



# Consideration of incentives for CASPIAN / iTEC and improvements to SIP

CAA meeting

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29 April 2005

## Current mechanism for remuneration of capex

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- Prices are set at the beginning of the Control Period on the basis of planned (allowed) level of capex
- A record is kept of annual underspends or overspends compared to the capex plan / allowance
- The amount added to the RAB is adjusted for the financing costs of underspends or overspends
- The value of the RAB is therefore automatically adjusted to reflect NATS' actual capex spend
- Prices in the next Control Period reflect any under or overspends through changes in the RAB
- There is already an adjustment mechanism for capex which ensures that airlines only pay for capex actually spent
- Because prices are not adjusted annually, there is a cashflow impact if capex is lower than plan, and vice versa

- The service and efficiency benefits from investment during CP2 in CASPIAN (for TC and LAC) and iTEC do not materialise until CP3
- Delivery of these elements of the capex plan are therefore not incentivised by existing CP2 service quality and efficiency incentives
- What are the options for incentivising the on-time delivery of these programmes?
- Options for consideration:
  - Incentives linked to achievement of milestones or ‘triggers’
  - Identifying the ‘enabling’ projects, the completion of which could be incentivised
  - Committing to a date for providing a detailed milestone plan for delivery of the CASPIAN Programme
  - Incentives linked to achievement of planned expenditure

# CASPIAN - Incentivisation of enabling projects

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- The key enabling Projects for CASPIAN are:
  - The new Prestwick Centre Building
  - iTEC
  
- The new Prestwick Centre Building
  - Completion is essential for the new combined Manchester and Scottish operation, which is delivered in CP2
  - This enables two threads of benefit
    - opex savings in CP2 associated with the MACC closure - so this is already incentivised by the RPI-X mechanism
    - reduces the risk of CASPIAN introduction at TC / LAC
  
- iTEC
  - Provides new FDP and automation tools onto the SACTA platform
  - Current plans are not sufficiently robust at this time to be used for financial incentives

## CASPIAN – provision of a detailed milestone plan

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- A detailed milestone plan for delivery of the CASPIAN Programme requires
  - Completion of agreements with collaboration partners
  - Completion of Project Definition for LAC and TC
  - Gap analysis of performance requirements for LAC
  - Requirements specification for iTEC / SACTA integration plan
  - Transition plan for LAC and TC migration and phase out of existing system
  - Supply contracts for system delivery
- We propose a delivery date for this plan of September 2006, to allow for assessment of the Swanwick transition issues to be included in the plan
  - This would be included in the SIP for consultation with customers in the autumn of 2006
- Commitment to a firm date for confirming the milestone plan achieves accountability through customer scrutiny of plans
  - With associated customer consultation

# **Proposed Improvements to SIP**

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## Changes made this year in response to CP2 consultation process

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- Greater transparency in reporting the performance of key projects through a 'traffic light' report of progress against timescale and cost
- Increased focus on the expected benefits from proposed investments and the impact of investment costs on user charges
- More information on ATCO manpower plans and on forecast demand and planned capacity
- Discrete consultation on significant projects, through summary business cases
  - greater than £10m investment costs
  - any project requiring changes to aircraft equipment
- A more digestible SIP document produced in slide format
- Earlier publication of initial consultation draft to allow more time for customer consultation to inform the business plan

## Proposed improvements – SIP

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- Timing to fit NATS' business planning cycle, with initial draft issued in autumn, to enable response to customer comments by the end of the year, before the plan is finalised
- Use of NATS' customer website for consultation and response
- Continue to provide presentations on SIP at Airline Ops Directors meetings and to discuss at bilateral meetings requested by airlines
- Given that we expect the strategy of the LTIP to remain stable, the SIP content will include more focus on the progress of delivery of the overall LTIP programme, rather than evolution of the plan
- Include in the SIP a summary of key project updates and overall LTIP progress, including spend vs. plan/budget
  - Recognising the constraint of needing to maintain commercial confidentiality
- Provide a further six monthly update of overall LTIP progress, separately in the Spring, via the customer website

## Proposed improvements – specific projects

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- Consult on individual business cases with investment costs of £10m+, or where changes to aircraft avionics fitment is required
- Maintain the formula of summary business case, covering objective/rationale, milestones, options, investment costs and price implication, but with more focus on expected benefits
- Send out for airline comment, via the NATS' customer website, at a point at or before we enter project definition, which allows opportunity for real consultation with and influence by customers on individual projects
- Provide presentations on project progress at Ops Directors meetings and in bilateral meetings with customers, focusing on milestones, spend and risks
  - Eg CASPIAN / ITEC
- Use a summary version /superset of internal programme summary reports as basis for reporting performance to customers