

Recovery of costs associated with obtaining planning permission for new runway capacity: policy update

CAP 1372



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Chapter 1

Summary

- 1.1 This policy update¹ concerns the regulatory treatment of the costs associated with Heathrow Airport Limited (HAL) or Gatwick Airport Limited (GAL) obtaining planning permission, subject to the Government making a decision on the location for new runway capacity in the south-east of England. Specifically it concerns the arrangements for how these costs could be recovered from the charges the airport operators levy on users.

Background

- 1.2 The Government in December 2015 confirmed that:
- it agreed with the Airports Commission that the south-east needs more runway capacity by 2030;
 - it agreed with the Airports Commission's shortlist of three options² all of which it concluded were viable; and
 - the location decision for new runway capacity would be subject to further consideration on environmental impacts and the best possible mitigation measures. The Government indicated that this package of further work was expected to conclude over the summer of 2016.

The reasons why regulatory clarity is required

- 1.3 Provided that the Government also makes a location decision over the summer of 2016, the CAA expects that the chosen airport operator will immediately begin work on securing planning permission for constructing and opening the new runway capacity.
- 1.4 The task of securing planning permission is a sizeable and complex task. The airport operator may incur a significant amount of expenditure many years before construction starts. At this stage, the magnitude of planning costs is not

¹ This document provides a further update on our policy updates on new runway capacity issued in [March 2015](#) and [September 2015](#).

² Two at Heathrow and one at Gatwick.

known but, as a guide, could exceed £50 million per annum and take several years.

- 1.5 Clarity on the regulatory treatment of costs associated with planning (termed Category B costs³) will reduce uncertainty faced by the airport operator and its investors and encourage investment to proceed in a timely way. It will also reduce uncertainty faced by airlines in terms of how this category of costs might affect the airport charges they will pay. We consider that developing a clear framework for the treatment of these costs, in advance of developing a broader framework for the treatment of constriction costs, will further the interests of current and future users.
- 1.6 We consider that the Government's confirmation that new capacity is needed means that it is prudent at this time to invite contributions from the airport operators, their airline communities, and other interested parties, on the most appropriate arrangements for the recovery of these costs.

The process

- 1.7 As previously indicated in our September 2015 policy document, we consider that the airport operator and its airline customers should, in the first instance, look to agree appropriate risk-sharing agreements around the recovery of Category B costs. Allowing space for these commercial discussions could result in innovative solutions being developed that can be beneficial for users.
- 1.8 We suggest an initial 3-month window is given aside for these discussions. We strongly encourage both the airport operators and airlines to approach these discussions actively and in good faith with the aim of trying to seek agreement within the timeframe.
- 1.9 To aid this process, this document sets out some guidance on the type of issues that we would expect to be covered by these commercial discussions. For example, the definition of Category B costs; the mechanisms to secure that any expenditure is efficiently incurred; the way in which the costs should be recovered from airport charges; and how cancellation risk should be treated.
- 1.10 If we reach a view that the prospects of constructive discussions taking place, or continuing, are poor we would expect to engage directly with stakeholders with a view to developing our policy position for publication at that time. In particular, we would publish a consultation around May 2016 on our proposed treatment of Category B costs, including with respect to risk-sharing arrangements.

³ See Chapter 2 for definitions of Category A, B and C costs.

- 1.11 Following the consultation, and having assessed the evidence provided to us in response, we will publish our decision on Category B costs in the autumn of 2016 and propose to make a licence modification as appropriate.
- 1.12 In terms of the wider regulatory framework and the treatment of construction costs, we plan to publish a consultation on new runway capacity after a Government location decision. This will build on the principles-based policy we set out in March 2015 and set out the key issues we see as relevant for establishing the appropriate regulatory framework and the timetable over which we expect to move to a firm policy position.

CAA contact

- 1.13 If you would like to discuss any aspect of this document please contact Stephen Gifford (stephen.gifford@caa.co.uk).