

NR23 Review: UK performance plan Decision on DfT, Met Office and CAA en route costs (2023 to 2027)

CAP 2553b

Published by the Civil Aviation Authority, July 2023

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First published 2023

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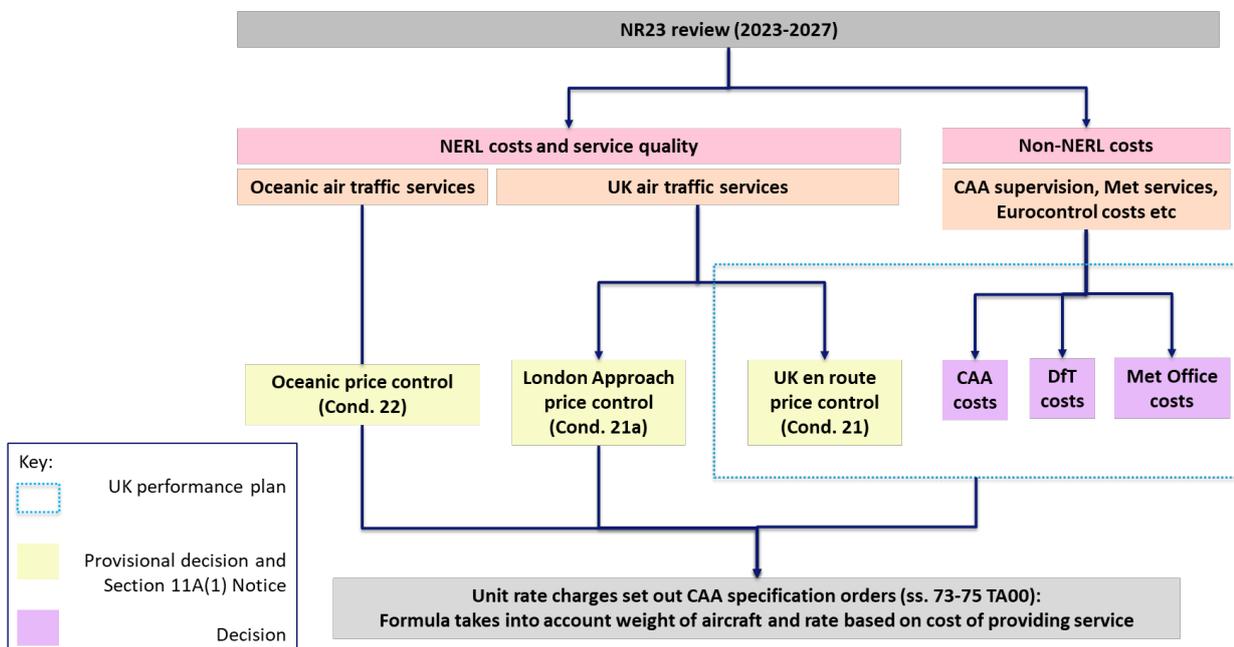
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Introduction and overview

1. This document forms part of the overall suite of NR23 review material. It should be read in conjunction with CAP2553, in particular chapter 1, which explains the stages of the review to date, the different elements and the regulatory and legal framework.
2. Briefly, in addition to establishing costs, service performance targets and incentives for NERL under the TA00, the NR23 review also establishes the Determined Costs for the DfT, the Met Office and the CAA as part of the UK performance plan for the NR23 period, in accordance with the Eurocontrol Principles. Determined Costs in the performance plan are then recovered through the UK en route unit rate charge, paid by airlines, which are set out in chapter 6 of CAP2553.
3. The Eurocontrol Principles, and UK performance plan, relate only to NERL’s UK en route activities. NERL’s Oceanic and London Approach are in scope of the NR23 review, but are not subject to the Eurocontrol Principles and do not form part of the UK performance plan. The figure below illustrates the scope of the NR23 review.

Figure 1 Scope of NR23 review



Source: CAA

4. In respect of the non-NERL costs (DfT, Met Office and CAA), we have made a final Decision. This document sets out that Decision and forms part of the UK performance plan.

5. In respect of the NERL aspects, we have made a Provisional Decision. The proposed licence modifications intended to implement that Provisional Decision, set out in CAP2553d, appendix H, are subject to statutory consultation as provided for in the TA00. Following consideration of any representations received in response to the statutory consultation, we will make a decision on the NERL aspects and publish a notice. This decision will form the remaining part of the UK performance plan, along with the completed Eurocontrol CRCO cost reporting tables and additional information document.
6. This document sets out our Decision on the non-NERL Determined Costs for the NR23 period, as follows:
 - chapter 1 – the Department for Transport (DfT);
 - chapter 2 – the UK Meteorological Office (Met Office); and
 - chapter 3 – the Civil Aviation Authority (CAA).
7. In each chapter, we set out our Initial Proposals and summarise any key points raised in stakeholder responses. We then set out our views on any issues raised, including any relevant updates, followed by our UK performance plan Decision for the non-NERL Determined Costs.¹

¹ This decision is not implemented through NERL's licence and so the statutory procedure in section 11A TA00 does not apply.

Chapter 1

DfT Determined Costs

Introduction

- 1.1 The DfT element of en route costs represents the UK's share of costs for the running of the Eurocontrol Agency, consistent with the Eurocontrol Principles.²
- 1.2 Eurocontrol Member States are responsible for setting the Agency's budget and monitoring actual expenditure. The UK has been a member of Eurocontrol's Standing Committee on Finance and has encouraged efficiency measures designed to reduce Eurocontrol's costs in real terms over the past decade.
- 1.3 Each Member State's contribution to Eurocontrol costs is based on 'sharing keys' to determine the proportion of the Agency's overall costs base it must fund,³ and the exchange rate of the euro against local currency.
- 1.4 In line with the Eurocontrol Principles, Member State costs are subject to adjustments for over- and under-recovery, where actual costs are significantly different to those included in Determined Costs.⁴ These adjustments are generally implemented on an n+2 basis.

Our Initial Proposals

- 1.5 The table below sets out the proposed Determined Costs for the DfT from our Initial Proposals and represent the forecast share of the UK's contribution to the running of Eurocontrol, and are determined through sharing keys, as discussed above.
- 1.6 The 2022 costs are the Determined Costs as set out in the UK RP3 performance plan, rebased for 2020 prices as appropriate.

² Eurocontrol Principles, paragraph 2.2.4(b)

³ The method for the calculation of the sharing keys is based on the use of 'route-facility-cost-base' and 'economic/financial data', as set out in Article 19 of the Statute of the Agency, approved by the Eurocontrol Permanent Commission in December 2009. In simple terms it is the sum of: a) the proportion of the a state's cost base, as a percentage of all states' cost base, multiplied by 70%; and b) the proportion of a state's GDP, as a percentage of all states' GDP, multiplied by 30%.

⁴ Eurocontrol Principles, paragraph 3.3.4.2(b)

Table 1.1 Department for Transport proposed NR23 Determined Costs

£m	2022	2023	2024	2025	2026	2027	NR23 Total
Total determined costs (nominal)	49.0	49.2	49.4	50.2	51.5	51.5	251.8
Total determined costs (2020 prices)	47.1	42.9	42.4	42.3	42.5	42.5	212.8

Source: DfT

Summary of stakeholders' views

1.7 No stakeholders commented on the proposed DfT Determined Costs for NR23.

Our views

- 1.8 While, for the purposes of establishing a performance plan it is necessary to set Determined Costs for the whole regulatory period, in practice a Member State's share of running Eurocontrol changes every year through updates to the overall Eurocontrol budget and sharing keys. Each Member State's share, is therefore updated every October and any differences from Determined Costs set in the performance plan are adjusted for through the unit rate, using the n+2 process set out in the Eurocontrol Principles.
- 1.9 In setting the DfT Determined Costs for the NR23 UK performance plan, it is appropriate to use the last Eurocontrol budget available immediately preceding the start of the regulatory period. For NR23, this is the data published by Eurocontrol in October 2022. This information was not available at the time of drafting of the NR23 Initial Proposals, and so draft data from May 2022 was used and we explained our intention to use the October 2022 data for this decision.
- 1.10 Following publication of our Initial Proposals we updated the relevant DfT data used in the CRCO cost reporting and charging tables used to set the 2023 unit rates, to reflect the October 2022 Eurocontrol budget and sharing key data for the UK. Based on the October 2022 data, the UK share of Eurocontrol costs is approximately £18.6 million (in nominal terms) more for the NR23 period, compared to the May 2022 data used in CAP2394. For our final Decision, we have adopted the October 2022 data.
- 1.11 Eurocontrol budget data is published in nominal terms. For the purposes of setting Determined Costs in the performance plan we specify costs in 2020 CPI-real prices, using updated inflation forecasts from the OBR March 2023.

Our Decision

1.12 For the reasons set out above, our Decision on DfT Determined Costs for NR23 is as set out in Table 1.2 below.

Table 1.2 Department for Transport NR23 Determined Costs

£m	2023	2024	2025	2026	2027	NR23 Total
Total determined costs (nominal)	52.1	52.2	54.0	55.6	56.5	270.4
Total determined costs (2020 prices)	43.9	43.6	45.0	46.2	46.2	224.8

Source: Eurocontrol forecast cost base 2023 to 2027 and CAA calculations.

Chapter 2

Met Office Determined Costs

Introduction

2.1 The Met Office provides meteorological and forecasting services to a wide range of stakeholders in the UK and globally, including to the public, government departments, such as the Ministry of Defence, as well in support of science, research and emergency planning. The Met Office element of en route costs represents the cost of providing meteorological services to aviation. The Met Office provides these services under designation from the CAA, on an exclusive basis as the Meteorological (MET) ANSP and is certified by the CAA accordingly.

Background

2.2 The provision of MET services and capability for aviation is designed to meet the current and future UK operational requirements and obligations as defined within ICAO's Annex 3 to the Chicago Convention (Meteorological Services for International Air Navigation), while also addressing the future requirements outlined in ICAO's Global Air Navigation Plan and supporting the UK AMS.

2.3 The arrangements for MET comprise two broad elements:

- National Capability and International Subscriptions, specifically referring to the underpinning infrastructure and shared commitments that are fundamental to the provision of an accurate weather forecasting capability; and
- Service Delivery and Development, which focus on the delivery of aviation specific MET services and their ongoing improvement.

2.4 National Capability and International Subscriptions costs are the en route share of the underpinning infrastructure needed to operate a weather forecasting service. This includes an appropriate surface and upper air observing network (as specified by the World Meteorological Organisation), the operation of a supercomputer, numerical weather prediction and a contribution to European weather satellite programmes (operated by European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT)). National Capability and International Subscription costs are primarily funded by UK Government Department for Science, Innovation and Technology and the contribution of civil aviation equates to approximately 15% of the total costs.

2.5 MET Service Delivery costs are those associated with providing the specific products and services required as part of the UK's obligations within ICAO Annex 3. This includes the provision of services in support of UK aviation, the World Area Forecast System (WAFS) and the Volcanic Ash Advisory Centre.

Our Initial Proposals

2.6 The table below sets out the proposed Determined Costs for the Met Office from our Initial Proposals, and were based on the outcome of the Met Office's consultation with customers in 2021 and 2022.⁵ The 2022 costs are the Determined Costs as set out in the UK RP3 performance plan in nominal terms, then deflated to 2020 CPI-real prices using the inflation forecasts used in our Initial Proposals.

Table 2.1 Met Office NR23 proposed Determined Costs (nominal and 2020 prices)

£m	2022	2023	2024	2025	2026	2027	NR23 Total
National Capability and International Subscriptions		18.8	23.3	25.9	26.4	26.4	
Aviation MET Service Delivery		8.1	8.0	6.8	6.8	6.6	
Aviation MET Service Development		7.5	7.4	6.7	6.7	6.8	
Total Determined Costs (nominal)	31.6	34.3	38.6	39.5	39.9	39.9	192.2
Total Determined Costs (2020 prices)	30.4	29.9	33.2	33.3	33.0	33.0	162.3

Source: Met Office

Summary of stakeholders' views

2.7 No stakeholders commented on the proposed Met Office Determined Costs for NR23.

Our views

2.8 Met Office provides important services in support of aviation and enables the UK to discharge relevant member state obligations to ICAO. To enable the Met Office to continue to provide services and meet obligations, consistent with the Eurocontrol Principles,⁶ it is appropriate to include Met Office Determined Costs in our NR23 UK performance plan.

2.9 For the purpose of setting Determined Costs in the performance plan, we specify costs in 2020 CPI-real prices using updated inflation forecasts from the OBR March 2023. This update for inflation has led to slightly lower costs than Initial Proposals in 2020 prices.⁷

⁵ www.metoffice.gov.uk/services/transport/aviation/regulated/nr23

⁶ Eurocontrol Principles, paragraph 2.2 sets out that charges should reflect the direct and indirect costs of providing en route services and that account shall be taken of the whole of the en route air navigation facilities and services for which each Contracting State is responsible.

⁷ Met Office NR23 costs were originally set in 2022 prices. This means the updated inflation data has had a minor impact on both nominal and 2020 CPI prices.

Our Decision

2.10 For the reasons set out above and in our Initial Proposals, our Decision on Met Office Determined Costs for NR23 is as set out in Table 2.2 below.

Table 2.2 Met Office NR23 Determined Costs (nominal and 2020 prices)

£m	2023	2024	2025	2026	2027	NR23 Total
National Capability and International Subscriptions	19.2	23.6	25.8	25.9	26.4	
Aviation MET Service Delivery	8.2	8.1	6.8	6.7	6.6	
Aviation MET Service Development	7.6	7.5	6.7	6.6	6.8	
Total Determined Costs (nominal)	35.0	39.2	39.3	39.2	39.7	192.4
Total Determined Costs (2020 prices)	29.5	32.7	32.8	32.5	32.5	160.0

Source: Met Office

Chapter 3

CAA Determined Costs

Introduction

- 3.1 The CAA's Determined Costs reflect the staff, other operating and capital costs associated with our airspace and ATS responsibilities. Most of the costs relate to airspace regulation and oversight activities, including the planning and regulation of all UK airspace and associated navigation and communications infrastructure.
- 3.2 The Secretary of State's Civil Aviation Authority (Air Navigation) Directions 2023 (the 2023 Air Navigation Directions) require the CAA to develop and deliver the UK Airspace Modernisation Strategy (AMS).⁸ This includes policy and strategy development, as well as monitoring and reporting. A refreshed AMS was published in January 2023 and the activities to implement and further develop the AMS will continue through NR23 and beyond.⁹
- 3.3 Historically, the costs of our safety and economic regulation of en route air navigation services have been charged directly to the ANSPs and form part of their cost base. While this will remain the case for safety regulation, from 2023 the costs of economic regulation, previously referred to as the 'NERL licence fee', will form part of the CAA's Determined Costs. The transfer of costs from the NERL cost base to the CAA, will be net neutral to users paying the en route charge, with the associated increase in CAA costs being matched by an equivalent reduction in NERL's allowed costs.

Our Initial Proposals

- 3.4 In our Initial Proposals we said our forecast CAA Determined Costs in 2027 would be £21.5 million, compared with £18.6 million at the end of 2022. The increase was driven by a number of factors, including the following:
- additional staff costs associated with Airspace Change Proposals (ACP) and airspace modernisation;
 - the introduction of the Airspace Coordination and Obstacle Management Service (ACOMS), to replace the current dated and piecemeal technology used for case management and deconfliction of unusual airspace activity and temporary airspace structures;

⁸ [The Civil Aviation Authority \(Air Navigation\) Directions 2023 \(caa.co.uk\)](https://www.caa.co.uk)

⁹ [CAP1711: Airspace Modernisation Strategy 2023-2040](#)

- historical pension obligations arising from the separation of the CAA and NATS, when existing NATS and deferred pensioners were retained as part of the CAA section of the CAA Pension Scheme (CAAPS); and
- the transfer of the costs of economic regulation from NERL's to the CAA's costs. As noted above, while the transfer is net neutral to the charges users pay, they increase the CAA Determined Costs.

3.5 We proposed to continue to provide support for airspace modernisation through NR23, with the maintenance of the AMS Support Fund as part of our Determined Costs. The AMS Support Fund provides funding for projects that are important to, or contribute to, the successful implementation of airspace modernisation, but for which there is no other funding mechanism. We proposed NR23 funding is maintained at the same level as RP3, adjusted for inflation.

3.6 In light of the shortened duration of RP3, we said that the RP3 and NR23 AMS Support Funds would be considered together and any unutilised funds from both periods returned at the end of NR23. If it became apparent during NR23 that the AMS Support Fund is over-funded, or being under-utilised, we would consider pausing collection and if appropriate return the surplus through an in-period adjustment to the CAA Determined Costs.

3.7 The table below sets out the proposed CAA Determined Costs from our Initial Proposals. The 2022 costs are the Determined Costs as set out in the UK RP3 performance plan, rebased for 2020 prices.

Table 3.1 CAA NR23 proposed Determined Costs (nominal and 2020 prices)

£m	2022	2023	2024	2025	2026	2027	NR23 Totals
CAA costs, excluding AMS Support Fund (nominal)	19.3	25.1	25.1	25.4	26.5	26.0	
CAA costs, excluding AMS Support Fund (2020 prices)	18.6	21.9	21.5	21.4	21.9	21.5	
AMS Support Fund (nominal)	2.2	2.4	2.4	2.5	2.5	2.5	
AMS Support Fund (2020 prices)	2.1	2.1	2.1	2.1	2.1	2.1	
CAA total Determined Costs (nominal)	21.5	27.5	27.5	27.9	29.1	28.5	140.6
CAA total Determined Costs (2020 prices)	20.7	24.0	23.6	23.5	24.0	23.6	118.8

Source: CAA

Summary of stakeholders' views

3.8 No stakeholders commented on our proposed CAA Determined Costs for NR23.

Our views

- 3.9 CAA must be able to discharge its statutory and regulatory functions in respect of airspace and ATS. The Determined Costs consulted on in the Initial Proposals were based on our view of the airspace and ATS activities we expect to be responsible for and deliver during the NR23 period, at the time of developing the Initial Proposals. Consistent with the Eurocontrol Principles,¹⁰ it is therefore appropriate to include those CAA Determined Costs in our NR23 UK performance plan.
- 3.10 It is possible that the scope and level of airspace and ATS-related activities may evolve during the NR23 period (including in relation to the 2023 Air Navigation Directions), resulting in higher or lower costs. Under the Eurocontrol Principles, unforeseen changes incurred by the CAA (and DfT in respect of Eurocontrol costs) shall be reimbursed to, or recovered from, airspace users on an n+2 basis.¹¹
- 3.11 For the purposes of setting Determined Costs in the performance plan we specify costs in 2020 CPI-real prices using updated inflation forecasts from the OBR March 2023. This update for inflation has led to slightly lower costs than Initial Proposals in 2020 prices.¹² For example, our Determined Costs are now £21.2 million in 2027, compared with £21.5 million in our Initial Proposals.

Our Decision

- 3.12 For the reasons set out above and in our Initial Proposals, our Decision on CAA Determined Costs for NR23 is as set out in Table 3.2 below.

Table 3.2 CAA NR23 Determined Costs (nominal and 2020 prices)

£m	2023	2024	2025	2026	2027	NR23 Totals
CAA costs, excluding AMS Support Fund (nominal)	25.6	25.4	25.3	26.0	25.9	
CAA costs, excluding AMS Support Fund (2020 prices)	21.6	21.2	21.1	21.6	21.2	
AMS Support Fund (nominal)	2.5	2.5	2.5	2.5	2.6	
AMS Support Fund (2020 prices)	2.1	2.1	2.1	2.1	2.1	
CAA total Determined Costs (nominal)	28.1	27.9	27.8	28.6	28.5	140.9
CAA total Determined Costs (2020 prices)	23.7	23.3	23.2	23.7	23.3	117.2

Source: CAA

¹⁰ Eurocontrol Principles, paragraphs 2.2.4(a) and 2.4.8

¹¹ Eurocontrol Principles, paragraph 3.3.4.3.

¹² CAA NR23 costs were originally set in 2022 prices. This means the updated inflation data has had a minor impact on both nominal and 2020 CPI prices.