

Economic regulation of Gatwick Airport Limited: second consultation on extending the current commitments

CAP3012

About this document

This document sets out for consultation our assessment of the proposal made by Gatwick Airport Limited to extend the commitments it makes to airlines on charges, investment and service quality, by four years from 1 April 2025 to 31 March 2029. It sets out the background to GAL's proposal, our assessment of respondents' views on our June 2023 Consultation, a framework for assessing whether GAL's proposals are in the interests of consumers, and our initial assessment of GAL's proposal using this framework.

We are consulting on these issues for a period of 6 weeks until 20 September. We expect to set out our decision on the way forward for the economic regulation of GAL in the autumn of 2024.

Published by the Civil Aviation Authority, 2024

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First published August 2024

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The latest version of this document is available online at www.caa.co.uk/CAP3012.

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Introduction and summary

1. The economic regulation of Gatwick Airport Limited (“GAL”) is based on a set of “commitments” that are incorporated into GAL’s licence¹ as conditions. This approach to the economic regulation of GAL was introduced in 2014 under the Civil Aviation Act 2012 (“CAA12”). The current set of commitments were introduced in 2021 to cover the four-year period to 31 March 2025.
2. The current commitments include, among other things:
 - a cap on the average level of airport charges with annual increases limited to the Retail Prices Index (“RPI”) + 0%;
 - a minimum level of investment of £120 million per year, on average, over the six years from 2019/20 to 2024/25; and
 - a system of rebates if GAL misses certain service quality targets.
3. This commitments framework is intended to be a proportionate and targeted approach to economic regulation, which:
 - encourages bilateral contracting; and
 - facilitates commercial rather than regulator-led decision making.
4. This approach furthers the interests of consumers² who use Gatwick airport as they benefit from the greater competitive pressure on the airport associated with commercial interactions between the airport and airlines.
5. Reinforcing this approach, GAL’s licence requires it to comply with the conditions, so far as reasonably practicable, “*in a manner designed to further the interests of passengers regarding the range, availability, continuity, cost and quality of airport operation services.*”³ This obligation is important to consumers’ interests as, if it were to become necessary, it would allow the CAA to intervene to enforce the commitments.⁴

¹ Licence granted to Gatwick Airport Limited by the Civil Aviation Authority under section 15 of the Civil Aviation Act 2012 on 13 February 2014, see: https://www.caa.co.uk/media/fgdeir1y/gatwick-licence-consolidated-version_2-18-june-2021.pdf

² In this consultation we use the term “consumers” to refer collectively to passengers and cargo owners as defined in section 69 CAA12 as passengers and those with “a right in property” (cargo) carried by air transport services. The term “consumers” includes future consumers.

³ See Condition C1.3.

⁴ “Economic regulation at Gatwick from April 2014: Notice granting the licence” at paragraph 2.37. See www.caa.co.uk/CAP1152

6. Following discussions with airlines, in March 2023 GAL submitted a proposal to extend the commitments framework by four years from 1 April 2025 to 31 March 2029 (the “extension period”). Key features of the proposal included:
- a revised price cap for the extension period of Consumer Prices Index (“CPI”) - 1% for the first two years of the extension period and CPI + 0% for the final two years;
 - a timetable and process to review service quality metrics and targets, with two specific changes to be considered as part of this review relating to:
 - (i) air traffic control performance at Gatwick; and
 - (ii) the introduction of financial incentives regarding arrival waiting time performance of special assistance services; and
 - a continuation of the current commitment which requires GAL to invest at least £120 million per year (on average, in 2018/19 prices). GAL has proposed that the average will now be assessed over the ten years from 2019/20 to 2028/29.
7. In June 2023, we invited views from stakeholders on GAL’s proposal.⁵ This was the first stage of our process for testing whether:
- the commitments framework; and
 - GAL’s proposal for a four-year extension to the existing commitments on the terms summarised above
- are consistent with our statutory duties, including to further the interests of consumers.
8. This consultation considers the views of respondents to the June 2023 Consultation, develops a framework for assessing whether GAL’s proposals are in the interests of consumers and consistent with our other statutory duties, and sets out our initial assessment of GAL’s proposal using this framework.
9. Our assessment framework (as set out in more detail in chapter 3) looks relatively widely at GAL’s performance and to what extent it is likely to deliver for consumers during the period of the commitments extension. This reflects:
- the greater maturity of the commitments framework;
 - that this extension is being considered in a period of greater stability (the commitments were previously renewed during the period of the covid-19 pandemic); and

⁵ “Economic regulation of Gatwick Airport Limited: consultation on proposal to extend the current commitments (CAP2554) the “June 2023 Consultation”. See: www.caa.co.uk/CAP2554

- consideration of the CAA's primary duty to further the interests of consumers and its secondary duties (as summarised in Appendix A).
10. In assessing GAL's performance against this framework, we have also considered a relatively wide evidence base including the terms of GAL's proposed commitments extension, its annual investor updates, capital investment plans, other information submitted to the CAA, the views of stakeholders and the results of consumer research. We have also discussed these matters with the CAA's consumer panel.
11. To support our assessment, we also commissioned PA Consulting to benchmark GAL's prices, profitability and other financial performance indicators (such as changes over time in costs and charges) with a comparator group of UK airports which are not subject to economic regulation and licensing. This consultancy report is published alongside this consultation.
12. In broad terms, our initial assessment is that GAL's proposals to extend the commitments for four-years, with a tightened price cap, and to pursue plans for capacity expansion, are likely to be in the interests of consumers. We have reached this position by considering a range of factors including:
- the level of airport charges and quality of service;
 - the renewal of commercial arrangements between the airport and airlines (that will in turn help protect consumers); and
 - that the level of investment proposed by GAL should be sufficient so that the reasonable demands for airport operation services at Gatwick are met and to support capacity expansion (which will in turn bring additional benefits to passengers and reduce incentives on Gatwick to exploit its market power).
13. However, this initial assessment is subject to two important caveats:
- that GAL obtains a Development Consent Order ("DCO") under the Planning Act 2009 to enable its plans for capacity expansion and it can make good progress with developing these plans over the period of the extended commitments. This is important as capacity expansion would have benefits for passengers, including moderating GAL's incentives to raise charges (as it would have additional incentives to promote the growth of airlines at the airport to fill the new capacity) and allowing for new services from the airport (which would promote passenger choice). If evidence were to emerge during this period that GAL is either not able to continue with these plans, or is not making good progress with capacity expansion, we would need to consider whether the commitments continued to provide sufficient protection for the interests of consumers and, if appropriate, we would bring forward revised proposals; and
 - that, in response to this consultation, GAL brings forward credible plans to deal with the concerns in relation to quality of service and special assistance services identified in chapters 3 and 4.

14. This is an initial assessment and is subject to the further consideration in the light of the responses we receive to this consultation, including responses on our assessment framework (summarised in chapter 3) and our initial assessment which is summarised above and set out in more detail in chapter 4.
15. Only once we have seen further evidence on these matters and considered the responses to this consultation will we be in a position to determine whether GAL's proposals to extend the commitments should be in the interests of consumers in the light of our duties set out in CAA12 and summarised in Appendix A.

Key issues for consultation

16. Our assessment of GAL's proposed commitments has raised some important issues which require further consideration. We are seeking views from stakeholders on:
 - whether our approach to assessing GAL's proposal, including, in particular, our assessment framework and whether the evaluation criteria against which we have assessed GAL's proposal, is appropriate, as discussed in chapter 3;
 - the areas of GAL's proposal that we consider require further mitigations (as highlighted by amber and red ratings discussed in chapter 4) and whether the mitigations we have proposed are reasonable; and
 - any other issues that we should consider as we finalise our assessment of GAL's proposal.

Next steps

17. Views are welcome on any of the issues raised in this consultation and particularly on the key issues set out above. Please e-mail responses to economicregulation@caa.co.uk by no later than 20 September 2024.
18. We expect to set out our decision on the way forward for the economic regulation of GAL in the autumn of 2024.
19. In due course, we expect to publish the responses we receive to this consultation on our website. Any material that is regarded as confidential should be clearly marked as such and included in a separate annex. Please note that we have powers and duties with respect to information under section 59 of the Civil Aviation Act 2012 and the Freedom of Information Act 2000.
20. If you would like to discuss any aspect of this document, please contact elly.shafran@caa.co.uk

Structure of this document

21. This document has the following structure:

- this introduction and summary;
- chapter 1 provides further background information on the commitments framework;
- chapter 2 summarises the responses to our previous consultation and sets out our views on the way forward;
- chapter 3 describes and seeks views on our framework for assessing whether GAL's proposals to extend the commitments are consistent with our statutory duties;
- chapter 4 sets out our initial views on GAL's proposals in the light of the framework discussed in chapter 3 and invites views on these matters;
- Appendix A summarises our statutory duties under CAA12;
- Appendix B sets out a glossary of the terms used in this consultation; and
- Appendix C sets out background to our initial high-level projections of GAL's financial performance during 2025-2029.

Chapter 1

Background

Introduction

- 1.1 This chapter sets out further information on the commitments that have been in place since 2014 and GAL's proposals to extend the commitments for the four-year period April 2025 to March 2029.

The first two sets of commitments

- 1.2 In 2014, we determined that GAL met the Market Power Test in CAA12 and, as such, the airport has been economically regulated by means of a licence since that time. The economic regulation of GAL effected through GAL's licence has been based on a set of "commitments" from GAL that include:
- a cap on the average level of airport charges that limits GAL's ability to raise charges;
 - a minimum level of investment in the airport;
 - a system of rebates if GAL misses certain service quality targets (these cover passenger satisfaction measures, security queues, runway availability and other operational measures); and
 - obligations on GAL to prepare and maintain plans on continuity of service and operational resilience, to provide an annual confirmation of adequate resources, and to provide certain accounting information.
- 1.3 These commitments are conditions of GAL's licence and are, therefore, subject to the licence modification process (including appeal rights) set out in CAA12.
- 1.4 The commitments framework was designed to be a proportionate and targeted approach to the economic regulation of Gatwick airport. By encouraging bilateral contracts with airlines⁶, our view to date has been that the commitments framework would support more targeted service offerings, better incentivise traffic growth and promote competition by facilitating innovation and the diversity of services offered.⁷ All these considerations suggested that the commitments would be in the best interests of consumers.

⁶ easyJet and IAG (which includes BA, Vueling Airlines, AER Lingus and Iberia Express) are the main airlines operating at Gatwick, covering around 46% and 21% of passengers respectively. Source: [CAA airport statistics](#), based on 2023 passenger data.

⁷ The reasons for the commitments framework are discussed in detail in "Economic regulation at Gatwick from April 2014: Notice granting the licence" (summarised at paragraph 8). See www.caa.co.uk/CAP1152.

- 1.5 We carried out a mid-term review of the first set of commitments in 2016 to consider whether any aspect of this framework was operating against consumers' interests. We found that many aspects of the framework appeared to be working well, but we also identified some potential concerns about the progress of airfield investment projects, on-time performance and some aspects of GAL's relationships with airlines.⁸ None of the airlines we spoke to suggested that there should be a return to the previous form of regulation.
- 1.6 The initial set of commitments expired in 2021. In January 2020, following engagement with stakeholders during 2018 and 2019, GAL submitted proposals for our review for a new set of commitments. However, our review of these proposals was overtaken by the impact of the covid-19 pandemic, which had a severe effect on the whole aviation industry and led to very low traffic levels at Gatwick airport for a prolonged period.
- 1.7 Despite the impact of the pandemic, GAL did not seek to change its proposals for new commitments. By October 2020, we reached a view that, bearing in mind the significant impact of covid-19 on the future outlook, the overall package of changes proposed by GAL was likely to be in consumers' interests. We therefore consulted stakeholders on this view, stating that we considered GAL's proposed price cap was likely to strike a reasonable balance between the interests of GAL and those of its passengers and airlines.⁹
- 1.8 Following a further consultation in February 2021,¹⁰ we modified GAL's licence to accept its proposals for a new set of commitments. These new commitments last for four years to 31 March 2025 and include:
- a cap of Retail Prices Index (RPI) + 0% on GAL's published airport charges. This cap is set in GAL's current licence at £10.29 per passenger in 2018/19 prices, and by 2024/25 has reached £14.11 in nominal prices.¹¹ Unlike the first set of commitments, there is no separate cap on net charges (that is, charges paid after allowing for discounts);
 - a revised set of service quality targets and rebates. Changes from the targets and rebates in the first set of commitments included a switch from annual to quarterly moving averages for passenger survey scores, detailed changes to asset availability targets and a new runway availability measure; and

⁸ See [CAP1502](#). Economic regulation: A review of Gatwick Airport Limited's commitments framework – Findings and conclusions

⁹ See [CAP1973](#). Economic regulation of Gatwick Airport Limited: consultation on new commitments

¹⁰ See [CAP2103](#). Economic regulation of Gatwick Airport Limited: notice of proposed licence modifications

¹¹ See GAL "2024/25 Tariff Decision – Core Service Charges", 31 January 2024, page 3. Note: excludes permitted security cost. Figures rounded to 2 decimal places, for example the figure in GAL's licence is £10.291.

- a minimum investment commitment of £120 million per year (in 2018/19 prices) on average over the six years from 2019/20 to 2024/25.

1.9 We also said that we intended to carry out focused assessments of several issues, including:

- GAL's net charges and the average level of discounts; and
- service quality issues and investment

and we would consider a review of issues arising during the process of renewing the commitments.¹²

1.10 We have not yet carried out any of these assessments, initially because GAL and airlines were still focused on operational issues as traffic recovered after the pandemic and, more recently, because GAL notified us of its intention to propose an extension to the current commitments. We encouraged GAL to engage with airlines regarding any proposed extension and were concerned that launching regulatory reviews might interfere with this commercial process.

GAL's proposal to extend the current commitments

1.11 GAL has now proposed to extend the current commitments for four years from 1 April 2025 to 31 March 2029. It consulted airlines on an initial proposal in the summer of 2022, then sent a revised proposal for our evaluation in March 2023, requesting that we use our powers under section 22 CAA12 to introduce the required modifications of the terms set out in GAL's licence.

1.12 It has said that the proposed extension will provide for stability and certainty as the economy and aviation industry stabilise after the covid-19 pandemic and until the outcome of GAL's application for a DCO to permit for the construction of its northern runway becomes known. It stated that this will allow the airport and its airlines to focus on delivering resilient operations, high service quality, a large investment programme and the anticipated growth in capacity and passenger numbers.

1.13 GAL's revised proposal document has been circulated to airlines and is also available on the CAA's website.¹³ In summary, the proposal includes:

- a price ceiling of CPI - 1% for the first two years of the extension (2025/26 and 2026/27) and CPI + 0% for the final two years extension (2027/28 and 2028/29). This is subject to the cap not falling in nominal terms in the first two years and for an extra allowance for certain costs associated with any increases in security standards;

¹² See section 2 of [CAP2144](#). Economic regulation of Gatwick Airport Limited: notice of licence modifications

¹³ See the "Gatwick Commitments" published with the June 2023 Consultation: www.caa.co.uk/CAP2554A.

- the potential for changes to the current service quality targets and rebates. GAL had already committed to consult airlines and the Passenger Advisory Group on the structure and content of the service commitments, to ensure they remain appropriate and relevant. Its proposal document included a timetable and process for this review, and suggestions for two specific changes to be considered as part of it (a metric on air traffic control performance at Gatwick, and the introduction of financial incentives regarding arrival wait time performance of special assistance services); and
- a continuation of the current commitment which requires GAL to invest a minimum of £120 million (in 2018/19 prices) per year, on average, over the period as a whole.

1.14 GAL's proposal also outlines some of its planned investments, including its northern runway programme and an acceleration of sustainability investment. Depending on the outcome of its application for a DCO, GAL currently expects its average investment over the ten years to March 2029 to be significantly above the minimum commitment.

Chapter 2

Consultation responses and our assessment

Introduction

- 2.1 The June 2023 Consultation summarised GAL's revised proposal to extend the current commitments for a further four years. We invited stakeholders' views on this proposal, encouraging respondents to include specific analysis and evidence as far as possible, and to indicate whether they had already raised their concerns with GAL.
- 2.2 This chapter summarises the responses to the June 2023 Consultation and sets out our assessment of these responses.¹⁴

Responses to the June 2023 Consultation

- 2.3 Representing airlines, the Airport Consultative Committee ("ACC") stated that GAL's initial consultation period (in the summer of 2022) for its proposal was ill timed. It acknowledged the move from RPI to CPI in GAL's proposed price cap but stated that GAL had not provided sufficient evidence to support its price proposal. The ACC, therefore, asked the CAA to carry out analysis to determine whether the proposal provides value and is in the best interests of consumers. It also asked us to comment on whether a four-year extension would be appropriate at this point in the planning process for GAL's northern runway proposal.
- 2.4 The ACC also noted that, at the conclusion of the last review, we had said that we would undertake a "lessons learnt review" as well as several other focussed assessments.¹⁵ While it understands why this did not happen, it considers this would have been a useful tool to have before any consultation on the next extension period. It said the CAA should take a more active approach to governance and monitoring, and include in our final decision a clear plan of the reviews to be conducted and associated interventions that might be required.
- 2.5 easyJet acknowledged that the commitments framework had fostered some success in its initial period but stated that this alone did not support a conclusion that GAL's proposals would be in the best interest of passengers. It requested that we undertake a detailed assessment of whether GAL's proposals, especially in relation to the proposed price cap, are fair, reasonable and in the best

¹⁴ Stakeholder responses to the June 2023 Consultation can be found on our [website](#).

¹⁵ Economic regulation of Gatwick Airport Limited: notice of licence modifications (CAP2144) at chapter 2. See: www.caa.co.uk/CAP2144

interests of passengers. It stated that, based on publicly available data, GAL may be operating more profitably than comparator airports. easyJet suggested that an appropriate price cap for an operator with market power, similar in size and cost to GAL, could potentially be significantly lower than the current level of charges. It concluded that there is a need for further analysis to be conducted by the CAA and that it would not be appropriate to extend the commitments framework without a substantive review of GAL's proposals.

2.6 Among other airline respondents:

- International Airlines Group ("IAG") said that it is not averse to GAL's revised proposals, given the circumstances following the pandemic and before work begins on its northern runway project. Nonetheless, it also said that we must ensure the framework in future periods (following the proposed extension) remains appropriate and protects consumers particularly as a successful DCO will require significantly different capital expenditure in the future. On GAL's specific proposals, it welcomed the switch from RPI to CPI and stated that a price profile that delivers an initial negative real price path reflects ongoing productivity gains that would be expected in competitive markets. It went on to say that it is ultimately for the CAA to consider the details to ensure they deliver the best value and service for consumers and suggested that it may be relevant to consider alternative commitments for a DCO and non-DCO scenario given the uncertainty or potential delays to the DCO process; and
- TAP Air Portugal stated that it has no objection to GAL's proposals for the period 2025 to 2029.

2.7 On service quality:

- easyJet noted its concerns with the recent performance of GAL's third-party suppliers, particularly in relation to air traffic control and services to passengers with reduced mobility ("PRM") and welcomed GAL's proposals to introduce a metric on air traffic control performance and a financial incentive in relation to the quality of PRM services;
- the Gatwick ACC also noted that the air traffic control service at Gatwick airport had been below what is expected; and
- IAG considered that service quality would benefit from updates based on passenger research, which would allow GAL to demonstrate that it is responsive to passenger needs.

2.8 Both GAL and easyJet said that engagement was taking place on GAL's service standards consultation and GAL said that it is currently conducting qualitative research to inform this ongoing review.

2.9 GAL reiterated its view that a four-year extension would benefit consumers by generating a more stable, predictable environment to assist airlines as they recover from the impact of the covid-19 pandemic. It also referred to uncertainty over both the level of traffic and the outcome of the DCO application for its

northern runway proposal, stating that these uncertainties should be resolved during the period of its proposals to extend the existing commitments. GAL drew attention to a number of disadvantages that would be associated with a materially shorter extension, such as the risk of regulatory uncertainty during a period when GAL is planning to deliver a large investment programme. GAL also reported a number of developments since it submitted its proposal, including having signed new contracts with the majority of its airline customers, in some cases covering the full period of the proposed extension and beyond.

- 2.10 We also received responses from GATCOM (the statutory advisory body for Gatwick airport) which noted that its Passenger Advisory Group was content with GAL's proposal to extend the commitments. Most GATCOM members also welcomed the use of price signals to incentivise quieter, cleaner and greener aircraft.
- 2.11 Communities Against Gatwick Noise Emissions ("CAGNE") stated that prices should be increased to reflect the impact of aircraft noise, carbon emissions, greenhouse gases and light pollution.

Our assessment of responses

- 2.12 We agree that, in the period since we introduced the commitments framework in 2014, there have been a range of positive developments at Gatwick airport. Among other things:
- there has been strong traffic growth at Gatwick, with passenger numbers growing by 22 per cent between 2014 and 2019;¹⁶
 - services have been introduced on a number of new routes from Gatwick;
 - GAL has achieved many of its service quality targets, though we note that overall punctuality has been relatively poor at times, notably around 2016 and in the most recent years (reflecting, a range of factors, some largely outside of GAL's control but also a shortage of air traffic controllers at Gatwick which did reduce the number of flights). Nonetheless, overall passenger satisfaction has risen;
 - during the first six years of the commitments GAL invested £1.4 billion, well above minimum requirement of £100 million per year and, on average over the same six years, also held its average airport charge (after discounts) below the "fair price benchmark" that we calculated in 2014;¹⁷

¹⁶ Source: CAA statistics. See: <https://www.caa.co.uk/data-and-analysis/uk-aviation-market/airports/uk-airport-data/>

¹⁷ The "fair price" benchmark was calculated during the price control review for GAL in 2013-2014 and was based on our calculation of a traditional price cap. See "Economic regulation at Gatwick from April 2014: final proposals (CAP1102) at pages 7-9. See: www.caa.co.uk/CAP1102

- by the time of our 2016 mid-term review, GAL had agreed bilateral contracts with airlines covering more than 80 per cent of passengers and we now understand that the current figure is even higher; and
- GAL has also developed a proposal to provide significant additional capacity by bringing its northern runway into regular use.

2.13 We consider that these developments have been encouraged and facilitated by the commitments framework. We are keen to maintain an approach that encourages co-operation and commercially based (rather than regulator-led) decision making and avoids the detailed and often non-constructive disagreements that can occur under a more prescriptive approach to economic regulation.

2.14 Our view is that the use of the commitments framework should be consistent with our statutory duties, as long as it continues to provide sufficient protection to consumers. In particular:

- it helps to ensure that our regulatory activities are carried out in a way that is proportionate and targeted only at cases in which action is needed; and
- we consider that commercially-based decisions, made in a constructive environment, are more likely to promote economy and efficiency than decisions that are taken by us (often in the context of strongly divergent submissions from stakeholders).

2.15 Nonetheless, stakeholders have raised a number of legitimate concerns in relation to GAL's latest proposal to extend its commitments:

- some airlines have raised concerns over GAL's proposed price cap and its profitability compared to similar airports;
- the ACC has commented that the CAA should review GAL's proposals; and
- some airlines have raised concerns in relation to the uncertainty around GAL's DCO application.

2.16 Given the concerns of stakeholders, and the importance of adopting an approach that appropriately protects consumers, we have developed a framework for assessing GAL's performance and proposals to extend its commitments. This is set out in chapter 3.

Chapter 3

Framework for assessing GAL's proposal

Introduction

- 3.1 This chapter sets out for consultation our framework for assessing GAL's proposal to extend its commitments over the period 2025 to 2029. It describes our overall approach which we consider is proportionate and based on an appropriately broad set of evaluation criteria. This approach reflects our statutory duties and our desire to see GAL act in a way that is consistent with a company under competitive pressure, and the advantages that this brings in terms of incentivising efficiency and encouraging it to effectively meet the needs of its customers and passengers.
- 3.2 The chapter then goes on to discuss and explain each of the factors that comprise this framework and sets out why they are important to the discharge of our statutory duties and to consumers. We also describe the evidence base that we currently have available in relation to each of these factors.
- 3.3 We provide an initial assessment of GAL's proposals against this framework in chapter 4.

The assessment framework

- 3.4 We are required by CAA12 to assess GAL's proposal to extend the commitments framework against our statutory duties. Fundamental to this assessment is the CAA's primary duty under CAA12 that we carry out our functions (including this assessment) in a manner that we consider will further the interests of consumers regarding the range, availability, continuity, cost and quality of the airport operation services provided by GAL. In so doing, we consider both the interests of present and future passengers and users of air cargo services who we refer to collectively as "consumers".
- 3.5 In assessing GAL's proposal, we have considered evidence from;
- GAL's proposed commitments extension, its capital investment plans, its annual investor update, other information submitted to the CAA;
 - consumer research and the views of the CAA's consumer panel; and
 - GAL's response to an information request we made in August 2023 which included a summary of the expected timing of key milestones in the planning and delivery of the northern runway project.
- 3.6 To support our assessment, we also commissioned PA Consulting to benchmark GAL's profitability and other financial performance indicators (such as changes

over time in costs and charges) with a comparator group of UK airports which are not subject to economic regulation. That consultancy report is published alongside this consultation.¹⁸

3.7 Having considered the various matters that we are required to “have regard to” in performing our primary duty,¹⁹ our present view is that we should consider a relatively broad range of factors, consistent with a “balanced score card” approach, and the delivery for consumers over a reasonably wide range of issues including:

- the relative level and trend in GAL’s **airport charges**, which we consider are likely to be passed on by airlines to consumers over time in ticket prices;
- its **profitability** and **efficiency** (which may indicate if it is exploiting its market power at the expense of consumers);
- the **quality of service** provided to passengers and airlines;
- the effectiveness of the **special assistance services** provided to passengers (including PRMs);
- GAL’s performance in **coordinating activities across the airport** campus for the benefit of consumers (including the arrangements it has for the provision of air traffic control services and the efforts it has made to support effective ground handling arrangements);
- its progress in being able to negotiate longer-term **commercial deals** with its airline stakeholders. This should provide an indication of GAL’s willingness to deal with airlines on proper commercial terms, which will ultimately benefit consumers;
- GAL’s proposals for, and progress with, **the development of its northern runway**, that would benefit consumers by increasing resilience and providing additional capacity;
- its **environmental performance**, consistent with our statutory duty to have regard to the need to secure that a licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects; and
- any **other matters** that have a significant impact on protecting consumers or other aspects of our statutory duties.

3.8 Each of these factors is described in more detail below.

¹⁸ <https://www.caa.co.uk/publication/cap3012>

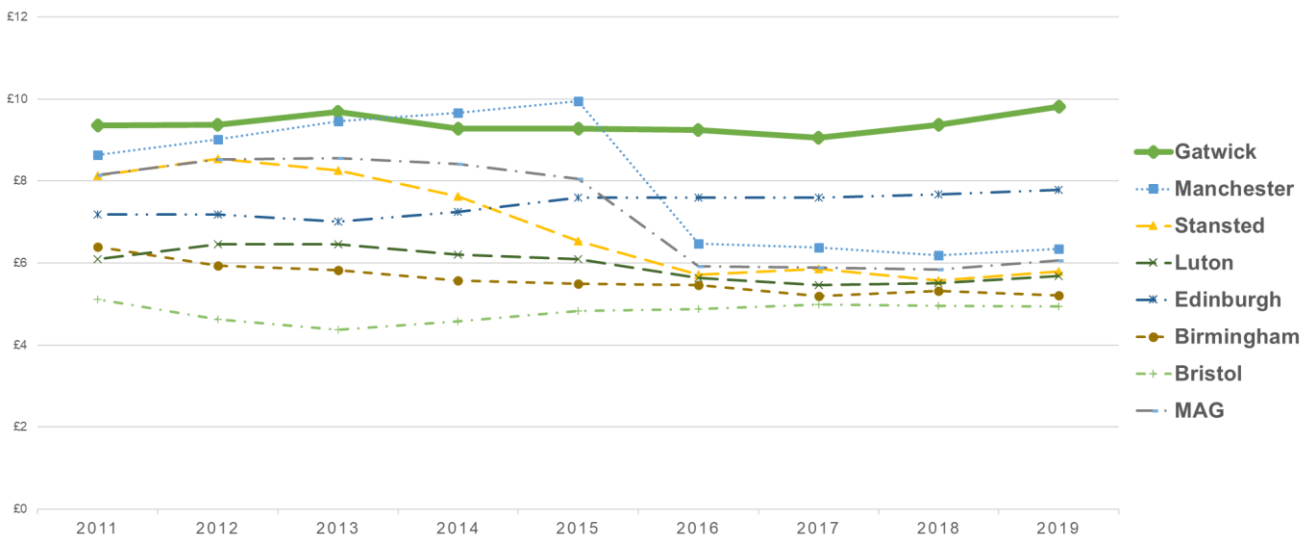
¹⁹ See section 1(3) CAA12

Airport charges

3.9 Since airport charges will tend to be passed on from airlines to passengers through ticket prices, ensuring that airport charges are reasonable is an integral part of protecting the interests of consumers.

3.10 As noted above, we commissioned PA Consulting to undertake a benchmarking exercise, comparing GAL's performance with a comparator group of UK airports: these are airports not subject to a price control (which we refer to below as "non-regulated UK airports"). Airport charges are typically calculated based on various components such as landing and take-off fees, which depend on the type of aircraft, as well as a passenger-related component. The airport charge paid at any airport therefore varies from flight-to-flight, and from passenger-to-passenger. So that prices could be compared across airports, PA Consulting considered average aviation revenue per passenger for Gatwick and other airports.

Figure 3.1 Aviation revenue per passenger 2011 – 2019 (2019 prices)



Source: PA Consulting report

3.11 Figure 3.1 shows aviation revenue per passenger for 2011-2019²⁰ - a period during which data is not distorted by the covid-19 pandemic. Aviation revenue per passenger remained significantly higher at Gatwick than at the other airports.

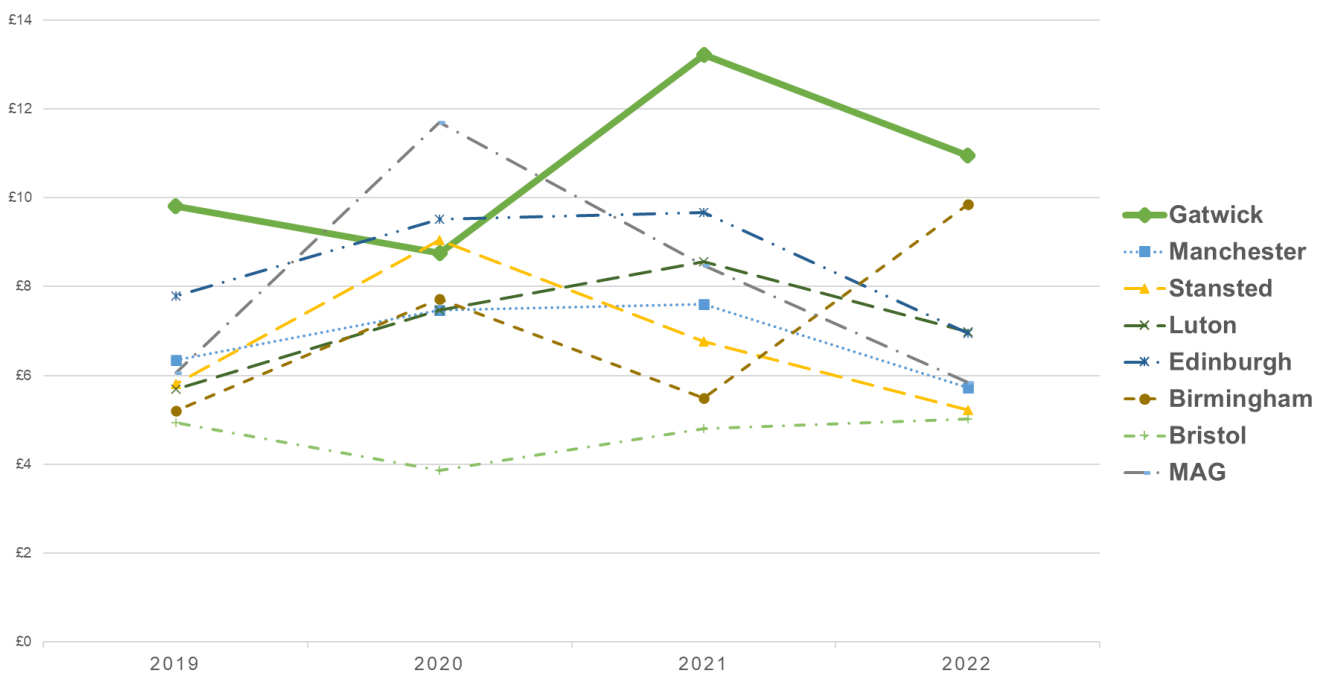
3.12 Looking across all the airports, there is no systematic evidence of real price rises over time, but we note the small rise in Gatwick's aviation revenue per passenger in 2019. We also note that the revenue per passenger data for Manchester Airport and the wider Manchester Airports Group ("MAG") has some

²⁰ Figure 15 from PA Consulting report.

issues of comparability, with the large decrease in 2016 being caused by the recognition of airline discounts against revenue, rather than as a cost (as was previously the case).

3.13 Figure 3.2 shows the same metric for 2020-2022.²¹ It is informative to look at the period after 2019, but it is important to bear in mind the potential for the impact of the covid-19 pandemic to distort the position, particularly on data from 2020 and 2021. During the covid-19 pandemic, average revenue per passenger at all airports was relatively volatile due to fluctuating levels of passengers and load factors. However, for 2022, as aviation demand recovered, at most airports revenues per passenger started to return to close to the 2019 levels.

Figure 3.2 Aviation revenue per passenger 2020 – 2022 (2019 prices)



Source: PA Consulting report

3.14 We consider that these comparisons are likely to be more relevant than the international comparisons of net aeronautical revenues per passenger that GAL included in its proposal document. We note that most of the comparator airports in GAL's analysis operate as hubs, many of them major hubs. We might expect the hub airports to have higher costs and, therefore, higher charges than GAL simply because of the greater complexity associated with hub operations. We also note the difficulties associated with international comparisons of airport profitability and other measures (such as different legal and regulatory

²¹ Figure 40 from PA Consulting report

environments, different reporting standards and adjusting for exchange rates and exogenous differences in revenues and costs).

- 3.15 GAL's extension proposal is for airport charges per passenger to increase in line with (or slightly below) CPI during 2025-2029, which should lead to a modest decrease in real cost per passenger by 2029.

Profitability, costs and efficiency

- 3.16 As noted above, the CAA's primary duty in carrying out our assessment of GAL's proposals is to further the interests of consumers. In this context, excess profits (that is profits significantly in excess of a reasonable return for an extended period) could indicate that GAL is using its market power to charge more than is appropriate, and this could have a negative impact on consumers as airlines could pass these costs on in terms of higher ticket prices. Nonetheless, if higher profits arise from relatively high levels of efficiency, there may be less or no detriment to consumers.
- 3.17 To assess these matters, we used analysis from the PA Consulting report to compare GAL's performance on key financial and accounting metrics over the period from 2011 to 2022. We have also generated some initial high-level projections of GAL's future costs and revenues under its proposed price cap, which are discussed further in Appendix C.
- 3.18 The benchmarking analysis considers both the 2011-2019 and 2020-22 periods, given the impact of the covid-19 pandemic on the aviation sector in 2020 and 2021. We also note that:
- accounting-based measures of profitability may differ from those typically used by economic regulators; and
 - different approaches to asset valuations (and associated depreciation allowances) and inflation have the potential to distort comparisons between individual airports.

Nonetheless, we consider that the PA Consulting report provides useful information including how revenues and costs per passenger have changed over time, and an overview of the returns typically achieved by the largest non-regulated UK airports using a number of different measures.

- 3.19 As noted above the PA Consulting report presents a variety of measures of profitability, including three 'profit margin' measures, for which different measures of profit are expressed as a proportion of revenue. These profit margin measures are:
- EBITDA margin (where EBITDA stands for Earnings Before Interest, Tax, Depreciation and Amortisation);

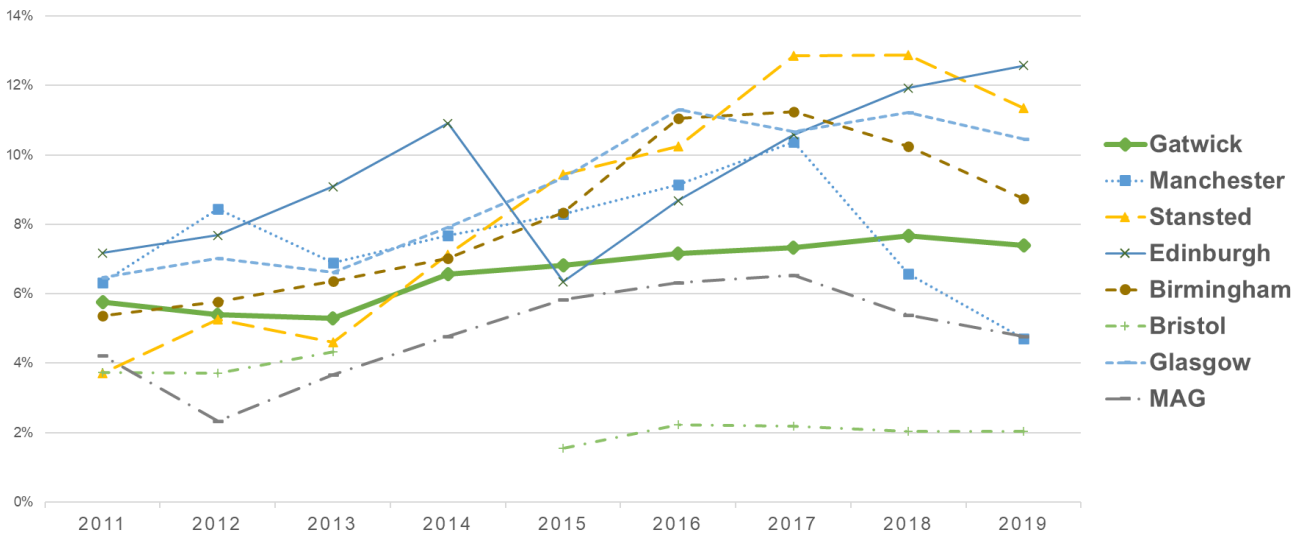
- adjusted operating profit margin (where operating profit is net of depreciation, and “adjusted” operating profit excludes exceptional items); and
- net profit margin (which is after accounting for all costs (including exceptional items), taxes and interest payments).

3.20 In addition, PA Consulting reports a number of ‘returns’ measures,²² all of which express the “adjusted operating profit” (defined above) as a proportion of different measures of asset value or capital employed from the company accounts. These measures of returns are:

- Return on Capital Employed (“ROCE”);
- Return on Fixed Assets (“ROFA”); and
- Return on Tangible Fixed Assets (which PA Consulting refers to as “ROFA-I”, that is, ROFA minus Intangible Assets(I)).

3.21 In the case of GAL, each measure produces a broadly similar trend, which is illustrated in figure 3.3 below²³ for the ROFA measure for the period from 2011 to 2019. Broadly speaking, this shows GAL as in the ‘middle of the pack’ compared with other airports during that period, but (in common with most of the other airports) with gradually increasing profitability over time.

Figure 3.3 Return on Fixed Assets (ROFA) 2011 - 2019



Source: PA Consulting report

²² Full definitions of each of these measures are provided in the PA Consulting report.

²³ Figure 11 from PA Consulting report

- 3.22 The PA Consulting report also shows that, following the covid-19 pandemic, during which airports made heavy losses, GAL's profitability had, across the various margin and return metrics, broadly returned to 2019 levels by 2022.²⁴
- 3.23 Notably, for the 2023 financial year, GAL has recently announced substantially increased operating profits, from £282m (2022) to £464m (2023), a year-on-year increase of over 60%.²⁵ This represents an increase in ROFA (operating profits/fixed assets) from 7.8% (2022) to 12.6% (2023).²⁶
- 3.24 To further inform our assessment of GAL's proposals to extend its commitments, we have developed initial high-level projections for the period 2025/26 to 2028/29 of GAL's possible levels of profitability and return across a range of scenarios/sensitivities. Appendix C provides more detail of these high-level projections and the scenarios/sensitivities.
- 3.25 Our analysis indicates that GAL may earn relatively high levels of profits. For example:²⁷
- across all the scenarios/sensitivities the high-level projections of GAL's EBITDA margin increase to be between 57 and 65 per cent, compared with between 47 and 55 per cent in the period from 2014 and 2019, and between 30 and 55 per cent for most of the largest non-regulated UK airports during the 2010s;
 - similarly, the high-level projections of GAL's operating profit margin (across all the scenarios/sensitivities) is between 41 and 50 per cent, compared with between 27 and 34 in the period from 2014 to 2019, and between 15 and 35 per cent for the largest non-regulated UK airports during the 2010s; and
 - expressed as a return on fixed assets,²⁸ the high-level projections of GAL's operating profits give a return (across all the scenarios/sensitivities) of between 12 and 17 per cent, whereas it was between 6 and 8 per cent in the period from 2014 to 2019, and between 4 and 13 per cent for the largest non-regulated UK airports during the 2010s.

²⁴ UK Airports Financial Benchmarking, PA Consulting, April 2024, Section 4.

²⁵ "Continued recovery of traffic drives strong financial performance", GAL press release, 21 March 2024 (<https://www.mediacentre.gatwickairport.com/news/continued-recovery-of-traffic-drives-strong-financial-performance-7876-40f32.html>) and GAL annual report and consolidated financial statements for 2023.

²⁶ Calculated by CAA from GAL annual report and consolidated financial statements for 2023, pages 100 and 102.

²⁷ Historical figures refer to UK Airports Financial Benchmarking, PA Consulting, April 2024, Section 3. Our future projections under each metric are bounded by the lowest and highest observations for that metric for any of the four years of the extension period under any of the scenarios discussed in Appendix 3 of this report.

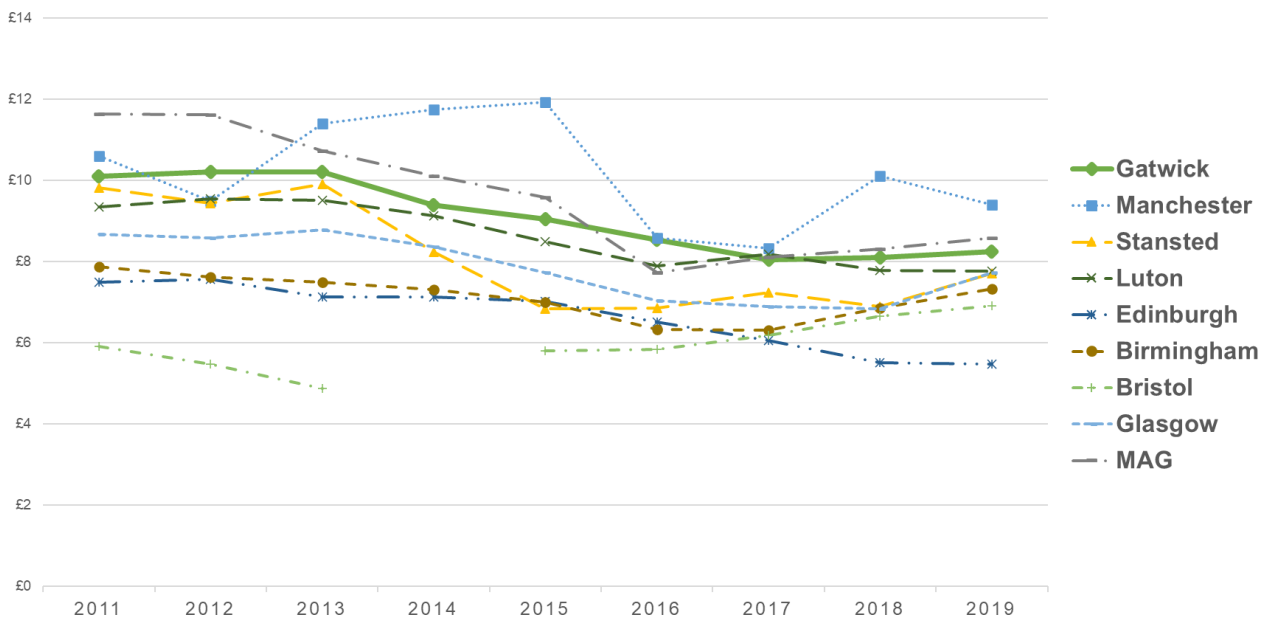
²⁸ We note this measure is dependent on accounting asset valuation conventions.

3.26 The projected future increases in profitability (which are already emerging in GAL's financial performance in 2023) appear to be due to a combination of factors such as continued traffic growth and, specifically for ROFA, the asset base has shrunk in real terms as a result of several years of:

- low investment during the pandemic; and
- high inflation shortly after.

3.27 It is also important to consider the efficiency of costs incurred, as this may also help explain profitability. The PA Consulting report also presents data on costs per passenger for GAL and the comparator airports. This is shown for the 2011-2019 period in figures 3.4 and 3.5 below.²⁹

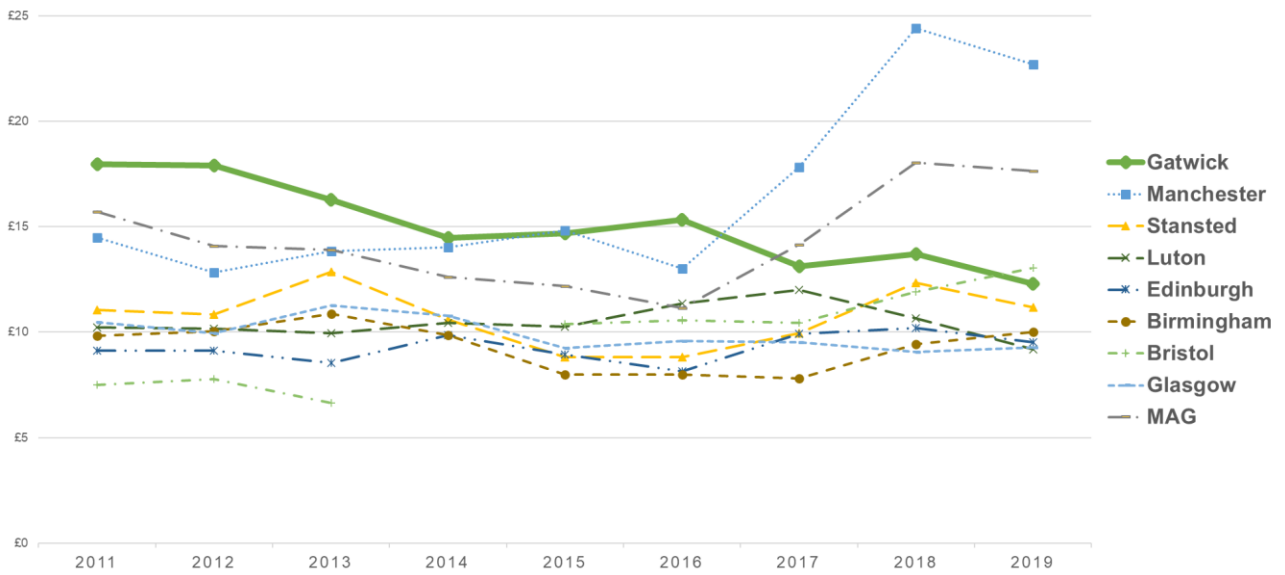
Figure 3.4 Adjusted opex per passenger 2011 - 2019 (2019 prices)



Source: PA Consulting report

²⁹ PA Consulting figures 23 and 29 for opex and total expenditure ("totex"), respectively, in 2019 CPI prices.

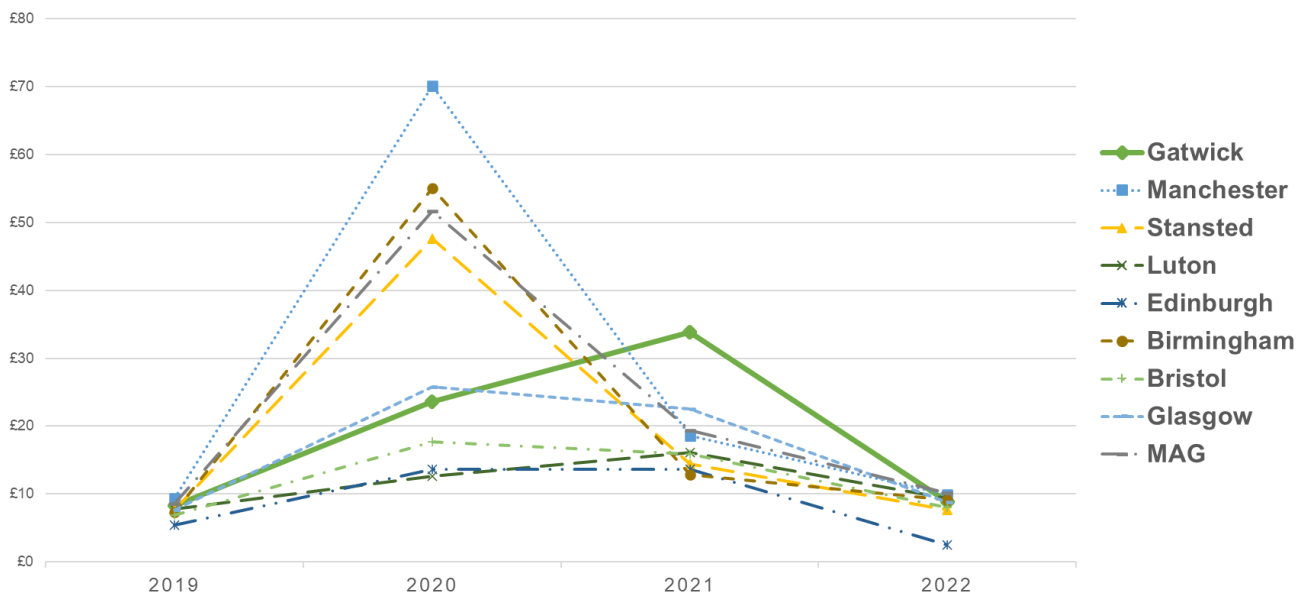
Figure 3.5 Totex per passenger 2011 - 2019 (2019 prices)



Source: PA Consulting report

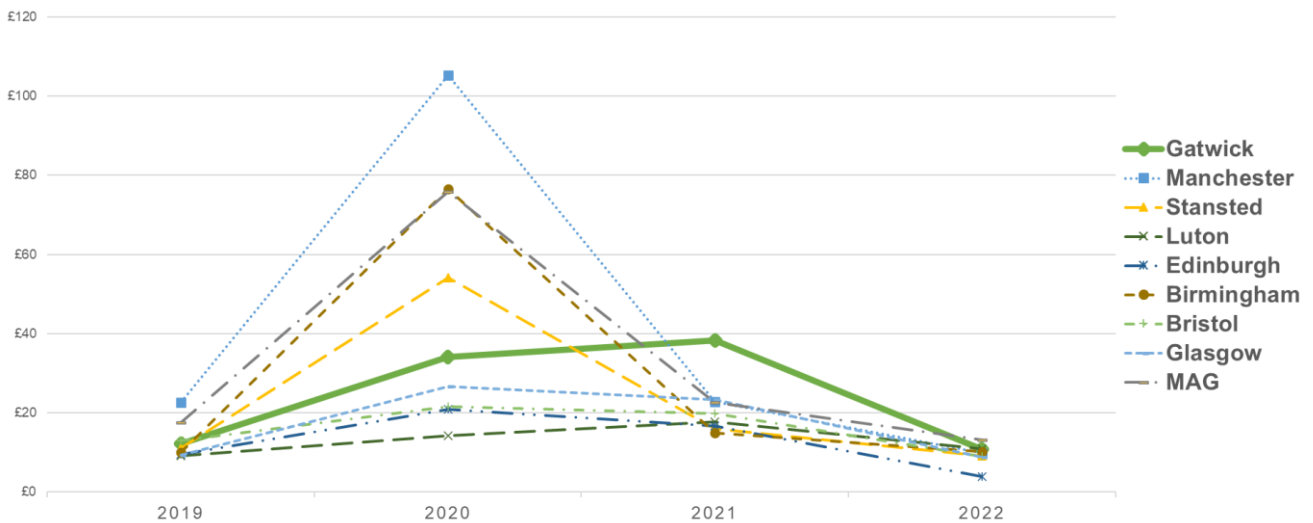
3.28 Corresponding data for the covid-19 affected period is shown in figures 3.6 and 3.7.³⁰

Figure 3.6 Adjusted opex per passenger 2019 - 2022 (2019 prices)



Source: PA Consulting report

³⁰ See the PA Consulting Report at figures 48 and 44.

Figure 3.7 Totex per passenger 2019 - 2022 (2019 prices)

Source: PA Consulting report

- 3.29 It should be noted that the totex data, which comprises the sum of operating expenditure (opex) and capital expenditure (capex) in a year, is subject to significant year-to-year variations reflecting the pattern of investment at different airports (for example, different airports may have different asset replacement cycles, and some may be involved in capacity expansion programmes). Nevertheless, overall trends taken across a group of comparator airports are still informative. GAL's costs per passenger are towards the upper end of comparator airports but reduced significantly over the period from 2011 to 2019, before the pandemic. This reflects, in part, the growth in passenger demand over the period, leading to economies of scale.
- 3.30 Cost performance for the 2020 to 2022 period on a per-passenger basis was significantly distorted by the effects of the pandemic on passenger numbers, leading to temporary spikes in costs per passenger (as not all costs fell in the same way as demand). Data for the 2023 calendar year suggests that GAL may have been able to reduce operating expenditure in real terms compared to the pre-covid period,³¹ although this will become clearer once passenger numbers have fully returned to pre-covid levels.

Quality of service

- 3.31 Ensuring that GAL provides a good quality of service to consumers is an integral part of protecting the interests of consumers. For example, passengers and staff members need to have confidence that they can travel through security points at the airport without being unduly delayed. Similarly, passengers can reasonably expect terminals to be cleaned on a regular basis and to have appropriate

³¹ GAL annual report and consolidated financial statements for 2023.

seating, flight information and access to WiFi. A regulatory regime that appropriately incentivises the airport operator to provide good services to passengers and airlines is consistent with our statutory duties.

- 3.32 GAL's current commitments include a set of Core Service Standards ("CSS") with service quality targets for various aspects of its services to passengers and airlines, with provision for rebates to airlines if GAL misses these targets.³² The revenue at risk (if GAL continuously misses every target) is 6.75 per cent of GAL's revenues from regulated charges for airlines using the South Terminal, and 7.25 per cent for airlines using the North Terminal.³³
- 3.33 GAL has said that it will continue to operate the CSS³⁴ and associated rebates for the extension period. GAL also set out the process for a review of service commitments, which was expected to be completed by October 2023. We understand that discussions between GAL and airlines on changes to service quality measures, targets and rebates are continuing.
- 3.34 It has also commissioned consumer research (on passenger views of the end-to-end experience and operational metrics) and has carried out periodic reviews with airlines and passenger representatives on appropriate service quality measures. It has proposed two specific changes as part of the review of its service commitments:
- a measure on air traffic control performance at Gatwick, and
 - the introduction of financial incentives if GAL fails the European Civil Aviation Conference (ECAC) arrival wait time target for special assistance.
- 3.35 GAL's 2023 consumer research suggests that the airport is providing a good service. Most customers that were surveyed rated services as "good" (53%) with some rating them as either "excellent" (26%) or "average" (19%). A small proportion of passengers rated services as "poor/very poor". The key areas for improvement included:
- the passenger experience in departure lounges, (that is, the availability of comfortable seating in terminals and near gates);
 - other amenities including charging points, workspaces, seating in food and drink outlets; and

³² The current standards, metrics, target levels and maximum potential rebates can be found in Appendix I of [gatwick-licence-consolidated-version_2-18-june-2021.pdf \(caa.co.uk\)](#).

³³ The difference is because of an availability target for the inter-terminal shuttle system, with a maximum potential rebate of 0.5 per cent of revenues, which is relevant only to airlines using the North Terminal.

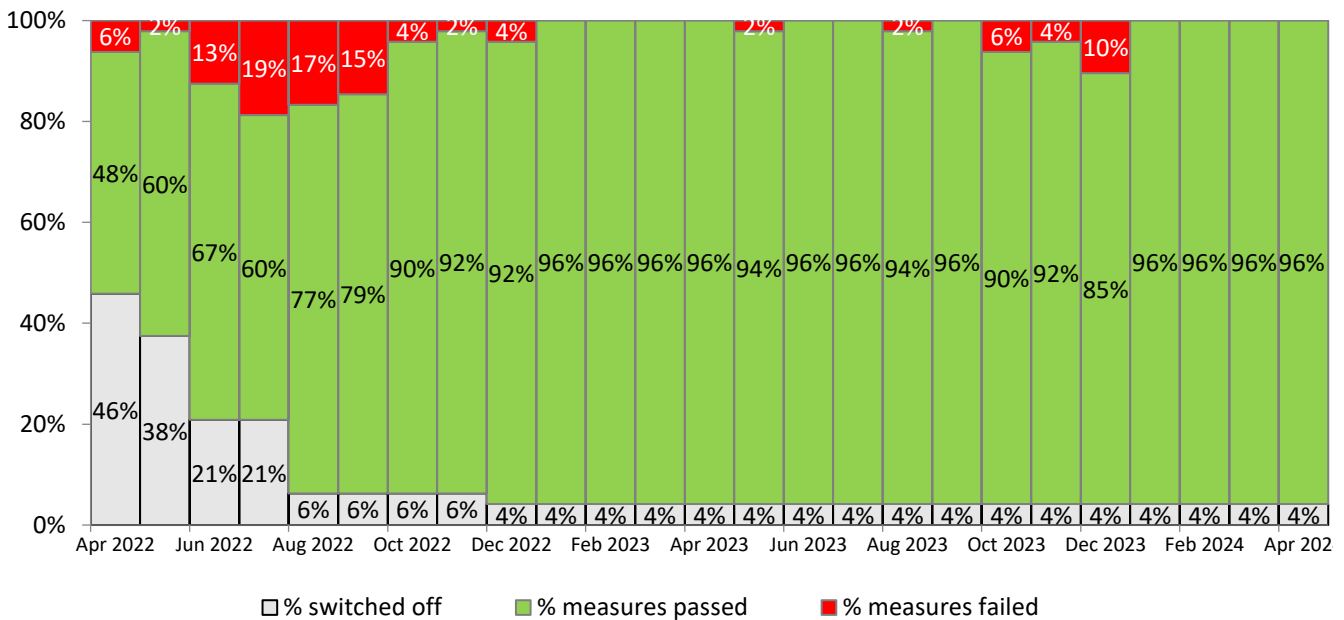
³⁴ As set out in Schedule 3 of Gatwick's Condition of Use.

- the quality of information on expected queuing times and distance to gates (which would enhance the navigability of the airport for passengers).

3.36 Changes to the CSS are subject to the change process set out in the commitments and may be made at any time provided the changes are agreed with airlines.

3.37 Figure 3.8 shows that between April 2022 and April 2024, GAL has achieved most of its service quality metrics. However, it has sometimes failed to meet the required target and paid the consequential rebates to airlines. In 2022/23 GAL paid rebates to airlines amounting to approximately £150,000. In the first three quarters of 2023/24, GAL paid rebates to airlines amounting to approximately £591,000.³⁵

Figure 3.8 GAL CSS performance April 2022 to April 2024



Source: GAL

3.38 Areas where GAL did not meet the CSS targets during 2022 and 2023 include passengers' satisfaction with departure lounge seating and cleanliness, security search wait times and runway availability. We note that:

- GAL's provision of adequate departure lounge seating in the terminals was one of the areas for improvement highlighted in GAL's 2019 passenger research and that continues to be the case in the consumer research

³⁵ See Gatwick Performance Reports: <https://www.gatwickairport.com/company/reports/performance-reports.html>

conducted in 2023. The target for seating is relatively low; 3.8 out of 5,^{36,37} with performance between 3.8 and 4.0 reported in GAL's performance reports (but not triggering rebates). This score was often below 4.0 in the summer months of 2022 and 2023, and GAL failed to meet its 3.8 target in August and September 2022 at the South Terminal;

- GAL did not meet its central security search wait time targets in summer 2022, as traffic recovered rapidly following covid, but since then performance has recovered to normal levels;
- GAL did not meet its cleanliness targets for several months in the summer of 2022 and again, albeit marginally, in October and November 2023; and
- GAL failed the runway availability measure in December 2023 due to planned closures to help manage breaks that were required for air traffic controllers following a period of sickness.³⁸ GAL also failed to meet this measure in April 2022 and August 2023.

3.39 We expect GAL to discuss and agree all of the service standards with airlines as part of their ongoing discussions. Plans to extend service commitments and build-in financial incentives with relation to air traffic control and special assistance performance seems to be a positive development from the perspective of consumers. Furthermore, we are currently of the view that there is some merit for GAL, in discussion with airlines, considering raising the departure lounge seating target to 4.0.

Special assistance services

3.40 Assimilated Regulation (EU) No 1107/2006 provides for rights for PRMs during air travel. This applies to all flights from the UK and flights to the UK on UK and EU registered carriers.

3.41 Airports and airlines are required to offer special assistance services free of charge for passengers, aiding in airport navigation, and aircraft boarding and disembarking. Airports, in particular, are responsible for helping PRMs move around the airport and embark or disembark the aircraft.

3.42 The CAA's Airport Accessibility Performance Framework³⁹ sets out a standardised method of assessing airports in the provision of assistance to those

³⁶ Passenger satisfaction is measured as a score from 1 to 5, with 5 being "Excellent" and 1 being "Extremely Poor". GAL's passenger satisfaction scores are measured on a monthly moving quarterly average.

³⁷ Other passenger satisfaction targets are 4.0 (cleanliness, ease of using Wi-Fi, and special assistance). 4.1 (wayfinding) and 4.2 (flight information). For comparison, we note that, although passengers' satisfaction with departure lounge seating no longer features in the list of Heathrow's service quality metrics, its performance for this metric (on a monthly moving annual average) for its various terminals ranged between 4.1 and 4.35, a better performance than GAL, particularly during the summer months.

³⁸ Planned closures took place from 0200-0500.

³⁹ Guidance on quality standards under Regulation EC 1107/2006 CAP1228. See: www.caa.co.uk/CAP1228

with accessibility needs. The framework includes quantitative metrics such as wait times for assistance, and qualitative metrics such as consulting with disability groups and charities to set quality standards and conducting passenger surveys to report on service satisfaction levels.

- 3.43 Our annual reports on airport accessibility provide ratings for UK airports in the provision of assistance, considering legal obligations to maintain minimum standards and best practices for continuous improvement. These ratings assess the quality and effectiveness of assistance provided to disabled and less mobile passengers, ensuring accountability and enhancement of services. Table 3.1 below shows the CAA's ratings of GAL's performance in this area which has been variable over the period (2015-2024Q1), with performance ratings ranging from poor to very good.

Table 3.1: Gatwick accessibility ratings

Period	Q	Score
2015/16		Good
2016/17		Good
2017/18		Needs Improvement
2018/19		Good
2019/20		Good
COVID		
2022/23	Q1	Poor
	Q2	Needs Improvement
	Q3	Very Good
	Q4	Very Good
2023/24		Needs Improvement

Source: CAA Access to Air Reports. See: [Access to Air Campaign | Civil Aviation Authority \(caa.co.uk\)](https://www.caa.co.uk/Access-to-Air-Campaign)

- 3.44 There have been significant concerns about GAL's service to PRMs in relation to data collection quality and target monitoring, and some concerns regarding staffing levels and equipment availability, especially considering the increased demand for the assistance service.
- 3.45 Audits by our consumer enforcement team from January to June 2023 have raised questions about data accuracy and GAL's historical PRM service ratings. Following that, in September and October 2023, we monitored the provision of PRM services.⁴⁰ We found that, in various instances, agents were dispatched to disembark special assistance passengers using a wheelchair (referred to as the "pier squad") who were then seated along the arrivals corridor to wait for buggies

⁴⁰ Over eight different days, observing 166 flights across both terminals, we recorded the time for assistance arriving when that happened 20 minutes after a flights' arrival.

to arrive. The ECAC data supplied by Gatwick airport suggests that the ECAC timestamp collected by agents was often set at the wheelchair arrival time instead of the buggy arrival time. We identified discrepancies in the data recorded by Gatwick for 24 flights, with 95 out of 974 assisted passengers failing the ECAC waiting time standards. We also identified some severe service failures with some passengers left unattended for over an hour after the aircraft arrived.

- 3.46 We expressed concerns to GAL about its special assistance services not only in relation to data collection, data quality and target monitoring, but also in relation to the quality of the assistance provided observed during our audits. We observed poor performance, particularly within the South Terminal at peak times of demand, which included several instances of required buggies not being available due to technical issues or retained in immigration queues. Furthermore, we understand that the number of customer care agents relative to assisted passengers at Gatwick is lower compared to other large UK airports, but GAL' infrastructure and organisation (for example, the greater use of buggies) may justify a lower staff intensity.
- 3.47 GAL publishes a metric of satisfaction with special assistance, although this metric is currently not subject to financial incentives. GAL is now proposing to pay a rebate to airlines if it fails the ECAC arrival wait time target for special assistance.⁴¹ We consider that this development should provide GAL with additional incentives to improve its services in an area of critical importance to these passengers and we welcome that commitment. Further, it will be very important that GAL provides assurances on the integrity of the data underlying this incentive. We are also strongly of the view that GAL should continue publishing data on passenger satisfaction with special assistance.

Coordinating activities across the airport

- 3.48 For passengers to enjoy a smooth journey through the airport, it is essential that key activities are well coordinated, and that the airport operator supports the operation of punctual flight services. This means that as well as managing processes for which it is directly accountable such as those covered by the CSS, GAL should also ensure a good service is provided by third parties such as the terminal air navigation service provider and ground handlers.
- 3.49 GAL has developed airline service standards and publishes performance on arrivals baggage reclaim and check-in queues.⁴² Although airline performance and ground-handling performance is not an area that should be dealt with as part

⁴¹ At page 23 of GAL's Proposal Document. See: [GAL's proposal document](#)

⁴² Airline service standards relate to key airline processes and standards for arrivals baggage reclaim relate to waiting times.

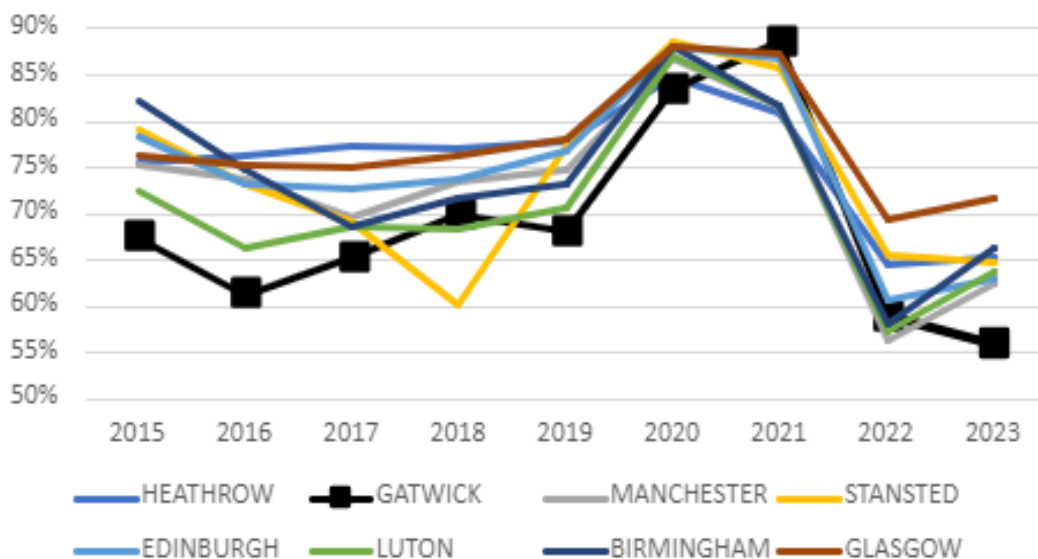
of the economic regulation of GAL, we consider that the ongoing monitoring and publication of these statistics is something that is likely to be positive for consumers.

3.50 It has also introduced targeted incentives to improve baggage delivery and aircraft turnaround service levels, monitored seasonal readiness of groundhandlers and promoted joint recruitment fairs. Further, GAL has mobilised its own staff to support groundhandling ramp operations and contracted with a third-party labour supplier to support ramp operations with contingency resources.

3.51 One measure of the overall success for an airport, airlines and other service providers in delivering for passengers is the overall level of on-time performance (“OTP”). This relates to the percentage of flights that have departed on schedule. A flight is considered on-time if it has departed or arrived within 15 minutes of the schedule. Nonetheless, it is important to bear in mind that while the performance of the airport operator in providing and coordinating services at the airport is an important component of performance, there are other factors, including those outside of the airports control that also have a significant influence on OTP.

3.52 Figure 3.9 shows GAL's OTP between 2015 and 2023 compared with a selection of other large UK airports.

Figure 3.9 Flight on-time performance between 2015 and 2023



Source: CAA analysis of CAA Punctuality Statistics

3.53 Gatwick's OTP has been an area of ongoing concern, including in the period before the covid-19 pandemic. Performance post-covid has been markedly worse than in the years before the pandemic, with OTP below 60 per cent since traffic rebounded in 2022. While punctuality at other airports tended to improve in 2023 compared with 2022, GAL's OTP has worsened further. GAL's relative

position and key trends seen in Figure 3.9 can also be observed when we consider the proportion of flights delayed by more than one hour and by more than three hours.

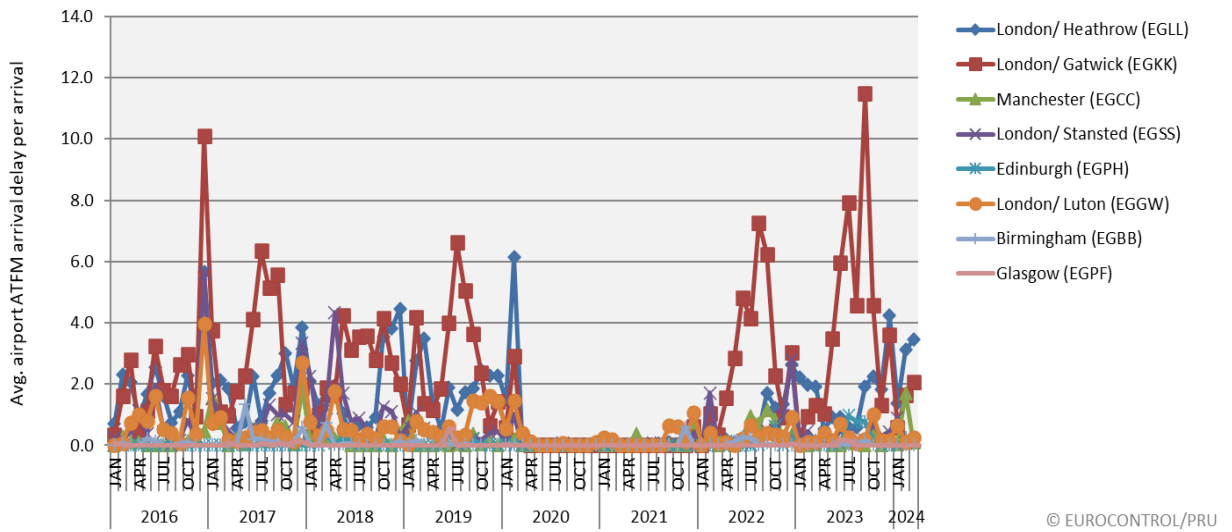
- 3.54 For the commitments period between April 2021 and March 2025, GAL proposed targets for average on time departure punctuality of at least 70 per cent in the summer season and 75 per cent in the winter season. The current commitments do not have financial penalties associated with these targets and GAL is not proposing to introduce incentives in the future. These targets have not been met since traffic rebounded after the pandemic.
- 3.55 Airlines have raised concerns over the quality of the terminal air navigation service available to them. Gatwick has been affected by a relatively high level of delay and flight restrictions imposed due to lack of staffing resources in the Gatwick tower. Shortages in air traffic controllers in the Gatwick tower was identified as an issue before the covid-19 pandemic. For example, in 2019 staffing shortfalls led to four failures of core service standard metrics.⁴³ The covid-19 pandemic further challenged the ability to train new staff. In April 2021, GAL signed a new contract with NATS Services Limited (“NSL”) to operate the tower service and NSL started operations in October 2022⁴⁴ with staffing resilience being identified as a key immediate priority.⁴⁵
- 3.56 Figure 3.10 shows that airport air traffic flow management (“ATFM”) delays at Gatwick have been higher than other airports. In particular, the lack of air traffic controller staffing levels contributed significantly to the delay peaks for 2022 and 2023.

⁴³ Source: GAL update to CAA in September 2022.

⁴⁴ <https://www.nats.aero/news/gatwick-airport-reappoints-nats-as-air-traffic-service-provider/>

⁴⁵ <https://nats.aero/blog/2022/10/getting-back-to-gatwick-training-and-resilience/>

Figure 3.10 Average airport ATFM arrival delay per arrival



Source: Eurocontrol/PRU

3.57 We understand that improving the Gatwick tower service is now a key priority for GAL and NSL⁴⁶ both in the short-term and going forward and a lot of work and engagement with airlines and the CAA has happened in preparation for the summer of 2024. GAL reported that five new air traffic controllers will start before the summer 2024 season, in addition to the four that joined in 2023.⁴⁷ GAL also reported that NSL has since provided assurances and implemented significant changes to ensure reliable schedules in 2024.⁴⁸ We expect there to be an improved service during the summer of 2024 and in the future. We also welcome the proposals to introduce a robust service quality incentive in this area.

Progress on commercial deals

3.58 An important advantage of the commitments framework is that it encourages GAL and airlines to enter into bilateral commercial arrangements. Airlines and passengers at Gatwick are diverse so these separate commercial arrangements offer additional flexibility (for example modifications to price or service elements of the published tariff such as incentives for on-time performance) so that the requirements of individual airlines and their passengers can be met.

3.59 GAL has made progress in commercial negotiations, signing new contracts with most airlines (covering around 90% of passengers), including several new airlines that have started operating from the airport.⁴⁹ Many airlines have agreed

⁴⁶ See page 9 of [NATS' Annual Report and Accounts for 2024](#).

⁴⁷ See [GAL investor report on 20 March 2024](#).

⁴⁸ See slide 17 of [GAL's investor update on 21 March 2024](#).

⁴⁹ GAL provided a summary of the current contracts that it has with airlines as part of its response to a request for further information that we made in August 2023.

new contracts since GAL first proposed a four-year extension, with most of these contracts lasting into the extension period and some contracts covering the whole of the extension period. The typical duration of a contract for those airlines which serve the highest proportions of passengers is between 4-10 years.⁵⁰ Those airlines serving smaller passenger numbers have typically agreed shorter contracts. GAL has told us that no airline operating at the airport without a tailored contract has raised concerns about the proposal to extend the commitments.

Development of the northern runway

- 3.60 GAL is progressing plans to bring its northern runway into routine use for departures which would add significant capacity and resilience to the constrained London system and allow Gatwick to serve as many as 75 million passengers by 2038. During the period of GAL's proposed commitments extension to March 2029 it expects to spend around £580 million for the northern runway with the total cost of the project expected to be in excess of £2 billion.⁵¹
- 3.61 Capacity expansion has the potential to bring significant benefits to consumers, including:
- additional choice and flexibility to consumers in terms of the numbers of flights, airlines and destinations served by the airport;
 - enhanced resilience around operations; and
 - a reduction in any incentives on GAL to exploit its market power, which should lead it to better meet the needs of new and existing airline customers, and unlocking the consequential benefits of this for consumers.
- 3.62 GAL requires a DCO in order to be able to proceed with its plans for capacity expansion. It has made an application for a DCO and this is currently being examined by the Planning Inspectorate and the outcome of this planning application remains uncertain. Nonetheless, there should be a decision by early 2025 and, if it receives consent, GAL expects construction work to start relatively quickly with dual runway operations expected to commence in 2029.
- 3.63 It is important that the regulatory framework provides GAL with an incentive to pursue its plans for capacity expansion, is flexible to respond to changes in GAL's investment plans and that it ensures that consumers are protected if GAL fails to progress its DCO application.
- 3.64 Under GAL's proposed commitments, there is no direct pass-through of costs and so it will bear the risks associated with planning, development and delivery

⁵⁰ Airlines with passenger share greater than 6 percent of total passengers at Gatwick.

⁵¹ GAL's response to CAA information request, August 2023

costs associated with this project throughout the extension period. Nonetheless, the projections of its profits (discussed earlier in this chapter) indicate that GAL has the potential to earn significant returns, both in terms of its profits and return on capital employed, even after taking account of the impact of the spending on capacity expansion on its capital base.

- 3.65 Should GAL either be unable or unwilling to proceed with capacity expansion, under its proposals the pricing commitments would remain unchanged, despite potentially significant reductions in capital expenditure and loss of the consumer benefits associated with capacity expansion.
- 3.66 It is important that the commitments framework provides appropriate protection for consumers if GAL fails to progress its DCO application, fails to obtain consent or decides not to pursue the development after it has obtained consent. For example, under these circumstances, it may be appropriate to include a trigger mechanism for us to revisit GAL's commitments during the price control period. We explore these matters further in chapter 4.

Environmental performance

- 3.67 The UK aviation sector is aiming to transition to net zero emissions by 2050 and GAL plans to contribute towards this target.
- 3.68 GAL's sustainability policy sets out its goals for environmental performance, including a goal to achieve net zero for its own greenhouse gas emissions by 2030.⁵² To help achieve this, and to support other users of the airport to reduce their emissions, GAL has said that its sustainability investment will be over £200 million during the extension period.⁵³
- 3.69 Like other airports, GAL structures its charges to incentivise airlines, among other things, to improve their environmental performance. For several years, GAL has set differential charges that encourage airlines to use quieter aircrafts to reduce noise levels, and new aircraft technology to lower Nitrous Oxides (NOx) emissions to support better local air quality. More recently, GAL has introduced a carbon-related environmental charge to incentivise airlines to operate the most carbon-efficient aircraft.⁵⁴

⁵² Covers scope 1 and scope 2 emissions, as Set out in GAL's Sustainability policy, p5 [Second decade of change to 2030](#).

⁵³ From around 3 per cent of investment in 2022/23 to between 7-16 per cent over the proposed commitments extension period. See p36 [CAP2554A. This investment includes all sustainability initiatives for example including those relating to water, waste, biodiversity](#).

⁵⁴ We understand that this has been introduced on a trial basis and will be regularly reviewed as part of GAL's annual consultation on its charging structure.

Other matters – wider commercial behaviour

- 3.70 The commitments framework is intended to be a proportionate and targeted approach to economic regulation which facilitates commercial decision making. In this context it is helpful to assess the commercial behaviour demonstrated by GAL in a wider context, including in relation to airports with greater market power and subject to a more prescriptive approach to economic regulation. We also consider that encouraging commercial arrangements promotes competition in the provision of airport operation services by facilitating airlines in entering into arrangements that are more appropriate for their requirements (as they would do when dealing with airports that are not economically regulated) than would be the case if the arrangements were mandated by regulation.
- 3.71 In July 2020, Heathrow Airport Limited (“HAL”) requested a significant upward adjustment to its regulatory asset base (“RAB”) to help protect it from the consequences of the pandemic. Initially its proposal would have led to an adjustment of around £1.7 billion, but by the time of our decision in May 2021 this figure had increased to £2.6 billion. Our decision was to apply an adjustment of £300 million.⁵⁵ In HAL’s revised updated business plan provided to the CAA in 2021 it suggested that the overall level of its charges would need to rise significantly and presented a scenario that involved its charges approximately doubling in real terms per passenger.⁵⁶
- 3.72 In GAL’s case, the pandemic struck at a later stage in the review of its commitments, shortly after GAL had submitted its proposals for our review. Nonetheless, GAL stood behind its proposals for no real-terms increase in charges and in October 2020 we took the view that these proposals would be in the interests of consumers.⁵⁷
- 3.73 GAL has stated that it continued to support airlines by not pricing to the maximum yield, reprofiling other charges and varying contractual terms, including suspending or capping aircraft parking charges, implementing a simplified pricing structure to share traffic volume risk and offering additional incentives and marketing support to stimulate the recovery.⁵⁸
- 3.74 We welcome the constructive and co-operative approach that GAL took during the pandemic, working with airlines to address operational issues during very challenging circumstances. Provided the interests of end-users are sufficiently

⁵⁵ Economic regulation of Heathrow Airport Limited: response to its request for a covid-19 related RAB adjustment (CAP2140). See: www.caa.co.uk/CAP2140

⁵⁶ See CAP 2265A paragraph 19.

⁵⁷ “Economic regulation of Gatwick Airport Limited: consultation on new commitments”, October 2020. See: www.caa.co.uk/CAP1973.

⁵⁸ See p2 of [GAL’s proposal document](#).

protected, we are keen to maintain an approach that encourages co-operation and commercially-based (rather than regulator-led) decision making.

Chapter 4

Our initial assessment

Introduction

- 4.1 This chapter summarises our initial views of GAL's proposal to extend the commitments against the framework set out in chapter 3 for assessing whether its proposal is consistent with our statutory duties and the interests of consumers.
- 4.2 We start with an overall summary of our initial assessment and then discuss in more detail the areas that appear require further consideration and where we expect GAL to provide further evidence before we can make a final decision on whether its proposal to extend the commitments will be in the interests of consumers.
- 4.3 The key issues for consultation are summarised at the end of this chapter.

Summary of our overall assessment

- 4.4 To facilitate our assessment and deal with the inter-relationships between the issues, we have assembled the evaluation criteria discussed in chapter 3 into the following groups:
- prices, profits and capacity expansion;
 - quality of service, help for passengers requiring special assistance (including PRMs) and GAL's work to coordinate activities and the provision of services across the airport;
 - commercial deals and behaviour; and
 - environmental performance.
- 4.5 We have also assigned a red-amber-green ("RAG") assessment, where the RAG ratings reflect our initial assessment:
- green – GAL's proposal appears likely to be in consumers' interests and consistent with our statutory duties;
 - amber – further evidence is needed before we can assess whether consumers' interests are appropriately protected; and
 - red – we expect GAL to demonstrate appropriate mitigations are in place to address the issues that we have identified.

Prices, profits and capacity expansion

- 4.6 Our assessment of prices in chapter 3 shows that, while the level of GAL's charges remains relatively high compared to other comparator airports, the trend in charging levels that GAL has proposed for the extension of the commitments period is reasonable, with modest real reductions in the level of its published tariffs. We also noted GAL's relatively high level of operating profits in 2023, and that our high-level projections for the future (set out in Appendix C) indicate that the relatively high levels of operating profits and returns are likely to continue if we accept GAL's proposal to extend its commitments.
- 4.7 Nonetheless, we also need to consider the benefits to consumers that would flow from GAL's proposals for capacity expansion by means of its proposal to develop its northern runway. If this proposal is successfully delivered, there would be advantages for consumers, including:
- the additional choice and flexibility in terms of the numbers of flights, airlines and destinations that could be served by the airport;
 - enhanced resilience of the airport's operations; and
 - a reduction in any incentives on GAL to exploit its market power, which should lead it to better meet the needs of new and existing airline customers, and unlocking the consequential benefits of this for consumers.
- 4.8 Relatively high levels of profits and returns support further investment in the airport and, in the light of the substantial levels of investment required to support the development of the northern runway proposal, there would appear to be advantages to consumers in arrangements that involve both modest real reductions in charges and funding of capacity expansion, even if profits are relatively high for the period of the commitments extension.
- 4.9 Bearing the above in mind, our initial RAG ratings for prices, profits and capacity are:
- **green** in the circumstances where GAL proceeds with capacity expansion and its northern runway proposal; and
 - **red** if GAL is either not able (because it does not obtain a DCO) or is not willing to proceed with its northern runway proposal for capacity expansion in a timely manner.

Quality of service, special assistance and coordination

- 4.10 Ensuring that GAL is incentivised to provide a good quality service to passengers is an integral part of protecting the interests of consumers. A particularly important dimension of this are GAL's services to passengers requiring special assistance. For passengers to enjoy a smooth journey through the airport, it is also essential that key activities across the airport are well coordinated, and that

the airport operator provides appropriate support to airlines and ground handlers to facilitate the operation of punctual flight services.

4.11 Our assessment in chapter 3 suggests that:

- GAL's recent performance against its CSS has been acceptable, but it will be important for GAL to agree its future targets in relation to these matters with airlines, including a more stretching target for satisfaction with passenger seating;
- improvements are necessary in relation to quality of information and services to passengers requiring special assistance; and
- we welcome the initiatives GAL has brought forward in respect of airline service standards and air traffic control tower performance. It is particularly important that the contractual arrangements GAL has in place to support its terminal air navigation service, delivers an appropriate number of air traffic controllers and an appropriate level of resilience in service provision.

4.12 Bearing the above in mind our initial RAG ratings for quality of service, special assistance and coordination are:

- **amber** for quality of service, with GAL to provide an update on progress towards agreeing new service standards with airlines and proposals to improve passenger seating;
- **amber** for services for passengers requiring special assistance, as we note in chapter 3, there are significant concerns about the quality of the data that GAL is collecting on passengers requiring special assistance and possible issues and difficulties with the level of its service performance in periods of high service demand. GAL will need to put forward convincing evidence that it has plans to deal with these matters; and
- **green** for its efforts to better coordinate service across the airport.

Commercial deals and behaviour

4.13 There are advantages to consumers in an approach to economic regulation that encourages co-operation between the airport and airlines and commercially-based (rather than regulator-led) decision making. The benefits of an approach that offers tailored deals to airlines which is likely to facilitate growth at the airport and increase choice and value for passengers as well as promoting competition.

4.14 Our assessment in chapter 3 demonstrates that, despite very challenging circumstances, GAL took a constructive and co-operative approach during the pandemic, working with airlines to address operational issues. GAL has also now negotiated future commercial arrangements with most airlines that operate from the airport.

4.15 Bearing the above in mind, our initial RAG rating for commercial deals and behaviour is **green**.

Environmental performance

- 4.16 GAL has updated its sustainability policy, setting out its goals for environmental performance including a goal to achieve net zero for its own greenhouse gas emissions by 2030. These ambitions have been reflected in GAL's proposal to extend the commitments and it has said that its sustainability investment will be over £200 million during the extension period. We also note that, as well as considering action to address its own emissions, GAL has chosen to implement differential charges with the aim of incentivising airlines to improve their environmental performance.
- 4.17 Bearing the above in mind our initial RAG rating for environmental performance is **green**.

Further assessment of amber and red issues

- 4.18 We have identified several areas of GAL's performance that raise concern and set out below our present views on the actions GAL will need to take in order for us to conclude that its proposal to extend the commitments is in the interests of consumers.

Development of the northern runway

- 4.19 We welcome the steps GAL has taken and the progress it has made to develop its plans for the northern runway. However, as noted above, if GAL is either not able to continue with these plans, or is not making good progress with capacity expansion, it is not clear that the level of prices and profits associated with GAL's proposal to extend its commitments would be in the interests of consumers (who would no longer receive the benefits that the new runway would offer). In this scenario, it would be appropriate to revisit the headline price reductions during the new commitment period to ensure the overall package proposed by GAL remains in the interest of consumers.
- 4.20 Our present view is that, if GAL is no longer either able or willing to proceed with capacity expansion, it should enter new discussions with airlines in a timely way and, if appropriate, bring forward new proposals for its pricing commitment. We would keep GAL's progress with its plans for the northern runway project under review. If it appeared that GAL was not able or willing to continue with its plans for the northern runway, we would also consider if changes to the pricing commitment would be appropriate to protect the interests of consumers.

Quality of service and support for passengers requiring special assistance

- 4.21 It is important for GAL to make progress with airlines to review the CSS and agree future targets with airlines, including improvements to seating arrangements. GAL should also ensure that its contractual arrangements support the appropriate resourcing of its terminal air navigation service.

- 4.22 We welcome GAL's proposal to attach financial incentives to a performance metric relating to special assistance.
- 4.23 Nonetheless, as discussed above, GAL should take steps to ensure that its various performance measures of special assistance services are demonstrably accurate. It should also demonstrate it has credible plans, including in terms of appropriate levels of operational resources and investment, that ensure its special assistance services continuously meet GAL's legal obligations.

Our initial conclusions

- 4.24 In broad terms, we consider that there are advantages for consumers in GAL's proposal to extend the commitments for a four-year period. Nonetheless, our assessment is that this is contingent on GAL being able and willing to proceed with its proposals for the expansion of capacity and the development of the northern runway.
- 4.25 There are also aspects of GAL's quality of service where GAL needs to clarify its plans and it needs to provide persuasive evidence that it is going to deal with the issues that we identified in respect of services for passengers requiring special assistance.
- 4.26 We expect GAL to:
- confirm that it accepts our approach to capacity expansion and the northern runway, which will involve us reviewing the level of the pricing commitment if GAL is not able (for instance it does not receive a DCO) or is unwilling to proceed with this proposal. If such a review were to be necessary and the conclusions warranted a change in the pricing commitment, then we would expect this to result in a licence modification, and the airport and major airline stakeholders would have the right of appeal to the CMA in relation to these matters; and
 - provide the further information, plans and assurances that we have requested in relation to quality of service and service to passengers requiring special assistance.
- 4.27 We will consider the above information alongside all the responses we receive to this consultation with a view to determining whether GAL's proposal to extend the commitments will be in the interests of consumers. The key issues for consultation are summarised below.

Key issues for consultation

- 4.28 Our assessment of GAL's proposed commitments has raised some important issues which require further consideration. We are seeking views from stakeholders on:

- our approach to assessing GAL's proposal, in particular, our assessment framework and whether the evaluation criteria against which we have assessed GAL's proposal are appropriate, as discussed in chapter 3;
- the areas of GAL's proposal that we consider require further mitigations (as highlighted by amber and red RAG ratings discussed above) and whether the mitigations we have proposed are reasonable; and
- any other issues that we should consider as we finalise our assessment of GAL's proposal.

Appendix A

Our duties

- A1 The CAA is an independent economic regulator. Our duties in relation to the economic regulation of airport operation services (AOS) are set out in the Civil Aviation Act 2012 (CAA12).
- A2 CAA12 gives the CAA a general ('primary') duty to carry out its functions under CAA12 in a manner which it considers will further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of AOS.
- A3 CAA12 defines users of air transport services as present and future passengers and those with a right in property carried by the service (i.e. cargo owners). We often refer to these users by using the shorthand of 'consumers'.
- A4 The CAA must also carry out its functions, where appropriate, in a manner that will promote competition in the provision of AOS.
- A5 In discharging this primary duty, the CAA must also have regard to a range of other matters specified in CAA12. These include:
- the need to secure that each licensee is able to finance its licensed activities;
 - the need to secure that all reasonable demands for AOS are met;
 - the need to promote economy and efficiency on the part of licensees in the provision of AOS;
 - the need to secure that the licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects;
 - any guidance issued by the Secretary of State or international obligation on the UK notified by the Secretary of State; and
 - the Better Regulation principles.
- A6 CAA12 also sets out the circumstances in which we can regulate airport operators through an economic licence. In particular, airport operators must be subject to economic regulation where they fulfil the market power test as set out in CAA12. Airport operators that do not fulfil the test are not subject to economic regulation. As a result of the market power determinations we completed in 2014, the airport operators of both Heathrow and Gatwick airports are subject to economic regulation.

- A7 We are only required to update these determinations if we are requested to do so and there has been a material change in circumstances since the most recent determination. We may also undertake a market power determination whenever we consider it appropriate to do so.

Appendix B

Glossary

B1 The terms used in this consultation have the meanings set out below.

Acronym/term	Description
ACC	The Airport Consultative Committee, representing airline users of Gatwick
CAA, “we”, “us”, “our”	The Civil Aviation Authority
CAA12	The Civil Aviation Act 2012
Capex	Capital expenditure
Consumers	We use this term to cover “users” are defined in section 69 CAA12 as passengers and those with “a right in property” (cargo) carried by air transport services and include future users.
CIP	Capital Investment Programme
CPI	Consumer Prices Index, a measure of price inflation
CSS	Core Service Standards
DCO	Development Consent Order granted under the Planning Act 2009
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ECAC	European Civil Aviation Conference
GAL	Gatwick Airport Limited, the operator of Gatwick airport
GATCOM	The Gatwick Airport Consultative Committee, constituted under section 35 of the Civil Aviation Act 1982 to provide consultation on the management or administration of the airport affecting users, local authorities and other representative of people in the locality
HAL	Heathrow Airport Limited, the operator of Heathrow airport
IAG	International Airlines Group
NSL	NATS Services Limited
Opex	Operating expenditure
OTP	On-time performance

Acronym/term	Description
PRM	Passengers with reduced mobility
RAB	Regulatory Asset Base
ROCE	Return on Capital Employed
ROFA	Return on Fixed Assets
RPI	Retail Prices Index, a measure of price inflation
Totex	Total expenditure, comprising the sum of opex and capex

Appendix C

Initial projections of GAL's future performance

- C1 To support our assessment of the reasonableness of GAL's proposals, we have made initial high-level projections of GAL's financial performance during 2025-2029. This has involved making certain high-level assumptions of key drivers, including:
- for traffic growth and capex, we have adopted GAL's own projections; and
 - for opex, retail/parking revenues per passenger, other commercial revenues, and accounting depreciation, we have adopted assumptions informed by trends in GAL's past performance.
- C2 The key sources and assumptions we have used in our "middle case" are summarised in the table below (all financial figures in 2023/24 CPI prices).

Category	Source/assumption
Passenger forecast	Figure for 2024/25 (44.5m) estimated from GAL forecasts for 2024 (43.7m) and 2025 (46.8m), and extrapolated to 50m for 2028/29. ⁵⁹ Over the extension period, this represents growth of around 3% per year on average.
Capex	GAL July 2024 draft CIP (pages 31-32), including expenditure related to the northern runway project.
Airport charge revenue	CAA assumption - for each year, gross yield per passenger implied by GAL extension proposal, multiplied by the number of passengers projected for that year, plus security costs for each year of extension period as per GAL's November 2023 tariff consultation, ⁶⁰ less an assumed overall average discount of 6.1% as projected by GAL for 2023/24 in its November 2023 tariff consultation. ⁶¹
Retail/car park revenue per passenger (now	CAA assumption – £8.32 per passenger as per 2022/23 out-turn.

⁵⁹ Derived from GAL July 2024 draft CIP, page 18.

⁶⁰ GAL tariff proposal, November 2023 shows (page 7) security costs of £40.1m, £34.8m, £34.8m and £30.3m (in 2024/25 prices), for the four years of the extension period.

⁶¹ GAL tariff proposal, November 2023 (page 23) shows gross and net revenue (including security costs) for 2023/24 of £13.87 and £13.03 per passenger respectively.

including terminal drop-off charges)	
Other non-regulated revenues (for example, property income, operational facilities, utilities income, and other income) ⁶²	CAA assumption – £128.1m per year as per 2022/23 out-turn.
Opex	CAA assumption - based on an estimated 'fixed' component of £255m per year and an estimated 'variable' component of £3.50 per year per passenger. These estimates are based on a judgement from past trends of opex and passenger numbers.
Accounting depreciation	CAA assumption - ratio of accounting depreciation to opening fixed asset value in a year of 4.89%, as per 2022/23 figure.

C3 These are initial high level assumptions. They also do not cover issues relating to how the business is financed (including its obligations to pay interest on debt and corporation tax). Based on these assumptions, GAL is projected to retain relatively high levels of operating profits and relatively high returns on capital employed and fixed assets.

C4 We have also considered how sensitive these projections are to changes in the key assumptions where there is uncertainty relating to:

- operating costs for example business rates, inflationary pressure in staff costs and service contracts ; and
- whether GAL will be able to proceed with its northern runway proposal and whether the associated capital expenditure will be needed.

C5 In the graphs below we consider a “middle case” based on our assumptions described above, together with a “high” opex sensitivity and a “low” capex sensitivity.

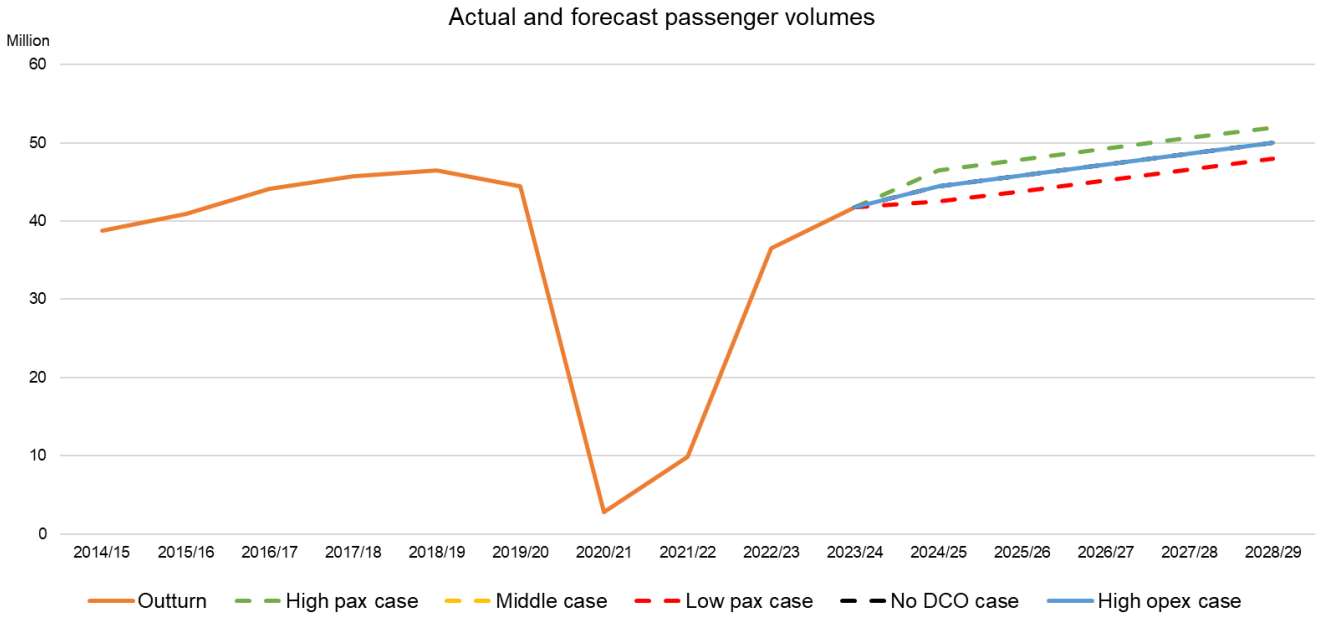
C6 The “high opex” sensitivity involves an extra £80m (2023/24 prices) per year from 2026/27 onwards.

⁶² “Other income” includes recharges for services such as special assistance, logistics services and hold baggage screening.

- C7 The low capex sensitivity ("No DCO") excludes the capex related to the northern runway proposal.⁶³
- C8 Comparing the "No DCO" case to the other sensitivities shows that the northern runway capex (through its effect on increasing the asset value and, through the depreciation allowance, on reducing operating profits) reduces the projected return on assets during the extension period (the revenue benefits of the northern runway would not be realised until after the extension period). Furthermore, expenditure on the northern runway would have a significant negative impact on GAL cash flows in the later years of the extension period in particular.
- C9 We have also considered high and low passenger sensitivities, which assume passenger numbers two million per year higher and lower, respectively, than the middle case. In general, these sensitivities do not have a significant impact on our projections, in part because higher (lower) revenues are partially offset by higher (lower) operating expenditures under our modelling approach.

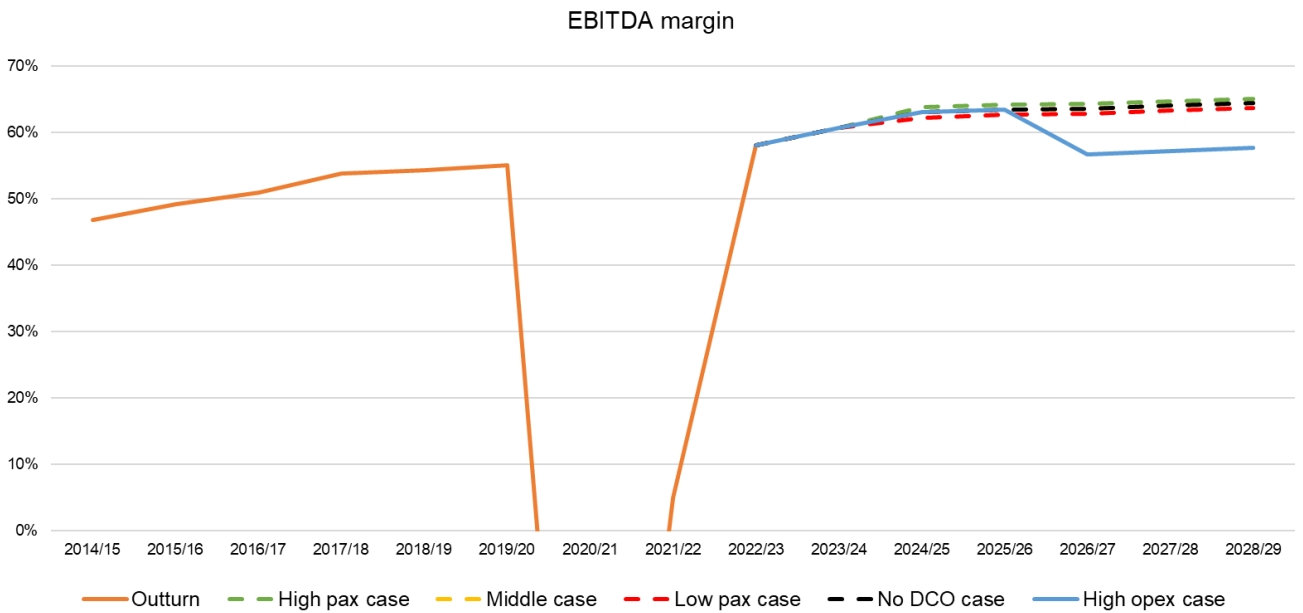
⁶³ Passenger numbers are assumed not to be affected by the northern runway proposal during the extension period.

Figure C.1 Passenger volumes



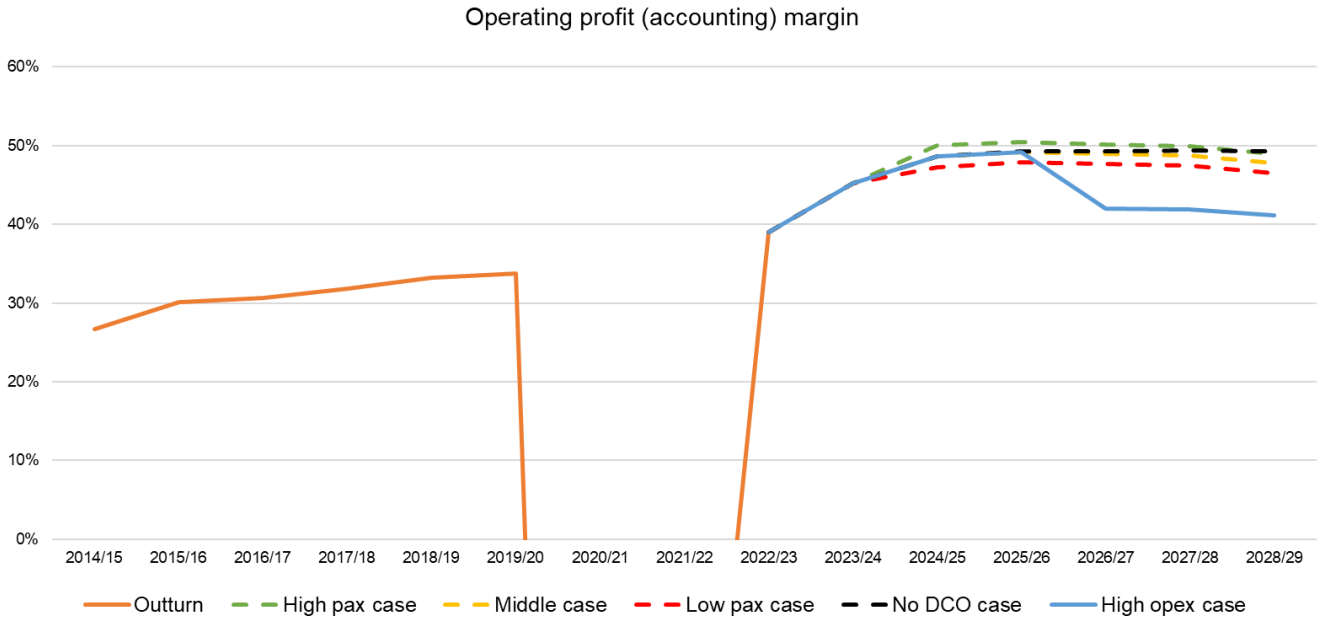
Source: CAA analysis

Figure C.2 EBITDA Margin



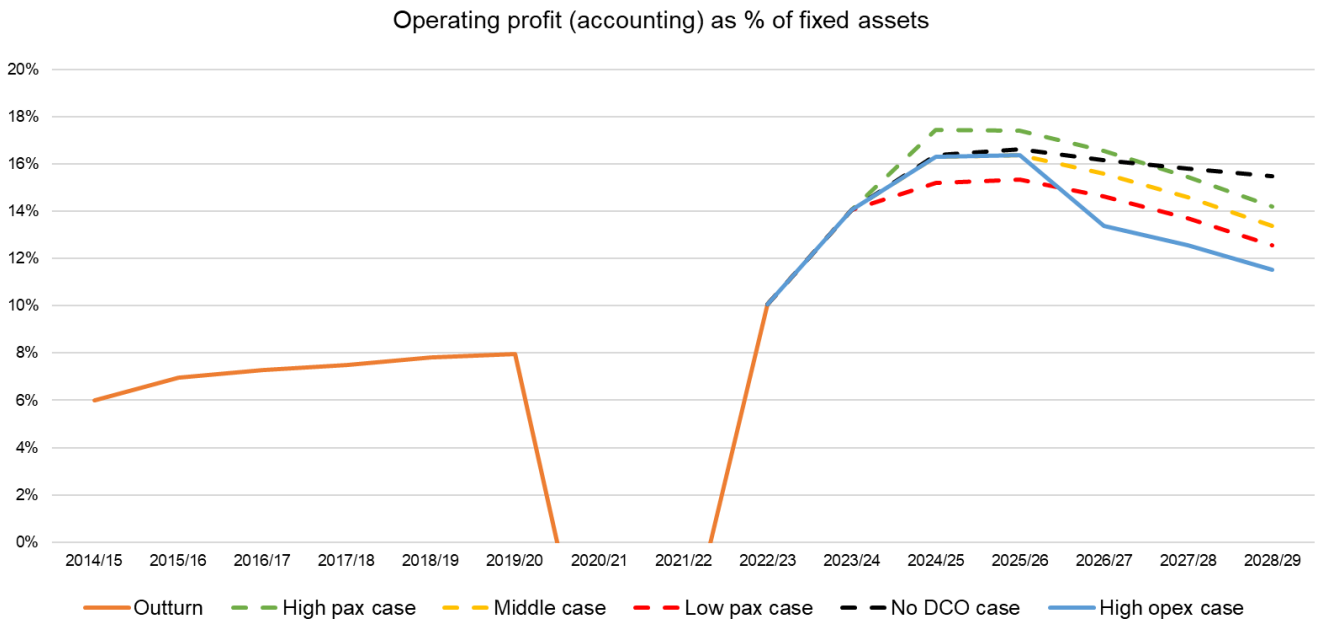
Source: CAA analysis

Figure C.3 Operating profit margin



Source: CAA analysis

Figure C.4 Operating profit as % of fixed assets



Source: CAA analysis

C10 As noted above, our middle case sees GAL retaining relatively high levels of operating profits and relatively high returns on assets. These returns are higher still in the high passenger and (especially) the no DCO cases, but somewhat

lower in the low passenger and (especially) the high opex cases. Nevertheless, even in the high opex case, where we have allowed for an increase in opex, as well as including the capital expenditure on the northern runway, GAL's returns are projected to remain higher than has historically been the case.

- C11 A spreadsheet summary of our modelling assumptions and projections is published alongside this consultation document, for each of the "Middle", "High opex" and "No DCO" cases.