The Financial Costs of Heathrow Expansion

March 2026

NO 3RD RUNWAY COALITION

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This briefing sets out the financial costs associated with expansion at Heathrow. There are significant financial risks associated with such a complex project and several unanswered questions about how both Government and Heathrow propose to manage them. Heathrow expansion is not just a construction project; it is a balance-sheet gamble.

Debt burden

Heathrow already carries a very large debt load, with consolidated nominal net debt reported at about £17.6 billion on 26 February 2026.[1] Heathrow's balance sheet is already highly leveraged (approx. 87%) before any full-scale expansion financing is added. That matters because expansion finance would sit on top of an already heavy debt stack, increasing refinancing risk and interest costs. A higher debt burden also reduces financial flexibility if passenger demand, yields, or airline traffic fall short of forecasts. When debt is high, more operating cash must go to interest and refinancing, leaving less room for day-to-day resilience, maintenance, or service improvements. Expansion would amplify a business model that is already reliant on continuous borrowing, regulated returns, and strong cash generation. This is why ratings agencies see the plan as credit sensitive.

S&P capital view

In April 2025, credit rating agency S&P Global issued a damning verdict on the viability of Heathrow's planned expansion proposals, stating that it cannot afford to construct a third runway without billions of pounds (estimated to be £25bn) of capital injection to help service the increased debt loaded onto the business. They stated that the construction of a third runway would lead to an increase in already extremely high passenger charges which **"could lead to a weakening of Heathrow's competitive position relative to other European hubs".**[2]

S&P's Heathrow report notes that expansion and regulation will shape future credit quality and says Heathrow has increased capex while adjusted debt was already about £16.0 billion in 2025, up by roughly £1.1 billion versus year-end 2024. This shows the credit rating agency is explicitly linking expansion-related spending to weaker credit metrics.

A large new capital programme would likely pressure leverage, interest coverage, and funding capacity, especially if some of the spend must be incurred before any expansion revenue arrives. In plain terms, the project may force Heathrow to take on more debt now for benefits that are uncertain and delayed.

S&P warns that expansion could also weaken Heathrow's competitive position if rival London airports expand earlier (as is happening at Gatwick, Luton and Stansted), which could reduce traffic growth or pricing power before Heathrow's new capacity arrives. That would make the debt burden harder to support and could further damage credit quality.

High debt can affect Heathrow's operations in several practical ways. It can limit flexibility, raise financing costs, and make the airport more sensitive to shocks in traffic, regulation, or interest rates. This financial pressure could impair maintenance, staffing, or service reliability, while any need to raise charges to sustain credit quality may raise costs for airlines, passengers, and cargo operators—spilling over into wider economic effects on UK tourism, trade, and business travel.

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[1] Heathrow (SP) Limited Annual Report 2025 https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/investor/reports-and-presentations/annual-accounts/sp/2025_Heathrow_SP_ARA_Signed.pdf

[2] S&P Global Ratings (2025), Heathrow's Expansion Could Impair Its Credit Profile https://www.heathrow.com/content/dam/heathrow/web/common/documents/company/investor/credit-ratings/sp/Heathrow_report_Apr_28_2025.pdf

UK economy effects

The UK economy could face indirect costs if Heathrow financing leads to higher airline charges, because those costs can pass through into ticket prices, business travel, and freight costs. That can reduce demand, discourage inbound tourism, and raise costs for exporters who rely on air cargo and fast connections.

There is also a macroeconomic argument that concentrating so much capital in one project may crowd out investment elsewhere. If the expansion is financed through higher airport charges and elevated borrowing, the economic gain must be large enough to justify the higher cost of capital, the risk premium, and the pressure on consumers and firms. There has been no evidence produced by Government to date that would support such a justification.

Funding recovery risk

A key issue is whether expansion costs are recoverable through landing charges and airline fees which are ultimately passed on to passengers. Heathrow has sought assurance that efficiently incurred expansion costs would be recoverable, which implies that the airport itself sees a risk that some of the investment could otherwise become stranded or hard to finance.

That creates a financing argument against the project: if charges rise enough to cover the debt, airlines face higher operating costs; if charges cannot rise enough, Heathrow's credit profile weakens. Either way, the financing structure is financially fragile.

A weaker credit rating usually means higher borrowing costs, tighter lender conditions, and less room to absorb shocks. For Heathrow, that could translate into higher airport charges, more pressure on airline fees, and less flexibility to keep investing in service quality while the project is under way. Indeed, Heathrow expansion may not be financially deliverable without substantial state aid.

Effectively, the airport is demanding an insurance policy against the risk that the project goes wrong. It wants the CAA to ensure it will be compensated by airlines and passengers for any unexpected problems — anything from construction delays to the possibility that passenger numbers, and therefore revenues from the third runway, fall short of forecasts.

The Regulated Asset Base (RAB) Model means that customers pay financing costs (debt service and return on shareholder equity – dividend payments to investors) to Heathrow during the lengthy construction period. Hence, there is little incentive for Heathrow and their contractors to build the new facilities to time and cost.

Such a concept is contrary to the conventional principles underpinning the privatisation of public services, where the risk of, and responsibility for, investment and service delivery should reside solely with the private owner of the assets.

Key Questions

1. What estimate of total cost has Government undertaken of the Heathrow's 3rd runway?
2. What assessment to the risks to taxpayers of Heathrow's debt has the Government taken?
3. Does the Government plan on providing any financial guarantees to Heathrow?
4. How much capital will Heathrow be required to borrow to finance the project?
5. What impact will expansion have on ticket prices for passengers?
6. What assessment has Government made of appropriate level of landing charges at Heathrow to enable the construction and operation of a third runway?

7. What protections for the public finances does the Government propose to put in place in the Airports National Policy Statement?