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NATS (En Route) plc

Regulatory Accounts 2024

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NATS (En Route) plc Regulatory Accounts

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The regulatory accounts were approved by the Board on 26 June 2025 and signed on its behalf by

Alistair Borthwick, Chief Financial Officer 

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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.

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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.

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3. Independent auditor's report

Independent auditor's report to the Civil Aviation Authority, ("the Regulator") and the directors of NATS (En Route) Public Limited Company.

Opinion on the regulatory accounts

We have audited the Regulatory Accounts of NATS (En Route) plc ("the Company") for the year ended 31 December 2024 which comprise the financial information included on schedules 4-11. We have not audited the additional regulatory information included within schedules 12-17. The financial reporting framework that has been applied in their preparation is in accordance with accounting policies which are consistent with the basis used in the price control determination. This is International Financial Reporting Standards (IFRS) unless otherwise stated.

In our opinion the Regulatory Accounts are properly prepared, in all material respects, in accordance with condition 6 of the Company's Air Traffic Services Licence, and the Regulatory Accounting Guidelines (RAGs), and the accounting policies set out in schedule 2.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and having regard to the guidance contained in ICAEW Technical Release 02/16AAF (Revised) Reporting to regulators on regulatory accounts.

Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Regulatory Accounts section of our report. 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 (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting

We draw attention to the fact that the Regulatory Accounts have been prepared in accordance with a special purpose framework, condition 6 of the Company's Air Traffic Services Licence, Regulatory Accounting Guidelines ("the RAGs") issued by the Regulator, the accounting policies set out in the statement of accounting policies and in the case of the regulatory historical cost accounting statements, under the historical cost convention. The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment. The Regulatory Accounts are prepared to assist the Company in complying with condition 6 of the Company's Air Traffic Services Licence. As a result, the Regulatory Accounts may not be suitable for another purpose. Our report is intended solely for the Company and the Regulator in accordance with our engagement letter dated 3 June 2025 and should not be distributed to or used by parties other than the Company and the Regulator.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of UK-adopted international accounting standards ("UK IAS"). Financial information other than that prepared on the basis of UK IAS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Our opinion is not modified in respect of this matter.

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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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's assessment of going concern, being for a period to 30 June 2026, including the underlying forecast models used in the assessment.
- Confirming that the forecasts for the period to 30 June 2026 used were consistent with those for the same period within the longer-term forecasts used in the goodwill impairment assessment undertaken for the purpose of the statutory financial statements. We also assessed the base case assumptions for reasonableness by (i) testing the clerical accuracy of the model, (ii) by reference to external forecasts on key assumptions such as flight volumes and (iii) by taking into account our knowledge of customer contract terms and other legal agreements and regulator communications to determine the impact on cash flow in the going concern period of various scenarios such as a reduction in flight numbers or the failure of a major customer.
- Verifying the liquidity position (cash held plus unused banking facilities) as at 31 March 2025 and 31 May 2025 by agreeing the year-end position to bank confirmations and the 31 May 2025 position to the general ledger and our subsequent event enquiries. We also ensured that we understood the covenants associated with the listed debt within NERL, which along with liquidity itself formed the basis of the stress tests performed below.
- Challenging the appropriateness of management's downside sensitivities ensuring that they appropriately modelled the principal risks of the business. We also considered the remoteness of the reverse stress test performed.
- We considered the mitigating actions available to the company such as the suspension of dividend payments.
- Reviewing the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern until 30 June 2026.

Given NERL's status as the UK's only en route air traffic control provider and a critical infrastructure asset for the UK, the protection afforded by (i) the rolling licence to provide these services, (ii) the price control period which runs until 31 December 2027 and sets the determined cost (or revenue allowance) for that period and (iii) the financeability duty of the CAA, the long-term nature of the debt, the amount of cash held both at the balance sheet date and as at 31 May 2025, combined with the absence of any other events or conditions which would cause us to question the going concern assumption, we consider management's approach to be reasonable. We believe that appropriate scenarios were evaluated and considered and concur with the conclusion that the reverse stress test position is sufficiently remote.

We have nothing material to add or draw attention to in relation to the directors' statement in the Regulatory Accounts about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing Regulatory Accounts.

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 until 30 June 2026.

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Conclusions relating to going concern (continued)

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Regulatory Accounts schedules 12-17. 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.

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

We have nothing to report in this regard.

Responsibilities of the Directors

The directors are responsible for the preparation of the Regulatory Accounts and for such internal control as the directors determine is necessary to enable the preparation of 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 financial 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 financial statements.

A further description of our responsibilities for the audit of the Regulatory Accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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Explanation as to what extent the audit was considered 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 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 or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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 regulations are those that relate to the framework (namely UK-adopted IAS, IFRS, the Companies Act 2006, the Pensions Act, the NERL Licence, the Transport Act 2000) and the UK relevant tax compliance regulations applicable to NERL.

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.

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Use of our report

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the Air Traffic Services Licence. Our audit work has been undertaken so that we might state to 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 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 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 our opinion on the statutory financial statements of the Company for the year ended 31 March 2025 on which we reported on 26 June 2025, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements 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 audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume 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:
Ernst & Young LLP
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Ryan Squires

Ernst and Young LLP
Grosvenor House,
Grosvenor Square,
Southampton,
S015 2BE
26th June 2025

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)

	2024			2023		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Eurocontrol revenue	751.8	782.3	(30.5)	729.5	757.6	(28.2)
Allowances not previously recognised during RP3	0.0	0.0	0.0	125.6	0.0	125.6
London Approach revenue	14.4	15.7	(1.4)	18.2	15.7	2.6
Price controlled revenue	**766.2**	**798.0**	**(31.8)**	**873.3**	**773.3**	**100.0**
Other revenue (Note 2)	66.6	64.6	2.0	61.9	63.8	(1.9)
Intercompany revenue	26.8	24.6	2.2	25.7	24.0	1.7
UKATS Revenue (including intercompany revenue)	**859.6**	**887.2**	**(27.7)**	**960.8**	**861.0**	**99.8**
Operating costs (Note 3)	519.8	549.0	29.1	462.8	523.8	61.0
Defined Benefit Pension cash cost (Note 4)	104.3	104.3	0.0	109.0	109.0	0.0
Depreciation (Note 5)	172.4	172.4	0.0	158.2	158.2	0.0
Backlog adjustment to depreciation (Note 5)	1.7	1.7	0.0	1.7	1.7	0.0
Depreciation on pension pass through	(6.5)	(6.5)	0.0	(7.2)	(7.2)	0.0
Tax allowance (Note 6)	10.3	10.3	0.0	17.2	17.2	0.0
Total costs	**802.0**	**831.2**	**29.1**	**741.6**	**802.6**	**61.0**
Regulatory profit	**57.5**	**56.1**	**1.5**	**219.3**	**58.4**	**160.8**
Regulatory return on pension pass through (Note 7)	1.4	1.4	0.0	1.9	1.9	0.0
Capitalised Financing costs for the year (Note 8)	(1.7)	0.0	(1.7)	(0.6)	0.0	(0.6)
Regulatory return	**57.2**	**57.5**	**(0.2)**	**220.5**	**60.3**	**160.2**
Average Regulatory Asset Base (RAB)	1,999.1	1,803.0	196.1	1,948.4	1,893.1	55.3
Regulated rate of return (Note 9)	**2.86%**	**3.19%**	**-0.33%**	**11.32%**	**3.19%**	**8.13%**

4.1.1. Key points on current year performance

While NERL's regulatory return from UK air traffic services of £57.2m was in line with the CAA's assumption in absolute terms, relative to the value of its regulatory asset base (RAB) the rate of return at 2.86% was 0.33% below the CAA's NR23 price control cost of capital assumption because the average RAB was £196m higher that the CAA's projection, as a result of higher working capital.

Eurocontrol and London Approach revenue were £31.8m lower than the CAA's assumption. This mainly reflected the volume of air traffic (on a total service units basis) which was 5.6% below the CAA's forecast, partly a reflection of airlines flying shorter routes through UK airspace. Revenue also included some rebates under the licence pass-through mechanisms for pension costs and the tax relief on debt service costs, which is linked to NERL's gearing. These pass-through items will be reflected in NERL's ATC charge from NR28.

Operating costs were £29.1m lower than the CAA's final determination assumption. This reflects the fact that the CAA sets annual revenue allowances which assumes 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 going forward are likely to exceed the level assumed by the CAA in the latter years of NR23. As a result, overall costs over the price control period are anticipated to be more aligned with the CAA's final determination assumption in its entirety.

4.2. Oceanic

Table 2

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

	2024			2023		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Shanwick Oceanic Control Area charges	49.5	41.6	7.9	34.0	33.7	0.3
ADSB Charges	19.8	19.7	0.1	17.7	17.8	(0.1)
Other revenue (Note 2)	0.3	0.6	(0.3)	0.5	0.6	(0.1)
Total revenue	**69.6**	**61.9**	**7.7**	**52.1**	**52.1**	**0.0**
Operating costs (Note 3)	21.3	26.2	4.9	18.5	18.9	0.4
ADSB cost	17.8	19.7	1.8	16.9	17.8	0.9
Defined Benefit Pension cash cost (Note 4)	4.6	4.6	0.0	4.8	4.8	0.0
Depreciation (Note 5)	7.0	7.0	0.0	6.5	6.5	0.0
Backlog adjustment to depreciation (Note 5)	1.5	1.5	0.0	1.4	1.4	0.0
Tax allowance (Note 6)	1.8	1.8	0.0	1.5	1.5	0.0
Total costs	**54.1**	**60.8**	**6.7**	**49.6**	**50.8**	**1.3**
Regulatory profit / (loss)	**15.5**	**1.1**	**14.4**	**2.5**	**1.2**	**1.3**
Capitalised Financing costs for the year (Note 8)	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)
Regulatory return	**15.5**	**1.1**	**14.4**	**2.5**	**1.2**	**1.3**
Average Regulatory Asset Base (RAB)	36.1	34.8	1.3	37.9	38.2	(0.3)
Regulated rate of return (Note 9)	**42.93%**	**3.19%**	**39.74%**	**6.59%**	**3.19%**	**3.40%**

4.2.1. Key points on current year performance

NERL's regulatory return this year is reflective of the price control assumption for revenue and costs and the timing of recognition of these relative to NERL's financial statements. Performance over the remainder of the control period is currently projected to be more aligned with the CAA's final determination.

Revenue for the North Atlantic en route ATC service was £7.7m ahead of the CAA's assumption. This included the recognition this year of the licence entitlement to recover the impact of higher inflation than assumed since 2022 and the effect of the temporary unit rate applied for 2023 prior to the final NR23 determination. The price control assumed this income would be earned in future years. Underlying revenue is reflective of the volume of flights, which was c2% behind the CAA's forecast.

Operating costs were £4.9m less than the price control assumption. This is a reflection of the annual phasing of costs in the NR23 price control settlement, which aligned the assumed cost base with an uplift to revenue allowances to recover a shortfall in 2023 when a temporary unit rate applied prior to the price control decision. There is not an equivalent NERL cost for this adjustment. The NR23 price control assumes a reduction in costs in 2025 and later years, which we expect to align with NERL's cost base.

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 22.
   - The UKATS revenue line includes income relating to the cost of running the Airspace Change Organising Group (a programme overseen by the CAA as part of the NR23

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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 25.

- UKATS revenue excludes income from customer-funded capital projects, which are also 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, see Tables 15a and 15b.
- 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	2024	2023
Charges from NATS Ltd	15.3	14.6
Charges from NATS (Services) Ltd	18.1	19.4
Total	33.5	34.0

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	43.6	45.1	47.1	48.6
Oceanic	3.0	3.4	2.5	1.1	0.5
Actual costs					
UK Air Traffic Services	42.0	43.3			
Oceanic	1.8	2.3			
Variance to CAA's projection					
UK Air Traffic Services	(3.1)	(0.3)			
Oceanic	(1.2)	(1.1)			

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 2024 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 are not eligible for pass-through 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 the element of NERL's overall return that relates to pension variances 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 price control 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 shown in Table 5 below.

[1] https://www.caa.co.uk/publication/download/18607

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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					
C2 Average Delay (seconds / flight)	8.45	8.95	8.95	8.95	8.95
C3 Peak Delay - score (target)	14.08	14.91	14.91	14.91	14.91
C4 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					
C2 Average Delay (seconds / flight)	8.84	4.44			
C3 Peak Delay[1]	21.61	7.14			
C4 Daily Impact Score	1,338	0			
3DI Environmental score	28.28	29.15			
Better/(worse)					
C2 Average Delay	(0.39)	4.51			
C3 Peak Delay	(7.53)	7.77			
C4 Daily Impact Score	462	1,800			
3DI Environmental score	(0.69)	(2.16)			

[1] The C3 score for 2023 has been re-stated to consider exemption days, the penalty associated with the restated score was reflected in the 2025 unit rate calculation.

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 C2 metric / 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, if the variances is greater than 4%.
- The C3 metric/ 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, if the variances is greater than 4%.

- The C4 metric/ FC4 performance metric relates to excess delays which accumulate on particular days (e.g. as mainly caused by equipment and other technical failures which can have a widespread and/or long-lasting impact). There are mitigations through a limited number of exemption days (up to 100 for the price control 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 modulated 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 (F3DI) is based on a % of Determined Costs 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 every year of the price control period. Bonuses/penalties are symmetrically applied around the target and are limited to 0.5% of the Determined Costs for a calendar year.

   Table 6 above reports a 3Di score of 29.15. This includes flights which are not subject to an ATC charge and for which fuel efficiency is not an objective, such as survey flights (so called non-revenue flights). NERL is engaging with the CAA to provide evidence to support an adjustment which would exclude such flights, instead of the current approach to make a proxy adjustment (of 0.6) to reduce the impact of such flights on the metric score. This would ensure that 3Di as reported more closely reflects NERL's actions to enable fuel efficiency. The score excluding non-revenue flights is 28.57. If the regulatory metric were calculated on this basis, it would reduce the penalty value shown in Table 7a below to £0.2m.

Table 7a

Analysis of service incentives in 2024, amounts are reflected within Eurocontrol revenues.

Financial Incentives Claimed	FC2	FC3	FC4	F3Di	Total
Calendar Year 2024	NERL attributable delay (secs)	Delay impact (score)	Annual (score)	Average 3DI (score)	£m
Par values	8.95	14.91	1,800	25.64 to 28.34	
Actual achieved	4.44	7.14	0	29.15	
£ million - bonus / (penalty)	0.3	0.9	0.0	-0.6	0.6

Capex engagement incentive: the price control includes an incentive mechanism which reflects NERL's performance in engaging with airspace users on its capital investment plan as assessed by an independent reviewer. This incentive, which is penalty only, is based the CAA's assessment of NERL's engagement with airspace users, measured against defined criteria and based on the last service and investment plan (SIP) before the CAA's price control decision for the NR28 period (on current timetable, this is likely to be the January 2027 SIP).

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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 following statements of the RABs for each of UKATS and Oceanic are stated at year-end price levels:

Table 8

UKATS RAB Calendar Year £ million	2024			2023		
	Actual	CAA's Projection	Variance	Actual	CAA's Projection	Variance
Opening RAB as at 1 January in opening prices	**2,006.3**	**1,875.4**	**130.9**	**1,605.7**	**1,913.9**	**(308.2)**
Opening balance adjustment for Spectrum Licence variance	0.0	0.0	0.0	(0.5)	0.0	(0.5)
Opening balance adjustment following the CAA's decision on the retrospective reconciliation: allowances not previously recognised during RP3	0.0	0.0	0.0	307.8	0.0	307.8
Restated Opening RAB	**2,006.3**	**1,875.4**	**130.9**	**1,913.0**	**1,913.9**	**(0.9)**
The figures below are all at year end prices						
Inflation of opening RAB	69.3	64.8	4.5	98.7	98.8	(0.0)
Opening balance adjusted for year end prices	**2,075.7**	**1,940.2**	**135.5**	**2,011.7**	**2,012.7**	**(1.0)**
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	102.9	138.2	(35.4)	97.1	117.8	(20.7)
plus / (minus) Real movements in Working Capital for calendar year t	123.4	(39.1)	162.5	173.3	(0.2)	173.5
(minus) TRS relating to RP3[1]	(95.8)	(95.8)	0.0	(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	(174.7)	(174.7)	0.0	(160.0)	(160.0)	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	(1.7)	(1.7)	0.0
Plus / (minus) Defined Benefit Pension Contribution Variance[2]	13.5	0.0	13.5	(20.2)	0.0	(20.2)
(minus) Capitalised Financing costs for the year	(1.7)	(0.0)	(1.7)	(0.7)	(0.0)	(0.6)
(minus) / plus Other (including RPI / CPI wedge)	(0.0)	0.0	(0.0)	(0.8)	(0.7)	(0.0)
Closing RAB as at 31 December	**2,041.5**	**1,767.2**	**274.3**	**2,006.3**	**1,875.4**	**130.9**
[1] TRS movement in year						
Opening TRS Balance	844.3	844.3	0.0	890.9	890.9	0.0
Inflation	29.2	29.2	0.0	46.0	46.0	0.0
Recovered in unit rate	(95.8)	(95.8)	(0.0)	(92.5)	(92.5)	(0.0)
Closing TRS balance	777.7	777.7	(0.0)	844.3	844.3	(0.0)

[2] **Defined benefit pension variance:** The RAB for 2024 includes a revision of £17.4m to the pension pass through estimate made for 2023, to align the cumulative position across NR23 with NERL's 2023 and 2024 cost exempt submissions. Excluding this 2023 estimate revision, the 2024 amount would be a £3.8m reduction in the RAB.

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

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Table 9

Oceanic RAB Calendar Year £ million	2024			2023		
	Actual	CAA's Projection	Variance	Actual	CAA's Projection	Variance
Opening RAB as at 1 January in opening prices	**38.3**	**38.1**	**0.2**	**37.9**	**37.9**	**0.0**
The figures below are all at year end prices						
Inflation of opening RAB	1.3	1.3	0.0	2.0	2.0	0.0
Opening balance adjusted for year end prices	**39.6**	**39.4**	**0.2**	**39.9**	**39.9**	**0.0**
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	4.7	4.7	(0.1)	4.3	4.6	(0.3)
(minus) / plus Real movements in Working Capital for calendar year t	(0.5)	(3.0)	2.5	3.0	1.7	1.3
(minus) Allowed Underlying Depreciation for year t x RPI growth from 2020 (for 2023) / 2017 (for 2022) for calendar year t	(7.1)	(7.1)	0.0	(6.6)	(6.6)	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	(1.5)	(1.5)	0.0
(minus) Defined Benefit Pension Contribution Variance	(0.4)	0.0	(0.4)	(0.8)	0.0	(0.8)
(minus) Capitalised Financing costs for the year	(0.0)	0.0	(0.0)	(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	**34.7**	**32.5**	**2.1**	**38.3**	**38.1**	**0.2**

Notes

1. The CAA projections for the price control are shown in Tables 20 and 21 in 2020 RPI prices. The CAA projections in the table above are stated in year-end RPI values. 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.

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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 and pension contributions. Working capital excludes traffic risk sharing (TRS) for the income shortfall arising during Covid which is tracked separately as part of the RAB for the purpose of transparency.

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 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 (the measurement dates).

b. NERL's gearing is capped at 65%. If this limit were breached at a measurement date or were projected to be, by NERL's best estimate over the next four measurement dates, this 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 would 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 of 36% assumed for the NR23 settlement. 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 notional gearing level, 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 i.e. at 1 January 2028. 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 adjustment 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%	42.5%			
September	47.6%	37.3%			

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.

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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)	5.2	5.0			
Actual	4.3	4.6			
Variance added / (deducted) from RAB	(0.8)	(0.4)			
Cumulative variance (added to) / deducted from RAB	(0.8)	(1.2)			

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, 13, 14)

The Eurocontrol charging Principles (Paragraph 3.3.4.2) require that variances arising in relation to the following items are adjusted for when the stated conditions are met:

- Unforeseen and significant changes in pension costs resulting from unforeseeable changes in national pensions law, pensions accounting law or unforeseeable changes in financial market conditions, on the condition that such changes in pension costs are outside the control of the air navigation service provider and, in the case of cost increases, that the air navigation service provider has taken reasonable measures to manage cost increases during the price control period.
- Unforeseen and significant changes in costs resulting from unforeseeable changes in national taxation law or other unforeseeable new cost items not covered in the performance plan but required by law.

The CAA's regulatory policy statement sets out the considerations in respect of pension costs incurred and the amounts subject to pass-through.

8.1. Defined benefit pension costs (UKATS)

Table 12

NR23 Cost Exempt Calculation
(£m 2020 prices, unless stated)

		Previously reported (see note below)				Revised (see note below)					
		2023				2023	2024	2025	2026	2027	NR23
NR23 pension assumptions:			**Future service contribution rate (% of pensionable pay):**								
Assumed future service contributions	A	71.7	NR23 future service contribution rate assumption	A		66.2%	66.2%				
Assumed deficit recovery payments	B	19.1	Actual contribution rate	B		66.2%	66.2%				
Total NR23 allowance for defined benefit pension contributions	C=A+B	90.8	Movement in future service contribution rate	C = (B - A) / A		0.0%	0.0%				
Actual CPI	D	120.04	Future service contributions assumed in NR23 Determined Costs	D		71.7	65.5				
Total NR23 allowance for defined benefit pension contributions in outturn values	**E = C x D**	**109.0**	**Cost exempt arising from unforeseen changes to financial market conditions**	**E = C x D**		**0.0**	**0.0**				
Actual Expenditure (outturn):			**Pension cash alternative (PCA):**								
Actual future service contributions	F	68.5	PCA contributions in relation to opt outs post settlement	F		0.5	0.7				
Actual deficit recovery payments	G	20.0	PCA rate including ERNIC (% of pensionable pay)	G		28.5%	28.5%				
Total allowance for defined benefit pension contributions	H=F+G	88.5	PCA pensionable pay	H = F / G		1.8	2.3				
Cost of mitigations	I	0.6	Regular contribution rate	I		66.2%	66.2%				
Total actual defined benefit pension costs including costs associated with mitigations	**J=H+I**	**89.1**	**Cost exempt arising from PCA**	**J = H x (G - I)**		**(0.7)**	**(0.9)**				
Cost Exempt Calculation (outturn)			**Deficit recovery payments:**								
Variance in relation to defined benefit pension costs	K=J-E	(19.9)	Deficit recovery payments assumed in NR23 Determined Costs	K		19.1	19.2				
Restriction in relation to controllable costs	L	0.0	Actual deficit payments	L		17.0	17.0				
Cost exempt return	**M=K+L**	**(19.9)**	Cost exempt relating to inflation of deficit payments	M = L - K		**(2.1)**	**(2.2)**				
			Total cost exempt adjustment in relation to DB costs	= E + J + M		**(2.7)**	**(3.1)**				
			Total cost exempt adjustment in nominal prices			**(3.3)**	**(3.8)**				
			Reported in 2023 Regulatory Accounts			(20.2)					
			Revised 2023 cost exempt (2023 year end RPI prices)			16.8					
			Total cost exempt adjustment in year end RPI prices				**(3.9)**				
			Revised 2023 cost exempt in 2024 RAB (2024 year end RPI prices)				**17.4**				
RAB adjustment (year end RPI prices)		**(20.2)**	**RAB adjustment (year end RPI prices)**				**13.5**				

Note: the 2023 cost exempt calculation has been revised to align with the requirement for cost pass through of changes in costs arising from unforeseen financial market conditions. The revised value is reported as a movement in the 2024 UKATS RAB.

Notes

1. For NR23, for UKATS, the methodology for assessing costs outside of NERL's control is based on Eurocontrol Charging Principles 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.

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8.2. Employers' National Insurance contribution (UKATS)

The table below tracks variances in employer's National Insurance contributions resulting from changes in tax law implemented during the NR23 period and which had not been anticipated in the CAA's NR23 price control determination. Changes announced became effective from April 2025 so have had no impact to date.

Table 13

Notes

a. The amounts reported in the Table above will be accumulated over NR23 for assessment by CAA during its review of the NR28 price control.

ERNIC Costs Considered for Cost Exempt
£m (unless stated)

		2023	2024	2025	2026	2027
Impact of increase in ERNIC rate						
Settlement allowance for ERNICable pay (2020 prices)	A	231.7	236.3			
Actual CPI index (2020 base)	B	120.0	123.1			
Settlement allowance for ERNICable pay (nominal)	C = A x B / 100	278.1	290.8			
Actual staff costs subject to ERNIC	D	262.2	291.1			
ERNICable staff costs considered for cost exempt purposes	E = MIN (C, D)	262.2	290.8			
ERNIC rate assumed in NR23 settlement	F	13.80%	13.80%			
Actual ERNIC rate applied	G	13.80%	13.80%			
Movement in ERNIC rate	H = G - F	0.00%	0.00%			
Unforeseen cost impact of the change in the ERNIC rate	I = E x H	**0.0**	**0.0**			
Impact of reduction to the ERNIC threshold						
Number of employees subject to ERNIC at the threshold level assumed in the settlement	J	3,357	3,594			
Assumed threshold for employers' national insurance - £k	K	9.1	9.1			
Actual threshold for employers' national insurance - £k	L	9.1	9.1			
Change in threshold for employers' national insurance - £k	M = K - L	0.0	0.0			
ERNIC rate assumed for NR23 settlement	N	13.80%	13.80%			
Impact of reducing the ERNIC threshold	O = J x (M / 1000) x N	**0.0**	**0.0**			
Total increase in ERNIC resulting from changes in tax law	P = I + O	**0.0**	**0.0**			
Less amounts already recovered via pension pass-through calculation	Q	0.0	0.0			
Cost exempt claim in relation to changes in tax laws	**R = P + Q**	**0.0**	**0.0**			

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8.3. Spectrum costs

Table 14

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**	**1.1**			
Actual Cash Payments					
Actual Spectrum costs (external costs)	0.8	0.8			
Variance:	**(0.2)**	**(0.2)**			
Uncontrollable cost assessment:					
Impact of inflation (Controllable)	-	-			
Impact of CY conversion (Controllable)	-	-			
Impact of change in legislation (Uncontrollable)	(0.2)	(0.2)			
Annual difference (Uncontrollable only)	(0.2)	(0.2)			
Cumulative difference (carried forward)	**(0.2)**	**(0.4)**			

Notes:

1. For NR23 NERL has deducted the Spectrum cost under-spend for RP3 from the opening RAB at 1 January 2023.

2. The amounts reported in Table 14 above will be accumulated over NR23, with an adjustment made to the opening RAB of the next price control period.

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9. Record of European funding to be offset in future periods (Tables 15a and 15b)

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 15a 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	0.0			
Interim Payments		1.1	0.0			
Final Payments		0.9	0.0			
Total		2.0	0.0	0.0	0.0	0.0
Equivalent GBP values						
Pre-funding		0.0	0.0			
Interim Payments		1.0	0.0			
Final Payments		0.8	0.0			
Total		1.7	0.0	0.0	0.0	0.0
Add: Interest accrued		0.6	0.7			
Less: Third Party costs		(0.0)	0.0			
Net Funding received		2.3	0.7	0.0	0.0	0.0
Less: Amounts returned via the unit rate		(0.7)	(2.7)			
Cumulative amount carried forward	7.4	9.0	7.0	7.0	9.0	9.0
Adjustment for TSU's (N+2)						

Table 15b 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	0.0			
Interim Payments		0.1	0.0			
Final Payments		0.1	3.3			
Total		0.1	3.3	0.0	0.0	0.0
Equivalent GBP values						
Pre-funding		0.0	0.0			
Interim Payments (received in GBP)		0.2	1.9			
Final Payments		0.1	2.8			
Total		0.3	4.7	0.0	0.0	0.0
Add: Interest accrued		0.3	0.3			
Less: Third Party costs		(0.2)	(0.2)			
Net Funding received		0.4	4.7	0.0	0.0	0.0
Less: Amounts returned via the unit rate		(4.8)	(0.3)			
Cumulative amount carried forward	5.5	1.0	5.4	5.4	5.4	5.4
Adjustment for TSU's (N+2)						

10. Record of traffic levels compared with the regulatory assumptions (Table 16, 17)

Table 16 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	12,212	12,082	12,067
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	873
2024	2,561	2,468	1,003	909
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 17 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	508	28
2025	528	27		
2026	535	27		
2027	542	27		

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11. Record of the consumer and retail price indices (Table 18)

Table 18

CPI (base 2020 =100)	2023	2024	2025	2026	2027
Price Control Assumptions					
Average for year (from 2020)	118.73	119.75	119.89	120.49	122.38
Actual					
Actual %	7.3%	2.5%			
Average index for year (2020 basis)	120.04	123.09			
At Year End (2020 basis)	121.56	124.69			

RPI (CHAW index)	2023	2024	2025	2026	2027
Price Control 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	1.34			
Index at Year End	379.00	392.10			

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 has historically been the principal 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.

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Unaudited Schedules provided for information

12. CAA's NR23 projections (Table 19)

Table 19

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%

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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 20, 21)

Table 20

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 21

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.

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14. Analysis of other revenue (Tables 22, 23, 24)

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

Table 22 UKATS other revenue

UKATS Other Revenue Calendar Year - Outturn Prices £ million	2024	2023
North Sea Helicopters	9.8	9.2
MoD	46.5	43.5
Licence Condition 5:		
Consented services	0.0	0.0
Other contracts with the Crown	1.2	0.7
Contracts related to Functional Airspace Blocks	0.0	0.0
Other unregulated revenue - UKATS	9.0	8.5
Total	**66.6**	**61.9**
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	0.0
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 23 Permitted business subject to a cap of 4.5% of regulated revenue

Unregulated Revenue Cap Calendar Year - Outturn Prices £ million	2024	2023
En Route (UK) Business		
- Eurocontrol	751.8	855.1
- London Approach	14.4	18.2
Sub-total	766.2	873.3
- Specified Services (North Sea Helis)	9.8	9.2
En Route (Oceanic) Business including ADSB	69.3	51.6
Total	**845.3**	**934.1**
Unregulated revenue UKATS	9.0	8.5
Unregulated revenue Oceanic	0.3	0.5
Total	**9.3**	**9.0**
Unregulated revenue as % of total	1.1%	1.0%
Allowed %	4.5%	4.5%

Unregulated income excludes contracts with the Crown (the most material example of which is NERL's long term FMARS contract with the Ministry of Defence) 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

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Licence, does not exceed 4.5% of the aggregate turnover of the En Route (UK) and En Route (Oceanic) businesses.

Table 24

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

European Development Initiatives Calendar Year - Outturn Prices £ million	2024	2023
Consented Services		
Income	0.0	0.0
Operating costs	(2.8)	(2.3)
Net cost	(2.8)	(2.3)
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	0.0
Operating costs	0.0	0.0
Net cost	0.0	0.0
Total		
Income	0.0	0.0
Operating costs	(2.9)	(2.4)
Net cost	(2.9)	(2.4)

The above revenues do not include amounts returned directly via the unit rate - see tables 15a and 15b

15. Airspace Change Organising Group (ACOG) (Table 25)

The ACOG was created in 2019 to enable a single coordinated implementation plan for airspace changes in the UK. It is currently 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 to fund the level of activities originally projected over NR23. As part of the DfT's and the CAA's policy decision to establish the new UK Airspace Design Service within NERL, the DfT and CAA have proposed that the residual services being provided by ACOG should be subsumed into the part of NERL providing the airspace design service, with a reduced scope and scale. 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 25

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	3.7				7.6
Adjustment for Inflation (actual)	0.0	0.1				0.2
Adjustment for Traffic risk sharing	0.0	0.1				0.1
Adjusted value	3.9	3.9	0.0	0.0	0.0	7.9
Actual expenditure	3.5	3.6				7.0
Variance	0.5	0.4				0.8
Cumulative variance	0.5	0.8				0.8

16. New User costs (Table 26)

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, to enable recovery of such expenditure once the new charging mechanism has been implemented. The CAA provided no allowance for the recovery of these costs in its NR23 price control decision.

Expenditure to date is reported via the table below.

Table 26

New User Costs Calendar Year - Outturn Prices £ million	2023	2024	2025	2026	2027
Opex cost not covered by NR23 settlement	0.2	1.4			
Capex not covered by NR23 settlement	-	-			

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17. Analysis of UKATS performance by European regulatory reporting category (Table 27)

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

Table 27

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

	2024 Actual				2024 Price Control				2024 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	399.9	6.7	46.5	453.1	399.1	8.0	45.5	452.6	(0.8)	1.4	(1.0)	(0.5)
Other operating costs	144.5	3.1	21.8	169.4	158.5	3.2	18.1	179.7	14.0	0.1	(3.7)	10.3
Depreciation	146.2	3.3	18.2	167.6	143.8	2.9	16.4	163.1	(2.4)	(0.4)	(1.8)	(4.5)
Cost of capital	55.6	1.3	6.9	63.8	48.1	1.0	5.5	54.5	(7.5)	(0.3)	(1.4)	(9.2)
Tax Allowance	10.3	0.0	0.0	10.3	8.8	0.2	1.0	10.0	(1.5)	0.2	1.0	(0.3)
Exceptional items	1.6	0.0	0.0	1.6	2.9	0.1	0.3	3.2	1.2	0.1	0.3	1.6
Sub total	758.1	14.4	93.4	865.8	761.1	15.3	86.8	863.2	3.0	0.9	(6.6)	(2.6)
Military adjustment	9.0	0.0	0.0	9.0	8.9	0.0	0.0	8.9	(0.1)	0.0	0.0	(0.1)
Determined costs	767.0	14.4	93.4	874.8	770.0	15.3	86.8	872.1	3.0	0.9	(6.6)	(2.7)

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 price control 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.