

Responses to stakeholder requests for clarification on NR23 Provisional Decision

CAP 2563h

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About this document

We have received requests from stakeholders for specific technical clarifications on our NR23 Provisional Decision (CAP 2553).

This document sets out the requests received and our responses, to make this information available to all interested parties in a timely way. This document will be updated during the consultation period as required.

In some cases, we may ask stakeholders to raise any comments or questions in their response to the consultation, for example where they are not specific technical clarifications or are received late in the consultation process.

Our NR23 Provisional Decision (CAP 2553) sets out the reasons for our provisional decisions and we encourage all stakeholders to raise any comments or queries in their responses to our Provisional Decision.

NERL

Request - 10/07/2023

We would be grateful if you could send to us the cost of debt working that the CAA has used in support of the RPI real cost of debt of -1.05% (para 5.121 on page 159 of the main document). Whilst we have tried to back-solve this using our own CoD template, we can only get to within 24 basis points (~£1m over the NR23 period).

CAA response

As requested, please see supporting working for the assumed cost of debt (available to download from our [website](#)). As further explanation:

The CoD allowance is calculated by firstly weighting each benchmark by the amount of outstanding debt for each type of bond (i.e. the annual amortising bond benchmark is weighted by the amount outstanding in the amortising bond in that year). It is then summed with the issuance and liquidity cost to give the nominal cost of debt in each year. The nominal cost of debt is then deflated by forecast inflation in each year to give RPI CoD. The annual RPI-CoD is then weighted by the annual amount of total outstanding debt, and then summed.

British Airways

Request - 10/07/2023

Where can we find details of the impact of the UK en route charge being fixed in 2023?

CAA response

The impact of applying the temporary unit rate in 2023 (so that the 2023 unit rate is in line with our Initial Proposals) is reflected in the difference between the profiled and unprofiled unit rates. This is shown in the published price control model in sheet C_RevCost_UKATS row 782. This shows that the temporary unit rate in 2023 meant that revenue in 2023 is £68.8m lower (in nominal prices) than it would have been under the Provisional Decisions. This £68.8m of revenue is instead recovered in 2024 charges, which is before we then overlay price profiling so that the forecast unit rate is flat in real terms over 2024 to 2027.

NERL

Request – 11/07/2023

We are assessing the changes in the PD from the Initial Proposals, but are finding that the CAA's PCM does not provide enough detail for us to understand the opex changes. It would therefore be very useful if you could provide a bridge between the values in table

4.4 (opex staff costs) between NERL BP and the CAA's PD. Given the limited time for us to respond to the PD, a response in the next day or so would be much appreciated.

CAA response

The following provides more information on staff opex. The below sets out (1) what lines from the PCM are included in staff opex; (2) what adjustments were made at PDs; and (3) NERL's updated template versus our provisional decision.

(1) lines included in staff opex:

- PCM Opex - Wages & Salaries – 1
- Opex - Redundancy – 1
- Opex - Exceptionals (excl. redundancy) 1 – 1

(2) Adjustments made at PDs:

- No graduate headcount reduction.
- No pay level adjustment.
- Productivity adjustment applied from 2024 onwards (1.5% for operational staff and 0.5% for non-operational staff).
- CPI (yr n-1) +0.25% pay increases per year on average for all staff over NR23.

(3) NERL's Updated Staff Opex vs CAA PDs.

- Our profile for wage growth is different than the profile assumed by NERL as part of their submission, leading to a different profile in staff costs. Furthermore for 2023, we applied a wage growth assumption but not a productivity assumption.

£m, 2020 CPI prices	2023	2024	2025	2027	NR23 Total
NERL Updated Opex Template ¹	237	261	279	297	1331
CAA PD	264	269	262	264	1322

¹ v 2 2102 Revision Effects UKATS Oceanic Capex Labour Correction FINAL VALUES, sent by NERL on 4th May 2023

NERL

Request – 12/07/2023

When you (CAA) refer to a pay growth assumption of CPI+0.25% per year on average over NR23, does your modelling reference in-year CPI for each year's pay growth, or previous year? I.e. pay growth in year n (on average) = CPI (year n) + 0.25% or = CPI (year n-1) + 0.25%

CAA response

In the modelling, pay growth is applied to the prior year, i.e. "CPI (year n-1)"

NERL

Request – 14/07/2023

2023 and 2024 DB ongoing contributions: additional costs of £9.4m. There has been no change in ongoing contribution rate since NERL's plan or material change in pensionable payroll (in real terms). Please can CAA explain the movement in DB costs?

CAA response

We assume NERL is referring to Table 4.6 of the Provisional decision, and the difference between the CAA Provisional Decision and the NERL Business Plan for DB Ongoing Contribution costs in years 2023 and 2024. As explained in Initial Proposals (see paragraph 4.76) and in the Provisional Decision (paragraph 4.115), the CAA reflects adjustments it makes to the assumptions for staff pay in its proposals / provisional decisions as part of the allowances for DB pension costs, before applying other adjustments, for example based on the GAD analysis. The upward adjustment to DB pension costs in 2023 and 2024 reflects the profile of staff costs in the CAA's Provisional Decision (as shown in Table 4.4).

NERL

Request – 17/07/2023

Within the following RP3 sections [(3g) & (4f) - Pension Contribution Variance for calendar year t'] of the RAB Rules the following information is provided: -

- CAA Assumed Defined Benefit Future Service and Deficit Repair Contributions
- CAA Assumed pension rate
- CAA Assumed Pensionable pay

For the equivalent NR23 sections [(5h) & (6e) - Pension Contribution Variance for calendar year t'] of the RAB Rules only the following information is provided: -

- CAA Assumed Defined Benefit Future Service and Deficit Repair Contributions

We request that the CAA pension rate & pensionable pay be provided to enable the calculation of the Pension Contribution Variance.

CAA response

You have requested that we provide the CAA pension rate and pensionable pay to include in the RAB rules to enable the calculation of the Pension Contribution Variance, as had been done for RP3.

For our NR23 Provisional Decision, we set allowances for pension costs that can be split into DB ongoing pension contributions and DB deficit repair costs. We have not set out specific assumptions for the pensionable pay for DB staff and pension contribution rate underlying these cost allowances, as we are setting overall cost allowances which are then for NERL to manage. This means these assumptions you have requested are not available directly in that form to share.

In setting allowances for DB cash pension costs, the CAA has been informed by:

- The adjustments made in the Provisional Decision to staff costs relative to NERL's plan – we have reflected these adjustments proportionately in DB cash pension costs (ongoing contribution only). The staff cost assumptions made by the CAA are available in our Provisional Decision; and
- The mid-point of the GAD analysis. GAD's analysis was based on the NERL employer contribution rate, as at the 2020 valuation.

Therefore, while it may be possible to derive implied assumptions for the pension rate and pensionable pay based on the allowances for staff costs and pension costs in our Provisional Decisions, we would be cautious in taking a mechanical approach to assessing pension cost pass-through. We have not done these calculations at this stage and we would also want to consider other approaches and information to assess pension cost variances during NR23.

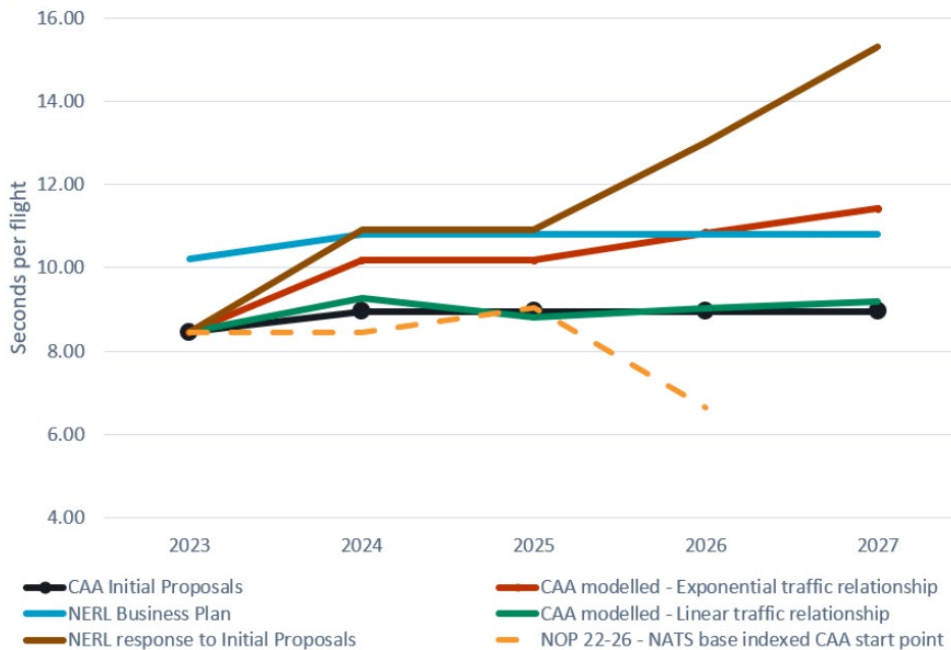
In your response to our Provisional Decisions and consultation on the updated RAB rules, we would welcome NERL's views on the approach we should take to assess pension cost variances and the information that would be required, taking account of the approach we have taken to setting overall staff cost and pension cost allowances. We will consider our approach for our decision.

NERL

Request – 19/07/2023

We would be grateful if you could provide, ideally **today please**, a table with the data which are plotted in **Figure E.2, Appendix E**:

Figure E.2: C2 capacity modelled scenarios



CAA response

As requested, please see our table data and chart for Figure E.2 for C2 Capacity Modelled scenarios (available to download from our [website](#)).

NERL

Request – 20/07/2023

Could you please confirm the PCM sheet and row reference for the source of the numbers in STEP 2 of Section 7 of the 'CAP2553E NR23 Appendix I RAB Rules' (screenshot below).

STEP 2: Comparison of Actual Interest Costs to Modelled Interest Costs

A (year ending 31 March 2024-2028)	=	Actual interest costs used in the calculation of Corporation Tax for the years ending 31 March 2024, 2025, 2026, 2027 and the forecast interest costs used in the estimation of the corporation tax charge for the year ending 31 March 2028 all expressed in 2020 RPI prices ¹
M (year ending 31 March 2024-2028)	=	Modelled interest costs (2020 RPI prices) in the CAA Price Control Model over NR23 ²
Namely		
T ₂₀₂₄	=	£15,414
T ₂₀₂₅	=	£10,841
T ₂₀₂₆	=	£6,457

CAA response

Nominal figures were taken from C_Ratios!AI52:AN52 and then converted to 2020 RPI prices (using C_Index!AI84:AM84). These were then adjusted from calendar year to financial year figures (based on simple 75:25 approach) for inclusion in the RAB Rules. We have noted a slight difference in the interests costs between the RAB rules and final version of the PCM. We will update this for our Final Decision.