UK Civil Aviation Authority

Consultation and Proposals on the regulatory treatment of further early costs of capacity expansion at Heathrow Airport

CAP3331

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Chapter 1

Introduction and Summary

Introduction

1.1 In January 2025, the Government announced its support for the expansion of Heathrow Airport. In November 2025 ("the Government's 2025 Announcement"), it announced that the proposal from Heathrow Airport Limited ("HAL") would be used as the scheme to inform its review of the Airports National Policy Statement ("ANPS").

1.2 The Government has subsequently consulted on a draft Heathrow Expansion National Policy Statement ("HENPS"), which sets out the Government's assessment of the need for expansion; why it has selected the Heathrow Northwest Runway scheme for the purposes of its ANPS review; and the specific requirements that any promoters of such a scheme would need to demonstrate in applying for planning consent (referred to as an application for a Development Consent Order ("DCO")).

1.3 Public consultation on the draft HENPS closed on 1 September 2026. The Government is considering responses to that consultation. As a National Policy Statement, the HENPS will also be subject to Parliamentary scrutiny and a vote before it can be designated. It would then be for the Secretary of State to consider and decide on any DCO applications.

1.4 In this document, we refer to the development of a third runway and associated infrastructure as "expansion". Both HAL and any other promoters interested in applying for expansion planning consent will need to undertake significant work to develop a DCO application and will incur costs in doing so. This includes work on scheme design, environmental assessment, consultation, necessary preparations for land and property acquisition, programme development and preparation of the application itself. We refer to these pre-DCO costs as "early costs". For the avoidance of doubt, any costs associated with the development of the existing two runway Heathrow campus are covered by our separate work programme on the H8 price control review, while wider expansion costs will be considered as part of our work on future regulatory models for Heathrow.

1.5 Our primary duty under the Civil Aviation Act 2012 (CAA12) is to further the interests of users of air transport services (passengers and those with an interest in cargo) regarding the range, availability, continuity, cost and quality of airport operation services. We refer to such users as "consumers" in this

consultation.[1] Where appropriate, we must further the interests of consumers by carrying out our functions in a manner which we consider will promote competition in the provision of airport operation services ("AOS"). In performing these duties, we must have regard to the matters set out in our "secondary duties" (including the need to secure that HAL is able to finance its provision of airport operation services). A summary of our duties under CAA12 is set out in Appendix A.

1.6 The Government and promoters have continued to make progress with the expansion programme, respectively the draft Heathrow Expansion Policy Statement and details scheme design. Recent statements by airlines and their representative bodies also indicate support for expansion in principle, provided that it can be delivered efficiently and affordably.[2]

1.7 Our view is that allowing the recovery of certain, efficiently incurred early costs through airport charges will support the timely development of expansion proposals and in turn this will preserve the option to secure benefits to consumers from expansion.

1.8 However, significant further work is required by Government and promoters before the final decisions on expansion can be taken. Material risks and uncertainties remain, including the possibility that expansion may not proceed in the form or to the timetable currently envisaged. Under our proposed approach, consumers would remain exposed to eligible and efficiently incurred early costs, including in circumstances where expansion does not ultimately proceed and the potential benefits are therefore not realised.

1.9 Bearing the above in mind, our proposals seek to strike an appropriate balance between these considerations, in a way that is designed to further the interests of consumers. In particular, we are proposing to make further allowances for early costs given that plausible scenarios remain under which there will be significant benefits to consumers from expansion. This will allow promoters with credible proposals for expansion to continue to make progress with their plans and to provide further time to resolve the uncertainties associated with expansion. However, it will limit the scope and duration of these allowances, thereby restricting the extent to which Heathrow consumers are exposed to these costs. We are also consulting on a package of measures to ensure that any early costs recovered from consumers are efficiently incurred.

1 Consumers include users of air transport services at all UK airports. When referring more narrowly to users of air transport services at Heathrow Airport, we use the term "Heathrow consumers".

2 See for example: standard.co.uk/news/london/heathrow-flights-third-runway-terminal-tickets-cost-virgin-atlantic-b1293764.html, August 2026; or Airlines UK response to CAA CAP 3286: Heathrow capacity expansion — update on the approach to the regulatory framework, August 2026, available here.

1.10 HAL and Heathrow West Limited/Arora Group ("HWL") are currently developing proposals for capacity expansion at Heathrow, and each promoter has indicated that it intends to work towards submitting a DCO application.[3] HAL's proposal is based on a new 3.5 kilometre northwest runway and associated airport infrastructure. HWL originally developed a proposal in 2025 for a 2.8 kilometre runway and has since submitted an updated proposal to the CAA which includes an initial shorter third runway (2.4 kilometres) that could be extended to 3.5 kilometres in the future, as well as a new terminal and associated infrastructure. We are proposing to allow the recovery of costs from both promoters recognising the benefits from competition and rivalry between the promoters at this stage of the process, particularly around their approach to expansion and the detailed design of options.

1.11 This consultation sets out our proposals for early costs that have been, or are expected to be, incurred after the two periods covered by our July 2026 Final Decision, namely costs forecast to be incurred by HAL in the first half of 2027, and costs forecast to be incurred by HWL in 2026 and the first half of 2027.

1.12 Expansion would also require further decisions by the CAA on the framework for economic regulation that should apply to expansion. We will consult separately on these matters, as set out in our document Heathrow Capacity Expansion – further update on the approach to the regulatory framework, which we published in October 2026 ("the October 2026 update").[4]

Our previous decisions on early costs

1.13 As indicated above, in July 2026 we published a final decision (the "July 2026 Final Decision") which addressed the regulatory treatment of early expansion costs incurred by HAL during 2025 and 2026 and by HWL up to November 2025.

1.14 We concluded that there were plausible scenarios in which the benefits to consumers from Heathrow expansion could significantly outweigh the additional costs to consumers arising from higher airport charges needed to fund expansion. The potential benefits included downward pressure on airfares arising from reduced capacity constraints and greater airline competition, relative to a scenario where Heathrow is not expanded. Benefits are also

3 HWL made a submission to the CAA in July 2026, indicating that it intends to work towards submitting a DCO application, and this has been followed by further engagement on the issue. Similarly, HAL wrote to the CAA on 1 October 2026, and provided a detailed Business Plan on 9 October, setting out its proposed programme of expansion activities in the first half of 2027. Both proposals have an active presence on the Planning Inspectorate website in the 'pre-application' stage (see Expansion of Heathrow Airport (Third Runway) - Project information and Heathrow West - Project information).

4 CAA, CAP3133, Heathrow capacity expansion – further update on the approach to the regulatory framework, October 2026.

expected to accrue from improved connectivity, increased flight frequencies, greater choice of destinations and enhanced operational resilience.

1.15 In the July 2026 Final Decision, we recognised the significant uncertainty surrounding these potential costs and benefits. This included uncertainty about the costs of expansion, the level of any scarcity rents at Heathrow,[5] the response of airlines and passengers to higher airport charges and whether expansion would ultimately proceed.

1.16 We concluded that on balance allowing the recovery of efficient early costs would further the interests of consumers in line with our statutory duties by facilitating timely progress on expansion, which has the potential to deliver significant benefits to consumers.

1.17 The July 2026 Final Decision also established a regulatory framework that included defined categories of eligible costs. This included expenditure caps; regular cost reporting; independent scrutiny; ex-post efficiency reviews; arrangements to address material changes in circumstances; and provisions dealing with withdrawal from expansion and the efficient wind-down of activity.

1.18 We were clear that the July 2026 Final Decision did not establish a precedent for the recovery of early costs incurred from 2027 onwards by HAL, or from November 2025 onwards by HWL. Any such costs would need to be considered separately, taking account of the evidence and circumstances at the time. The licence modifications implementing the July 2026 Final Decision took effect on 9 September 2026.

Developments since the July 2026 Final Decision

1.19 Since publishing the July 2026 Final Decision, we have continued to develop our understanding of the potential benefits, costs and risks associated with Heathrow expansion. This work has included:

- consideration of new evidence from a range of sources relating to the potential costs, benefits and uncertainties associated with expansion, including further work on the evidence around scarcity rents and airline behaviour;
- further engagement with the Department for Transport (DfT) on expansion;
- commissioning initial work from our corporate finance advisors (Centrus) on the financing of expansion;
- engagement with HAL and HWL on the development of their proposals;

5 That is the higher airfares that may result from capacity constraints at the airport reducing the scope for competition between airlines.

- engagement with wider stakeholders on expansion;
- independent technical and cost analysis of HWL's updated proposal; and
- consideration of the expenditure that each promoter expects to incur in relation to early costs.

1.20 A range of organisations have produced or are producing assessments and/or models of the benefits and costs of expansion. While no single model is likely to be comprehensive in every respect, there have been some important developments since our July 2026 decision:

- DfT has made a correction to its appraisal of the costs and benefits of expansion that it published alongside the draft HENPS. This corrected estimate indicates net benefits to consumers of approximately £48 billion to £68 billion, excluding monetised environmental impacts, compared with the previous estimate of £35 billion to £55 billion (all in present value, discounted to 2024 prices over a 60-year appraisal horizon);
- nonetheless, the DfT's modelling is not designed to provide a comprehensive assessment of airline economics, including the extent to which increases in airport charges would be absorbed by airlines or passed through to passengers in higher fares. This creates uncertainty around how higher airport charges would translate into higher fares, with the DfT's modelling using stylised assumptions about the level of pass through.[6] We also note that the DfT's modelling suggests that the estimated consumer benefits are weighted towards the later years of the appraisal period, which may suggest that the effects on consumers of delays in expansion would be limited in the shorter term;
- we are continuing our work on the evidence relating to scarcity rents at Heathrow, which should cast light on how airlines would likely respond to increases in airport charges necessary to support expansion. As discussed further in Chapter 2, the available evidence supports the view that scarcity rents exist, but there remains significant uncertainty about their scale. We are developing our own econometric analysis of scarcity rents at Heathrow, which we expect to inform future stages of our policy development; and

6 See Chapter 2 for further details of the DfT's "cost pass through" and "no pass through" versions of its main scenarios.

- HAL has submitted new analysis it commissioned from UCL which seeks to model airline behaviour more fully and suggests that consumers could benefit from expansion under a range of scenarios, after taking account of the response of airlines to higher airport charges. We consider that the analysis provides potentially useful evidence, but there are limitations related to the model's assumptions, transparency and current stage of development, which we discuss in Chapter 2.

1.21 In September 2026, the Climate Change Committee ("CCC") provided advice on the climate change mitigation aspects of the draft HENPS and suggested a number of amendments to the draft HENPS. The CCC considered that expansion could proceed consistently with net zero only if the Government introduced a robust framework requiring the aviation industry to achieve net zero emissions by 2050 and bear the associated costs.

1.22 It is for the Government, rather than the CAA, to decide how to respond to that advice. Any additional measures required to address the climate impacts of aviation could create additional costs for passengers and/or affect future passenger demand and, therefore, the potential benefits to consumers from expansion.

1.23 Other important uncertainties remain in relation to expansion, including:

- the expected costs and benefits of expansion, as discussed above and in Chapter 2;
- the content and designation of any final HENPS – as noted above the draft HENPS has yet to be finalised by Government and would be subject to Parliamentary approval;
- whether and how schemes that may be put forward by rival promoters will be developed, how these will be treated in the planning process and how competition between these schemes will further the interests of consumers; and
- the financing of expansion, given the potential size of the capital programme that will be needed. In this respect, there are important questions as to how the regulatory framework can best support efficient financing and whether expansion can be wholly privately financed. We will work with stakeholders further on these matters over the coming months before reaching a position on this issue. We expect to publish an initial technical report from our advisers on these matters shortly.

1.24 These uncertainties affect the likelihood of expansion proceeding and the scale and timing of the potential costs and benefits to consumers from expansion. We are continuing to engage with stakeholders and Government on these matters.

1.25 In another development since publication of the July 2026 Final Decision HAL has reconsidered aspects of its programme and has stated publicly that a 2035 runway opening date is no longer credible. It considers that a period of around ten years following a DCO decision would represent a more realistic delivery timeframe. HAL has also significantly reduced the scale of some of the pre-DCO mobilisation activity it previously expected to undertake.

1.26 Reflecting this development, in October 2026, HAL provided information to the CAA that indicates that it expects to incur up to £304 million of early costs during the first half of 2027 to maintain the option of submitting a DCO application by the end of 2027. In October, Heathrow also launched its pre-DCO application public consultation, which closes on 22 December 2026.[7]

1.27 HAL has not provided a firm estimate for expenditure from the second half of 2027 onwards. It has indicated that it intends to review its programme during the first half of 2027 in light of the prevailing political and regulatory position. This will assist HAL in determining whether to continue work towards a DCO application on its current timetable, proceed on a different timetable or cease further activity.

1.28 HWL has continued to develop a materially different scheme from the proposal we considered in 2025. Its updated proposal includes an initial 2.4 kilometre runway, a new terminal connected to the Terminal 5 campus and associated airport infrastructure.

1.29 We commissioned Steer to undertake a high-level technical and cost assessment of HWL's updated proposal. Steer's report indicates that HWL's updated proposal may offer potential cost and deliverability advantages, including a smaller footprint, reduced land and infrastructure requirements and an estimated cost below HAL's scheme. Nonetheless, Steer's review also identified material questions that remain to be answered. This includes questions around the proposed runway's capacity and operational resilience, its ability to support fully loaded long-haul operations, the robustness of cost estimates, environmental performance and the feasibility of the proposed timetable. Further work will also be required to demonstrate alignment with any final HENPS.

1.30 HWL has indicated that it expects to incur approximately £46 million of expenditure during 2026 and between £60 million and £70 million during 2027 up to submission of a DCO application.

1.31 Taken as a whole, the evidence available since the July 2026 Final Decision provides some additional support for the view that expansion could deliver significant benefits to consumers. At the same time, uncertainty remains about

7 See: Heathrow Expansion Consultation Document, October 2026.

whether expansion will proceed, its cost and financing, and the scale and timing of any benefits.

Purpose and scope of this consultation

1.32 In this consultation, we set out proposals for the recovery of further early costs from Heathrow consumers, which we consider will further the interests of those consumers. We are seeking views on:

- whether additional recovery of efficient early costs will further the interests of consumers, given the potential benefits to consumers from expansion discussed in Chapter 2;
- whether allowing more than one promotor to recover additional early costs would further consumers' interests, given the likely benefits of competitive tension and rivalry discussed in Chapter 3;
- whether HWL's updated proposal is sufficiently credible and mature for this stage of the process to justify the recovery of costs from Heathrow consumers;
- our approach to setting the caps on the recovery of early costs discussed in Chapter 4 and Chapter 5 and whether these arrangements could be reasonably modified or strengthened; and
- the consumer protections summarised in Chapter 6 and whether these arrangements should be modified or strengthened to further the interests of consumers.

1.33 We are also considering whether the recovery of further costs by HWL would fall within the framework of the Subsidy Control Act 2022 ("SCA 2022"). Our assessment of these matters is ongoing.

1.34 This consultation does not consider the detailed economic regulatory framework that would apply to the construction and operation of expanded airport capacity. We are considering those wider issues through separate work on the regulatory framework for expansion, as set out in the October 2026 update on these matters.

1.35 Nor does this consultation establish a precedent that costs incurred by either promoter after June 2027 will be recoverable. We expect to consider costs arising from the second half of 2027 onwards through a separate process.

1.36 Our proposals are intended to further the interests of consumers by providing a reasonable degree of regulatory certainty for promoters to continue progressing their proposals in the short term. At the same time, they limit cost recovery and retain the ability to reassess the position as Government policy, the HENPS,

the promoters' proposals and the evidence on the costs and benefits to consumers of expansion continues to develop.

Summary of our proposals

Broad approach

1.37 Our current view is that on balance there remains a case for allowing limited further recovery of efficient early expansion costs, for the reasons set out below.

1.38 Expansion has the potential to deliver significant benefits to consumers, including through increased capacity and the reduction in constraints on airline competition. While there remains further work to do on the range of evidence about benefits and wider issues, withdrawing support for expansion activity at this stage could reduce significantly the likelihood of those benefits being realised by causing promoters to delay, reduce or even cease development of their proposals.

1.39 Bearing the above in mind, we are proposing to allow the recovery of certain early costs incurred by HWL in 2026 and by HAL and HWL over the first six months of 2027. Notwithstanding the uncertainties associated with expansion, we consider that a time-limited allowance for this period would enable necessary and proportionate work to continue while limiting consumers' exposure to costs. The scope of the allowance and the consumer protections described in this consultation are intended to ensure that consumers fund only expenditure that is appropriately justified, and reasonably required during this period to maintain a credible path towards a DCO application (criteria for eligibility of costs for recovery). Promoters should also be able to demonstrate that the costs are efficiently incurred.

1.40 During the first half of 2027 we will consider our approach to the recovery of early costs incurred from July 2027. Any further allowance, which we will likely consult on in the first half of 2027, would be subject to a separate assessment of whether it would further the interests of consumers. This assessment would take account of the circumstances, level of uncertainty and evidence available at that time including around the costs and benefits of expansion.

1.41 As discussed in Chapter 3, our current assessment is that HWL is developing a credible proposal for expansion. This informs our proposals for the treatment of HWL's costs during the period covered by this consultation but does not prejudge the treatment of any costs incurred from July 2027.

1.42 Allowing two promoters to continue recovering early costs would involve additional costs and may result in some duplication of expenditure. However, it may also generate benefits by:

- preserving alternative approaches to scheme design and delivery;
- creating competitive pressure to improve efficiency and reduce costs;
- broadening the technical and cost evidence available to Government and the CAA; and
- preserving a credible alternative if one proposal cannot secure consent, be financed or be delivered on acceptable terms.

1.43 Given the potential overall cost of expansion, even a relatively small improvement in scheme design, financing or delivery efficiency could produce benefits that significantly exceed the incremental cost of allowing two promoters to recover costs for the period covered by this consultation. We therefore propose to continue allowing two promoters to continue recovering costs, subject to our ongoing assessment of HWL's proposal and the requirements of the SCA 2022. We will keep under review whether continued support for more than one promoter remains in consumers' interests.

1.44 Bearing the above in mind we are proposing that:

- HWL should be permitted to recover eligible and efficiently incurred costs associated with developing its proposal during the whole of 2026 subject to the cap discussed below. This proposal furthers the interests of consumers by maintaining a credible alternative expansion proposal and the competitive pressure that this will likely place on scheme design, cost and delivery. The proposed cap is based on HWL's current forecast and would remain subject to detailed scrutiny before any final allowance is determined; and
- both HAL and HWL should be permitted to recover eligible and efficiently incurred costs during the first half of 2027, subject to promoter-specific caps and consumer protections.

Costs covered by this consultation

1.45 We propose that early cost recovery by either promoter should be limited to costs that are appropriately justified and reasonably required during this period to maintain a credible path towards a DCO application. Promoters should also be able to demonstrate that any costs are efficiently incurred. Costs would need to fall within defined categories, be demonstrably necessary and proportionate and be subject to promoter-specific caps and appropriate consumer protections, as set out in Chapters 4, 5 and 6.

1.46 For HAL, this consultation covers eligible early costs incurred during the first half of 2027. We have already decided the treatment of HAL's eligible early costs incurred during 2025 and 2026 in the July 2026 Final Decision.

1.47 In its October 2026 submission HAL set out the case for expenditure of up to £304 million during the first half of 2027. Its submission covers expenditure associated with developing its DCO application, programme management costs, land and property activities, and enabling costs. At this stage we can confirm that the following will form part of our proposals for the cap on costs incurred by HAL in the first half of 2027:

- DCO costs of £169 million;
- programme management costs of £47 million; and
- certain enabling costs of £40 million.

1.48 This amounts to a total allowed cost of £256 million. We are seeking further information, evidence and proposals from HAL in relation to property and land costs as well as the element of enabling costs relating to the central terminal area. We will work flexibly with HAL on these matters and intend to confirm the overall level of the cap as soon as practicable. This may be up to £304 million.

1.49 We propose that once we have confirmed the overall level of the cap, the recovery of underlying costs will be subject to an ex-post efficiency review.

1.50 For HWL, this consultation concerns:

- eligible early costs incurred during 2026; and
- eligible early costs expected to be incurred during the first half of 2027.

1.51 HWL currently forecasts expenditure of approximately £46 million during 2026 and approximately £35 million during the first half of 2027. These figures are based on HWL's current forecasts and we will scrutinise them further ahead of any final decisions on these matters. They should not be interpreted as our assessment of the efficient level of expenditure or as final cost allowances.

1.52 If the proposed package were implemented in full, Heathrow consumers would fund up to approximately £700 million of early expansion costs incurred by HAL and HWL between the beginning of 2025 and the middle of 2027. This figure could increase if further tranches of pre DCO costs for the second half of 2027 and beyond are agreed. This is in addition to approximately £500 million of costs incurred by HAL between 2017 and 2020 (with a small amount of wind-down expenditure incurred in 2021) before the earlier proposals for expansion were halted by legal challenge and the severe impact of Covid-19 pandemic on the aviation sector.

1.53 The estimate of £700 million is equivalent to 60 to 70 pence per passenger journey from Heathrow when recovered over 20 years, depending on the cost of capital applied. This compares to the current average per passenger airport charge of around £26 per passenger at Heathrow. These charges make up one

element of the ticket price sold by airlines to passengers. These figures are indicative and will be updated as appropriate before we reach a final decision.

1.54 Further early costs are likely to arise after June 2027. As noted above, this consultation does not address the recovery of those costs, and our proposals do not create a presumption that they will be recoverable.

Further measures to protect consumers

1.55 We propose that the recovery of costs should be subject to a package of further consumer protections based on the framework established in our July 2026 Final Decision. This would include:

- defined categories of eligible costs and promoter-specific caps;
- regular and transparent cost reporting;
- independent assurance and scrutiny;
- arrangements to avoid unnecessary duplication of costs;
- appropriate information sharing;
- ex-post efficiency reviews;
- reopener and adjustment mechanisms; and
- withdrawal and efficient wind-down arrangements.

1.56 We also propose that:

- HAL's final eligible and efficient costs incurred during the first half of 2027 should be added to its regulatory asset base and that HAL should recover a return based on those costs based on the cost of capital set for the H8 price control; and
- HWL's final eligible and efficient early expansion costs incurred in 2026 and the first half of 2027 should be recoverable, subject to the consumer protection arrangements and our approach being consistent with the SCA 2022. HAL would be required through its Licence to pay that amount to HWL and would recover the corresponding payment on a pass-through basis through airport charges. This would use the same broad mechanism as that established in our July 2026 Final Decision, but its detailed design will be subject to further development and consultation as explained in Chapter 7.

1.57 In determining final allowances, we would consider carefully the potential for duplication between both the promoters and the expenditure funded through the H8 price control. We do not propose to allow the recovery of unnecessary or inefficiently duplicative costs.

1.58 These proposals do not amount to an open-ended commitment to fund all expenditure proposed by either promoter up to a DCO decision. Any recovery would be limited to eligible and efficiently incurred expenditure within the applicable cap and would remain subject to the regulatory controls described above.

Structure of this document

1.59 The remainder of this document is structured, as follows:

- Chapter 2: Evidence we have considered on benefits to consumers
- Chapter 3: Recovery of further early costs
- Chapter 4: HAL's early costs
- Chapter 5: HWL's early costs
- Chapter 6: Regulatory arrangements to protect consumers
- Chapter 7: Approach to the recovery of cost allowances
- Appendix A: summary of our statutory duties; and
- Appendix B: glossary of terms used in this final decision.

1.60 We are also publishing a report produced by our consultants Steer alongside this consultation.

Responding to this consultation and next steps

1.61 Responses to this consultation should be sent by 5pm on Tuesday 12 January 2027 to economicregulation@caa.co.uk. We expect to publish the responses we receive on our website as soon as practicable after the consultation period ends. Any material that is regarded as confidential should be clearly marked as such, with an explanation of why the information is confidential, and included in a separate annex. We have powers and duties with respect to the disclosure of information under Schedule 9 of the TA00, Section 59 of CAA12 and the Freedom of Information Act 2000 and it may be necessary to disclose information consistent with these requirements.

1.62 Following consideration of responses to this consultation, we intend to publish our draft decision in spring 2027. Subject to the representations received, this would include notice of proposed modifications to the Licence under CAA12. Following this we intend to issue a Final Decision in summer 2027, which would trigger a six-week statutory window where HAL and certain airlines operating at Heathrow would have a right of appeal to the Competition and Markets Authority (CMA) in relation to our final decision on the licence modifications.

Chapter 2

Evidence we have considered on benefits to consumers

Introduction

2.1 This chapter sets out our current views on the evidence on the likely benefits to consumers of capacity expansion. The scale of these expected benefits is an important part of the evidence base that we have considered in informing these proposals on the recovery of early costs. Other important considerations include the uncertainties associated with the expansion programme and decisions on whether to allow for the costs of competing promoters which are discussed in Chapter 3.

2.2 In this chapter, we first summarise our assessment of the evidence relating to the consumer benefits of Heathrow expansion which were set out in the July 2026 Final Decision. We then consider the further evidence which has become available since the publication of our July 2026 Final Decision, including the DfT's updated appraisal results and evidence submitted by stakeholders. We have also considered a range of models and analysis in relation to consumer benefits, including the strengths and weaknesses of different approaches to modelling and assessing costs and benefits.

2.3 Finally, we set out our current view of the likely benefits of expansion for consumers, summarise our next steps for our assessment of the benefits of expansion and note the key issues for consultation.

Background to our assessment

2.4 Our primary duty under CAA12 is to further the interests of consumers regarding the range, availability, continuity, cost and quality of airport operation services (AOS). We have established, including in developing our July 2026 Final Decision, that in carrying out its statutory functions, the CAA will consider benefits which relate to the range, availability, continuity, cost and quality of airport operation services, to the extent that they accrue to users of Heathrow and other UK airports.

2.5 In considering how to further the interests of consumers we take account of both overall costs and benefits and the likely distributional impacts that expansion could have for different groups of consumers. For instance, while we consider relevant benefits arising to consumers at Heathrow and other airports, we also have regard to the relationship between those who bear the cost of expansion and those who receive its benefits; and to the timing and certainty of those benefits.

2.6 The costs of delivering additional capacity at Heathrow have historically been reflected in charges at Heathrow and therefore fall on airlines and consumers using that airport. The approach to early cost recovery is the same and will require consumers at Heathrow to contribute to the costs before additional capacity is delivered, and before the associated benefits are realised.

Evidence on consumer benefits for July 2026 Final Decision

2.7 In our draft decision on recovery of early costs published in April 2026[8] and in the July 2026 Final Decision, we reviewed and summarised the findings of a range of evidence on the potential benefits to consumers from capacity expansion. This included:

- the Heathrow expansion appraisal report ("HEAR") published by the DfT in June 2026 alongside the draft HENPS;[9]
- a report from the Institute for Transport Studies at the University of Leeds ("ITS Leeds"),[10] commissioned by the CAA in 2019, to review the body of evidence on scarcity rents;
- Frontier Economics' ("Frontier") cost-benefit analysis of Heathrow expansion,[11] commissioned by HAL and published in 2025;
- three reports submitted by IAG on the affordable capex envelope, empirical evidence on scarcity rents and slot asset values;[12]
- two reports we commissioned from Grant Thornton ("GT") on slot transactions and airline profitability;[13] and
- further views expressed by stakeholders in their responses to our Draft Decision on these matters.

8 CAA, CAP3238: Draft Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport, April 2026

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

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

11 Frontier Economics, Heathrow Expansion CBA, August 2025

12 This includes IAG's response to our November 2025 working paper on regulatory models; Oliver Wyman, LHR Affordable Capex Envelope: Report (Phase 1), March 2026; IAG Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow, March 2026; and IAG, Slot Asset Values Exist Without Excess Airline Returns, May 2026

13 This includes CAP 3289A Slot Transaction Analysis to Estimate Economic Profit at Heathrow Airport, July 2026; and CAP 3289B Airline profitability: conceptual framework and review of stakeholder submissions July 2026.

2.8 In the July 2026 Final Decision we noted that DfT's HEAR indicated that Heathrow expansion could deliver net consumer benefits[14] of £35-55 billion in present value terms (2024 prices) under the 'Current Trends' scenario (the scenario DfT considers most likely). We welcomed the DfT's attempt to take account of the likelihood that airlines would seek to pass through the higher airport charges required to fund expansion to passengers. However, we also noted that there were limitations in the DfT's ability to model the impact of higher airport charges and in the way that the DfT's modelling represented airlines' responses to higher airport charges more generally. As the DFT's appraisal was published in June 2026, we had limited time to scrutinise the results prior to publication of our July 2026 Final Decision, but our initial view was that it provided further support to our position that there were plausible scenarios in which expansion would deliver substantial net benefits to consumers. We said that we would work with DfT to better understand its analysis, including:

- the limitations in the DfT's modelling of higher airport charges;
- different assumptions about how expansion will affect airport charges;
- the way that appraisal results change when input assumptions are varied (this included assumptions identified by the New Economics Foundation ("NEF") in its response);[15]
- the approach that has been taken to estimating consumer benefits of expansion at airports other than Heathrow;
- assumptions that it had made about capacity at Heathrow and the other airports that passengers could switch to; and
- the profile of consumer benefits over the appraisal period.

2.9 We said we agreed with the conclusion of the ITS Leeds review that scarcity rents are likely to exist at Heathrow Airport. However, we also recognised the findings of the reports by Frontier, GT and IAG which highlighted the considerable uncertainty surrounding the scale of these scarcity rents. In particular, we said:

14 Includes benefits for both UK and foreign resident consumers across all UK airports.

15 This is NEF's response to our regulatory models and early costs consultations from June 2026.

- analysis of data on Heathrow slot transactions, produced by Frontier for HAL and by GT for us, provided evidence of the existence of scarcity rents at Heathrow Airport. However, we noted that there were strong reasons to be cautious in extrapolating the estimates from a small sample of transactions to estimate the aggregate level of scarcity rents across the entire airport in the way that Frontier did in its 2019 analysis;[16]
- we agreed with the conclusions of GT's analysis that it is difficult to reconcile scarcity rents of the scale estimated by Frontier in 2025 with observed data on airline profitability, but that there are ways that such rents could exist without being reflected in airline accounting profits; and
- we agreed with IAG that sufficiently large increases in charges could create incentives for airlines to reallocate capacity. However, we identified a number of limitations in this analysis and concluded that there was insufficient evidence to support its finding that increases in airport charges of more than £4.50-5.50 per passenger would lead to significant airline exit or demand reduction.

2.10 Overall, we concluded there were plausible scenarios in which Heathrow expansion would deliver substantial net benefits to consumers and that some of these benefits could be lost if expansion were unduly delayed. We said these benefits could arise through reduced congestion and slot scarcity, improved connectivity, enhanced service quality and greater operational resilience. Despite uncertainty about the scale of scarcity rents, the impact of higher airport charges and the distribution of costs and benefits between airlines and passengers, we decided that making allowances for early expansion costs was consistent with furthering the interests of consumers.

2.11 We said we would set out an updated assessment of the impacts of expansion on consumers as part of this consultation, including:

- our views on the robustness and reliability of econometric estimates of scarcity rents at Heathrow Airport;
- further information on the expected costs of capacity expansion;
- our assessment of the implications of the DfT's appraisal of the costs and benefits of expansion for consumers; and

16 Frontier Economics, Estimating the Congestion Premium at Heathrow, May 2019

- updated analysis of information provided by airlines and other stakeholders, including the likely impact of higher airport charges on the willingness of airlines to take additional slots at Heathrow Airport and for passenger numbers to increase to fill the available capacity.

Further evidence following July 2026 Final Decision

Letter from DfT chief analyst to Chair of Transport Select Committee [17]

2.12 Ahead of his appearance before the Transport Select Committee, the DfT's chief analyst wrote to the committee to inform them of a technical correction to the DfT's published analysis in the HEAR. The DfT then submitted new written evidence to quantify the extent of the correction.[18]

2.13 The DfT had found that some knock-on passenger benefits arising at Gatwick Airport were not included within the estimates of total passenger and wider economic benefits associated with Heathrow expansion. As a result, the published estimates of benefits in the HEAR for all passengers were understated by around £13 billion cumulatively over the 60-year appraisal period in the central 'Current Trends' case. Although other scenarios had not yet been recalculated, once they were, the DfT expected that a proportionate uplift would be reflected in their benefit cases.

2.14 The DfT's view was that these revisions did not affect the overall conclusions of the economic case in the draft HENPS.

2.15 The final impact of this technical correction was to increase the DfT's estimate of the consumer benefits[19] of expansion from £35-55 billion to £48-68 billion (present value, 2024 prices) under the 'Current Trends' scenario. The DfT has not published information on the impact on Heathrow consumers only, but have informed us that:

- for the "cost pass through" case (the lower end of the range), Heathrow consumer benefits from expansion would be £5.7 billion, 12% of the total benefits to consumers; and
- for the "no pass through" case (the upper end of the range) it would be £27.4 billion, 40% of the total.

17 committees.parliament.uk/publications/54663/standard/pdf/

18 Written evidence - HEN0088

19 Includes benefits for both UK and foreign resident consumers, across all UK airports.

Modelling of economic impacts of Heathrow expansion, by University College London Air Transportation Systems Lab

2.16 In July 2026, HAL submitted the final report of a study it had commissioned from the University College London ("UCL") Air Transportation Systems Lab using its Airline Behaviour Model ("ABM") to examine the effects of Heathrow expansion up to 2050.

2.17 The study examines the potential economic impacts of expanding Heathrow Airport, focusing on how additional runway capacity affects airline behaviour, passenger demand, fares, competition between London airports, airline profitability, consumer welfare and aviation CO_2 emissions. The ABM simulates competition between airlines and passenger choices and allows airlines to adjust fares, flight frequencies, aircraft deployment and networks in response to changing airport capacity, costs and market conditions. Currently the ABM covers intra-European and transatlantic aviation only, representing around 70% of Heathrow's current operations.

2.18 The core scenario for the analysis used:

- the "high" UK economic growth scenario from the DfT's Common Analytical Scenarios ("CAS");
- OECD projections of future population and GDP for other countries; and
- HAL's assumptions for airport charges for the 2- and 3-runway cases.

UCL also ran sensitivities for lower UK economic growth, 20% higher and lower landing charges for the 3-runway case, constrained aircraft availability, and higher fuel prices.

2.19 Under the core scenario, the analysis suggests that Heathrow expansion would increase traffic across the London airport system, but with large increases at Heathrow being partially offset by reductions at other airports (most notably at Luton and Stansted). The drivers for this include:

- capacity expansion allowing airlines to offer services to and from Heathrow that are more attractive to passengers leading to higher demand; and
- average Heathrow economy fare that is around 17% lower in 2050 as a result of expansion. This reflects both a change in the mix of services at Heathrow as well as a reduction in scarcity rent.

2.20 Under the core scenario, for the set of routes modelled, there is an estimated £3 billion in annual consumer benefits by 2050. However, in the period before Heathrow expands when costs of expansion are being recovered from Heathrow consumers, this will likely lead to an increase in landing charges

which could be (at least partially) passed through via higher passenger fares, leading to net consumer losses. After Heathrow expands, the new services and lower scarcity rents that result from expansion offset the impact of higher landing charges on fares, resulting in consumer benefits.

2.21 Under the sensitivities for lower economic growth, higher airport charges, constrained aircraft availability and higher fuel prices, benefits to consumers are lower due to the slower uptake of additional capacity, but the net benefits to consumers remain positive.

Our assessment of the further evidence

DfT's appraisal for draft HENPS

2.22 Since the July 2026 Final Decision, we have engaged the DfT on its appraisal of Heathrow expansion, which was published alongside the draft HENPS, as well as on the subsequent technical correction that it made to the benefits case. This engagement has helped us to better understand the implications of the DfT's work for our assessment of the impact of expansion on consumers.

2.23 As explained above, the correction has increased DfT's estimate of the consumer benefits of expansion over the 60-year appraisal period from £35-55 billion to £48-68 billion (present value, 2024 prices) under the 'Current Trends' scenario.

2.24 The upper bound represents "no pass through", which assumes that none of the additional airport charges required to fund expansion are passed through to Heathrow consumers. In effect, this assumes airlines would absorb the additional cost, and their profits would be commensurately lower than they would otherwise have been. The lower bound represents "cost pass through", which assumes some reduction in scarcity rents (represented by "shadow costs" in the DfT model) and some cost pass-through to Heathrow consumers.

2.25 We consider the DfT model to be an important source of evidence for our assessment of the benefits to consumers of expansion at Heathrow airport. It is the only independent analysis of the impacts of expansion that is currently available and is based on the DfT's established suite of UK aviation models which have been in use for several years and have undergone peer review.

2.26 However, the DfT's appraisal report recognises limitations in the DfT's ability to model the impact of the assumed levels of additional airport charges on consumers. This results in the model underestimating the extent to which the additional charges are passed through to consumers in the form of higher fares and therefore means that the model overestimates passenger demand at Heathrow in some years.

2.27 The report indicates that under the "cost pass through" version of the 'Current Trends' scenario, a proportion of the £24.8 billion assumed scheme costs (net present value, 2024 prices) would be borne by passengers. Our further engagement with the DfT indicates that up to around a half of the £24.8billion (i.e. up to around £12 billion in net present value terms) would be borne by passengers. This significantly reduces the consumer benefits of expansion under the "cost pass through" version of the 'Current Trends' scenario. Nonetheless, we consider that the potential benefits remain substantial (i.e. greater than £35 billion in net present value terms[20]).

2.28 A further limitation of the DfT's "cost pass through" version is that the modelling assumes that airlines increase the fares they charge passengers by the same amount across all passengers, which causes a significant number to use airports other than Heathrow. In practice, airlines would have an incentive to increase fares more for passenger groups that are less price-sensitive, so they are more likely to continue to fly from Heathrow. This limitation means the DfT model may overestimate the consumer benefits in the lower-bound cost pass-through scenario.

2.29 The net impacts of these limitations are difficult to assess in practice, though they suggest that the lower bound in the DfT's assessment is uncertain and that consumer benefits are likely to remain positive under a reasonable range of assumptions.

2.30 The DfT has shared with us the data in Figure 2.1, which shows the annual profiles of consumer benefits under the upper and lower bound of the Central Trends scenario. This shows that the consumer benefits of expansion are positive after 2050 under both scenarios, when the airport is fully expanded[21] recognising that the overall level of airport capacity in the southeast of England would be becoming constrained. Under the cost pass-through version, there is an annual net cost to consumers before this period.

2.31 In the HEAR document published by the DfT in June 2026, it explained that the level of congestion costs (scarcity rents) at Heathrow is one of the factors that is likely to determine the extent to which the higher airport charges needed to fund expansion are passed through to Heathrow consumers. The lower the scarcity rent at Heathrow relative to the assumed additional annual charge, the greater the proportion of the additional charge is likely to be passed through to consumers. The two versions of the 'Current Trend' scenario can therefore be

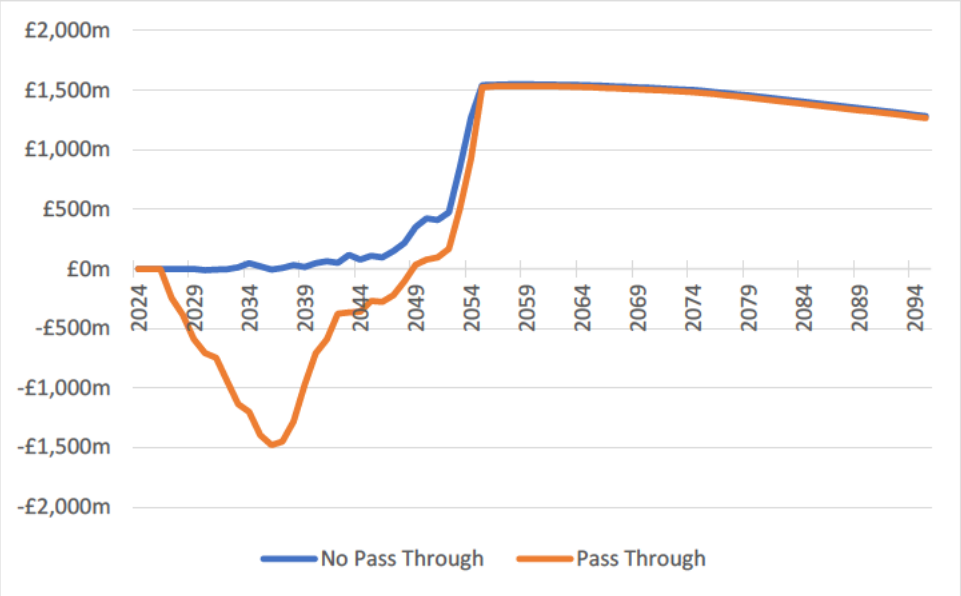
20 Calculated by taking the DfT's corrected estimate passenger benefits of £48bn under the "cost pass through" scenario and subtracting half of the £24.8bn in scheme costs not already passed through to consumers under this scenario.

21 After the runway (in 2035) and all planned terminal extensions (the first in 2038, and the last in 2050) have been completed.

interpreted as illustrating the impact of alternative assumptions about the scale of scarcity rents at Heathrow. The chart indicates that if scarcity rents were relatively limited, such that more of the increase in airport charges are passed through to Heathrow consumers, as in the "cost pass through" version, consumers would be worse off under expansion for a significant proportion of the appraisal period, with benefits accruing later in the period.

2.32 At this stage we regard both versions of the DfT's 'Current Trends' scenario as plausible points in a range. We continue to consider that scarcity rents are likely to exist but there is considerable uncertainty as to their scale. We have initiated our own analysis and continue to review other relevant evidence to refine our assessment of the likely scale of scarcity rents.

Figure 2.1: DfT estimates of net passenger benefits per year under the i) "no pass through" and ii) "cost pass through" versions of their Current Trends scenario, all passengers[22]



Source: CAA analysis of DfT estimates of consumer benefits of expansion

2.33 We are continuing to engage with DfT on the results of its appraisal of Heathrow expansion, and the associated benefits case, and will seek to better understand:

- the sensitivity of the appraisal results to changes in assumptions, including potential cost inflation and construction overruns;[23]

22 Passenger benefits are corrected estimates consistent with those it released in October in a letter to the Transport Select Committee.

23 This includes understanding the implications of the reductions in the discount rates announced during the

- the impact on appraisal results of delays to expansion and different assumptions on the development of capacity at other airports;
- the implications of the limitations recognised by the DfT, and highlighted above, for estimates of the consumer impacts of expansion; and
- the differences in consumer benefits under HWL's expansion plans.

Scarcity rents and airline response to higher airport charges

2.34 While the UCL modelling provided by HAL considers issues around airfares and competition, we have not received any new evidence providing a direct quantitative assessment of the scale of scarcity rents at Heathrow, since the July 2026 Final Decision.

2.35 In the July 2026 Final Decision, we said we would further review the econometric estimates of scarcity rent at Heathrow. More specifically, we stated that we would review the analysis produced by Frontier Economics ("Frontier") for HAL in its 2019 study[24], recognising its direct relevance and relationship to Frontier's 2025 cost-benefit analysis of expansion, which was discussed in our April 2026 Draft Decision.[25]

2.36 Frontier's econometric analysis aimed to explain differences in observed fares between Heathrow and other airports by controlling for a variety of factors that could influence ticket prices. It included a "dummy variable" for Heathrow to capture the effect of scarcity rents[26] on fares. The results suggested scarcity rents of between 14 to 22% for short-haul and 22 to 29% for long-haul routes at Heathrow Airport.[27] Frontier argued these rents could be underestimated if the other airports in the sample were also capacity constrained.

Budget in October 2026. Given the profile of consumer impacts, we expect these changes to increase DfT estimates of net consumer benefits.

24 Frontier Economics, Estimating the Congestion Premium at Heathrow, May 2019, prepared for Heathrow Airport Limited

25 While Frontier has used econometric analysis to estimate scarcity rents at Heathrow Airport on several occasions, our understanding is that the 2019 analysis represents its most developed framework, and subsequent work applies the same framework with updated data.

26 Frontier's work does not control for differences in airport charges between airports, although its report (section 4.6) does indicate that, were these differences to be accounted for outside the model, then the residual scarcity rent at Heathrow would still be high.

27 Page 55 of Frontier (2019) notes that these estimates are expressed as a percentage increase on counterfactual fares rather than actual fares. They said that a 25% scarcity rent is equivalent to saying that 20% of an actual fare is scarcity rents. Following the same logic, as a proportion of actual fares, Frontier's estimates of scarcity rent would then be between 12-18% of actual fares for short-haul and 18-22% of actual fares for long-haul routes at Heathrow Airport respectively.

2.37 While we consider this evidence supports the existence of scarcity rents, we have reservations about the estimated magnitude of those rents. We are concerned that limitations around the fare data used, which are discussed below, and the omission of relevant variables from the analysis could bias the estimates of scarcity rents.

2.38 We understand the limitations surrounding the fares data used by Frontier stems from the approach used to derive this data. In this respect, fare data was based on an average revenue per passenger (revenue divided by passengers), aggregated for a given airport pair on an annual basis rather than the individual fares paid by passengers. This is the nature of this type of fare data, coming from global distribution systems. We suspect that the aggregation of the data in this way will mean that some potentially useful information is lost, including for example how fares vary across different ticket types, or across flights departing at different times of day. We are also aware that, as noted in the IAG paper on empirical scarcity rents[28], referenced above, the IATA fare data is randomised on certain routes and that this may introduce measurement errors.

2.39 We have initiated our own econometric analysis of scarcity rents at Heathrow Airport and are seeking to address the omission of certain variables in the Frontier modelling by introducing a proxy variable for scarcity rather than a dummy variable. We are also seeking to resolve issues around limitations in fares data to the extent that is practicable. We will take the results of this analysis into account as we further develop our policy on early costs for 2027 and beyond.

2.40 The new modelling from UCL submitted by HAL is useful as it aims to consider airline behaviour in a more sophisticated way than the DfT's model. UCL's analysis suggests that consumers would benefit from expansion under a range of scenarios even after taking account of the likely response of airlines to the higher airport charges required to fund it. The results suggest that consumers will be worse off in the period until expansion[29] but that beyond this there will be net benefits to consumers. Unlike the DfT's modelling, the UCL analysis suggests that passenger numbers at Heathrow will not significantly reduce as a result of the increased airport charges that are needed to fund expansion.

2.41 Having said that, we have some concerns around the UCL analysis. In particular, the core scenario uses high economic growth assumptions for the UK unlike the DfT model which uses the central assumptions. The UCL model also uses HAL's cost assumptions, which our advisor Steer has suggested may

28 "Empirical Tests of the Starting Scarcity Rent Hypothesis at Heathrow"

29 The UCL models only every fifth year. Consumer surplus in the core case is lower for the 3-runway scenario than in the 2-runway scenario in 2030 and 2035, but higher in 2040, 2045 and 2050

be underestimated.[30, 31] In addition, the model currently only covers traffic to and from Europe and North America and its quantification of costs and benefits to passengers and airlines only include those incurred on this subset of passengers. However, it is not clear what the net effect of these concerns / factors are in terms of UCL's findings.

Summary, next steps and consultation questions

2.42 Having reviewed the further evidence which has become available since the publication of the July 2026 Final decision, we remain of the overall view that while there are significant uncertainties about the impact of expansion on consumers, it has the potential to deliver significant net benefits. We also note that airlines have expressed repeated concerns about the affordability of future airport charges at Heathrow but have not provided compelling evidence that quantifies the level of airport charges at which these issues would arise.

2.43 We will undertake further work and update stakeholders in due course on:

- the emerging findings of our own econometric analysis of airfare data, and what this implies about the scale of scarcity rents at Heathrow airport;
- our views on the relevance of the report by Oxera that the Airports Council International (ACI) recently published [32]. This reviews the drivers of airfares at airports in general [33], and presents the results of econometric analysis undertaken by Oxera that suggests congestion and capacity constraints at airports are significant drivers of airfares;
- further information on the expected costs of capacity expansion and the likely impact on airport charges;
- our further engagement with the DfT to understand the sensitivity of its appraisal results to changes in assumptions, the implications of the limitations in its modelling and how its estimates of the benefits of expansion change under HWL's proposed scheme;

30 In CAP3238A, Steer has suggested that a plausible range for the costs of expansion of between £33 billion and £52 billion (in 2024 prices), excluding surface access costs.

31 UCL report undertaking two separate sensitivities: using an economic growth forecast similar to the DfT's; and assuming airport charges were 20% higher than HAL's forecast. In both these cases, traffic was only reduced slightly at Heathrow although the benefits of expansion were smaller.

32 Publication WHAT REALLY DRIVES AIR FARESB5_digital.pdf, and Oxera final report_drivers of airfares - 12102026.docx, October 2026

33 Not specifically at Heathrow Airport. The analysis was produced in the context of the European Commission's 'Fitness Check' review of the EU aviation market legislative framework,

- any evidence that emerges on possible additional costs for consumers from environmental mitigations following the CCC's assessment that expansion at Heathrow could proceed consistently with net zero only if the Government introduced a robust framework requiring the aviation industry to achieve net zero emissions by 2050 and bear the associated costs; and
- any further evidence provided by stakeholders in response to this consultation.

2.44 We welcome the views of respondents on any aspect of the issues discussed in this chapter. In particular, we would welcome comments on our overall conclusions regarding the benefits of Heathrow expansion as well as any further evidence relating to scarcity rents at Heathrow and the impact of higher airport charges on the demand from airlines for additional capacity at Heathrow.

Chapter 3

Recovery of further early costs

Introduction

3.1 This chapter sets out our proposed approach and rationale for the further recovery of early expansion costs incurred by HAL and HWL. It builds on our July 2026 Final Decision, in which we confirmed that HAL could recover early costs incurred in 2025 and 2026, and HWL could recover early costs incurred before the end of November 2025.

3.2 Expansion remains at a relatively early stage. Since our July 2026 Final Decision, the promoters have continued to develop their proposals, and Parliament has begun its scrutiny of the draft HENPS. The Government is in the process of reviewing responses received to its draft HENPS consultation before taking decisions on any final HENPS, and promoters have continued to express their public support for expansion. Recent statements by airlines and their representative bodies also indicate support for expansion in principle, provided that it can be delivered efficiently and affordably.

3.3 Further progress will be required in a number of areas in the next phase of the programme: the content and designation of any final HENPS; promoter development of the detail of their schemes; the evidence base around the expected costs and consumer benefits of expansion; and the arrangements for financing expansion. These matters will also impact how the regulatory framework should develop to further the interests of consumers.

3.4 Against this background and our assessment of the benefits of expansion set out in Chapter 2, we are consulting on proposals to allow for the recovery of further early costs on a limited basis. Our view remains that, based on the evidence currently available, expansion could deliver benefits for consumers, including through increased route choice and competition.

3.5 We consider that our proposals further the interests of consumers by continuing to support the development of credible proposals for expansion. Without this support the programme would likely be significantly reduced in scope or come to a halt, with the potential for future benefits to be lost. As well as supporting the further development of credible proposals our approach should allow the programme to further mature and the uncertainties noted above to be resolved, while protecting consumers from unnecessary or inefficient costs. Nonetheless, these are proposals for the limited recovery of further early costs and do not determine whether expansion will proceed, which scheme should be taken

forward, or whether we will allow for the recovery of early costs that might be incurred later in the process.

3.6 In addition to the broad proposal to allow for the limited recovery of further early costs, we are proposing to allow more than one promoter to recover the costs of developing a DCO application. Allowing multiple promoters to recover further early costs should create benefits through competition and the development of alternative proposals for expansion in terms of their scope, approach and efficiency within the overall framework set by the draft HENPS. However, it will also increase the costs ultimately borne by Heathrow consumers. To further the interests of consumers and our other statutory duties, we are only allowing these extra costs on the basis that:

- the expected consumer benefits arising from competition between promoters during the DCO process, and afterwards, are likely to outweigh the additional costs associated with allowing more than one promoter to recover costs which will result in a net benefit to consumers;
- each promoter's proposal is appropriately mature, credible and deliverable to support effective competition and the realisation of those potential consumer benefits at the relevant stage of the process; and
- recovery of costs in the way proposed by the CAA is consistent with the requirements of the SCA 2022.

3.7 In this chapter, we first describe the evolving context for expansion and explain how the remaining uncertainties associated with expansion have informed our proposed approach to the further recovery of early costs. We then set out our current assessment of the potential benefits and costs to consumers of allowing multiple promoters to recover further early costs, and of the maturity and credibility of the promoters' proposals. We also provide an update on our consideration of the SCA 2022.

The evolving context for expansion

3.8 HAL and HWL continue to develop proposals for expansion at Heathrow. There remain a number of important matters that will need to progress in the next phase of the programme. These issues could have a significant impact on whether expansion proceeds, the form that any expansion may take, and the regulatory framework that will support it. They include:

- the evolving policy framework around expansion. In particular, the content and designation of any final HENPS remains subject to the outcomes of the DfT's consultation response analysis, the Parliamentary scrutiny process and Parliamentary approval. Decisions taken by Government may have an important bearing on the development of expansion proposals and the planning framework within which they are considered;

- further work on the expected costs and benefits of expansion. As set out in Chapter 1 and Chapter 2, the costs, financing requirements, programme risks and expected consumer benefits associated with expansion will become clearer as plans develop further. These factors will be central to any future assessment of whether expansion is in the interests of consumers and whether further early costs should be recoverable from consumers. This includes, but is not limited to:
  - how competing expansion proposals may develop and how these proposals may be considered through the planning process. At this stage both HAL and HWL are developing DCO applications, and the scope, maturity and relative merits of their respective proposals will evolve over time. There is also uncertainty regarding how competition between promoters may develop and how the regulatory framework should support outcomes that further the interests of consumers;
  - areas where further work is required to better understand the scope and potential costs of the expansion scheme. This includes whether any changes following the draft HENPS consultation, and parliamentary scrutiny process lead to any further mitigations that would increase costs to consumers. For example, in relation to the level of surface access costs that consumers may bear, and in relation to any new measures brought forward to response to the advice of the CCC; and
  - significant work will be required on whether and how expansion is financeable. Expansion is likely to require substantial investment over an extended period. The Government's current assumption is that this will be financed by the private sector. We have commissioned some initial technical analysis on financeability and will publish a technical report shortly once finalised. Further work by all parties will be needed before the CAA reaches a position on this issue, including as the scope and conditions of expansion become clearer and the impact on affordability better understood. Depending on the outcome of this further analysis, it would be for the Government to determine its approach to any support should this be required.

3.9 Taken together, these factors mean that there remains considerable uncertainty regarding the eventual form, timing and delivery of any expansion scheme.

Proposed approach to further recovery of early expansion costs

3.10 As outlined in Chapter 2, there remain plausible scenarios where there are significant net benefits to consumers from expansion. Therefore, we consider it will further the interests of consumers to allow the recovery of early costs for a further limited period. This will also allow time for the uncertainties discussed

above to be better understood and resolved, and for the case for expansion to be crystallised. This would allow us to better assess whether, and in what form, expansion could further the interests of consumers. Nonetheless, the existence of these uncertainties also means that any arrangements for the recovery of further early expansion costs should be proportionate, time-limited and subject to appropriate controls.

3.11 We are therefore proposing to continue to allow the recovery of certain early expansion costs incurred by HAL during the first six months of 2027, and by HWL during 2026 and the first six months of 2027. This would allow appropriately targeted work to continue while the wider policy, planning and regulatory context develops. It would also support the further development of evidence on the promoters' proposals, their likely costs and benefits, and the potential implications for consumers.

3.12 Our proposal does not set a precedent or imply support for the recovery of early costs beyond the first half of 2027. Rather, it represents a limited and staged approach intended to preserve options for the delivery of expansion, while further evidence becomes available and important uncertainties are addressed. As part of this approach, we propose to limit expenditure to costs associated with activities that are appropriately justified, efficiently incurred and reasonably required during the relevant period to maintain a credible path towards a DCO application, as explained further in Chapter 4 and Chapter 5.

3.13 In developing these proposals with a view to furthering the interests of consumers, we have considered the need to balance:

- making allowances that support the timely and proportionate development of expansion proposals and, in doing so, also support the development of the evidence base for future policy and regulatory decisions;
- preserving the potential benefits of competition between promoters where these are likely to further consumers' interests;
- limiting Heathrow consumers' exposure to costs that may not lead to expansion or deliver corresponding benefits; and
- retaining flexibility to revise our approach as the relevant evidence and wider circumstances develop.

3.14 During the first half of 2027, we intend to review our approach to the recovery of early costs incurred after the end of June 2027. In carrying out that review, we expect to consider the evidence available at that time, including:

- whether there is greater clarity about the expected costs and benefits of expansion;

- developments in the Government's policy framework and the planning process;
- developments that may impact the costs and benefits of the scheme, following consultation and the parliamentary scrutiny process;
- progress made in understanding how expansion could be financed and the potential implications for consumers; and
- the efficiency, necessity and timing of the activities for which further cost recovery is sought.

3.15 This staged approach does not remove the risk that Heathrow consumers may ultimately fund some early expenditure that does not result in a successful DCO application or a completed expansion scheme. That risk is inherent in the decision we have taken to support work at an early stage given the significant uncertainties that remain. Our proposed controls on the scope, timing and assessment of recoverable expenditure are intended to limit that exposure to a level that is reasonable and proportionate, given that the benefits to consumers from expansion are potentially very significant.

Benefits of competition between promoters

3.16 In our Draft Decision in April 2026, we considered that promoters, other than HAL, with credible and appropriately mature proposals ahead of the Governments' November 2025 Announcement should be able to recover their efficient early costs because:[34]

- having a degree of competition between promoters would have advantages to consumers in terms of promoting efficiency and supporting the evaluation of a wide range of expansion options within any final HENPS framework established by Government and Parliament;
- it could provide benefits to consumers by creating a "level playing field" that would enable competition to develop with respect to the planning of capacity expansion; and
- a policy consistent with our previous consultations on the matter (for example our September 2025 Update and December 2025 Consultation) would promote confidence for investors and potential new entrants in the overall regulatory regime. In turn, this would contribute to keeping financing costs lower than they would otherwise be.

34 CAA, CAP3238, Draft decision on the regulatory treatment of early costs of capacity expansion at Heathrow Airport, April 2026.

3.17 We consider that there is evidence of competition delivering benefits already, recognising that HWL's response to the request from Government to develop plans for expansion appeared likely to have had some disciplining effect on costs of the proposals put forward by HAL. Bearing this context in mind and the scale of the expansion programme, in the July 2026 Final Decision[35] we decided to allow the recovery of early costs by both HAL and HWL. We considered that the benefits to consumers of HWL's participation in the Government's process of developing its expansion policy would likely constrain the overall costs of expansion by more than the early costs allowance we made for HWL.

3.18 Since our July 2026 Final Decision, we have been considering new evidence on the benefits of expansion to consumers as well as engaging with promoters on the development of their proposals and on the nature, timing and scale of expenditure they expect to incur in 2026 and 2027. Both HAL and HWL have incurred, and are expected to continue incurring, significant expenditure to develop their respective expansion proposals with the intention of submitting DCO applications before the end of 2027. We discuss in Chapters 4 and 5 the cost projections from HAL (for the first half of 2027) and HWL (for 2026 and the first half of 2027).

3.19 We have considered whether the potential benefits to consumers from allowing the recovery of early costs to support competition between promoters is likely to outweigh the additional costs. In our wider work on the development of the regulatory framework for expansion, we have noted that a model that allows for 'direct competition' (via the award of a DCO to a third-party promoter) will have the potential to improve consumer outcomes by incentivising parties to offer their best proposition to users. This competition will likely provide incentives to promoters to compete on price and quality and could lead to lower costs or a superior service offering in areas that matter to consumers.'[36] Further, we found that the introduction of competition in other regulated sectors had led to significant consumer benefits. For example, in its impact assessment on the introduction of competition in new onshore transmission networks, Ofgem estimated that competition in new onshore transmission networks could lead to cost savings of up to 22%.[37]

35 CAA, CAP3289, Final decision on the regulatory treatment of early costs of capacity expansion at Heathrow Airport, July 2026.

36 CAA, CAP3251, Heathrow capacity expansion – consultation on a shortlist of regulatory models, May 2026.

37 Ofgem (2022), "Impact Assessment on developing arrangements to allow for early competition to be applied to future projects on the onshore electricity transmission network", March, p6.

3.20 At a high level we consider that the consumer benefits of more than one promoter working towards a DCO application include, but are not limited to:

- alternative approaches to scheme design, including a phased runway, differing terminal locations and alternative connections to the existing terminals. This could in turn result in lower overall scheme costs, or additional benefits for consumers from alternative scheme designs;
- greater competitive pressure to deliver expansion efficiently, potentially resulting in lower airport charges for Heathrow consumers; and/or
- preserving a credible alternative route to expansion if one proposal proves unable to secure consent, be financeable or be delivered on acceptable terms, thereby reducing the risk of delay or non-delivery.

3.21 As the overall costs of expansion are likely to be very large, (several tens of billions of pounds[38]) even relatively small efficiency gains from competition could generate benefits that outweigh the costs of allowing more than one promoter to recover early costs incurred in 2026 and the first half of 2027. Based on our review of HAL's proposal and the updated HWL proposal after the publication of the draft HENPS, we consider that competition has delivered the following benefits to date:

- increased optionality and innovation in design: The draft HENPS includes the possibility of phased delivery of expansion, an approach proposed by HWL. There are also a number of other differences between HAL's and HWL's scheme designs, as well as scope for further innovation, which could broaden the range of options available to reduce costs and shorten delivery timescales;
- improved cost discipline: Competition between promoters creates additional options for project financing and incentivises promoters to make sure the scheme design is efficient and can be delivered in a timely manner; and
- a broader evidence base to support the expansion process and regulatory decisions: Both promoters are required to provide independent technical information, evidence and cost estimates to support their schemes. This broadens the evidence base and allows for comparisons and benchmarking between promoters, supporting more effective decision-making as part of the DCO process.

3.22 Our broad assessment is that competition between promoters has the potential to deliver greater savings for consumers than the incremental costs of allowing

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

cost recovery for an additional promoter. We consider that there is a strong case for supporting competition given that the overall costs of expansion may be more than 100 times greater[39] than the incremental costs of allowing an additional promoter to develop a DCO application. This supports our approach of continuing to allow both promoters to recover their efficient early expansion costs, provided that they have credible and appropriately mature proposals and there is a reasonable legal basis for allowing cost recovery, which we discuss further below.

3.23 We recognise that the balance of costs and benefits associated with allowing cost recovery by more than one promoter may change over time, particularly as Government policy, the HENPS and the promoters' proposals develop. We will therefore keep under review whether continued cost recovery by more than one promoter remains in consumers' interests.

Assessment of HAL's plans and eligibility

3.24 HAL's proposed expansion scheme consists of a new 3.5 kilometre runway northwest of the existing airport campus, a new terminal (5XW) to the west of Terminal 5, a satellite Terminal (5XN) between Terminal 5 and the existing Northern Runway and associated infrastructure. HAL's scheme formed the basis for the Government's draft HENPS, which it published for consultation in June 2026.

3.25 Alongside our Draft Decision in April 2026,[40] we published a report by our consultants, Steer, which evaluated expansion proposals against a maturity assessment framework based on the information requirements set out in the Secretary of State's letter to potential promoters in June 2025.[41] The report assessed HAL's proposal as being reasonably complete and robust at that time, although it also highlighted risks around the delivery timetable and cost estimates. This informed our conclusion that HAL's plans were appropriately mature and credible to justify recovery of efficient early costs, as set out in our July 2026 Final Decision.

39 The Steer report commissioned by the CAA have estimated the costs of HWL's 2026 scheme to be £23.9 billion, with a range of £25.8 billion to £40.7 billion. This compares with an estimated cost of £33.0 billion for HAL's scheme, within a range of £32.7 billion to £52.4 billion (all in 2024 CPI prices). Based on the information currently available to the CAA, our high-level estimate is that the early costs incurred or to be incurred by a second promoter for the purpose of submitting a DCO application would be in the range of £150 million.

40 CAA, CAP3289, Final Decision on the regulatory treatment of early costs of capacity expansion at Heathrow airport, July 2026

41 Steer, CAP3238A, Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport, April 2026

3.26 Since this assessment was undertaken, HAL has publicly stated that a 2035 runway opening date is no longer credible, and that a period of around ten years following a DCO decision represents a more realistic delivery timeframe.[42] It is also seeking a reduced scale of early costs in the first half of 2027, which we discuss in more detail in Chapter 4.

3.27 HAL opened its public consultation regarding Heathrow expansion on 27 October 2026. HAL has not made substantive changes to the scope of the scheme and has not yet completed a detailed review of the scheme cost estimates (with this expected in 2027). Its recent submission to the CAA on early costs includes forecast early costs for the period January to June 2027 and indicates that HAL is continuing to progress its scheme in line with its target of submitting a DCO application by the end of 2027.

3.28 At this stage, we continue to consider that HAL's proposals are appropriately mature and credible to support further recovery of efficient early costs for a defined period (1 January 2027 to 30 June 2027). We also note that HAL's scheme is the basis for the Government's draft HENPS and continues to be progressed through the statutory planning process. In these circumstances, we consider it reasonable for HAL to continue undertaking the activities necessary to develop and assess its proposals ahead of a DCO application. This is aligned with the views we set out above that making limited further allowances for early costs is consistent with furthering the interests of consumers.

3.29 We intend that these allowances are subject to appropriate limits and controls, designed to further the interests of consumers, as set out in Chapters 4 and 6. These additional protections should ensure cost recovery is proportionate given the safeguards that apply to the costs, including caps on recoverable expenditure and the scrutiny of costs that we have undertaken, as well as the obligation to complete ongoing reporting and the future efficiency reviews.

Assessment of HWL's plans and eligibility

3.30 In July 2026, HWL submitted information to the CAA in relation to its updated expansion proposal (the "HWL 2026 proposal"), which it had already engaged Government and the Planning Inspectorate on. This scheme, which differs from the scheme HWL was developing during 2025, includes:

- a 2.4 kilometre third runway, which could be extended in future to a longer 3.5 kilometre runway;
- a new 'Terminal 6' terminal building and associated satellite connected to the Terminal 5 campus; and

42 Heathrow Airport warns third runway could be delayed by four years - BBC News

- associated airport infrastructure including taxiways, utilities and services.

3.31 This is a substantial update to HWL's proposals in 2025, where it was proposing a runway of 2.8 kilometres, crossing the M4 spur. The 2025 scheme was the basis of our previous assessment of HWL's proposals, which we concluded was sufficiently credible and appropriately mature to inform the Government's policy process.

3.32 To assess whether HWL's 2026 proposal is credible and appropriately mature for this point of the process, we asked our advisors Steer to carry out a high-level technical assessment of HWL's 2026 proposal, focused on deliverability, capacity and alignment with the draft HENPS. This technical assessment was designed to inform our consideration of whether HWL's proposals demonstrate:

- a credible programme and route to DCO submission, including clarity on scheme scope and design;
- progress on environmental assessments, consultations and other DCO requirements;
- technical and operational feasibility;
- quality and transparency of cost forecasts;
- evidence of clear milestones and promoter commitment;
- the work is proportionate to the scheme's current stage of maturity; and
- alignment with the emerging HENPS framework.

3.33 The conclusions of Steer's updated assessment are that HWL has developed a credible scheme that offers potential advantages in terms of costs and delivery, including an initially smaller footprint, reduced requirements on land and infrastructure, and the avoidance of major works over the M25 or M4.[43]

3.34 Steer have estimated the costs of HWL's 2026 scheme to be £23.9 billion, with a range of £25.8 billion to £40.7 billion. This compares with an estimated cost of £33.0 billion for HAL's scheme, within a range of £32.7 billion to £52.4 billion (all in 2024 CPI prices), as estimated in its April 2026 report.[44]

3.35 Steer's report highlights several important issues in relation to HWL's 2026 scheme which require further development or assessment, including:

43 Steer - Heathrow expansion - HWL 2026 scheme - Cost and technical assessment

44 CAP3238A: Steer report – Initial technical and cost efficiency assessment of capex expansion plans for Heathrow Airport | UK Civil Aviation Authority

- HWL's cost estimate, which remains high level and requires further substantiation;
- the need for further supporting evidence on the capacity and operational resilience of the proposed 2.4 kilometre runway, its ability to support long-haul operations, its environmental performance, its integration with the existing airport and the feasibility of the proposed timetable; and
- the extent to which the proposal is aligned with the draft HENPS. Steer notes however that it is not possible at this stage to reach a firm view on alignment until the HENPS is finalised.

3.36 HWL has assembled an experienced technical team and continues to progress scheme development and consultation activity in support of its planned DCO application. While several issues require further development and assessment, the report from Steer indicates that HWL is continuing to develop its proposal. We will consider the scheme's consistency with any final HENPS once the Government has concluded that process.

3.37 Taking the above evidence into account, our initial view, for consultation, is that HWL's 2026 proposal is credible and appropriately mature to justify further recovery of efficient early costs in 2026 and the first half of 2027, subject to appropriate limits and controls (as discussed further in Chapters 5 and Chapter 6). While further work is required in several areas, we do not currently consider the remaining uncertainties to be such that they undermine the case for continued development of the proposal.

3.38 Supporting HWL's proposal by making regulatory cost allowances will help to preserve the benefits of allowing competition between promoters, including retaining competitive pressure on costs, increased optionality and a broader evidence base to inform future decisions.

Assessment of cost recovery under the Subsidy Control Act 2022

3.39 Consistent with the approach set out in Chapter 7, we propose that any regulatory allowances for efficient early costs incurred by HWL should be recovered through HAL's Licence and airport charges. Our current view is that our broad approach to these matters furthers the interests of consumers by protecting them from unnecessary or inefficient costs while also supporting:

- the proportionate development of credible expansion proposals;
- competition and rivalry between promoters; and
- the production of evidence needed to inform future regulatory decisions.

As HAL is the regulated airport operator and Licence holder, we consider recovery through its Licence to be the most practical and proportionate mechanism to allow the recovery of costs by HWL.

3.40 Before allowing further cost recovery by HWL through this mechanism, we must consider the potential application of the SCA 2022. Our assessment of these matters is ongoing, and any final decision to allow further recovery of costs by HWL would need to be consistent with the requirements of the SCA22, if applicable.

Summary and consultation questions

3.41 Our view is that there remain plausible scenarios under which expansion facilitates significant net benefits for consumers. We therefore consider that it will further the interests of consumers to allow for the recovery of early costs for a further limited period of time. In this consultation we are proposing to continue to allow the recovery of certain early expansion costs incurred by HAL during the first six months of 2027, and by HWL during 2026 and the first six months of 2027.

3.42 We would welcome stakeholders' views on any of the issues set out in this chapter or on related issues. In particular we would welcome comments on:

- our proposal to allow the continuing recovery of early costs up to June 2027;
- the potential benefits arising from the competition between alternative promoters that are progressing DCO applications for expansion; and
- our assessment of HAL's and HWL's schemes as appropriately mature and credible.

Chapter 4

Recovery of early costs by HAL

Introduction

4.1 The previous chapter set out our proposed approach to the further recovery of early expansion costs, including our assessment of whether allowing HAL to recover certain costs incurred during the first half of 2027 would further the interests of consumers. This chapter considers HAL's proposed programme of work and associated cost forecasts for the period from 1 January to 30 June 2027 ("H1 2027") and sets out our proposals for consultation on the scope and level of costs that should be eligible for recovery.

4.2 In formulating our proposals, we have considered whether the activities and associated costs proposed by HAL are appropriately justified and reasonably required during the relevant period to maintain a credible path towards a DCO application (using criteria around whether certain costs should be eligible for recovery). In addition, we have considered the potential for duplication of expenditure that will be funded through HAL's other price control allowances or with the costs that HWL might reasonably incur, in order to protect consumers from unnecessary or inefficient costs. Our approach is intended to protect consumers while allowing appropriately justified work on expansion to continue.

4.3 This chapter:

- describes HAL's proposed programme of work and cost forecasts for the period H1 2027;
- sets out our initial views on the costs that should be eligible for recovery;
- sets out our proposed approach to setting caps on the recovery of HAL's early costs;
- provides further guidance on our approach to determining whether costs are efficiently incurred and sets out areas where HAL should provide further evidence, information and proposals before we make our draft decision on cost recovery;
- summarises further work we intend to complete (supported by our technical consultants, Steer) in relation to HAL's H1 early costs; and
- sets out key issues for consultation.

4.4 In our July 2026 Final Decision, we confirmed the treatment of eligible early expansion costs incurred by HAL up to the end of 2026. Our proposals in this

chapter concern costs incurred in H1 2027 and do not reopen the treatment of costs covered by that previous decision. Nor do they determine the treatment of any costs incurred from July 2027 onwards, which we will consider separately.

HAL's proposed programme of works and early costs H1 2027

4.5 HAL wrote to the CAA on 1 October 2026 and provided a detailed Business Plan on 9 October ("October 2026 submission") setting out its proposed programme of expansion activities in the first half of 2027. The October 2026 submission also presented the associated early costs that are, in HAL's view, needed to preserve the option of securing DCO consent in 2029. In summary, HAL:

- set out forecasts indicating that it expects to incur up to £304 million (2024 prices) of early costs between January and June 2027;
- did not provide a cost forecast for the period between July 2027 and the date when a DCO decision is anticipated (2029), citing political and regulatory uncertainty that could affect the timing of any DCO submission and the pace at which the programme can progress. HAL indicated that it intends to review the programme and its position in the first half of 2027, to decide whether to continue pursuing a timetable that would support DCO consent in 2029, proceed under a revised timetable or cease further development activity; and
- has revised its delivery assumptions for expansion and no longer considers a 2035 delivery date for opening of the runway to be feasible. HAL is now assuming that delivery would take around ten years following a DCO decision. On the assumption that a DCO is granted in 2029, this would indicate that a third runway could become operational in 2039.

4.6 In its October 2026 submission, HAL asked the CAA to urgently confirm that the principles established in the July 2026 Final Decision would apply to expenditure incurred between January and June 2027, and beyond. Specifically, HAL asked the CAA to confirm that efficiently incurred costs:

- remain recoverable and would be added to HAL's regulatory asset base ("RAB"); and
- would be remunerated using the prevailing H8 cost of capital, including if HAL withdraws from the expansion process for genuine business reasons.

4.7 HAL also stated that:

- without this assurance, its Board would have no basis for approving continued expenditure, and the programme would need to be wound down. HAL has also asked us to reach a final decision on a cost recovery framework for the second half of 2027 by the end of April 2027; and

- the proposed expenditure of £304 million (2024 prices) is limited to activities that it considers necessary to maintain a credible pathway towards securing DCO consent in 2029 and would remain necessary even if the DCO application were submitted later than the end of 2027. HAL stated that all other costs would be deferred.

4.8 HAL's forecast is divided into four categories of expenditure, which are summarised in Table 4.1 below. In summary:

- DCO and programme management costs account for £216 million (70%) including a 30% risk allowance;
- Property and Early Works account for £88 million (30%), including a 5% risk allowance; and
- Around £60 million of the forecast consists of allowances for risk or contingency.

Table 4.1: HAL's proposed programme and cost forecasts for H1 2027

Category	H1 2027 forecast	Principle Activities
DCO	£169m	Design & Engineering; Ground Investigation & Data Acquisition; Environmental Impact Assessment; Surface Access; Specialist Property Advisory; Land Referencing & Property; Legal Support Services; other DCO activities; Risk allowance; Programme colleague costs and services.
Property	£38m	Residential & Community option schemes; Major Displaced business option schemes; Mid-Size Commercial business option schemes; risk allowance.
Early Works	£50m	Construction & Logistics; Expanded Airfield & Capacity Development; Central Terminal Area (CTA) Modernisation; Built Environment; risk allowance.
Programme Management	£47m	Programme Services; Colleague Costs; Programme Wide Costs; Programme Contingency; risk allowance;

		Opex, including CAA fees.
TOTAL	£304m	

Source: Source: HAL Business Plan 2027-29 (October 2026 submission). Figures are in 2024 prices.

Comparison with early costs for 2025 and 2026

4.9 In our July 2026 Final Decision, we set out a £320 million cap on costs to be incurred by HAL in 2025 and 2026. This cap was based on HAL's July 2025 forecast which set out broadly equivalent categories of expenditure as those set out in its October 2026 submission in relation to costs to be incurred in H1 2027. We have presented a comparison of these submissions in Table 4.2, to provide context for our assessment and transparency for stakeholders.[45]

Table 4.2: HAL's 2025–26 forecast and H1 2027 proposal (£m, 2024 prices)

Category	HAL forecast 2025–26 (approx. 24 months)[46]	HAL proposal H1 2027 (6 months)
DCO	£136m	£169m
Property	£84m	£38m
Early Works ("Deliver the capacity" in 2025–26)	£46m	£50m
Programme management (incl. opex in H1 2027)	£44m	£47m
Premobilisation	£10m	–
Total	£320m	£304m

Source: CAP3149, Table C2; HAL Business Plan 2027-29 (October 2026 submission). Figures are in 2024 prices

4.10 HAL's proposed expenditure in H1 2027 is almost as large as the cap we have already set for expenditure in 2025 and 2026. Proposed DCO expenditure for the six-month period exceeds the DCO forecast for 2025 and 2026. Forecast expenditure on early works and programme management for the period H1

45 For costs incurred in 2025 and 2026, HAL made further submissions in December 2025 and May 2026 which proposed an additional £130m of expenditure. However, the £130m uplift was not included in the £320 million cap therefore this expenditure is not included in Table 4.2 but is discussed below as the proposed uplift was related to land and property purchases and is relevant to our consideration of the scope of this activity for H1 2027.

46 This is HAL's forecast based on its July 2025 cost submission and is not the outturn or allowed costs for 2025-26.

2027 is broadly equivalent to expenditure in the equivalent categories in 2025 and 2026. Forecast property expenditure for this period is lower than the previous allowance for 2025 and 2026.

4.11 Our proposals for the treatment of HAL's early costs in 2025 and 2026, set out in our July 2026 Final Decision, were informed by a high-level analysis undertaken by our consultants, Steer. As part of that analysis, Steer mapped HAL's early costs against six cost categories:

- Program Management;
- Consenting and Statutory processes;
- Detailed Design;
- Property Planning;
- Property Acquisition and Site-Specific Assets; and
- Opex.

4.12 Out of the £320 million expenditure proposed by HAL for 2025 and 2026, £208m (65%) passed all the criteria considered by Steer as part of their technical assessment. This expenditure related to two cost categories "master planning and consenting" and "program management".

4.13 Steer also assessed the additional £130 million uplift that HAL submitted in May 2026 which included Property and Early Commercial Acquisition Costs (£86m) and concluded that this expenditure did not meet all the scrutiny conditions. In coming to its view on the property related expenditure, Steer noted that there was insufficient evidence to demonstrate that these activities were required for the DCO milestone or that costs needed to be committed during the early-cost period of 2025 and 2026, rather than at a later stage of planning or delivery.

4.14 Steer's assessment noted the risk of duplication with HAL's other property-related expenditure as part of its July 2025 submission and previous property-related activities. Given these risks of duplication, together with the inherent uncertainty surrounding future property requirements, the final decision was to maintain the cap at the £320m level and not to increase the cap to £450 million as requested by HAL.

4.15 We noted that the approach would allow us to consider any future property requirements against a more mature evidence base and a clearer understanding of the role these activities will play in supporting delivery of the expansion programme.

4.16 A decision on the final amount for 2025 and 2026 which will be added to HAL's RAB will be made following an *ex post* efficiency review, within the £320 million cap.

Proposed scope and eligible costs

4.17 As set out in Chapter 3, we propose to allow HAL to recover efficiently incurred early costs that are appropriately justified and reasonably required in H1 2027 to maintain a credible path towards a DCO application. Our approach also seeks to protect consumers from unnecessary and inefficient costs, including by avoiding unnecessary duplication in cost allowances.

4.18 In our July 2026 Final Decision, we said that we would reassess the scope and regulatory treatment of early costs incurred from 2027 onwards, having regard to the evidence and circumstances at the time of any future decisions. The framework established for costs incurred in 2025 and 2026 should not therefore be regarded as determining the treatment of costs incurred during the period covered by this consultation. However, where this would further the interests of consumers we have sought to build on this framework where it is reasonable and appropriate to do so.

4.19 HAL's October 2026 submission includes a range of activities associated with developing its DCO application, including property, early works and programme management costs over the course of H1 2027. These activities differ materially in their purpose, timing and risk profile. Some are principally concerned with developing the evidence, design and documentation needed for the DCO application. Others involve preparations for delivery, entering into property agreements or commitments, or developing assets and facilities that may be required after consent is granted. We have considered the activities proposed within each category, rather than simply assuming that all expenditure falling within a previously eligible category should continue to be recoverable. Our intention is to ensure that consumers are appropriately protected from unnecessary and inefficient expenditure.

4.20 The treatment of land, property and early works activities requires particular consideration, because committing expenditure too early may expose consumers to costs for land, property interests or enabling work that is subsequently not required or could have been deferred until the scheme and delivery arrangements were more mature. In our July 2026 Final Decision, we allowed the recovery of certain limited costs associated with preparatory land, property and enabling activities in 2025 and 2026. We considered that allowing these costs would enable HAL to make wider preparations for expansion, including the construction programme. We noted that not providing certainty could have been disruptive to HAL's programme of work for 2025 and 2026 and that the prospect of associated delays to the timetable could have led to a loss of consumer benefits from timely delivery.

4.21 Nonetheless, our assessment does not start from a presumption either that land, property and enabling costs should be recoverable because certain costs

were allowed previously, or that these categories should be excluded because significant uncertainty remains or because of previous disallowances.

Proposed assessment approach

4.22 Our proposed approach to the recovery of early costs incurred by HAL in H1 2027 builds on the broad framework established in the July 2026 Final Decision, including the use of expenditure caps and *ex post* reviews, while appropriately reflecting the current stage of the expansion process and remaining uncertainties. Our assessment approach has three elements:

- scope and eligibility: identifying the high-level categories and specific activities that may be eligible for recovery. Our initial view is that activities within each of the four categories in HAL's October 2026 submission (comprising DCO, property, early works and programme management) may be eligible for recovery, as explained below, but this does not mean that every activity or cost proposed by HAL within those categories will be recoverable;
- cap on recoverable costs: setting the maximum amount that HAL may recover for H1 2027. We are using HAL's estimate of £304 million as the indicative basis for the cap but provide further guidance below on recoverable costs. We also set out additional requirements that we propose HAL should meet in relation to land and property costs, and a category of enabling costs, before we will be in a position to confirm the cap for H1 2027. We expect to work flexibly with HAL to confirm the level of the cap as soon as is practicable. If HAL does not respond appropriately to these requests the final cap would likely be significantly lower than the £304 million estimate of the indicative cap; and
- determining the final recoverable amount: this will be done through an *ex post* review of outturn expenditure taking account of the guidance set out below, with efficient costs being included in HAL's RAB. The final recoverable amount may be lower than the cap and would remain subject to eligibility and consumer protection arrangements discussed in Chapter 6.

4.23 The cap would limit consumers' overall exposure and should not be treated as an approved budget, a spending target or an automatic entitlement to recover expenditure up to that amount.

4.24 In assessing the appropriate level of cost recovery at *ex post* review we propose to consider:

- necessity, proportionality and timing: whether the activity was reasonably required during the first half of 2027 to maintain a credible path towards a DCO application, having regard to the uncertainties described in Chapter 2;
- incrementality: whether the activity and associated costs can be reasonably considered to be additional to work funded through the H8 price control, the 2025-26 early cost allowance, or costs previously added to the RAB;
- avoidance of unnecessary duplication: whether the activity and associated costs duplicate similar work being undertaken by another promoter which could have reasonably been shared. We will consider whether specific activities are reasonably required because of differences between the proposals or to preserve the potential benefits of independent scheme development, and whether each promoter has taken reasonable steps to make relevant work available to other promoters; and
- efficiency: whether HAL's costs are efficient, having regard to factors including the proposed deliverables, delivery approach, resource assumptions, unit costs, risk allowances and relevant benchmarks.

DCO costs

4.25 HAL forecasts it will require up to £169 million for activities associated with DCO planning and preparing its DCO application between January and June 2027. This comprises £116 million of direct costs, a £37 million risk allowance and £17 million of programme costs.[47]

4.26 In principle these are appropriate activities for HAL to undertake at this stage, given it is actively working towards a DCO application which it intends to submit in 2027, in accordance with the draft HENPS. Therefore, we propose that appropriately justified DCO application and planning activities should fall within scope of costs eligible for recovery in H1 2027. However, this does not mean that every activity or cost included by HAL within this category should be recoverable in full from consumers.

4.27 Our initial high-level assessment of HAL's October 2026 submission has identified several matters where further information is required from HAL to support the assessment that will be part of our work on the *ex post* efficiency review. In particular:

47 Totals may differ due to rounding.

- whether any of the proposed activities have already been funded through previous early cost recovery arrangements, and whether outputs from previous work could be re-used or adapted for the current DCO process;
- whether the proposed activities are reasonably required during H1 2027, rather than being capable of deferral to a later date, without undermining a credible path towards submission of the DCO application;
- whether the scope, deliverables and forecast costs are sufficiently defined and supported by evidence; and
- whether HAL's proposed risk allowance for this category of costs, which is relatively large compared to the risk allowances proposed by HAL for other categories of expenditure, is appropriate. Any expenditure above the level identified by HAL as its "base level" will be subject to particular scrutiny. For the avoidance of doubt, this should not be read as CAA endorsement of the base level itself.

4.28 We have also commissioned Steer to undertake a technical review of HAL's October 2026 submission. We intend to consider Steer's assessment as part of our *ex post* review. Steer's assessment will include consideration of the need, timing and scope of the proposed activities, the evidence supporting HAL's cost forecasts and risk allowance, and the potential for overlap with activities funded or undertaken previously. Steer's work will also look forward, so we are better placed to consider any future allowances for early costs in the period after the end of June 2027.

Programme management costs

4.29 HAL forecasts that it will require up to £47 million for programme management activities during H1 2027. This includes £4 million of operating expenditure, of which around £2 million relates to forecast CAA fees.

4.30 We recognise that a programme of this scale requires appropriate central management, governance and controls. Activities reasonably required to manage the development of HAL's expansion proposal are, in principle, appropriate activities for HAL to undertake at this stage. We therefore propose that appropriately justified programme management activities should fall within the scope of costs eligible for recovery for H1 2027. This does not mean that every activity or cost included by HAL within this category should be recoverable in full from consumers.

4.31 Our initial high-level assessment of HAL's submission has identified several areas where we will seek further information from HAL to support the assessment that will be part of our work on the *ex post* efficiency review. In particular we will seek further information in the following areas.

- Integrated functions (£7m): HAL describes these costs as relating to resources drawn from its established corporate function. We intend to consider whether these activities are additional to HAL's existing business-as-usual functions and whether the costs highlighted in the business plan are incremental to those already funded through the H8 price control or other allowances; and
- Programme contingency (£16m): HAL describes this amount as providing for activities that may need to begin in 2027, but for which a timing has yet to be confirmed. As with the risk allowance discussed above HAL should consider whether this is appropriately justified and reasonably required.

4.32 The Steer review discussed above will also cover these activities.

Land and property costs

4.33 HAL forecasts that it will require up to £38 million for property-related activities during H1 2027. HAL's submission identifies £16 million for residential and community property activities, £3 million for small and medium-sized commercial and agricultural interests, approximately £14 million for major displaced businesses and facilities, and a £5 million programme-wide risk allowance.

4.34 HAL says that its proposed property activities are intended to support its DCO application and preparations for the delivery of expansion. In particular, HAL states that it needs to be able to demonstrate meaningful engagement with affected property owners, support its case for compulsory acquisition powers and develop credible arrangements for relocating affected residents and businesses. HAL also says that delaying this work could weaken its compulsory acquisition case and delay access to land following a DCO.

4.35 Our understanding of the principal components of HAL's forecast is as follows:

- Residential and community property: HAL forecasts £16 million for activities within the Compulsory Purchase Zone. Its submission refers to establishing and operating a Home Purchase Scheme and Home Relocation Support Service, managing compensation arrangements and preparing to launch a Home Purchase Bond. HAL describes the bond as a conditional agreement under which eligible residents could agree terms for a future sale of their property. HAL identifies establishing and launching its resident support arrangements as a critical activity during the first half of 2027;

- Small and medium-sized commercial and agricultural interests: HAL forecasts £3 million, principally in relation to proposed option agreements over selected sites and associated professional fees. HAL says that option payments would typically be around 10% of the underlying property value, would generally be non-refundable, and would normally be deducted from the purchase price if the option were subsequently exercised;
- Major displaced businesses and facilities: HAL forecasts approximately £14 million for activities associated with the potential relocation of several identified businesses and facilities. HAL's submission refers to replacement-site options, feasibility and design work, planning applications, negotiations, cost agreements and professional advice. The submission does not provide a complete breakdown between these activities for each affected business; and
- Risk allowance: HAL includes a £5 million programme-wide allowance for risks associated with its proposed property activities. The submission does not allocate this allowance to specific activities or transactions.

4.36 We recognise that appropriately timed property-related activities may be required to support a credible DCO application, including HAL's engagement with affected owners and occupiers and the development of its compulsory acquisition and relocation proposals. We therefore propose that appropriately justified property activities should fall within the scope of costs eligible for recovery for the first half of 2027. Nonetheless, this does not mean that every activity or cost included by HAL within this category should be recoverable, or that HAL's £38 million forecast should be recoverable from consumers in full.

4.37 Property expenditure requires careful scrutiny because some activities may create unnecessary financial commitments before a DCO is granted and may be difficult to reverse if the scheme, timetable or delivery arrangements change. This includes non-refundable option payments and expenditure associated with property agreements and relocation proposals. At the same time, deferring activities that are reasonably required to support the DCO application could increase consenting or programme risks. Property costs also raise particular issues in relation to possible duplicative spending across promoters, and unless this were to be genuinely unavoidable, it would not be in the interests of consumers to allow such costs.

4.38 Before we confirm our proposed cap for this category of costs, we intend to seek further information, evidence and proposals from HAL in respect of:

- **The composition of its forecast:**
  - the split between property purchases, conditional agreements or bonds, option payments, compensation and relocation payments, design and planning work, professional fees and other expenditure;

- residential transactions: the number and types of residential agreements HAL expects to enter into during H1 2027, the expected payments associated with those agreements, and the basis on which HAL has forecast take-up of the Home Purchase Scheme;
- commercial property options: the particular sites for which HAL expects to secure options during the period, the underlying valuations, the proposed terms and duration of the options, and why the commitments need to be entered into at this stage; and
- major displaced businesses and facilities: the activities, deliverables and expenditure proposed for each affected business or facility, including the split between replacement-site options, design, planning, relocation and professional costs.

- **Necessity and timing**: a more detailed and fully evidenced explanation of whether the proposed activities are necessarily required during the first half of 2027 to support HAL's DCO application, and the costs and risks of deferring some of activities or commitments until later in 2027 or 2028.
- **Duplication**: a clear, detailed and workable proposal for avoiding the duplication of costs with HWL.
- **Risk allowance**: the specific risks covered by the £5 million allowance, the basis on which it has been calculated and the arrangements that would govern its use.
- **Residual values and stranded costs**: the extent to which this expenditure will involve the acquisition of assets which could be reused or be sold if expansion does not proceed, and the likely materiality of these considerations.

4.39 We expect Steer to support us in our assessment of further information provided by HAL in relation to these matters. We will seek to respond flexibly to further information provided by HAL and look to provide updated guidance on the level of the cap in relation to these activities as soon as is practicable after receiving further information, evidence and proposals from HAL in relation to these matters.

Early enabling works

4.40 HAL forecasts that it will require up to £50 million for early works activities during H1 2027. HAL states that:

- its forecast relates primarily to design, surveys and logistics planning, as well as limited enabling activity needed to demonstrate an implementable consent;

- its forecast excludes significant construction works; and
- if these enabling activities do not proceed, it would need to establish a new programme baseline including property and delivery activity commencing only after consent, which would require elements of its DCO modelling to be revised and make the Government's target of a DCO decision in 2029 unachievable.

4.41 We recognise that some design, survey and delivery-planning activities may be reasonably required to support the preparation of a credible and deliverable DCO application. We therefore propose that appropriately justified early works activities should fall within the scope of costs eligible for recovery for H1 2027, where HAL can demonstrate that they are necessary and appropriately timed to support its DCO application. This does not mean that every activity or cost included by HAL within this category should be recoverable in full from consumers, or that HAL's £50 million forecast should necessarily be reflected in the cap in full.

4.42 Our initial high-level assessment of HAL's submission has identified several areas where we intend to seek further information from HAL, to support the assessment that will be part of our work on the *ex post* efficiency review. In particular:

- the extent to which each proposed activity and its associated outputs are reasonably required during H1 2027 to support the preparation of HAL's DCO application, rather than principally to accelerate construction or delivery following consent, given the current uncertainties associated with expansion;
- whether the scope and timing of the activities reflect a proportionate response to the current uncertainties associated with expansion, including whether any activities could reasonably be deferred without undermining a credible path towards submission of the DCO application;
- whether the proposed activities are additional to work undertaken or funded previously, and whether there is any overlap with HAL's DCO, Property or Programme Management cost categories; and
- the scope and basis of any risk or contingency provision included within HAL's forecast, including the activities for which it could be used and the controls that would apply to its drawdown.

4.43 In addition to these considerations there are other elements of the proposed work, particularly Central Terminal Area modernisation, which raise particular issues of cost duplication. This is in relation to both potential duplication between the H8 price control and early cost allowances, and the work of HWL on its DCO application (bearing in mind the draft HENPS indicates that the

DCO submission should be for an integrated whole airport, rather than solely runways and new terminals).[48] As with our approach to property costs, before we confirm our approach to these costs we intend to seek further information and proposals from HAL on avoiding the duplication of costs with HWL.

4.44 We will work with Steer in relation to assessing the information provided by HAL. We will look to provide updated guidance on the level of the cap in relation to these activities as soon as is practicable after receiving further information, evidence and proposals from HAL in relation to these matters.

Approach to setting cost allowances

4.45 We propose to use HAL's estimates of costs from its October 2026 submission in relation to DCO costs, programme management costs and elements of its enabling costs to calibrate the initial cap on the recovery of HAL's early costs for H1 2027. Once we have further information in relation to property costs and a specific element of the enabling costs, we will be in a position to confirm our proposals in relation to these matters. We will work flexibly with HAL and will seek to resolve these remaining uncertainties as soon as is practicable.

4.46 The cap would limit consumers' exposure to costs during this period and would represent the maximum amount potentially recoverable, rather than an approved budget or an automatic entitlement to recover expenditure up to that amount. The intention is that it will form part of a wider package of consumer protections, including independent technical scrutiny and an *ex post* efficiency review, as set out above and in Chapter 6.

4.47 We have commissioned Steer to scrutinise HAL's October 2026 submission and the further information that we obtain from HAL. Steer's review will support our decisions on whether HAL's proposed activities appear necessary, proportionate, appropriately timed, incremental and non-duplicative, and whether the associated forecasts, risk allowances and contingency are reasonably supported. In order to support this assessment, we will also require HAL to provide an estimate of the costs it expects to incur up to the point at which a DCO is granted. This will enable us to assess the necessity, proportionality and timing of its expenditure in the first half of 2027 relative to its full programme of work towards securing a DCO.

4.48 Steer's advice will inform, but will not determine, our regulatory assessment. We will be guided by our statutory duties in deciding the level of proposed cap, taking account of Steer's findings, consultation responses, and further evidence

48 Department for Transport, Draft Heathrow Expansion National Policy Statement - GOV.UK, June 2026. Paragraphs 1.9 to 1.10.

from HAL. The efficient outturn costs ultimately recoverable will be determined through the subsequent *ex post* review.

4.49 We also note HAL's forecast expenditure for the first half of 2027 is approximately nine times that forecast by HWL for the same period. The two forecasts are not directly comparable, and the difference may reflect their differences in approach, scope, design, maturity, delivery models and/or intended pace of development. The comparison does not, by itself, demonstrate that either forecast is appropriate or efficient. However, the scale of the difference reinforces the need for HAL to be able to provide strong evidence that its spending is efficient, and we will review this carefully as part of our ex-post efficiency review.

4.50 We recognise that HAL intends to continue its programme from 1 January 2027 and this will likely be before our assessment of additional information, evidence and proposals from HAL is complete. We will seek to work flexibly with HAL to minimise any unnecessary delays. This work will be in addition to the broader review of *ex post* efficiency which will happen either later in 2027 or in 2028.

4.51 Chapter 6 sets out our proposals for the consumer protections that should apply to the recovery of early costs incurred by HAL in H1 2027, including the use of independent assurance and scrutiny. We explain that while *ex post* reviews consider whether costs are ultimately eligible for recovery and have been incurred efficiently, independent assurance would provide ongoing scrutiny of costs, forecasts and supporting evidence as they incur. Before confirming the inclusion of any costs related to land, property or enabling activities in the cap, we also expect HAL to make progress on the appointment of an independent assurance provider. This party should be appointed to provide ongoing scrutiny of costs incurred, from January 2027, as soon as it is reasonably practicable and with appropriate engagement from the CAA.

Summary and consultation questions

4.52 We propose that HAL should be able to recover efficient early costs incurred during H1 2027, where those costs are reasonably required to maintain a credible path towards submitting a DCO application and ensuring that any unnecessary duplication of cost allowances is avoided.

4.53 Our initial view is that appropriately justified activities within each of the four categories in HAL's submission (DCO, property, early works and programme management) may be eligible in principle. This does not mean that every activity or cost proposed by HAL will be recoverable.

4.54 At this stage we can confirm that DCO costs of £169 million, programme management costs of £47 million and certain enabling costs of £40 million will form part of our proposals for the cap on HAL's H1 2027 costs – a total of £256

million. We intend to seek further information from HAL in relation to property and land costs and the specific element of enabling costs discussed above. We will consider changes to the cap attributable to those elements following any response from HAL. We will work flexibly and seek to confirm the overall level of the cap as soon as practicable, and this may be up to £304 million.

4.55 We welcome views on the proposals we have set out and in particular on the following:

- Do you agree with our proposed approach to determining HAL's recoverable cap on early costs for H1 2027, with a further *ex post* efficiency review to be conducted with later in 2027 or 2028?

Chapter 5

Recovery of HWL's early expansion costs

Introduction

5.1 Chapter 3 sets out our proposed approach to the further recovery of early expansion costs, including our assessment of whether allowing HWL to recover certain costs incurred in 2026 and during the first half of 2027 would further the interests of consumers. Chapter 3 also sets out our views on the credibility and maturity of HWL's 2026 proposal. Our initial view is that the proposal is credible and appropriately mature to justify further recovery of efficient early costs in 2026 and the first half of 2027, subject to appropriate limits and controls, as set out in this chapter and in Chapter 6.

5.2 This chapter considers HWL's proposed programme of work and associated cost forecasts for the period from January 2026 to June 2027 and sets out our initial views on the scope of costs that should be eligible for recovery.

5.3 In formulating our proposals we have considered whether the activities and associated costs proposed by HWL are appropriately justified, reasonably required during the relevant period to maintain a credible path towards a DCO application and efficiently incurred. We have also considered the potential for duplication with expenditure incurred by HAL. Our approach is intended to protect consumers from funding unnecessary or inefficient expenditure, while allowing appropriately justified work on expansion to continue.

5.4 The proposals in this chapter concern costs incurred by HWL from January 2026 to June 2027 and do not reopen the treatment of costs covered by our July 2026 Final Decision.

5.5 This chapter:

- describes HWL's programme of works and early costs incurred in 2026 and HWL's forecast costs for the first half of 2027 ("H1 2027");
- sets out our initial views on the costs that should be eligible for recovery;
- sets out our approach to setting caps on the recovery of HWL's costs;
- summarises further work we intend to complete supported by our consultants, Steer; and
- sets out key issues for consultation.

HWL proposed programme of works and early costs for 2026 and H1 2027

5.6 On 18 May 2026, HWL announced plans to submit a DCO application in November 2027, based on an updated scheme relative to the one it was developing during 2025. HWL's 2026 proposal consists of a phased expansion scheme that includes an initial 2.4 kilometre runway that would reduce the interfaces with the M25 compared to a 3.5 kilometre runway. HWL's plans indicate scope to extend the runway to a 3.5 kilometre runway in the future. HWL outlined plans to undertake pre-application consultation with residents, businesses and other stakeholders as part of its process.

HWL's costs in 2026

5.7 In September 2026, HWL made a submission to the CAA setting out that it expects to incur approximately £46 million of early costs up to the end of December 2026. HWL's cost breakdown is summarised in Table 5.1, and we have sought to present it on a consistent basis with HAL's forecast in Chapter 4 (Table 4.1).

5.8 HWL's forecast 2026 costs comprise planning, design, professional and legal services fees, stakeholder and community engagement and programme management costs. HWL has not included any land, property or enabling costs as part of its cost forecast for 2026.

Table 5.1: HWL's proposed programme and cost forecasts for 2026

Category	2026 forecast	Principal activities
DCO	£25.0m	Engineering design (air traffic management, surface access analysis, architectural design); Environmental assessments; Master planning; Planning consultants; Legal services; Financing and economic business case; Stakeholder and community engagement
Property	–	None proposed
Early Works	–	None proposed
Programme Management	£20.9m	Schedule design (construction programme management and sequencing); Estimating; Internal staff costs, including office space and travel
TOTAL	£45.9m	

Source: HWL's costs have been mapped from HWL's own cost categories to the high-level categories used for HAL in Table 4.1, to enable comparison with HAL's costs. Source: HWL early cost template, September 2026. Figures are a mix of invoiced and forecast costs; HWL has not stated a price base.

Comparison with HWL's 2025 costs

5.9 HWL's 2026 forecast costs are substantially higher than the costs it incurred in 2025 to respond to the Government's request for promoters to submit proposals for expansion. In its report published alongside our July 2026 Final Decisions,[49] Steer considered HWL's costs up to November 2025, which totalled £4.3 million (2025 prices), equivalent to £4.1 million (2024 prices), and found that they passed its technical scrutiny tests on the basis of the information provided by HWL. Those costs related to the DCO and programme management categories. The costs primarily related to the development of HWL's July 2025 response to the Government's January 2025 invitation for proposals, and its subsequent responses to questions from DfT and the CAA. Internal staff costs accounted for around [redacted] of the 2025 total, with the remainder relating to design, planning, legal, estimating, scheduling and engagement activities.

5.10 HWL's forecast for 2026 of £45.9 million is around ten times its 2025 costs. The composition of HWL's costs has also changed. Internal staff costs have increased to [redacted] and now account for around [redacted] of the total, while engineering design, environmental assessment and master planning [redacted] and schedule design [redacted] account for the majority of HWL's 2026 costs.

5.11 Our initial assessment is that this increase is in principle consistent with HWL moving from developing a proposal to inform Government policy development, to developing a revised proposal and an associated DCO application. However, HWL will need to demonstrate that its 2026 costs are appropriately justified, efficiently incurred and reasonably required during the relevant period to maintain a credible path towards a DCO application, as part of our ex-post efficiency review of its costs.

HWL's forecast costs for H1 2027

5.12 HWL has indicated that it expects to incur approximately £60 to £70 million of early costs in 2027 up to DCO submission. HWL has not yet provided a formal submission to the CAA detailing the costs it expects to incur in 2027, or their breakdown over the year or in terms of activities. We will work with HWL following the publication of this consultation to obtain an updated and more detailed forecast.

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

Proposed scope and eligible costs

5.13 As set out in Chapter 3, our proposal is to allow HWL to recover efficiently incurred early costs that are appropriately justified and reasonably required to maintain a credible path towards a DCO application.

5.14 Given the varying level of detail in HWL's submissions to date in relation to early costs incurred since the Government's 2025 Announcement, we have considered two options for the time frame for further cost recovery by HWL:

- **Option A: set out our approach in relation to costs forecast to be incurred by HWL in 2026 only.** Consult on the recovery of HWL's eligible and efficient costs incurred in 2026, currently forecast at approximately £46 million, with costs incurred in 2027 to be considered through a separate process, once HWL makes a full cost submission; or
- **Option B: set out an approach in relation to costs forecast to be incurred by HWL in 2026 and H1 2027.** Consult on the recovery of HWL's eligible and efficient costs incurred in 2026 currently forecast at approximately £46 million, and in H1 2027, with an indicative and provisional upper limit of £35 million (half of the high-level forecast HWL has made for 2027), with the final cap to be confirmed once we receive a further submission from HWL in relation to these costs.

5.15 On balance we consider that Option B would best further the interests of consumers by providing a greater degree of certainty in respect of the level of early costs to be recovered through airport charges. This would also align with the period covered by our proposals for HWL with the period covered by our proposals in relation to HAL's further recovery of costs, and would provide both promoters with an equivalent level of regulatory certainty in relation to cost recovery up to the end of H1 2027. Our view is that this would preserve the potential consumer benefits of maintaining two credible proposals, as explained in more detail in Chapter 3.

5.16 We propose that the same underlying principles for cost recovery should apply to both HAL and HWL. Each promoter should be able to recover costs associated with activities that are appropriately justified, efficiently incurred and reasonably required to maintain a credible path towards a DCO application. The final early costs allowed for the period up to the end of H1 2027 will be subject to an ex-post review and other consumer protections as set out in Chapter 6.

5.17 We also propose that DCO costs and programme management costs should fall within the scope of costs recoverable by HWL for 2026 and H1 2027. Our reasoning is that activities under these high-level categories are reasonably required to progress HWL's proposal toward a DCO application and as set out above.

5.18 Without having received a formal submission from HWL for proposed H1 2027 costs, and with HWL's 2026 submission only covering DCO and programme management costs as explained above, we do not propose to include land and property or enabling costs within the scope of costs to be recovered by HWL at this stage. We will work flexibly with HWL once we have received its submission for 2027 costs, and give further consideration to any proposed land and property or enabling costs that HWL might seek to recover in the second half of 2027. Consistent with the broad approach we are taking with HAL, we expect HWL to cooperate with the development of arrangements to avoid any unnecessary duplication in costs, and will take into account progress in respect of these matters in deciding on the cost cap for 2027.

Proposed assessment approach

5.19 Consistent with our proposals for recovery of costs by HAL, as set out in Chapter 4, our proposed approach has three elements:

- scope and eligibility: identifying the high-level categories and specific activities that may give rise to eligible costs for recovery. Our initial view is that costs associated with activities within the categories DCO application and planning costs and programme management costs may be eligible for recovery by HWL. This does not mean that every activity or cost proposed or incurred by HWL within those categories will be ultimately recoverable;
- cap on recoverable costs: setting the maximum amount that HWL may recover for each period. For 2026, we propose to use HWL's forecast of approximately £46 million as the cap. For H1 2027, we propose to set an indicative and provisional cap of £35 million, which will be updated in our draft decision, once HWL has provided a breakdown of its forecast and responded to further information requests which may arise in relation to these matters; and
- determining the final recoverable amount: this will be done through an ex-post review of outturn expenditure, later in 2027 or in 2028, with costs that are associated with activities that are appropriately justified, efficiently incurred and reasonably required being recovered. The final recoverable amount may be lower than the cap.

5.20 The purpose of the cap is to limit consumers' overall exposure and should not be treated as an approved budget, a spending target or an automatic entitlement to recover expenditure up to that amount. Expenditure would be recoverable only where it falls within the eligible scope, has been efficiently incurred and complies with the applicable guidance and other consumer protection requirements.

5.21 In assessing the appropriate level of cost recovery at the ex-post review, we propose to apply the same criteria as for HAL:

- necessity, proportionality and timing: whether the activity and associated cost was reasonably required in 2026 and H1 2027 to maintain a credible path towards a DCO application having regard to the stage of development of HWL's proposal, the uncertainties set out in Chapter 3 and whether the costs could reasonably have been deferred;
- incrementality: whether the costs are additional to those HWL has already recovered in the costs up to November 2025;
- avoidance of unnecessary duplication: whether the activity and associated costs duplicate similar work being undertaken by another promoter which could have reasonably been shared. We will consider whether specific activities and associated costs are reasonably required because of differences between the proposals or to preserve the potential benefits of independent scheme development, and whether each promoter has taken reasonable steps to make relevant work available to other promoters. In the case of HWL, we will specifically consider evidence around whether HWL has sought to obtain relevant information from HAL in the first instance, rather than commissioning its own work, where this would be relevant and practicable; and
- efficiency: whether HWL's costs have been efficiently incurred, having regard to matter including the proposed deliverables, delivery approach, resource assumptions, unit costs, risk allowances and relevant benchmarks.

5.22 The Steer technical review outlined in Chapter 4 will also include HWL's 2026 cost submission and any further submission in relation to activities proposed for H1 2027. In addition to providing evidence in relation to our *ex post* review, including consideration of the need, timing and scope of the proposed activities, the review will also assist with the CAA's consideration of the level of the cap for H1 2027.

Approach to setting cost allowances

5.23 We propose the following approach to setting allowances for HWL:

- **2026 costs:** recovery of eligible and efficiently incurred costs, assessed through an *ex post* efficiency review. HWL's current forecast of approximately £46 million is the basis for a maximum cap on allowed expenditure; and

- **H1 2027 costs:** recovery of eligible and efficiently incurred costs, assessed through an *ex post* efficiency review. Recovery would be subject to a cap. We are consulting on an indicative and provisional cap of £35 million, equivalent to half of the estimate HWL has provided for costs it expects to incur in 2027. We will finalise the level of the cap once HWL has provided detailed cost information and we will set this out in our Draft Decision.

5.24 To determine the promoter specific cap, we are asking HWL to provide a breakdown of H1 2027 costs by category and activity including the basis of its estimates and how the work builds on its earlier works. We will work flexibly with HWL following receipt of the information and may require additional supporting information to set the cap for H1 2027.

5.25 We propose that these arrangements would be time-limited and would not create any presumption that HWL's costs incurred after H1 2027 will be recoverable. We intend to consider costs from H2 2027 onwards through a separate process, informed by any designated HENPS, the progress and maturity of each proposal, updated cost and programme information, the evolving consumer-benefit case, and whether there remains a case for supporting one or both promoters.

Summary and consultation questions

5.26 In 2026, HWL has been developing a materially revised proposal for expansion relative to its 2025 proposal, which, on the basis of Steer's assessment, offers potential cost and deliverability advantages but has several material technical and cost questions still to resolve. Our provisional view is that the HWL 2026 proposal is credible and appropriately mature, and that maintaining a credible alternative proposal to HAL's proposal has the potential to benefit consumers through competitive pressure on scheme design and cost.

5.27 We are proposing to allow HWL to recover costs associated with activities that are appropriately justified, efficiently incurred and reasonably required during the relevant period (2026 and H1 2027) to maintain a credible path towards a DCO application. Based on current forecasts, this amounts to approximately £46 million for 2026 and £35 million for the first half of 2027. Once HWL has provided a detailed submission for costs it expects to incur in H1 2027, we will confirm the level of the H1 2027 cap in our draft decision.

5.28 We welcome respondents' views on any of the issues that we have set out and our initial proposals, in particular:

- Do you agree that HWL should be able to recover costs associated with activities that are appropriately justified, efficiently incurred and reasonably required during the relevant period to maintain a credible path towards a DCO application on the basis we have set out for 2026 (a cap of £46 million and a further ex post review)?
- Do you agree with our proposals to undertake further work on HWL's early costs incurred for H1 2027 with a view to providing an updated quantification of the cap for H1 2027 cost recovery in our draft decision, with a further ex post review to be conducted in 2027 or 2028?

Chapter 6

Regulatory arrangements to protect consumers

Introduction

6.1 This chapter sets out for consultation our proposals on the consumer protections that should apply to the recovery of early costs incurred by HAL in H1 2027 and by HWL in 2026 and H1 2027.

6.2 Our starting point is the framework of consumer protections established in our July 2026 Final Decision. Nonetheless, we have considered whether each element of this framework remains appropriate and whether it should be modified and improved, with the intention of ensuring our approach further the interests of consumers. The intention is to create a package of measures that protects consumers from the recovery of inefficient costs (including any unnecessary duplication of costs between promoters), promotes transparency and provides reassurance to stakeholders that any cost recovery through HAL's airport charges is appropriate. Our current view is that the broad approach to consumer protection and cost recovery in the July 2026 Final Decision remains appropriate and would further the interests of consumers in relation to the early costs that are the focus of this consultation, but that the detail of the arrangements should be considered in the context of the evolving nature and scale of the expenditure we are considering as part of this consultation.

6.3 The principal protections that we are considering, and consulting on in this document, are:

- clearly defined expenditure caps;
- ex-post reviews;
- improving transparency through ongoing costs reporting;
- appropriate independent assurance and scrutiny; and
- measures to identify and avoid unnecessary duplication of expenditure between promoters.

6.4 We are also considering:

- the role of reopener and adjustment mechanisms in enabling promoters to respond proportionately to material changes in circumstances that are outside the reasonable control of the promoters; and
- whether to allow the recovery of these costs through additions to HAL's RAB and allowances for regulatory depreciation and returns.

6.5 These protections need to operate as a coherent package. Their purpose is to limit consumers' exposure to unnecessary, inefficient or inappropriately timed expenditure, while allowing work that is reasonably required to develop credible expansion proposals to proceed. The arrangements should also provide appropriate incentives for promoters to control their costs and give the CAA and stakeholders sufficient information to assess expenditure and progress. Our current view is that these protections should apply to both HAL and HWL.

6.6 This chapter discusses each of the main elements of the consumer protection package in turn and then provides a brief summary of our overall conclusions and sets out key questions for consultation.

Consumer protections

Expenditure caps

6.7 Expenditure caps are important protections for consumers. They place an upper limit on the amount of expenditure that may be recoverable from consumers and limit consumers' exposure to costs incurred before a DCO is granted. They can also provide promoters with appropriate incentives to manage expenditure efficiently and to prioritise activities that are necessary and proportionate.

6.8 Costs above an expenditure cap would not normally be recoverable. There is scope to adjust caps through the mechanisms discussed later in this chapter, including if there is evidence of a material change in circumstances. We do not intend that these mechanisms to be used to should not transfer ordinary delivery or cost-management risks from promoters to consumers.

6.9 While a cap represents the maximum amount potentially recoverable from consumers, it does not constitute an automatic entitlement to recover expenditure up to that amount. The recovery of expenditure would remain subject to the consumer protections described elsewhere in this chapter, including ex post efficiency review.

6.10 As discussed in Chapters 4 and 5, we are proposing caps on expenditure recoverable by promoters for the relevant period. We are proposing a provisional cap of up to £256 million (2024 prices) for HAL's recoverable costs incurred during H1 2027. HAL will need to provide further information, evidence and proposals before we can confirm the level of the cap and as we explain in Chapter 4, we will work flexibly with HAL in relation to these matters. We are also setting a cap of £46 million for the recovery of HWL's early costs incurred during 2026 and an initial and provisional cap of £35 million for H1 2027. HWL will need to provide further information and evidence before we can confirm the level of the cap and as we explain in Chapter 5, we will work flexibly with HWL in relation to these matters.

Ex-post reviews

6.11 In the July 2026 Final Decision, we recognised the importance of ensuring that only efficiently incurred costs are ultimately recoverable from consumers. Expenditure caps provide important upfront protections for consumers. However, they are based, at least in part, on forecasts prepared by the relevant promoter. Therefore, we propose that we also use ex-post efficiency reviews of the costs actually incurred.

6.12 The July 2026 Final Decision established an ex-post review process for HAL's early expansion costs incurred in 2025 and 2026 and for HWL's expenditure incurred up to November 2025. Our current view is that ex-post reviews should also form part of the arrangements for the costs covered by this consultation and that we would adopt a broadly consistent approach to the ex-post review as set out in the Jully 2026 Final Decision. This would involve the ex-post review considering whether expenditure was necessary, proportionate and appropriately timed, incremental to expenditure funded or recovered through other arrangements, did not unnecessarily duplicate activities undertaken by another promoter and was efficiently incurred.

6.13 The review would be informed by the cost and programme information submitted by the promoters, regular reporting during the relevant period and any independent assurance undertaken as part of the wider consumer protection arrangements. Where appropriate, we may also draw on benchmarks, technical advice, procurement evidence and comparisons between forecast and outturn expenditure. We consider only costs that satisfy the requirements of the ex-post review would be eligible for recovery.

Ongoing cost reporting and transparency

6.14 Transparency is an important element of the broader package of consumer protection as it enables stakeholders to understand how expenditure has evolved over time and supports effective regulatory oversight. We consider that ongoing cost reporting should play an important role in providing this transparency and supporting the wider consumer protection framework.

6.15 The July 2026 Final Decision included reporting obligations as part of the wider package of consumer protections. These arrangements required promoters to provide information on expenditure incurred and forecast of future expenditure. We consider that similar reporting will likely be appropriate for the costs covered by this consultation.

6.16 Our current view is that promoters should provide regular reports on expenditure incurred, activities undertaken and progress against key milestones. Such reporting would support transparency, facilitate stakeholder scrutiny and inform any subsequent regulatory assessment. We welcome

stakeholder views on the frequency, format or scope of any reporting requirements.

6.17 We consider the information provided should be sufficiently detailed to enable us and stakeholders to understand:

- the nature of the expenditure incurred and how the respective promoter has advanced its proposals;
- how expenditure compares with forecasts and cost caps agreed with the CAA;
- major project developments that have been observed over the given period; and
- emerging risks and uncertainties.

Independent assurance and scrutiny

6.18 Given the scale and complexity of expansion-related expenditure, we consider independent assurance would provide an additional safeguard for consumers. It could help strengthen confidence that costs are reasonable, appropriately evidenced, aligned with costs incurred on similar projects and consistent with the requirements of the regulatory framework.

6.19 Whereas ex-post reviews would assess whether the costs are ultimately eligible for recovery and have been incurred efficiently, independent assurance would provide ongoing scrutiny of costs, forecasts and supporting evidence as they are incurred. Such assurance could help identify issues and gather evidence at an earlier stage, as well as supplement reporting requirements, expenditure caps and the ex-post reviews, and thereby inform ongoing regulatory policy development.

6.20 In the July 2026 Final Decision, we said that we are working with HAL to determine the next steps for the appointment of the independent cost expert, including agreeing the terms of reference for this expert and developing a short list of potential providers. We also said the that the role of the independent cost expert will be distinct from that performed by Steer in its high-level scrutiny of costs incurred by HAL during 2025 and 2026. The independent cost expert's work should complement and, where relevant, build upon Steer's analysis, rather than duplicate it. We remain of the view that it will be important to take these matters forward in the context of HAL’s expenditure in 2027.

6.21 We will also discuss with HWL whether similar arrangements are appropriate in respect of the early costs it will incur in 2027.

Avoiding unnecessary duplication of costs

6.22 We anticipate that the development of more than one expansion proposal may provide benefits through competition, rivalry, innovation and comparative evidence. However, it may also create a risk that consumers fund unnecessarily duplicative activities.

6.23 Our July 2026 Final Decision recognised the importance of ensuring that consumers do not pay twice for the any unnecessary duplication of work.

6.24 Our current view is that protections against the recovery of costs where there is unnecessary duplication between promoters should continue to form part of the framework for assessing the appropriate recovery of expansion costs. This should include:

- the approach described in Chapter 4 and Chapter 5 where we would request that HAL and HWL work with us on potential proposals for avoiding any unnecessary duplication of costs in relation to land and property costs and certain enabling costs;
- HAL and HWL will both need to reasonably cooperate with arrangements for avoiding unnecessary duplication of costs; and
- as part of the process for the ex-pos*t* efficiency reviews we intend to consider whether expenditure represents the unnecessary duplication of activities/costs or whether the behaviour of a promoter has resulted in unnecessary expenditure on early costs. In these circumstances we would consider targeted disallowances in the recovery of early costs by the promoter that had triggered or contributed significantly to the need for unnecessarily duplicated expenditure.

Information sharing arrangements

6.25 Information sharing arrangements plays an important role in supporting the wider package of consumer protections discussed in this chapter and helping promoters avoid unnecessary duplication of costs. A proportionate approach to facilitate the sharing and transfer of information between promoters should help protect consumers from inefficient duplication of costs, while also supporting competition between promoters.

6.26 In the July 2026 Final Decision, we said that we would work with HAL and HWL to develop proportionate and practical arrangements that would avoid unnecessary duplication while remaining consistent with the draft HENPS framework. We also said that we would commission our consultants, Steer to assess what information is technically necessary for the preparation of the planning application by a promoter and what information can feasibly be shared.

6.27 We are currently working with promoters and Steer to identify information that is both relevant and sharable, and to determine how such sharing can be facilitated.

Uncertainty and adjustment mechanisms

6.28 The arrangements established in the July 2026 Final Decision recognised the uncertainty associated with expansion and included the adoption of reopener provisions to address the risk that circumstances could change materially during the period covered by our decision. We have discussed the continuing uncertainties related to expansion in Chapter 3 and in the circumstances of these continuing uncertainties then mechanisms targeted at dealing with uncertainty in an appropriate way are likely to remain appropriate.

6.29 If circumstances are such that it is appropriate to trigger the reopener arrangements, we propose to allow efficient early costs already incurred but reopen the cap to limit the recovery of future efficient costs to only necessary and efficient future costs required to modify or close down the early cost programme in an efficient way. We would make this assessment on a case-by case basis. In carrying out the ex-post review of costs we would also consider whether a promoter had taken reasonable account of uncertainty in incurring costs, and we would have the flexibility to adjust allowances costs had been incurred in a way that was not appropriate.

6.30 The types of circumstances that could potentially justify such adjustments include:

- significant changes in Government policy;
- changes to the planning framework;
- major revisions to project scope or delivery schedules;
- significant changes in cost forecasts; or
- significant new information affecting the consumer-benefit assessment.

Withdrawal, cessation and efficient wind-down

6.31 Consistent with the position in the July 2026 Final Decision we recognise that uncertainty remains regarding whether individual expansion proposals will ultimately proceed. As a result, we remain of the view is that the framework should include arrangements addressing circumstances in which a promoter withdraws or ceases development activity for genuine business reasons, because the further progression of a proposal is not practicable and/or in consumers' interests.

6.32 Under such circumstances, we would expect promoters to take all reasonable steps to minimise expenditure and implement an efficient wind-down of

activities. Any recovery of wind-down costs would need to be supported by appropriate evidence regarding their eligibility and efficiency.

The mechanisms for cost recovery

6.33 In the July 2026 Final Decision, we concluded that HAL's eligible early expansion costs should be added to HAL's RAB and remunerated through regulatory allows for depreciation and returns. The intention was to smooth the recovery of costs over time, as the benefits of expansion will be felt in future periods. These considerations remain relevant to the efficient early costs that HAL will incur during H1 2027.

6.34 These arrangements relate specifically to costs recovered through HAL's regulatory framework. The treatment of eligible early costs incurred by HWL were treated differently in the July 2026 Final Decision, in part reflecting the limited materiality associated with these allowances. While HWL's forecast of costs remain very significantly below the level of costs forecast by HAL, the level of costs that HWL is now seeking to recover are significantly higher than in 2025, which means it is appropriate to consult further on the approach to the recovery of HWL's eligible early expansion costs.

6.35 We propose to adopt a RAB based approach to cost recovery for HAL, as discussed further in Chapter 7, alongside options for future cost recovery by HWL.

6.36 In calculating allowances for HAL's returns we propose to use the same estimate for HAL's cost of capital as we use for its main price control. Therefore, for the period 2027 to 2031, this would be the cost of capital used to set the H8 price control. This would support consistency with the broader economic regulatory framework and provide regulatory predictability for stakeholders.

Summary and consultation questions

6.37 This chapter has set out our current thinking and proposals on the consumer protections that are likely to be appropriate in relation to the further allowances for expansion costs discussed in this document.

6.38 Building on the framework established in our July 2026 Final Decision, we are considering a broad package of protections including:

- expenditure caps;
- ex post reviews;
- regular cost reporting and transparency requirements;
- independent assurance and scrutiny;

- protections against unnecessary duplication of costs;
- information sharing arrangements;
- adjustment mechanisms, such as reopeners;
- withdrawal and efficient wind-down arrangements; and
- an approach to the recovery of costs through HAL's RAB and airport charges, as discussed above and further in Chapter 7.

6.39 Views are invited on any aspects of our proposals for arrangements to protect consumers, including on the initiatives summarised above.

Chapter 7

Approach to the recovery of cost allowances

Introduction

7.1 This chapter sets out our proposed approach to the recovery of cost allowances from HAL's airport charges.

7.2 The policy we are consulting on consists of limited further recovery of efficient early expansion costs, both in terms of the scope of costs considered, and the recovery period. In light of this, we are proposing to build on the implementation approach established in our July 2026 Final Decision, and where appropriate adopt mechanisms that enable the recovery of efficient costs, while providing appropriate protections for consumers.

7.3 We have not, as part of this consultation, set out proposed modifications to HAL's licence to implement these proposals. We will consider responses to this consultation and set out any proposed modifications to the licence as part of our draft decision on these matters in 2027.

Broad approach

7.4 As explained in Chapter 3, our current view is that there is a case for allowing recovery of further early costs by both HAL and HWL, on a limited basis. This is both in respect of the time period for which we intend to make cost allowances and the scope of these costs. We address the approach to allowing the recovery of the efficient cost allowances for each of HAL and HWL below.

Recovery of efficiently incurred costs by HAL

7.5 Chapter 4 sets out our initial views on the scope and level of costs that should be eligible for recovery by HAL for the period January 2027 to June 2027, based on HAL's proposed programme of work. It sets out our proposed approach to setting cost allowances, provides further guidance to HAL on our approach to determining efficient costs and sets out certain areas where HAL should provide further information before we provided update views on cost recovery.

7.6 We are proposing to allow HAL to recover efficiently incurred early costs for the period January 2027 to June 2027 by adding them to its RAB. HAL's efficient early costs, or the allowed cap on early costs, whichever is lower, would be added to its RAB during 2027, and remunerated using the H8 cost of capital.

7.7 Adding efficient costs to the RAB will allow these to be recovered over time via airport charges. We consider this approach furthers the interests of consumers,

as it will smooth the overall price effect rather than causing an immediate increase in charges and given that benefits of expansion will accrue to future consumers.

7.8 We propose to conduct a "true up" once the outturn early costs are available for H1 2027, and after conducting an ex post efficiency review of these early costs. The "true up" would seek to:

- remove from HAL's RAB any costs incurred by HAL in H1 2027 identified as part of the ex post review that should not have been included in the RAB;
- secure that the total early costs incurred by HAL in H1 2027 included in the RAB are no higher than the cap set out in our final decision; and
- ensure that these adjustments are NPV neutral, so that the returns on the final allowed level of early costs are brought into line with the H8 cost of capital over the H8 price control period.

7.9 Chapter 4 sets out the criteria we would consider as part of an ex-post review of costs incurred by HAL and provides further detail on the issues we have identified in relation to HAL's October 2026 submission where we propose to seek further information from HAL in order to satisfy the criteria for cost recovery. The ex-post review and true up would be conducted as soon as is practical.

Recovery of efficiently incurred costs by HWL

7.10 As set out in Chapter 3, our proposal is to allow HWL to recover efficiently incurred early costs that are reasonably required to maintain a credible path towards a DCO application.

7.11 In the July 2026 Final Decision, we decided to implement the recovery of HWL's efficient early costs through targeted modifications to HAL's Licence. Under this mechanism, the CAA determines the amount payable to HWL, subject to a cap and adjustments for inflation and the allowed return. HAL would be required to pay that amount to HWL and would be permitted to recover the corresponding payment on a pass-through basis through airport charges. This provides a transparent mechanism for transferring the recoverable amount from airport users to HWL, while retaining CAA control over the amount paid and the protections applying to consumers. We considered this preferable to treating HWL's costs as a generic operating or capital cost allowance, which could obscure the basis and purpose of the recovery and the consumer protections that applied.

7.12 Our approach for costs incurred by HWL before the Government's 2025 announcement reflected, in part, the limited materiality associated with these allowances. While HWL's forecast of costs remain very significantly below the

level of costs forecast by HAL, the level of costs that HWL is significantly higher than in 2025, which means it is appropriate to consider whether a different approach for recovery of costs incurred by HWL would be appropriate.

7.13 Having considered the potential alternative approaches (for example the use of a fund administered by HAL or treating the costs as generic operating-cost allowances), we consider that a licence-based mechanisms to enable HWL, as a non-licensee promoter, to recover efficient early costs from airport users, continues to be appropriate. This is because it provides a transparent and enforceable means of recovering HWL's efficient costs from airport users, while retaining regulatory control over the amount recovered and the protections that apply.

7.14 Therefore, as part of this consultation, we are proposing that costs incurred by HWL in 2026 and H1 2027 should be recovered from airport users through HAL's licence. A further question is how we should calculate these allowances and whether given the level of HWL's potential costs it would be appropriate to calculate an annualised allowance which would provide for the recovery of these costs over an extended period, similar to the approach of adding HAL's cost to its RAB.

7.15 Under any mechanism, recovery of costs by HWL would be subject to an efficiency assessment as part of an ex-post review, and would also be subject to appropriate consumer protections, as set out in Chapter 6.

7.16 We also note potential issues raised by HAL since the publication of our July 2026 Final Decision regarding potential tax implications for HAL resulting from the mechanism for recovery of HWL's costs. For the avoidance of doubt, the intention of our policy on early costs, both as set out in the July 2026 Final Decision and in this consultation, is not to create additional corporation tax burdens for HAL. We would expect HAL to take all reasonable steps to avoid such liabilities arising. If HAL takes all reasonable steps to avoid an adverse corporation tax treatment of these costs, but additional corporation tax costs materialise, we will at such a time consider whether it would be appropriate to compensate HAL for these costs, for example through a true-up mechanism.

Summary and consultation questions

7.17 This chapter has set out our current thinking and proposals for the recovery of further allowances for early expansion costs.

7.18 Views are invited on any aspects of our proposals for arrangements to implement these policies, including the approach to recovery of costs by HWL through HAL's Licence and whether we should make provision for an annualised allowance, to smooth the recovery of costs.

APPENDIX A

Our duties

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

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

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

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

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

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

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

A7 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the Market Power Test as set out in CAA12. Airport operators that do not fulfil the Test are not subject to economic

regulation. As a result of the market power determinations we completed in 2014 both HAL and GAL are subject to economic regulation.

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

APPENDIX B

Glossary

B1 The terms used in this consultation have the meanings set out below.

ANPS	Airports National Policy Statement, which will set out the policy underlying any decision to grant permission for expansion in the form of a development consent order ("DCO") under the Planning Act 2008
AOS	Airport operation services, as defined in section 68 CAA12
CAA, "we", "us", "our"	The Civil Aviation Authority
CAA12	The Civil Aviation Act 2012
Capex	Capital expenditure
CBA	Cost-benefit analysis
Consumers	We use this term to cover the "users" of airport operation services as defined in section 69 CAA12 as passengers and those with "a right in property" (cargo) carried by air transport services and includes future users
CMA	Competition and Markets Authority
CPI	The Consumer Price Index, a measure of price inflation calculated by the Office for National Statistics
DCO	Development Consent Order granted under the Planning Act 2008
DfT	Department for Transport
Early costs	These are the costs for delivering expansion that are to be incurred by potential promoters before the Government takes a decision on whether to grant a DCO to allow expansion to proceed, including planning, land and property purchase and enabling costs (for example design of key diversions on the site)
Expansion	Capacity expansion at Heathrow airport including building a third runway
H7	Heathrow Price Control 2022-2026
H8	Heathrow Price Control 2027-2031

HAL	Heathrow Airport Limited, the operator of Heathrow airport
HENPS	Heathrow Expansion National Policy Statement (Draft)
HWL	Arora Group/Heathrow West Limited, one of the promoters of capacity expansion at Heathrow airport which submitted a proposal to Government in July 2025 and an updated proposal to CAA and the Planning Inspectorate in 2026
ITS Leeds	The Institute of Transport Studies at Leeds University
IATA	International Air Transport Association
The Licence	The licence granted to HAL under CAA12
RAB	Regulatory Asset Base