

NATS (En Route) plc

Regulatory Accounts 2020

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The regulatory accounts were approved by the Board on 9 July 2021 and signed on its behalf by

Alistair Borthwick, Chief Financial Officer



Schedules on which the auditor's opinion is based

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 and basis of the regulatory accounts

2.1. Purpose

2.1.1. 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) inform future price control reviews and national/FAB Performance Plans; and
- d) assist the CAA to assess UKATS and Oceanic performance against the assumptions underlying the price controls for the RP3 control period.

2.2. Basis of preparation

2.2.1. NERL's Licence requires the regulatory accounts to be prepared according to accounting policies that are consistent with the basis used in the RP3 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.

2.2.2. 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.

2.2.3. 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.

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

2.2.5. 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.

2.2.6. 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 NERL's statutory accounts. The Regulatory Accounting Guidelines require that these accounts do not reflect IAS23: Borrowing Costs and the implementation of IFRS 16: Leases.

2.3. Regulatory performance

2.3.1. 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 11-12.
- 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.

2.4. Movements in the regulatory asset base (RAB)

2.4.1. 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.

2.4.2. Capital expenditure excludes IAS 23: Borrowing Costs which is not applicable for the purposes of these accounts, in accordance with the Regulatory Accounting Guidelines. It also excludes the implementation of IFRS 16: Leases from RAB assets because lease rentals costs are remunerated as part of operating costs in the price control.

2.5. Traffic levels

2.5.1. 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); and chargeable flights for Oceanic services. The traffic assumptions used by the CAA when setting the price control are also shown.

3. Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE CIVIL AVIATION AUTHORITY ("CAA") AND THE DIRECTORS OF NATS (EN ROUTE) PLC ("The Company").

Opinion on the Regulatory Accounts

In our opinion, the Regulatory Accounts of NATS (En Route) plc for the year ended 31 December 2020, which comprise the pages 11 to 34, are prepared, in all material respects, in accordance with Condition 6 of the Company's Regulatory Licence ("Licence"), Regulatory Accounting Guidelines 2020 ("RAGs"), and the accounting policies set out in the Basis of preparation on pages 4 and 5.

In our opinion the Regulatory Accounts for the year ended 31 December 2020 have been properly prepared in accordance with paragraph 4 of Condition 6 of the Licence, with the RAGs and the accounting policies.

The sections of the Regulatory Accounts that we have audited comprise the financial information included on pages 11 to 28, comprising schedules 4 to 11 (the "Audited Statements"). We have not audited the additional regulatory information included within schedules 12 to 16.

Basis for 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 Auditor's responsibilities for the audit of Regulatory Accounts section below and having regard to the guidance contained in ICAEW Technical Release TECH02/16AAF *Reporting to regulators on regulatory accounts*.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of Audited Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the Audited Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Audited Statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the Audited Statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of matter – basis of preparation

We draw attention to the fact that the Audited Statements have been prepared in accordance with a special purpose framework, Condition 6 of NERL's Licence, Regulatory Accounting Guidelines issued by the Regulator, 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 the Audited Statements 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 Audited 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 accounting standards in conformity with the requirements of the Companies Act 2006. Financial information other than that prepared on the basis of international accounting standards in conformity with the requirements of the Companies Act 2006 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.

Our opinion is not modified in respect of these matters.

Reporting on other information

The other information comprises all of the information in the Regulatory Accounts other than the Audited Statements on pages 11 to 28 and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Audited Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Audited Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Audited Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Audited Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

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 Audited Statements 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.

In preparing the Regulatory Accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Audit Statements within the regulatory accounts

Our objectives are to obtain reasonable assurance about whether the Audited Statements 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Audited Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company that were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations that could give rise to a material misstatement in the financial statements to be the Companies Act 2006, pension's legislation, tax legislation, the licence granted under the Transport Act 2000 and economic regulation regulated by the CAA.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud we considered the following:

- the nature of the industry, control environment and business performance;
- the results of our enquiries of management, internal audit and the Audit Committee about their own identification of the risk of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures; and
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. We also discussed the potential for non-compliance with laws and regulations.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our tests included, but were not limited to:

- agreement of the Audited Statements disclosures to underlying supporting documentation;
- in response to the risk of management override of controls, identifying and testing journal entries, in particular any material journal entries posted to revenue, unusual account combinations and journals posted by unexpected users;
- enquiries with management, the Audit Committee and internal legal counsel;
- review of minutes of Board meetings throughout the year;
- review of tax compliance and involvement of our tax specialists in the audit;
- review of internal audit reports; and
- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to revenue accounting, the capital investment programme and going concern.

Our audit procedures were designed to respond to risks of material misstatement in the Audited Statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Audited Statements, the less likely we are to become aware of it.

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 do 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.

Use of our report

This report is made, on terms that have been agreed, solely to the Directors of the Company and the CAA as Regulator in order to meet the requirements of the Company's Licence. Our audit work has been undertaken so that we might state to the Directors of the Company 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 the Regulator, for our audit work, for this report, or for the opinions we have formed.

Our opinion on the Audited Statements is separate from the opinion on the statutory financial statements of the Company for the year ended 31 March 2021, 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.

DocuSigned by:

BDO LLP

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BDO LLP

Chartered Accountants

Reading, United Kingdom

9 July 2021

4. Comparison of performance with the regulatory assumptions (Tables 1, 2, 3, 4, 5)

4.1. UK Air Traffic Services (UKATS)

Table 1

Calendar Year - Outturn Prices (actual CPI inflation)	2020			2019		
£ million	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
B/(W) = Better / (Worse)						
Eurocontrol revenue	623.4	675.9	(52.4)	589.0	557.7	31.3
London Approach revenue	11.6	13.4	(1.8)	13.4	13.1	0.3
Price controlled revenue	635.0	689.3	(54.2)	602.3	570.7	31.6
Other revenue (Note 2)	64.4	63.8	0.6	67.2	63.5	3.7
Intercompany revenue	27.0	23.9	3.2	27.2	21.6	5.7
UKATS Revenue (including intercompany revenue)	726.4	776.9	(50.5)	696.8	655.8	41.0
Operating costs (Note 3)	469.6	481.1	11.6	427.2	366.9	(60.3)
Defined Benefit Pension cash cost (Note 4)	66.0	66.0	-	65.9	65.9	-
DB Pension cash - controllable cost variance	-	-	-	-	-	-
DB Pension cash - RP1 adjustment variance	-	-	-	-	-	-
Depreciation (Note 5)	184.3	184.3	-	172.4	172.4	-
Backlog adjustment to depreciation (Note 5)	9.4	9.4	-	-	-	-
Depreciation on PPT	5.1	5.1	-	1.2	-	(1.2)
Total costs	734.4	745.9	11.6	666.6	605.2	(61.5)
Regulatory (loss) / profit	(7.9)	31.0	(38.9)	30.1	50.6	(20.5)
Capitalised Financing costs for the year (Note 6)	(2.9)	-	(2.9)	12.8	-	12.8
Regulatory return	(10.8)	31.0	(41.8)	42.9	50.6	(7.7)
Average Regulatory Asset Base (RAB)	1,087.0	1,041.7	45.3	973.6	874.9	98.7
Regulated rate of return (Note 7)	-1.00%	2.97%	-3.97%	4.41%	5.78%	-1.37%

4.1.1. Key points on current year performance

UKATS reported a regulatory loss, after capitalised financing costs, of £10.8m which equated to a negative regulated rate of return of (1.00)% compared with CAA's projection of 2.97%.

The outcome of CAA's reconciliation of actual costs and revenue as a whole for the three years of the current interim price control period which runs 2020 to 2022 will not be known until 2022, this includes the period over which the shortfall will be recovered from 2023 onwards. Revenues have been reported consistent with the IFRS basis of preparation of NERL's statutory accounts for the year ended 31 March 2021. Under IFRS, revenue can only be recognised to the extent that it is highly probable that a subsequent reversal will not occur.

NERL responded rapidly to the impact of Covid-19 in reducing its operating costs to protect its liquidity and to support the recovery. Actions included staff pay restraint and a recruitment freeze, the release of most external contractors and curtailing non-staff costs. Many staff were also furloughed under the UK Governments job retention scheme. The cost base was reduced through staff redundancies which were restricted to non-operational staff, to ensure that the essential operational skills were retained to protect the recovery. Operating costs were £12m better than projected.

4.2. Oceanic

Table 2

Calendar Year - Outturn Prices (actual CPI inflation) £ million <i>B/(W) = Better / (Worse)</i>	2020			2019		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Shanwick Oceanic Control Area charges	11.7	29.5	(17.9)	28.5	24.6	3.9
ADSB Charges	6.4	16.5	(10.1)	-	-	-
Other revenue (Note 2)	0.4	0.6	(0.2)	0.4	0.4	(0.0)
Total revenue	18.4	46.7	(28.3)	28.9	25.0	3.9
Operating costs (Note 3)	20.0	18.8	(1.2)	19.1	16.9	(2.2)
ADSB cost	6.4	16.5	10.1	0.1	-	(0.1)
Defined Benefit Pension cash cost (Note 4)	2.6	2.6	-	2.9	2.9	-
Depreciation (Note 5)	7.2	7.2	-	4.4	4.4	-
Total costs	36.1	45.0	8.9	26.6	24.3	(2.3)
Regulatory (loss) / profit	(17.7)	1.6	(19.4)	2.4	0.8	1.6
Capitalised Financing costs for the year (Note 6)	(0.0)	-	(0.0)	1.4	-	1.4
Regulatory return	(17.8)	1.6	(19.4)	3.7	0.8	3.0
Average Regulatory Asset Base (RAB)	41.8	46.6	(4.8)	42.4	19.5	22.9
Regulated rate of return (Note 7)	-42.48%	3.48%	-45.96%	8.82%	3.94%	4.88%

4.2.1. Key points on current year performance

Oceanic reported a regulatory loss, after capitalised financing costs, of £17.8m with a negative return of (42.48)% compared to CAA's projection of 3.48%. Revenue for the Oceanic service varies directly with the volume of flights which are handled. Accordingly, the service line's regulatory performance reflects the significant reduction in revenue as a result of the reduction in flight volumes following travel restrictions put in place to control the Covid-19 pandemic. The number of flights handled in the year was 42% of the CAA's price control projection (see table 16).

Like UKATS, the Oceanic service took rapid action to reduce its cost base to protect liquidity and to support the recovery in aviation subsequently. The cost of staff redundancies offset the savings achieved in the year. Overall operating costs were £1.2m higher than the price control projection.

4.3. Notes on the Performance Tables

- Actual performance is compared with the CAA's projection for RP3. The price control which was set by CAA in assumed CPI outturn prices, has been deflated to 2017 prices and uplifted by actual CPI inflation.
- 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 21.
 - The UKATS revenue line includes income relating to the Opex Flexibility Fund (a programme overseen by the CAA) as part of the RP3 settlement. To the extent that funds are not utilised by the end of RP3, these funds will be rebated to customers

in the following price control period. This is explained on page 33 and a detail of actual expenditure is provided in Table 24.

- UKATS revenue 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 Table 7.
- Oceanic revenue relates to charges for the Shanwick area of the North Atlantic as set out in Condition 22 of the NERL Licence with amounts received in relation to ADS-B charges reported separately for clarity. 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 21 and 23).
- For the purposes of the price control, operating costs will continue to include the annual rental charge relating to operating leases consistent with the approach under IAS 17: Leases and with the way the price control has been determined. In its statutory accounts NERL is required to apply IFRS 16 which requires liabilities for operating lease commitments to be reported on the balance sheet of the company together with the related right-of-use assets. Under IFRS 16, lease expenses represent financing costs and amortisation of right-of-use assets.
- 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	<u>2020</u>	<u>2019</u>
Charges from NATS Ltd	11.0	9.5
Charges from NATS (Services) Ltd	18.9	18.3
Total	<u>29.9</u>	<u>27.8</u>

NATS charges have increased as a result of rising insurance and voluntary redundancy costs. NSL charges have also risen slightly as a result of increased support to projects in NERL.

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	2020	2021	2022
Calendar Year - Outturn Prices			
£ million			
CAA's projection (RP3 Assumptions)			
UK Air Traffic Services	53.7		
Oceanic	1.3		
Actual costs			
UK Air Traffic Services	34.9		
Oceanic	0.1		
Variance to NPP			
UK Air Traffic Services	(18.9)		
Oceanic	(1.3)		

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 for 2020 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 price control periods. Any DB pension contribution 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 RP3 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 each of the three years of the interim price control for RP3 averages to the allowed rate of return over the interim price

control period. The CAA had allowed a pre-tax real cost of capital of 3.48% for the interim price control period. The profile of allowed returns (allowing for re-investment and price profiling) for UKATS and Oceanic is shown in Table 5 below.

Table 5

	2020	2021	2022
UK Air Traffic Services	2.97%	3.60%	3.59%
Oceanic	3.48%	3.48%	3.48%

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. Analysis of Incentives/Service Credits (Tables 6, 7)

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

Table 6

UKATS Incentives	2020	2021	2022
CAA Performance targets			
FC2 Average Delay (mins /flight)	0.20		
FC3 Peak Delay - score (upper, modulated)	24.0		
FC4 Daily Impact score (threshold for penalty for full year)	1,800		
3DI Environmental score (target score)	27.8		
Actual Achieved			
FC2 Average Delay (mins/flight)	0.02		
FC3 Peak Delay	2.5		
FC4 Daily Impact Score	35		
3DI Environmental score	23.9		
Better/(worse)			
FC2 Average Delay	0.18		
FC3 Peak Delay	21.5		
FC4 Daily Impact Score	1,765		
3DI Environmental score	3.9		

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 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 60 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 are limited to 0.3% of determined costs and penalties limited to 1.25% of determined costs 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 0.5% of revenue generated in the relevant calendar year.

Table 7

Analysis of service incentives / penalties in 2021

NERL agreed with customers and the CAA it will not seek to recover a service bonus for 2020 as performance has been driven largely by low traffic volumes associated with the impact of Covid.

Financial Incentives	FC2	FC3	FC4	F3DI	Total
Calendar Year 2020	NERL attributable delay (mins)	Delay impact (score)	Annual (score)	Average 3DI (score)	
Par Values (initial)	0.2	16 to 24	1,800	26.4 to 29.2	
Actual achieved	0.02	2.5	35	23.9	
£ million	0.0	0.0	0.0	0.0	0.0

6. Movements in the Regulatory Asset Bases (Tables 8, 9)

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 8

<u>UK Air Traffic Services (UKATS)</u>						
Calendar Year £ million	<u>2020</u>			<u>2019</u>		
	Actual	CAA's projection	Variance	Actual	CAA's projection	Variance
Opening RAB as at 1 January in opening prices	970.6	1,001.1	(30.5)	976.1	882.0	94.0
Opening balance adjustment for Spectrum Licence variance	(0.5)	-	(0.5)	-	-	-
Opening balance adjustment for RP2 correction	(3.6)	-	(3.6)	-	-	-
Restated Opening RAB	966.5	1,001.1	(34.7)	-	-	-
<i>The figures below are all at year end prices</i>						
Inflation of opening RAB	11.6	12.0	(0.4)	21.5	19.5	2.1
Opening balance adjusted for year end prices	978.1	1,013.1	(35.0)	997.6	901.5	96.1
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2017 (for 2020) / 2012 (for 2019)	76.0	189.5	(113.5)	150.0	96.3	53.6
plus / (minus) Real movements in Working Capital for calendar year t	357.9	83.0	274.8	(37.0)	(11.4)	(25.6)
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2017 (for 2020) / 2012 (for 2019) for calendar year t	(190.7)	(190.7)	-	(172.7)	(172.7)	-
(minus) PPT Depreciation for year t x RPI growth from 2017 (for 2020) / 2012 (for 2019) for calendar year t	-	-	-	(1.2)	-	(1.2)
(minus) / plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2017 (for 2020) / 2012 (for 2019) for calendar year t	(9.5)	(9.5)	-	4.0	4.0	-
(minus) / plus Defined Benefit Pension Contribution Variance	(0.2)	-	(0.2)	16.7	-	16.7
(minus) / plus Capitalised Financing costs for the year	(2.9)	-	(2.9)	12.9	-	12.9
(plus) Spectrum Licence variance	-	-	-	0.3	-	0.3
(minus) Other (including is RPI / CPI wedge)	(0.1)	(0.4)	0.3	-	-	-
Closing RAB as at 31 December	1,208.5	1,085.1	123.5	970.6	817.8	152.8

Table 9

Calendar Year £ million	2020			2019		
	Actual	CAA's projection	Variance	Actual	CAA's projection	Variance
Oceanic						
Opening RAB as at 1 January in opening prices	44.6	48.0	(3.4)	40.2	20.2	19.9
Inflation of opening RAB	0.5	0.6	(0.0)	0.9	0.4	0.4
Opening balance adjusted for year end prices	45.1	48.6	(3.5)	41.0	20.7	20.4
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2017 (for 2020) / 2012 (for 2019)	2.0	4.7	(2.7)	3.1	1.4	1.7
(minus) / plus Real movements in Working Capital for calendar year t	(0.9)	(0.7)	(0.2)	2.3	(0.1)	2.4
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2017 (for 2020) / 2012 (for 2019) for calendar year t	(5.9)	(5.9)	-	(4.2)	(4.2)	-
(minus) Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2017 (for 2020) / 2012 (for 2019) for calendar year t	(1.3)	(1.3)	-	(0.1)	(0.1)	-
plus Defined Benefit Pension contribution variance for calendar year t	0.2	-	0.2	1.1	-	1.1
(minus) / plus Capitalised Financing costs for the year	(0.0)	-	(0.0)	1.4	-	1.4
Closing RAB as at 31 December	39.2	45.3	(6.2)	44.6	17.6	27.0

Notes

1. The CAA projections are shown in Tables 19 and 20. 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, 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 11 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 8 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. The CAA has 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 RP2 and what depreciation would have been based on actual capital expenditure in RP2.
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.

7. RAB adjustments and potential Clawbacks (Tables 10,11)

7.1. Gearing restrictions and tax clawback

- a. 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.
- b. 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.
- c. CAA has set NERL a target level of gearing of 60%.
- d. 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 2020 to 31 March 2025 as a whole (on a simple arithmetic average)
 - An explanation of the difference between the expected average gearing for the period to 31 March 2025 and the target gearing of 60%.
- e. 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 (from 1 April 2020 to 31 March 2023) 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 RP3 cost of capital to reflect the time value of money. The resulting clawback adjustment is to be included in the opening RAB for the next price control period. 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.

- f. In calculating the tax uplift for the next price control period, the reduction in revenue (and the tax thereon) arising from the tax clawback should be excluded from the calculation.
- g. For the purpose of this calculation, the RPI measure of inflation is used.

Table 10

STATEMENT: Tax Claw back adjustment						
UKATS & Oceanic	2020/21		2021/22		2022/23	
	At 30th Sept	At 31st March	At 30th Sept	At 31st March	At 30th Sept	At 31st March
Gearing assumption for RP3	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Actual Gearing	36.4%	46.7%				

Notes:

1. Tax rates applying to the tax clawback calculation are 19% for the years 2020/21 to 2022/23 respectively. This was the statutory corporation tax rate used in the modelling of the regulatory settlement for the interim price control.

7.2. 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 11

Pension Costs - Oceanic Calendar Year	Actual reported		
	2020	2021	2022
£ million			
CAA Assumption (2017 prices)	2.4	2.3	2.5
CAA Assumption (current outturn prices)	2.6	2.6	2.8
Actual	2.8		
Variance (added to)/deducted from RAB	(0.2)		
Cumulative variance (added to)/deducted from RAB	(0.2)	(0.2)	(0.2)

Note:

The closing cumulative pension contribution variance is the cumulative value of the pension contribution variances over RP3 (from 1 January 2020), 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 6(e) in the RAB rules, and are stated at year end prices.

8. Record of Costs Exempt from cost sharing (Table 12, 13)

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 the next price control period.

8.1. Defined benefit pension costs (UKATS)

Table 12

		2020	2021	2022
RATES:		%	%	%
Performance Plan pension contribution assumption (% of pensionable pay)		58.08%		
Element relating to future service		41.70%		
Element relating to deficit recovery		16.38%		
Difference in regular contribution rate (as a % of pensionable pay): uncontrollable		0.00%		
Difference in deficit repair (as a % of pensionable pay): uncontrollable		0.00%		
Difference in rate		A	0.00%	
Actual contribution rate (% of pensionable pay)			58.08%	
Pension cash alternative rate			28.45%	
Difference in rate		B	-13.25%	
PENSIONABLE SALARY (actual nominal prices)				
Actual DB scheme pensionable payroll			110.1	
Less:				
Salary increases (controllable)			0.0	
Plus:				
Salary decrease (controllable)			2.4	
DB scheme (net of controllable)		C	112.5	
Actual Pension cash alternative			1.2	
Less:				
Salary increases (controllable)			0.0	
Pension cash alternative (net of controllable)		D	1.2	
Performance Plan pensionable pay (actual nominal prices)		E=C+D	113.6	
COSTS EXEMPT CALCULATION				
DB scheme		=A*C	0.0	
Restrict to actuals			0.0	
Pension cash alternative		=B*D	(0.2)	
Costs exempt from risk sharing			(0.2)	
Less already allowed for in Performance Plan			0.0	
Net costs exempt from risk sharing			(0.2)	
<i>Cumulative amount taken to RAB in period</i>			<i>(0.2)</i>	

Notes

1. For the interim price control for RP3 the methodology for assessing costs outside of NERL's control under the European Commission 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.
2. The amounts reported in the Table above will be accumulated over the interim price control for RP3, with an adjustment made to unit rates from the second year of the next price control period, once the values are finalised and agreed with the CAA and the European Commission.

8.2. Spectrum costs

Table 13

Analysis of Costs Exempt from cost sharing : UKATS Spectrum Costs £ millions			
CAA Assumption UKATS	2020	2021	2022
Spectrum Charges assumed - nominal values	1.0	1.0	1.0
Deflated at CPI	1.0		
ACTUAL CASH PAYMENTS			
Actual Spectrum costs (paid to 3rd Parties, excluding internal costs)	0.8		
Adjustment to prior years			
Variance:	(0.1)		
Uncontrollable cost assessment:			
Impact of estimation:			
Impact of inflation (Controllable)			
Impact of CY conversion (Controllable)			
Impact of change in legislation (Uncontrollable)	(0.1)		
Annual difference (Uncontrollable only , carried forward)	(0.1)		
Cumulative difference (carried forward)	(0.1)	(0.1)	(0.1)

Notes:

1. For RP3 NERL has deducted the Spectrum underspend for RP2 from the opening RAB at 1 January 2020.
2. The amounts reported in the Table above will be accumulated over RP3, with an adjustment made to unit rates from the second year of the next price control period.

9. Record of European funding to be offset in future periods (Table 14)

9.1. 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 rate, at a point to be agreed, following individual project completion.

The following principles have been agreed with CAA:

- 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.
- 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.

Table 14 INEA funding of implementing projects

UKATS INEA Funding	2019	2020	2021	2022
Calendar Year - Outturn Prices				
£ millions				
Amounts Received in Euros				
Pre-funding		0.0		
Interim Payments		6.9		
Final Payments		0.0		
Total		6.9	0.0	0.0
Equivalent GBP values				
Pre-funding		0.0		
Interim Payments		6.2		
Final Payments		0.0		
Total		6.2	0.0	0.0
Add: Interest accrued		0.1		
Less: Third Party costs		(0.0)		
Net Funding received		6.3	0.0	0.0
Less: Amounts returned as "Other Revenues"		0.2		
Cumulative amount carried forward	36.7	43.2	43.2	43.2

10. Record of traffic levels compared with the regulatory assumptions (Table 15, 16)

Table 15 UKATS

UK Air Traffic Services (amounts in 000s)				
	Total Service Units		Service Units	Chargeable Service Units
Calendar Year	CAA assumption	Actual	Actual	Actual
2020	12,648	5,099	4,981	4,972
2021	12,891			
2022	13,183			

UK Air Traffic Services (amounts in 000s)				
	IFR Flights		Terminal SU's	
Calendar Year	CAA assumption	Actual	Actual	Actual
2020	2,649	1,012	1,006	399
2021	2,685		1,016	
2022	2,737		1,042	

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 incentive.

Table 16 Oceanic

Oceanic flight volumes reflect chargeable flights.

Oceanic (amounts in 000s)				
	Flights			
Calendar Year	CAA assumption		Actual	
	Atlantic	Tango	Atlantic	Tango
2020	497.0	31.0	201.1	7.7
2021	507.0	32.0		
2022	519.0	33.0		

11. Record of the consumer and retail price indices (Table 17)

Table 17

FHICP (base 2017 =100)	2020 CY	2021 CY	2022 CY
NPP Assumptions			
Average for year (from 2017)	106.44	108.57	110.74
Actual			
Actual %	0.9%		
Average index for year (2017 basis)	1.05		
At Year End (2017 basis)	1.06		

CHAW	2020 CY	2021 CY	2022 CY
NPP Assumption			
RPI growth for year (from 2017)	1.10	1.14	1.17
Index at Year End	300.94	309.97	319.57
Actual			
RPI growth for year (from 2017)	1.08		
Index at Year End	295.40		

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.

Unaudited Schedules provided for information

12. CAA's RP3 projections (Table 18)

Table 18

Calendar Year - 2017 Prices £000			
	2020	2021	2022
UKATS Regulatory Performance Statement (inc London Approach)			
Eurocontrol revenue (TSU basis)	648,192	621,036	621,924
PPT revenues	1,535	7,546	7,459
Military TSU adjustment	-7,385	-6,923	-6,761
London Approach revenue	12,734	12,439	13,046
Other revenue	60,610	54,878	53,789
Intercompany revenue	22,708	21,979	21,221
Total UKATS revenue	738,395	710,955	710,678
Operating costs	-457,282	-455,396	-472,651
DB Pension cash	-62,721	-61,601	-60,379
Depreciation	-175,168	-140,456	-122,201
PPT depreciation	-4,841	-4,746	-4,653
Backlog adjustment to depreciation	-8,944	-9,860	-9,966
Regulatory profit	29,440	38,896	40,829
Capitalised Financing costs	0	0	0
Regulatory return	29,440	38,896	40,829
Average RAB	990,034	1,081,331	1,136,465
Regulated rate of return	2.97%	3.60%	3.59%
Oceanic Regulatory Performance Statement			
Oceanic revenue	28,071	27,411	27,563
ADSB charges	15,710	16,013	16,399
Other revenue	564	565	557
Total Oceanic revenue	44,346	43,989	44,519
Operating costs	-17,823	-18,398	-18,820
Operating costs	-15,710	-16,013	-16,399
DB Pension cash	-2,456	-2,398	-2,559
Depreciation	-6,814	-5,738	-5,354
Regulatory profit	1,542	1,442	1,388
Capitalised Financing costs	0	0	0
Regulatory return	1,542	1,442	1,388
Average RAB	44,319	41,433	39,877
Regulated rate of return	3.48%	3.48%	3.48%

Note that the above table shows the CAA's RP3 projections in 2017 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.

13. CAA projections of RAB movements (Tables 19, 20)

Table 19

STATEMENT: CAA RAB Assumptions			
Calendar Year - 2017 RPI prices			
£ million			
UKATS (2017 prices)	2020	2021	2022
Opening RAB (including RP2 adjustment)	934,514	1,000,854	1,092,463
Net Capital Expenditure	174,791	156,763	102,985
Depreciation	(184,687)	(150,089)	(131,019)
Movement in Working Capital	76,596	84,935	19,685
Other	(360)	0	0
Closing RAB	1,000,854	1,092,463	1,084,113
Average RAB	967,684	1,046,659	1,088,288

Table 20

STATEMENT: CAA RAB Assumptions			
Calendar Year - 2017 RPI prices			
£ million			
Oceanic (2017 prices)	2020	2021	2022
Opening RAB	44,820	41,817	38,391
Net Capital Expenditure	4,307	2,436	5,063
Depreciation	(6,660)	(5,554)	(5,127)
Movement in Working Capital	(650)	(307)	(345)
Other	0	0	0
Closing RAB	41,817	38,391	37,982
Average RAB	43,319	40,104	38,187

Note that the above tables show the CAA's RP3 projections in 2017 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.

14. Analysis of other revenue (Tables 21, 22, 23)

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

Table 21 UKATS other revenue

Calendar Year - Outturn Prices		
£ million	2020	2019
North Sea Helicopters	8.2	8.8
MoD	47.9	46.5
<u>Licence Condition 5:</u>		
Consented services	0.5	3.1
Other contracts with the Crown	0.6	0.8
Contracts related to Functional Airspace Blocks	0.0	0.1
Other unregulated revenue - UKATS	7.1	8.0
Total	<u>64.4</u>	<u>67.2</u>
European Development Initiatives included above:		
Consented services	0.5	3.1
Contracts related to Functional Airspace Blocks	0.0	0.1
Other unregulated revenue	0.3	0.5
Total	<u>0.8</u>	<u>3.7</u>

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

Table 22 Permitted business subject to a cap of 4.5% of regulated revenue

Calendar Year - Outturn Prices		
£ million	2020	2019
En Route (UK) Business		
- Eurocontrol	623.4	589.0
- London Approach	11.6	13.4
Sub-total	<u>635.0</u>	<u>602.3</u>
- Specified Services (North Sea Helis)	8.2	8.8
En Route (Oceanic) Business including ADSB	18.1	28.5
Total	<u>661.3</u>	<u>639.6</u>
Unregulated revenue UKATS	7.1	8.0
Unregulated revenue Oceanic	0.4	0.4
Total	<u>7.5</u>	<u>8.4</u>
Unregulated revenue as % of total	1.1%	1.3%
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 23

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		<u>2020</u>	<u>2019</u>
£ million			
Consented services:			
SESAR 2020	Income	0.5	3.1
	Operating costs	<u>(2.9)</u>	<u>(4.0)</u>
	Net cost	<u>(2.4)</u>	<u>(0.9)</u>
Contracts related to Functional Airspace Blocks:			
Borealis	Income	0.0	0.1
	Operating costs	<u>(0.1)</u>	<u>(0.2)</u>
	Net cost	<u>(0.1)</u>	<u>(0.1)</u>
Other unregulated revenue:			
Deployment Manager	Income	0.3	0.5
	Operating costs	<u>(0.1)</u>	<u>(0.7)</u>
	Net cost	<u>0.2</u>	<u>(0.2)</u>
TOTAL:			
	Income	0.8	3.7
	Operating costs	<u>(3.1)</u>	<u>(4.8)</u>
	Net cost	<u>(2.3)</u>	<u>(1.1)</u>
Note: any small differences are due to rounding			

15. Airspace Change Organising Group (ACOG) and Opex Flexibility Fund (OFF) (Table 24)

The ACOG has been created to enable a single coordinated implementation plan for airspace changes in the UK for the period to 2040. It is to be run as a separate and impartial unit and is subject to oversight from a Steering Committee to support this. Budget is included in NERL's determined costs and accumulates over RP3. 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

The OFF, subject to CAA approval, enables NERL to access funds for new requirements for operational expenditure, primarily in relation to airspace modernisation. Budget is included in NERL's determined costs and accumulates over RP3. Any amount not expended by the end of RP3 will be returned in the next price control period, subject to the impact of the CAA's reconciliation of actual costs for the three years 2020 to 2022. 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 24

UKATS ACOG	2020	2021	2022	Total
Calendar Year - Outturn Prices				
£ million				
CAA's assumption				
Airspace Change Organising Group	3.2	3.3	3.3	9.8
Revenue Received: (after Adjustment for TSUs/CSUs)	1.3			1.3
Adjustment for Inflation (actual)	(0.0)			(0.0)
Adjustment for Traffic risk sharing	1.8			1.8
Adjusted value	3.0			3.0
Actual expenditure	2.1			2.1
Variance	0.9			0.9
Cumulative variance	0.9			0.9
UKATS OFF Fund	2020	2021	2022	Total
Calendar Year - Outturn Prices				
£ million				
CAA's assumption				
Opex Flexibility Fund	8.9	9.1	9.3	27.4
Revenue Received: (after Adjustment for TSUs/CSUs)	3.5			3.5
Adjustment for Inflation (actual)	(0.1)			(0.1)
Adjustment for Traffic risk sharing	4.9			4.9
Adjusted value	8.4			8.4
Actual expenditure	0.0			0.0
Variance	8.4			8.4
Cumulative variance	8.4			8.4
Note: values are per the current price control settlement and may form part of the CAA's reconciliation to actual cost for the period 2020 - 2022				

16. Analysis of UKATS performance by European regulatory reporting category (Table 25)

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

Table 25

Calendar Year - Outturn Prices (RP3 assumptions) £ million												
	2020 Actual				2020 Price Control				2020 Variance Better/(Worse)			
	Eurocontrol	London Approach	Other UKATS	Total UKATS	Eurocontrol	London Approach	Other UKATS	Total UKATS	Eurocontrol	London Approach	Other UKATS	Total UKATS
Staff	313.9	5.6	44.2	363.7	317.4	6.3	41.4	365.1	3.5	0.7	(2.8)	1.3
Other operating costs	122.5	2.2	17.3	141.9	162.4	3.2	21.2	186.8	39.9	1.0	3.9	44.9
Depreciation	170.7	3.2	25.0	198.8	170.4	3.4	22.2	196.0	(0.3)	0.2	(2.8)	(2.8)
Cost of capital	32.5	0.6	4.7	37.8	30.3	0.6	4.0	34.9	(2.2)	(0.0)	(0.8)	(3.0)
Exceptional items	24.8	-	-	24.8	1.6	-	-	1.6	(23.2)	-	-	(23.2)
Sub total	664.4	11.6	91.2	767.1	682.1	13.6	88.7	784.3	17.7	2.0	(2.5)	17.2
Military adjustment	16.9	-	-	16.9	7.9	-	-	7.9	(9.1)	-	-	(9.1)
Determined costs	681.3	11.6	91.2	784.1	690.0	13.6	88.7	792.2	8.6	2.0	(2.5)	8.1

Notes

1. Performance is compared with the price control set by the CAA for RP3 and sets out the plans for Eurocontrol and London Approach services. NERL's Licence also includes Other UKATS services.
2. The price control values above are stated using the 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.