

Heathrow capacity expansion – further update on the approach to the regulatory framework

CAP 3313

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CHAPTER 1

Introduction and summary

Context

- 1.1 In January 2025, the Government announced its support for the development of a third runway and capacity expansion at Heathrow Airport (collectively, “expansion”). It said expansion would provide significant benefits to consumers (through lower fares and greater connectivity) and to economic growth. The Government reviewed proposals for expansion that emerged in response to its January 2025 announcement and, in November 2025, announced that the Northwest Runway scheme proposed by Heathrow Airport Limited (“HAL”) would be used to inform the Government’s review of the Airports National Policy Statement. In June 2026, the Government published for consultation its draft revision to the Airports National Policy Statement (now known as the “Heathrow Expansion National Policy Statement”, or “HENPS”).¹
- 1.2 In April 2026, we published an initial assessment of both HAL’s proposals and those of an alternative provider, Heathrow West Limited (“HWL”). That assessment showed the very significant costs of expansion.² While the scope and scale of the scheme will be determined by the HENPS and planning process, it will be important that the regulatory framework is designed to incentivise the efficient delivery of expansion and ensure that consumers are protected from the consequences of expansion leading to excessive costs in both the short and longer term.
- 1.3 In May 2026 we published a consultation on a shortlist of regulatory models for expansion (the “Shortlist Consultation”). We concluded that there is a case for changing the current regulatory framework and shortlisted a number of the regulatory models to address the case for change.
- 1.4 In July 2026 we published a short update confirming we would further develop our shortlist of models in an integrated way as part of a new regulatory framework for expansion (the “July 2026 Update”). We also set out, at a high level, the work required to implement the framework and requested stakeholders’ views to inform the work plan. This document expands on the July 2026 Update, takes account of

1 National Policy Statements are statements of planning policy in relation to nationally significant infrastructure produced by the Government.

2 Our advisors, Steer, estimated a scheme cost range of £33 to £52 billion for HAL’s proposal and £27 to £43 billion for HWL’s proposal, in 2024 CPI prices. This excludes the costs of other works to expand capacity at the airport, such as replacement of existing terminals (Steer, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, April 2026).

the stakeholders' responses to it and sets out our work plans to develop the regulatory framework for expansion.

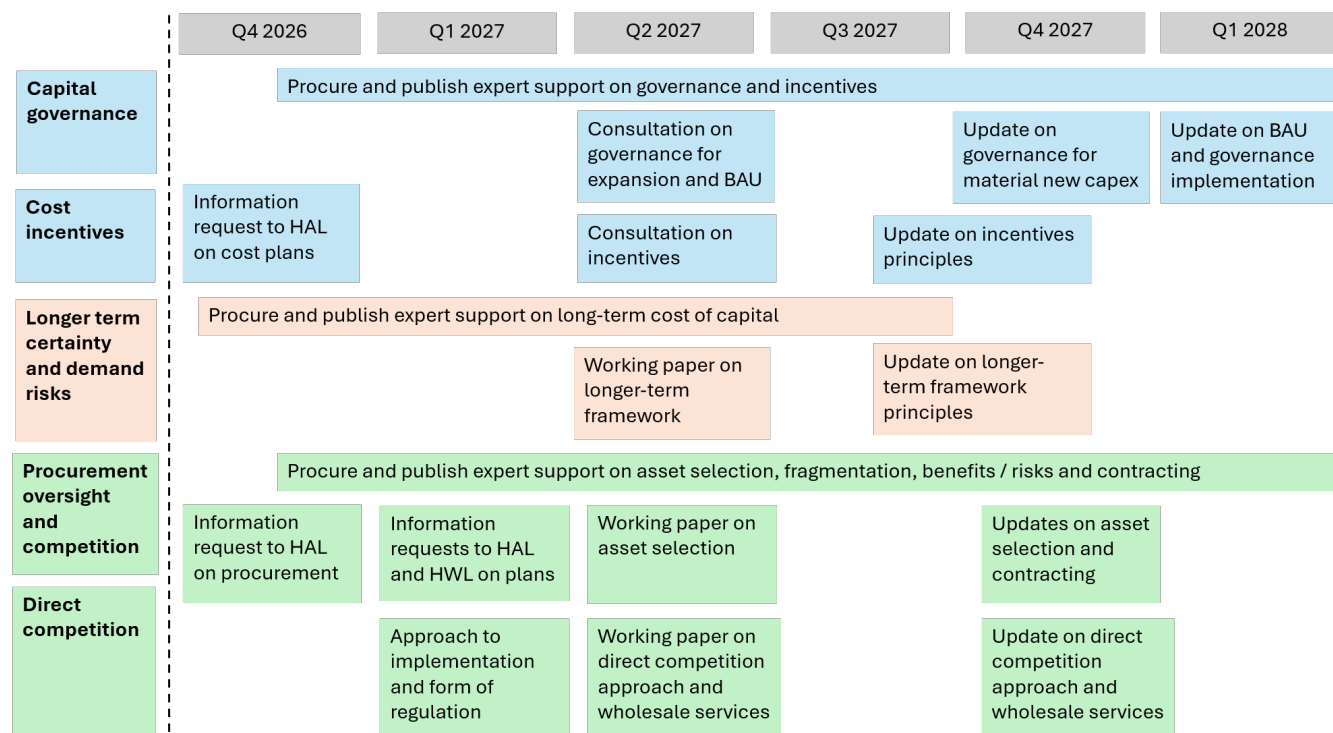
- 1.5 Our approach is guided by our statutory duties, to further the interests of consumers in the range, availability, continuity, cost and quality of services, having regard to other matters including economy, efficiency and financeability. We remain of the view that the package of measures proposed in the July 2026 Update would further the interests of consumers in the context of expansion (including the development of a third runway and other important projects to develop new infrastructure at Heathrow). There are also important elements of our package of reforms that have the potential to strengthen the regulatory arrangements for HAL's significant ongoing capital expenditure programmes for the existing two runway airport. Therefore, irrespective of whether the development of a third runway proceeds, we would expect to continue to develop the approaches to capital governance, incentives and competition. While stakeholders expressed different views on individual elements, there was broad support for stronger governance, improved incentives for cost efficiency and use of competition where it can demonstrably benefit consumers. There remained, however, differing views on the longer-term framework and direct competition.
- 1.6 A central part of the new framework will be new capital governance and assurance, including a strengthened capital committee supported by independent technical assurance, to provide greater scrutiny of HAL's investment decisions, procurement and programme delivery. While we would not expect the committee necessarily to have veto powers over HAL's capital expenditure ("capex"), we will want to make sure the committee can meaningfully influence HAL's capex programme in a timely way, with suitable escalation mechanisms. This should encourage the airport and its airline customers to agree on a balanced capital programme and, where appropriate, individual projects. The committee's independent advice and recommendations should carry significant weight in the investment decisions made by HAL as well as in future regulatory decisions. We will look to initially apply the approach to areas of material new assets and capex, for instance expansion, T5 optimisation phase 2 and replacement of existing terminals. We will also consider how appropriate elements of this approach should be applied more broadly over time to business-as-usual replacement and maintenance capex programmes, which contain a large number of smaller projects.
- 1.7 In addition to new governance arrangements, we will also develop a package of incentives to encourage the efficient and timely delivery of expansion and other capital expenditure, which is tailored to reflect the differing risks, maturity and controllability of individual programmes or projects. This is likely to include cost sharing mechanisms, delivery obligations and monitoring arrangements. We also recognise the need to protect consumers from the risks of excessive cost escalation and lengthy delays on major projects. We consider there are significant

practical challenges with introducing a cap in particular on overall expansion costs linked to a fixed costs or benefits estimate. We will however carry out further work on options including thresholds where there could be a step up in cost sharing incentives and/or greater intervention into the overall scope and management of the programme. These new incentives for cost efficiency will be designed in an integrated way with the governance arrangements discussed above.

- 1.8 We will continue assessing whether greater long-term certainty on the expansion cost of capital could reduce financing costs and ultimately benefit consumers. Stakeholders expressed differing views. HAL proposed certainty on the cost of equity for 15 to 20 years. Airlines generally considered that certainty was not required beyond the current five-year price control. Our current view is that while there are potential benefits to consumers from longer-term certainty on allowed returns in reducing financing costs, this will require clear evidence of these benefits and address concerns that this approach could lock in allowed returns that are too high and transfer risks to consumers. We also expect the approach would require appropriate safeguards, including risk-sharing mechanisms and transparent cost allocation and reporting, which could involve a separate expansion regulatory asset base ("RAB").
- 1.9 Competition can deliver benefits to consumers and should be considered for Heathrow Airport in any scenario. We would require strong evidence from HAL where it considers that competition would not benefit consumers. We intend to provide greater oversight of HAL's procurement processes through the new governance arrangements discussed above. Where appropriate, we will look to develop and implement powers to require competition in the procurement of the design and build or design, build and operation of assets. Our current view is that competitive procurement should be considered across a wide range of assets, including new and redeveloped terminals across the campus. We will engage with HAL and stakeholders on whether there is a project (or projects) in the H8 period to which we can apply and test the approach to identify potential risks and issues to be resolved.
- 1.10 We plan to enable direct competition between HAL and a third party in the circumstances where the third party is awarded a Development Consent Order ("DCO") under the Planning Act 2008 to develop all or part of the new infrastructure at Heathrow Airport. We do not intend to expand the scope of direct competition to include contractual arrangements, as proposed by airlines, as we remain of the view that the benefits of competition on a wider basis can be appropriately captured by our proposals for competitive procurement, discussed above.
- 1.11 In our work plan to implement the new regulatory framework, we have focused on areas that will do most to further the interests of consumers and where it will be

appropriate to provide greater clarity on the framework ahead of the submission of DCO applications.

- 1.12 Our priorities for 2026 include requesting further information from HAL, HWL and other stakeholders and appointing external expert advisors on critical areas for capex governance and incentives, longer-term frameworks and competition. In 2027 we will work to progress the development and implementation of each of the parts of the regulatory framework, including gathering the required evidence, stakeholder engagement and further policy design to make sure that our approach is robust, flexible to further developments in expansion plans and effective in furthering the interests of consumers. We are aiming to develop the key parts of the new capital governance approach by the end of 2027, with the implementation timetable determined as part of the process.
- 1.13 Figure 1.1 below shows our current view on the work plan. We expect the plan to continue to evolve in future and we will update stakeholders as we make changes to the plan. We will continue to look for options to develop and implement regulatory changes at an earlier stage. To achieve this, we would strongly encourage stakeholders to work together in a constructive way to agree potential improvements to areas such as capex governance.
- 1.14 We also welcome further input from stakeholders where they consider we have made significant omissions or there would be a substantially better way of proceeding with implementation. We also remain committed to working closely with all our stakeholders to inform the development of the regulatory framework.

Figure 1.1 – Summary of work plan for implementation of framework

Source: CAA

- 1.15 Alongside this work, we are continuing to develop our policy on the recovery of the early costs of expansion that are incurred before the Government makes any decision on whether to grant a DCO. In July 2026, we issued our decision on the recovery of early costs of expansion incurred:
- by HAL in 2025 and 2026; and
 - by HWL until November 2025.
- 1.16 We intend to publish a consultation later in 2026 on the recovery of early costs from 2027 onwards, including an update on our views of the overall costs and benefits for consumers of expansion.
- 1.17 We also plan to publish the final proposals for the next Heathrow price control (covering the period of “H8”, namely 2027 to 2031) towards the end of 2026 and we will discuss overlapping issues in our final proposals for H8 and as part of our work to implement the regulatory framework for expansion.
- 1.18 This document has been developed in the light of the CAA’s duties under the Civil Aviation Act 2012 (“CAA12”). A summary of our duties is set out in Annex B.
- 1.19 The remainder of the document has the following structure.
- Chapter 2: case for change, which summarises our position on the case for further developing the existing regulatory framework for Heathrow in the light of stakeholder responses to the Shortlist Consultation and July 2026 Update.

- Chapter 3: evaluation framework, which discusses the criteria we have used in shortlisting and selecting regulatory models for inclusion in the framework.
- Chapter 4: regulatory framework, which summarises our current thinking on the regulatory framework following stakeholder responses to the Shortlist Consultation and the July 2026 Update.
- Chapter 5: implementation of the framework, which discusses our work plan in respect of the further development and implementation of the new regulatory framework for Heathrow Airport.
- Annex A: provides a list of abbreviations.
- Annex B: provides a summary of the CAA's statutory duties.

CHAPTER 2

Case for change

Introduction

- 2.1 This chapter deals with the case for changing the regulatory framework for HAL. It starts by summarising the position set out in the Shortlist Consultation and July 2026 Update. It then goes on to summarise the views of those stakeholders that responded to the July 2026 Update on these matters, before summarising our response to these representations and our latest views.

Summary of the Shortlist Consultation and the July 2026 Update

- 2.2 In the Shortlist Consultation, we said there was a strong case for updating the regulatory framework, given HAL's relatively high airport charges, concerns about trends in its service quality and the scale and challenges of expansion-related investment.
- 2.3 The July 2026 Update included a review of stakeholder responses to the Shortlist Consultation. We did not identify compelling new evidence that would justify a different approach and concluded that there remains a strong case for making changes to the current regulatory framework, in particular to address the scale, complexity and risks associated with expansion. We also said that our forward work programme would focus on the development and implementation of the shortlisted regulatory models, rather than the case for change.

Additional stakeholder views

HAL

- 2.4 In response to our July 2026 Update, HAL said it agreed that expansion justifies changes to the regulatory framework but said that this rationale for reform is significantly different from the original case for change set out in the working paper we published in 2025. It said the focus should now be on the specific challenges posed by expansion, including its scale, duration, complexity and delivery risks, rather than concerns about HAL's underlying performance.
- 2.5 HAL cited recent evidence as demonstrating strong operational performance. It highlighted high passenger satisfaction scores, low security queue times and operational reliability. HAL also referred to evidence it had previously submitted on airport charges, service quality and capital efficiency, and expressed concern that we had not fully engaged with this material in our July 2026 Update. HAL said the CAA should adopt a targeted evolution of the existing framework to support expansion, rather than broader reform of the regulatory model.

- 2.6 HAL noted that our July 2026 Update was a high-level update on expansion and not a consultation on changes to the H8 business-as-usual regulatory framework. It said any future changes to the business-as-usual framework should be considered separately, supported by their own evidence base, consultation process, proportionality assessment and a reasonable interpretation of the CAA's statutory duties. HAL also cautioned that any wider changes to the existing framework should take account of how wider stakeholders, including investors and credit rating agencies, would respond.

Heathrow Reimagined

- 2.7 Heathrow Reimagined said that the evidence indicates that significant consumer harm exists at today's two runway airport and the case for regulatory reform does not rely solely on expansion. It said that HAL's high charges pre-date any expansion programme and are a consequence of the current regulatory model. It also pointed to Skytrax rankings and Airports Council International's Airport Service Quality surveys as evidence of declining service quality performance. On this basis, Heathrow Reimagined said that value for money at Heathrow Airport is poor and that reforms should be applied across the whole airport, including both expansion and business-as-usual activities.
- 2.8 It said the priority should now be implementing reforms rather than undertaking further analysis of whether change is required. It also said that the scale of forthcoming capital expenditure made urgent reform necessary. Heathrow Reimagined supported the rapid introduction of a single airport-wide regulatory and governance framework covering both expansion and business-as-usual activities.

Airlines

- 2.9 Airlines broadly agreed that there remains a strong case for change and said that shortcomings are already evident at Heathrow Airport and are not limited to future expansion activities. A number of airline respondents said that incremental changes would not be sufficient and that reforms should extend beyond expansion activities to business-as-usual arrangements. Airlines also emphasised the need to implement reforms quickly before substantial further expenditure occurs under the existing framework.

Other stakeholders

- 2.10 A number of other stakeholders supported the conclusion that there remains a case for reforming the regulatory framework, although there were differing views on the change required. Dr Paul Mansell said that HAL's forthcoming programme of business-as-usual and expansion expenditure strengthened the need for a single integrated governance framework and more rapid implementation of reforms. In contrast, CISHA supported an evolutionary approach, stating that

reforms should be targeted at clearly identified problems and demonstrable consumer benefits rather than more fundamental structural change.

Our views

- 2.11 On expansion, our view remains that there is a strong case for adapting the regulatory framework to address the challenges posed by the scale, complexity and risks of the major infrastructure programme, including strengthening incentives for efficient delivery in the interests of consumers. This remains our priority for the development and implementation of the regulatory framework given the scale of the issues and the challenging timescales.
- 2.12 Our view also remains that elements of the case for change are relevant to the future development of the business-as-usual regulatory framework. We consider there are strong arguments to put in place new arrangements for capital governance and assurance for material new capex projects, which could be applied more widely to business-as-usual capex to help ensure efficient costs and high service quality in future. We would also expect to see scrutiny of procurement approaches across the whole capex programme and consideration of where competition would benefit consumers. We would require strong evidence from HAL if it were to consider that stronger competition would not be in the interests of consumers. While it is appropriate to focus on implementing changes for expansion and major capital programmes, we will continue to consider carefully which elements of the framework may, in due course, be appropriate to apply to business-as-usual maintenance and replacement capex activities. We will consult on our approach before making these changes.
- 2.13 We have carefully reviewed the additional evidence and arguments submitted by HAL and other stakeholders. While this indicates HAL has delivered improvements in a number of operational and service quality measures, there remain differing views on the interpretation of international benchmarking evidence. We are also not convinced that Heathrow-specific factors fully explain the relative level of Heathrow Airport's charges compared with international comparator airports. Overall, we retain our broad conclusion that there is a case for changing the regulatory framework, with the priority being establishing arrangements that are appropriate to expansion and the associated major capex programmes.
- 2.14 At this stage, we do not intend to carry out further work on the case for change.

CHAPTER 3

Evaluation framework

Introduction

- 3.1 This chapter deals with the evaluation frame for the options for change, established in our earlier working papers and consultation documents. It starts by summarising the position set out in our Shortlist Consultation and July 2026 Update. It then goes on to summarise the views of those stakeholders that responded to the July 2026 Update on these matters, before summarising our response to these representations and our latest views.

Summary of the Shortlist Consultation and the July 2026 Update

- 3.2 In the Shortlist Consultation, we set out a framework to evaluate the regulatory models. This comprised six criteria, based on our statutory duties, to assess whether regulatory models would:
- avoid delay and disruption;
 - promote efficient costs;
 - allow sufficient finance to be raised;
 - be practical to implement;
 - promote competition; and
 - promote service quality.
- 3.3 In the July 2026 Update, we considered stakeholders' views and concluded that the existing evaluation framework and work on early costs was sufficiently broad to address the areas raised by stakeholders, including affordability, and that implementation risks are addressed in a proportionate way. We said that, moving forward, the focus would shift from assessing individual models against the evaluation criteria towards developing an integrated regulatory framework and ensuring that the selected models worked together effectively to further the interests of consumers.

Additional stakeholder views

HAL

- 3.4 HAL did not comment directly on the evaluation framework. However, it emphasised the importance of avoiding delay, maintaining financeability and ensuring that any regulatory changes are proportionate and practical.

Heathrow Reimagined

- 3.5 Heathrow Reimagined was concerned that affordability was not included as an explicit criterion. It said that affordability is a prerequisite for a successful expansion programme because airlines must be able to operate profitably and support the traffic growth needed to realise the benefits of additional capacity. It said that affordability should be a central consideration in the evaluation criteria to select and design regulatory reforms, including through an enforceable cap on expansion costs and stronger competition and governance arrangements.

Airlines

- 3.6 A number of airlines said that affordability should be a central objective of the future regulatory framework and an explicit criterion. Several airlines supported the development of an enforceable cap on overall expansion costs. Vueling provided examples of how airport charges can influence airline investment decisions and IAG emphasised the importance of affordability given the scale of airline investment required to support expansion.
- 3.7 Many airlines also said that stronger competition should be an objective, as it provides the most effective means of improving efficiency, service quality and affordability. easyJet suggested that the framework should be assessed on its viability to support commercially viable entry and growth by new entrants, particularly low-cost carriers. IATA said that affordability should remain a core regulatory outcome even if greater competition is introduced.

Other stakeholders

- 3.8 Several responses from other stakeholders stressed the importance of affordability and consumer protection. The “No 3rd Runway Coalition” said that affordability should be a quantified constraint on expansion and proposed additional affordability, demand and risk-allocation tests. Dr David Gilbert said that the framework should place greater emphasis on environmental impacts, risk allocation and low-demand scenarios, including through an additional evaluation criterion based on the CAA’s environmental duties. CISHA said that affordability is important, but it should be balanced alongside service quality, resilience and timely delivery, with the assessment of regulatory models focused on overall value to consumers rather than the lowest cost.
- 3.9 In response to our Shortlist Consultation, the New Economics Foundation said that regulatory models should ensure that expansion proceeds only where it is cost-effective and commercially viable, and that risks and benefits are allocated fairly. It also noted that we had not addressed the implications of demand for new capacity being lower than forecast.

Our views

- 3.10 We recognise that affordability is a key issue and expansion must be delivered with charges that are affordable to consumers and airport users, as this will support the increases in passenger demand, connectivity, frequency and route choice required to fill the significant new expansion capacity.
- 3.11 These issues will be considered in a number of ways. Firstly, we intend to update our assessment of the evidence available on the costs and benefits of expansion, which will include consideration of affordability, in the consultation on early costs we plan to publish later in 2026. Secondly, affordability will be determined primarily by the scheme design, which is driven by the planning process and HENPS. The draft HENPS recognises this and asks the CAA to advise the Secretary of State on these matters as a necessary step for expansion being granted planning permission.³ Thirdly, in designing the regulatory framework we will consider approaches that provide strong incentives on cost efficiency, including cost caps or thresholds, which are supported by the evaluation criteria we set out at the start of this chapter and our primary duty under CAA12 to further the interests of consumers in relation to (among other things) the costs of airport operation services.
- 3.12 Bearing the above context in mind, we remain of the view that affordability is adequately considered through our work on early costs and the HENPS, without the need for an additional criterion on affordability as part of our approach to assessing regulatory models.
- 3.13 The other issues raised by stakeholders (environmental impacts, risk allocation, demand uncertainty, wider consumer protections and the allocation of expansion costs between existing and future users) can be addressed through our existing work programmes and development of the regulatory framework, in a way that is reasonable and proportionate, and consistent with our statutory duties.
- 3.14 In light of the above, we continue to consider that the evaluation framework set out in the Shortlist Consultation remains appropriate and we do not intend to carry out further work on the evaluation criteria at this stage.

3 Department for Transport, Draft Heathrow Expansion National Policy Statement, Chapter 4 "Assessment principles", Costs, June 2026, pages 43-45.

CHAPTER 4

Regulatory framework

Introduction

- 4.1 In the July 2026 Update, we said that we would develop the shortlisted regulatory models into a coherent regulatory framework that would further the interests of consumers by improving governance, assurance and providing sharper cost incentives for efficiency and effectiveness of capex. We said we would also consider providing longer-term certainty to support efficient financing of this capital expenditure and where appropriate look to use competition in the procurement of new infrastructure to drive benefits to consumers. We also proposed to develop a framework for direct competition to ensure that the overall framework is flexible to allow for any third-party providers that gain planning approval for expansion.
- 4.2 This chapter deals with these main elements of the framework:
- capital governance and assurance;
 - incentives for cost efficiency;
 - arrangements to provide longer-term certainty;
 - procurement oversight and competition; and
 - direct competition.
- 4.3 The rest of this chapter summarises the stakeholders' views we received in response to the July 2026 Update and our views on these responses for each of the aspects of the framework. We also seek to respond to points raised in the Shortlist Consultation that we did not respond to in detail in the July 2026 Update.

Capital governance and assurance

Summary of the July 2026 Update

- 4.4 We confirmed that we would further develop the approach to capital governance as part of the overall regulatory framework for expansion and, over time, develop an approach to cover both expansion and business-as-usual capex.
- 4.5 We proposed that the new governance should include setting up a capital committee with an independent chair, supported by an independent technical advisor and with clear escalation routes. The committee would oversee governance of capital planning and investment decisions, including procurement, but would not have veto powers over HAL's expenditure decisions. The CAA

would remain responsible for decisions on the recovery of efficient capex through the RAB, with advice from the capital committee.

Stakeholder views

HAL

4.6 HAL said that it supported our direction of travel on governance and agreed:

- with the establishment of a senior capital committee, subject to the committee providing strategic scrutiny and not control over the delivery of capex;
- that the committee should have a CAA-appointed independent chair, following consultation with HAL and airlines;
- that the committee should not have formal decision rights or veto powers;
- that airlines should have greater visibility of and involvement in HAL's long-term capital planning; and
- with a need for independent technical assurance that is broader in remit than the Independent Fund Surveyor ("IFS") under the existing capital governance arrangements.

4.7 It also proposed:

- the establishment of a Capital Oversight Group ("COG"), supported by Joint Independent Assurance ("JIA"). It said the COG should have a wide membership, including representatives from HAL, airlines, CAA and Government (DfT and HM Treasury), drawing on the example of the Thames Tideway Tunnel governance model. HAL also proposed consumer input and sub-committees, and said the CAA should consider how future users and non-incumbent airlines are represented;
- a core function for the COG as a forum for discussion and challenge of long-term capital plans, for example over a 15-year horizon. HAL emphasised the need for a clear remit and escalation pathway, and maintained that oversight should be proportionate and risk based, scaling with programme maturity; and
- that the independent JIA would be established in consultation with airlines, subject to CAA approval for expansion, with the Independent Fund Surveyor ("IFS") continuing to provide assurance for business-as-usual capex. The JIA's primary role would be to support the effective functioning of the COG by providing expert, ongoing assurance of costs, schedule, risk and technical matters across the expansion programme. The JIA would also have a role in the implementation and management of capital incentives and report to multiple parties.

- 4.8 In response to the July 2026 Update, HAL said there should be separate workstreams for the governance reforms for expansion and for business-as-usual capital investment. It said the case for change is expansion-specific and that changes to business-as-usual capital governance require separate justification, with a review of the effectiveness of the existing H7 framework. HAL also referred to statements we have made that H7 reforms require time to bed in and said changes in a short period of time create regulatory instability.
- 4.9 HAL also said that better outcomes from the governance framework depend on reasonable participation by stakeholders in the governance process, as well as the design of the framework. It noted that where stakeholders have meaningful influence over investments, they should be held accountable for how they exercise that influence.

Heathrow Reimagined

- 4.10 Heathrow Reimagined said it strongly supported reform of capital governance as the current arrangements are ineffective. It welcomed our proposals for a new capital governance committee, noting they reflected reforms it had previously called for, and supported our proposals to appoint an independent chair (following consultation) and said that the Chair should report to the CAA.
- 4.11 However, Heathrow Reimagined considered that parts of our proposals did not go far enough and made proposals for:
- allowing the capital committee to withhold approval over HAL's capex planning and delivery, with HAL able to escalate these matters to the CAA. Heathrow Reimagined said an advisory-only committee would be weaker than the *status quo*, where HAL's major capex projects must pass the G3 approval gate. It said HAL's concerns that approval rights would cause delay are not supported by evidence from the current regime and that the CAA must make a step change in its approach to enforcement and resourcing, with more robust thresholds for disallowing inefficient expenditure;
 - independent experts or advisers supporting the committee that are not jointly appointed by HAL. It said the CAA's position is unclear and we should clarify what is meant by "genuinely independent scrutiny". It also said that the IFS should be replaced by an independent, integrated and layered capital assurance function to serve the committee, the CAA and airlines;
 - giving the committee a role in advising the CAA on affordability, built up from scrutiny of HAL's long term plan;

- a single governance regime for expansion and business-as-usual capex. Heathrow Reimagined said the case for change was based on a two runway airport and excluding business-as-usual capex from the new framework would be complex and harm consumers through increased costs and opportunities for gaming by HAL; and
- a graduated set of sanctions for compliance with the governance process, including information quality and applying to enhanced capital monitoring. It said there should be financial penalties and senior board-level accountability for serious failures.

4.12 Heathrow Reimagined said the committee should be limited to senior representation from HAL and airlines to be effective. It said the consumer interest would be safeguarded through the independent chair reporting to the CAA, with other stakeholders consulted as needed.

Airlines

- 4.13 IAG supported Heathrow Reimagined's views. It cited Dallas-Fort Worth as precedent for the committee to oversee a continuous, portfolio-led framework to long-term capital planning, which includes a near-term project plan, a medium-term prioritised pipeline and a 15-20+ year strategic horizon. This would encourage choices and trade-offs that are linked to the masterplan and asset renewal cycles, supported by lifecycle costing, affordability, explicit customer and resilience outcomes, benchmarking and assurance.
- 4.14 LACC/AOC said the committee should be able to withhold approval of capex projects, and said HAL should bear the consequences of inefficiency, rather than consumers.
- 4.15 IATA called for airline involvement in strategic planning, sharper incentives with accountability, and more direct CAA intervention. It said current issues were due to late user involvement, information asymmetry, lack of independent assurance and a lack of consequences for governance failings.
- 4.16 Delta suggested both expanding the IFS's remit to assess cost efficiency for each project and creating a new capital committee. It cited the StageGate capex review at Dublin Airport, where the IFS assesses projects before costs go into the RAB. Consistent with Heathrow Reimagined, it says the committee should have veto powers and CAA representation.

Our views

- 4.17 We will continue to develop the new governance and assurance framework, including the new capital committee and broadened scope for independent assurance. We will commission expert advice and consult further as we develop this approach as we discuss further in chapter 5.

- 4.18 Below, we set out our current views on issues where stakeholders have provided further responses and/or are seeking further clarifications.

Capital committee's role

- 4.19 In our July 2026 Update we proposed establishing a capital committee that could recommend to the CAA and airlines that capex should not be approved, but would not have powers of veto over HAL's plans and expenditure. We continue to consider this is appropriate as responsibility for expenditure should remain with HAL. However, we recognise the concerns raised by airlines. It is important that the committee's role means it is able to meaningfully influence HAL's investment decisions in a timely way, that it has strong powers and that the arrangements for escalation provide strong incentives on the senior management of companies to resolve issues in a rapid and appropriate way.
- 4.20 The approach will need to be a forward step from existing arrangements. Under both the CAA's proposals and the approach suggested by Heathrow Reimagined, the ultimate decision on the level of efficient capex to be recovered by HAL through the RAB would be for the CAA, taking into account advice from the committee and other evidence. We will continue to engage with stakeholders as we progress development of the framework, including how we ensure parts of the existing framework, such as the gateway process, are not inappropriately weakened under new arrangements.

Wider stakeholder input to the capital committee

- 4.21 Given the impact of expansion on a wide range of stakeholders, we consider that the committee will need either a relatively broad composition or an approach to seeking regular input from consumer representatives and other stakeholders. In our future work, we will consider the best approach to achieve this.

Escalation

- 4.22 The design of the arrangements for the capital committee should incorporate a clear escalation route to the CAA in the event of disputes. We will work through the details of this process with input from stakeholders and advisors, including the potential resource implications for CAA such that we can actively support timely decisions, as highlighted by Heathrow Reimagined.

Independent assurance

- 4.23 Independent assurance will be important for the new capital governance framework. In our Shortlist Consultation we said the experts could be appointed either by the CAA jointly with HAL and airlines, or by the CAA alone where a greater degree of independence from HAL is appropriate.
- 4.24 We consider that independent assurance could be procured jointly between HAL, airlines and the CAA, with CAA approval of the supplier and reporting to the new capital committee, which includes HAL and airlines. This approach may best

support timely progress given HAL and airlines' experience of procuring similar services. We consider an approach where the CAA leads on the procurement of the independent assurance would not be necessary nor practical within short timescales.

Process incentives

- 4.25 We propose to develop incentives for compliance with regulatory processes, including the timely provision of information and ensuring that information submitted is of an appropriate quality. We note that there was broad stakeholder support for the introduction of such process-related incentives. These incentives, including the provision of information to the capital committee, will be considered as part of the development of the capital governance framework.

Approach to the governance framework for business-as-usual capex

- 4.26 Airlines have raised concerns with, and expressed lack of trust in, the existing capital governance arrangements. We will review and consider changes to the governance of business-as-usual capex such as replacement and maintenance capex. However, we also consider the capex governance and assurance for expansion and material new capex projects, for instance T5 optimisation phase 2, expansion and new terminals, requires a tailored approach and is a priority given their scale and complexity. Our view remains that it is necessary to develop and establish a new governance regime for expansion but also to consider potential changes to business-as-usual capital governance, beyond incremental changes, which HAL and airlines are discussing for H8.
- 4.27 We do not consider this approach cuts across regulatory practice by advancing changes in a short period. Throughout the H8 price review process, we have remained open to the possibility of changing capital governance arrangements and we understand HAL and airlines are discussing targeted, incremental changes for H8. By looking at broader changes to governance through our work on the regulatory framework, we will have more time and evidence to develop and consult on an appropriately tailored approach to further consumers' interests in relation to expansion and business-as-usual capex. This approach allows us to take account of new evidence as more projects pass through the reformed governance for H7.
- 4.28 The governance and assurance approach will need to be suitably tailored and flexible to accommodate projects with different characteristics, requirements and risks. We can see merit in the suggestions made by IAG that there should be a layered approach to governance with a focus on a near-term project plan, a medium-term prioritised pipeline and a 15-20+ year strategic horizon. Our current assumption is that different approaches will be needed between, for example, the expansion programme and ongoing asset maintenance and replacement. Our future work will consider how the approach to governance, assurance and incentives need to flex to accommodate the range of projects at Heathrow airport.

Approach to stakeholder engagement

- 4.29 We agree that constructive and timely engagement and contributions will be critical to ensuring the new governance framework delivers for consumers. While the discussion above deals with a range of the main issues, we note that stakeholders have made a range of detailed suggestions that are not fully covered or assessed in the above discussion. As we explain further in chapter 5, we will take forward fuller and more detailed discussions with stakeholders in a series of workshop style meetings.

Incentives for cost efficiency

Summary of the July 2026 Update

- 4.30 We confirmed our intention to develop sharper efficiency and delivery incentives to apply to capital expenditure as part of the overall regulatory framework for expansion. We proposed to work with stakeholders to develop details of the approach, which we said could include an overall cap and/or other incentives designed to encourage cost efficiency and reasonableness.

Stakeholder views

HAL

- 4.31 In its response, HAL broadly supported changes to cost incentives and said the CAA should take forward the following principles:
- expansion to sit under a bespoke, programme-level incentives regime, not a single H7-style *ex ante* framework or an overall programme-wide cap;
 - meaningful efficiency pressure applied to all expansion capex, with the form and strength of incentives varying by maturity, controllability and risk for each category of capex;
 - a staged framework, where early-stage activity receives greater regulatory protection, with progressively stronger *ex ante* challenge and sharing mechanisms as maturity and controllability increase;
 - clearly defined reopeners, cost recovery mechanisms and protection against extreme downside risks; and
 - incentives aligned with governance, so that HAL is not held financially accountable for outcomes where other parties hold decision rights over scope, phasing or delivery.
- 4.32 HAL did not support setting an overall cap on expansion capex and raised a number of concerns, including:
- setting a cap before cost details are developed and risk is understood will make risk more expensive to manage, to consumers' detriment;

- a single early figure will create false precision, with a tight cap being undeliverable and a flexible cap being ineffective and complex;
- a poorly calibrated cap could result in deferral of scope, underinvestment in quality or resilience, or delays in expenditure; and
- it could undermine financeability if, for example, unavoidable expenditure is required outside the cap.

Heathrow Reimagined

4.33 Heathrow Reimagined maintained that changes to capital governance and incentives cannot by themselves address the underlying problems of the current regulatory regime. Notwithstanding this, it proposed we consider:

- exploring approaches to providing effective independent oversight of baseline setting, including removing HAL's "RAB bonus"⁴ for on-time and on-budget delivery;
- establishing the circumstances and processes for the adoption of asymmetric incentives, and considering changing incentive rates so HAL bears the full cost of overruns. It considered the existing 25% incentive rate is too low to influence HAL's behaviour given its control over baseline-setting, the scale of H8 spending, and by comparison to other sectors; and
- assessing how to make delivery obligations ("DOs") more effective, including by allowing airlines to require outcome and performance measures in DOs, with strong penalties if HAL fails to deliver.

4.34 Heathrow Reimagined did not agree with HAL's proposals to take account of "outside risk", which it considers requires a subjective assessment that HAL can game. It also proposed that HAL's management and shareholders should be held accountable for poor performance, similar to competitive markets, for example, by restricting bonuses or dividends.

4.35 It supported development of an overall cap on expansion costs, saying it should be introduced as early as possible for all major capex projects and be promoter-neutral.

Airlines

4.36 Airlines generally agreed with the need for stronger incentives, as part of the wider package of governance reforms.

4.37 The responses from the LACC/AOC, IATA and some alliances said HAL faces insufficient jeopardy for inefficiency. They supported reforms to address this,

4 Heathrow Reimagined's view is that the 'bonus' arises as HAL has the ability and incentive to set baselines without genuine efficiency improvements and that airlines cannot effectively scrutinise HAL's baselines.

including proposals from IATA for sharper incentives, true accountability for business cases and delivery, and more direct CAA intervention.

- 4.38 Delta supported a more targeted, flexible approach to cost incentives, but said the CAA must not unduly insulate HAL from commercial risk. It agreed in principle to tailoring cost-sharing rates to a project's cost certainty and risk but said the CAA should set objective criteria and assess this, since HAL would be incentivised to overstate risk to reduce its exposure. It agreed *ex post* cost reviews would be needed before *ex ante* incentives could apply and said we should exclude demonstrably inefficient costs from HAL's RAB.

Our views

- 4.39 There are a range of ways to support efficient delivery of HAL's expansion capex, including competition, competitive procurement, effective capital governance and assurance, and direct incentives on HAL. We expect a mix of these will be adopted across the expansion programme as well as business-as-usual capital governance.
- 4.40 We said in our Shortlist Consultation that direct incentives should be strong and targeted, and that they could include:
- tailored cost efficiency sharing rates;
 - backward looking reviews of costs;
 - continuation of DOs; and
 - a budget cap on expansion to limit risks to consumers.
- 4.41 We propose to consider in our future work how best to tailor the package of incentives according to the characteristics and features of different elements of the programme to support cost efficiency. For example, the need for direct incentives may reduce for an element that has been subject to strong competitive pressure, while backward looking reviews and tighter monitoring may have a greater role for elements where it is difficult to set an efficient cost baseline. We will also want to consider whether to apply expansion scheme-wide incentives, although this will need to be proportionate and not cut across project-level incentives and efficient financing. Issues around an overall cost cap are discussed further below.
- 4.42 In our Shortlist Consultation and July 2026 Update, we proposed a tailored approach to setting cost efficiency sharing rates. We continue to consider that a single uniform incentive rate is unlikely to be appropriate across the expansion programme given its scale, complexity and duration. The form and strength of incentive should instead vary with the maturity, forecast certainty and controllability of capex. We agree that a structured approach to classification of costs could promote transparency and support greater confidence in the incentive mechanism.

- 4.43 We will also consider where *ex post* incentives should apply and the tests that should apply to excluding inefficient expenditure from the RAB (including considering CMA precedent on these matter).
- 4.44 Our current view is that HAL bearing the full cost of overruns is unlikely to be in the interests of consumers. This would create a highly asymmetric incentive that would be likely to drive a risk-averse approach to setting the cost baseline and increases in the cost of capital for expansion. We propose to do further work on the calibration of more symmetrical incentives and the role for incentive rate ranges, while design and consenting remain at an early stage.
- 4.45 We are not minded to explore incentive penalties that restrict staff bonuses or dividends for poor performance. We consider the CAA has sufficient tools to apply strong incentives around poor performance and such penalties would be less targeted and more complex to enforce.
- 4.46 We remain concerned about the risks of significant cost escalation for expansion reducing consumer benefits. An overall cap could be one way to protect consumers from significant cost escalation. However, it has some practical issues that need to be considered, including:
- credibility: should significant cost escalation occur, it will be important to make sure that the cap is enforceable such that the promoter is not incentivised to threaten to walk away from delivery of the project unless the cap is increased;
 - calibration: in principle, the cap could be based on the estimated range of consumer benefits from expansion. However, estimates of consumer benefits are themselves highly sensitive to methodology and assumptions, and will likely change over time, undermining the practicality and reasonableness of this approach; and
 - impact on cost of capital: a cap that is set too tightly, or one that disallows expenditure that HAL could not reasonably have avoided, could weaken financeability and raise the cost of capital for the programme, and would create costs that consumers would bear.
- 4.47 We will work through whether it is possible to resolve these issues in a way that is reasonable and furthers the interests of consumers. We also expect to consider alternative approaches such as thresholds where overspend should prompt stronger cost incentives and/or targeted investigations on whether cost inflation might warrant a broad reset of the approach to expansion.
- 4.48 We note HAL's reservations in relation to an overall cost cap but also recognise that there are legitimate concerns about affordability in the context of furthering the interests of consumers. It is open to HAL to suggest alternative arrangements or evidence that could provide meaningful comfort on the overall cost of its proposals.

Arrangements to provide longer term certainty

Summary of the July 2026 Update

- 4.49 We said we intended to do further work to consider whether arrangements to provide longer-term certainty could further the interests of consumers, including:
- setting a long-term combined cost of capital for business-as-usual and expansion activities;
 - a long-term determination for expansion applied to a separate expansion RAB, with the business-as-usual cost of capital redetermined every five years;
 - setting a long-term “cost of capital premium” that would be fixed over a longer period than the five-year cost of capital resets covering expansion and business-as-usual activities, such as over the construction period; and
 - a cap and collar mechanism on returns.
- 4.50 We noted that a longer-term framework could benefit consumers through lower financing costs, by providing greater certainty to investors on its level of returns once capital is committed over the expansion construction period. We also recognised airlines’ concerns that this could place inappropriate risks on consumers and reduce our ability to intervene to ensure adequate protections for consumers. We said that any such framework would need to be carefully designed and accompanied by mechanisms to identify efficient costs and protect consumers from cost escalation.

Stakeholder views

HAL

- 4.51 HAL said the CAA should provide a 15 to 20-year commitment to a real cost of equity for expansion. It said the current single RAB should remain, since a separate RAB, licence or special purpose vehicle would weaken financeability. HAL also said the cost of debt allowance should not be reset periodically under a market-based mechanism rather than fixed.
- 4.52 It supported symmetrical indexation and reopeners for the expansion cost of capital where assumptions change materially. It said these mechanisms would protect consumers, by correcting for material forecasting errors, changes in market conditions and extreme downside outcomes, while also preserving the financing benefits of providing long-term certainty on the cost of equity.
- 4.53 HAL considered the cap and collar option would not provide benefits over the existing approach to cost of capital and incentives. It noted that a collar guaranteeing investors a minimum level of return would require funding through

airport charges or through government support to avoid shifting downside risk to airlines and consumers.

Heathrow Reimagined

- 4.54 Heathrow Reimagined strongly disagreed with a regulatory framework that provides longer-term certainty to the cost of capital, noting that this cannot address the underlying harmful structural incentives in the current framework. It also said that this approach is not required as investors primarily value certainty of the regulatory framework.
- 4.55 It stated that the CAA's concern about a mismatch between the regulatory period and the expansion horizon is largely theoretical and the CAA has not made the case for this change, which would reallocate risks to consumers. It also noted that rating agencies have not applied negative notching for this risk and that, in comparable cases, regulators have addressed construction risk through modest uplifts to the allowed return while retaining periodic cost of capital reviews.⁵
- 4.56 It said that a longer-term cost of capital commitment risks locking in a higher cost of capital as a longer determination period might require a longer forecast and "aiming up" on returns to avoid financeability concerns. It noted that if the cost of capital were too high, HAL would retain the benefit, whereas if it were too low, HAL would request additional financeability protections, limiting the CAA's ability to protect consumers.
- 4.57 Heathrow Reimagined was also concerned that a separate expansion RAB with a higher cost of capital creates risks of gaming by incentivising HAL to maximise expenditure allocated to that RAB. This could lead to potential disputes over asset boundaries, scope and expenditure categorisation. It requested that we consider how reopeners and indexation could be gamed given HAL's asymmetric information advantages.

Airlines

- 4.58 A number of airlines (IAG, British Airways, Iberia, Vueling, Aer Lingus, IATA and the AOC/LACC) said the CAA should not adopt longer-term commitments, as we had not demonstrated that expansion could not be financed efficiently under successive price controls. They also said it would over-protect investors at the expense of consumers. IAG also raised issues around the design, operation and funding of a cap and collar.

⁵ Heathrow Reimagined cited the range of 0.25 to 1.0 percentage points indicated by a 2017 PwC report for the CAA (PwC, "Estimating the cost of capital for H7", November 2017) and the uplifts applied for the BAA group and Terminal 5, where the Competition Commission applied an uplift of 0.25 percentage points to the BAA group, or 0.33 percentage points to HAL.

- 4.59 Other airlines (WestJet, KM Malta Airlines and Royal Brunei Airlines) recognised the potential benefits of longer-term certainty but said we should prioritise other reforms. Delta and Airlines for America provided some cautious support for longer-term certainty. Qantas supported a longer-term cost of capital and separate RAB, combined with a cap and collar.
- 4.60 Airlines also asked for clarity on how a longer-term framework would interact with existing demand risk-sharing arrangements, including the traffic risk-sharing mechanism, traffic shock factor and asymmetric risk allowance, and whether these arrangements would need to change. Qantas considered that the appropriate treatment of demand risk would depend on the delivery model, including whether expansion is delivered by HAL or under alternative competition-based arrangements.

Our views

- 4.61 A longer-term framework has the potential to provide benefits to consumers from reducing efficient financing costs. However, we will need evidence to demonstrate these benefits and make sure the approach avoids inappropriate transfer of risks to consumers, while maintaining appropriate consumer protections and flexibility for regulatory interventions. Bearing this in mind, we intend to continue our work to try and develop such an approach, with the implementation of such arrangements being conditional on them providing clear potential benefits to consumers.
- 4.62 We provide below our current views on three important issues raised by stakeholders:
- whether expansion capex should be recovered through a separate RAB and issues around cost allocation;
 - the scope and period of the longer-term certainty, and how these are set; and
 - how risks should be shared between investors, airlines and consumers, including the treatment of demand risk and risk-sharing mechanisms, including a cap and collar.
- 4.63 A separate expansion RAB for regulatory accounting and charging would allow for the determination of returns on expansion capex in a transparent way. We do not consider this would require a separate delivery entity, such as a special purpose vehicle, so should not have the legal, financing and operational concerns raised by HAL. As an example, Havant Thicket Reservoir is subject to its own price control and regulatory reporting, while remaining part of Portsmouth Water's overall

business.⁶ Moody's assesses Havant Thicket's risks within Portsmouth Water's overall credit profile, despite its separate price control.⁷

- 4.64 We acknowledge a separate expansion RAB approach would need to be supported by robust cost allocation through appropriate governance, cost allocation principles, transparent reporting and oversight, which will be considered as part of the overall regulatory framework. This may raise questions for HAL as to how such arrangements could be best integrated into its Whole Business Securitisation structure. We would need to be clear that the advantages of a separate RAB outweighed any disadvantages and costs.
- 4.65 Our current view is that longer-term certainty could be focused on the cost of equity and that such an approach could provide benefits to consumers. We see limited benefits from providing additional certainty on the cost of debt, as the H8 framework already provides certainty to investors on changes in market conditions through indexation on the cost of new debt.
- 4.66 Nonetheless, we consider that HAL's proposal for a 15 to 20-year commitment on cost of equity (to align with the construction and early operational phases of expansion) appears relatively long and would require compelling evidence, such as from market testing and benchmarking, to demonstrate benefits to consumers. We consider that a shorter period, such as 10 years, may be more appropriate as the time period when investors most require additional certainty on construction risks. Our advisor, Centrus, has commented that longer durations of certainty on the cost of capital (including CCUS and nuclear precedents, as cited by HAL) have been required where there are first-of-a-kind technologies and capital market constraints which have limited read-across to expansion. We welcome further evidence from stakeholders on the consumer benefits of the different options.
- 4.67 We will consider the approach to demand risks, including the traffic risk-sharing mechanism, shock factor and asymmetric risk allowance, as we develop the longer-term framework options. We could also make a starting assumption that expansion construction and operations continue to be undertaken by HAL and then consider the potential impacts of the competitive procurement and direct competition approaches discussed later in this document.
- 4.68 In addition to the current indexation of the cost of debt, we plan to consider mechanisms such as indexation of the cost of equity and risk-free rate, and targeted re-openers. These could provide consumer protections and regulatory oversight by allowing specified risks to be addressed without reopening the whole

6 Ofwat (2019) PR19 Final Determinations: Havant Thicket Appendix, December 2019. Available at: <https://www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-Havant-Thicket-appendix.pdf>

7 Moody's Investors Service (2023) Portsmouth Water Limited: Update following rating downgrade to Baa2, Credit Opinion, 10 March 2023. Available at: [https://www.portsmouthwater.co.uk/downloads/pr24/PRT13.01%20Credit_Opinion-Portsmouth-Water-Limited-10Mar2023%20\(Moodys\).pdf](https://www.portsmouthwater.co.uk/downloads/pr24/PRT13.01%20Credit_Opinion-Portsmouth-Water-Limited-10Mar2023%20(Moodys).pdf)

price control. However, they would need to be carefully calibrated to avoid undermining the benefits from additional certainty.

- 4.69 We plan to prioritise work on the mechanisms above over a “cap and collar” on allowed returns. This is due to the concerns that the cap and collar may be more difficult to implement because of the risks around how it would operate in severe downside scenarios and potential impacts on HAL’s efficiency incentives. Our work programmes in relation to the longer-term framework are discussed further in chapter 5.

Procurement oversight and competition

Summary of the July 2026 Update

- 4.70 In our July 2026 Update we said we planned to put in place enhanced scrutiny of HAL's procurement and further develop a competitive procurement framework.
- 4.71 We noted the interactions with work on capital governance and said we could strengthen scrutiny of HAL's procurement approach through new capital governance arrangements. We also said that competitive procurement could be introduced for particular assets, either on the basis of design and build, or design, build and operation, where it is supported by evidence that competition would further the interests of consumers.

Stakeholder views

HAL

- 4.72 HAL supported enhanced scrutiny of its procurement approach in principle to test whether it is evidence-based, whether alternatives have been considered, the extent of market engagement and the proposed allocation of risk. HAL also said it should remain accountable for procurement and delivery decisions, and that enhanced scrutiny should not require it to adopt a particular procurement approach.
- 4.73 It suggested that competitive procurement should be assessed on an asset-by-asset basis. It said that a range of factors are relevant for determining whether assets should be subject to competitive procurement: asset separability, critical-path impacts, market capability, risk allocation, consumer value, service and resilience. It considered competition for design and build may be appropriate where packages can be sufficiently specified, design maturity is sufficient, there is a credible bidder market, and delivery accountability can be maintained. It considered that competition for operation could add value over the lifecycle for discrete, non-core assets with manageable interfaces and predictable operating requirements, but that the incremental benefits of competition for design, build and operation should be demonstrated relative to just design and build. HAL considered that, if the CAA were to require a particular procurement approach, it

would need to clarify the legal basis, threshold for intervention and associated safeguards.

- 4.74 HAL did not support applying competition for design, build and operation for terminals and other assets that are operationally integrated and/or on the critical path for expansion. It said that third-party financing costs would be higher than HAL's cost of capital and it would introduce additional operational interface risks and programme delivery risks. HAL also raised broader concerns about financeability, including that long-term contractual payments by HAL to a third party could be treated as debt-like obligations by credit rating agencies, and additional regulatory arrangements for requiring competitive procurement.

Heathrow Reimagined

- 4.75 Heathrow Reimagined supported stronger, forward-looking scrutiny of HAL's procurement decisions at an early stage before material commitments are made. It stated there should be clear regulatory consequences where the required governance and procurement processes are not followed.
- 4.76 It supported further development of competitive procurement focused on design, build and operation for a broad set of assets, including terminal infrastructure. It said there should be an asset-specific assessment of financing, risk allocation, interfaces and accountability and supported proportionate market testing of likely bidder interest. It considered that the CAA should take an active role in requiring competition and then designing and overseeing the competitive procurement. It said that allowing HAL to specify requirements, conduct the competition and select the successful bidder could weaken the competition. It disagreed with HAL's concerns that competitive procurement would increase bureaucracy, reduce flexibility or delay delivery, noting HAL's previous use of such tenders.
- 4.77 Heathrow Reimagined also said that the CAA has powers under sections 18 and 21 of CAA12 to require HAL to enter into contractual arrangements with third parties and to require a tender on specified terms. It considered that competitive procurement could be implemented without primary legislation, new market power determinations or separate licences for third-party operators.

Airlines

- 4.78 A number of airlines supported stronger procurement scrutiny through capital governance arrangements, before significant expenditure is committed and greater use of competitive procurement for design, build and operation with independent oversight.
- 4.79 Most airline responses considered that competition for design, build and operation would provide the best outcomes for consumers. However, Delta and Airlines for America preferred design and build only as multiple infrastructure operators may

not generate effective competition. Airlines for America supported greater competitive pressure only where this is practical and proportionate.

Other stakeholders

- 4.80 CISHA and the Heathrow Passenger Forum opposed competitive procurement, given concerns about complexity and risks to operations. Advantage Travel Partnership supported greater competition where this is safe and practical.

Our views

- 4.81 We consider that greater use of competitive procurement could support more efficient and timely delivery of expansion and major capex projects, to the benefit of consumers. We would therefore expect HAL to provide clear evidence that its proposed approaches to procurement would provide better value for money than potential competitive approaches.
- 4.82 We expect to put in place requirements for enhanced scrutiny of HAL's approach, including consideration of whether competitive procurement should be applied. This should cover major capex investments in expansion as well as the broader redevelopment and modernisation of the airport. We will consider options for competition in design and build and for broader competition in design, build and operation where appropriate.
- 4.83 We recognise that new approaches to introduce competitive procurement have required significant time to set up in other regulated sectors. We therefore propose to develop a structured and agile approach to scrutinising HAL's procurement plans and assessing where competitive procurement may be appropriate. Alongside this, we will seek to identify a suitable 'test' project or projects where competitive procurement could be applied in the near term, to inform the wider development and address practical challenges.
- 4.84 This will require ongoing engagement with HAL and stakeholders as we develop the approach. We respond below to the further issues raised by stakeholders and provide further detail on possible approaches.

Approach to assessing where competition should be applied

- 4.85 We will develop an approach to assess where competitive procurement should be applied to expansion and major capex investments, using a range of criteria and technical assessment. HAL should provide clear evidence where it considers that its proposed procurement approach would best further consumers' interests. Both HAL and airlines have suggested possible criteria, which we will consider and adapt as needed.
- 4.86 There could be merit in competition:
- for design and build, to capture potential benefits from more innovative and efficient design; and

- for design, build and operation, to provide additional lifecycle and performance incentives where operations can be carried out effectively by a third party.

The appropriate approach should therefore be determined for each asset or investment, taking account of the potential benefits, costs and risks of competitive procurement approaches relative to HAL's proposed approach and to each other.

- 4.87 For design and build, we would want HAL to consider issues including the ability to define and separate design and construction responsibilities, asset and system interfaces, construction risk allocation, programme integration, testing and commissioning, handover and operational integration, and contractual incentives and accountability. For design, build and operate competitions, the assessment would also need to consider operational separability, operational interfaces and accountability, service and performance specification, resilience, lifecycle responsibilities, operational and availability risk, payment arrangements, financeability, termination, re-tendering and hand-back.
- 4.88 We are not convinced that certain core investments, such as terminals, should be removed from further consideration. There are multiple examples of major international airports where terminal infrastructure is developed, financed and operated under arrangements involving third parties. We plan to consider further which core and non-core assets could be suitable for competitive procurement as part of this work. In chapter 5, our work plan includes externally commissioned work on the incremental benefits, costs and risks of the competitive procurement approaches.
- 4.89 As set out above, we are considering potential ways that competitive procurement could be tested in the nearer term. We plan to engage with HAL and stakeholders to identify a suitable project or projects in the H8 price control period where competitive procurement could be applied as a 'test case'. This would allow us to assess potential benefits, identify broader lessons, and address practical issues before wider application.

Procurement scrutiny

- 4.90 There should be a step up in the independent scrutiny of HAL's approach to procurement, including in relation to its early-stage planning so that a full range of approaches are properly considered. We expect part of this scrutiny to include a technical review of which assets could be suitable for competitive procurement, using the approach and criteria described above.
- 4.91 We will seek further information from HAL on its procurement plans for expansion and major infrastructure plans in the existing campus and the key timetable steps for making decisions on procurement that could constrain the subsequent adoption of an alternative procurement or delivery approach. For each major investment, we want to understand how HAL has assessed the potential application of competitive

procurement. This should include the evidence supporting its assessment and the reasons why competitive procurement is, or is not, considered suitable.

- 4.92 Once established, new capital governance arrangements should have a key role to play in overseeing HAL's procurement approach, where it should be improved, and recommending where HAL should consider competitive procurement approaches.
- 4.93 While we would likely have a role in determining any disputes that could not be reasonably dealt with by the capital governance process, we remain of the view that there is merit in HAL continuing to run the procurement process given its experience in procurement, detailed understanding of the construction and operational requirements and risks, with appropriate independent oversight and independent assurance from the capital governance arrangements.

Legal framework for competitive procurement

- 4.94 As set out in the Shortlist Consultation, we consider that CAA12 provides scope for the CAA to establish licence requirements on HAL relating to competition and contractual arrangements or other arrangements with a third party where this would further consumers' interests. While we note such arrangements could be in the form of backstop powers to require competitive procurement, we would want these to be sufficiently detailed and well understood that they could be applied in practice in a relatively straightforward and agile way.
- 4.95 As we develop new arrangements, we will test these against CAA12 and our public law duties.

Risks to financeability and operations

- 4.96 We will seek assurance that HAL's approach to procurement appropriately allocates risks and that the approaches to competitive procurement take reasonable account of financeability and operational issues and risks.
- 4.97 HAL has raised concerns that contractual approaches where a third party operates a new asset may cause issues for HAL's financing where payments are treated as a liability and it is the operator of last resort. We will need to consider this in more detail as part of our forward work plans, as set out in chapter 5.
- 4.98 Where an asset is competitively procured, the delivery arrangements would need to be supported by an appropriate contractual and financing framework. One possible approach is for the CAA to develop regulatory principles for treatment of design, construction and operational risks for areas such as performance incentives, change, termination, re-tendering and handover, with detailed contractual terms to be developed by the relevant contracting parties.
- 4.99 The operational interfaces, resilience, fragmentation and accountability would require particular consideration under competitive procurement for design, build

and operation, particularly for assets that interact closely with wider airport systems and operations. We will assess whether responsibilities and interfaces can be clearly defined and managed, whether service and performance requirements can be specified and monitored, and whether accountability remains clear. In chapter 5, our work plan includes externally commissioned work on potential fragmentation, coordination and operational risks of both competitive procurement and direct competition.

Direct competition

Summary of the July 2026 Update

- 4.100 In the July 2026 Update we said that arrangements for direct competition should be developed so that they could be applied as part of the regulatory framework in the event that a third party is granted a DCO for all or part of the infrastructure required under the HENPS.

Stakeholder views

HAL

- 4.101 HAL said we should not approach the planning process as a neutral recipient of whatever outcome emerged, given our statutory duties to consumers, and said that we should rule out direct competition as it would:
- fragment the airport operating model introducing a competing terminal operator into a highly integrated hub;
 - weaken the financeability of the airport as a whole; and
 - be less likely to deliver effective competition.
- 4.102 HAL also said the draft HENPS provides for a complete, integrated Northwest Runway scheme, so direct competition for a terminal only is redundant. It asked us to confirm this position.
- 4.103 On fragmentation, HAL said direct competition would materially reduce the clarity of system-wide operational accountability, and lead to coordination risks for construction and live operations. It said the hub airport functions as a single integrated system, and fragmenting terminal ownership would reduce end-to-end operational control, create ambiguity over who is in charge, slow decision-making and add risks to operations from fragmented IT and data ownership. HAL noted that our technical advisor, Steer, had raised concerns about fragmentation and said these concerns have also been raised at other airports.
- 4.104 On financeability, HAL said third-party capital would be more expensive and would weaken HAL's existing financing platform. It said that a prospective operator would need to commit significant capital before the regulatory framework had been tested, and would want clarity on revenues, price regulation, access charges and

operating obligations before investing. Without that clarity it would seek a significant regulatory risk premium leading to higher costs, or defer its commitment. Analysis by HAL's advisers (Freshfields and Santander) provided the following estimates of the impact of introducing direct competition:

- a standalone terminal would require a cost of capital uplift of around 100 to 150bps, adding £250 to £290 million a year in financing costs over 20 years, increasing average passenger charges by at least £2.73; and
- HAL's business risk profile would weaken through reduced revenue predictability and demand uncertainty. This could lead to tighter credit metrics, increasing charges by around £5.56 per passenger to maintain ratings, or increased debt costs of around 50bps or higher.

4.105 HAL also said:

- direct competition would only benefit consumers if an alternative developer could reduce capex by more than 30%, which it considered to be unrealistic. It said rating agencies viewed direct competition as the most credit-negative option, and cited the recent revision of JFK New Terminal One LLC's outlook from stable to negative as an example. It also said the allocation of downside risk was unclear as HAL may need to intervene if the alternative developer experienced delay, cost overrun, operational failure or financial distress;
- multiple terminal operators would not increase competition in practice, given the hub airport is space-constrained, operators will remain interdependent given the high volume of transfer traffic and passengers will experience the airport as a single system. Instead, it said the outcomes would be driven by how the resulting duopoly was regulated;⁸ and
- establishing a new framework for competing operators, covering wholesale access, interface regulation, market power assessment, charging and coordination, would introduce substantial cost and delay of around ten years, placing the Government's schedule ambitions at risk.

Heathrow Reimagined

4.106 Heathrow Reimagined said maximising competition in the provision of airport operation services must be central to our package of reforms, and that direct competition for new and existing infrastructure should be prioritised, either through third-party ownership under a DCO or through contractual separation. It considered that both could be achieved under our existing CAA12 powers.

4.107 It said that competition for existing terminals would mean stronger commercial discipline and accountability, improved efficiency, service quality and

⁸ Assessment of Competition Models for Heathrow Expansion, BRG (June 2026) prepared for HAL.

benchmarking, and greater responsiveness to users. It expected benefits from competition to outweigh implementation costs, citing the CMA's 2016 evaluation of the BAA break-up, which found consumer benefits of £870 million to 2020, around six times divestment costs.

- 4.108 Heathrow Reimagined said only a small amount of spare terminal capacity would be needed for the many smaller airlines at Heathrow Airport to be able switch terminals. It noted that over 80% of carriers at Heathrow carry fewer than 1 million passengers per year, with around 40% of carriers providing evening-only services. It said switching at the margin could still deliver significant consumer benefits, and that the benefits of direct competition would not rely only on switching, since they would also flow from competition for the market and benchmarking.
- 4.109 It considered that fragmentation and coordination concerns were overstated and could be mitigated, as:
- Heathrow already operates as a multi-operator environment, where HAL's coordination role is limited and opaque. It said competition would incentivise operators to manage interface risks;
 - the CAA and the proposed capital governance committee could oversee coordination where needed; and
 - separate airfield and terminal operations run safely at other airports including Munich, Atlanta, LaGuardia and JFK.
- 4.110 Heathrow Reimagined disagreed with concerns about the impact of introducing direct competition on financeability, saying:
- competition would reduce the capital HAL needs to raise and broadens the capital base to attract global airport operators and long-term infrastructure investors;
 - firms in competitive markets routinely attract capital and previous BAA owned airports have remained financeable, so weaker credit metrics from competitive exposure were not a relevant consideration. They said that the CAA's advisors' (Centrus) assessment of direct competition reflected implementation choices rather than inherent features of the model; and
 - we should place no weight on concerns that implementation might trigger financing covenants and require bondholder consents, since HAL's financing choices should be its responsibility and consents can be provided.

HWL

- 4.111 HWL said direct competition offered the most effective means of addressing the underlying regulatory challenges. It said we should begin implementation work to accommodate a rival promoter and our work should align with the timetable for development and examination of DCO applications.

- 4.112 It said our reforms had so far focused on competition for terminal assets only. To avoid foreclosing any competing DCO applications, our approach must enable competition for the whole expansion scheme, as the draft HENPS requires promoters to bring forward plans for a new Northwest Runway, terminal capacity and other supporting infrastructure, operated as an integrated whole. It also considered direct competition should apply to all new major infrastructure projects and other redevelopments within the existing airport perimeter.
- 4.113 HWL also suggested that the CAA has the legal powers to implement direct competition by the contractual separation of existing terminals through HAL's licence, which does not require a rival promoter obtaining a DCO.
- 4.114 HWL said that the operational and fragmentation challenges related to the implementation of direct competition to be overstated and could be mitigated through stakeholder engagement, planning and system design, noting Heathrow is already a multi-operator environment. It also commented on our commitment to facilitate the sharing and transfer of relevant information between promoters, which we have considered as part of our work on early costs.⁹

Airlines

- 4.115 IAG, Airlines UK, Air France, KLM and the AOC/LACC said direct competition should be applied wherever possible, to existing assets as well as expansion. They said direct competition could be implemented for existing terminals through contractual arrangements introduced by licence modifications under CAA12.
- 4.116 IAG said this model already operates at Heathrow for ancillary assets, including the Arora-developed Sofitel, British Airways' maintenance hangars and the cargo estate, with HAL retaining the freehold. BA said independently operated facilities can support strong operational performance, citing its experience at JFK, the presence of hundreds of service providers at Heathrow, and evidence from Munich and Atlanta. However, Delta said that, while alternative operators may design and build assets more efficiently than HAL, evidence from comparator airports such as JFK suggested that models involving multiple operators may not in practice generate effective competition.
- 4.117 Several airlines including IAG and Airlines for America said that introducing competition at Heathrow did require investment in the systems, protocols and oversight needed to coordinate across multiple operators. IAG acknowledged the presence of coordination costs and asked the CAA to consider whether these costs were more than offset by capital efficiency savings made possible by competition.

⁹ Civil Aviation Authority (July 2026). Final Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport (CAP3289). Chapter 5, Information sharing between promoters paragraphs 5.67-5.73.

- 4.118 easyJet supported continuing the development of a direct competition framework but said this requires evidence that the benefits exceed the risks of fragmentation, coordination complexity and interface costs. easyJet said consumer benefits depend on whether additional capacity could be accessed on commercially viable terms by new entrants, including supporting low-cost carrier entry and growth. It said a single till approach remained appropriate for regulated airports with significant market power and that the framework should be developed as a single national approach, with the degree of regulation matched to the market power held by each airport, rather than a Heathrow-specific settlement creating inconsistent precedent for Gatwick and other airports.
- 4.119 IAG also said competition should be combined with a single cross-campus maximum allowable yield, so that the cost of major new shared infrastructure should be recovered across the airport's entire customer base, rather than loaded onto the smaller number of passengers using a new facility in its early years.

Other stakeholders

- 4.120 The New Economics Foundation said that expansion should only proceed if it is cost-effective and commercially viable on its own merits, and where risk and benefits are allocated fairly between investors and consumers, and between users and non-users. It identified direct competition as most likely to enable full ring-fencing of commercial risk and reward, though it said insufficient detail had been provided.
- 4.121 CISHA and the Heathrow Passenger Forum opposed direct competition. They said passengers have no real terminal choice, since it is made for them by their carrier. They said that where direct competition operates, it requires an overarching quasi-governmental entity such as the Port Authority of New York and New Jersey at JFK to oversee the airport, and that multiple operators without such an entity would add significant complexity.

Our views

- 4.122 The regulatory framework should be flexible enough to accommodate the full range of outcomes from the planning process, including the infrastructure that would need to be provided to be consistent with the scope of the HENPS and a third party being granted a DCO. Therefore, we disagree with HAL's view that direct competition should be ruled out at this stage. However, we also recognise the need for further work to develop how this framework would work in practice and to consider the issues around financeability, fragmentation, coordination and effective competition in more detail, to provide the evidence such that direct competition could be developed in a way that furthers the interests of consumers.
- 4.123 Direct competition would apply if a third party were granted a DCO, which could be for expansion or other major redevelopments of the existing campus. We have considered approaches to introduce competition through competitive procurement

above. As set out in our Shortlist Consultation and July 2026 Update, currently we see no case for exploring direct competition for existing assets under other arrangements, or for contractual separation of operations only, given the limited potential benefits of competition for consumers.

- 4.124 In principle, it would be reasonable to expect an additional third-party operator that is directly competing with HAL to benefit consumers for services where there has previously been a single operator. Nonetheless, it would be important to consider how to minimise any costs that might be associated with the introduction of such arrangements and prioritise approaches with the greatest potential benefits for consumers. This will require consideration of a range of evidence. For example, as we explained in the Shortlist Consultation, the potential benefits from terminal competition will depend on the extent of additional spare capacity and the ability of smaller airlines to create competitive pressure. We will need to gather and test this evidence.
- 4.125 We note the views HAL provided from its advisors that direct competition would increase the cost of capital by 100-150 bps. We consider it is too early to reach an overall assessment on the benefits and costs of direct competition. This is because this requires a rounded assessment of capital expenditure and the potential costs from financing, risks and fragmentation and coordination measures and the potential benefits made possible by direct competition. We plan to request further information from the promoters on their financing plans to inform our assessment of the potential costs and benefits.
- 4.126 Should a third party be granted planning permission for delivery of all or part of expansion, our current expectation is that the third party would face demand and revenue risks. We would expect to need to carry out a market power assessment given the substantial change in circumstance, although the outcome of the assessment is unknown. While it is possible that a third party could be subject to economic regulation in future to protect users and consumers from the adverse effects of any potential market power, this is not the only possible outcome, particularly if there were strong evidence that direct competition would work effectively and further the interests of consumers.
- 4.127 We will need to do further work on the legal framework and approach to direct competition, and we note the requests to progress this quickly to inform DCO applications and the timely delivery of expansion. Nonetheless, we will not be in a position to establish final views on these matters until the Government has finalised the HENPS, given the importance of this policy statement. We also note that direct competition is operating at other airports, including JFK, and that we can learn from these airports to inform our potential approach.
- 4.128 On IAG's proposal to combine direct competition with a single cross-campus maximum allowable yield, we are not clear that this approach would support the effective operation of direct competition between terminals, as in these

circumstances the third party may seek to recover its own costs for the new infrastructure it has built. Nonetheless, such an approach may warrant further consideration, including in response to any market power determination of a new operator.

4.129 Chapter 5 sets out our plans for further work on direct competition.

CHAPTER 5

Implementation of the framework

Introduction

- 5.1 This chapter provides an update on our draft work plan to implement changes to the regulatory framework. We are intending to focus on areas that will further the interests of consumers and where timely development will be appropriate to reasonably support promoters' DCO applications. Our intention is that the approach will be deliverable and robust, allowing time for further development of options and engagement with stakeholders.
- 5.2 There will be considerable work required from CAA and stakeholders. We will be requesting detailed information from stakeholders and we will be commissioning a range of external advisors to support the CAA's work. This work will also be coordinated where appropriate with our work on early costs, the H8 price control review and any developments in Government policy or the planning process.
- 5.3 The chapter is structured as follows:
- capital governance and assurance;
 - incentives for cost efficiency;
 - arrangements to provide longer-term certainty;
 - procurement oversight and competition; and
 - direct competition.
- 5.4 For each of these areas we briefly summarise the position set out in the July 2026 Update document, the views of stakeholders, our response to stakeholders and latest views and current thinking on our draft work plans. At the end of the chapter, we provide an overall summary of the draft work plans.

Capital governance and assurance

Summary of the July 2026 Update

- 5.5 In the July 2026 Update, we said full implementation of the changes to capital governance will likely require a phased approach over several years, and that we expected to start work on the design and implementation over the remainder of 2026, engaging with stakeholders throughout.
- 5.6 We identified as next steps:

- establishing elements of the expansion programme that could be used to develop and test new governance arrangements;
- working with HAL and airlines on the approach to independent assurance of expansion costs;
- considering changes to H8 capital governance during the price control period, to ensure a coherent framework; and
- commissioning an expert review to advise us on the practical design, with a scope to be discussed with HAL and the airlines.

Stakeholder views

HAL

- 5.7 HAL's response to our July 2026 Update emphasised the need to move from framework development to implementation to avoid delays in the expansion programme, which could result in unrealised consumer benefits. HAL highlighted the greatest consumer risk as being a delay in implementation of the correct model, rather than selecting the wrong model.
- 5.8 HAL said that this document should provide sufficient certainty on the overall framework to allow it to progress procurement and mobilise supply chains. This should include where we intend to progress recommendations and how stakeholders can meaningfully engage.
- 5.9 It also provided comments on the next steps we proposed in our July 2026 Update:
- HAL said the expert review should build on all the evidence previously submitted, and treat some principles as established (specifically, independent assurance, HAL-led capital planning, preserved accountability, strategic oversight and no stakeholder veto);
 - it advocated a proportionate approach in the resulting development of the terms of reference for the committee, guidance documents and templates; and
 - given its view that capex governance reform for expansion and for business-as-usual are distinct questions, HAL said we should retain distinct workstreams for each, even if common principles inform both.

Heathrow Reimagined

- 5.10 Heathrow Reimagined said reforms must be implemented urgently and be operational from the start of H8. It said statements in our July 2026 Update showed a concerning lack of urgency, including our proposal for a phased approach over several years. It said timing challenges should be overcome and there was no compelling reason to move slowly on governance changes. It also

disagreed with our proposal to use specific expansion projects to develop and test governance approaches if this could result in delay.

- 5.11 It said that it saw no tension between the expansion timetable and reform, noting that current arrangements would result in delays (as airlines would need to challenge and oppose HAL's decisions to ensure affordability) whereas a new regime would result in faster delivery.
- 5.12 Heathrow Reimagined supported our proposal to seek expert advice on the detailed design and implementation of governance, while also saying the CAA cannot rely solely on this advice. Heathrow Reimagined also agreed with our proposed high-level scope for the expert advice, but said that:
- the work should not include a lengthy revisiting of the case for change or current failings, but be forward looking;
 - the process would need to include engagement with a wide range of stakeholders, including on the initial findings;
 - the scope should cover the whole of the capital life-cycle;
 - existing arrangements and working groups should not be considered a constraint; and
 - work should build on existing work (including insights from other major projects that reflect Heathrow's specific circumstances and incentives).
- 5.13 It said the CAA should begin engagement of potential experts as soon as possible and that the advisors should have the areas of expertise required, including economic regulation, capital governance, competition, major infrastructure projects and corporate finance. Heathrow Reimagined also said that stakeholders should be allowed to comment on the identity of the experts before contract award and provide input at the outset and throughout the work.
- 5.14 Heathrow Reimagined said it is essential for stakeholders to have visibility and to be able to engage with the CAA's work, as it develops, and proposed the use of regular bilateral workshops. It also requested we pursue opportunities to join up workstreams on regulatory models, early costs and H8 to provide a unified capital governance approach.

Airlines

- 5.15 Many airline stakeholders expressed the need for urgency, calling for the CAA to move quickly to establish new arrangements early so the benefits from improved governance could be realised sooner.

Our views

- 5.16 We propose to retain the high-level next steps presented in our July 2026 Update, which a number of stakeholders supported. HAL has disagreed with our proposal

to make changes to H8 capital governance as a result of work on the regulatory framework. We intend to continue to prioritise work on expansion but also consider where improvements should also be applied to H8 capex governance.

- 5.17 This will also involve appointing one or more external advisers to support our work developing and implementing the framework. We will engage with HAL and airline representatives on the scope of work prior to procurement and the CAA will award the contract. We would expect the external adviser(s) to meet key stakeholders at each stage of their work and set up working groups where useful to develop parts of the framework. We will also need to consider how this framework would need to be flexible in future to include any other promoters of expansion. Our decisions will be informed by this advice, alongside other evidence on what changes would further the interests of consumers.
- 5.18 While we understand the benefits of moving as quickly as possible to implement the new governance arrangements, it is also important to ensure that our approach is evidence based and developed carefully, including allowing for further consultation with stakeholders. Otherwise, we would create risks to the process and to setting up new arrangements that were not fit for purpose, delaying the implementation of the arrangements. At present, there appear to be significant differences in views around the design of the framework between stakeholders and this work will progress more quickly if there is a collaborative working approach between HAL and airlines to discuss and agree key parameters of the approach.
- 5.19 We are open to discussing how best to implement changes, including where this could be implemented more quickly by repurposing of existing governance groups and earlier progression of some elements of the framework which could subsequently be changed if required. We will discuss this with stakeholders.
- 5.20 On the testing of parts of the new governance arrangements on selected elements of the expansion programme, we do not think this would cause undue delay but would rather allow the fast-track introduction of change in a focused and measured way. The early lessons from such an approach could then inform wider change, allowing for more effective implementation. We are considering whether HAL's T5 optimisation phase 2 project might be a suitable case for HAL and airlines to agree and trial new governance arrangements. We will comment further on these matters in our H8 final proposals, which we intend to publish towards the end of 2026.

Draft work plan

- 5.21 We set out below our draft work plan for developing the capital governance and assurance framework, building on the next steps set out in our July 2026 Update, and stakeholders' responses. This is designed to deliver the approach to capital governance set out in that document, including:

- a capital governance framework tailored for expansion which covers the full asset life cycle, processes, procurement, monitoring and the establishment of a new capital committee (with terms of reference and CAA appointed Chair);
- a revised capital governance framework for H8, with the elements above tailored to business-as-usual capex; and
- independent technical assurance across expansion and H8.

5.22 We have developed the following draft work plan to develop and start to implement changes to capex governance and assurance in a phased way during the remainder of 2026 and 2027.

- **Stakeholder engagement (ongoing):** To date we have mainly sought stakeholders' views through formal consultation and bilateral meetings. There is merit in now establishing working or task and finish groups to involve stakeholders directly in the process of developing and implementing changes to the approach for expansion and H8 and to test options more quickly. This could form part of the scope for the external work, described below.
- **Scope of work for consultancy support (Q4 2026):** We intend to commission external support in developing the capital governance framework. We will share the draft scope of work with stakeholders ahead of procurement.
- **Procurement of expert consultancy support (Q4 2026):** We will run procurement and appoint a supplier, following discussion with stakeholders on the scope of work. We may seek to procure this work together with the external support required on incentives, which we discuss in the next section.
- **CAA consultation on development of H8 and expansion governance framework (Q2 2027):** We plan to consult on proposals for the changes to capex governance and assurance, building on our work and advice from the expert advisors. This will include proposals on:
 - the structure, authority and composition of the new capital committee, including a draft terms of reference;
 - the approach to long term capital planning, such as portfolio visibility and planning horizons;
 - capital governance processes, including approach to proportionality, tailoring and escalation;
 - the scope and approach to independent technical assurance, including its procurement;
 - capital monitoring, including reporting, delivery oversight, risk identification and procurement oversight; and

- the approach to implementation, including next steps on licence modifications, guidance documents, procurement activities and transition of existing governance groups.
- Alongside this formal consultation we will seek to make as much progress as it is practicable and reasonable to do through working groups to seek broad consensus across stakeholders and promote the rapid implementation of policy. We will also consider whether HAL's T5 optimisation phase 2 project might be a suitable case for HAL and airlines to agree and trial new governance arrangements.
- **Update on capex governance and assurance for expansion and material new capex projects (Q4 2027):** Similar to above, this would be informed by responses to the consultation, and our further work. It should provide some clarity on potential approaches to governance ahead of DCO submissions for expansion. This would also consider governance for other major capex projects, such as T5 optimisation phase 2 and replacement of existing terminals. We would look to implement parts of the new framework earlier where there is scope to do so, for example where stakeholders reach agreement on the approach or where we trial new parts of the framework.
- **Update on implementation and capital governance and assurance for H8 and “business as usual” capex (Q1 2028):** Informed by responses to the consultation, and our further work, we expect to publish an update on implementation and details of any substantive reforms for business as usual in early 2028. This may include changes applicable in the H8 period.
- **Implementation (Q3/Q4 2027):** We are aiming to develop the key parts of the new capital governance approach by the end of 2027, with the implementation timetable determined as part of the process. We plan to implement new arrangements from late 2027, for example on the capital committee, the approval of the appointment of its independent chair, and development of detailed guidance and templates. Where elements of the changes can be agreed to be implemented earlier, for example where they do not depend on the external expert input and can be agreed between HAL and airlines and are in the interests of consumers, then we will support and seek to implement changes as is practicable.

5.23 We recognise the importance of progressing changes to the capital governance framework and will prioritise this work throughout 2026 and 2027, with a view to finalising the new arrangements during 2027. If circumstances necessitate a significant change to our draft work plan as our work progresses we will update stakeholders. We would also strongly encourage stakeholders to work together in a constructive way to discuss and agree changes, which can then be implemented at an earlier stage.

Incentives for cost efficiency

Summary of July 2026 Update

- 5.24 In our July 2026 Update, we said that we expect to introduce incentives for expansion in phases over several years, starting with design work and stakeholder engagement in 2026.
- 5.25 In developing our approach to incentives, we said our work would include:
- requesting further information on plans and costs from HAL and HWL;
 - commissioning advice on the categorisation of costs for tailoring incentives;
 - developing and modelling options for the capital incentives; and
 - developing possible approaches to setting an overall cap for expansion costs.

Stakeholder views

HAL

- 5.26 HAL said in its response to our July 2026 Update that incentive design is one of the elements on the critical path to delivering consumer benefits. It proposed that we categorise expansion activities by maturity, forecast certainty and controllability.
- 5.27 It also said that before we consult on any overall cost cap, we would need to be clear on the problems it addresses and how it improves consumer outcomes.

Heathrow Reimagined and airlines

- 5.28 Heathrow Reimagined said it agreed with our plans to develop incentives and said that airlines' views must be properly taken into account in setting and designing an overall cost cap, which would need to be carefully designed to ensure that it is enforceable.
- 5.29 It proposed four additional workstreams:
- independent oversight of baseline-setting;
 - the circumstances that would justify the adoption of asymmetric incentives;
 - arrangements that would require HAL to bear the full cost of overruns; and
 - how to make delivery obligations more effective.
- 5.30 Heathrow Reimagined supported our proposed use of independent expertise in developing the incentive framework, noting its similar requirements to those for capital governance summarised further above, including close stakeholder involvement in the appointment and work, and consultation with stakeholders on decisions and findings.

- 5.31 A number of airline responses provided similar views to Heathrow Reimagined. Several stakeholders asked for more detail on what the incentives would involve.

Our views

- 5.32 To inform our work on a cost incentive framework, which will cover a relatively wide range of issues including cost risk sharing, DOs, any caps or thresholds, the role for backward looking review of costs, and how to integrate cost incentives with new governance arrangements, we will need to understand HAL's expansion plans and cost estimates in greater detail. We will set out a formal request for this information later in 2026 or in early 2027.
- 5.33 Alongside this, we intend to commission an external study to support development of the incentive framework. This work will consider an objective basis for determining how expansion costs should be split out for setting incentives, the calibration of incentives for different types of costs, and any required changes to governance to implement this approach. We will consult on the scope of this work before procuring it. We will also consider the merits of procuring this under a single contract that integrates work on incentives with advice on capex governance and assurance.
- 5.34 We intend to consider the issues raised by Heathrow Reimagined as we develop the framework for cost and delivery incentives and set the scope of the external advice. This will include consideration of mechanisms to protect consumers from significant cost escalation, which may include a cap, or thresholds over which stronger process interventions would apply.

Draft work plan

- 5.35 Given the importance of incentives for efficiency and interactions with other aspects of the regulatory framework, including capital governance and enhanced arrangements for the oversight of procurement and greater reliance on competitive forces, then there are advantages to consumers in the timely development of these arrangements. This should also support the reasonable development of promoters' DCO applications and funding plans.
- 5.36 Bearing the above in mind during 2027 we plan to set out our views on:
- the principles that will govern expansion capital incentives;
 - how expenditure will be categorised for incentive purposes;
 - protections against significant cost escalation; and
 - an indication of the overall scale of incentive risk.
- 5.37 Nonetheless, we do not expect to have completed calibration of the incentives in 2027 and expect a continuing and incremental approach to implementing the framework.

5.38 We set out a draft work plan below for 2026 and 2027 to develop and implement the approach to a capex incentive framework. We will keep this under review as the work progresses.

- **Stakeholder engagement (ongoing):** We will continue engaging with stakeholders throughout the development of the incentives, through informal engagement and formal consultation. This engagement will help inform the design and provide greater clarity on key issues, including the treatment of capex allowances, delivery obligations and any overall cost cap or thresholds.
- **Scope of work for consultancy support (Q4 2026):** We will commission an external study to inform the development and implementation of the capital incentives framework.
- **Procurement of consultancy study (Q4 2026):** We will procure and appoint a supplier for the external study. We will decide whether there is merit in doing this as a single tender with the external support on the capital governance framework, given the need for an overall coherent approach between capex governance, assurance and incentives.
- **Information request to HAL (Q4 2026 / Q1 2027):** We will discuss and issue an information request to HAL on its capex plans and cost estimates. We expect to request details on:
 - the total expected cost of the programme and the range and likelihood of different outcomes;
 - how these costs break down into different main elements and what each of these elements contains;
 - the scope and phasing of the main elements;
 - how each cost estimate is built up;
 - the risk and contingency allowances the programme contains;
 - the basis and maturity of the estimate; and
 - the extent to which each cost is within HAL's control.
- **CAA consultation on development of incentive framework (Q2 2027):** This consultation will seek views across key elements of an incentive framework building on our work, external advice and the views of stakeholders. This step is dependent on getting sufficient high-quality cost information from HAL in a timely manner. We expect the consultation to set out proposals on:
 - the approach to setting capex incentives, including for novel areas of the programme;

- the incentives that will apply to expansion capex and our views on the implications for allocation of cost and delivery risks; and
- an initial assessment of the type and scale of incentives that could apply to different elements of the expansion programme.
- **Update on principles for the capital incentives (Q3/Q4 2027):** We plan to publish an update on the overall approach and principles for incentives for expansion capex, including any lessons for business-as-usual capex in late 2027. We will continue development of the detailed approach in 2028.

Arrangements to provide longer term certainty

Summary of July 2026 Update

- 5.39 In our July 2026 Update, we set out our initial view of the next steps to develop the longer-term framework. This included further consideration of:
- a separate expansion RAB given the implementation issues raised by stakeholders, including HAL's concerns on legal and financial implications and Heathrow Reimagined's points on cost allocation;
 - different methods for estimating the expansion cost of capital while retaining consumer protections, drawing on our pre-covid analysis and further information on risks;
 - options for caps and collars on overall returns where these can be implemented credibly;
 - the use of reopeners and indexation mechanisms to ensure appropriate risk allocation and the delivery of consumer benefits; and
 - risk-sharing precedents from other major UK infrastructure projects to shape future implementation policy.
- 5.40 We also recognised that HAL is seeking early clarity on key aspects of the framework, which we said we would provide as soon as we reasonably can. We noted this is a challenging area in which to develop policy and that the arrangements must deliver clear consumer benefits.

Stakeholder views

HAL

- 5.41 HAL requested that the CAA provide a clearer direction of travel and, in particular, set out a timetable for reaching an early view on the approach to expansion cost of equity and related issues. It said that the debate has shifted from whether longer-term certainty over the cost of equity is required to how and when it should be delivered.

5.42 It also said:

- that the CAA's work plan should align with the DCO timetable and supply-chain mobilisation, and noted that the absence of an early regulatory steer makes it more difficult to undertake its own affordability analysis;
- we should confirm our intention to finance expansion through the existing single RAB, set a fixed real cost of equity for 15 to 20 years and provide a timetable to estimate the expansion risk premium in early 2027;
- it supported our intention to examine risk-sharing precedents, citing Sizewell C, Thames Tideway and Ofgem's ASTI framework as the most relevant comparators. HAL said the lesson from this precedent is to combine early certainty, governance, independent assurance and calibrated risk sharing within the framework; and
- the questions raised elsewhere in its response, particularly under direct procurement, could materially influence the expansion cost of equity and need resolving before a long-term framework can credibly be implemented.

Heathrow Reimagined

5.43 Heathrow Reimagined did not support further development of a longer-term framework, as it considered this would benefit HAL and not consumers. It commented that if the CAA continues to consider the longer-term framework, that we should reprioritise our work plan, and focus on what would in its view be the most important issue, which is the development of a mechanism that recalibrates returns in both directions through clear, rules-based triggers.

5.44 It also suggested that the cap and collar approach on allowed returns should be deprioritised, as neither it nor HAL supports it.

Airlines

5.45 A number of airlines did not support a longer-term framework, so did not comment on our next steps for this work outlined in our July 2026 Update.

Our views

5.46 While we note the concerns raised by Heathrow Reimagined and airlines about the development of a longer-term framework to support expansion, we also remain of the view that there are potential benefits to consumers in such arrangements as they may reduce overall uncertainty and the cost of capital. Bearing these broad considerations in mind, we intend to continue to develop our thinking in relation to a longer-term framework. This will focus on the possible arrangements for implementation, but with a clear focus on promoting the interests of consumers in the longer-term.

- 5.47 The cost of capital for expansion will depend on the broad allocation of risks under the regulatory framework and the development of this framework will require a clear understanding of the risks around the expansion. Therefore, work on the longer-term framework needs to consider the links with the overall incentives and regulatory package. This will include how it should be adapted for direct competition, including if another promoter receives planning permission for expansion.
- 5.48 We plan to focus on providing clarity on the broad approach to the regulatory framework and risk allocation and how this approach would further the interests of consumers. This will include a view on whether longer-term certainty on the cost of capital could be implemented in a way to benefit consumers and the initial work to develop a method for establishing the cost of capital.
- 5.49 It will be for HAL and other promoters to develop their own commercial and financial cases alongside our work and demonstrate the benefits to consumers and financeability of their approach. As part of this work, we expect HAL and other promoters to develop and submit their own estimates on the expansion cost of capital supported by evidence on the key assumptions around the framework, benefits to consumers, risks and financing requirements of their proposed approach. Where evidence from other sectors or projects is used, we would expect stakeholders to demonstrate why those precedents are relevant to expansion and the extent to which they are comparable. We would also expect stakeholders to explain how their proposed financing approach supports the deliverability of their expansion proposal.

Draft work plan

- 5.50 We are planning two main areas of work in parallel, to help determine whether and how a longer-term framework could benefit consumers and how this approach could be designed and implemented.
- 5.51 The first area of work will be to determine the appropriate design of the longer-term framework. In our shortlist we identified the following options:
- setting a long-term combined cost of capital for business-as-usual and expansion activities;
 - a long-term determination for expansion applied to a separate expansion RAB, with the business-as-usual cost of capital redetermined every five years; and
 - setting a long-term “cost of capital premium” that would be fixed over a longer period than the five-year cost of capital resets covering expansion and business-as-usual activities, such as over the construction period.

5.52 We plan to evaluate each of these options to determine whether any would provide benefits to consumers, such as through a lower cost of capital. This will include further analysis, taking account of relevant precedent, of:

- the advantages and disadvantages of using a separate expansion RAB in conjunction with a longer-term cost of capital;
- the specific elements of the cost of capital to which longer-term commitments could apply, and the appropriate duration of such commitments;
- how forecast error risk can be mitigated through mechanisms such as indexation and reopeners;
- the broad approach to risk allocation that will be appropriate, including whether existing traffic risk-sharing arrangements should be adapted or supplemented in the context of expansion;
- whether a cap-and-collar mechanism on allowed returns should be implemented to manage the risks to financeability and excess returns; and
- any likely unintended consequences of these arrangements, such as adverse impacts on incentives for cost efficiency and/or skewing returns in favour of shareholders in an inappropriate way.

5.53 The steps of the work plan include:

- **Stakeholder engagement (Ongoing):** We intend to hold stakeholder workshops during 2027 to gather views and evidence.
- **Procuring external advice (Q4 2026):** We will commission external advice in late 2026 on (i) the potential longer-term framework options, and (ii) the approach to assessing the allowed cost of capital for expansion, which we will iterate over time as the regulatory framework and understanding of risk allocation develops. We will expect HAL and other promoters to develop and set out their own approach estimating their cost of equity alongside the work we commission and develop, which we can assess against our own evidence and analysis.
- **Working paper on longer term framework (Q2 2027):** We intend to publish a working paper in Q2 2027 with an update on our views on the design of a longer-term framework.
- **Update on longer-term framework principles (Q3/Q4 2027):** We plan to publish a report in the second half of 2027 setting out our view on the overall approach and principles for how we will implement the detail of the longer-term framework, taking account of all the evidence gathered and responses from stakeholders. We will continue to develop the detail on the proposed approach during 2028.

Procurement oversight and competition

Summary of July 2026 Update

- 5.54 In the July 2026 Update we confirmed that we would take forward the competitive procurement models for competition in design and build, and competition for design, build and operation, for further development and implementation as part of the overall regulatory framework. We said that we would consider the appropriate allocation of revenue risks and we would commission external advice to support the development of a framework for selecting suitable assets, the approach to enforcement, and the detailed design of the competitive approaches.

Stakeholder views

HAL

- 5.55 HAL said we should focus on implementing the framework. It supported work on procurement scrutiny, including defining information requirements, assessing HAL's procurement plans and drawing on independent assurance where appropriate. HAL emphasised that these arrangements should not duplicate approval gateways or provide additional veto points. HAL said the CAA should do further work to determine any cases where competitive procurement could improve consumer outcomes and how this would be designed and enforced. It said further work should be proportionate and not unnecessarily delay expansion.

Heathrow Reimagined

- 5.56 Heathrow Reimagined called for competitive procurement of design and build and design build and operation to be developed through separate workstreams. It also said the CAA should do further work on the benefits of competition and the approaches to coordination and interface risks.

Airlines

- 5.57 Airlines expressed a range of views on the implementation of the competitive procurement framework. Air France and KLM supported the continued development of competitive procurement and direct competition as separate but complementary workstreams, with clear criteria for when each should apply. easyJet also supported taking both models forward and requested greater clarity on timing of infrastructure delivery, costs, funding arrangements, and procurement information from HAL and potential third-party providers. IAG also requested the early implementation of new and strengthened capital governance arrangements to oversee HAL's procurement.

Other stakeholders

- 5.58 HWL called for a dedicated implementation programme with published milestones and decision dates aligned to the DCO timetable. It also considered that

competitive procurement for design, build and operation should not be limited to expansion and there should be a plan to apply it to all major infrastructure projects and other developments within the existing airport perimeter.

Our views

- 5.59 We will carry out further work on the approach to implementation of procurement oversight and competitive procurement, the benefits of competition and operational risks.
- 5.60 We consider that the work on implementation of procurement oversight and competition should be carried out in parallel to the work on direct competition, but with close coordination where appropriate. For instance, there may be advantages in work on the benefits of competition and fragmentation or interface risks informing both areas of policy development. We see no particular advantage in separating the work on competitive procurement for design and build and design, build and operation at this stage.
- 5.61 We intend to prioritise our work so there is sufficient independent scrutiny of the procurement process for expansion and major project works at Heathrow Airport, and so there are opportunities for competition where appropriate. To achieve this, we aim to develop the competitive procurement framework in a coordinated and phased manner, aligned with HAL's expansion and procurement programme. Early visibility of HAL's procurement plans will be critical to informing the timing, sequencing and further development of the framework.
- 5.62 Experience from other sectors suggests that implementing competitive procurement can be a multi-year process that has required significant resources and specialist skills. We will seek to adopt an agile and flexible approach, and will lever on HAL's proposals if they deliver a robust approach to effective procurement and provide the benefits from competition. One option would be to identify an appropriate investment or investments to test the application of competitive procurement in the short-term, to learn lessons for a broader application.
- 5.63 We set out below a draft work plan to progress this work during 2026 and 2027. We will take a phased approach so the timing and sequencing of activities and milestones may change as further evidence becomes available, including through our assessment of HAL's procurement plans, the development of governance arrangements and the expansion proposals, and engagement with stakeholders. We will keep the work plan under review, continue to engage with stakeholders on these matters and adapt our approach as appropriate.

Draft work plan

- 5.64 We are planning four main areas of work. These will provide the information and evidence required to develop the competitive procurement framework during 2026

and 2027 and establish how it would subsequently be applied to individual assets and packages. The work will be coordinated with the wider capital governance and direct competition workstream.

- **Information request to HAL (Q4 2026):** For further development of a competitive procurement approach, we need greater visibility of HAL's procurement programme. During Autumn 2026, we will therefore seek information from HAL including:
 - the timetable for its procurement process for expansion and other major capex works in H8;
 - for future expansion and H8 capex investments over a specified value, HAL to set out details of the scope, design maturity, current procurement plans, estimated value, and key design and procurement decision points that could materially constrain the subsequent adoption of alternative procurement or delivery approach. Our initial view is for a specified value of £200 million,¹⁰ though we welcome views on this approach;
 - HAL's assessment of the appropriate procurement approach for all relevant assets and packages, including:
 - a) where competitive procurement should be applied; and
 - b) clear evidence to support cases where it considers a different procurement approach would better further consumers' interest.
 - HAL's assessment of which of these assets might be suitable for competitive procurement during H8, as a test case, with supporting evidence.
- **Approach to asset criteria and selection (by mid-2027 and Q4 2027):** taking account of the information from HAL we plan to procure external technical advice and develop a working paper in mid-2027 that sets out our initial views on:
 - the criteria for assessment of where competitive procurement should be applied;
 - a review of the information provided by HAL;
 - very early views on which investments might be suitable as a test for applying competitive procurement, and where this might be suitable for broader application for expansion and major projects; and

¹⁰ This is the same threshold that Ofwat used for direct procurement (Ofwat's PR24 methodology), and we want to focus on potential projects and potential benefits from competition that are material in value.

- the future approach to independent assurance of procurement, including the role of new capital governance arrangements in overseeing independent technical review of HAL's procurement approach and advising where the approach should be improved.

Subject to receiving sufficient information from HAL to support the assessment, we will then seek to refine this assessment and provide an update on the selection of assets by the end of 2027, including proposals for how we will take forwards the test case with HAL.

- **Technical assessment of fragmentation, interface risks and the case for competitive procurement (Q4 2027):** in late 2026 we plan to procure technical advice on two areas where we consider further, more detailed, assessments are needed to select and implement competitive procurement approaches:
 - fragmentation, coordination and operational risks associated with competitive procurement at Heathrow, drawing on precedents, stakeholder evidence and Heathrow's existing multi-operator environment and how these should be mitigated; and
 - potential benefits, costs and risks of different approaches to competitive procurement, relative to HAL's existing procurement approach.

The scope of these pieces of work will also cover the direct competition models set out below. We will engage with stakeholders to discuss the scope of this technical report and share emerging findings. We expect to publish a working paper in Q2 2027 and an update in Q4 2027.

- **Approach to regulation and contracting (Q4 2027):** we will also seek to procure expert technical advice on the approach to procurement, and whether changes to HAL's approach to the design of contracts, principles on the allocation of risks and responsibilities, and other aspects of the detail of its approach to procurement are warranted and in the interests of consumers.

Direct competition

Summary of the July 2026 Update

- 5.65 In the July 2026 Update, we stated that direct competition at Heathrow Airport for the provision of airport services may come about if a third party were to be successful in securing planning permission to deliver part or all of the expansion programme. We said that that we would progress work before and during any relevant DCO process to ensure that the regulatory framework was sufficiently flexible to accommodate these possible outcomes.

5.66 We said the next steps would include:

- a more detailed assessment of the potential for competition and fragmentation issues that could arise;
- developing a broad view on the approach to the regulation of any wholesale services that HAL may be required to provide to support these arrangements and outcomes;
- further work to understand the potential benefits and risks of direct competition; and
- reviewing of the steps that would be required to introduce any form of regulation for a third party, including market power and operator assessments.

Stakeholder views

HAL

5.67 HAL said that the CAA should not undertake further implementation work on direct competition unless it first identifies a legally viable, practical and consumer-beneficial scenario for its application. It said assessments of competition and fragmentation should reflect Heathrow's specific characteristics and use international comparisons only where airports are genuinely comparable.

5.68 It also said the CAA should test whether this would create effective competition or instead result in a regulated duopoly requiring ongoing regulatory intervention. It considered work on wholesale services to be premature unless a realistic direct competition scenario remained under consideration. HAL also requested clarity on the legal powers and statutory processes needed to implement direct competition.

Heathrow Reimagined

5.69 Heathrow Reimagined urged the CAA to begin work on direct competition immediately and engage with DfT to ensure policy does not restrict direct competition for new infrastructure.

5.70 It also said:

- we should assess of the impact of competition on fragmentation, focusing on mitigation measures and broad international evidence. It said this should be done by independent advisers with opportunities for stakeholder input throughout the process;
- we should assess how competition could deliver benefits relative to the current monopoly model and identify any Heathrow-specific barriers;
- there is likely to be strong investor interest and urged the CAA to engage directly with investors, credit rating agencies and market participants to test assumptions regarding financing costs and the credit impacts of competition;

- we should prioritise work on wholesale services, saying that HAL would continue to hold market power and that protections against discriminatory behaviour would be required. It considered this work would also be relevant to competitive procurement; and
- we should work on third-party regulation to provide clarity for potential developers and noted that regulatory certainty would be required for future DCO submissions.

Airlines

- 5.71 Air France-KLM supported detailed work on wholesale services, third-party regulation and operational interfaces.
- 5.72 BA emphasised the need for the regulatory framework to be developed early enough to inform investment and planning decisions.
- 5.73 easyJet requested that the work programme include clear evidence requirements and decision criteria focused on consumer benefits, viability of competitive entry and regulatory accountability. It also said detailed infrastructure, cost, funding and procurement information would be required from HAL and any third-party providers for this process.
- 5.74 LACC/AOC said the CAA should develop arrangements for direct competition ahead of and during any relevant DCO process, so that regulatory uncertainty does not become a barrier to competition or foreclose alternative promoters.

HWL

- 5.75 HWL considered the proposed next steps lacked detail and a clear timetable. It requested a dedicated implementation programme with structured consultation, stakeholder working groups, milestones and target decision dates. It also asked the CAA to clarify the distinction between the work on competition and fragmentation and the work on the benefits and risks of direct competition.
- 5.76 It also wanted greater clarity on key regulatory decisions, including market power determinations, regulatory sequencing, use of advance determinations and consultation plans. It said that this would be required by potential investors, third parties and planning authorities.

Other Stakeholders

- 5.77 CISHA and the Heathrow Passenger Forum said there should be compelling evidence of a better passenger outcome before greater structural separation is introduced. It said the assessment should test how a multi-operator model performs during disruption, with particular regard to passengers requiring assistance and those transferring between flights.

Our views

- 5.78 Direct competition creates incentives for an alternative promoter to deliver the new capex efficiently, constraining airport charges, and improve service quality offerings for consumers. However, there may be some additional costs, for example from coordination between promoters and asset utilisation, which require further examination. The work plans set out below include areas raised by stakeholders such as an assessment of the CAA's legal powers, assessment of competition benefits, risks from fragmentation, financeability and the potential process for a new market power assessment. Much of this work can be reasonably carried out in parallel. We do not agree with HAL that we need to first consider issues such as legal viability, noting that without a finalised version of HENPS it is not practicable to assess the consistency of either HAL's proposals or those of HWL against the final planning and legal framework for expansion.
- 5.79 We acknowledge that further work is needed on how the framework for direct competition can be designed and developed in a way to further the interests of consumers. This will involve ongoing engagement with stakeholders and further policy development, and we will seek to provide sufficient clarity to potential promoters and investors ahead of DCO submission and to support timely investment after any DCO is granted.
- 5.80 Nonetheless, we will take a proportionate approach to developing policy and engagement. For instance, further engagement with credit rating agencies is probably best undertaken once we have made sufficient progress on the design of the regulatory framework and we understand potential promoters' financing plans.
- 5.81 There are differing stakeholder views on whether we should design the regulatory arrangements for any wholesale services at this stage. While work on this area would need to be preliminary and principles based at this stage (as the detail would depend on the specific proposals and extent of competition) we consider that this should reasonably be part of our work programme to support direct competition.

Draft work plan

- 5.82 We are planning four main areas of work:
- **Approach to implementation and form of regulation (Q1 2027):** we plan to review the steps needed to enable direct competition. This will include the need for, timing and process for undertaking market power and operator assessments and consideration of the arrangements for licensing of any third party should they be granted a DCO. We plan to publish an initial update in Q1 2027 on the following issues:

- the scope of potential direct competition on the basis of the finalised HENPS. The draft HENPS has a relatively broad scope for the Northwest Runway scheme that includes a new runway, terminal capacity and other supporting infrastructure, to be operated as an integrated whole. We are looking to implement a framework that can respond flexibly to the outcome of the DCO process;
 - how the CAA might set specific obligations to integrate new investments and assets into the wider airport during construction and operations, or provide mitigations for interface issues during and after the DCO process;
 - the potential timing of a market power assessment and the potential outcomes for economic regulation for HAL and/or a third party;
 - the potential for the CAA to impose: a) wholesale arrangements to facilitate the provision of airport services the third party cannot provide; and b) any other access and charging arrangements which might be required for the third party to provide a service to its users; and
 - the proposals put forward by airlines for contractual separation for development of existing infrastructure where a third party has not been granted a DCO. As set out in chapter 4, our initial assessment is that competition through contracts between HAL and a third party should be enabled through competitive procurement.
- **Information request to HAL and HWL (Q1 2027):** We will request information from HAL and any third-party promoters such as HWL, on their plans for expansion including costs, demand, capacity and financing, to understand the potential benefits of competition in reducing financing costs and risks to the financeability of expansion.
 - **Assessment of potential competition and fragmentation issues (initial consultation Q2, further update Q4 2027):** our technical advisers, Steer, have highlighted potential issues in relation to fragmentation issues and mitigations that require further, more detailed analysis. We said in the July 2026 Update that we would commission further technical advice on the potential interface and fragmentation issues around competitive procurement and direct competition at Heathrow Airport. This advice will consider precedents, evidence from stakeholders and bespoke analysis to assess:
 - the materiality of fragmentation, coordination and operational issues should different forms of competition be introduced at Heathrow, taking account of the existing multi-operator environment;

- how fragmentation, coordination and operational issues are dealt with at other international airports. This includes engaging with Delta airlines and other stakeholders regarding their experience at JFK; LaGuardia and other airports;
- the passenger effects of fragmentation and testing how a multi-operator model performs during disruption, with particular regard to passengers requiring assistance and those transferring between flights;
- further international comparison of other passenger-facing metrics such as cancellations, displaced baggage, re-bookings, transfer performance, misconnections and minimum connection times between airports with direct competition models and other airports; and
- what measures can be put in place at Heathrow and any likely residual risks in terms of severity and likelihood.

We will engage with stakeholders to discuss the scope of this technical report and share emerging findings. We expect to publish a working paper by Q2 2027 for consultation and an updated version by Q4 2027. We note that aspects of this workstream will also be relevant for the work plan on competitive procurement, set out above.

- **Assessment of the potential benefits and risks of competition (initial consultation Q2, further update in Q4):** we said in the July 2026 Update that we would undertake further work to understand the potential benefits and risks of competition, both through competitive procurement and direct competition. We plan to undertake work to inform our assessment of:
 - the likely nature and potential scale of costs and benefits that consumers could expect from different approaches to competitive procurement and direct competition for the delivery, financing and operation of expansion infrastructure and other major capex investments, compared with the relevant counterfactual(s);
 - conditions and Heathrow-specific barriers that would prevent effective competition from materialising, including the degree of spare capacity required for effective competition through ongoing operations; and
 - HAL's argument that the implementation of direct competition would result in a complex regulated duopoly that would not provide the expected benefits to consumers.

We will engage with third parties, HAL and other stakeholders on further defining the scope of this workstream and expect to publish a working paper by Q2 2027 for consultation and a final version by Q4 2027.

- **Regulation of wholesale services and charging arrangements (initial consultation Q2, further update Q4 2027):** we said in our July 2026 Update that facilitating direct competition may require HAL to develop a wholesale product for aspects of airport operations the third party cannot provide, and that we would expect this to be subject to price control arrangements.

We plan to explore how this could work in principle, in preparation for a potential planning decision and details on what infrastructure a third party might provide. We will also consider whether other charging arrangements might be required, for example, for access to a runway built by a third party. This work could consider:

- which assets and services could be in scope for these wholesale services and comparing this with experience from other sectors such as telecoms, energy and water;
- how access and charging arrangements for specific assets/services could be regulated, and how disputes could be resolved;
- arrangements to facilitate the outcome of the DCO process; and
- arrangements to prevent discriminatory behaviour where HAL needs to provide wholesale services to itself and a third party on an equivalent basis;

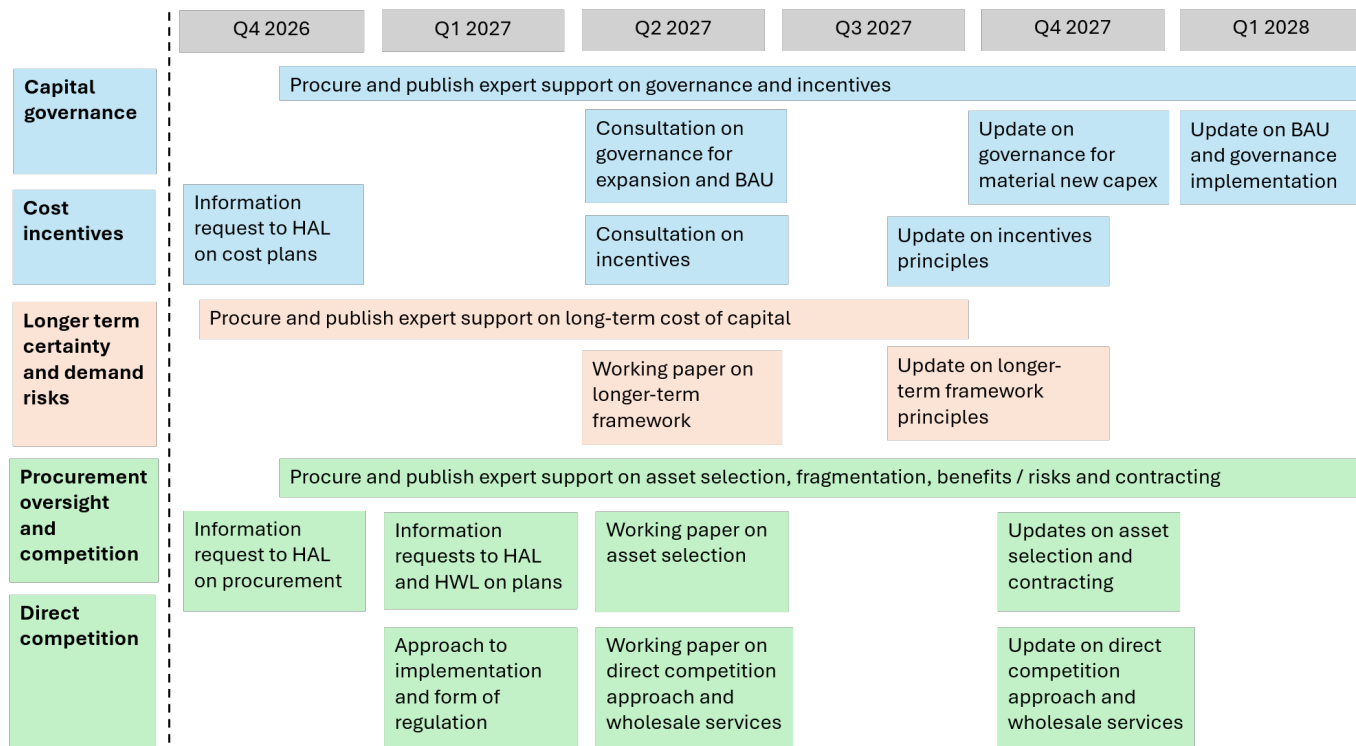
We expect to publish a working paper setting out our thinking on the areas above by Q2 2027 for consultation and an update by Q4 2027.

Summary

- 5.83 The work plan in this chapter sets out how we will develop the regulatory framework to further the interests of consumers. It should bring further clarity on the development of the regulatory framework ahead of the submission of DCO applications (which are currently expected at the end of 2027) and allow time for development of the framework to take account of further analysis and information from potential promoters. Our priorities for 2026 include appointing external advisers and preparing information requests to HAL and HWL.
- 5.84 To the extent that parts of this framework could be developed or implemented earlier, especially where approaches are agreed between stakeholders or we can implement on a trial basis to test the approach, we will seek to take advantage of such opportunities.
- 5.85 Figure 5.1 below shows our current view on the work plan. We expect the plan to continue to evolve in future and we will update stakeholders as we make changes to the plan. We welcome further input from stakeholders where they consider we have made significant omissions or there would be a substantially better way of

proceeding with implementation. We also remain committed to working closely with all our stakeholders to inform the development of the regulatory framework.

Figure 5.1 – Summary of work plan for implementation of framework



Source: CAA

ANNEX A

Abbreviations

AOC	Heathrow Airline Operator's Committee
ASTI	Accelerated Strategic Transmission Investment
BA	British Airways
BAA	British Airports Authority
CAA	Civil Aviation Authority
CAA12	Civil Aviation Act 2012
Capex	Capital expenditure
CCUS	Carbon Capture, Usage and Storage
CISHA	Council for the Independent Scrutiny of Heathrow Airport
CMA	Competition and Markets Authority
COG	Capital Oversight Group
DCO	Development Consent Order
DfT	Department for Transport
DOs	Delivery Obligations
H7	Heathrow price control for 2022 to 2026
H8	Heathrow price control for 2027 to 2031
HAL	Heathrow Airport Limited
HENPS	Heathrow Expansion National Policy Statement
HWL	Heathrow West Limited
IAG	International Airlines Group
IATA	International Air Transport Association
IFS	Independent Fund Surveyor
LACC	London (Heathrow) Airline Consultative Committee
RAB	Regulatory Asset Base

ANNEX B**Our duties**

1. 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.
2. 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.
3. 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”.
4. The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
5. 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.
6. 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.
7. 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.

8. 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.