

## To CAA, In Response to the CAA CAP 1593 Consultation

This response specifically addresses only Question 7 of the above consultation document – “Guidance for NERL in preparing its business plan for Reference Period 3”

### **Q7) Is there stakeholder support for the continuation of the FFF?**

**If so, do the current governance arrangements remain appropriate for RP3?**

**Should we give further business plan guidance to NERL on the FFF arrangements?**

#### ***Introduction:***

This proposal is submitted by the FAS Deployment Steering Group, Investment Board and Oversight Management Team for consideration as part of the CAA RP3 Regulatory Approach consultation.

The proposal was created by the FAS Investment Board and reviewed and agreed as a FAS DSG paper at its meeting on the 23 of June 2017 and the 22<sup>nd</sup> of September.

FAS Investment Board members reviewed the effectiveness of the current FAS Deployment Facilitation Fund (FFF) for the RP2 period (2015-2019), described in CAP 1249, and concluded that there is a need for a FFF-like fund for the period 2020 to 2024 (RP3) to ensure continued industry engagement and improved delivery of the Future Aviation Strategy for the UK.

#### ***Background:***

With demand for aviation forecast to grow by more than 30 per cent by 2030, increasing delays will in all likelihood occur and this inefficiency could generate more than five million tonnes of additional CO<sub>2</sub> in UK airspace and bring about increasing disruption for passengers. The constraining UK airspace structure, particularly in the South East, is making it increasingly difficult to integrate and satisfy the various demands of airspace users.

The Future Airspace Strategy (FAS) sets out a vision to modernise UK airspace and use technology to provide an airspace structure that can support UK economic ambitions and the demands of the many users, as well as mitigate some of the environmental impacts. It ensures the UK remains consistent with international ATM development programmes and aligned with the Single European Sky ambition.

The FFF was created to enable investment where it might not otherwise have been available to help deliver the FAS modernisation programme during the RP2 period and delivering support where there was a strong business case but the bulk of the benefits lay with a different party to the investor.

The development and deployment of a modernised UK airspace is at the heart of the FAS ambition and in-separable from the wider UK economic ambitions. The FFF plays an important role in supporting modernisation with a reasonably modest investment fund. Without this support there is the potential for progress in deployment and modernisation to slow, with

individual businesses unable to create a strong enough business case to invest, resulting in reduced coordination and cooperation across the industry.

**Proposal:**

The FAS Industry stakeholders propose that a FFF-like fund is made available for the period 2020 to 2024 Regulatory Period (RP3) to ensure continued industry engagement and improved delivery of the Future Aviation Strategy for the UK.

The fund should continue to be focussed on UK FAS Delivery and should be aligned with or cognisant of the potential for Government based funding support for the industry in a post-BREXIT scenario.

It is proposed that the FFF model should retain a small gaps element accessible by the wider aviation industry in relation to airspace modernisation. Further, it is proposed that a NERL contingency fund is considered as part of the RP3 Regulatory Approach which would be managed through the existing Strategic Investment Programme consultation mechanisms.

**Governance Arrangements:**

Refinement of the current governance arrangements is required to enable priority project areas to be clearly articulated and assist with an annual call process to simplify the management of the facilitation fund.

The Airspace modernisation strategic areas will be updated as a part of the on-going airspace modernisation refresh work, the DSG will be requested to agree priority areas from this for the FFF to support during the period RP3 period; which it proposed will inform an annual call process for the Investment Board to review investment applications against.

The DSG will be requested to highlight the Airspace modernisation themes for 2020 and beyond; to encourage aviation stakeholders to include these elements in their future business plans. This should be done at the September 2017 DSG meeting with feedback requested for the December 2017 DSG meeting; thus informing the RP3 Regulatory Approach.

**Financial Implications:**

Should the proposed FFF model retain a small gaps element, it is proposed that the method of collection from the Unit rate is investigated. As any Small Gaps element is not intended for NERL then an alternative element of the Unit rate could be utilised.

The current small gaps FFF is less than 0.5% of the NERL portion of the Unit rate, if the proposed option above is not possible, any Small Gaps investment fund could remain collected through the NERL unit rate with the costs associated with that finance function recoverable through the facilitation fund (as per the current CAP1249). Transparency of Investment decisions would be provided through the Investment Board decision-making mechanism.

It is difficult to be definitive about the financial scale of any FFF *consideration should be given* to refund the unit rate at less than 5yr timescales so that the FFF is not holding large amounts of cash from airspace users. The scale of the FFF could be expressed as a % of the unit rate (based on the RP2 experience) with a cap of no more than the RP2 fund amount (£22.5m).

**Other considerations:**



The industry stakeholders highlighted the potential post Brexit situation where the aviation industry in the UK will potentially not have access to Connecting Europe Facility (CEF) funds. It should be highlighted to Government that UK aviation industry received circa 250m Euro in RP2 via the Connecting Europe Fund (of which approximately 50% is to NATS and the remainder to airports and airlines). If access to this fund is lost due to Brexit arrangements, Industry requests that Government make available some other form of funding. In this case the FAS IB would not provide governance for this larger scale of funding so a separate mechanism would be required.

Submitted on behalf of the:

FAS Deployment Steering Group

FAS Investment Board

FAS Oversight Management Team

(Submitted to CAA on 10<sup>th</sup> November 2017)