

NATS (En Route) plc

Regulatory Accounts 2021

NATS (En Route) plc Regulatory Accounts

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The regulatory accounts were approved by the Board on 30 June 2022 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
- d) assist the CAA to assess UKATS and Oceanic performance against the assumptions underlying the current price control.

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 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 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 exclude the impact of IFRS 16: Leases. The regulatory framework provides an allowance for lease rental costs.
- 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) PUBLIC LIMITED COMPANY ("The Company").

Opinion on the Regulatory Accounts

In our opinion the Regulatory Accounts for the year ended 31 December 2021 have been properly prepared in accordance with paragraph 4 of Condition 6 of the Licence, with the RAGs and the accounting policies.

We have audited the Regulatory Accounts of NATS (En Route) plc for the year ended 31 December 2021, which comprise the financial information included on pages 4 and 5 and 11 to 27. The Regulatory accounts have been prepared in accordance with Condition 6 of the Company's Regulatory Licence ("Licence"), Regulatory Accounting Guidelines 2021 ("RAGs"), and the accounting policies set out in the Basis of preparation on pages 4 and 5.

The sections of the Regulatory Accounts that we have audited comprise the financial information included on pages 4 and 5 and 11 to 27, 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 (Revised) *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 Directors are responsible for the other information. The other information comprises all of the information in the Regulatory Accounts other than the Audited Statements on pages 4 and 5 and 11 to 27 and our auditors' report thereon. 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.

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 course of 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 this gives rise to a material misstatement of the Audited Statements themselves. 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 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, UK adopted International accounting standards, 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 including fraud;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to the identification of the risk of irregularities, including fraud; 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 assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and revenue recognition.

Our procedures in response to the above included:

- agreement of the financial statement 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 by agreeing to supporting documentation;
- enquiries with management, the Audit Committee and internal legal counsel to identify any instances of known or suspected non-compliance with laws and regulations or fraud;
- review of minutes of Board meetings throughout the year to identify any instances of known or suspected non-compliance with laws and regulations or fraud, not already disclosed by management;
- review of tax compliance and involvement of our tax specialists in the audit;
- review of internal audit reports for reference to any internal control failures that could impact the Group's compliance with laws and regulations or indicate potential fraud risks; and
- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the carrying value of goodwill, revenue and regulatory allowance accounting, the valuation of defined benefit pension assets, valuation of pension scheme liabilities and the capital investment programme.

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 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 2022, 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

30 June 2022

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

4.1. UK Air Traffic Services (UKATS)

Table 1

UKATS Performance Statement						
Calendar Year - Outturn Prices (actual CPI inflation)						
£ million	2021			2020		
B/(W) = Better / (Worse)						
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Eurocontrol revenue	509.8	671.0	(161.2)	623.4	675.9	(52.4)
London Approach revenue	11.0	13.4	(2.4)	11.6	13.4	(1.8)
Price controlled revenue	520.8	684.4	(163.7)	635.0	689.3	(54.2)
Other revenue (Note 2)	56.1	59.2	(3.1)	64.4	63.8	0.6
Intercompany revenue	21.3	23.7	(2.4)	27.0	23.9	3.2
UKATS Revenue (including intercompany revenue)	598.2	767.4	(169.2)	726.4	776.9	(50.5)
Operating costs (Note 3)	345.7	491.5	145.9	469.6	481.1	11.6
Defined Benefit Pension cash cost (Note 4)	66.5	66.5	0.0	66.0	66.0	0.0
Depreciation (Note 5)	151.6	151.6	0.0	184.3	184.3	0.0
Backlog adjustment to depreciation (Note 5)	10.6	10.6	0.0	9.4	9.4	0.0
Depreciation on pension pass through	5.1	5.1	0.0	5.1	5.1	0.0
Total costs	579.5	725.4	145.9	734.4	745.9	11.6
Regulatory profit / (loss)	18.6	42.0	(23.3)	(7.9)	31.0	(38.9)
Capitalised Financing costs for the year (Note 6)	(6.6)	0.0	(6.6)	(2.9)	0.0	(2.9)
Regulatory return	12.0	42.0	(30.0)	(10.8)	31.0	(41.8)
Average Regulatory Asset Base (RAB)	1,334.9	1,167.1	167.8	1,087.0	1,041.7	45.3
Regulated rate of return (Note 7)	0.90%	3.60%	-2.70%	-1.00%	2.97%	-3.97%

4.1.1. Key points on current year performance

UKATS reported a regulatory profit, after capitalised financing costs, of £12.0m which equated to a regulated rate of return of 0.90% compared with CAA's projection of 3.60%.

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 after publication of these accounts. 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 2022. Under IFRS, revenue can only be recognised to the extent that it is highly probable that a subsequent reversal will not occur.

Operating costs were £145.9m better than projected. NERL responded rapidly in 2020 to the impact of Covid-19 in reducing its operating costs to protect its liquidity and to support the recovery. These actions included staff redundancies, pay restraint and a recruitment freeze, the release of most external contractors and curtailing non-staff costs. Relative to the price control assumption, the benefits of these actions were sustained in the year. Staff continued to be furloughed under the UK Government's job retention scheme to the extent appropriate. This provided support in 2021 of £8.5m (2020: £24.8m). The 2020 redundancy programme was restricted to non-operational staff ensuring that essential operational skills were retained to protect the recovery.

4.2. Oceanic

Table 2

Oceanic Performance Statement						
Calendar Year - Outturn Prices (actual CPI inflation)						
£ million						
B/(W) = Better / (Worse)						
	2021			2020		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Shanwick Oceanic Control Area charges	14.3	29.6	(15.3)	11.7	29.5	(17.9)
ADSB Charges	8.5	17.3	(8.8)	6.4	16.5	(10.1)
Other revenue (Note 2)	0.5	0.6	(0.1)	0.4	0.6	(0.2)
Total revenue	23.3	47.5	(24.2)	18.4	46.7	(28.3)
Operating costs (Note 3)	14.8	19.9	5.1	20.0	18.8	(1.2)
ADSB cost	8.0	17.3	9.3	6.4	16.5	10.1
Defined Benefit Pension cash cost (Note 4)	2.6	2.6	0.0	2.6	2.6	0.0
Depreciation (Note 5)	6.2	6.2	0.0	7.2	7.2	0.0
Total costs	31.5	45.9	14.4	36.1	45.0	8.9
Regulatory loss	(8.2)	1.6	(9.8)	(17.7)	1.6	(19.4)
Capitalised Financing costs for the year (Note 6)	(0.1)	0.0	(0.1)	(0.0)	0.0	(0.0)
Regulatory return	(8.3)	1.6	(9.9)	(17.8)	1.6	(19.4)
Average Regulatory Asset Base (RAB)	38.3	44.7	(6.4)	41.8	46.6	(4.8)
Regulated rate of return (Note 7)	-21.79%	3.48%	-25.27%	-42.48%	3.48%	-45.96%

4.2.1. Key points on current year performance

Oceanic reported a regulatory loss, after capitalised financing costs, of £8.3m with a negative return of (21.79)% 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 48% 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. Overall operating costs were £14.4m lower 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 32 and details 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. For 2021 and the prior year this value is nil.
- 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 for employees who have opted out of the defined benefit scheme since the price control was set; 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 contributions to several European research and development initiatives. Any funding received for these programmes in relation to RP3 projects is returned to users directly via the unit rate. The revenue disclosed in Tables 21 and 23 relate to RP2 price control period projects when amounts relating to the SESAR Joint Undertaking were included in the single till.
- 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>2021</u>	<u>2020</u>
Charges from NATS Ltd	11.3	11.0
Charges from NATS (Services) Ltd	17.9	18.9
Total	<u>29.2</u>	<u>29.9</u>

NATS charges have remained largely consistent with the prior year. NSL charges have reduced slightly as a result of staff engaged exclusively on providing Aeronautical Information Services to NERL transferring companies.

Operating costs are stated after deducting capitalised internal labour costs. The actual amount of capitalised internal labour cost 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

Calendar Year - Outturn Prices £ million	2020	2021	2022
CAA's projection (RP3 Assumptions)			
UK Air Traffic Services	53.7	63.4	
Oceanic	1.3	0.9	
Actual costs			
UK Air Traffic Services	34.9	44.6	
Oceanic	0.1	0.3	
Variance to NPP			
UK Air Traffic Services	(18.9)	(18.8)	
Oceanic	(1.3)	(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 for 2021 are determined in accordance with the European Charging Principles, and further clarified by the CAA's Regulatory Policy Statement on pension costs¹. Differences (positive or negative) which are unforeseen and significant, and arising from unforeseeable changes in national pensions law, pension accounting law or unforeseeable changes in financial market conditions are carried forward on a cumulative basis to be assessed by the CAA for recovery in future price control periods. Increases in costs that arise due to salaries and staff levels are not eligible for pass-through 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, subject to the same CAA Regulatory Policy Statement on pension costs as noted above.
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 each of the three years of the interim price control averages to the allowed rate of return over the three year interim price control period of 2020 to 2022. The CAA had allowed a pre-tax real cost of capital

¹ Economic regulation of NATS (En Route) plc: Update on approach to the next price control review, CAP 2119, March 2021

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>
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 NERL's performance against the CAA's targets.

Table 6

UKATS Incentives	<u>2020</u>	<u>2021</u>	<u>2022</u>
CAA Performance targets			
FC2 Average Delay (mins /flight)	0.20	0.25	
FC3 Peak Delay - score (upper, modulated)	24.0	30.0	
FC4 Daily Impact score (threshold for penalty for full year)	1,800	1,800	
3DI Environmental score (target score)	27.8	27.5	
Actual Achieved			
FC2 Average Delay (mins/flight)	0.02	0.01	
FC3 Peak Delay	2.5	0.6	
FC4 Daily Impact Score	35	0	
3DI Environmental score	23.9	21.5	
Better/(worse)			
FC2 Average Delay	0.18	0.24	
FC3 Peak Delay	21.5	29.4	
FC4 Daily Impact Score	1,765	1,800	
3DI Environmental score	3.9	6.0	

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 2021 as performance has been driven largely by low traffic volumes associated with the impact of Covid.

Financial Incentives Claimed	FC2	FC3	FC4	3DI	Total
Calendar Year 2021	NERL attributable delay (mins)	Delay impact (score)	Annual (score)	Average 3DI (score)	
Par values (initial)	0.25	20.0 to 30.0	1,800	26.2 to 28.9	
Actual achieved	0.01	0.6	0	21.5	
£ 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:

UKATS RAB Calendar Year £ million	2021			2020		
	Actual	CAA's Projection	Variance	Actual	CAA's Projection	Variance
Opening RAB as at 1 January in opening prices	1,208.5	1,085.1	123.5	970.6	1,001.1	(30.5)
Opening balance adjustment for Spectrum Licence variance	0.0	0.0	0.0	(0.5)	0.0	(0.5)
Opening balance adjustment for RP2 correction	0.0	0.0	0.0	(3.6)	0.0	(3.6)
Restated Opening RAB	1,208.5	1,085.1	123.5	966.5	1,001.1	(34.7)
<i>The figures below are all at year end prices</i>						
Inflation of opening RAB	91.2	81.9	9.3	11.6	12.0	(0.4)
Opening balance adjusted for year end prices	1,299.8	1,167.0	132.8	978.1	1,013.1	(35.0)
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2017 for calendar year t	96.9	182.8	(85.8)	76.0	189.5	(113.5)
plus / (minus) Real movements in Working Capital for calendar year t	266.4	99.0	167.4	357.9	83.0	274.8
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2017 for calendar year t	(163.9)	(163.9)	0.0	(190.7)	(190.7)	0.0
(minus) / plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2017 for calendar year t	(11.1)	(11.1)	0.0	(9.5)	(9.5)	0.0
(minus) / plus Defined Benefit Pension Contribution Variance	(0.3)	0.0	(0.3)	(0.2)	0.0	(0.2)
(minus) / plus Capitalised Financing costs for the year	(6.9)	0.0	(6.9)	(2.9)	0.0	(2.9)
plus / (minus) Other (including RPI / CPI wedge)	0.4	0.0	0.4	(0.1)	(0.4)	0.3
Closing RAB as at 31 December	1,481.3	1,273.8	207.5	1,208.5	1,085.1	123.5

Table 9

Oceanic RAB Calendar Year £ million	2021			2020		
	Actual	CAA's Projection	Variance	Actual	CAA's Projection	Variance
Opening RAB as at 1 January in opening prices	39.2	45.3	(6.2)	44.6	48.0	(3.4)
<i>The figures below are all at year end prices</i>						
Inflation of opening RAB	3.0	3.4	(0.5)	0.5	0.6	(0.0)
Opening balance adjusted for year end prices	42.1	48.8	(6.6)	45.1	48.6	(3.5)
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2017 for calendar year t	0.5	2.8	(2.3)	2.0	4.7	(2.7)
plus / (minus) Real movements in Working Capital for calendar year t	1.6	(0.4)	2.0	(0.9)	(0.7)	(0.2)
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2017 for calendar year t	(5.1)	(5.1)	0.0	(5.9)	(5.9)	0.0
(minus) / plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2017 for calendar year t	(1.4)	(1.4)	0.0	(1.3)	(1.3)	0.0
plus / (minus) Defined Benefit Pension Contribution Variance	0.0	0.0	0.0	0.2	0.0	0.2
(minus) / plus Capitalised Financing costs for the year	(0.1)	0.0	(0.1)	(0.0)	0.0	(0.0)
plus / (minus) Other (including RPI / CPI wedge)	0.0	0.0	0.0	(0.0)	0.0	(0.0)
Closing RAB as at 31 December	37.7	44.8	(7.1)	39.2	45.3	(6.2)

Notes

1. The CAA projections are shown in Tables 19 and 20 in 2017 RPI prices. 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. For UKATS, amounts eligible for pass-through under the European Charging Principles and further clarified by the CAA's Regulatory Policy Statement on pension costs are 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 price control 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. 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 monitoring threshold of 60%.
- d. The methodology for the tax clawback calculation takes the following steps:

Step 1	Compare actual gearing to the monitoring threshold 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 monitoring threshold gearing, then no clawback applies. If it is higher, then proceed to step 2.
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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.

- e. 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.
- f. For the purpose of this calculation, the RPI measure of inflation is used.

Table 10

Tax Claw Back Adjustment UKATS and 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%
Actual gearing	36.4%	46.7%	58.1%	60.1%		

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 apply to the Oceanic business.

Table 11

Pension Costs - Oceanic Calendar Year £ million	Actual Reported		
	2020	2021	2022
CAA Assumption (2017 prices)	2.4	2.3	2.5
CAA Assumption (current outturn prices)	2.6	2.7	
Actual	2.8	2.7	
Variance (added to)/deducted from RAB	(0.2)	(0.0)	
Cumulative variance (added to)/deducted from RAB	(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 eligible for pass-through (Table 12, 13)

The costs below are eligible for cost pass-through and will be assessed by the CAA at the end of the price control period. They are stated in calendar year outturn prices.

8.1. Defined benefit pension costs (UKATS)

Table 12

		<u>2020</u>	<u>2021</u>	<u>2022</u>
RATES:				
Price control pension contribution assumption (% of pensionable pay)		58.08%	58.61%	
Element relating to future service		41.70%	41.81%	
Element relating to deficit recovery		16.38%	16.80%	
Difference in regular contribution rate (as a % of pensionable pay): uncontrollable		0.00%	-0.11%	
Difference in deficit repair (as a % of pensionable pay): uncontrollable		0.00%	0.03%	
Difference in rate		A	0.00%	-0.08%
Actual contribution rate (% of pensionable pay)		58.08%	58.54%	
Pension cash alternative rate		28.45%	28.45%	
Difference in rate		B	-13.25%	-13.36%
PENSIONABLE SALARY (actual nominal prices)		£'000	£'001	
Actual DB scheme pensionable payroll		110.1	99.3	
Less:				
Salary increases (controllable)				
Plus:				
Salary decrease (controllable)		2.4	12.2	
DB scheme (net of controllable)		C	112.5	111.5
Actual Pension cash alternative		1.2	1.9	
Less:				
Salary increases (controllable)				
Pension cash alternative (net of controllable)		D	1.2	1.9
Price control pensionable pay (actual nominal prices)		E=C+D	113.6	113.5
PENSION PASS-THROUGH CALCULATION				
DB scheme		=A*C	0.0	(0.1)
Restrict to actuals			0.0	0.0
Pension cash alternative		=B*D	(0.2)	(0.3)
Initial costs eligible for pension pass-through			(0.2)	(0.3)
Less already allowed for in the price control			0.0	0.0
Cost eligible for pension pass-through			(0.2)	(0.3)
Cumulative amount taken to RAB (year end prices)			(0.2)	(0.5)

Notes

1. For the interim price control for RP3 the methodology for assessing costs outside of NERL's control under the European Commission Charging Principles 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 the Regulatory Policy Statement on pension costs issued by 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.

8.2. Spectrum costs

Table 13

Analysis of UKATS Spectrum Costs			
Calendar Year			
£ millions	2020	2021	2022
Spectrum Charges assumed - nominal values	1.0	1.0	1.0
Restated to actual CPI	1.0	1.0	
Actual Cash Payments			
Actual Spectrum costs (external costs)	0.8	0.8	
Variance:	(0.1)	(0.1)	
Uncontrollable cost assessment:			
Impact of inflation (Controllable)			
Impact of CY conversion (Controllable)			
Impact of change in legislation (Uncontrollable)	(0.1)	(0.1)	
Annual difference (Uncontrollable only)	(0.1)	(0.1)	
Cumulative difference (carried forward)	(0.1)	(0.3)	

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 (Tables 14a and 14b)

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

NERL has received European funding as part of the Framework Partnership Agreements for the SESAR Deployment Manager (as set up under European regulations 409/2013 and 716/2014) and the SESAR Joint Undertaking (as set up under European regulations 1361/2008 and 721/2014). 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 / SEASR Joint Undertaking) 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 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 SESAR Deployment Manager / SESAR Joint Undertaking administrative deductions and any other third-party costs incurred directly as a result of receiving the 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.
- European funding is not included in the UKATS RAB.

Table 14a INEA funding of implementing projects

Calendar Year - Outturn Prices £ millions	2019	2020	2021	2022
Amounts Received in Euros				
Pre-funding		0.0	0.0	
Interim Payments		6.9	0.0	
Final Payments		0.0	0.7	
Total		<u>6.9</u>	<u>0.7</u>	
Equivalent GBP values				
Pre-funding		0.0	0.0	
Interim Payments		6.2	0.6	
Final Payments		0.0	0.0	
Total		<u>6.2</u>	<u>0.6</u>	
Add: Interest accrued		0.1	0.0	
Less: Third Party costs		<u>(0.0)</u>	<u>0.0</u>	
Net Funding received		6.3	0.6	
Less: Amounts returned as "Other Revenues"		(0.2)	(10.4)	
Cumulative amount carried forward	36.7	42.9	33.1	
Adjustment for TSU's (N+2)				

Table 14b UKATS SESAR JU Funding

Calendar Year - Outturn Prices £ millions	2019	2020	2021	2022
Amounts Received in Euros				
Pre-funding		2.4	4.0	
Interim Payments		0.0	1.8	
Final Payments		0.0	0.1	
Total		<u>2.4</u>	<u>6.0</u>	
Equivalent GBP values				
Pre-funding		2.1	3.5	
Interim Payments		0.0	1.6	
Final Payments		0.0	0.1	
Total		<u>2.1</u>	<u>5.2</u>	
Add: Interest accrued		0.0	0.0	
Less: Third Party costs		<u>0.0</u>	<u>(0.1)</u>	
Net Funding received		2.1	5.1	
Less: Amounts returned as "Other Revenues"		0.0	0.0	
Cumulative amount carried forward	0.0	2.1	7.2	
Adjustment for TSU's (N+2)				

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

Table 15 UKATS

UK Air Traffic Services (amounts in 000's)				
Calendar Year	Total Service Units		Service Units	Chargeable Service Units
	CAA Assumption	Actual	Actual	Actual
2020	12,648	5,099	4,981	4,972
2021	12,891	5,531	5,407	5,395
2022	13,183			

Calendar Year	IFR Flights		Terminal Service Units	
	CAA Assumption	Actual	CAA Assumption	Actual
2020	2,649	1,012	1,006	399
2021	2,685	1,017	1,016	372
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 Flights (amounts in 000's)				
Calendar Year	CAA Assumption		Actual	
	Atlantic	Tango	Atlantic	Tango
2020	497.0	31.0	201.1	7.7
2021	507.0	32.0	249.5	10.2
2022	519.0	33.0		

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

Table 17

FHICP (base 2017 =100)	2020	2021	2022
NPP Assumptions			
Average for year (from 2017)	106.44	108.57	110.74
Actual			
Actual %	0.9%	2.6%	
Average index for year (2017 basis)	1.05	1.08	
At Year End (2017 basis)	1.06	1.11	

CHAW	2020	2021	2022
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	1.17	
Index at Year End	295.40	317.70	

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 £ million			
	2020	2021	2022
UKATS Regulatory Performance Statement (inc London Approach)			
Eurocontrol revenue (TSU basis)	648.2	621.0	621.9
PPT revenues	1.5	7.5	7.5
Military TSU adjustment	(7.4)	(6.9)	(6.8)
London Approach revenue	12.7	12.4	13.0
Other revenue	60.6	54.9	53.8
Intercompany revenue	22.7	22.0	21.2
Total UKATS revenue	738.4	711.0	710.7
Operating costs	(457.3)	(455.4)	(472.7)
DB Pension cash	(62.7)	(61.6)	(60.4)
Depreciation	(180.0)	(145.2)	(126.9)
Backlog adjustment to depreciation	(8.9)	(9.9)	(10.0)
Regulatory profit	29.4	38.9	40.8
Capitalised Financing costs	0.0	0.0	0.0
Regulatory return	29.4	38.9	40.8
Average RAB	990.0	1,081.3	1,136.5
Regulated rate of return	2.97%	3.60%	3.59%
Oceanic Regulatory Performance Statement			
Oceanic revenue	28.1	27.4	27.6
Oceanic revenue	15.7	16.0	16.4
Other revenue	0.6	0.6	0.6
Total Oceanic revenue	44.3	44.0	44.5
Operating costs	(17.8)	(18.4)	(18.8)
Operating costs	(15.7)	(16.0)	(16.4)
DB Pension cash	(2.5)	(2.4)	(2.6)
Depreciation	(6.8)	(5.7)	(5.4)
Regulatory profit	1.5	1.4	1.4
Capitalised Financing costs	0.0	0.0	0.0
Regulatory return	1.5	1.4	1.4
Average RAB	44.3	41.4	39.9
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	934.5	1,000.9	1,092.5
Net Capital Expenditure	174.8	156.8	103.0
Depreciation	(184.7)	(150.1)	(131.0)
Movement in Working Capital	76.6	84.9	19.7
Other	(0.4)	0.0	0.0
Closing RAB	1,000.9	1,092.5	1,084.1
Average RAB	<u>967.7</u>	<u>1,046.7</u>	<u>1,088.3</u>

Table 20

STATEMENT: CAA RAB Assumptions Calendar Year - 2017 RPI prices £ million			
UKATS (2017 prices)	2020	2021	2022
Opening RAB	44.8	41.8	38.4
Net Capital Expenditure	4.3	2.4	5.1
Depreciation	(6.7)	(5.6)	(5.1)
Movement in Working Capital	(0.6)	(0.3)	(0.3)
Other	0.0	0.0	0.0
Closing RAB	41.8	38.4	38.0
Average RAB	<u>43.3</u>	<u>40.1</u>	<u>38.2</u>

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	2021	2020
North Sea Helicopters	7.4	8.2
MoD	40.5	47.9
Licence Condition 5:		
Consented services	0.3	0.5
Other contracts with the Crown	0.8	0.6
Contracts related to Functional Airspace Blocks	0.0	0.0
Other unregulated revenue - UKATS	7.1	7.1
Total	56.1	64.4
European Development Initiatives included in above:		
Consented services	0.3	0.5
Contracts related to Functional Airspace Blocks	0.0	0.0
Other unregulated revenue	(0.2)	0.3
Total	0.1	0.8

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	2021	2020
En Route (UK) Business		
- Eurocontrol	509.8	623.4
- London Approach	11.0	11.6
Sub-total	520.8	635.0
- Specified Services (North Sea Helis)	7.4	8.2
En Route (Oceanic) Business including ADSB	22.9	18.1
Total	551.1	661.3
Unregulated revenue UKATS	7.1	7.1
Unregulated revenue Oceanic	0.5	0.4
Total	7.6	7.5
Unregulated revenue as % of total	1.4%	1.1%
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 £ million	2021	2020
Consented Services		
Income	0.3	0.5
Operating costs	<u>(3.0)</u>	<u>(2.9)</u>
Net cost	<u>(2.7)</u>	<u>(2.4)</u>
Contracts Related to Functional Airspace Blocks		
Income	0.0	0.0
Operating costs	<u>(0.0)</u>	<u>(0.1)</u>
Net cost	<u>(0.0)</u>	<u>(0.1)</u>
Other Unregulated Revenue		
Income	(0.2)	0.3
Operating costs	<u>0.0</u>	<u>(0.1)</u>
Net cost	<u>(0.2)</u>	<u>0.2</u>
Total		
Income	0.1	0.8
Operating costs	<u>(3.0)</u>	<u>(3.1)</u>
Net cost	<u>(3.0)</u>	<u>(2.3)</u>
The above revenues do not include amounts returned directly via the unit rate - see tables 14a and 14b		

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. A 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. A 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

Airspace Change Organising Group				
Calendar Year - Outturn Prices				
£ million	2020	2021	2022	Total
CAA's assumption	3.2	3.3	3.3	9.8
Revenue Received	1.3	1.4		2.6
Adjustment for Inflation (actual)	(0.0)	(0.0)		(0.1)
Adjustment for Traffic risk sharing	1.8	1.7		3.5
Adjusted value	3.0	3.1	0.0	6.0
Actual expenditure	2.1	2.3		4.4
Variance	0.9	0.8		1.7
Cumulative variance	0.9	1.7		1.7
Note: the variance is based on budget included in the initial RP3 price control, costs incurred to date have exceeded actual receipts due to the reduction in traffic.				
Opex Flexibility Fund				
Calendar Year - Outturn Prices				
£ million	2020	2021	2022	Total
CAA's assumption	8.9	9.1	9.3	27.4
Revenue Received	3.5	3.8		7.3
Adjustment for Inflation (actual)	(0.1)	(0.0)		(0.1)
Adjustment for Traffic risk sharing	4.9	4.8		9.7
Adjusted value	8.4	8.6	0.0	16.9
Actual expenditure	0.0	0.0		0.0
Variance	8.4	8.6		16.9
Cumulative variance (see note below)	8.4	16.9		16.9
Note: the table above reports values which reflect the traffic and inflation risk sharing mechanisms assumed by the RP3 price control decision. Due to the impact of Covid and the reduction in traffic volumes NERL recovered £7.3m from charges. In response to Covid NERL has not incurred any cost under the Opex Flexibility Fund. As explained in paragraph 15, amounts not expended will be returned in the next price control period.				

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												
	2021 Actual				2021 Price Control				2021 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	277.0	5.1	35.8	317.9	321.4	6.5	40.3	368.2	44.4	1.4	4.5	50.4
Other operating costs	85.7	2.0	14.0	101.7	167.1	3.4	21.0	191.4	81.3	1.4	7.0	89.7
Depreciation	142.7	3.1	21.6	167.4	142.5	2.9	17.9	163.2	(0.2)	(0.2)	(3.7)	(4.1)
Cost of capital	39.6	0.9	6.0	46.5	34.2	0.7	4.3	39.2	(5.4)	(0.2)	(1.7)	(7.3)
Exceptional items	(7.4)	0.0	0.0	(7.4)	1.7	0.0	0.0	1.7	9.1	0.0	0.0	9.1
Sub total	537.6	11.0	77.4	626.0	666.8	13.5	83.5	763.7	129.2	2.5	6.1	137.8
Military adjustment	13.6	0.0	0.0	13.6	7.5	0.0	0.0	7.5	(6.0)	0.0	0.0	(6.0)
Determined costs	551.1	11.0	77.4	639.5	674.3	13.5	83.5	771.3	123.1	2.5	6.1	131.7

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.