

House of Commons
Transport, Local Government and
the Regions Committee

**NATIONAL AIR TRAFFIC
SERVICES' FINANCES**

Eighteenth Report of Session 2001–02

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SERVICES' FINANCES**

Eighteenth Report of Session 2001–02

*Report, together with
Proceedings of the Committee,
Minutes of Evidence and Appendices taken
before the Transport Sub-Committee*

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Footnotes

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EIGHTEENTH REPORT

The Transport, Local Government and the Regions Committee has agreed to the following Report:

NATIONAL AIR TRAFFIC SERVICES' FINANCES

I. Introduction

1. National Air Traffic Services (NATS) was part privatised by a public-private partnership (PPP) on 26 July 2001.¹ The downturn in international air transport caused by the 11 September terrorist attacks in the United States put severe pressure on the company's finances. In February 2002, NATS approached the Government for financial support. The Transport Sub-Committee announced the inquiry on 8 March 2002. We took oral evidence from NATS, the Civil Aviation Authority (CAA), Prospect union and Mr David Jamieson MP, Minister for Aviation.² We are grateful to all those who provided written or oral evidence to the inquiry, and to our specialist adviser Mr Laurie Price.

2. This inquiry was prompted by the financial difficulties facing NATS, and concerns about their possible impact on the safe and efficient operation of air traffic services in the United Kingdom. In this Report we consider the state of NATS' finances, and in particular the financial structure of the company created by the PPP. We also consider NATS' applications to the CAA to revise the Eurocontrol Charge Control, and its new business plan.

¹ Ev. p 45. Under the PPP deal, 46 per cent of the shares in NATS were sold to the Airline Group, a consortium of seven airlines consisting of British Airways, British Midland, Virgin, Britannia, Monarch, EasyJet and Airtours. The Government retained 49 per cent of the shares (with rights giving it voting control) and the remaining 5 per cent were held in an employee trust. The receipts to Government on the establishment of the PPP were £765 million. See QQ 388–389.

² The Transport Sub-Committee held two evidence sessions, on 1 May and 11 June 2002, during which it took evidence from Mr Chris Gibson-Smith, Chairman, Mr Richard Everitt, Chief Executive and Mr Chris Chisholm, Chief Operating Officer, National Air Traffic Services; Sir Roy McNulty, Chairman and Mr Doug Andrew, Group Director of Economic Regulation, Civil Aviation Authority; Mr Ian Findlay, National Officer, Mr Andy Mooney, Secretary, ATSS Engineering, Mr Laurence King, President of the ATCOs Branch, and Mr Dave Cartey, Branch Executive Member, Prospect; and Mr David Jamieson MP, Parliamentary Under-Secretary of State, Aviation, Mr Roy Griffins Director General, Civil Aviation and Mr Ian McBrayne, Divisional Manager, Civil Aviation Division, Department for Transport (previously Department for Transport, Local Government and the Regions).

II. NATS' present finances

NATS' income

3. NATS estimated that its revenue for this financial year would be £55 million less than forecast, about £40 million of which it estimated had been lost since 11 September.³ The revenue loss for the remainder of the first control period (CP 1), from 2001 to 2005, is estimated by NATS to be £190 million in present value terms.⁴ The CAA places a figure of £176 million on the revenue loss for CP 1.⁵ NATS' new business plan is designed to mitigate the £230 million in revenue loss in actual values expected by the end of CP 1, in 2005.⁶

4. Several factors contributed to the decline in NATS' revenue. Three-quarters of its revenue comes from 'en-route charges' calculated on the basis of aircraft weight and distance flown.⁷ Since 11 September, not only has the number of air traffic movements declined, but airlines have introduced smaller aircraft.⁸ The decline in air traffic has been most rapid and profound on trans-Atlantic routes, which generate 44 per cent of NATS' revenue.⁹ NATS does not expect demand to recover as quickly as occurred after previous downturns.¹⁰ However, we are less pessimistic about the likely timing of a recovery in traffic.¹¹ Before 11 September, there had already been a down-turn in aviation, particularly on north Atlantic routes, as a result of a general economic slowdown.¹² Those factors combined with the financial structure imposed by the PPP have put pressure on NATS' finances.

5. To relieve the immediate difficulties, the Government agreed to lend NATS £30 million, and a matching short-term loan was negotiated with NATS' bankers on the same commercial terms.¹³ The Government considers its support for NATS to be the appropriate reaction of a "responsible shareholder".¹⁴ That £60 million facility, repayable at the end of September 2002, provided bridging finance while NATS sought a permanent solution.¹⁵ As yet the company has not made use of the loan facility.¹⁶ NATS has also undertaken to make cost savings of £200 million during the remainder of CP 1.¹⁷

NATS' financial structure under the PPP

6. When the PPP was negotiated, the management of both NATS and the CAA expressed reservations about elements of the financial structure. In particular they drew the Government's attention to the high level of debt and high gearing ratio with which the part-privatised company would be established.¹⁸ The CAA wrote to the Department on 23 May 2001 to express its:

³ Q 54; Ev. p 51; NATS' Response to the CAA Consultation on NATS' Application to Reopen Eurocontrol Charge Control, June 2002 *hereinafter* *NATS' Response*, para 3.4.

⁴ *NATS Response*, para 3.4.

⁵ *Ibid.*

⁶ QQ 168, 251; Ev. pp 51–52, 77; *NATS' Response*, para 3.4.

⁷ NATS en-route services are provided by NATS En-Route Limited (NERL).

⁸ QQ 56, 95; Ev. pp 51, 73.

⁹ Ev. pp 45, 51.

¹⁰ Q 26; Ev. p 51.

¹¹ Eleventh Report from the Transport, Local Government and the Regions Committee, *Air Transport Industry*, HC (2001–02) 484–I, para 25.

¹² *Ibid.*, paras 3–8.

¹³ Q 168; Ev. pp 45, 52.

¹⁴ QQ 14–15, 169.

¹⁵ *NATS' Response*, paras 1.7–1.8.

¹⁶ QQ 168, 248.

¹⁷ Q 168, 251; Ev. p 45.

¹⁸ QQ 6–11, 113, 361.

“profound reservations about the proposed high debt financing of NERL [NATS en-route service], its subsequent ability to meet its obligations under the loan facilities and its ability to fund its development programme if it is buffeted by plausible adverse shocks”.¹⁹

7. The CAA also informed the Department that the high level of debt would have the effect of airlines “both bearing the risk and paying for it to be borne by others”; and concluded: “This might be sustainable if it could be demonstrated to be to the benefit of customers but it is by no means obvious”.²⁰

8. On 20 July 2001, Sir Malcolm Field, then chairman of the CAA, wrote to the Department:

“NERL would still have an initial debt-RAB [Regulatory Asset Base] ratio of around 100 per cent, rising over the medium term to finance NERL’s investment. This goes well beyond any precedent we have seen in regulated utilities in the UK. The strong likelihood is that under the proposed arrangements NERL’s financial resources would still be severely constrained on a continuing basis, unless traffic volumes are much stronger than expected or NERL is able to make more efficiency gains than expected.”²¹

9. The Department responded to those concerns by revising the proposed structure to reduce the amount of debt by £100 million.²² Sir Roy McNulty, the present chairman of the CAA and previous chairman of NATS, told the Sub-Committee that he was not sure that the Department had responded fully to the points made by NATS before the PPP, but that he had accepted that it was the Government’s “prerogative in the end to decide on the deal with the bidders”.²³ The revised level of debt reduced the gearing ratio to just over 100 per cent, which Sir Roy told the Sub-Committee was “still high by any standards”.²⁴ Mr Doug Andrew, Group Director of Economic Regulation at the CAA, thought that the changes made to the initial financial structure mainly reflected the reduced demand already identified in the industry.²⁵

10. The air transport industry is subject to cycles of demand, and is particularly vulnerable to ‘downside demand shocks’ caused by external political or economic events.²⁶ NATS’ original high gearing ratio did not provide the flexibility required to withstand those relatively frequent shocks. The CAA considered the original “inconsistent” financial structure left NATS “quite exposed to adverse shocks”.²⁷

11. The seriousness of NATS’ financial situation is due to the reduction in air traffic that followed the 11 September terrorist attacks and the company’s dependence on north Atlantic traffic. The financial structure created by the PPP inflated the company’s difficulties. The Government failed to give due weight to the concerns expressed by both NATS and the CAA about the high debt levels imposed on the company. The Government failed to heed the warnings about the impact the financial structure would have on the viability of the company in the event of a downside demand shock. The weaknesses of the financial structure suggest a failure of due diligence at the time of the sale of NATS, when traffic was already declining and there were already moves towards the use of smaller aircraft.

¹⁹ Ev. p 58.

²⁰ *Ibid.*

²¹ Ev. p 59.

²² QQ 118, 120, 176–177; Ev. p 58.

²³ Q 118.

²⁴ Q 121.

²⁵ Q 114.

²⁶ See HC (2001–02) 484–I, paras 4–8.

²⁷ Q113.

Appropriateness of the PPP

12. In evidence to the previous Transport Sub-Committee, the CAA expressed a confidence in the PPP process as the next logical step in the development of NATS.²⁸ Similarly, NATS believed the PPP would lead to “increasingly competitive charges” and bring “private sector business skills and experience to the areas of procurement, planning and delivery of major capital investment projects”.²⁹

13. Correspondence between the CAA and the Department in 2001 showed the deep concern about the future of the PPP’s regulatory regime given the proposed NATS’ financial structure.³⁰ A letter from Mr Andrew to the Department stated: “It would clearly call the whole PPP and regulatory regime into disrepute if the price cap needed to be opened up soon after it had been completed”.³¹ Sir Malcolm Field’s letter to the Department states:

“A consequence of the proposed financial structure is that there is a much higher probability that NERL and the CAA may be faced with the need to re-open the price cap in the short term, within the first five years to ensure that NERL is able to carry out the investment programme which would meet users’ preferences. This was never the policy intention.”³²

14. In response, the Department refuted “any suggestion that the NATS capital structure, as revised, is inconsistent with PPP policy; that it unduly limits the CAA’s freedom as regulator; or sets unwanted precedents for other regulated utilities”.³³ Nevertheless, Sir Roy McNulty told the Sub-Committee that the financial structure was “not the optimum” and had “proved to be inappropriate”.³⁴

15. A number of other structures have been proposed for NATS, including an independent publicly-owned corporation, such as exists in New Zealand, Germany and the Netherlands, or a non-profit-making trust, such as exists in Canada. Our predecessor Committee’s *Air Traffic Control* Report expressed “reservations about the privatisation as a profit-making company of such an important national organisation”.³⁵ The Report concluded that other countries had been able to provide air traffic control with access to funds for investment and greater management freedom, while not requiring the service to become a profit-making company.³⁶ The Committee’s Reports on the *Future of National Air Traffic Services* and *The Proposed Public-Private Partnership for National Air Traffic Services Limited* said that the Government should continue to explore other options for restructuring NATS, such as applying the Canadian or Dutch models.³⁷ **We repeat our predecessor Committee’s recommendations to the Government to consider alternative funding models for NATS, contained in their Reports into the *Future of National Air Traffic Services* and the *Proposed Public-Private Partnership for National Air Traffic Services Limited*.**

²⁸ Third Report from the Environment, Transport and Regional Affairs Committee, *The Proposed Public-Private Partnership for National Air Traffic Services Limited*, HC (1999–2000) 35, pp 41–44.

²⁹ Ev. p 50.

³⁰ Ev. pp 58–60.

³¹ Ev. p 58.

³² Ev. p 60.

³³ Ev. p 59.

³⁴ QQ 354–355.

³⁵ Fourth Report from the Environment, Transport and Regional Affairs Committee, *Air Traffic Control*, HC (1997–98) 360–I, para 77.

³⁶ *Ibid.*

³⁷ See Third Report from the Environment, Transport and Regional Affairs Committee, *The Future of National Air Traffic Services*, HC (1998–99) 122, para 34; and Third Report from the Environment, Transport and Regional Affairs Committee, *The Proposed Public-Private Partnership for National Air Traffic Services Limited*, HC (1999–2000) 35 paras 75, 82.

III. Financial restructuring

16. NATS proposes to recover its financial position by implementing a financial restructuring package and a new business plan. There are four elements to the company's financial package:

- an injection of additional investment, shared between a new investor and the Government of up to £130 million in permanent capital;³⁸
- “some subordination of Airline Group's interests”;³⁹
- variation in the terms of NATS' loans, including some reduction in debt availability fees; and⁴⁰
- an increase in the charges to its customers.⁴¹

The business plan incorporates “a programme of carefully targeted cost savings and very active management of our cash”.⁴² NATS argues that if it cannot raise new finance and restructure its banking facilities, “domestic and international users' interests would be seriously damaged both in the short and longer terms”.⁴³ NATS is required under its licence to make substantial investments in its services. That investment is dependent on its relationship with its bankers and access to debt markets.⁴⁴

NATS' charges

17. Under the Transport Act 2000, which laid down the principles of the PPP, NATS' en-route business is subject to “RPI minus X” economic regulation, the standard model for monopoly regulation in the United Kingdom. The PPP was intended to lead to more competitive charges. Initially NATS did reduce its charges.⁴⁵ Following advice from the CAA, the Government set the original ‘X’ value, for CP 1 at 2.2 for 2001, 3.0 for 2002, 4.0 for 2003, and 5.0 for each of 2004 and 2005.⁴⁶

NATS' Application to re-open the Eurocontrol Charge Control

18. NATS' licence for its en-route business stipulated that its charges should reduce during the first control period. Following 11 September, it revised its demand forecasts and calculated that it would need to increase prices.⁴⁷ In February 2002, it applied to the CAA to raise the charge cap, starting in January 2003, to help recover the shortfall in its income.⁴⁸ The proposed revised charge cap was RPI plus 4 in 2003, plus 3 in 2004, and plus 2 in 2005.⁴⁹

19. In May 2002, the CAA published a consultation document in which it set out its analysis and preliminary conclusions on NATS' request.⁵⁰ The document highlighted its three principal concerns:

- NATS' current highly geared financial structure may not be robust enough to withstand future shocks;

³⁸ NATS' Response, para 1.13.

³⁹ *Ibid.*

⁴⁰ *Ibid.*, Ev. p 77.

⁴¹ NATS' Response, para 1.13.

⁴² Q 1.

⁴³ NATS' Response, paras 1.14–1.15.

⁴⁴ *Ibid.*, paras 4.7–4.9.

⁴⁵ QQ 104, 64.

⁴⁶ QQ 108, 379; Ev. p 48; HC Deb, 18 June 2002, col 184w.

⁴⁷ Ev. p 45.

⁴⁸ Ev. pp 45, 77. Condition 25 of the Air Traffic Services Licence for NATS (En-route) Limited refers to “Exceptional Circumstances” as a condition under which the Charge Control Conditions could be suspended or modified. See www.aviation.dft.gov.uk/nats/licence.

⁴⁹ Ev. pp 45, 77.

⁵⁰ Ev. pp 45, 48. NATS' Application to Re-open the Eurocontrol Charge Control: Consultation on CAA's Preliminary Conclusions, Civil Aviation Authority, May 2002, hereinafter, CAA Consultation.

—the banks financing NATS may be reluctant to make available NATS’ loan facility for capital expenditure if they believed that NATS’ financial performance might not be adequate in the next control period. The CAA note that a key issue is whether users, through the price cap, should provide an injection of cash flow in the face of such a possibility;

—an extended period of hard financing constraint could lead to uncertainty over the leadership and management of NATS.⁵¹

20. The CAA concluded that it was “unconvinced that a price cap adjustment is appropriate to address those concerns”. It argued that an increase in the price cap would send a signal to NATS’ debt holders that “excessive gearing can be expected to deliver benefits for investors thereby raising the likelihood of high gearing persisting in future, and reducing the incentives on NATS’ investors to opt for a stronger financial structure”.⁵²

21. The CAA estimated that, if NATS’ application were accepted and its revised traffic forecast was borne out, it would earn additional revenues of £174 million in present value terms.⁵³ The CAA’s projections of NATS’ future revenue suggest that the current licence charge will allow NATS to earn revenues in excess of those required to earn a 7.75 per cent pre-tax real return on the Regulatory Asset Base. The CAA concluded that “despite the demand shock, NATS is now expected to be better off in cash flow terms up to the next review than either the CAA or the Airline Group originally anticipated.” However it warned that serious cash flow problems would arise after 2005, when “a default event may occur due to a tightening of NATS’ financial position”.⁵⁴ It also warned that NATS’ precarious finances could lead to its banks declining further draw downs on the capital loan facility, in which case “capital expenditure would need to be met out of operating cash flows ... which would be unlikely to be sufficient to fund the full planned programme.”⁵⁵ In such circumstances the CAA concluded that “There would be a risk of undesirable uncertainty over the leadership and management of NATS and, in the extreme administration for NATS could result”.⁵⁶

22. The CAA accepts that NATS faces significantly lower projected demand than was anticipated at the time of the PPP, but it is “not convinced” that that amounts to a case for revising the price cap.⁵⁷ Although it recognises the importance of creating a sustainable and stable financial structure for NATS, it does not believe increasing NATS’ charges to be justified to secure that objective.⁵⁸ The consultation document suggests that NATS could seek additional revenue by increasing non-regulated terminal navigation charges. NATS rejected this as unrealistic in the short-term, although it welcomed developing with the CAA “a unified and most cost reflective terminal approach charge”.⁵⁹

Comparison with previous downturns and forecasts

23. Critical to the decision to re-open the charge cap is the assessment of whether the events of 11 September constitute an “exceptional circumstance” for the purposes of

⁵¹ *CAA Consultation*, para 1.19

⁵² *Ibid*, para 1.20; Q 346.

⁵³ *CAA Consultation*, para 2.3.

⁵⁴ *Ibid*, paras 1.18, 3.64–3.65, 4.12.

⁵⁵ *Ibid*, para 4.15

⁵⁶ *Ibid*.

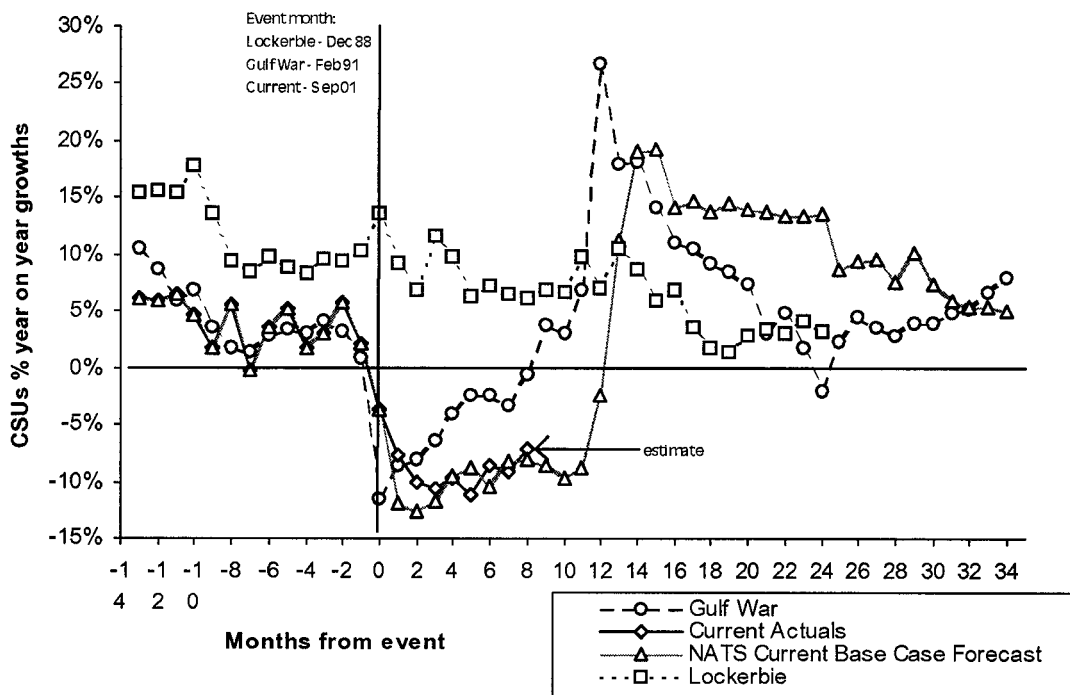
⁵⁷ *Ibid*, para 1.20; Ev. p 77.

⁵⁸ *Ibid*.

⁵⁹ *NATS’ Response*, para 4.15–4.18.

Condition 25 of NERL's [NATS En-route service] licence.⁶⁰ The CAA's analysis used six traffic forecasts to determine the "expected outlook for demand over 2002–2005 given that 11 September occurred", and to examine how that demand compare with previous shocks to demand, such as the Gulf War.⁶¹ Figure 1 shows the current percentage Chargeable Service Unit (CSU) growth against previous events.⁶²

Figure 1: Current CSUs % year on year growths compared to Gulf War and Lockerbie



24. NATS considers the current downturn to be unprecedented, and it expects a slower recovery than occurred after the Gulf War.⁶³ Mr Gibson-Smith, chairman of NATS, told the Sub-Committee that he did not believe the company should have been designed to withstand such an event, which was "too unusual and too exceptional".⁶⁴ He believed the proposed new financial structure would have a greater resilience to downside demand shocks.⁶⁵

25. The CAA identified an inconsistency in NATS' central argument:

"On the one hand it is argued that the demand shock could not have been reasonably anticipated because the post-11 September outlook is worse than the CAA's 'low case' forecasts from August 2000. But the amount by which NATS wants the price cap to be increased compensates it for the whole of the difference, not just the difference between its current expectation and the CAA's low case projection".⁶⁶

⁶⁰ NATS bankers' (Abbey National Treasury Services plc, Barclays, Banc of America Securities and Halifax) response to the CAA Consultation on NATS' Application to Reopen Eurocontrol Charge Control, June 2002.

⁶¹ CAA Consultation, para 3.25. The CAAs consultation document makes reference to six different sets of forecasts, its own 'base case' and 'low case' forecasts of August 2000, and its 2002 forecast, NATS 2002 'base case', and 1999 'low case' forecasts, and the 2002 'base case' forecast by NERA economics consultancy.

⁶² Ev. pp 62, 73. A 'CSU' is a chargeable service unit, which is the basic unit of charging for en-route air traffic services agreed with in Eurocontrol. It takes account of both aircraft weight and distance flown. A flight of 100 km by a 50 tonne, e.g. Boeing 737, aircraft approximates to one CSU.

⁶³ Q 26; Ev. p 51.

⁶⁴ QQ 1, 23, 28.

⁶⁵ QQ 24, 27.

⁶⁶ CAA Consultation, para 3.32.

Nor did the CAA accept NATS' arguments that there were qualitative differences between a one-off unexpected shock and more general downside risk. It considered such a distinction to be artificial because "demand volatility is inherently subject to small and large shocks, all unforecastable with certainty by definition".⁶⁷

26. NATS' financial structure left it extremely vulnerable to a reduction in demand. The air transport industry has a history of cyclical levels of demand and sensitivity to external events. The terrorist attacks of 11 September were unprecedented, and the consequential downturn in air traffic was more severe than those following previous downside demand shocks. The reduction in demand was not outside the bounds that NATS should have been able to withstand and should have been considered within its contingency planning.⁶⁸ The impact of a 'downside demand shock' should have been assessed as part of the due diligence during the PPP sale process.

NATS' revised proposals

27. NATS' response to the CAA's consultation exercise lists several points of agreement between it and the CAA. Those points include agreement that: there has been a significant downside demand shock; NATS is not expected to bear the volume risk when "exceptional circumstances" arise; a breach of banking covenants could result in NATS becoming insolvent and forced into administration; and the possibility of financial distress may entail risks to users.⁶⁹ If the CAA does not allow a revision of the price cap, NATS states that the CAA would have failed to take full account of NATS' current financial position.⁷⁰

28. NATS' response to the consultation proposes a more detailed solution. The regulatory aspect of that solution includes the recalculation of the charge cap to RPI plus 2 for the remainder of CP 1, and plus 3.5 for CP 2.⁷¹ In addition to the revision in the price cap, it proposes several additional elements to a composite regulatory settlement:

- an increase in the Regulatory Asset Base to "smooth" transition to CP 2;
- a traffic floor set at NATS' current low case traffic forecast for CP 1;
- a rolling incentive mechanism based on the operating cost forecasts in NATS business plan;
- a commitment to an investment grade credit rating;
- a commitment on regulatory depreciation.⁷²

29. The details available suggest that the proposed composite regulatory settlement would lead to a significant reapportionment of risk. A traffic floor would insulate the company for the worst effects of a deeper decline in air traffic. Presumably NATS charges would increase correspondingly so that its income was assured, shifting the risk of a downside demand shock from NATS to its customers. Increasing the Regulatory Asset Base would reduce the company's gearing ratio, which would shift risk from the company to its lenders. A rolling incentive mechanism would allow NATS to benefit from increased charges on the basis of promised operational costs savings estimated to be worth £72 million. Similar mechanisms have been used in other regulated industries, but in those cases the benefit is achieved once the cost-savings targets have been reached.

⁶⁷ *Ibid*, para 3.34

⁶⁸ QQ 445–448, Ev. pp 62–72.

⁶⁹ *NATS' Response*, para 1.21; *CAA Consultation*, paras 3.15, 3.70, 4.30, 1.6 and 3.29, 3.51 and 3.52, 1.16, 4.31, 4.10, 1.22.

⁷⁰ *NATS' Response*, para 2.2.

⁷¹ *Ibid*, para 6.11.

⁷² *Ibid*, para 6.15; see *CAA Consultation*, paras 7.1–7.18.

30. Responses to the CAA's consultation show the extent of concern about NATS' proposed changes, particularly among non-Airline Group airlines, which rejected an increase.⁷³ JMC Airlines Ltd states that NATS has not made:

“a sustainable argument of support for such a radical revision of its revenue stream. Furthermore, the current operational performance of the business is so abysmal that carriers who have other [air traffic control] options are seeking to re-route to avoid NATS controlled airspace, further compounding their revenue problems.”⁷⁴

JMC and other airlines also question why NATS' performance has declined given the reduction in the level of traffic.⁷⁵ Swiss International Airlines makes the point that the charge increase proposal “seems to be primarily bank-driven to reduce their risk”.⁷⁶ **NATS charges were supposed to reduce, not increase, under the PPP. The arguments advanced so far will probably do little to persuade the CAA that an increase in charges is warranted.**

Comparison with other European air traffic control services

31. NATS en-route charges have fallen in comparison with other European air traffic control providers.⁷⁷ The United Kingdom still has the third-highest en-route charges and the highest costs per kilometre in Europe.⁷⁸ NATS claims that meaningful comparisons with Europe are impossible.⁷⁹ In particular, it notes that it has a smaller proportion of overflights (see Figure 2), which yield the most revenue for the least workload, than most other European providers.⁸⁰

⁷³ The International Air Transport Association, British European, European Regions Airline Association, Swiss International Airlines, JMC Airlines Limited, and Lufthansa are against an increase; bmi British Midland, Virgin Atlantic, and Britannia Airways Limited are in favour of an increase. Non-Airline Group airlines provide about three quarters of NATS' income, Q 256.

⁷⁴ JMC Airlines Ltd's response to the CAA Consultation on NATS' Application to Reopen Eurocontrol Charge Control, June 2002.

⁷⁵ JMC Airlines Ltd's and Swiss International Air Lines' responses to the CAA Consultation on NATS' Application to Reopen Eurocontrol Charge Control, June 2002.

⁷⁶ Swiss International Air Lines' response to the CAA Consultation on NATS' Application to Reopen Eurocontrol Charge Control, June 2002.

⁷⁷ Q 58, 168, 416, Ev. pp 79–80.

⁷⁸ QQ 59–65, 94, Ev. pp 74, 79–80.

⁷⁹ Ev. p 79.

⁸⁰ Ev. pp 79–80.

Figure 2: Comparison of en-route and terminal charges for major European ATC providers

	En-route € million	Terminal Airport € million	Total € million	Percentage charged to En-route	Flights million	Cost per flight €	Over- flights % of total
NATS UK	705	123	828	85	2.1	394	12
DNA France	821	196	1017	81	2.6	391	40
DFS Germany	605	246	851	71	2.6	327	31
ENAV Italy	434	140	574	76	1.4	410	25

Source: PRC Benchmarking Report July 2002, using data for 2000.⁸¹

New equity partner

32. NATS plans to find a new investor that is suitable “in terms of safety impact; financial robustness of the equity investor; and strategic alignment with NATS’ goals”.⁸² Any new investment needs to be in place by the end of September, when the short-term loan facility expires. Mr Gibson-Smith confirmed that BAA was likely to be the new investor.⁸³ Heads of terms had been concluded, and the parties were moving towards finalising a firm contract for the investment.⁸⁴ The Government intends to match the new investment at the same time in order to ensure that it maintains its 49 per cent shareholding, although no binding undertaking has been made.⁸⁵ The new investor has at least an expectation, if not a requirement, for the Government to make a matching investment, and for a positive settlement of application for a revision of the price cap.⁸⁶

33. NATS is convinced that without BAA’s investment it would be unable to make up the shortfall in its finances.⁸⁷ NATS confirms that the investment from BAA would be between £50 million to £65 million, some of which will be equity and some debt.⁸⁸ The debt proportion would be subordinated debt, used to pay some of the senior debt, and will not have a repayment profile.⁸⁹ The gearing ratio would remain slightly less than 100 per cent.⁹⁰

34. According to the CAA, financial restructuring is essential if NATS is to have a sustainable financial structure in future. In the absence of that restructuring, a cash injection alone would not provide NATS with a financial solution.⁹¹ The CAA also believes that it is in the interests of airlines to increase the price cap if NATS’ finances were restructured.⁹² We have received no clear evidence about how the new investor would be incorporated into the financial structure of the company. **The Government must provide greater detail about the implications of BAA becoming an investor in NATS**

⁸¹ Ev. p 80.

⁸² QQ 72–74.

⁸³ Q 246.

⁸⁴ Q 247.

⁸⁵ QQ 251, 254, 274–276, 299, 393, 400, 424, 466; Ev. p 81; HC Deb, 10 June 2002, col 759w; HL Deb, 17 April 2002, col 943.

⁸⁶ QQ 260, 406, 410–411; Ev. pp 55–56, 81.

⁸⁷ Q 268.

⁸⁸ QQ 246–247, 303–307, Ev. p 81.

⁸⁹ QQ 303–304, 391. The senior debt owing to the lending banks arising from the original deal is £730 million.

⁹⁰ Q 305.

⁹¹ QQ 339, 373.

⁹² Q 341.

alongside the Airline Group. None of our witnesses was able to offer an informative opinion on those implications. It was not clear whether the additional investment would significantly improve NATS' financial position.

35. The Committee was assured that no quid pro quo had been discussed in relation to BAA's investment.⁹³ However, BAA has a central role in the aviation industry. The Government is currently preparing a white paper on aviation. BAA has a view on how that policy will develop and, particularly the required increase in capacity in the south east of England.⁹⁴ **The Government must ensure that BAA's involvement in NATS is, and is seen to be, transparent, especially if charges of a quid pro quo for BAA's capacity expansion plans in return for investing in NATS are to be avoided.**

36. **At the time of the PPP, the Airline Group was acceptable as a bidder for NATS ownership only because of its inherent aviation interests. The Government should ensure that any further attempts to secure capital do not dilute the aviation expertise and stake in NATS.**

⁹³ QQ 279–280.

⁹⁴ Q 437.

IV. The new business plan

37. NATS has formulated a “new ten-year investment plan which will put £1 billion into new air traffic systems”, increase capacity by 50 per cent, reduce delays by 40 per cent and allow it to handle a further one million flights a year by 2011.⁹⁵ Central to its plans are cost savings of about £200 million by reducing staffing costs, “procurement efficiencies” and rationalisation of operations into fewer sites.⁹⁶

38. NATS has pressures on both its operating costs and capital expenditure. It states that it has “already reduced its planned expenditure aggressively”, and notes not only that there is no realistic scope for further reductions, but also that there are “significant challenges” in achieving those reduced targets.⁹⁷ It states that:

“It would be imprudent to base any strategy for NATS’ finances on an assumption that these emergency measures can be delivered in full particularly in the context that:

- (a) there are significant risks attached to the savings already planned for NATS before these emergency measures. For example, up to half of the planned 20% saving in engineering resource levels during the first Control Period are currently under threat;
- (b) there is no contingency for operating costs overruns within the NATS business plan”.⁹⁸

39. NATS concluded that “there is no realistic opportunity to cut back on its operating costs below current budgets and even current operating costs budgets are under severe pressure”.⁹⁹ It also contends that there is a trend toward “a culture where the opportunity for savings and deferments starts to become a more central objective than successful operation and development of the business”.¹⁰⁰

Staffing issues

40. NATS’ business plan includes a reduction in overall staff numbers “as a result of modernising and standardising NATS equipment systems”.¹⁰¹ The planned staff reductions are in air traffic assistants, engineering, support and through reducing the use of contractors.¹⁰²

⁹⁵ QQ 1, 18; HC Deb, 10 June 2002, col 759w.

⁹⁶ Q 270; Ev. pp 75–77.

⁹⁷ *NATS’ Response*, para 3.10.

⁹⁸ *Ibid*, para 3.12.

⁹⁹ *Ibid*, para 3.15.

¹⁰⁰ *Ibid*, para 3.28.

¹⁰¹ QQ 18–19; Ev. p 52.

¹⁰² QQ 80–84, 270.

Figure 3: Planned number of staff, 2002 to 2006¹⁰³

	2002	2003	2004	2005	2006
Air Traffic Control Officers	1946	1940	1972	2001	2033
Air Traffic Control Engineers	1346	1229	1170	1122	1049
Air Traffic Services Assistants	1144	1016	966	884	866
Management and Support	1089	907	828	801	695

41. Figure 3 shows the changes planned to the number of air traffic control officers, engineers and assistants, and management and support staff. The company intends to increase the number of air traffic controllers.¹⁰⁴ NATS has just under 2,000 air traffic controllers and plans to train 130 to 140 a year in order to reach a total of 2,200 in five years' time.¹⁰⁵ There have been staff shortages, and Mr Everitt, chief executive of NATS described it as a challenge even to maintain the number of air traffic controllers.¹⁰⁶

42. NATS intends to reduce the numbers of engineers by about 200 over the next four years.¹⁰⁷ The Guild of Air Traffic Control Officers is concerned that engineering staff reductions will be a "simple 'numbers exercise' with financial savings as the sole criteria".¹⁰⁸ It was also concerned that the emphasis on reducing the numbers of contractors would have a serious impact on core skills in research and development. Many essential skills are provided by contractors, with permanent staff acting primarily as managers of the programmes.¹⁰⁹ **The reduction in engineering staff seems misplaced given the probability of teething problems with the new systems at Swanwick. Engineering skills will be essential for NATS to develop and expand. Experience has shown that loss of engineering expertise is not easy to recover.**

43. NATS plans to reduce the number of air traffic service assistants from 1,144 to 866 by 2006 through "the implementation of new technologies, automating functions currently performed by assistants".¹¹⁰ One of the roles of the air traffic assistants is to provide vital support to controllers during manual operation in the event of a computer failure.¹¹¹ Mr Everitt told the Sub-Committee:

"We will be reducing the number of air traffic control assistants as a result of technologies coming in. For example, if we implement a system of eliminating paper strips at Swanwick, [ie manual operation] that will reduce the requirement for assistants".¹¹²

Mr Chisholm told us that when considering "downsizing linked to technology", it was important to be sure that the technology was "sufficiently robust and such instance would

¹⁰³ Ev. p 76.

¹⁰⁴ Q 79.

¹⁰⁵ QQ 20–22, 78.

¹⁰⁶ Q 79.

¹⁰⁷ Ev. p 76.

¹⁰⁸ Ev. p 43.

¹⁰⁹ *Ibid.*

¹¹⁰ Ev. p 76.

¹¹¹ QQ 53, 289.

¹¹² Q 82.

be very, very rare and when they occurred you would still have an adequate manual fallback".¹¹³ NATS confirmed that it would not "remove those assistants", if there were doubts that such events would be very rare, or that there was "sufficient adequate fallback without those assistants".¹¹⁴ At present NATS is not convinced of either of rarity of such events or the adequacy of the fall back position.¹¹⁵

44. We are not convinced that NATS' systems are sufficiently robust to enable it to reduce the numbers of safety-critical staff. Air traffic control assistants are vital to the safe operation of air traffic control, and it is incredible that NATS intends to reduce their number so soon after moving into a new, highly complex operating environment. It is essential that NATS and the CAA clearly demonstrate a substantially greater level of robustness in computer equipment at Swanwick before embarking on the planned reductions.

45. Prospect criticised NATS' decision to run down the Business Development Unit, without which it would not be expected to increase the vital income provided by selling its expertise abroad.¹¹⁶ **NATS must balance its need to reduce costs with its future development. The opportunities for NATS to sell its expertise to others and develop new sources of income should not be missed for short-term financial savings.**

Display screens

46. In January 2002, the Health and Safety Executive (HSE) assessed the display screen equipment at Swanwick air traffic control centre. It identified concerns relating to the clarity and readability of certain information on the display screens, and to the design of keyboards and workstations. It had been reported that confidential safety reports by air traffic controllers at Swanwick had referred to difficulties in distinguishing certain figures and letters on the new radar display screens, which had led to controllers misinterpreting the altitude and destination of aircraft. NATS confirmed the existence of the reports but disputed their interpretation.¹¹⁷ The HSE sent a report to NATS on 15 March 2002 detailing its concerns and asking for an action plan.¹¹⁸ NATS accepted all of the HSE's recommendations, established a joint working group and is prototyping changes to the screen fonts.¹¹⁹ The company aims to have the changes in place in November.¹²⁰ According to NATS and the CAA Safety Regulation Group, at no time has safety been jeopardised as a result of the display screens at Swanwick.¹²¹

Capital expenditure plan

47. Under its licence NATS is required to implement a significant investment programme. Its current financial situation has led to its lending banks withdrawing access to its existing capital loan facility.¹²² Its lenders state that "at present it is unlikely that NERL will be able [to] meet the reinstatement conditions attached to the existing long-term facility for capital expenditure, or to secure new funding from other sources".¹²³ NATS calculates that a cashflow shortfall of about £100 million will result from not having

¹¹³ Q 290.

¹¹⁴ QQ 290, 294.

¹¹⁵ QQ 294-295.

¹¹⁶ Ev. p 54.

¹¹⁷ *Controllers 'misread' aircraft data*, The Financial Times, 23 May 2002.

¹¹⁸ Ev. pp 46-47; HC Deb, 10 June 2002, col 759w.

¹¹⁹ QQ 38, 42-46, 309-310; Ev. pp 78, 80-81.

¹²⁰ QQ 310-313.

¹²¹ QQ 313, 375; Ev. p 78.

¹²² NATS bankers' (Abbey National Treasury Services plc, Barclays, Banc of America Securities and Halifax) response to the CAA Consultation on NATS' Application to Reopen Eurocontrol Charge Control, June 2002.

¹²³ *Ibid.*

access to that facility, which represents about a quarter of the “already reduced capital expenditure currently planned for the remainder of the first Control Period”¹²⁴ NATS notes: “Over 60% of the planned capital expenditure in CP 1 is essential for sustaining safety, capacity and service continuity at their existing levels.”¹²⁵ The net effects of a reduction in NATS’ capital expenditure could be “significant additional capacity constraints” towards the end of the decade, increased operational expenditure in the short to medium term, and higher charges in the second control period.¹²⁶ Annex 1 provides NATS’ breakdown of the reductions in its capital investment plans in CP 1, which it values at £97 million.¹²⁷

48. As part of the reassessment of the capital investment plan, NATS decided to defer completion of the new air traffic control centre at Prestwick in Ayrshire. The Prestwick centre has had a long history of false starts and delays in its planning, funding and construction. The previous project completion date target of 2007 has now been delayed by a further 18 months to two years.¹²⁸ However, NATS has confirmed that site preparations and piling work have been completed, and reaffirmed its long term commitment to build the new centre.¹²⁹ **We welcome the statements of commitment to the Prestwick centre, but, given the financial considerations and the inauspicious precedent set at Swanwick, we find it highly unlikely that it will be operational until well after the new intended completion date in 2009.**

49. **NATS’ capital investment programme is critical. A failure to deliver the improvements in capacity will have dire consequences for the aviation industry and the United Kingdom economy. The capital programme is an essential plank in the company’s business plan that would allow a rationalisation of operations into fewer sites.**

Computer failures

50. NATS’s computer systems has failed three times in recent months—at West Drayton on 27 March and 10 April, and at Swanwick on 17 May.¹³⁰ Mr Everitt explained that the failures at West Drayton were caused by the flight data processor, which is a “piece of software ... 20 or so years old”.¹³¹ The failure at Swanwick involved a communications fault between workstations, which arose following a routine operation to enter data overnight.¹³² NATS is conducting an inquiry into the incidents to establish whether further adjustments are required to ensure the long-term robustness of the system.¹³³ Both NATS and the Government are content that safety was not compromised by any of the failures at West Drayton or Swanwick.¹³⁴

51. **If NATS’ business plan is to succeed, the company must demonstrate that its computer systems are robust and will increase the productivity of its controllers. The Committee is not convinced that the systems at Swanwick have shown either the necessary robustness or the productivity required.**

¹²⁴ NATS’ Response, para 3.25.

¹²⁵ *Ibid.*

¹²⁶ *Ibid.*, para 3.26.

¹²⁷ *Ibid.*, Appendix 7.

¹²⁸ Q 168; Ev. p 46.

¹²⁹ Q 1; Ev. p 46.

¹³⁰ HC Deb, 25 June 2002, col 768w. Aggregate total delays to affected aircraft were: 88,000 minutes at West Drayton on 27 March; 34,000 minutes at West Drayton on 10 April; and 82,000 minutes at Swanwick on 17 May.

¹³¹ Q 40.

¹³² Ev. p 78.

¹³³ see HL Deb, 23 April 2002, col WA24.

¹³⁴ HC Deb, 10 June 2002, col 760w.

52. NATS is not required to pay compensation for the delays that it caused. Ryanair state that “all airlines were forced to refund passengers for cancelled flights due to the sheer incompetence of NATS”, and recommends a “compensation mechanism that would make NATS accountable directly to passengers for long delays and cancellations caused by their continuing inefficiency”.¹³⁵ NATS confirmed that it was not intending to pay any compensation because it is exempted from doing so under the Transport Act 2000.¹³⁶ **The Committee recommends that the Government reconsider the exemption from compensation. NATS is supposed to benefit from the private sector pressures introduced by the PPP. It should be subject to the pressures of financial penalties in situations where it has failed to deliver its services to its customers.**

Longer term prospects in air traffic control

53. The Government supports proposals for a Single European Sky, which involve greater interoperability between the various suppliers of air traffic services. The Government stated:

“In the long term, closer integration between Europe’s air traffic service providers seems likely, particularly given the need to enhance efficiency so that future air traffic levels can be accommodated safely.”¹³⁷

The project does not require the integration of service providers but focuses on more collective management of the European air traffic management system. In the long term, closer integration between Europe’s air traffic service providers seems likely, particularly given the need to enhance efficiency so that future increases in air traffic demand can be accommodated safely.¹³⁸ **The Committee doubts that a financially vulnerable NATS would be able to play an appropriately significant role in a more centralised European air traffic control service.**

54. New satellite-based air traffic control systems are being developed that would remove the requirement for service providers to be geographically close to the air space they control. NATS is not in a position to be the leading player in these advances in air traffic control and is in danger of losing customers in the longer term. The Government must react to the possible erosion of NATS revenues by alternative providers of new air traffic control technologies. **At present, NATS is far from capable of meeting the challenges of the long term future of air traffic control services in the United Kingdom. The cost-cutting and penny-pinching mentality foisted on NATS merely to survive will leave it ill-equipped to compete with the new satellite-based air traffic control service provision being developed in Europe and North America.**

¹³⁵ Ev. p 56. Ryanair refunded more than £250,000 to its passengers for the three recent delays.

¹³⁶ QQ 325–329.

¹³⁷ HC Deb, 16 April 2002, col 803w.

¹³⁸ *Ibid.*

V. Conclusions

55. The Transport Act 2000 includes a contingency that, *in extremis*, air traffic control could be placed in administration.¹³⁹ Nevertheless, the recent experience with Railtrack demonstrates that the existence of a legal mechanism to place such a vital company into administration is not sufficient. **We expect the Department to publish details of its full contingency recovery plan in the event of a complete failure of NATS finances.**

56. The Government's overriding desire to complete the PPP left NATS with an unprecedented and unsustainable level of debt that will be scarcely altered by current restructuring plans. **We were told that the PPP and the introduction of private sector management would deliver a more efficient air traffic control service. We have seen little evidence of those efficiencies or the improvements in NATS' management. NATS' business plan is crucial to its survival. We are not convinced that it will deliver improvements.**

57. **The Committee's previous conclusions about long term funding and alternative ownership models remain valid. NATS provides an essential service that must be run safely and efficiently. The PPP was not appropriate and should be reviewed before it does terminal damage to United Kingdom's aviation industry and vital national interests.**

¹³⁹ Q 427.

List of Conclusions and Recommendations

- (a) **The seriousness of NATS' financial situation is due to the reduction in air traffic that followed the 11 September terrorist attacks and the company's dependence on north Atlantic traffic. The financial structure created by the PPP inflated the company's difficulties. The Government failed to give due weight to the concerns expressed by both NATS and the CAA about the high debt levels imposed on the company. The Government failed to heed the warnings about the impact the financial structure would have on the viability of the company in the event of a downside demand shock. The weaknesses of the financial structure suggest a failure of due diligence at the time of the sale of NATS, when traffic was already declining and there were already moves towards the use of smaller aircraft (paragraph 11).**
- (b) **We repeat our predecessor Committee's recommendations to the Government to consider alternative funding models for NATS, contained in their Reports into the *Future of National Air Traffic Services* and the *Proposed Public-Private Partnership for National Air Traffic Services Limited* (paragraph 15).**
- (c) **NATS' financial structure left it extremely vulnerable to a reduction in demand. The air transport industry has a history of cyclical levels of demand and sensitivity to external events. The terrorist attacks of 11 September were unprecedented, and the consequential downturn in air traffic was more severe than those following previous downside demand shocks. The reduction in demand was not outside the bounds that NATS should have been able to withstand and should have been considered within its contingency planning. The impact of a 'downside demand shock' should have been assessed as part of the due diligence during the PPP sale process (paragraph 26).**
- (d) **NATS charges were supposed to reduce, not increase, under the PPP. The arguments advanced so far will probably do little to persuade the CAA that an increase in charges is warranted (paragraph 30).**
- (e) **The Government must provide greater detail about the implications of BAA becoming an investor in NATS alongside the Airline Group. None of our witnesses was able to offer an informative opinion on those implications. It was not clear whether the additional investment would significantly improve NATS' financial position (paragraph 34).**
- (f) **The Government must ensure that BAA's involvement in NATS is, and is seen to be, transparent, especially if charges of a quid pro quo for BAA's capacity expansion plans in return for investing in NATS are to be avoided (paragraph 35).**
- (g) **At the time of the PPP, the Airline Group was acceptable as a bidder for NATS ownership only because of its inherent aviation interests. The Government should ensure that any further attempts to secure capital do not dilute the aviation expertise and stake in NATS (paragraph 36).**
- (h) **The reduction in engineering staff seems misplaced given the probability of teething problems with the new systems at Swanwick. Engineering skills will be essential for NATS to develop and expand. Experience has shown that loss of engineering expertise is not easy to recover (paragraph 42).**
- (i) **We are not convinced that NATS' systems are sufficiently robust to enable it to reduce the numbers of safety-critical staff. Air traffic control assistants are**

- vital to the safe operation of air traffic control, and it is incredible that NATS intends to reduce their number so soon after moving into a new, highly complex operating environment. It is essential that NATS and the CAA clearly demonstrate a substantially greater level of robustness in computer equipment at Swanwick before embarking on the planned reductions (paragraph 44).
- (j) **NATS must balance its need to reduce costs with its future development. The opportunities for NATS to sell its expertise to others and develop new sources of income should not be missed for short-term financial savings (paragraph 45).**
 - (k) **We welcome the statements of commitment to the Prestwick centre, but, given the financial considerations and the inauspicious precedent set at Swanwick, we find it highly unlikely that it will be operational until well after the new intended completion date in 2009 (paragraph 48).**
 - (l) **NATS' capital investment programme is critical. A failure to deliver the improvements in capacity will have dire consequences for the aviation industry and the United Kingdom economy. The capital programme is an essential plank in the company's business plan that would allow a rationalisation of operations into fewer sites (paragraph 49).**
 - (m) **If NATS' business plan is to succeed, the company must demonstrate that its computer systems are robust and will increase the productivity of its controllers. The Committee is not convinced that the systems at Swanwick have shown either the necessary robustness or the productivity required (paragraph 51).**
 - (n) **The Committee recommends that the Government reconsider the exemption from compensation. NATS is supposed to benefit from the private sector pressures introduced by the PPP. It should be subject to the pressures of financial penalties in situations where it has failed to deliver its services to its customers (paragraph 52).**
 - (o) **The Committee doubts that a financially vulnerable NATS would be able to play an appropriately significant role in a more centralised European air traffic control service (paragraph 53).**
 - (p) **At present, NATS is far from capable of meeting the challenges of the long term future of air traffic control services in the United Kingdom. The cost-cutting and penny-pinching mentality foisted on NATS merely to survive will leave it ill-equipped to compete with the new satellite-based air traffic control service provision being developed in Europe and North America (paragraph 54).**
 - (q) **We expect the Department to publish details of its full contingency recovery plan in the event of a complete failure of NATS finances (paragraph 55).**
 - (r) **We were told that the PPP and the introduction of private sector management would deliver a more efficient air traffic control service. We have seen little evidence of those efficiencies or the improvements in NATS' management. NATS' business plan is crucial to its survival. We are not convinced that it will deliver improvements (paragraph 56).**

- (s) **The Committee's previous conclusions about long term funding and alternative ownership models remain valid. NATS provides an essential service that must be run safely and efficiently. The PPP was not appropriate and should be reviewed before it does terminal damage to United Kingdom's aviation industry and vital national interests (paragraph 57).**

ANNEX 1: Impact of Shortfall of Capital Expenditure

AREA	MAIN IMPACT
1. Delay the programme to move LTCC to Swanwick by one year and defer associated investment until CP2	<ul style="list-style-type: none"> • Operating cost reductions of c£17m pa from closure of West Drayton delayed by 12 months • Significant increase in risk of failure to complete the Centre consolidation programme to plan, with delays to reductions in support costs • Removes window in CP2 to implement NERC1 system developments (eg iFACTS implementation) and achieve the capacity increases • Increase risk that LTCC capacity will be constraining before it is transferred to Swanwick
2. Limit investment on NERC system software on system software in remaining years of CP1 to address safety or business critical priorities only	<ul style="list-style-type: none"> • No further capacity increases from sectorisations or systemation during CP1 with delay implications later this year • Insufficient development of NERC1 system to support EPS and iFACTS increasing the risk that NATS will not be able to provide capacity increases during the CP
3. Cease development investment in EPS and iFACTS - do not implement on NERC1 system	<ul style="list-style-type: none"> • EPS-enable ATSA reductions not achieved • Potential for obtaining capacity increases from iFACTS is lost
4. No investments to sustain or develop simulator and workstation equipment at Air Traffic Training and Simulation Centre (ATTSC). (Cutting investment in sectorisation removes the need for development activity at ATTSC)	<ul style="list-style-type: none"> • NATS capability to grow capacity through re-sectorisation will be lost. The regeneration of this capability will be costly and challenging • NATS will be reliant on Eurocontrol for development work and industry-developed products
5. Replace Oceanic system hardware only and defer investment associated with system replacement until CP2	<ul style="list-style-type: none"> • Service benefits to Oceanic users of improved profiles will not be provided • Delay to introduction of reduced horizontal separation in Oceanic airspace, with potential downstream capacity limitations
6. Limit investment in business systems to essential replacement only	<ul style="list-style-type: none"> • Operating costs savings not realised
7. Defer accommodation moves	<ul style="list-style-type: none"> • Operating costs savings not realised
8. Reduce Minor projects expenditure by 30%	<ul style="list-style-type: none"> • Increases risk of ability to deliver programme within planned cost
9. Remove all remaining contingency in CP1	<ul style="list-style-type: none"> • Increases risk of ability to deliver programme within planned cost
10. Unspecified efficiencies of 10% on the remainder	<ul style="list-style-type: none"> • Increases risk of ability to deliver programme to specification

Source: Appendix 7 of NATS' response to the CAA Consultation on NATS' Application to reopen Eurocontrol charge control June 2002.

PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

WEDNESDAY 17 JULY 2002

Members present:

Andrew Bennett, in the Chair

Sir Paul Beresford
Mr Clive Betts
Mr Brian H Donohoe
Mrs Gwyneth Dunwoody
Mrs Louise Ellman
Chris Grayling

Helen Jackson
Miss Anne McIntosh
Mr Bill O'Brien
Dr John Pugh
Christine Russell
Mr Bill Wiggin

The Committee deliberated.

Draft Report [*National Air Traffic Services' Finances*] proposed by the Chairman, brought up and read.

Ordered, That the Report be read a second time paragraph by paragraph.

Paragraphs 1 to 57 read and agreed to.

Annex agreed to.

Resolved, That the Report be the Eighteenth Report of the Committee to the House—(*The Chairman.*)

Ordered, That the Chairman do make the Report to the House.

Ordered, That the Appendices to the Minutes of Evidence taken before the Transport Sub-committee be reported to the House.

[The Committee adjourned.]

LIST OF WITNESSES

Wednesday 1 May 2002

NATIONAL AIR TRAFFIC SERVICES (NATS)

Mr Chris Gibson-Smith and Mr Richard Everitt Ev 1

CIVIL AVIATION AUTHORITY

Sir Roy McNulty CBE and Mr Doug Andrew Ev 9

PROSPECT

Mr Iain Findlay, Mr Andy Mooney, Mr Laurence King and Mr Dave Cartey Ev 14

DEPARTMENT FOR TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS

Mr David Jamieson MP, Mr Roy Griffins and Mr Ian McBrayne Ev 16

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Mr Richard Everitt and Mr Colin Chisholm Ev 24

CIVIL AVIATION AUTHORITY

Sir Roy McNulty CBE, and Mr Doug Andrew Ev 31

DEPARTMENT FOR TRANSPORT

Mr David Jamieson MP, Mr Roy Griffins and Mr Ian McBrayne Ev 35

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Second Report: London Underground (HC 387)

Third Report: Public Spaces: The Role of PPG 17 in the Urban Renaissance (HC 238-I)

Fourth Report: The Attendance of Lord Birt at the Transport, Local Government and Regions Committee (HC 655)

Fifth Report: European Transport White Paper (HC 556)

Sixth Report: Empty Homes (HC 240-I)

Seventh Report: London Underground - The Public Private Partnership (HC 656)

Eighth Report: 10 Year Plan for Transport (HC 558-I)

Ninth Report: Road Traffic Speed (HC 557-I)

Tenth Report: Ordnance Survey (HC 481)

Eleventh Report: Air Transport Industry (HC 484-I)

Twelfth Report: The Need for a New European Regeneration Framework (HC 483-I)

Thirteenth Report: Planning Green Paper (HC 476-I)

Fourteenth Report: Local Government Act 2000 (HC 602-I)

Fifteenth Report: Draft Local Government Bill (HC 981-I)

Sixteenth Report: Tall Buildings (HC 482-I)

Seventeenth Report: The Bus Industry (HC 828-I)

Eighteenth Report: NATS Finances (HC 789)

First Special Report: The Attendance of a Minister from HM Treasury before the Transport, Local Government and the Regions Committee (HC 771)

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