NATS (En Route) plc

Regulatory Accounts 2023

NATS (En Route) plc Regulatory Accounts

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The regulatory accounts were approved by the Board on 27 June 2024 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, which appears in the statutory accounts of NERL as a result of the Public Private Partnership (PPP) transaction in 2001, 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 the 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 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, the RPI / CPI wedge 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 those derived from 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, and the Directors of NATS (En Route) Public Limited Company.

Opinion on the regulatory accounts

In our opinion the Regulatory Accounts of the Company have been properly prepared in accordance with the Regulatory Accounting Guidelines (RAGs) and on that basis fairly present the financial performance of the Company, analysed between the UK Air Traffic Services Business and Oceanic as defined in the RAGs, and the financial position of the Company.

We have audited the Regulatory Accounts of NATS (En Route) Public Company Limited (the "Company") for the year ended 31 December 2023 which comprise the financial information included on pages 4 and 5 and 11 to 27.

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 17.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 Revised 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 regulatory accounts' 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Regulatory Accounts in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the Regulatory Accounts, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounts 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 twelve months from when the Regulatory Accounts 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 and restriction on distribution and use

We draw attention to Note 2 to the Regulatory Accounts which describes the basis of preparation, which is in accordance with a special purpose framework, the RAGs issued by the Civil Aviation Authority (Regulator). The nature, form and content of the Regulatory accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment. The Regulatory accounts are prepared to assist the Directors of the Company to comply with Condition 6 of its Air Traffic Services Licence. As a result, the Regulatory Accounts may not be suitable for another purpose. Our report is intended solely for the Directors of the Company and the Regulator and should not be distributed to or used by parties other than the Directors of the Company and the Regulator.

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.

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 Regulatory accounts as defined in the opinion paragraph, and our auditors' report thereon. Our opinion on the Regulatory accounts 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 Regulatory accounts as defined in the opinion paragraph, 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 in this regard.

Opinion on other matters prescribed by Condition 6

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

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

Directors' responsibilities for the regulatory accounts

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

Extent to which the audit was capable of detecting irregularities, including fraud

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 Regulatory Accounts 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 by the Regulator.

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;
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the Regulatory Accounts and any potential indicators of fraud. We also discussed the potential for non-compliance with laws and regulations;
- 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;

- 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; and
- 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.

We assessed the susceptibility of the Regulatory Accounts 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 Regulatory Accounts disclosures to underlying supporting documentation;
- identifying and testing a sample of journal entries, which met a defined risk criteria, by agreeing to supporting documentation;
- review of tax compliance and involvement of our tax specialists in the audit; 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 who were all deemed to have appropriate competence and capabilities 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 Regulatory Accounts, 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 Regulatory Accounts, the less likely we are to become aware of it.

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 in our engagement letter dated 1 May 2024, solely to the Directors of the Company and the Regulator to enable the Company to comply with the requirements of its Air Traffic Services 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 its Air

Traffic Services 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 Regulatory Accounts is separate from the opinion on the statutory financial statements of the Company for the year ended 31 March 2024, 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:

Chris Pooles

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Christopher Pooles (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

Reading

United Kingdom

Date 27 June 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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
B/(W) = Better / (Worse)

	2023			2022		
	Actual	CAA's Projection	Variance B/(W)	Actual (restated - see [1])	CAA's Projection	Variance B/(W)
Eurocontrol revenue	729.5	757.6	(28.2)	574.9	732.9	(158.0)
Allowances not previously recognised during RP3	125.6	0.0	125.6	34.0	0.0	34.0
London Approach revenue	18.2	15.7	2.6	12.4	15.4	(3.0)
Price controlled revenue	873.3	773.3	100.0	621.3	748.2	(126.9)
Other revenue (Note 2)	61.9	63.8	(1.9)	59.1	63.3	(4.2)
Intercompany revenue	25.7	24.0	1.7	21.3	25.0	(3.7)
UKATS Revenue (including intercompany revenue)	960.8	861.0	99.8	701.6	836.5	(134.9)
Operating costs (Note 3)	462.8	523.8	61.0	424.0	556.3	132.3
Defined Benefit Pension cash cost (Note 4)	109.0	109.0	0.0	71.1	71.1	0.0
Depreciation (Note 5)	158.2	158.2	0.0	143.8	143.8	0.0
Backlog adjustment to depreciation (Note 5)	1.7	1.7	0.0	11.7	11.7	0.0
Depreciation on pension pass through	(7.2)	(7.2)	0.0	5.5	5.5	0.0
Tax allowance (Note 6)	17.2	17.2	0.0	0.0	0.0	0.0
Total costs	741.6	802.6	61.0	656.1	788.4	132.3
Regulatory profit	219.3	58.4	160.8	45.5	48.1	(2.6)
Regulatory return on pension pass through (Note 7)	1.9	1.9	0.0	0.0	0.0	0.0
Capitalised Financing costs for the year (Note 8)	(0.7)	0.0	(0.7)	(10.0)	0.0	(10.0)
Regulatory return	220.5	60.3	160.2	35.5	48.1	(12.5)
Average Regulatory Asset Base (RAB)	1,948.4	1,893.1	55.3	1,551.6	1,337.7	213.9
Regulated rate of return (Note 9)	11.32%	3.19%	8.13%	2.29%	3.59%	-1.30%

[1] Eurocontrol revenue for 2022 has been reduced by £2.6m (average CPI prices) following the CAA's final decision on the retrospective reconciliation of revenue and costs for RP3 to reflect a change in the pension pass through for the period 2020 to 2022.

4.1.1. Key points on current year performance

The outcome of the CAA's retrospective reconciliation for determining the Covid income shortfall was accounted for in the prior year, in accordance with IFRS, as variable consideration constrained at an amount highly probable of not being reversed subsequently. In November 2023 the CAA confirmed the value of the shortfall at an amount higher than the constrained variable consideration previously recognised. Accordingly, the results reflect an additional regulatory allowance of £125.6m for services provided during Covid (years 2020 to 2022).

Excluding the impact of this revenue relating to the Covid period, the underlying regulatory rate of return in relation to NR23 performance for CY23 is 4.9%.

Eurocontrol revenue reported above was £28.2m lower than the CAA's assumption. This mainly reflected defined benefit scheme pension costs which were lower by £19.9m than the CAA's NR23 assumption and which are assumed to be rebated under the pension pass-through mechanism in a future price control. Revenue also reflected lower traffic volumes than CAA assumed and a service performance penalty.

Operating costs were £61.0m lower than CAA's final determination assumption. This reflects the fact that the CAA sets annual revenue allowances assuming operating costs relating to the calendar year's actual CPI inflation. However, the impact of CPI on NERL's costs tends to lag by a year as these are generally indexed according to the prior year's inflation. While NERL has been able to contain temporarily some of the inflationary pressures on its cost base, its expectation is that the level of inflation currently projected on costs in 2024 and going forward will exceed the level assumed by the CAA in those years. Accordingly, NERL currently expects higher operating costs against the CAA's target for the later years of NR23. The savings in 2023 are therefore not anticipated to be repeated, and overall costs over the price control period to be more aligned with the CAA's final determination assumption in its entirety. This factor was partly offset by lower revenue for an expected rebate of pension costs in future price controls, as explained above.

On an unadjusted basis the return of 11.3% is largely due to the Covid shortfall income being included in this single year.

4.2. Oceanic

Table 2

Oceanic Performance Statement
Calendar Year - Outturn Prices (actual CPI inflation)
£ million
B/(W) = Better / (Worse)

	2023			2022		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Shanwick Oceanic Control Area charges	34.0	33.7	0.3	25.1	32.4	(7.4)
ADSB Charges	17.7	17.8	(0.1)	14.9	19.3	(4.4)
Other revenue (Note 2)	0.5	0.6	(0.1)	0.4	0.7	(0.2)
Total revenue	52.1	52.1	0.0	40.4	52.4	(12.0)
Operating costs (Note 3)	18.5	18.9	0.4	17.4	22.2	4.8
ADSB cost	16.9	17.8	0.9	14.4	19.3	4.9
Defined Benefit Pension cash cost (Note 4)	4.8	4.8	0.0	3.0	3.0	0.0
Depreciation (Note 5)	6.5	6.5	0.0	4.8	4.8	0.0
Backlog adjustment to depreciation (Note 5)	1.4	1.4	0.0	1.5	1.5	0.0
Tax allowance (Note 6)	1.5	1.5	0.0			
Total costs	49.6	50.8	1.3	41.1	50.8	9.7
Regulatory profit / (loss)	2.5	1.2	1.3	(0.7)	1.6	(2.3)
Capitalised Financing costs for the year (Note 8)	(0.0)	0.0	(0.0)	(0.2)	0.0	(0.2)
Regulatory return	2.5	1.2	1.3	(0.9)	1.6	(2.6)
Average Regulatory Asset Base (RAB)	37.9	38.2	(0.3)	38.1	46.9	(8.8)
Regulated rate of return (Note 9)	6.59%	3.19%	3.40%	-2.45%	3.48%	-5.93%

4.2.1. Key points on current year performance

Oceanic reported a regulatory profit of £2.5m which equated to a return of 6.59% compared to CAA's projection of 3.19%.

Oceanic revenues are on plan with a small traffic upside being offset by minor variances on ADSB and external business.

Total costs were £1.3m lower than the CAA's assumption. This was primarily driven by lower ADSB charges.

4.3. Notes on the Performance Tables

1. Actual performance is compared with the CAA's projection for NR23, restated for actual CPI inflation.
2. Revenue:
   - In the case of UKATS, price controlled revenue is the revenue for Eurocontrol and London Approach, and Other revenue is other external income included within UKATS and is analysed in Table 21.
   - The UKATS revenue line includes income relating to the Airspace Change Organising Group (a programme overseen by the CAA) as part of the NR23 settlement. In the event of a significant underspend against the allowed budget an adjustment to return unspent funds would be included in the NR28 determination. 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 set out in Table 7a.
   - 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 NR23 projects is returned to users directly via the unit rate.
- 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

Intercompany Trading with NERL
Calendar Year - Outturn Prices

£ million	2023	2022
Charges from NATS Ltd	14.6	12.9
Charges from NATS (Services) Ltd	19.4	18.2
Total	34.0	31.1

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

Capitalised Internal Labour Calendar Year - Outturn Prices £ million	2023	2024	2025	2026	2027
CAA's projection (updated for actual inflation)					
UK Air Traffic Services	45.1	43.4	44.6	46.4	47.8
Oceanic	3.0	3.4	2.5	1.1	0.5
Actual costs					
UK Air Traffic Services	42.0				
Oceanic	1.8				
Variance to CAA's projection					
UK Air Traffic Services	(3.1)				
Oceanic	(1.2)				

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 2023 are determined in accordance with the Eurocontrol Charging Principles, and further clarified by the CAA's Regulatory Policy Statement on pension costs[1]. 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 NR23 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. For NR23 NERL's expected tax charge has been separated from the allowed regulatory return and is shown separately in the performance statements on Tables 1 and 2.

7. Pension pass-through variances are dealt with through the unit rate with the amount recovered from / returned to users including the appropriate regulatory return. For NR23 this element of NERL's overall return has been separated out as an individual element of the regulatory return detailed in Table 1 for transparency.

8. Capitalised financing amounts for the year in respect of the capital expenditure, pension contribution and RPI / CPI wedge variances 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.

9. The CAA had allowed a pre-tax real cost of capital of 3.19% for the price control period as

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

shown in Table 5 below.

Table 5

Allowed Cost of Capital	2023	2024	2025	2026	2027
UK Air Traffic Services	3.19%	3.19%	3.19%	3.19%	3.19%
Oceanic	3.19%	3.19%	3.19%	3.19%	3.19%

10. 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 and Capex Incentives (Tables 6, 7a)

The table below reflects NERL's performance against the CAA's targets.

Table 6

UKATS Incentives	2023	2024	2025	2026	2027
CAA Performance targets					
FC2 Average Delay (seconds / flight, modulated)	8.45	8.95	8.95	8.95	8.95
FC3 Peak Delay - score (target, modulated)	14.08	14.91	14.91	14.91	14.91
FC4 Daily Impact score (threshold for penalty for full year)	1,800	1,800	1,800	1,800	1,800
3DI Environmental score (target score)	27.59	26.99	26.45	25.91	25.33
Actual Achieved					
FC2 Average Delay (seconds / flight)	8.84				
FC3 Peak Delay	21.91				
FC4 Daily Impact Score	1,338				
3DI Environmental score	28.28				
Better/(worse)					
FC2 Average Delay	(0.39)				
FC3 Peak Delay	(7.83)				
FC4 Daily Impact Score	462				
3DI Environmental score	(0.69)				

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 seconds of en-route ATFM delay attributable to NERL expressed in seconds per flight. The financial value is subject to weightings and minimums, with penalties for delay above the target thresholds attracting a greater weighting than bonuses for delay below. The target is modulated to reflect actual flights, rather than the forecast flights as per the Licence.

- 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 100 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.
- Across all delay metrics combined 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 Determined Costs in the relevant calendar year.

Table 7a

Analysis of service incentives / penalties in 2023, amounts are reflected within Eurocontrol revenues.

Financial Incentives Claimed	FC2	FC3	FC4	3Di	Total
Calendar Year 2023	NERL attributable delay (secs)	Delay impact (score)	Annual (score)	Average 3DI (score)	£m
Par values (initial)	8.45	14.08	1,800	26.21 to 28.97	
Actual achieved	8.84	21.91	1,338	28.28	
£ million	0.0	-1.7	0.0	0.0	-1.7

Capex Incentive Penalties - no assessment has taken place regarding capex incentive penalties to date. Once such assessments have been undertaken details of NERL's performance, and any associated penalties to be applied to the NR28 price control, will be detailed in the relevant years Regulatory Accounts.

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 the NR23 RAB Rules (CAP2597d[2]).

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	2023			2022		
	Actual	CAA's Projection	Variance	Actual (restated - see [2])	CAA's Projection	Variance
Opening RAB as at 1 January in opening prices	1,605.7	1,913.9	(308.2)	1,481.3	1,273.8	207.5
Opening balance adjustment for Spectrum Licence variance	(0.5)	0.0	(0.5)	0.0	0.0	0.0
Opening balance adjustment following the CAA's decision on the retrospective reconciliation: allowances not previously recognised during RP3	307.8	0.0	307.8	0.0	0.0	0.0
Restated Opening RAB	1,913.0	1,913.9	(0.9)	1,481.3	1,273.8	207.5
The figures below are all at year end prices						
Inflation of opening RAB	98.7	98.8	(0.0)	199.1	171.2	27.9
Opening balance adjusted for year end prices	2,011.7	2,012.7	(1.0)	1,680.4	1,445.0	235.4
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	97.1	117.8	(20.7)	102.9	136.2	(33.4)
plus / (minus) Real movements in Working Capital for calendar year t	173.3	(0.2)	173.5	18.9	26.0	(7.1)
(minus) TRS relating to RP3[1]	(92.5)	(92.5)	0.0	-	-	-
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	(160.0)	(160.0)	0.0	(160.7)	(160.7)	0.0
(minus) Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	(1.7)	(1.7)	0.0	(12.6)	(12.6)	0.0
(minus) Defined Benefit Pension Contribution Variance	(20.2)	0.0	(20.2)	(15.9)	0.0	(15.9)
(minus) Capitalised Financing costs for the year	(0.7)	(0.0)	(0.6)	(10.5)	0.0	(10.5)
(minus) / plus Other (including RPI / CPI wedge)	(0.8)	(0.7)	(0.0)	3.3	0.0	3.3
Closing RAB as at 31 December	2,006.3	1,875.4	130.9	1,605.7	1,433.9	171.8

[1] TRS movement in year

Opening TRS Balance	890.9	890.9	0.0
Inflation	46.0	42.3	3.6
Recovered in unit rate	(92.5)	(92.1)	(0.4)
Closing TRS balance	844.3	841.0	3.3

[2] Defined benefit pension variance: The RAB adjustment for 2022 has been restated by £2.8m (year end RPI) following the CAA's final decision on the retrospective reconciliation of revenue and costs for RP3 to reflect a change in the pension pass through for the period 2020 to 2022.

[2] https://www.caa.co.uk/our-work/publications/documents/content/cap2597d/

Table 9

Oceanic RAB Calendar Year £ million	2023			2022		
	Actual	CAA's Projection	Variance	Actual	CAA's Projection	Variance
Opening RAB as at 1 January in opening prices	37.9	37.9	0.0	37.7	44.8	(7.1)
The figures below are all at year end prices						
Inflation of opening RAB	2.0	2.0	0.0	5.1	6.0	(1.0)
Opening balance adjusted for year end prices	39.9	39.9	0.0	42.8	50.8	(8.0)
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	4.3	4.6	(0.3)	3.5	6.7	(3.2)
plus / (minus) Real movements in Working Capital for calendar year t	3.0	1.7	1.3	(1.2)	(0.5)	(0.7)
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	(6.6)	(6.6)	0.0	(5.2)	(5.2)	0.0
(minus) Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	(1.5)	(1.5)	0.0	(1.6)	(1.6)	0.0
(minus) Defined Benefit Pension Contribution Variance	(0.8)	0.0	(0.8)	(0.3)	0.0	(0.3)
(minus) Capitalised Financing costs for the year	(0.0)	0.0	(0.0)	(0.3)	0.0	(0.3)
(minus) / plus Other (including RPI / CPI wedge)	(0.0)	0.0	(0.0)	0.1	0.0	0.1
Closing RAB as at 31 December	38.3	38.1	0.2	37.9	50.2	(12.3)

Notes

1. The CAA projections are shown in Tables 19 and 20 in 2020 RPI prices. Further detail can be found in the NR23 RAB Rules (CAP2597d).

2. Capital expenditure for the purpose of this table includes expenditure on tangible assets (property, plant and equipment). It also 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 European 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 Eurocontrol 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 RP3 and what depreciation would have been based on actual capital expenditure in RP3.

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. Working capital includes traffic risk sharing (TRS) for the income shortfall arising during Covid.

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 (UKATS plus Oceanic), 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 is projected, by NERL's best estimate, to do so over the next four measurement dates, would require 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 2023 to 31 March 2028 as a whole (on a simple arithmetic average)
   - an explanation of the difference between the expected average gearing for the period to 31 March 2028 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 notional gearing level assumed for the NR23 settlement of 36%. 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 (gearing levels from 1 April 2023 to 31 March 2028) is lower or equal to the monitoring threshold 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 NR23 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 NR23 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	2023/24	2024/25	2025/26	2026/27	2027/28
Gearing assumption for NR23	36.0%	36.0%	36.0%	36.0%	36.0%
Actual gearing:					
March	41.9%				
September	47.6%				

Notes:

1. Tax rates applying to the tax clawback calculation are 25% for the years 2023/24 to 2027/28 respectively. This was the statutory corporation tax rate used in the modelling of the regulatory settlement for NR23.

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				
	2023	2024	2025	2026	2027
CAA Assumption (2020 prices)	4.0	3.7	1.9	1.8	1.6
CAA Assumption (current outturn prices)	4.3				
Actual	4.3				
Variance added / (deducted) from RAB	(0.0)				
Cumulative variance (added to) / deducted from RAB	(0.0)				

Note:

The closing cumulative pension contribution variance is the cumulative value of the pension contribution variances over NR23 (from 1 January 2023), which have been included in the RAB. At each year end, it is calculated in accordance with the formulae set out in section 6(e) of the RAB rules, and are stated at year end prices.

8. Record of costs eligible for pass-through (Table 12, 12a, 13)

8.1. Defined benefit pension costs (UKATS)

Table 12

Defined Benefit Pensions Costs £ million	2023	2024	2025	2026	2027
NR23 Settlement (2020 prices)					
Assumed future service costs	71.7	65.5	47.1	44.6	44.8
Assumed deficit recovery costs	19.1	19.2	0.0	0.0	0.0
Total allowance for defined benefit pension contributions	90.8	84.7	47.1	44.6	44.8
Actual CPI	120.04				
Total allowance for defined benefit pension contributions in outturn values	109.0				
Actual Expenditure (outturn)					
Actual future service costs	68.5				
Actual deficit recovery costs	20.0				
Total allowance for defined benefit pension contributions	88.5				
Cost of mitigations*	0.6				
Total actual defined benefit pension costs including costs associated with mitigations	89.1				
Cost Exempt Calculation (outtun)					
Variance in relation to defined benefit pension costs	(19.9)				
Restriction in relation to controllable costs	0.0				
Unforeseen financial market conditions requiring changes in deficit repair contributions and future service contributions	(19.9)				
RAB adjustment (year end RPI prices)	(20.2)				

* mitigation costs relate to pension cash alternative (PCA) payments to staff that have opted out of the DB scheme since the NR23 baseline was set. The PCA rate was set at a rate lower than average DB contributions rates thereby reducing the overall cost to airspace users.

Notes

1. For NR23 the methodology for assessing costs outside of NERL's control under the Eurocontrol 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 NR23, 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.

3. The pension cost pass-through amounts included within the UKATS RAB over RP3 will be assessed during NR23.

8.2. Finalisation of RP3 defined benefit pension costs (UKATS)

Following the finalisation of the RP3 reconciliation the pension pass-through adjustment for the period 2020 to 2022 has been updated to reflect the defined benefit allowance included in the final settlement. The defined benefit allowance for 2021 and 2022, previously reported as £66.2m and £68.6m have been restated to £66.5m and £71.1m. This has increased the variance to £14.8m, which is reflected in the UKATS RAB for 2022.

Table 12a

RP3 Defined Benefit Pension Costs - UKATS Calendar Year £ million	Actual Reported		
	2020	2021 (restated)	2022 (restated)
Defined benefit allowance per NR23 settlement (outturn)	66.0	66.5	71.1
Actual	65.0	61.1	62.6
Variance deducted from RAB	0.9	5.4	8.4
Cumulative variance deducted from RAB	0.9	6.4	14.8

8.3. Spectrum costs

Table 13

Analysis of UKATS Spectrum Costs Calendar Year £ millions	2023	2024	2025	2026	2027
Spectrum Charges assumed - nominal values	1.0	1.0	1.0	1.0	1.1
Restated to actual CPI	1.0				
Actual Cash Payments					
Actual Spectrum costs (external costs)	0.8				
Variance:	(0.2)				
Uncontrollable cost assessment:					
Impact of inflation (Controllable)					
Impact of CY conversion (Controllable)					
Impact of change in legislation (Uncontrollable)	(0.2)	0.0	0.0	0.0	0.0
Annual difference (Uncontrollable only)	(0.2)	0.0	0.0	0.0	0.0
Cumulative difference (carried forward)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)

Notes:

1. For NR23 NERL has deducted the Spectrum underspend for RP3 from the opening RAB at 1 January 2023.

2. The amounts reported in Table 13 above will be accumulated over NR23, 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 Union Regulations 409/2013 and 716/2014) and the SESAR Joint Undertaking (as set up under EU Regulations 1361/2008 and 721/2014). Under the regulations, NERL is obliged to return these funds to airline customers via 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 planned TSU's.
- European funding is not included in the UKATS RAB.

Table 14a INEA funding of implementing projects

INEA/CINEA Funding Calendar Year - Outturn Prices £ millions	2022	2023	2024	2025	2026	2027
Amounts Received in Euros						
Pre-funding		0.0				
Interim Payments		1.1				
Final Payments		0.9				
Total		2.0	0.0	0.0	0.0	0.0
Equivalent GBP values						
Pre-funding		0.0				
Interim Payments		1.0				
Final Payments		0.8				
Total		1.7	0.0	0.0	0.0	0.0
Add: Interest accrued		0.6				
Less: Third Party costs		(0.0)				
Net Funding received		2.3	0.0	0.0	0.0	0.0
Less: Amounts returned as "Other Revenues"		(0.7)				
Cumulative amount carried forward	7.4	9.0	9.0	9.0	9.0	9.0
Adjustment for TSU's (N+2)						

Table 14b UKATS SESAR JU Funding

SESAR SU Funding Calendar Year - Outturn Prices £ millions	2022	2023	2024	2025	2026	2027
Amounts Received in Euros						
Pre-funding		0.0				
Interim Payments		0.1				
Final Payments		0.1				
Total		0.1	0.0	0.0	0.0	0.0
Equivalent GBP values						
Pre-funding		0.0				
Interim Payments		0.2				
Final Payments		0.1				
Total		0.3	0.0	0.0	0.0	0.0
Add: Interest accrued		0.3				
Less: Third Party costs		(0.2)				
Net Funding received		0.4	0.0	0.0	0.0	0.0
Less: Amounts returned as "Other Revenues"		(4.8)				
Cumulative amount carried forward	5.5	1.0	1.0	1.0	1.0	1.0
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
2023	11,956	11,919	11,773	11,757
2024	12,930			
2025	13,247			
2026	13,490			
2027	13,700			

Calendar Year	IFR Flights		Terminal Service Units	
	CAA Assumption	Actual	CAA Assumption	Actual
2023	2,422	2,348	955	926
2024	2,561		1,003	
2025	2,608		1,022	
2026	2,644		1,039	
2027	2,673		1,054	

Notes

1. Total Service Units is the basis utilised by Eurocontrol for en route 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
2023	483	24	486	31
2024	519	26		
2025	528	27		
2026	535	27		
2027	542	27		

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

Table 17

CPI (base 2020 =100)	2023	2024	2025	2026	2027
Settlement Assumptions					
Average for year (from 2020)	118.73	119.75	119.89	120.49	122.38
Actual					
Actual %	7.3%				
Average index for year (2020 basis)	120.04				
At Year End (2020 basis)	121.56				

RPI (CHAW index)	2023	2024	2025	2026	2027
Settlement Assumptions					
RPI growth for year (from 2020)	1.29	1.30	1.32	1.35	1.39
Index at Year End	377.53	381.81	385.78	395.15	406.89
Actual					
RPI growth for year (from 2020)	1.29				
Index at Year End	379.00				

Notes

1. CPI is used with reference to the performance report.
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 NR23 projections (Table 18)

Table 18

CAA projections for NR23
Calendar Year - 2020 Prices
£ million

	2023	2024	2025	2026	2027
UKATS Regulatory Performance Statement (inc London Approach)					
Eurocontrol revenue (TSU basis)	639.2	643.0	581.1	597.7	595.8
Military TSU adjustment	(8.0)	(7.5)	(6.6)	(6.6)	(6.5)
London Approach revenue	13.0	12.8	13.4	13.8	13.9
Other revenue	53.1	52.5	52.8	52.6	52.3
Intercompany revenue	20.0	20.0	19.9	19.9	19.9
Total UKATS revenue	717.3	720.8	660.7	677.4	675.4
Operating costs	(407.7)	(416.5)	(410.5)	(408.4)	(406.8)
DB pension cash	(90.8)	(84.7)	(47.1)	(44.6)	(44.8)
DC pension cash	(26.1)	(26.8)	(26.9)	(27.2)	(27.5)
Exceptionals	(2.6)	(2.7)	(3.1)	(2.7)	(2.5)
Depreciation	(131.8)	(140.1)	(138.6)	(139.4)	(138.2)
PPT depreciation	6.0	5.3	3.3	3.3	3.3
Backlog depreciation	(1.4)	(1.4)	9.0	9.1	9.2
Tax allowance	(14.3)	(8.4)	(3.8)	(26.7)	(30.0)
Regulatory profit	48.7	45.5	42.9	40.6	38.0
Regulatory return on PPT	1.6	1.1	0.6	0.5	0.4
Regulatory return	50.3	46.7	43.6	41.2	38.4
Average RAB	1,577.0	1,464.8	1,366.8	1,292.4	1,206.0
Regulated rate of return	3.19%	3.19%	3.19%	3.19%	3.19%
Oceanic Regulatory Performance Statement					
Oceanic revenue	28.1	33.8	26.1	26.9	25.8
ADSB charges	14.8	16.0	17.1	17.3	18.0
Other revenue	0.5	0.5	0.5	0.5	0.5
Total Oceanic revenue	43.4	50.3	43.7	44.7	44.3
Operating costs	(13.9)	(19.4)	(17.0)	(17.4)	(16.3)
ADSB costs	(14.8)	(16.0)	(17.1)	(17.3)	(18.0)
DB pension cash	(4.0)	(3.7)	(1.9)	(1.7)	(1.6)
DC pension cash	(1.7)	(1.8)	(1.6)	(1.5)	(1.5)
Exceptionals	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Depreciation	(5.4)	(5.7)	(4.7)	(4.9)	(5.1)
Backlog depreciation	(1.2)	(1.2)	0.2	0.2	0.2
Tax allowance	(1.2)	(1.5)	(0.6)	(1.1)	(1.2)
Regulatory profit	1.0	0.9	0.8	0.8	0.8
Regulatory return on PPT	0.0	0.0	0.0	0.0	0.0
Regulatory return	1.0	0.9	0.8	0.8	0.8
Average RAB	31.8	28.2	25.5	25.6	25.7
Regulated rate of return	3.19%	3.19%	3.19%	3.19%	3.19%

Note that the above table shows the CAA's NR23 projections in 2020 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 - 2020 RPI prices
£ million

UKATS	2023	2024	2025	2026	2027
Opening RAB	1,556.7	1,450.5	1,321.2	1,243.8	1,151.9
Net Capital Expenditure	91.1	103.4	105.4	100.5	97.5
Depreciation	(125.1)	(131.9)	(119.9)	(119.0)	(116.4)
Movement in Working Capital	(0.2)	(29.2)	8.8	(1.7)	(4.4)
TRS	(71.6)	(71.6)	(71.7)	(71.7)	(71.8)
Spectrum cost variance	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)
Closing RAB	1,450.5	1,321.2	1,243.8	1,151.9	1,056.8
Average RAB	1,453.9	1,346.8	1,245.1	1,155.2	1,063.3

Table 20

STATEMENT: CAA RAB Assumptions
Calendar Year - 2020 RPI prices
£ million

Oceanic	2023	2024	2025	2026	2027
Opening RAB	30.8	29.5	24.3	24.0	23.9
Net Capital Expenditure	3.5	3.5	4.4	4.3	4.2
Depreciation	(6.2)	(6.5)	(4.2)	(4.4)	(4.4)
Movement in Working Capital	1.3	(2.2)	(0.6)	(0.0)	(0.1)
Closing RAB	29.5	24.3	24.0	23.9	23.6
Average RAB	29.3	26.0	23.2	22.9	22.7

Note that the above tables show the CAA's NR23 projections in 2020 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

UKATS Other Income Calendar Year - Outturn Prices £ million	2023	2022
North Sea Helicopters	9.2	9.5
MoD	43.5	39.6
Licence Condition 5:		
Consented services	0.0	0.0
Other contracts with the Crown	0.7	0.9
Contracts related to Functional Airspace Blocks	0.0	0.0
Other unregulated revenue - UKATS	8.5	9.0
Total	61.9	59.1
European Development Initiatives included in above:		
Consented services	0.0	(0.0)
Contracts related to Functional Airspace Blocks	0.0	0.0
Other unregulated revenue	0.0	0.1
Total	0.0	0.0

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

Unregulated Revenue Cap Calendar Year - Outturn Prices £ million	2023	2022
En Route (UK) Business		
- Eurocontrol	855.1	611.5
- London Approach	18.2	12.4
Sub-total	873.4	623.9
- Specified Services (North Sea Helis)	9.2	9.5
En Route (Oceanic) Business including ADSB	51.6	40.0
Total	934.1	673.4
Unregulated revenue UKATS	8.5	9.0
Unregulated revenue Oceanic	0.5	0.4
Total	9.0	9.4
Unregulated revenue as % of total	1.0%	1.4%
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.

European Development Initiatives Calendar Year - Outturn Prices £ million	2023	2022
Consented Services		
Income	0.0	(0.0)
Operating costs	(2.3)	(3.0)
Net cost	(2.3)	(3.0)
Contracts Related to Functional Airspace Blocks		
Income	0.0	0.0
Operating costs	(0.1)	(0.1)
Net cost	(0.1)	(0.1)
Other Unregulated Revenue		
Income	0.0	0.1
Operating costs	0.0	0.2
Net cost	0.0	0.3
Total		
Income	0.0	0.0
Operating costs	(2.4)	(2.8)
Net cost	(2.4)	(2.8)

The above revenues do not include amounts returned directly via the unit rate - see tables 14a and 14b

15. Airspace Change Organising Group (ACOG) (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 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 NR23. CAA will review NERL's overall expenditure on the ACOG function at the end of NR23, with a view to returning any significant underspend to airline customer through an appropriate adjustment to the NR28 price control. 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	2023	2024	2025	2026	2027	Total
CAA's assumption	3.9	4.0	4.0	4.0	4.0	19.8
Revenue Received	3.9					3.9
Adjustment for Inflation (actual)	0.0					0.0
Adjustment for Traffic risk sharing	0.0					0.0
Adjusted value	3.9	0.0	0.0	0.0	0.0	0.0
Actual expenditure	3.5					3.5
Variance	0.5					0.5
Cumulative variance	0.5					0.5

16. New User costs (Table 25)

The CAA introduced the concept of new users in the NR23 price control and placed a requirement on NERL to propose a new charging mechanism for specified services provided to such users, having previously consulted on such, by June 2025.

NERL is required under Licence Condition 24 to track and report on expenditure in relation to new users, with a view to recovering such expenditure once the new charging mechanism has been implemented.

Expenditure to date is reported via the table below. The reporting format will be enhanced as NERL begins to incur more significant costs in developing and delivering services in support of new users.

Table 25

New User Costs Calendar Year - Outturn Prices £ million	2023	2024	2025	2026	2027
Opex cost not covered by NR23 settlement	0.2				
Capex not covered by NR23 settlement	-				

17. Analysis of UKATS performance by European regulatory reporting category (Table 26)

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

Table 26

UKATS Performance by Eurocontrol Charging Principles Category
Calendar Year - Outturn Prices (NR23 assumptions)
£ million

	2023 Actual				2023 Price Control				2023 Variance Better/(Worse)			
	Euro-control	London Approach	Other UKATS	Total UKATS	Euro-control	London Approach	Other UKATS	Total UKATS	Euro-control	London Approach	Other UKATS	Total UKATS
Staff	364.5	9.4	44.2	418.1	395.8	8.2	45.9	449.8	31.3	(1.2)	1.7	31.8
Other operating costs	127.5	4.4	20.8	152.8	152.3	3.1	17.6	173.1	24.8	(1.3)	(3.2)	20.3
Depreciation	133.5	3.1	16.0	152.6	132.8	2.7	15.4	150.9	(0.7)	(0.4)	(0.6)	(1.7)
Cost of capital	54.4	1.3	6.5	62.2	50.9	1.1	5.9	57.8	(3.5)	(0.2)	(0.6)	(4.3)
Tax Allowance	17.2	0.0	0.0	17.2	15.0	0.3	1.7	17.0	(2.2)	0.3	1.7	(0.2)
Exceptional items	0.9	0.0	0.0	0.9	2.7	0.1	0.3	3.0	1.7	0.1	0.3	2.1
Sub total	698.0	18.2	87.6	803.7	749.4	15.5	86.8	851.7	51.4	(2.7)	(0.8)	47.9
Military adjustment	9.4	0.0	0.0	9.4	9.5	0.0	0.0	9.5	0.1	0.0	0.0	0.1
Determined costs	707.3	18.2	87.6	813.1	758.9	15.5	86.8	861.2	51.6	(2.7)	(0.8)	48.1

Notes

1. Performance is compared with the price control set by the CAA for NR23 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 Statement (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.