



Department for Transport

From the Permanent Secretary

Richard Moriarty
Chief Executive
Civil Aviation Authority
45-59 Kingsway,
London
WC2B 6TE

Dear Richard,

RE: the CAA's approach to economic regulation of the expansion of airport capacity

Thank you for your letter of 30 April. First, may I belatedly congratulate you on your appointment as the Chief Executive of the Civil Aviation Authority (CAA). I would also like to take the opportunity to thank you and your team for establishing strong relationships with the airport capacity programme.

Role of the regulator

Government recognises the vital role of the CAA in creating a regulatory regime that would deliver expansion in the best interest of consumers and provide long-term confidence for investors. The timely development of the future regulatory licence will be key in securing the level of private finance necessary for a project of this size.

As you are aware, the Government is also keen to ensure that any risks to delivery are mitigated robustly through the regulatory structure, for example, by including a delivery obligation in HAL's licence. I note your confirmation that the CAA does not require new powers to deliver expansion.

Alongside the regulatory framework, we should continue to encourage commercial deals between airport and airlines which can also provide the early certainty required for a development of this size.

Section 16 advice and scheme costs

It is encouraging to see the work done by the airport and airlines to deliver the ambition set out by the Secretary of State, in 2016, to keep airport charges close to current levels. HAL's identification of potential savings of up to £2.5 billion was a notable achievement from this process, and the recommissioning of the Section 16 process provides an opportunity to continue this momentum.

The proposals for an expanded role for the Independent Fund Surveyor and a new role for the Consumer Challenge Board in developing the expansion scheme are positive and I would also encourage you to consider the use of other independent experts if the need or opportunity arises.

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I agree with the CAA's expectation that HAL must stand by its commitment to engage in good faith with interested third parties. HAL has made progress, with the announcement of its search for innovation partners, and there is a role for the CAA in assuring that this is an independent and transparent process, which does not come at the cost of timely delivery.

Mitigations and Surface Access

Government expects the applicant for development consent to secure a package of measures that adequately mitigates the impacts of expansion.

With regard to these measures, Government is clear that works to the M25 form part of the expansion project and should not be considered in the same way as other surface access schemes. Highways England must continue to deliver its licence obligation to steward long-term operation, including the maintenance, resilience, renewal, and replacement of the network. HAL should be required to meet, in an efficient manner, the cost of any required future proofing of works with regards to crossing the M25.

Surface access schemes may become necessary to accommodate future growth at the airport. The Government will consider a public funding contribution for such schemes where there are shared beneficiaries, commensurate with the benefits received by non-airport users. It will be important to ensure capacity expansion is not being subsidised by the taxpayer, and that any Government contribution is compliant with State Aid rules.

Next steps

I agree that this letter exchange should be published. This would allow us to demonstrate transparently how the Department has assured itself that the CAA has prepared for the possibility of expansion at Heathrow.

I look forward to continuing to work with you on this important project.

Yours sincerely,

A handwritten signature in blue ink that reads "Bernadette Kelly". The signature is written in a cursive, flowing style.

Bernadette Kelly CB
Permanent Secretary