

22 August 2023

By e-mail: economicregulation@caa.co.uk

Mr Stewart Carter
Civil Aviation Authority
Programme Director, NR23

CAAPS Trustee Limited
5th Floor
Westferry House,
11 Westferry Circus,
London
E14 4HD

Dear Stewart

Economic regulation of NATS (En Route) plc: Provisional Decision for the next price control review (“NR23”) (CAP 2553)

I am writing in my capacity as independent chair of the Trustee of the Civil Aviation Authority Pension Scheme (CAAPS).

My letter of 4 August 2023 set out in full the Trustee’s response to the treatment of pension costs in the CAA’s Provisional Decision (CAP 2553) and the arguments from my previous letter are not repeated here. The purpose of this supplementary letter is to draw the CAA’s attention to new information which has become available since the 4 August deadline for responses to the Provisional Decision, but which is clearly both relevant and significant.

The conclusions reached on pension costs by both the GAD and the CAA were directly based on data drawn from TPR’s then most recent “Scheme funding analysis 2022 annex”. This data covered valuations with effective dates between September 2019 and September 2020 (known as “Tranche 15” valuations). Crucially, as pointed out in my previous letter, this data did not cover the NATS Section’s actual valuation date of 31 December 2020.

On 17 August 2023, TPR published its “Scheme funding analysis 2023 annex” covering Tranche 16 valuations, in other words the data directly comparable to the NATS Section’s 2020 valuation. As the Trustee had anticipated, TPR’s aggregate statistics across all schemes show that discount rates in excess of gilt yields were generally lower in Tranche 16 valuations than in Tranche 15 valuations. In particular, the TPR analysis shows that there were reductions of 28bps at the 75th percentile and 43bps at the 95th percentile relative to the historic data used by the GAD to inform the CAA’s Provisional Decision. This compares with the difference of 29bps between GAD’s assessment of the NATS Section’s 2020 valuation single-equivalent discount rate (1.11% p.a. in excess of gilt yields) and the “Mid” (85th percentile) level in GAD’s “reasonable and efficient range” for the discount rate (1.4% p.a. over gilt yields).


Had the GAD had access to the TPR data relevant to the NATS Section’s 2020 valuation date, rather than using historic data, then even the arbitrary choice of the 85th percentile would have supported the Trustee’s actual choice of discount rate and hence endorsed the reasonableness of NERL’s existing DB pension costs.

The Trustee continues to regard as arbitrary the suggestion that the “reasonable and efficient” range for the discount rate should be the 70th to 95th percentile amongst schemes from any particular survey, let alone a historic one. The Trustee also regards the use of a specific point within this range

(such as the 85th percentile) as somehow being the single “correct” choice of discount rate, without regard to the actual circumstances of the NATS Section, as both arbitrary and misdirected. Nonetheless, the fact that even this arbitrary choice, had it been applied to the appropriate data, would have endorsed the discount rate makes the Trustee’s compliance with the “reasonable and efficient” requirements of the Regulatory Policy Statement (CAP 2119) both self-evident and irrefutable.

As offered previously, if it would help the CAA to meet with Trustee representatives and relevant CAAPS advisers in order to clarify any points from this letter then please let me know.

Yours sincerely

DocuSigned by:
 *Joanna Matthews*
34F045A085424FF...
Joanna Matthews
Chair of CAAPS Trustee