NATS (En Route) plc

Regulatory Accounts 2018

NATS (En Route) plc Regulatory Accounts

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The regulatory accounts were approved by the Board on 27 June 2019 and signed on its behalf by

Finance Director ______________________

1. Introduction

1.1. The regulatory accounts are drawn up on a calendar year basis, in accordance with the requirements of NATS (En Route) plc's (NERL) prevailing Licence.

2. Purpose of the regulatory accounts

2.1 The purpose of the regulatory accounts, as set out in the Licence and the Regulatory Accounting Guidelines, is to make available such regulatory accounting information as will:

a) enable the CAA and the public to assess the financial position of NERL and the financial performance of the UK Air Traffic Services Business ("UKATS") and the En Route (Oceanic) Business ("Oceanic") on a consistent basis, distinct from each other and its affiliate or related undertakings;

b) assist the CAA to assess NERL's compliance with the Licence;

c) assist the CAA and the public to assess performance against the assumptions underlying the current price control;

d) inform future price control reviews and national/FAB Performance Plans; and

e) assist the CAA, the European Commission and the Performance Review Board to assess UKATS performance against the assumptions underlying the UK-Ireland FAB Performance Plan for Reference Period 2 (RP2) (for the En Route (UK) business) and to assist the CAA to assess Oceanic performance against the assumptions underlying the regulatory settlement for RP2 (for the En Route (Oceanic) business).

3. Basis of preparation

3.1. NERL's Licence requires the regulatory accounts to be prepared according to accounting policies that are consistent with the basis used in the RP2 price control determination. This is International Financial Reporting Standards (IFRS) , unless otherwise stated. Any change in the company's accounting policies for statutory accounts, whether required by new accounting standards or otherwise, that would have a material effect on the amounts used in formulae for preparing the regulatory accounts should thus be disregarded in the regulatory accounts unless the CAA consents to such a change.

3.2. Goodwill, and any associated amortisation or impairment, that appears in the statutory accounts of NERL as a result of the Public Private Partnership (PPP) transaction, or other corporate transactions, is not included in the regulatory accounts because it is not recognised for the purposes of economic regulation.

3.3. The regulatory accounts will be derived from the accounting records which NERL is required to keep under the Companies Act 2006. These accounting records will be kept in such a form as is necessary to enable NERL to comply with Condition 6 of the Licence and these Regulatory Accounting Guidelines.

3.4. These accounts are prepared on the basis set out in the Regulatory Accounting Guidelines.

3.5. The regulatory accounts compare NERL's actual performance with the projections underlying the CAA's decision on the price controls, and are prepared on the basis used by the CAA when setting the price controls.

3.6. The UKATS price control for RP2 was set by the CAA in May 2014 as part of the UK-Ireland FAB Performance Plan and was approved by the European Commission on 2 March 2015.

3.7. The accounts are prepared using amounts derived from the statutory accounts which are prepared on the basis of International Financial Reporting Standards (IFRS), details of which are given in the accounting policies note to the NERL statutory accounts. The Regulatory Accounting Guidelines require that these accounts do not reflect IAS23: Borrowing Costs.

Regulatory performance

3.8. The comparison of performance with the regulatory assumptions shows the derivation of UKATS and Oceanic regulatory profit and regulatory return, measured on a basis consistent with that used by the CAA when setting the price controls. The main differences compared with the statutory accounts basis are as follows:

- Operating costs are stated excluding accounting depreciation charges and include regulatory depreciation. The CAA's allowed regulatory depreciation is shown separately on the face of the regulatory performance statement. See pages 9-10.
- Operating costs include cash pension costs instead of accounting pension costs. The cash contributions to the NATS defined benefit pension scheme assumed by the CAA are shown separately in the regulatory performance statements.
- Operating costs exclude any profit/loss on disposal of assets, as the disposal of assets is dealt with through the Regulatory Asset Base, rather than in the performance statement.
- Operating costs exclude goodwill impairment charges, which are not remunerated through the regulatory settlement.

Movements in the regulatory asset base (RAB)

3.9. The statements on the RABs show the movements in the UKATS and Oceanic RABs. The closing RAB is the opening RAB plus capital expenditure less the CAA's regulatory depreciation and plus/minus movements in working capital, with adjustments for the pension contribution variance, and capitalised financing costs. Capital expenditure associated with external contracts funded outside of the regulatory settlement is excluded from the RABs.

3.10. Capital expenditure excludes IAS 23: Borrowing Costs which is not applicable for the purposes of these accounts, in accordance with the Regulatory Accounting Guidelines.

3.11. In order to report on a calendar year basis, the RAB at 1 January 2015 was calculated using the methodology required by the Regulatory Accounting Guidelines.

Traffic levels

3.12. A record of actual traffic levels is maintained showing Total Service Units (TSUs), Service Units (including civil exempt flights but excluding military and other exempt flights) and Chargeable Service Units (CSUs) for the UK En Route service (Eurocontrol); chargeable flights for Oceanic services. The traffic assumptions used by the CAA when setting the price control are also shown.

4. Independent auditor's report

Independent Auditor's Report to the Civil Aviation Authority ("CAA"), the Directors of NATS (En Route) plc ("The Company") and NATS Holdings Limited ("NHL").

Opinion

We have audited the Regulatory Accounts of NATS (En Route) plc for the year ended 31 December 2018 which comprise the comparison of performance with the regulatory assumptions on pages 9 and 10, the movements in Regulatory Asset Bases (RABs) on pages 19 and 20, the analysis of service incentives/penalties on pages 16 and 17, the RAB adjustments and potential claw backs on pages 23 and 24, the record of the consumer and retail price indices used in the regulatory calculations on page 30, the record of traffic levels compared with the regulatory assumptions on page 31, the schedule of costs exempt from cost sharing on pages 25 and 26 and the record of European funding to be offset in future periods on page 28. These Regulatory Accounts have been prepared under the accounting policies set out therein.

The financial reporting framework that has been applied in their preparation is set out in paragraph 4 of Condition 6 of the Air Traffic Services Licence (the Licence), the Regulatory Accounting Guidelines (RAGs) and the accounting policies explained in the basis of preparation on page 5.

In our opinion the Regulatory Accounts for the year ended 31 December 2018 have been properly prepared in accordance with paragraph 4 of Condition 6 of the Licence, with the RAGs and the accounting policies.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and applicable law except as stated in the 'Auditors responsibilities for the audit of regulatory accounts' section below and having regard to the guidance contained in ICAEW Technical Release TECH02/1 6AAF 'Reporting to regulators on regulatory accounts'. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of regulatory accounts' section of our report. We are independent of the company in accordance with ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of preparation

Without modifying our opinion, we draw attention to the fact that Regulatory Accounts have been prepared in accordance with Condition 6 of NERL's Licence, Regulatory Accounting Guidelines issued by the Regulator, and the accounting policies explained in the basis of preparation and in the case of the regulatory historical cost accounting statements, under the historical cost convention. The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment. As a result, the financial statements may not be suitable for another purpose.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared wholly under the basis of International Financial Reporting Standards as adopted by the European Union (IFRS). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in the statutory financial statements prepared in accordance with the Companies Act 2006.

Use of our report

This report is made, on terms that have been agreed, solely to the Directors of the Company and NHL and the CAA as Regulator in order to meet the requirements of NERL's Licence. Our audit work has been undertaken so that we might state to the Directors of the Company and NHL and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of the Company and NHL and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by Condition 6

Under the terms of our engagement we have assumed responsibility to provide those additional opinions required by Condition 6 in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the Company as required by paragraph 4 of Condition 6; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Directors' responsibilities for the regulatory accounts

The Directors are responsible for the preparation of the regulatory accounts in accordance with the Licence and for such internal control as the Directors determine is necessary to enable the preparation of the Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the regulatory accounts

Our objectives are to obtain reasonable assurance about whether the regulatory accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the RAGs. Where the RAGs does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content, of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the preparation of the information.

Other matters

Our opinion on the Regulatory Accounts is separate from the opinion on the statutory financial statements of the Company for the year ended 31 Match 2019, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

BDO LLP

BDO LLP

Chartered Accountants and Registered Auditors

Southampton, United Kingdom
27 June 2019

5. Comparison of performance with the regulatory assumptions

UK Air Traffic Services (UKATS)

Table 1

Calendar Year - Outturn Prices (actual CPI inflation) £ million *B/(W) = Better / (Worse)*	2018			2017		
	Actual	CAA's Projection	*Variance B/(W)*	Actual	CAA's Projection	*Variance B/(W)*
Eurocontrol revenue	597.7	569.0	*28.7*	603.3	574.9	*28.4*
London Approach revenue	13.1	12.8	*0.3*	12.6	12.4	*0.2*
Price controlled revenue	610.9	581.8	*29.0*	615.9	587.3	*28.6*
Other revenue (Note 2)	67.0	60.9	*6.0*	75.8	62.9	*12.9*
Intercompany revenue	26.6	21.4	*5.2*	26.5	20.7	*5.8*
UKATS Revenue (including intercompany revenue)	704.4	664.1	*40.3*	718.2	671.0	*47.3*
Operating costs (Note 3)	398.1	364.3	*(33.8)*	355.7	354.4	*(1.3)*
Defined Benefit Pension cash cost (Note 4)	69.3	69.3	-	74.2	74.2	-
Depreciation (Note 5)	176.8	176.8	-	185.8	185.8	-
Depreciation on RP1 PPT	1.2		*(1.2)*	1.2		*(1.2)*
Total costs	645.4	610.4	*(35.0)*	616.9	614.5	*(2.5)*
Regulatory profit	**59.0**	**53.7**	***5.3***	**101.3**	**56.5**	***44.8***
Capitalised Financing costs for the year (Note 6)	8.4	-	*8.4*	4.4	-	*4.4*
Regulatory return	**67.4**	**53.7**	**13.7**	**105.7**	**56.5**	**49.2**
Average Regulatory Asset Base (RAB)	979.2	927.7	*51.4*	1,003.1	972.6	*30.6*
Regulated rate of return (Note 7)	**6.89%**	**5.79%**	**1.09%**	**10.53%**	**5.81%**	**4.72%**

Key points on current year performance

UKATS achieved a regulated rate of return of 6.89% compared with CAA's projection of 5.79%.

Stronger UKATS revenue mainly reflected: higher en route (Eurocontrol) traffic volumes than the RP2 Performance Plan (see table 24); higher Other revenue from the recovery of SESAR projects costs (see Table 8); and higher intercompany charges to NATS Services.

Costs have increased materially against the Performance Plan assumption in 2018 as a consequence of additional operational staff to handle greater traffic volumes than was assumed for RP2 and the acceleration of the technology and airspace programme to ensure that increasing traffic levels can be managed in future. The latter resulted in in dual running costs for both legacy and new systems. Additional costs have also been incurred to support Other revenue and Intercompany revenue.

As a consequence of the higher volume of air traffic, c £52m will be returned to the airspace users on an N+2 basis under traffic volume risk sharing.

Regulatory return also included capitalised finance costs which reflect higher levels of capital expenditure and pension contributions (other than those relating to the defined contribution scheme) during RP2 to date, than the RP2 Performance Plan assumed.

Calendar Year - Outturn Prices (actual CPI inflation) £ million *B/(W) = Better / (Worse)*	2018			2017		
	Actual	CAA's Projection	*Variance B/(W)*	Actual	CAA's Projection	*Variance B/(W)*
Shanwick Oceanic Control Area charges	28.8	25.0	*3.8*	29.3	25.3	*4.0*
Other revenue (Note 2)	0.4	0.5	*(0.2)*	0.5	0.5	*0.0*
Total revenue	29.2	25.6	3.6	29.8	25.8	*4.0*
Operating costs (Note 3)	17.7	16.8	*(0.9)*	14.6	16.5	*1.9*
Defined Benefit Pension cash cost (Note 4)	3.1	3.1	-	3.3	3.3	-
Depreciation (Note 5)	4.4	4.4	-	4.5	4.5	-
Total costs	25.2	24.3	(0.9)	22.4	24.3	1.9
Regulatory profit	**4.0**	**1.3**	**2.7**	**7.4**	**1.4**	**5.9**
Capitalised Financing costs for the year (Note 6)	1.1	-	*1.1*	0.7	-	*0.7*
Regulatory return	**5.1**	**1.3**	**3.8**	**8.1**	**1.4**	***6.6***
Average Regulatory Asset Base (RAB)	39.5	22.1	*17.4*	37.3	24.7	*12.6*
Regulated rate of return (Note 7)	**12.90%**	**5.94%**	**6.95%**	**21.63%**	**5.75%**	**15.87%**

Key points on current year performance

Oceanic achieved a regulated rate of return of 12.9% compared with CAA's projection of 5.94% mainly due to better revenue.

The return is very sensitive to traffic volumes. Unlike UKATS, there is no risk sharing of traffic volume differences compared with the CAA's assumption. The volume of Oceanic flights handled in the year was 15.3% higher than the CAA's projection (see table 25).

Operating costs were £0.9m higher than projected mainly due to increased staff costs and additional costs relating to the operation of new systems.

Regulatory return includes capitalised finance costs relating to higher capital expenditure and pension contributions (other than to the defined contribution pension scheme) than was assumed in the RP2 Performance Plan.

1. Actual performance is compared with the CAA's projection for RP2, as set out in the UK-Ireland FAB Performance Plan (amended, if relevant, by the Corrigendum issued in November 2014). The performance plan, which was set in assumed CPI outturn prices, has been deflated to 2012 prices and uplifted by actual CPI inflation.
2. Revenue:
   - In the case of UKATS, price controlled revenue is the revenue for Eurocontrol and London Approach, and Other revenue is other external income included within UKATS, and is analysed in Table 6.
   - The UKATS revenue line includes income relating to the Future Airspace Strategy Facilitation Fund (a programme overseen by the CAA) as part of the RP2 settlement. To the extent that funds are not utilised by the end of RP2, these funds will be rebated to

customers in the following reference period, RP3. This is explained on page 27 and a separate schedule is provided in Table 20.

- The UKATS income line excludes income from customer funded capital projects, which are excluded from the RAB.
- Eurocontrol revenue includes any service bonuses or penalties as set out in Section 5.2.
- Oceanic revenues relate to charges for the Shanwick area of the North Atlantic as set out in Condition 22 of the NERL Licence. Other income represents any income other than from Shanwick Oceanic Control Area charges.

3. Operating costs:

- For the purposes of the price control, operating costs (which are derived from the statutory accounts and are on an accounting basis except where otherwise stated) are stated excluding: accounting depreciation; accounting pension costs relating to the defined benefit scheme and pension cash alternative in lieu of employer pension contributions; and any profit/loss on disposal of assets. The disposal of assets is dealt with through the RAB, rather than in the performance statement. For further information on pensions and depreciation, see notes 4 and 5 below.
- Operating costs include the cash pension contributions made to the Defined Contribution (DC) scheme.
- Operating costs include significant contributions to several European research and development initiatives (any funding received for these programmes is included in Other revenue and disclosed in Tables 6 and 8).
- Operating costs include charges from other group companies. These charges to NERL, from NATS Ltd and NATS (Services) Ltd, are detailed in Table 3 below.

Table 3

Calendar Year - Outturn Prices

£ million	Current Year	Prior Year
Charges from NATS Ltd	9.6	8.9
Charges from NATS (Services) Ltd	17.7	16.8
Total	27.3	25.7

- Operating costs are stated after deducting capitalised internal labour costs. The actual amount for each of UK Air Traffic Services and Oceanic, compared with the amounts assumed in the CAA projections are shown in Table 4 below.

Table 4

Capitalised internal labour costs	2015	2016	2017	2018	2019
Calendar Year - Outturn Prices £ million					
CAA's projection					
UK Air Traffic Services	39.5	39.9	41.2	40.6	40.6
Oceanic	0.6	0.3	0.2	0.2	0.5
Actual costs					
UK Air Traffic Services	46.9	37.4	43.5	39.8	
Oceanic	1.5	1.6	1.5	0.8	
Higher/(Lower) than CAA projection					
UK Air Traffic Services	7.4	(2.5)	2.3	(0.7)	
Oceanic	0.9	1.3	1.4	0.6	

4. CAA’s assumed Defined Benefit (DB) scheme cash contributions are deducted in determining actual regulatory profit for the year:

   - UKATS DB pension scheme contributions are determined in accordance with the European Charging Regulations. Differences (positive or negative) arising from unforeseen changes in national pensions law, pension accounting law or pension costs resulting from unforeseen financial market conditions are carried forward as Costs Exempt on a cumulative basis to be assessed for recovery in future reference periods. Any DB pension contributions differences that arise because the related payroll costs exceed CAA’s assumptions for the regulatory period are not carried forward as Costs Exempt and are included as a charge, reducing regulatory profit.

   - Actual Oceanic DB pension contributions are compared with the RP2 regulatory projections and differences are added to / subtracted from the RAB.

5. The CAA’s allowed regulatory depreciation is shown separately in the performance statements on Tables 1 and 2. The CAA’s allowed depreciation comprises underlying depreciation and the CAA’s backlog adjustment to depreciation.

6. Capitalised financing amounts for the year in respect of the capital expenditure variance and the pension contribution variance are added to the RAB to enable remuneration in future reference periods. These financing amounts are added to regulatory profit for the calculation of the regulatory return. The amounts are stated in terms of average prices for the year. Hence, some of the figures are slightly different from those reported for capitalised financing costs in Section 6 (the RAB) which are at year-end prices.

7. The rate of return in the CAA’s projection column for the years in RP2 averages to the allowed rate of return over RP2. The CAA had allowed a pre-tax real cost of capital of 5.86% for RP2. This was subsequently reduced for calendarisation adjustments, resulting in a reduction to the regulatory return. The profile of allowed returns (allowing for re-investment and price profiling) for UKATS and Oceanic is shown in Table 5 below.

Table 5

	2015	2016	2017	2018	2019
UK Air Traffic Services	5.81%	5.80%	5.81%	5.79%	5.78%
Oceanic	6.46%	6.24%	5.75%	5.59%	3.94%

8. Any small differences in these schedules are due to rounding. Given the nature and purpose of these schedules, it is not considered appropriate to eliminate any rounding difference.

5.1. Analysis of other UKATS revenue

This statement presents a more detailed split of other revenue, including revenue from business permitted under Licence Condition 5.

Table 6

Calendar Year - Outturn Prices		
£ million	Current Year	Prior Year
North Sea Helicopters	8.6	9.1
MoD	44.9	45.9
Licence Condition 5:		
Consented services	3.7	3.9
Other contracts with the Crown	0.9	1.0
Contracts related to Functional Airspace Blocks	0.1	0.2
Other unregulated revenue - UKATS	8.8	15.6
Total	67.0	75.8
European Development Initiatives included above:		
Consented services	3.7	3.9
Contracts related to Functional Airspace Blocks	0.1	0.2
Other unregulated revenue	1.5	8.3
Total	5.3	12.4

Consented services are those where, under Condition 5 of the NERL Licence, NERL has sought a consent that has been granted by the CAA (see Table 8).

Table 7

Permitted business subject 4.5% licence cap

Calendar Year - Outturn Prices		
£ million	Current Year	Prior Year
En Route (UK) Business		
- Eurocontrol	597.7	603.3
- London Approach	13.1	12.6
Sub-total	610.9	615.9
- Specified Services (North Sea Helis)	8.6	9.1
En Route (Oceanic) Business	28.8	29.3
Total	648.3	654.3
Unregulated revenue UKATS	8.8	15.6
Unregulated revenue Oceanic	0.4	0.5
Total	9.2	16.2
Unregulated revenue as % of total	1.4%	2.5%
Allowed %	4.5%	4.5%

Unregulated income excludes contracts with the Crown and other income for which CAA consent has been granted

The above analysis confirms that NERL is in compliance with Condition 5, paragraph 12 (a) (vi) of the NERL Licence. Its external turnover arising from any other business, as defined in the Licence, does not exceed 4.5% of the aggregate turnover of the En Route (UK) and En Route (Oceanic) businesses.

Table 8

The table below shows net income/(costs) relating to European Development Initiatives. The revenue is a subset of that included within UKATS other revenues or other operating income, with costs included within operating costs.

Calendar Year - Outturn Prices		Current Year	Prior Year
£ million			
Consented services:			
SESAR Joint Undertaking	Income	-	1.4
	Operating costs	0.0	0.2
	Net cost	0.0	1.5
SESAR 2020	Income	3.7	2.5
	Operating costs	(5.5)	(3.9)
	Net cost	(1.8)	(1.4)
Contracts related to Functional Airspace Blocks:			
Borealis	Income	0.1	0.2
	Operating costs	(0.2)	(0.3)
	Net cost	(0.1)	(0.1)
Other unregulated revenue:			
Deployment Manager	Income	1.5	8.5
	Operating costs	(1.9)	(8.0)
	Net cost	(0.5)	0.4
SESAR Other Research Projects	Income	-	(0.1)
	Operating costs	-	(0.0)
	Net cost	-	(0.1)
TOTAL:			
	Income	5.3	12.4
	Operating costs	(7.6)	(12.0)
	Net cost	(2.3)	0.4

Note: any small differences are due to rounding

5.2. Analysis of service incentives / penalties

The table below reflects the incentives / services credits that are reflected within Eurocontrol revenues.

Table 9

UKATS Incentives	2015	2016	2017	2018	2019
CAA Performance targets					
FC1 FAB Delay (mins/flight)	0.25	0.26	0.26	0.26	0.26
FC2 Average Delay (mins /flight)	0.17	0.18	0.18	0.18	0.18
FC3 Peak Delay - score (upper, modulated)	24.2	24.8	27.0	26.0	24.0
FC4 Daily Impact score (threshold for penalty for full year)	2,000	2,000	2,000	2,000	2,000
3DI Environmental score (upper limit)	31.2	30.8	30.3	29.5	29.1
Actual Achieved					
FC1 FAB Delay (mins/flight)	0.08	0.30	0.16	0.28	
FC2 Average Delay (mins/flight)	0.04	0.21	0.10	0.21	
FC3 Peak Delay	5.2	25.0	12.7	17.0	
FC4 System Daily Impact	14	177	1	16	
3DI Environmental score	30.1	30.3	29.6	29.2	
Better/(worse)					
FC1 FAB Delay	0.17	(0.04)	0.10	(0.02)	
FC2 Average Delay	0.13	(0.03)	0.08	(0.03)	
FC3 Peak Delay	19.0	(0.2)	14.3	9.0	
FC4 System Daily Impact	1,986	1,823	1,999	1,984	
3DI Environmental score	1.1	0.5	0.7	0.3	

The NERL Licence specifies the conditions under which incentives are earned as bonuses or penalties are incurred.

1. Certain conditions apply to the achievement of the incentive bonuses:
    - The FC1 target reflects the average minutes of en route ATFM delay in the UK-Ireland FAB expressed in minutes per flight. No penalty is incurred by NERL if the C1 target is achieved (i.e. lower delay levels).
    - The FC2 incentive reflects the average minutes of en route ATFM delay attributable to NERL expressed in minutes per flight. The financial value is subject to weightings and minimums, with penalties attracting a greater weighting.
    - The FC3 performance is calculated on a daily basis and is accumulated over the calendar year. This reflects weightings to penalise delays over peak periods. It is modulated to reflect actual flights, rather than the forecast flights as per the Licence.
    - The FC4 performance metric relates to excess delays (e.g. mainly caused by equipment and other failures). There are mitigations through a limited number of exemption days (up to 75 for the reference period as a whole), used for new system implementations. These are designated in advance, and through interaction with the FC3 incentive metric, to ensure any penalties are moderated for the same causal event.
    - Bonuses/penalties are limited to 1% of revenue generated in the relevant calendar year.

2. The Flight Efficiency Incentive (3DI) is based on a % of revenue which is multiplied by the element of the actual performance that falls outside of the annual upper and lower limits. These limits become more stringent over each year of the reference period.
    - Bonuses/penalties are limited to 1% of revenue generated in the relevant calendar year.

For 2018, the following were recorded:

Table 10

Financial Incentives	FC1	FC2	FC3	FC4	F3DI	Total
Calendar Year 2018	FAB delay (mins)	Average Delay per Flight (mins)	Delay impact (score)	Delay variability (daily score)	Average 3DI (score)	
Par Values (initial)	0.26	0.18	16 to 24	40 to 80 (Nov-Mar), otherwise 60-110	26.7 to 29.5	
Actual achieved	0.28	0.21 [1]	17.00 [2]	16.10 [3]	29.2	
£ million		(0.26)	0.00	0.00	0.00	(0.26)

1. The threshold from which penalties apply is 0.2 mins
2. On a modulated basis, the thresholds would be 17.3 to 25.95 (no bonuses payable due to C1)
3. Subject to exemption days for major changes being introduced into operations & mitigations as set out in the Licence

5.3 CAA's RP2 projections

Table 11

Calendar Year - 2012 Prices
£000

	2015	2016	2017	2018	2019
UKATS Regulatory Performance Statement (inc London Approach)					
Eurocontrol revenue (TSU basis)	562,312	550,642	540,864	522,236	502,810
Military TSU adjustment	-7,094	-6,805	-6,626	-6,286	-5,976
London Approach revenue	11,280	11,401	11,519	11,597	11,636
Other revenue	61,447	60,690	58,451	55,241	56,554
Intercompany revenue	19,127	19,134	19,255	19,386	19,208
Total UKATS revenue	647,072	635,061	623,462	602,174	584,231
Operating costs	-321,964	-318,067	-317,275	-317,262	-313,213
DB Pension cash	-70,673	-69,632	-68,960	-62,822	-58,689
DC Pension cash	-4,261	-4,804	-5,455	-6,178	-6,839
Exceptionals (Incl FAS allowance)	-9,419	-6,555	-6,587	-6,892	-6,813
Depreciation	-179,091	-179,109	-172,689	-160,292	-153,605
Backlog adjustment to depreciation	0	0	0	0	0
Regulatory profit	61,664	56,894	52,495	48,728	45,072
Capitalised Financing costs	0	0	0	0	0
Regulatory return	61,664	56,894	52,495	48,728	45,072
Average RAB	1,061,098	980,100	903,713	841,172	779,473
Regulated rate of return	5.81%	5.80%	5.81%	5.79%	5.78%
Oceanic Regulatory Performance Statement					
Oceanic revenue	25,143	24,363	23,494	22,699	21,910
Other revenue	492	454	450	421	381
Total Oceanic revenue	25,635	24,818	23,943	23,121	22,291
Operating costs	-15,173	-15,111	-15,103	-14,969	-14,777
DB Pension cash	-3,117	-3,114	-3,078	-2,787	-2,601
DC Pension cash	-188	-215	-243	-274	-303
Depreciation	-5,287	-4,750	-4,198	-3,971	-3,927
Regulatory profit	1,870	1,628	1,321	1,120	683
Capitalised Financing costs	0	0	0	0	0
Regulatory return	1,870	1,628	1,321	1,120	683
Average RAB	28,957	26,068	22,958	20,036	17,340
Regulated rate of return	6.46%	6.24%	5.75%	5.59%	3.94%

Note that the above table shows the CAA's RP2 projections in 2012 price levels. When these figures are used for comparative purposes, they are inflated to reflect the relevant year's outturn prices using actual prevailing CPI inflation rates.

6. Movements in the regulatory asset bases

The definitions and formulae for rolling forward the UKATS and Oceanic RABs are set out in Annex 4 of the Regulatory Accounting Guidelines.

The regulatory accounts include the following statements of the RABs for each of UKATS and Oceanic, with all amounts stated at year-end price levels:

Table 12

UK Air Traffic Services (UKATS)

Calendar Year £ million	2018 Actual	2018 CAA's projection	2018 *Variance*	2017 Actual	2017 CAA's projection	2017 *Variance*
Opening RAB as at 1 January in opening prices	983.7	939.4	44.2	1,021.9	985.9	*35.9*
The figures below are all at year end prices						
Inflation of opening RAB	26.5	25.3	*1.2*	42.1	40.6	*1.5*
Opening balance adjusted for year end prices	1,010.2	964.8	45.4	1,064.0	1,026.5	37.4
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2012	152.0	105.4	*46.7*	179.9	115.0	*65.0*
(minus) Real movements in Working Capital for calendar year t	(30.6)	(12.9)	*(17.7)*	(81.0)	(15.1)	*(66.0)*
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2012 for calendar year t	(176.6)	(176.6)	-	(180.6)	(180.6)	-
(minus) PPT Depreciation for year t x RPI growth from 2012 for calendar year t	(1.2)	-	*(1.2)*	(1.2)	-	*(1.2)*
plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2012 for calendar year t	3.9	3.9	-	3.8	3.8	-
(minus) Amortisation of the CP3 Estimated RIM for year t x RPI growth from 2012 for calendar year t	(2.6)	(2.6)	-	(10.3)	(10.3)	-
plus Defined Benefit Pension Contribution Variance	12.5	-	*12.5*	4.6	-	*4.6*
plus Capitalised Financing costs for the year	8.6	-	*8.6*	4.5	-	*4.5*
(minus) Spectrum Licence variance	(0.3)	-	*(0.3)*	-	-	-
plus Inflation on CP3 Adjustments	-	-	-	-	-	-
Other			-		0.1	*(0.1)*
Closing RAB as at 31 December	**976.1**	**882.0**	**94.0**	**983.7**	**939.4**	**44.2**

Table 13

Oceanic

Calendar Year £ million	2018 Actual	CAA's projection	*Variance*	2017 Actual	CAA's projection	*Variance*
Opening RAB as at 1 January in opening prices	39.0	23.1	15.8	35.7	25.7	*10.0*
The figures below are all at year end prices						
Inflation of opening RAB	1.1	0.6	*0.4*	1.5	1.1	*0.4*
Opening balance adjusted for year end prices	40.0	23.8	16.3	37.2	26.8	10.4
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2012	4.4	0.9	*3.6*	5.3	0.8	*4.5*
plus/(minus) Real movements in Working Capital for calendar year t	(2.0)	(0.0)	*(2.0)*	(0.2)	0.1	*(0.3)*
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2012 for calendar year t	(4.3)	(4.3)	-	(4.5)	(4.5)	-
plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2012 for calendar year t	(0.1)	(0.1)	-	(0.1)	(0.1)	-
minus Amortisation of the CP3 Estimate RIM for year t x RPI growth from 2012 for calendar year t						
plus Defined Benefit Pension contribution variance for calendar year t	1.0	-	*1.0*	0.5	-	*0.5*
plus Capitalised Financing costs for the year	1.1	-	*1.1*	0.7	-	*0.7*
plus Inflation on CP3 Adjustments						
Other	-	(0.0)	*0.0*	-	(0.0)	*0.0*
Closing RAB as at 31 December	**40.2**	**20.2**	**19.9**	**39.0**	**23.1**	**15.8**

Notes

1. The CAA projections are shown in Tables 14 and 15. Further detail is provided in Annex 4 of the Regulatory Accounting Guidelines.
2. Capital expenditure for the purpose of this table is expenditure on property, plant and equipment. It includes expenditure on fixed assets required under IFRS to be classified as intangible assets (principally software and assets relating to airspace re-sectorisation projects). It is stated net of proceeds of disposal and grants (except for assistance provided by the Innovation and Networks Executive Agency (INEA) and associated Union assistance programmes such as the Trans-European transport network (TEN-T), Connecting Europe Facility (CEF) and the Cohesion Fund, where funding is to be returned to airline customers via a specific unit rate reduction). The RAB excludes any NERL capital expenditure on customer funded projects which are remunerated outside the price control.
3. The defined benefit pension contribution variance for Oceanic measures the difference between actual cash pension contributions and the amount assumed by the CAA when setting the price control. Table 17 records the cumulative pension contribution variance included in the RAB at each year end for these costs which are outside the scope of the European Charging Regulations. For UKATS, costs exempt from risk sharing under European Charging Regulations is summarised in section 7 below.

4. Capitalised financing costs for the year in respect of the capital expenditure and pension contribution variances are added to the RAB to enable remuneration in future review periods.
5. The RAB is reduced by the allowed depreciation assumed in the price control, not by accounting depreciation.
6. In the case of UKATS, the CAA included a backlog adjustment to the amount of depreciation it allowed in setting the price control. This amount adjusts for the difference between the depreciation allowed during CP3/RP1 (including the price profiling adjustment) and what depreciation would have been based on actual capital expenditure in CP3/RP1.
7. Working capital for RAB purposes is defined as debtors and creditors, accruals and prepayments arising from trading (including transactions in respect of attributable fixed assets). It excludes any amounts relating to financing, tax, distributions, pension contributions and any price smoothing debtor.
8. Any small differences in these schedules are due to rounding. Given the nature and purpose of these schedules, it is not considered appropriate to eliminate the rounding differences.

6.1. CAA projections of RAB movements

Table 14

STATEMENT: CAA RAB Assumptions
Calendar Year - 2012 RPI prices
£ million

UKATS (2012 prices)	**2015**	**2016**	**2017**	**2018**	**2019**
Opening RAB	**1,057,433**	**990,287**	**894,387**	**818,367**	**748,106**
CP3 Spectrum Pass through	(659)	0	0	0	0
CP3 RIM	26,088	0	0	0	0
Inflation on CP3 Adjustments	743	0	0	0	0
Net Capital Expenditure	124,504	119,127	100,362	89,561	80,117
Depreciation	(174,442)	(172,233)	(163,260)	(148,912)	(140,237)
Movement in Working Capital	(43,402)	(42,838)	(13,169)	(10,960)	(9,444)
Other	22	45	47	50	53
Closing RAB	990,287	894,387	818,367	748,106	678,595
Average RAB	1,033,396	942,337	856,377	783,237	713,350

Table 15

STATEMENT: CAA RAB Assumptions
Calendar Year - 2012 RPI prices
£ million

Oceanic (2012 prices)	**2015**	**2016**	**2017**	**2018**	**2019**
Opening RAB	29,655	26,773	23,368	20,167	17,170
Net Capital Expenditure	1,865	1,153	715	729	1,126
Depreciation	(5,151)	(4,571)	(3,973)	(3,695)	(3,592)
Movement in Working Capital	403	13	57	(31)	(118)
Other	(0)	(0)	(0)	(0)	(0)
Closing RAB	26,773	23,368	20,167	17,170	14,587
Average RAB	28,214	25,070	21,767	18,669	15,878

Note that the above tables show the CAA’s RP2 projections in 2012 price levels. When these figures are used for comparative purposes, they are inflated to reflect the relevant year’s outturn prices using actual prevailing RPI inflation rates.

6.2. RAB adjustments and potential clawbacks

6.2.1. Gearing restrictions and tax clawback

1. The Licence imposes certain restrictions on NERL's gearing, which is defined as the Financial Indebtedness of the Licensee and related undertakings divided by the value of the combined NERL RAB, expressed as a percentage, calculated at 31 March and 30 September of each year.
2. NERL's gearing is capped at 65%, which if breached at a measurement date or by NERL's best estimate over the next four measurement dates, requires certain consents and rectification plans to be put in place together with a lock up of dividends and other restrictions on transactions with affiliates.
3. CAA has set NERL a target level of gearing of 60%.
4. Licence condition 5 requires NERL to provide:
   - the actual gearing within 25 business days of the measurement date
   - NERL's best estimate of gearing on each of the four subsequent measurement dates
   - Confirmation that it is not aware of any circumstances that will result in gearing being above 65%
   - Provide from time to time its best estimate of gearing over the period from 1 April 2015 to 31 March 2020 as a whole (on a simple arithmetic average)
   - An explanation of the difference between the expected average gearing for the period to 31 March 2020 and the target gearing of 60%.

5. The methodology for the tax clawback calculation takes the following steps:

Step 1	Compare actual gearing to the target level of gearing of 60%. Gearing is defined and measured as set out in Condition 5 of the licence. If the simple average of actual gearing for the control period is lower or equal to the target gearing, then no clawback applies. If it is higher, then proceed to step 2.
Step 2	Compare actual interest to modelled interest. If actual interest costs used in the calculation of actual tax are lower or equal to the costs used to estimate the tax charge in the price decision, then no clawback applies. If they are higher, then proceed to step 3.
Step 3	The excess relief is calculated as actual interest less modelled interest. This is then multiplied by the statutory corporation tax rate used in the price determination, and uplifted by the RP2 cost of capital to reflect the time value of money. The resulting clawback adjustment is to be included in the opening RP3 RAB. The tax clawback is then apportioned to the UKATS and Oceanic RABs in proportion to the estimated opening RAB values at the start of RP3 broadly to reflect the relative size of the two businesses.

6. In calculating the tax uplift for RP3, the reduction in revenue (and the tax thereon) arising from the tax clawback should be excluded from the calculation.

7. For the purpose of this calculation, the RPI measure of inflation is used.

Table 16

STATEMENT: Tax Claw back adjustment								
UKATS & Oceanic	2015/16		2016/17		2017/18		2018/19	
	At 30th Sept	At 31st March	At 30th Sept	At 31st March	At 30th Sept	At 31st March	At 30th Sept	At 31st March
Gearing assumption for RP2	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Actual Gearing	51.2%	49.1%	44.8%	35.9%	30.0%	27.5%	28.3%	25.7%

Notes:

1. Tax rates applying to the tax clawback calculation are 20% for the years 2015/16 to 2019/20 respectively. This was the statutory corporation tax rate used in the modelling of the regulatory settlement for RP2.
2. As actual gearing is below the target assumed for RP2, no claw back is required.

6.2.2. Closing cumulative pension contribution variance (adjustments through the RAB)

The pension costs in the table below are outside the scope of the European Charging Regulations and apply to the Oceanic Business.

Table 17

Pension Costs - Oceanic Calendar Year	Actual reported				
£ million	2015	2016	2017	2018	2019
NPP Assumption (2012 prices)	3.2	3.0	2.9	2.6	2.4
NPP Assumption (current outturn prices)	3.4	3.3	3.3	3.1	2.9
Actual	4.1	3.7	3.9	4.0	
Variance (added to)/deducted from RAB	(0.7)	(0.4)	(0.5)	(1.0)	
Cumulative variance (added to)/deducted from RAB	(0.7)	(1.1)	(1.6)	(2.6)	(2.6)

Note:

The closing cumulative pension contribution variance is the cumulative value of the pension contribution variances over RP2 (from 1 January 2015), which have been included in the RAB. At each year end, it is calculated in accordance with the formulae set out in Annex 4, section 8(j) in the RAB rules, and are stated at year end prices.

7. Schedule of costs exempt from cost sharing

The costs below represent costs exempt from cost sharing per Article 14 of the Charging Regulation 391/2013 that, are reported annually to the CAA and included in Reporting tables. They are stated in calendar year outturn prices. The European Commission will assess the eligibility of these amounts at the start of RP3.

7.1. Defined benefit pension costs (UKATS)

Table 18

		2015	2016	2017	2018	2019
RATES:		%	%	%	%	%
Performance Plan pension contribution assumption (% of pensionable pay)		**39.75%**	**40.43%**	**41.12%**	**38.46%**	**37.06%**
Difference in regular contribution rate (as a % of pensionable pay): uncontrollable		-2.32%	-0.14%	1.78%	1.63%	
Difference in deficit repair (as a % of pensionable pay): uncontrollable		2.73%	0.00%	10.04%	17.52%	
Diffrence in rate	A	0.40%	-0.14%	11.82%	19.15%	
Actual contribution rate (% of pensionable pay)		40.15%	40.29%	52.94%	57.61%	
Pension cash alternative rate		28.45%	28.45%	28.45%	28.45%	
Difference in rate	B	-11.30%	-11.98%	-12.67%	-10.01%	
PENSIONABLE SALARY (actual nominal prices)				£ million		
Actual DB scheme pensionable payroll		188.3	179.6	133.6	112.1	
Less:						
Salary increases (controllable)		(3.2)	0.0	0.0	0.0	
Plus:		0.0	0.0	0.0	0.0	
Salary decrease (controllable)		0.0	0.0	10.2	8.6	
DB scheme (net of controllable)	C	185.1	179.6	143.9	120.7	
Actual Pension cash alternative		0.1	4.8	36.7	59.4	
Less:						
Salary increases (controllable)		(0.1)	(3.9)	0.0	0.0	
Pension cash alternative (net of controllable)	D	0.0	0.9	36.7	59.4	
Performance Plan pensionable pay (actual nominal prices)	E=C+D	**185.1**	**180.5**	**180.5**	**180.1**	
COSTS EXEMPT CALCULATION						
DB scheme	=A*C	0.7	(0.3)	17.0	23.1	
Restrict to actuals		0.0	0.0	(1.2)	(1.6)	
Pension cash alternative	=B*D	0.0	(0.1)	(4.6)	(5.9)	
Costs exempt from risk sharing		**0.7**	**(0.4)**	**11.2**	**15.5**	
Less already allowed for in Performace Plan				**(4.2)**	**(3.3)**	
Net costs exempt from risk sharing		**0.7**	**(0.4)**	**6.9**	**12.2**	
Cumulative posistion for RAB		***0.7***	***0.4***	***7.3***	***19.5***	

Notes

1. The value included in the UKATS RAB in respect of the cumulative variance of defined benefit pension costs for RP1 as at 31 March 2015 was £15.3m, which includes indexation and capitalised finance costs. Of this £13.7m is recoverable under Article 14.2(a)(i) of the Charging Regulation 391/2013 and is reflected in the unit rate tables over a 14 year period from 2016 (grossed up in these tables on a Total Service Units basis). The remaining difference of £1.6m relating to non-Eurocontrol revenue streams is recovered through the RAB over a 15 year period.

2. For RP2 the methodology for assessing costs outside of NERL's control under the Charging Regulation will apply to UKATS. This takes account of the guidance issued by the Performance Review Body of the Single European Sky for the European Commission and inputs from the CAA. The cumulative impact of the £19.5m referred to in the table equates to a £19.9m RAB adjustment after allowing for conversion to year end RPI prices.

3. The amounts reported in the Table above will be accumulated over RP2, with an adjustment made to unit rates from the second year of RP3, once the values are finalised and agreed with the CAA and the European Commission.

7.2. Spectrum costs

Table 19

Analysis of Costs Exempt from cost sharing : UKATS Spectrum Costs £ millions					
NPP INPUTS UKATS	2015	2016	2017	2018	2019
Spectrum Charges assumed in NPP - Nominal values	0.3	0.6	1.0	1.1	1.1
Deflated at CPI	0.3	0.6	1.0	1.1	
ACTUAL CASH PAYMENTS					
Actual Spectrum costs (paid to 3rd Parties, excluding internal costs)	0.3	0.5	0.9	0.9	
Adjustment to prior years				0.1	
Variance:	(0.0)	(0.1)	(0.1)	(0.0)	
Uncontrollable cost assessment:					
Impact of estimation:					
Impact of inflation (Controllable)					
Impact of CY conversion (Controllable)					
Impact of change in legislation (Uncontrollable)	(0.0)	(0.1)	(0.1)	(0.0)	
Annual difference (Uncontrollable only , carried forward)	(0.0)	(0.1)	(0.1)	(0.0)	
Cumulative difference (carried forward)	(0.0)	(0.1)	(0.2)	(0.3)	

Notes:

1. For RP2 NERL has deducted the estimated value of the Spectrum underspend for the CP3/RP1 period from the opening RAB at 1 April 2015.

2. The amounts reported in the Table above will be accumulated over RP2, with an adjustment made to unit rates from the second year of RP3, once the values are finalised and agreed with the European Commission.

8. Other regulatory information

8.1. Future airspace strategy (FAS) facilitation fund

The Future Airspace Strategy (FAS) Facilitation Fund supports expenditure in relation to airspace strategy, and is subject to governance under an independent FAS Deployment Steering Board comprising the CAA and third party airlines, airports and military representatives. Amounts are included in NERL's determined costs and accumulated over RP2. Any funds which are not utilised by the end of RP2 will be rebated to customers in the following reference period. As amounts are stated in outturn prices, adjustments are made to reflect:

- The adjustment from Total Service Units to Service Units
- Changes in assumed inflation rates
- The impact of any traffic risk sharing

Table 20

UKATS FAS Facilitation Fund	2015	2016	2017	2018	2019	Total
Calendar Year - Outturn Prices						
£ million						
CAA's projection						
NERL Opex Fund	3.0	3.0	3.0	3.0	3.0	15.0
Small Gaps Fund	1.5	1.5	1.5	1.5	1.5	7.5
Total	4.5	4.5	4.5	4.5	4.5	22.5
Revenue Received: (after Adjustment for TSUs/CSUs)	4.4	4.6	4.9	5.0		19.0
Adjustment for Inflation (actual)	(0.1)	(0.1)	(0.1)	(0.1)		(0.5)
Adjustment for Traffic risk sharing	0.0	(0.1)	(0.3)	(0.4)		(0.8)
	4.3	4.4	4.5	4.5		17.8
Adjusted values						
NERL Opex Fund	2.9	2.9	3.0	3.0		11.9
Small Gaps Fund	1.4	1.5	1.5	1.5		5.9
Total	4.3	4.4	4.5	4.5	0.0	17.8
Actual expenditure						
NERL Opex Fund	0.1	0.7	1.3	2.1		4.1
Small Gaps Fund	0.1	0.8	0.5	0.7		2.2
Total	0.2	1.5	1.9	2.8	0.0	6.3
Variance	4.1	2.9	2.6	1.8	0.0	11.5
Cumulative variance	4.1	7.1	9.7	11.5	11.5	
(positive values are carried forward)						

8.2. Record of European funding to be offset in future periods

NERL has received European funding (from INEA) as part of the Framework Partnership Agreement for the SESAR Deployment Manager as set up under European regulations 409/2013 and 716/2014. Under the regulations, NERL is obliged to return these funds as a rebate to the UK unit rates, at a point to be agreed, following individual project completion.

The following principles will apply:

- Funds received (after deduction of any funds by the SESAR Deployment Manager) should be returned on a Net Present Value neutral basis, using NERL's incremental borrowing rate or actual interest income earned.
- The process for returning funds should be protected from significant currency risks and on a principle of no gain and no loss to NERL, including any clawback required for return of funds to INEA for any reason.
- An adjustment should be made for the Total Service Units (TSUs) and Chargeable Service Units (CSUs) ratio to ensure the full value of the benefit is passed on to customers
- Funds will be passed back to customers net of the SESAR Deployment Manager's administrative deductions and other third party costs incurred directly as a result of receiving the INEA funding. As at December 2018 NERL was due £6.4m for eligible administrative costs incurred on behalf of the SESAR Deployment Manager, which are to be reimbursed in future periods. These are not included in the table below.
- Interest is accrued on undistributed funds at the weighted average of NERL's sterling investment rate.
- A traffic true up variance will apply on an N+4 basis (where N is the year of receipt) for funds returned in N+2 as a result of actual TSU's being different to the NPP planned TSU's .
- INEA funds are not included in the UKATS RAB.

The 2019 en-route Eurocontrol unit rate includes the return to airspace users of INEA funding received to the end of 2017 (this is presented as Other Revenues within NERL's route charges tables, as required by the EU charging regulations).

Table 21

UKATS INEA Funding	2015	2016	2017	2018	2019
Calendar Year - Outturn Prices					
£ millions					
Amounts Received in Euros					
Pre-funding	0.0	33.2	14.2	1.4	
Interim Payments	0.0	0.0	0.6	6.4	
Final Payments	0.0	0.0			
Total	0.0	33.2	14.8	7.8	0.0
Equivalent GBP values					
Pre-funding	0.0	27.2	12.0	1.2	
Interim Payments	0.0		0.5	5.6	
Final Payments	0.0				
Total	0.0	27.2	12.5	6.8	0.0
Add: Interest accrued			0.2	0.2	
Less: Third Party costs			(0.0)	(0.1)	
Net Funding received	0.0	27.2	12.7	7.0	0.0
Less: Amounts returned as "Other Revenues"					(39.8)
Cumulative amount carried forward	0.0	27.2	39.8	46.8	7.0

8.3. Analysis of UKATS performance by European regulatory reporting category

The table below provides more granularity of UKATS performance. Costs are analysed by nature, as reported in the European Regulatory Reporting tables.

Table 22

Calendar Year - Outturn Prices (RP2 assumptions)
£ million
B/(W) = Better / (Worse)

	2018 Actual Eurocontrol	2018 Actual London Approach	2018 Actual Other UKATS	2018 Actual Total UKATS	2018 NPP Eurocontrol	2018 NPP London Approach	2018 Balance Other UKATS	2018 Licence Total UKATS	*2018 Variance B/(W) Eurocontrol*	*2018 Variance B/(W) London Approach*	*2018 Variance B/(W) Other UKATS*	*2018 Variance B/(W) Total UKATS*
Staff	284.1	6.3	45.1	335.6	256.9	5.7	36.9	299.6	*(27.2)*	*(0.6)*	*(8.2)*	*(35.9)*
Other operating costs	109.0	2.4	17.3	128.8	117.0	2.6	16.8	136.4	*8.0*	*0.2*	*(0.5)*	*7.7*
Depreciation	151.2	3.3	23.5	178.0	155.1	3.5	22.4	181.0	*3.9*	*0.2*	*(1.1)*	*3.0*
Cost of capital	48.7	1.1	7.6	57.4	45.6	1.3	8.1	55.0	*(3.0)*	*0.2*	*0.5*	*(2.4)*
Exceptional items	3.1	-	-	3.1	7.8	-	-	7.8	*4.7*	-	-	*4.7*
Sub total	596.1	13.1	93.5	702.8	582.5	13.1	84.3	679.8	*(13.6)*	*(0.0)*	*(9.3)*	*(22.9)*
Military adjustment	6.9	-	-	6.9	7.1	-	-	7.1	*0.2*	-	-	*0.2*
Determined costs	603.0	13.1	93.5	709.6	589.6	13.1	84.3	686.9	*(13.4)*	*(0.0)*	*(9.3)*	*(22.7)*

Notes

1. Performance is compared with the projection for RP2 included in the UK-Ireland FAB Performance Plan as agreed by the European Commission on 2 March 2015.The UK-Ireland FAB Performance Plan sets out the plans for Eurocontrol and London Approach services. NERL's Licence also includes Other UKATS services.

2. The NPP/Licence values above are stated using the NPP outturn inflation assumptions, as this was the basis used for unit rate pricing on an annual basis. The CAA's projection in the UKATS Performance Report (Table 1) uses actual inflation.

3. The military adjustment enables the European Regulatory Reporting figures to be reported on a Total Service Unit (TSU) basis, which includes military flights in civilian airspace. NERL's contractual arrangement with the Ministry of Defence provides for a different payment arrangement. The estimated value of this contract for the reference period is credited against determined costs, thereby reducing airspace charges for civil users. As the military flights are not separately recovered from the MoD, an adjustment is made to ensure civil airspace users are paying the appropriate unit rate.

8.4. Record of the consumer and retail price indices used in regulatory calculations

Table 23

FHICP (base 2012 =100)	2015 CY	2016 CY	2017 CY	2018 CY	2019 CY
NPP Assumptions					
Average for year (from 2012)	106.489	108.512	110.683	112.896	115.154
Actual					
Actual %	0.0%	0.7%	2.7%	2.5%	
Average index for year (2012 basis)	1.041	1.048	1.076	1.103	
At Year End (2012 basis)	1.041	1.061	1.092	1.115	

CHAW	2015 CY	2016 CY	2017 CY	2018 CY	2019 CY
NPP Assumption					
RPI growth for year (from 2012)	1.112	1.147	1.191	1.236	1.282
Index at Year End	269.852	278.471	289.005	300.086	311.293
Actual					
RPI growth for year (from 2012)	1.074	1.100	1.146	1.177	
Index at Year End	260.600	267.100	278.100	285.600	

Notes

1. CPI is used with reference to the performance report, using the Eurostat Harmonised Index of Consumer Prices (HICP).
2. RPI is only used with reference to the RAB. In the UK financial markets, RPI is the measure of inflation used by investors. In estimating the real cost of capital, the CAA has deducted RPI inflation from the nominal cost of capital. In order that investors are kept whole in respect of inflation, it is appropriate to uplift the asset base by RPI inflation.

8.5. Record of traffic levels compared with the regulatory assumptions

Table 24 UKATS

UK Air Traffic Services (amounts in 000s)	Total Service Units		Service Units		Chargeable Service Units	
Calendar Year	NPP assumption	Actual	CAA assumption	Actual	CAA assumption	Actual
2015	10,244	10,154	10,119	10,007	10,110	9,996
2016	10,435	10,875	10,310	10,723	10,301	10,712
2017	10,583	11,768	10,458	11,621	10,449	11,610
2018	10,758	12,194	10,633	12,066	10,624	12,055
2019	10,940		10,815		10,806	

UK Air Traffic Services (amounts in 000s)	IFR Flights		Chargeable Flights		Terminal SUs	
Calendar Year	NPP assumption	Actual	CAA assumption	Actual	CAA assumption	Actual
2015	2,294	2,332		2,270	885	908
2016	2,339	2,449		2,401	906	947
2017	2,377	2,534		2,490	922	965
2018	2,420	2,558		2,516	940	980
2019	2,465				959	

Notes

1. Total Service Units is the basis utilised by Eurocontrol for charging rates and includes military exempt flights, which are separately recovered by Member States. As NERL has a separate contractual arrangement with the military (which is incorporated into single till revenues for the purpose of calculating Eurocontrol charges), an adjustment is made to determined costs in the Eurocontrol charges to reflect the correct unit rates.
2. A record is maintained of actual flights handled which are used to modulate service performance targets which determine service incentives/penalties.
3. The CAA made no assumption regarding chargeable flights. Actual chargeable flights are used in the daily calculation of the FC4 service quality penalty.

Table 25 Oceanic

Oceanic (amounts in 000s)	Flights	
Calendar Year	CAA assumption	Actual
2015	412.4	438.1
2016	420.2	472.8
2017	426.1	495.2
2018	432.9	499.2
2019	439.4	

Notes

Oceanic flight volumes reflect chargeable flights.