# Initial Proposals for the next price control review ("NR23") Consultation response

**December 2022**

Airlines UK is the association for UK airlines, with members including 2Excel, AirTanker, British Airways, Eastern Airways, easyJet, Jet2.com, Loganair, Ryanair, TUI Airways, Titan Airways, UPS, and Virgin Atlantic.

We welcome the opportunity to submit a response to this consultation; member carriers will be submitting their own detailed responses directly.

## Overview

We recognise that the CAA's primary statutory duty is to ensure the safe provision of services and safety levels, and for these to be maintained and ideally improved through its activities and regulatory oversight. We are, however, concerned that the proposed increases through the price controls review will add considerably to carrier operating costs at a time when the sector is still recovering from the pandemic's extraordinary financial impact. UK airlines believe the headline 27% price control increase is simply too high, and risks disadvantaging the UK at a time when we are looking to recover our status as the third largest aviation market in the world; a position from which 'UK PLC' derives significant social and economic benefits.

We welcome the CAA outlining more challenging service quality targets than those proposed by NERL in its business plan, and consider that it has proposed a reasonably efficient baseline for NERL's operational costs in the period 2020-2022. In other areas, however, such as capacity targets, the CAA's approach is too simplistic and/or reflects a lack of quality information shared by NERL to the CAA and customers to enable a fully appropriate assessment. We urge the CAA to use the latest information available when publishing its final proposals, taking fully into account changes since initial proposals were determined. This includes in traffic forecasts and headwinds in the wider macroeconomic situation, so that NERL is appropriately incentivised to become more efficient over the course of the period and consumer benefits and productivity are promoted and enhanced.

Focussing on some specifics:

## Airspace Modernisation

Airspace is a crucial part of the UK's infrastructure; it must be improved this decade to keep goods and people moving as efficiently as possible and this modernisation will play a crucial role in the decarbonisation of the UK aviation sector – particularly in the short term. NERL is integral to this ongoing and urgent challenge and, through its capex programme, should support its delivery through the timely and cost-effective provision of critical infrastructure and technologies essential to realising the UK Airspace Modernisation Strategy.

## Staffing Costs

On staffing costs, the CAA should adopt allowances that reflect wage levels in line with benchmarks; wages should represent the level necessary to attract the required levels of talent without over-rewarding above market rates. We agree with the CAA view that the increases in staff costs in NR23 are not fully justified.

The application of higher ATCO productivity appears to require further assessment to identify the benefits and their allocation derived from investments and developments made by NERL.

We support a reduction of graduate headcount on the basis that NERL's retention rate appears too pessimistic in comparison to market levels, as reflected in Steer's findings.

**Pensions**

Over time the cost borne by airspace users to fund NERL's pensions costs has grown unchecked. As pensions will account for 20% of NERL's total operating costs in this period, these costs are one area for cost savings.

Given that some pensions arrangements are protected, we especially welcome the CAA's view that a new DC scheme for new starters should be considered by NERL as part of the solution required to reduce their staffing costs. We support the CAA to encourage NERL to re-baseline pension costs for new starters with a scheme that is not more generous than comparator organisations or sectors.

We agree that the CAA's proposed reductions in the changes to the pension schemes will reduce the costs and therefore the size of the increase airspace users will see in charges.

Additionally, the pension management cost should not be raised – in line with the CAA proposals based on GAD's research results.

**Non-staff Costs**

We support the CAA's proposed reductions to non-staff operational expenditure. Steer's suggestion about an alternative, potentially more efficient deployment plan for DP En-Route should be considered as a way to reduce these costs.

**Traffic Risk Sharing Recovery**

Any burden of responsibility for covering the shortfall in revenues should not solely fall on airlines when the impact of prolonged restrictions due to covid-19 was out of airlines' control. Government and shareholders should take responsibility for covering this shortfall. The CAA should also consider moving the charges to later years when traffic has more fully recovered.

**Domestic Aviation**

Domestic routes, where there are no viable transport alternatives, including lifeline links to the Scottish islands, the Isle of Man and Northern Ireland will be disproportionately impacted by the proposed price control increase. Some 60% of UK domestic flights go over water and are an integral part of the UK's transport network. There are no 'alternatives' for domestic routes and domestic carriers.