]	[redacted]
Internal staff costs	**2.95**	**2.95**
Stakeholder and Community engagement	**0.16**	**0.16**
Total	**4.14**	**4.14**

Source: Steer technical report

Our views and final decision

5.21 Our final decision is to implement the proposals in our Draft Decision, that is to allow HWL to recover costs incurred before the Government's 2025 Announcement, up to a cap of £4.14 (2024 CPI prices). The reasons for this are as follows.

5.22 As explained in detail in chapter 2 (Evidence we have considered on benefits to consumers), having reviewed the evidence available on the benefits of expansion, and considered representations from stakeholders, we continue to consider that there are plausible scenarios in which the expansion of Heathrow Airport would be in the interests of consumers. These plausible scenarios include those identified in the DfT's latest appraisal and implied by the work that has suggested that significant scarcity rents exist at Heathrow Airport, including the work commissioned by HAL from Frontier Economics.

5.23 We also recognise there are challenges with capacity expansion, including its significant costs, which are likely to drive up airport charges at Heathrow. For example, the Steer report published alongside our Draft Decision suggests that the costs of delivering expansion may between £33 billion and £52 billion (2024 prices).

5.24 As we explained in our Draft Decision, HWL's response to the request from Government to develop plans for expansion appears likely to have had some disciplining effect on costs of the proposals put forward by HAL. Given this and the scale of the expansion programme, it is reasonable to conclude, on the basis explained in our Draft Decision and the earlier consultation documents referenced above,[49] that the benefits to consumers of HWL's participation in the Government's process for developing expansion policy is likely to have had a constraining effect on the costs of expansion by more than the costs incurred by HWL (£4.14 million in 2024 CPI prices).

5.25 By allowing HWL to recover efficient costs for this period, we also remain of the view that this will help ensure it has the resources to compete effectively and that we are therefore putting in place arrangements that promote competition where appropriate in the provision of airport operation services.

5.26 On balance, we consider that it is a proportionate response and in the interests of consumers that HWL be allowed to recover its costs up to the Government's 2025 Announcement.

5.27 In making this final decision, we have also had regard to the advantages in the CAA acting consistently with our earlier proposals and Draft Decision. This should help avoid undermining the confidence of investors and potential new entrants in the regulatory framework. We consider this is especially relevant because we established as part of our consultations in 2025 that it would likely be in the interests of consumers for promoters with credible and appropriately mature proposals to come forward with plans for the Government to consider in its work to inform its review of the ANPS.

5.28 We also note that, as a result of the time required to run a robust regulatory process, the costs incurred by HWL are in the past but this does not undermine this reasoning.

5.29 Our final decision on these matters also reflects current circumstances and in this context it is important to explain and distinguish our decision in this instance from our decision not to allow costs incurred by Heathrow West during the capacity expansion process which took place before 2020.[50]

5.30 At that time, we were developing policy for the recovery of the early costs that HAL incurred between 2017 and 2020. Heathrow West's proposals were less mature than those of HAL. It was only in early 2020, just before the capacity expansion programme was paused, that we decided there was sufficient evidence to consider that the Heathrow West plans were worthy of more detailed work. Once expansion had been paused and the focus returned to a "two runway" airport, we decided that there was not a compelling case in the interests of consumers to take action to support the recovery from consumers the early

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49 As explained in our Draft Decision at paragraphs 1.38 and 2.62 to 2.73.

50 We use the term "Heathrow West" when referring to the expansion plans of the Arora Group before the capacity expansion programme was paused in early 2020.

costs that the Arora Group had incurred at that time. We were clear that our decision did not set, and should not be seen as setting, a precedent for future decisions.

5.31 The high-level scrutiny of HWL's £4.14 million of costs discussed above suggests that this is an appropriate level of costs to inform the cost cap. We will also carry out an *ex post* efficiency review of these costs in due course (and may require further information from HWL to support this review). Taken together these arrangements will ensure that only appropriate and efficient costs are recovered from consumers.

5.32 We have considered HAL's representations on HWL being allowed to recover costs incurred up to the Government's 2025 Announcement, including the tests and concerns that HAL set out in its response. We do not consider these arguments provide sufficient reasons to move away from the position set out in the Draft Decision, as explained below:

- we acknowledge that deliverability is an important consideration in terms of assessing whether HWL's proposals are credible and appropriately mature. We note that deliverability was one of the key assessment criteria used by Steer in its technical and cost efficiency assessment in relation to the scheme that HWL was developing before the Government's 2025 Announcements. The conclusions of this assessment were that HWL's scheme was credible and appropriately mature for the stage in the process at that time;
- we do not consider it appropriate to make recovery of costs incurred before the Government's 2025 Announcement conditional on resolving questions about HWL's long-term consenting strategy or the merits of HWL's latest proposals. These matters are more properly addressed through the ongoing regulatory and planning processes;
- as we have explained above, we remain of the view that making cost allowances for HWL of £4.14 m for costs incurred in 2025 is proportionate to the likely benefits to consumers of making this allowance and our approach to furthering the relevant interests of consumers in a way we consider will promote competition in the provision of airport operation services where appropriate;
- the evidence cited by HAL regarding multi-operator airports has been considered as part of our review of regulatory models and we have decided to retain an approach to developing the regulatory framework for Heathrow which allows for competitive pressure in the provision of airport operation services;

- regarding HAL's suggestion that allowing recovery creates material harm through delay, duplication and governance burden, we recognise that the management of interfaces between promoters will be important going forward and involves considerations around duplication of work and sharing of information. We deal with these matters further below and in chapter 3 (Recovery of early costs by HAL). We also note that HAL can play a key and constructive role in minimising delays and developing processes for the effective sharing of information and it should focus on these matters going forwards; and
- our work on the regulatory framework for expansion, as discussed in our Heathrow capacity expansion – update on the approach to the regulatory framework,[51] further explains the importance of retaining an approach to developing the regulatory framework for Heathrow Airport that encourages competition where appropriate and retains the flexibility to develop arrangements consistent with a range of plausible outcomes from the DCO application process, including that an alternative developer is granted a DCO.

5.33 On airline stakeholders' objection to recovery before a DCO is granted we have set out our approach and reasons for allowing HAL to recover costs in chapter 2 (Evidence we have considered on benefits to consumers) and chapter 3 (Recovery of costs by HAL). Our reasons for allowing HWL to recover costs up to the Government's 2025 Announcement are set out in paragraphs 5.21 to 5.28. Based on the information currently available to us, we consider that deferring cost recovery until after the grant of a DCO would jeopardise the timely delivery of expansion and the preparations of high quality DCO applications, which would not be in the interests of consumers.

Mechanism for recovery of HWL's costs up to the Government's 2025 Announcement

The Draft Decision

5.34 We proposed in our Draft Decision that the recovery of the expansion costs that HWL incurred prior to the Government's November 2025 Announcement should be implemented through modifications to the Licence. We proposed modifications to the price control terms in the Licence to allow the recovery of these early costs and for these revenues to be transferred to HWL.

51 CAA, CAP3286, Update on the approach to the regulatory framework, July 2026.

5.35 We also explained, in our Draft Decision, why we consider that the CAA12 is flexible enough to support the development of a mechanism for the recovery of a third party's costs, should it further the relevant interests of consumers.

Stakeholders' views

5.36 HAL rejected the CAA's interpretation of sections 19 and 21 of CAA12 as overly broad and *ultra vires*. HAL maintained that price control conditions can only be imposed where they are linked to the risk of Heathrow abusing its substantial market power (SMP), whereas recovery of HWL's costs is unrelated to any such risk. It disputed the CAA's interpretation of sections 19 and 21 of the CAA12, arguing that section 19 sets out an exhaustive framework for price controls and cannot be expanded through broader licence condition powers. HAL also contended that requiring it to collect money from airport users to fund a third party's costs would be *ultra vires*, would increase charges for passengers and cargo owners, and would run counter to the statutory purpose of price regulation.

5.37 While maintaining that no cost recovery is justified, HAL stated that if any recovery by HWL is allowed, it should not be through the Licence. Instead, the CAA could apply a one-off operating cost treatment with clear guardrails on timing, audit, disputes, tax, and cash-flow.

5.38 In addition, HAL raised practical considerations with the mechanism proposed by the CAA and claimed that it would create:

- Corporation tax risk as it may not be able to deduct payments to HWL resulting in a permanent 25% tax cost;
- VAT uncertainty and potential disputes; and
- cash-flow asymmetry – HAL would pay HWL before recovering revenues with RAB adjustment risks.

Our views and final decision

5.39 We confirm our final decision is to use the Licence to recover the efficient early costs HWL incurred up to the date of the Government's 2025 Announcement. We explain our reasoning below.

5.40 We have considered HAL's submissions regarding the scope of the CAA's powers under CAA12. We do not accept HAL's contention that the proposed recovery mechanism falls outside the scope of the licensing framework established under CAA12. As explained in the Draft Decision, the CAA has previously considered whether arrangements should be put in place through the Licence to provide for the recovery of a third party's costs and has previously expressed the view that section 21(1)(b) CAA12 is capable of supporting such arrangements where this is justified and in the interests of consumers.

5.41 We do not agree with HAL's interpretation of section 19 CAA12. HAL's argument appears to depend on section 19(2) being interpreted as limiting price control conditions exclusively to matters concerning the risk of abuse of SMP. In our view, section 19(2) CAA12 states what price control conditions must be included in the Licence, but does not limit the scope of price control conditions only to addressing the risk set out in section 18(1)(a) (that is, the risk that HAL may engage in conduct that would amount to an abuse of its substantial market power). We consider that this is clear:

- not only from the language of section 19(2) itself, because it states what a licence "must" contain, but is silent on what it "may" contain; but also
- because section 19(2) is expressly subject to "the provision in this Chapter about the conditions that may be included in the licence" (see section 19(3)).

5.42 We also continue to consider that section 21(1)(b) confers a broad discretion to the CAA to include licence conditions requiring the licence holder to enter into contractual or other arrangements for specified purposes. In our view, CAA12 is sufficiently flexible to accommodate the design of an arrangement consistent with that envisaged in the Draft Decision and confirmed in this final decision.

5.43 Having considered HAL's representations, we remain of the view that the proposed licence modifications fall within the scope of the powers conferred on the CAA by CAA12.

5.44 On the practical concerns raised by HAL regarding corporation tax, VAT and cashflow asymmetry, these are matters that HAL should manage and do not change our view that the recovery of these costs through a licence mechanism is appropriate.

5.45 We do not agree with HAL's suggestion that an operating cost allowance would be a more appropriate means of addressing recovery of HWL's costs. The issue under consideration is not whether HWL's costs should be classified for accounting or regulatory purposes as operating expenditure, but how a proportionate and transparent mechanism can be established to facilitate recovery of an amount from airport users and transfer the corresponding funds to HWL.

5.46 The licence modifications set out in this decision provide a clear and proportionate framework for achieving this outcome, including the definition of the recoverable amount, the cap on recovery, the arrangements for payment to HWL, and the corresponding adjustment to airport charges. By contrast, treating the amount as a generic operating cost allowance would risk obscuring the basis on which recovery is being permitted and would provide less transparency to stakeholders regarding the costs being recovered, the purpose of that recovery and the protections that apply to consumers.

5.47 The licence modification we are making in relation to these matters is set out in Appendix D and also explained in chapter 6 (Implementing our policy and making changes to the Licence). In summary, we are proposing to introduce:

- an obligation on HAL to pay HWL's costs up to a cap which we are setting at £4.14 million (2024 CPI-real prices). The final amount would be as directed by the CAA, up to this cap and adjusted for inflation to the year in which the payment is made; and
- a corresponding term in the price control formula allowing HAL to recover the corresponding amount through airport charges.

Recovery of post announcement costs and competition between promoters

The Draft Decision

5.48 In our Draft Decision we set out that, in light of the Government's 2025 Announcement and its focus on HAL's proposal for a 3.5km runway to the northwest of the current airport, there should be no allowance for additional costs incurred by other promoters after November 2025 unless two conditions are met:

- such costs can be shown to provide clear benefits for consumers; and
- the promoter has credible and appropriately mature plans in the context of the 3.5km runway scheme.

5.49 The Secretary of State issued a direction on 12 March 2026, granted in response to HWL's December 2025 request under section 35 of the Planning Act 2008, in relation to HWL's proposed scheme. We set out in the Draft Decision that we would engage with HWL to understand its plan to work towards the grant of a DCO and its expected spending profile for 2026 and beyond.

5.50 We explained that any future proposals from HWL or other promoters would need to be assessed against the maturity framework used in 2025, adapted for consistency with the scheme specification set out in the Government's 2025 Announcement and any further detail emerging from the review of the ANPS which was underway at the time. Promoters would also be required to demonstrate how their proposals would be expected to deliver consumer benefits.

Stakeholders' views

5.51 HWL asked that the CAA set out in its final decision the criteria to assess whether its proposal delivers "clear benefits to consumers" and suggested that HAL should be subject to the same criteria.

5.52 It also said that the current framework risks creating an asymmetry between HAL and rival promoters:

- HAL's costs were allowed on the basis that expansion delivers consumer benefits, without the requirement to demonstrate how its proposals deliver those benefits relative to alternatives; and
- rival promoters face a higher evidential burden to prove "clear benefits" before any post-announcement costs could be recovered.

5.53 HWL stated that the Draft Decision's commitment to put information sharing arrangements in place "in a timely way" was too vague and insufficient as it failed to recognise that this was a real and immediate issue, not a hypothetical future concern. It said it was actively progressing a DCO application and was already incurring significant costs and without prompt information sharing arrangements, HWL would be forced to undertake avoidable duplication of work.

5.54 It made a specific request that the CAA should appoint an Information Arbitrator to facilitate fair and effective information sharing and that these arrangements should be agreed and implemented urgently, ideally on the same timescale as the appointment of the cost expert, no later than July 2026.

5.55 HAL also agreed in principle with the need to share information between promoters, but considered that information sharing should be addressed through a separate, clear and workable process rather than treated as part of the cost efficiency assessment because any assessment of Heathrow's "co-operation" with competing promoters is inherently fact-specific and must reflect legitimate legal, contractual and commercial constraints.

HWL public statement on DCO application

5.56 On 18 May 2026 HWL announced plans to submit a DCO application in November 2027, proposing a two-phase expansion that includes a 2,400-metre runway that would reduce interface with the M25 in phase one.

5.57 HWL outlined plans to undertake pre-application consultation with residents, businesses and other stakeholders as part of that process. HWL has stated that a key objective of securing the Secretary of State's section 35 direction was to ensure it could proceed with a DCO application at sufficient speed to meet the Government's stated objective of enabling a decision on the application to be made within this Parliament, that is by July 2029.

Draft Heathrow Expansion National Policy Statement

5.58 On 18 June 2026, the Government published for consultation the draft HENPS, which proposes an updated planning and policy framework against which any future DCO application would be assessed.

5.59 The draft HENPS contains a proposed statement of Government policy on the need for expansion of Heathrow Airport, scheme requirements, and assessment criteria against which any application for development consent may be assessed.

5.60 The draft HENPS proposes a policy framework centred on the delivery of a complete and integrated Northwest Runway scheme, comprising runway capacity, terminal infrastructure and associated supporting works. While recognising that expansion may be delivered in phases, the draft HENPS proposes that any phased approach would have to contribute to, and be capable of being integrated into, the completed scheme as a whole.

Our views

Recovery of post announcement costs

5.61 Provided that HWL submits a comprehensive and timely response to our request for information below (paragraph 5.64), we intend to consult in October 2026 on whether to allow cost recovery for HWL up to the end of 2026 and what arrangements would further the interests of consumers.

5.62 For the avoidance of doubt, we are not setting out any proposals or decisions in relation to costs incurred by HWL since the Government's 2025 Announcement in this document. HWL's early cost recovery (for costs incurred in the period between January 2025 and the Government's 2025 Announcement) under this Final Decision does not pre-empt, constrain or set a precedent for any future decisions the CAA may take, and nor does it confer on HWL any entitlement to recover costs beyond the Government's 2025 Announcement.

5.63 To inform our October 2026 consultation, we have said to HWL that we will assess the credibility and maturity of its latest proposal once we receive a comprehensive set of information on its plans. We have also said that we intend to adopt assessment criteria consistent with those set out in Steer's Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, or as updated to reflect relevant recent developments, including the draft and final HENPS.[52] These criteria will involve testing the reasonableness and maturity of HWL's plans, and their consistency with the Government's draft and final HENPS in relation to:

- airport scheme design;
- expected timelines;
- costs and revenues;

[52] Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport final report, January 2026. Available here: www.caa.co.uk/CAP3238A

- ownership, financing and funding;
- deliverability; and
- environmental implications and planned mitigations.

5.64 We have also asked HWL to provide information demonstrating, with appropriate evidence:

- that the costs it expects to incur in 2026 will directly result from planning for capacity expansion (rather than, for example, lobbying costs);
- that the costs are efficient; and
- the expected consumer benefits that will arise from allowing the recovery of these costs.

5.65 We consider that the approach outlined here is designed to be proportionate and targeted to the circumstances of capacity expansion at Heathrow Airport and consistent with furthering the relevant interests of consumers by promoting competition in the provision of airport operation services where appropriate.

5.66 We have already established that HAL's proposals are credible and appropriately mature and that there are plausible scenarios where they would create significant benefits for consumers. We are now seeking to adopt the same broad approach to HWL and assess the credibility and maturity of proposals it has been developing following the Government's 2025 Announcement, and their likely benefits to consumers. HWL is seeking the recovery of additional costs and in these circumstances it is proportionate and reasonable to consider whether they would likely create additional benefits to consumers, above the baseline level associated with HAL's proposal. This does not appear to create a meaningful disadvantage to HWL assuming that its proposals are likely to generate significant consumer benefit. If this is not the case then it would not be appropriate to seek to allow HWL to recover its costs from airport charges. We also note that HAL has provided a significant amount of information relating to the consumer benefits of its proposals.

Information sharing between promoters

5.67 Where more than one promoter is intending to apply for a DCO, we consider that there are advantages, including consumer benefits, in the effective and appropriate sharing of information between promoters.

5.68 We have noted the broad scope of information requested by HWL in its letter to the CAA of 27 March 2026 and have commissioned our external advisors, Steer, to provide its technical advice of the list of items of information that should be shared between HAL and other promoters to avoid reasonable duplication of costs. Steer's assessment will consider what information is technically necessary for the preparation of the planning application and feasible to obtain and be shared. It will also consider whether any items could be jointly commissioned by HAL and HWL, and where there is a technical argument for requiring of information.

5.69 Since the Draft Decision we have engaged with both HWL and HAL on whether there should be information sharing arrangements and any proposals they may have. We have asked HWL to provide a more detailed justification of its requirements, including the purpose and relevance of each item to its alternative proposal and DCO application, the proportionality of the request, and the timing of when the information is needed.

5.70 In our engagement with HAL we have said that as a minimum, information that could reasonably be expected to be disclosed publicly as part of HAL's DCO submission is likely to be within scope for sharing in advance with alternate promoters. We have sought HAL's views on this position and on mechanisms to protect commercial and sensitive information.

5.71 We will continue to work with both HAL and HWL to develop proportionate and practical arrangements for information sharing that avoid unnecessary duplication while remaining consistent with the HENPS framework. We will assess the detailed justifications provided by HWL and engage further with HAL on our initial view and further specific arrangements.

5.72 To encourage efficiency and help protect consumers from inappropriate costs we have said we will take account of cooperation with any information sharing arrangements in reaching a judgement on any adjustments to costs allowances made as part of the *ex post* reviews of HAL's and HWL's costs. We note HAL's suggestion that information sharing should be dealt with through a separate process and HWL's suggestion that there should be a new binding obligation on HAL to cooperate with information sharing. Given the evolving nature of these arrangements and the advantages in flexibility we remain of the view that incentives created by taking account of these matters as part of the *ex post* review of costs remains the most pragmatic and appropriate way forward in relation to costs for 2025 and 2026, by HAL and other promoters.

5.73 We will continue to engage with HAL, HWL and other relevant stakeholders on potential information sharing arrangements, if we consider these to be appropriate. We note HWL's suggestion that we should appoint an independent information arbitrator to support any such arrangements and will discuss these matters further with stakeholders.

Summary and next steps

5.74 Having considered stakeholders' views, our decision is to retain the broad approach we set out in the April 2026 Draft Decision to allow HWL to recover the efficient early costs it incurred before the Government's 2025 Announcement. As set out above, we consider that this approach is in the interests of consumers.

5.75 Our approach to the required licence modifications to implement these decisions is described in more detail in chapter 6 (Implementing our policy and making changes to the Licence) and Appendix D.

5.76 Since the Draft Decision we commissioned our technical advisors, Steer, to undertake a high level review of HWL's cost to inform our decision on the cost cap. Taking the results of this assessment into account our final decision is to set the cost cap for HWL's efficient costs incurred before the Government's 2025 Announcement at £4.14 million (in 2024 CPI prices). This will be subject to an *ex post* efficiency review to ensure that consumers only fund efficient and appropriate costs.

5.77 As explained above we will also continue to progress work on information sharing between HAL and HWL.

5.78 We intend to issue a consultation on the treatment of HWL's post-announcement cost and HAL's early cost recovery for 2027 and onwards in October 2026.

Chapter 6

Implementing our policy and making changes to the Licence

Introduction

6.1 We have set out in previous chapters our decision that the efficient costs of expansion incurred by HAL in 2025 and 2026, and by HWL up to the Government's 2025 Announcement, should be recoverable through airport charges, and the additional regulatory protections it will be appropriate to introduce to further the interests of consumers.

6.2 This chapter provides further details on our approach to implementing our policy, including the changes it will be appropriate to make to the Licence to give effect to key elements of the policy. It covers:

- the arrangements for adding efficient early costs incurred by HAL in 2025 and 2026 to its RAB, and the approach to any adjustments that are necessary in the light of any changes to the recovery cap or as a result of the *ex post* efficiency reviews;
- recovery of the return on efficient early costs incurred by HAL in 2025 and 2026;
- recovery of efficient early costs incurred by HWL; and
- the changes to the Licence to support the additional regulatory protections set out in chapter 4 (Regulatory arrangements to protect consumers).

6.3 For each of these issues we provide a summary of the position in the Draft Decision, the responses of stakeholders in relation to these matters and our updated views and decision.

6.4 Appendix D sets out the modifications we are making to the Licence and constitutes a statutory notice under section 22(6) CAA12.

Including efficient early costs incurred by HAL in 2025 and 2026 in its RAB

The Draft Decision

6.5 In our Draft Decision we proposed to retain the approach set out in the December 2025 Consultation, for efficient early costs, or the allowed cap on early costs, whichever is lower, to be added to HAL's RAB during 2025 and

2026. This would then form part of the starting RAB for the H8 price control period.

6.6 We also proposed to conduct a “true up” once the outturn early costs are available for 2025 and 2026 and after conducting an *ex post* efficiency review of these early costs. The “true up” would seek to:

- remove from HAL’s RAB any early costs identified as part of the *ex post* review that should not have been included in the RAB;
- secure that the total early costs incurred by HAL in 2025 and 2026 included in the RAB are no higher than the cap set out in our final decision and any subsequent decisions by the CAA on the level of efficient costs incurred by HAL in 2025 and 2026;
- adjust the RAB to take account of differences between the allowed return in H7 associated with the efficient early costs identified in our review and the allowed return in the H7 price control associated with the forecast of costs in our final decision; and
- adjust the RAB, as appropriate, for any other differences in early costs resulting from differences between outturn and forecast inflation.

6.7 In response to specific points made by HAL in response to our December 2025 Consultation, we said that:

- we would work with HAL on this to ensure that depreciation policy is appropriately applied to early costs and that any other appropriate adjustments (including through the true up we propose to take account of any *ex post* review) are made to ensure that the RAB reflects only the efficient level of early costs; and
- for costs incurred in 2025 and 2026, we will continue to use the definition set out in the Licence drafting we consulted on in the December 2025 Consultation, which was based on the cost submission made by HAL in July 2025.

Stakeholders’ views

6.8 HAL supported the inclusion of early costs incurred in 2025 and 2026 as part of the H8 opening RAB, as well as the true-up mechanism. HAL also confirmed its willingness to work with the CAA to agree an appropriate depreciation policy and necessary adjustments for inclusion of early costs in the RAB.

6.9 Airlines raised broader points about the appropriateness of HAL recovering early expansion costs through the RAB and before a DCO is granted (which we deal with in chapter 3 (Recovery of early costs by HAL) and Appendix C).

Our views and final decision

6.10 Having considered stakeholders' feedback, we have decided to retain the approach set out in the Draft Decision. We continue to consider that adding efficient early costs incurred in 2025 and 2026, or the allowed cap on those costs (whichever is lower), to the RAB provides an appropriate mechanism for the recovery of efficiently incurred expenditure while protecting consumers from bearing the costs of inefficient or excessive spending. We also remain of the view that an *ex post* efficiency review and true-up mechanism are necessary to ensure that only efficient early costs are ultimately included in the RAB, that the cap on recoverable costs is respected, and that appropriate adjustments are made for any differences between forecast and outturn costs, returns and inflation.

6.11 We also welcome HAL's commitment to work with the CAA on the application of an appropriate depreciation policy and any necessary adjustments. Consistent with our Draft Decision, we will work with HAL to ensure that the RAB reflects only the efficient level of early costs and that any adjustments identified through the *ex post* review and true-up process are appropriately implemented.

The return on efficient early costs incurred by HAL in 2025 and 2026

The Draft Decision

6.12 In our Draft Decision we said we would adjust HAL's allowed price control revenue in 2026 to allow for the return on efficient early costs incurred in 2025 and 2026.

6.13 Because HAL has already set airport charges for 2026, the additional allowed return will, in practice, be recovered through the correction factor that is part of the calculation of HAL's maximum revenue yield for 2028. This correction factor adjusts for any difference between HAL's outturn yield for 2026 and the maximum revenue yield set out in the price control formula.

6.14 The adjustment proposed in our Draft Decision would add £0.073 (in current year prices) to the maximum revenue yield per passenger in 2026. This calculation was based on early costs of £33 million in 2025 and £287 million in 2026 (both stated in 2024 CPI-real prices), which we then:

- converted into 2026 RPI-real prices, for consistency with the way that HAL's RAB is rolled forward during H7 and with the use of an RPI-real WACC;
- applied 1.0 year's return to the 2025 costs and 0.5 years' return to the 2026 costs, in both cases using a pre-tax RPI-real WACC of 3.30%, to generate the total additional return; and

- converted to an adjustment per passenger by dividing by the total additional return by the forecast passenger volume for 2026.

6.15 We also said that if any early costs were found to be inefficient, they would be removed from the RAB. Any such adjustment would also correct for any returns that have been allowed on such costs.

Stakeholder's views

6.16 Most stakeholders' comments focused on the proposed rate of return, rather than the way the proposed adjustment would be implemented. These comments are summarised and addressed in chapter 4 (Regulatory arrangements to protect consumers).

6.17 HAL sought clarity that the adjustment would be calculated from "actuals" rather than the estimated values that we used in the notice of proposed licence modifications that we published as part of the Draft Decision. It also noted that our use of estimated values was compounded by using the passenger forecast from HAL's airport charges consultation rather than the more recent forecast from the subsequent final decision.

Our views and final decision

6.18 We have made three main changes to the adjustment set out in the Draft Decision and the Notice of proposed licence modifications set out at Appendix D.

6.19 The first change, as described in chapter 4 (Regulatory arrangements to protect consumers), is that we have decided to calculate the adjustment using a (pre-tax RPI-real) WACC of 4.01%. This is the mid-point of the range that informed the H7 Final Decision and is also the rate that we use for other similar mechanisms in the Licence.

6.20 The second change, consistent with HAL's comment on the implementation of our Draft Decision, is that the adjustment to HAL's maximum revenue yield for 2026 will be implemented as a formula rather than a fixed sum of money. This means that the adjustment will reflect outturn rather than forecast values for 2026 passenger volumes, CPI and RPI inflation. We consider this to be the most appropriate approach in view of the continuing uncertainties that could affect both passenger volumes and prices over the remainder of 2026.

6.21 The third change is to correct an inconsistency between the main document and Appendix C of our Draft Decision. In chapter 3 of the Draft Decision we described an adjustment based on 1.5 years of allowed return on efficiency early costs incurred in 2025 and 0.5 years of allowed return on efficient early costs incurred in 2026.[53] However, the calculation set out in Appendix C to the Draft

53 See paragraph 3.90 of CAP 3238.

Decision was based on only 1.0 year's return on 2025 costs (plus 0.5 years' return on 2026 costs).[54] The description in the main document is the correct version, and this is reflected in adjustment to HAL's price control formula set out in the Licence modification in Appendix D of this final decision.

6.22 Our current estimate is that the combined effect of allowing 1.5 years' (rather than 1 year's) return on costs incurred in 2025 and applying a WACC of 4.01% (rather than 3.30%) is to increase the size of the adjustment from £0.073 per passenger to around £0.097 per passenger. Importantly, however, this is only an estimate and the size of the final adjustment will depend on the outturn values for total passengers, CPI and RPI over the whole of 2026. Our updated calculation of the estimated adjustment is summarised below.

6.23 As the expected impact of these changes on airport charges and consumers is relatively modest, we do not consider that the modifications above differ significantly from the proposed modifications in the Draft Decision.

Table 6.1: Estimated adjustment to HAL's 2026 maximum revenue yield to allow recovery of early expansion costs incurred by HAL in 2025 and 2026

	Description	Units	Value	Source / calculation
Inputs				
1	2025 early costs	£m, 2024 CPI prices	33	HAL submission, December 2025
2	2026 early costs	£m, 2024 CPI prices	287	HAL submission, December 2025
3	Allowed return	%, pre-tax RPI-real	4.01%	Policy decision, see chapter 4
4	Average CPI for 2024	Index	133.86	ONS
5	Average CPI for 2025	Index	138.37	ONS
6	Average CPI for 2026	Index	141.60	OBR forecast, March 2026
7	Average RPI for 2025	Index	402.68	ONS
8	Average RPI for 2026	Index	415.10	OBR forecast, March 2026
9	Total passengers in 2026	Millions	84.979	HAL forecast, 2026 charges decision
Calculations				
10	2025 early costs	£m, current prices	34.1	(1) x (5) / (4)

54 See paragraphs C14 and C15 of CAP 3238B.

11	2026 early costs	£m, current prices	303.6	(2) x (6) / (4)
12	2025 early costs	£m, 2026 RPI prices	35.2	(10) x (8) / (7)
13	2026 early costs	£m, 2026 RPI prices	303.6	(11)
14	Allowed return on 2025 costs	£m, 2026 RPI prices	2.12	(12) x (3) x 1.5
15	Allowed return on 2026 costs	£m, 2026 RPI prices	6.09	(13) x (3) x 0.5
16	Adjustment per passenger	£, 2026 RPI prices	0.097	[(14) + (15)] / (9)

Source: CAA calculations

6.24 We continue to consider that HAL's allowed return on early costs should be adjusted if any of those costs are found to be inefficient. We will consider further at the time of any such finding how best to implement this adjustment. We have not specified a licence modification for this in Appendix D as some implementation options, such as adjusting HAL's RAB, would be unlikely to require any change to the Licence.

HAL's recovery of the costs of other promoters

The Draft Decision

6.25 As noted in chapter 5 (Recovery of other promoters' early costs), in our Draft Decision we proposed that the recovery of HWL's efficient early expansion costs should be implemented through modifications to the Licence. In Appendix C of the Draft Decision we set out specific draft licence modifications that would:

- add a "Heathrow West Limited Provisional early costs factor" to the formula that determines HAL's maximum revenue yield per passenger for 2026; and
- require HAL to pay HWL no later than 31 December 2027 the revenue recovered through this Heathrow West Limited Provisional early costs factor. The payment would be subject to a cap, uplifted by inflation, and the level of payment would be determined by the CAA in a written direction to HAL.

6.26 In our Draft Decision, the provisional cap on HWL costs that could be recovered through this mechanism was £4.61 million (in 2026 RPI-real prices). This was based on the costs of £4.3 million (in 2025 RPI-real prices) that HWL notified us that it had incurred before the Government's 2025 Announcement, uplifted for inflation plus a return of 3.30%. The proposed adjustment to HAL's maximum revenue yield for 2026 was £0.054, which we calculated by dividing £4.61 million by the forecast number of passengers for 2026.

Stakeholders' views

6.27 We received comments on our proposed implementation approach from HAL and HWL. These comments focused on the legality of implementing our Draft Decision on the recovery HWL's costs by modifying the Licence, and also the possible tax and cashflow implications. These comments, and our views on these issues, are discussed in chapter 5 (Recovery of other promoters' early costs).

Our views and final decision

6.28 For the reasons set out in chapter 5 (Recovery of other promoters' early costs), we continue to consider that the recovery of HWL's efficient early expansion costs incurred up to the Government's 2025 Announcement should be implemented through modifications to the Licence.

6.29 Whereas the proposed adjustment to HAL's 2026 maximum revenue yield in our Draft Decision was specified as a fixed sum of money (£0.054 per passenger), our Final Decision is to implement this adjustment as a formula. This mirrors the approach we are now applying for the recovery of HAL's own efficient early costs, and means that the adjustment will reflect outturn rather than forecast values for passenger volumes and RPI inflation. We consider this to be the most appropriate approach in view of the continuing uncertainties that could affect both passenger volumes and prices over the remainder of 2026.

6.30 The calculation set out in the formula is almost the same as that we used to generate the proposed adjustment of £0.054 per passenger in our Draft Decision. The only difference is that we now use a rate of return (pre-tax RPI-real) of 4.01% in the formula, which is the same as the WACC we are now using to calculate the allowed return on HAL's efficient early costs. The reasons for adopting this WACC are set out in chapter 4 (Regulatory arrangements to protect consumers).

6.31 Despite this change, and also the use of updated forecasts for 2026 passenger volumes and RPI inflation, our current estimate of the likely size of the adjustment to HAL's 2026 maximum revenue yield remains unchanged at £0.054 per passenger. This calculation is set out below for information.

Table 6.2: Estimated adjustment to HAL's 2026 maximum revenue yield to allow recovery of early expansion costs incurred by HAL in 2025 and 2026

	Description	Units	Value	Source / calculation
Inputs				
1	Pre announcement costs	£m, 2025 RPI prices	4.3	HWL submission, April 2025
2	Allowed return	%, pre-tax RPI-real	4.01%	Policy decision, see chapter 4

3	Average RPI for 2025	Index	402.68	ONS
4	Average RPI for 2026	Index	415.10	OBR forecast, March 2026
5	Total passengers in 2026	Millions	84.979	HAL forecast, 2026 charges decision
Calculations				
6	Pre announcement costs	£m, 2026 RPI prices	4.43	(1) x (4) / (3)
7	Revenue to be recovered	£m, 2026 RPI prices	4.61	(6) x (1 + (2))
8	Adjustment per passenger	£, 2026 RPI prices	0.054	(7) / (5)

6.32 The other modification to the Licence is, as in our Draft Decision, to introduce an obligation for HAL to pay HWL the revenue recovered through the adjustment to the 2026 maximum revenue yield. As in our Draft Decision, HAL must make this payment no later than 31 December 2027, the payment is subject to a cap (uplifted by inflation), and the level of payment will be determined by the CAA in a written direction to HAL.

6.33 The proposed modification included in our Draft Decision expressed the cap in 2025 prices. Our final decision is to express the cap in 2026 prices. As with our use of formulae rather than fixed sum adjustments to HAL's maximum revenue yield, this will allow the final cap to reflect outturn rather than forecast inflation for 2026, though in any case we note that in practice the level of payment will be determined in a written direction from us to HAL. We expect the impact of these changes on airport charges and consumers to be relatively modest, and as such we do not consider that these modifications differ significantly from the proposed modifications in the Draft Decision.

6.34 In addition, in the condition that requires HAL to pay HWL, we are clarifying that the amount will be uplifted to adjust for both inflation and an allowed return. This is to correct an inadvertent omission in the Draft Decision.

Regulatory protections to further the interests of consumers

The Draft Decision

6.35 The Draft Decision explained how we intended to reflect in the Licence some of the regulatory arrangements that we had designed to further protect consumers which are discussed in chapter 4 (Regulatory arrangements to protect consumers). These included:

- the overall approach that we expect HAL to take to developing its plans for expansion;

- the appointment of independent experts to monitor HAL's strategy for the acquisition of land and other property in support of expansion;
- the preparation and submission of a business plan for its approach to expansion during the course of 2026; and
- ongoing reporting requirements.

6.36 In response to comments from BA on the omission of details of the *ex post* review and arrangements for the true up from the Licence, we noted that these are initiatives that will be driven by the CAA and so it would not generally be appropriate to include in the Licence, which seeks to prohibit inappropriate conduct and provide obligations on HAL to act in a way consistent with the interests of consumers.

Stakeholders' views

6.37 In terms of the Licence itself, airlines reiterated the need for key protections (for example the clawback mechanisms, cap controls, reporting obligations, duplication tests, value for money and need assessments, and assurance requirements) to be embedded directly within enforceable licence conditions. Airlines argued that placing these safeguards within the Licence is necessary to ensure they are binding and effective in protecting consumers.

6.38 BA argued that the CAA's proposal not to include certain elements of its proposals, notably the ex-post review and true-up mechanism, within the proposed licence modification represents a substantive weakening of the regulatory framework. BA stated that excluding these features from the Licence creates uncertainty over how the framework will operate in practice and limits regulatory clarity and accountability.

6.39 In BA's view, the Licence modifications should:

- define the scope and test for the ex-post review;
- specify the mechanics and timing of the true-up (including how disallowed / duplicative costs are removed from the RAB); and
- specify how the cap and any reopener interact with true-up decisions, so consumers are not relying on unenforceable statements of intent.

6.40 HAL requested that we add the following wording to proposed condition G6(b): "The scope and nature of the report will be agreed with the CAA". This condition requires its auditors to submit a report confirming that the early costs included in HAL's regulatory accounts meet the CAA's definition of early costs and are not included in other costs in the regulatory accounts. HAL stated that it needs to work with its auditors and the CAA to ensure this condition can be met in practice, and that this addition allows the scope and delivery of the report to be adapted, including where it may be more appropriately delivered through an alternative mechanism.

Our views and final decision

6.41 Regarding the request to embed more of these protections directly into the Licence, many of these are initiatives that are driven by the CAA and so it would not generally be appropriate to include in the Licence, which seeks to prohibit inappropriate conduct and provide obligations on HAL to act in a way consistent with the interests of consumers. The Licence is not designed to regulate or unduly constrain the scope of the CAA's activities in furthering the interests of consumers. We have also provided guidance in chapter 4 (Regulatory arrangements to protect consumers) on the approach we intend to take on each specific protection.

6.42 We have considered and accept HAL's broad suggestion that there should be further discussion and appropriate flexibility with respect to the form and content of the report required by new Condition G6(b). While we have not accepted HAL's suggestion for licence wording, we have made changes to the wording of new Condition G6b in Appendix D to allow the CAA to provide written guidance on these matters.

6.43 It is important to note, however, that this addition does not dilute the existing requirements of new Condition G6, including the requirement for a report from HAL's auditors that is submitted on the same date as HAL's regulatory accounts. If HAL considers that these conditions cannot be met or would be better delivered through an alternative mechanism that is not consistent with the current requirements of Condition G6b, then it will need to provide appropriate evidence to us and we will need to consider whether to propose a further modification to condition G6b to change these requirements.

6.44 Bearing all of the above in mind, our final decision is to proceed with the approach to the licence modifications to further protect consumers as discussed above, with a modification to implement new Condition G6b. Appendix D contains our proposed drafting for Condition G of the Licence and further detail on these matters.

Summary and next steps

6.45 We are implementing arrangements to allow the recovery of efficient early expansion costs incurred by HAL in 2025 and 2026 through the regulatory framework. Specifically, we will add efficient early costs, subject to a cap of £320 million (2024 prices), to HAL's RAB, with a subsequent *ex post* efficiency review and a true-up mechanism to ensure that only costs assessed as efficient are ultimately recovered.

6.46 Any necessary adjustments to the RAB would address inefficiencies identified, any inappropriate cost recovery, differences between forecast and outturn costs, changes to inflation assumptions, and differences between the allowed and actual return.

6.47 We will allow the recovery of a return on efficient early costs using the weighted average cost of capital described in chapter 4 (Regulatory arrangements to protect consumers), implemented through an adjustment to HAL's allowed price control revenue in 2026 and recovered through the revenue correction mechanism, and subject to the true-up process.

6.48 In addition, we are introducing targeted modifications to the Licence to strengthen regulatory protections in the interests of consumers.

6.49 We are also implementing the recovery of efficient early costs incurred by HWL up to the Government's 2025 Announcement through modifications to the Licence that:

- place an obligation on HAL to pay HWL amounts determined by the CAA to represent efficient early costs, subject to a specified cap and appropriate inflation and allowed return adjustments; and
- allow HAL to recover those payments on a pass-through basis through airport charges.

APPENDIX A

Our duties

A1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (“AOS”), including capacity expansion, are set out in the CAA12.

A2 CAA12 gives the CAA a general (“primary”) duty, to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.

A3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of “consumers”.

A4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.

A5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in the CAA12. These include:

- the need to secure that each licensee is able to finance its licensed activities;
- the need to secure that all reasonable demands for AOS are met;
- the need to promote economy and efficiency on the part of licensees in the provision of AOS;
- the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
- any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
- the principles of transparency, accountability, proportionality and consistency and that regulatory activities should be targeted only at cases where action is needed.

A6 In relation to the capacity expansion at Heathrow, these duties relate to the CAA’s functions concerning the activities of HAL as the operator at Heathrow.

A7 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the Market Power Test as set out in CAA12. Airport operators that do not fulfil the Test are not subject to economic regulation. As a result of the market power determinations we completed in 2014 both HAL and GAL are subject to economic regulation.

A8 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.

APPENDIX B

Glossary

The terms used in this consultation have the meanings set out below.

ANPS	Airports National Policy Statement, which will set out the policy underlying any decision to grant permission for expansion in the form of a development consent order ("DCO") under the Planning Act 2008
A4A	Airlines for America, an American trade association and lobbying group which represents major North American airlines
AOC/LACC	Airline Operators Committee and London Heathrow Airline Consultative Committee, a collective of airlines operating at Heathrow airport
AOS	Airport operation services, as defined in section 68 CAA12
BA	British Airways
CAA, "we", "us", "our"	The Civil Aviation Authority
CAA12	The Civil Aviation Act 2012
Capex	Capital expenditure
CBA	Cost-benefit analysis
Consumers	We use this term to cover the "users" of airport operation services as defined in section 69 CAA12 as passengers and those with "a right in property" (cargo) carried by air transport services and includes future users
CMA	Competition and Markets Authority
DCO	Development Consent Order granted under the Planning Act 2008
DfT	Department for Transport
Early costs	These are the costs for delivering expansion that are to be incurred by potential promoters before the Government takes a decision on whether to grant a DCO to allow expansion to proceed, including planning, land and property purchase and

	enabling costs (for example design of key diversions on the site)
Expansion	Capacity expansion at Heathrow airport including building a third runway
H7	Heathrow Price Control 2022-2026
H8	Heathrow Price Control 2027-2031
HAL	Heathrow Airport Limited, the operator of Heathrow airport
HENPS	Heathrow Expansion National Policy Statement (Draft)
HWL	Arora Group/Heathrow West Limited, one of the promoters of capacity expansion at Heathrow airport which submitted a proposal to Government in July 2025
IAG	International Airlines Group, the parent company of British Airways, Iberia, Vueling, Aer Lingus, LEVEL, IAG Loyalty and IAG Cargo
ITS Leeds	The Institute of Transport Studies at Leeds University
IATA	International Air Transport Association
The Licence	The licence granted to HAL under CAA12
RAB	Regulatory Asset Base
RPI	The Retail Prices Index, a measure of price inflation calculated by the Office for National Statistics
SoS	the Secretary of State for Transport

APPENDIX C

Additional material in relation to stakeholders’ responses

Background and introduction

C1 This appendix is part of our final decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport and should be read alongside that main document.

C2 In responding to the Draft Decision, stakeholders provided a range of comments. Many of these comments related to specific issues addressed directly in the main final decision document. However, stakeholders also raised a number of broader points that were either general in nature, rather than linked to a particular decision area, or which cut across several aspects of the policy for recovery of early costs.

C3 The purpose of this appendix is to address those wider stakeholder comments and to provide further explanation, where appropriate, of the CAA’s approach. In doing so, the appendix aims to provide an appropriate degree of transparency regarding the issues raised during consultation and to provide stakeholders with a fuller understanding of how their views have been considered in reaching the Final Decision.

C4 The appendix is structured around certain key issues raised by stakeholders during the consultation on the Draft Decision. For each issue, the appendix summarises the main points made and sets out the CAA’s response. Where multiple stakeholders raised similar concerns or made substantially similar arguments, these have been considered together and are addressed through a single consolidated response.

C5 Where relevant, references are provided to the sections of the Final Decision document that discuss the issue in greater detail.

C6 This appendix is intended to complement, rather than replace, the analysis and conclusions set out in the main sections of the Final Decision.

Summary of stakeholders’ feedback to the Draft Decision

C7 We received eleven responses to the Draft Decision, from HAL, HWL, and a range of airlines and their representatives.[55] In general:

[55] Aer Lingus, Airlines for America, Heathrow Airline Operators Committee / London Heathrow Airline

- airlines and their representatives firmly opposed the proposals to allow HAL to recover early expansion costs prior to the granting of a DCO, alongside raising a number of points suggesting the arrangements for consumer protection should be strengthened;
- HAL was generally supportive of our approach to allow recovery of efficient costs it incurs in 2025 and 2026, but provided feedback on the consumer protections and other aspects of the proposals. It opposed the recovery of HWL's through a mechanism in HAL's licence; and
- HWL welcomed our proposals to allow recovery of costs it incurred up to the Government's 2025 Announcement, but maintained that our policy has not yet created a level playing field between competing promoters and HAL, and raised outstanding issues with the proposed information sharing requirements (designed to avoid duplication of costs).

Issues addressed in this appendix

Airlines and airline representatives said promoters recovering early costs from consumers before a DCO is obtained shifts speculative, pre-consent risk onto today's passengers, undermines investment discipline, and prejudges expansion before the consumer interest case has been independently established.

C8 As we explained in the December 2025 Consultation and the Draft Decision, the question of whether a DCO should ultimately be granted is subject to separate statutory processes and is a decision for Government. The matters covered by the Draft Decision and this Final Decision directly relate to the appropriate regulatory treatment of a limited category of early costs incurred in relation to expansion.

C9 In developing a policy for the recovery of these early costs, we have balanced the potential risks to current consumers in terms of higher costs, with the potential benefits that future consumers could expect to gain due to expansion. As part of this, we have specifically considered whether potential benefits to consumers arising in the future could be lost if expansion is delayed. This policy does not pre-judge expansion but acknowledges it is a plausible scenario that should be supported in a measured and considered way.

C10 We agree that it is important that only efficient costs are recovered from consumers. To promote this, our approach to the recovery of early costs includes a number of protections to incentivise efficiency and protect consumers from the recovery of inefficient costs. These include an *ex post* efficiency review, regular and structured ongoing cost reporting requirements, the appointment of an

Consultative Committee / International Air Transport Association ("AOC/LACC"), British Airways ("BA"), EasyJet, IAG, Iberia, Virgin Atlantic ("VAA"), and Vueling.

independent cost expert, and reopener provisions. More detail on these matters is set out in chapter 4 (Regulatory arrangements to protect consumers) of the final decision.

C11 We also note the concerns raised by stakeholders that decisions made for the treatment of 2025 and 2026 costs could create a precedent for those incurred from 2027 onwards.

C12 The framework we are putting in place for recovery of costs for 2025 and 2026 should not be regarded as setting a precedent for our approach to costs incurred from 2027 onwards. It has been calibrated to address a specific set of circumstances, including the planning and preparatory activities undertaken in response to a clear Government request for potential developers to bring forward proposals, the interim periods before the Government's 2025 Announcement and its recent consultation on HENPS in June 2026, and the advantages to consumers in avoiding undue delays in expansion. We will consult on our approach to costs incurred by promoters in 2027 and onwards later this year.

An airline has suggested that the CAA is prioritising speed over its duties and cost control considerations, which runs counter to the Government's clear position that rigorous and effective cost control will be essential to the scheme's success.

C13 Our approach has been developed in a way that is designed to discharge our primary duty to further the interests of consumers, having regard to the matters required by CAA12.

C14 As stated above and previously, we remain of the view that there are plausible scenarios in which expansion will deliver substantial net benefits to consumers, and a proportion of these benefits would be lost if capacity expansion were to be unduly delayed. This does not involve inappropriately prioritising speed, but rather focuses on avoiding the costs of undue delay.

C15 We recognise the importance of effective cost control to both the success of any expansion scheme and furthering the interests of consumers. For that reason, our decision includes a range of protections, including an expenditure cap (with high-level technical scrutiny from our consultants), enhanced transparency, independent technical oversight and further *ex post* efficiency assessment before efficient costs will be recovered through HAL's RAB. We regard this broad approach is consistent with Government aspirations for rigorous cost control and that expansion is delivered efficiently.

C16 We consider that this approach to the recovery of costs incurred in 2025 and 2026 is proportionate, in the interests of consumers and in the context of this particular tranche of early expansion costs. As we have explained above, these arrangements are not designed to inappropriately prioritise speed but rather avoid the loss of consumer benefits that would likely be associated with undue delay.

An airline has said the CAA has placed excessive weight on maintaining the Government's preferred timetable which cannot be consistent with the CAA's duties.

C17 The Government has set out a timetable for the expansion of Heathrow and the addition of a third runway, which involves the target date of 2029 for granting a successful DCO application. Based on the available evidence, this timetable appears credible. We have explained above how we are not seeking to inappropriately prioritise speed but rather avoid the loss of consumer benefits associated with undue delay.

C18 We also note that decisions regarding possible significant increases in land and property acquisition and other enabling costs that may be necessary to support a target opening date for the new runway of 2035, will be subject to separate consideration and further consultation in October 2026.

A number of airlines have suggested that the CAA's approach departs from established regulatory practice and its own findings without justification.

C19 We recognise that other regulated sectors have adopted different approaches to the treatment of early-stage project development expenditure, however arrangements typically reflect the specific circumstances of the sector and/or project. This approach to tailoring regulatory arrangements to the specific circumstances of a particular project is the broad approach that we have taken to allowances for early costs in 2025 and 2026.

C20 The specific regulatory examples that stakeholders have cited are:

- in relation to energy networks, companies cannot pass speculative early development costs to consumers if projects are not ultimately approved. Ofgem operates under a "recover only if beneficial" principle;
- in water, companies cannot add sunk investigatory costs for failed projects to customer bills. Ofwat's Direct Procurement for Customers model requires bidders to bear their own bidding costs;
- under the previous rail franchising model, unsuccessful bidders bore their own proposal costs. There is no expectation that consumers will underwrite speculative activity; and
- the Airports Commission process itself did not provide for consumer reimbursement of early proposal costs.

C21 Where infrastructure projects in regulated sectors include a bidding process, prospective promoters generally take account of their wider costs, including early development costs and the associated risk, in their proposal or scheme. In this context, the promoter recovers their wider costs at a later date.

C22 The approach we are taking for early costs incurred in 2025 and 2026 reflects the specific circumstances of Heathrow expansion. These include the potential scale of consumer benefits, the Government's timetable for expansion, and the advantages of providing regulatory certainty to reduce the risk of delay and the loss of potential future benefits to consumers.

C23 We also note that other equivalent-sized schemes (for example new nuclear in the energy sector, Tideway in water and Offshore Transmission Owners in energy) have operated under regimes including a bidding process and/or explicit arrangements providing for financial support from Government.

Airlines have said there have been deficiencies in the CAA's consultation process and reasoning.

C24 Since the Government announced their support for expansion at Heathrow Airport in January 2025, we have published the following consultations and updates on the regulatory treatment of the early costs of expansion:

- CAP3149: An initial consultation on the regulatory policy approach, in August 2025;
- CAP3173: An update on regulatory treatment, in September 2025;
- CAP3201: Proposals on regulatory treatment, in December 2025; and
- CAP3238: A draft decision on regulatory treatment, in April 2026.

C25 These publications have also been supported by a range of external analysis, inputs and advice:

- CAP3238A: Steer Report – Initial technical and cost efficiency assessment of the capital expenditure expansion plans for Heathrow airport;
- CAP3289A: Grant Thornton Report – Slot transaction analysis to estimate economic profit at Heathrow Airport;
- CAP3289B: Grant Thornton Report – Airline profitability: conceptual framework and review of stakeholder submissions; and
- CAP3289C: Steer Report – Expansion early costs scrutiny report;

C26 On balance, we consider that this represents a robust and appropriate process, and we have consistently explained how our developing policy has been informed by our statutory duties. We have also had careful regard to the responses received through consultation, explained how stakeholders' views have informed the development of our position, and considered all of the above inputs in reaching our proposals and final decision.

C27 Stakeholders have raised a number of discrete issues with our process and reasoning to date, as set out below:

- Concerns regarding a reliance on HAL's commissioned analysis and assertions, without our own independent cost-benefit assessment and proceeding despite acknowledged uncertainty in costs and benefits. Evidence regarding the potential impacts, costs and benefits of expansion has emerged and developed over time. Chapter 2 (Evidence we have considered on benefits to consumers) explains how we have considered evidence from Government, HAL, airlines and our own assessments in reaching this Final Decision.
- Premature "minded-to" statements in the December 2025 Consultation suggests predetermination, alongside a general failure to meaningfully consider stakeholders' concerns, evidence, or alternatives. Where 'minded to' statements have been used in our publications, they were preceded and informed by consultation. We therefore do not consider that they were premature statements in the context of this work. We also note that given the timing of the 2025 and 2026 costs being incurred, consideration was also given to providing a direction of travel and not unduly delaying decisions, where appropriate. The available evidence suggested that this approach would further the interested of consumers. The use of 'minded to' statements did not prejudge our continued consideration of an issue, as where stakeholders raised concerns about a proposed approach or provided additional information, we reconsidered our proposals. Where we have maintained our previous approach, we have set out our reasoning for this.
- Internally inconsistent reasoning, specifically in relation to the risks of setting a precedent for 2027 onwards costs and mitigating the potential risk that HAL slows down or pauses expansion planning. We view pre and post 2027 early costs as having a degree of independence and it is both reasonable and plausible for policy to evolve significantly as the expansion programme and evidence on the costs and benefits to consumers evolve. As noted previously, these final decisions relate only to early costs incurred by promoters in 2025 and 2026. Our approach to allowing recovery of early costs incurred in this period does not set a precedent for our regulatory approach to costs incurred from 2027 onwards.

- "Plausible scenarios" is the wrong test for CAA decision-making, particularly for an intervention which will cause direct consumer harm. In the context of expansion and 2025 and 2026 early costs, we consider that determining whether there are plausible scenarios for benefits to be realised is the appropriate test. This reflects the nature and maturity of the evidence base available to date and the relatively limited tranche of these early costs. We remain satisfied that the reasoning in this Final Decision is sound and supports a framework allowing recovery of efficiently incurred early costs in 2025 and 2026 to enable timely delivery of expansion and avoid the loss of consumer benefit from undue delay.
- Lack of clarity on key implementation mechanisms. We acknowledge stakeholders' requests for clarification. While *ex post* reviews are an established and well understood regulatory mechanism, we have set out the list of matters we will consider in the *ex post* assessment of early costs in chapter 4 (Regulatory arrangements to protect consumers) and are committed to consulting with stakeholders on the specific method and results of the assessment.

Airlines have said the risks of allowing duplicate costs and inefficient spend have not been adequately addressed.

C28 We recognise the importance of ensuring that consumers do not pay twice for any unnecessary duplication of work. As part of our *ex post* efficiency review, we will seek to identify and disallow, to the extent practicable and reasonable, any unnecessary and inappropriate duplication of costs.

C29 In particular, we will consider whether:

- the work relates to activities already undertaken as part of previous expansion proposals;
- existing outputs could reasonably have been reused or updated;
- any unnecessary and inappropriate duplication of costs between promoters; and
- whether costs are incremental to those allowed under the existing H7 price control.

C30 We are also continuing work to establish a process which would seek to minimise any duplication in costs between promoters, as explained further in chapter 5 (Recovery of other promoters' early costs).

An airline has said that the proposals are inconsistent with the CAA's statutory duties and should have regard to the "Better Regulation" principles.

C31 We note that the Government's "better regulation principles" are not part of the statutory duties set out in CAA12. However, the principles of transparency, consistency and proportionality, which have also been raised by stakeholders as areas of concern, are set out in s1(4) of CAA14, and we have applied them to this work.

C32 Noting the extensive approach to consultation summarised above, we consider that we have carried out our policy process in a way that is transparent. We also commissioned an initial technical and cost efficiency assessment of the capital expenditure expansion plans for Heathrow airport, which we published alongside our Draft Decision in April this year.[56]

C33 Our overall approach to the regulatory treatment of early costs of expansion at Heathrow has considered the available evidence regarding the cost and benefits to consumers of expansion, whether regulatory intervention is necessary, the range of available options, and how best to further the interests of consumers. We have outlined the available evidence, our considerations and rationale and tested options and our approach through consultations, seeking views and further information from stakeholders throughout, to ensure that interventions are consistent, proportionate, and targeted at where intervention is needed.

C34 Finally, in previous work, we have acknowledged that *ex post* assessments should only be considered where other more forward-looking arrangements are not practicable and/or appropriate. As we note in chapter 4 (Regulatory arrangements to protect consumers) of the Draft Decision,[57] we consider that an *ex post* review is the most practical and reasonable way to assess efficiency, given that the costs in scope are different in nature to HAL's "business as usual" capex, as well as the timing of the decisions we are making on these matters.

Airlines and airline representatives have said information asymmetry in HAL's favour heightens the risk of inefficiency, makes it difficult to prevent double payment in practice, and restricts future optionality for the CAA.

C35 Our approach to developing cost reporting obligations and cost assessment should minimise the risk of information asymmetry leading to inefficiency. We are also of the view that supporting HWL's costs will create a degree of competitive pressure on HAL and will support optionality (as demonstrated by the recent discussions on the possibility of phased runway development). We consider that our approach supports both HAL and other developers with credible and mature

[56] Steer, CAP3238A Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, April 2026.

[57] CAA, CAP3238 Draft Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport, April 2026.

proposals to recover costs, thereby promoting competition in a limited and targeted manner that does not impose a disproportionate burden on consumers.

C36 More broadly, our ongoing work on the future regulatory framework for Heathrow includes a range of options that preserve the possibility for competing promoters designing, building and possibly operating elements of the expansion programme.

C37 Finally, as discussed in chapter 5 (Recovery of other promoters' early costs), we are seeking to develop arrangements to facilitate the transfer of information between rival promoters where appropriate, and so to minimise the scope for the inappropriate duplication of costs. We will consider compliance with these arrangements as one of the factors that we take account in the *ex post* reviews of HWL's and HAL's early costs.

Airlines have said that there needs to be a clawback mechanism if the scheme is abandoned.

C38 In developing a policy for the recovery of early expansion costs, we have aimed to strike an appropriate balance of risk and reward for HAL.

C39 The finalised package includes an expectation on HAL to take account of the uncertainties associated with capacity expansion in incurring early costs in 2025 and 2026. This should support minimising the recovery of unnecessary expenditure from consumers, including if expansion were to be abandoned.

C40 We acknowledge the feedback received from stakeholders regarding the potential merits of including a clawback mechanism in our proposals and have considered the advantages and implications of including a clawback mechanism in the context of the wider suite of protections for consumers.

C41 While a clawback mechanism may bolster the overall package of consumer protections for these early costs, it could also impact the balance of incentives by introducing uncertainties and risks that HAL would be unable to manage and for which it would not receive compensation. Overall, this would likely create dis-incentives on HAL to pursue expansion, which could jeopardise future benefits to consumers. Bearing this in mind, we remain of the view that the introduction of a clawback mechanism for costs incurred in 2025 and 2026 would not further the interests of consumers.

APPENDIX D

Notice under section 22(6) of the Civil Aviation Act 2012 (“CAA12”) of the CAA’s decision to modify the Licence

Introduction

D1 This appendix constitutes a notice under section 22(6) of the Civil Aviation Act 2012 (“CAA12”) (“Notice”) that the CAA has decided to modify the licence granted to HAL by the CAA under section 15 CAA12 on 13 February 2014 (“the Licence”) to implement the policy decisions set out in chapters 1 to 5 of this final decision.

D2 As set out in chapter 1 (Introduction and Summary) of this final decision, it remains our view that there are plausible scenarios where the benefits to consumers from expansion at Heathrow Airport would significantly outweigh the likely extra costs to passengers from higher airport charges, and that a proportion of these benefits would be lost if expansion were to be unduly delayed.

D3 The modifications are set out below in full in “tracked change” format, marked in redline where appropriate, compared with the current version of the Licence which took effect on 1 January 2026. In summary they comprise:

- modifications to the price control in Condition C1 to allow HAL to recover the financing costs associated with the efficient early costs that it incurs in 2025 and 2026 and the efficient early costs that Heathrow West Limited (HWL) incurred before the Government’s 2025 Announcement;
- a new provision in Condition C1 requiring HAL to pass on to HWL the revenues that it recovers in relation to HWL’s efficient early costs; and
- a new Condition G to put in place protections for the interests of consumers covering the overall approach that we expect HAL to take to developing its plans for expansion, the appointment of independent experts, the preparation and submission of a business plan for its approach to expansion, and ongoing reporting requirements.

D4 These modifications are unchanged from those set out in the Draft Decision document and the Notice under section 22(2) contained in it with the exception of the following modifications, which we do not consider differ significantly from the proposed modifications in the Draft Decision:

- the modifications to the formula in Condition C1.5 will be implemented as formulae rather than fixed sum adjustments, using a weighted average cost of capital ("WACC") of 4.01% rather than 3.3%, and providing HAL with 1.5 years' rather than 1 year's return on the early efficient costs it incurred in 2025. The reasons for these changes are set out below;
- we are clarifying that HAL's payment to HWL will be uplifted for both inflation and an allowed return;
- cross-references in the new Condition G have been updated to reflect the renumbering of Condition C1.25; and
- we have updated the wording of Condition G6(b) to reflect a suggestion from HAL that there should be an appropriate degree of flexibility in relation to scope and content of the report from its auditors.

D5 Where the reasons for, and effects of, the modifications set out in this Notice are set out in chapters 1 and 6 of this final decision, those reasons and effects are deemed to be incorporated in this Notice. Those chapters also set out how we have taken account of stakeholders' responses to that earlier notice.

D6 All the modifications set out in this appendix will take effect on 9 September 2026 (subject to any appeal to the CMA).

Condition C1

Reasons for and effects of the modifications

D7 We have decided to modify Condition C1 of the Licence. The effects of these modifications are:

- to allow HAL to recover through the H7 price control the financing costs associated with the efficient early costs that it incurs in 2025 and 2026; and
- to allow HAL to recover through the H7 price control the early efficient costs incurred by HWL before the Government's 2025 Announcement (including the associated financing costs), and to require HAL to pass on these revenues to HWL by the end of 2027.

D8 The modifications set out below include further provisions to reflect the impact of inflation in each adjustment and additional definitions to support the new adjustments.

D9 The reasons for allowing HAL to recover these additional revenues in general, and through adjustments to the H7 price control in particular, are set out in chapters 1 to 6.

D10 There are four main differences between the modifications set out below and those included in the Draft Decision and the Notice under section 22(2):

- both adjustments will now be implemented as additional formulae in the maximum revenue yield for 2026, whereas the adjustments included in the Draft Decision would have been introduced as fixed sums of money per passenger. This means that the adjustments will now reflect outturn values for total passengers, CPI and RPI in 2026, rather than the forecasts we used to calculate the fixed sum adjustments in the Draft Decision. We consider this to be the most appropriate approach in view of the continuing uncertainties that could affect both passenger volumes and prices over the remainder of 2026. It also responds to a request for clarification that HAL included in its response to the draft decision. No other stakeholders commented on this issue. Apart from the two changes noted below, the formulae are the same as those that we used to calculate the fixed sum adjustments in the Draft Decision;
- the formulae for both adjustments now include a cost of capital of 4.01% (pre-tax RPI-real), whereas the fixed sum adjustments set out in the Draft Decision were calculated using a cost of capital of 3.30%. The reasons for this change, including our views on the issues raised by stakeholders in their responses to the Draft Decision, are set out in chapter 4 (Regulatory arrangements to protect consumers);
- the adjustment for the financing costs associated with HAL's efficient early costs provides HAL with 1.5 years' return on costs incurred in 2025, rather than 1 year's return which we used to calculate the fix sum adjustment included in the Draft Decision. As described in chapter 6 (Implementing our policy and making changes to the Licence), this is to correct an inconsistency between chapter 3 and Appendix C of the Draft Decision. No stakeholders commented on this inconsistency; and
- we have amended the description of HAL's payment to HWL to clarify that it will be uplifted to adjust for both inflation and an allowed return. This is to correct an inadvertent omission in the Draft Decision.

D11 As the expected impact of these changes on airport charges and consumers is relatively modest, we do not consider that the modifications above differ significantly from the proposed modifications in the Draft Decision.

D12 As HAL has already set airport charges for 2026, the effect of the modifications will be to either increase its under-recovery against the maximum revenue yield per passenger or to decrease its over-recovery against the maximum revenue yield per passenger. This over- or under-recovery will then be adjusted for by the price control formula correction factor for calculating the maximum revenue yield per passenger for 2028 (K_{2028}).

Modifications to Condition C1

D13 The modifications are shown in red below.

D14 The formula in the first paragraph of Condition C1.5 shall be amended as follows:

C1.5 On each occasion on which the Licensee fixes the amounts to be levied by it by way of airport charges in respect of relevant air transport services in each of the subsequent Regulatory Years starting on 1 January 2025 and ending on 31 December 2026, the Licensee shall fix those charges at the levels best calculated to secure that, in each Regulatory Year, total revenue at the Airport from such charges divided by the total number of passengers using the Airport does not exceed the amount set in accordance with the formula below:

$$\mathrm{M_t} = \mathrm{Y_{t-1}} \times (1 + \mathrm{CPI_t} + \mathrm{X_t} + \mathrm{B_{t-2}}) + \frac{\mathrm{AC_t}}{\mathrm{Q_t}} - \frac{\mathrm{T_t}}{\mathrm{Q_t}} + \frac{\mathrm{TDO_t}}{\mathrm{Q_t}} + \frac{\mathrm{TRS_t}}{\mathrm{Q_t}} - \mathrm{AK_t} + \mathrm{H7_t} + \frac{\mathrm{RPEC_t}}{\mathrm{Q_t}} + \frac{\mathrm{HWLPEC_t}}{\mathrm{Q_t}} - \mathrm{K_t}$$

D15 New paragraphs C1.5(n) and C1.5(o) shall be added to Condition C1.5:

(n) $\mathrm{RPEC_t}$ is the Return on provisional early costs factor in the Regulatory Year t. For Regulatory Year 2026 it shall be calculated in accordance with Condition C1.25, and in all other Regulatory Years it shall take the value 0;

(o) $\mathrm{HWLPEC_t}$ is the Heathrow West Limited provisional early costs factor in the Regulatory Year t. For Regulatory Year 2026 it shall be calculated in accordance with Condition C1.26, and in all other Regulatory Years it shall take the value 0.

D16 New Conditions C1.25, C1.26 and C1.27 shall be added:

Return on provisional early costs factor $\mathrm{RPEC_t}$

C1.25 For Regulatory Year 2026 $\mathrm{RPEC_t}$ shall be calculated as follows:

$$\mathrm{RPEC_{2026}} = (1.5 \times \mathrm{PEC_{2025}} + 0.5 \times \mathrm{PEC_{2026}}) \times \mathrm{RWACC}$$

where:

(a) $\mathrm{PEC_{2025}}$ is the Provisional early costs incurred by HAL in 2025 (in 2026 RPI-real prices), and is calculated as:

- $PEC_{2025} = £33million \times \frac{CPIIndex_{2025}}{CPIIndex_{2024}} \times \frac{P_{2026}}{P_{2025}}$

where:

(i) $CPIIndex_t$ is the average value of the Office for National Statistics monthly D7BT Consumer Price Index over Regulatory Year t; and

(ii) P_t is the average value of the Office for National Statistics monthly CHAW Retail Price Index over Regulatory Year t;

(b) PEC_{2026} is the Provisional early costs incurred by HAL in 2026 (in 2026 RPI-real prices), and is calculated as:

- $PEC_{2026} = £287million \times \frac{CPIIndex_{2026}}{CPIIndex_{2024}}$

where:

(i) $CPIIndex_t$ bears the same meaning as in Condition C1.25(a)(i)

(c) $RWACC$ bears the same meaning as in Condition C1.10 (c).

Heathrow West Limited provisional early costs factor $HWLPEC_t$

C1.26 For Regulatory Year 2026 $HWLPEC_t$ shall be calculated as follows:

- $HWLPEC_{2026} = £4.3million \times \frac{P_{2026}}{P_{2025}} \times (1 + RWACC)$

where:

(a) P_t bears the same meaning as in Condition C1.25(a)(ii); and

(b) $RWACC$ bears the same meaning as in Condition C1.10(c).

C1.27 The Licensee shall pay Heathrow West Limited the revenue recovered through 2026 aeronautical charges and attributable to the Heathrow West Limited Provisional early costs factor $HWLPEC_t$, no later than 31 December 2027. The maximum amount of payment shall be capped at £4.47 million (2025 RPI-real prices) and uplifted by inflation and an allowed return to the year in which payment is made. Within the limit of this overall cap the level of the payment made by HAL under this paragraph will be determined by the CAA in a written direction provided to HAL.

D17 Condition C1.25 shall be renumbered as C1.28 and new paragraphs (k) and (l) shall be added:

(j) **Terminal drop-off charge** means the per vehicle charge for accessing the drop off area for departures from any terminal at the Airport, as set by the Licensee from time to time~~.~~;

(k) **early costs** means the costs incurred in relation to developing expansion, which were not otherwise taken into account in the calculation of the H7 price control and shall include the costs associated with:

(i) gathering information for and preparing an application for development consent under the Planning Act 2008 and associated materials;

(ii) the acquisition of land and other real property to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion; and

(iii) planning for enabling works to support the timely delivery of expansion in the event that development consent is granted to the Licensee for expansion;

(l) **expansion** means plans for the expansion of the Airport by means of the construction of a new runway and associated infrastructure.

Condition G

Reasons for and effects of the modification

D18 We have decided to modify the Licence to insert a new Condition G. The effects of this modification are:

- to create an overarching obligation on HAL to progress expansion efficiently while being mindful of the possibility that the surrounding circumstances might change;
- to create an obligation on HAL to appoint and pay for one or more technical experts to provide advice to the CAA;

- to require HAL to create a business plan for expansion for the period up until it expects to obtain a development consent order for expansion under the Planning Act 2008;
- to create reporting obligations on HAL; and
- to define certain terms used in other paragraphs of this new Condition G.

D19 The reasons for the modification are set out in chapter 6 (Implementing our policy and making changes to the Licence), where we also set out our reasons for not including some of the additional provisions suggested by airlines..

6.50 The modification is the same as that included in the Draft Decision and the Notice under section 22(2), except for updated cross-references to reflect the renumbering of Condition C1.25 and updated text in response to a suggested by HAL for Condition G6(b). As noted in chapter 6 (Implementing our policy and making changes to the Licence), however, our acceptance of this additional text does not dilute the other requirements of condition G6(b), including the requirement for a report from HAL's auditors that is submitted on the same date as HAL's regulatory accounts.

New Condition G

D20 We have decided to insert a new Condition G as set out below.

Condition G Expansion

G1 The Licensee shall develop its plans for expansion in an economical and efficient manner that takes account relevant uncertainties over the scope and requirements for the scheme for expansion to be developed, including (but not limited to) the need to take appropriate account of any revisions, or likely proposed revisions, to the national policy statement relating to airports designated under section 5 of the Planning Act 2008 (as amended from time to time).

G2 The Licensee shall appoint, in consultation with the CAA and airlines, one or more independent technical experts to provide the CAA with specialist advice. The scope of the work of the technical experts shall include the Licensee's strategy for, and approach to, the acquisition of land and other real property and such other matters as the CAA may specify from time to time. The terms of reference for, and identity of, any technical experts shall be approved by the CAA prior to their appointment. The terms of such appointment shall include provision requiring any technical expert to provide the CAA with factual findings within the scope of its terms of reference on a fair and reasonable basis. Any technical experts appointed shall be paid for by the Licensee.

G3 The Licensee shall, by a date to be agreed in writing with the CAA, prepare a comprehensive business plan setting out the detail of its plans for the delivery of expansion for the period from 2027 to the date when it expects to obtain development consent for expansion in accordance with the Planning Act 2008.

G4 The business plan that the Licensee prepares under condition G3 must include, as a minimum:

(a) detailed commentary of the areas in which it expects to incur early costs;

(b) detailed forecasts of the level of early costs that it expects to incur in each area, together with the total early costs it expects to incur;

(c) clear and comprehensive commentary and justification on why it would be necessary and in the interests of consumers for the Licensee to incur costs in the areas set out under Condition G4(a);

(d) clear and comprehensive commentary and justification on why it would be efficient for the Licensee to incur the level of costs set out under Condition G4(b);

(e) details of how the Licensee is seeking to finance its expenditure on early costs and assurance over the Licensee's ability to finance those early costs; and

(f) how the Licensee intends to take account of the uncertainties over the precise nature of the scheme for expansion to be developed in accordance with the Licensee's obligation under Condition G1.

G5 The business plan that the Licensee prepares under condition G3 must include such detail as may be set out in any relevant guidance issued from time to time by the CAA after consultation with the Licensee and any other relevant parties on that guidance or any revision of it (whether or not such consultation commenced prior to this condition coming into effect).

G6 The Licensee shall provide to the CAA and airlines that are members of the AOC[58], in format and to a level of detail approved by the CAA, the reports required by paragraphs (a) to (c) below:

(a) a quarterly report, setting out

(i) the early costs incurred by the Licensee in the relevant quarter;

(ii) the total early costs incurred by the Licensee to the end of the relevant quarter;

(iii) a comparison of the costs reported under Condition G6(a)(i) and Condition G6(a)(ii) to the forecasts of early costs provided to the CAA in July 2025 and any subsequent updates to those costs; and

(iv) commentary explaining the level of costs incurred, and any variances from, the forecasts provided to the CAA for the purposes of Condition G4(6)(iii);

(b) a report by the Licensee's auditors to accompany, and be submitted on the same date as, the regulatory accounts prepared for the purposes of Condition E1.1, confirming that the level of early costs that the Licensee has incurred in the previous Regulatory Year meet the definition of early costs set out in Condition C1.28(k) and have been excluded from any other costs of the Licensee set out in the regulatory accounts. The licensee will discuss the appropriate scope and content of the report with the CAA and then follow the written guidance (which may be amended from time to time) to be provided by the CAA in relation to these matters; and

(c) any other information held by HAL or any independent technical experts appointed for the purposes of Condition G2 that the CAA may reasonably require for the purpose of monitoring and assessing the Licensee's performance and progress in preparing to obtain development consent for expansion pursuant to the Planning Act 2008.

G7 In this condition:

58 Each of "airlines" and "AOC" is defined in Condition A3.

(a) "early costs" and "expansion" shall bear the meanings set out in Condition C1.28(k) and C1.28(l);

(b) "quarterly report" means a report relating to the three-month periods ending at the end of March, June, September and December respectively in each Regulatory Year and submitted to the CAA before the end of the month immediately following the end of the quarter to which it relates.