

Heathrow Airport Limited

2011-12 Actuals to Table 6-3 Variance Analysis

Year ended 31 March 2012

Introduction

This report provides users with explanations of variances between actual results in the Trading Statement to those included within the CAA forecast for activities identified as 'Specified Activities' within Table 6-3 of the 'Economic Regulation of Heathrow and Gatwick Airports 2008-2013', CAA decision dated 11th March 2008 for the year ending 31st March 2012.

The CAA forecast for Specified Activities lists the revenue that is forecast to be generated by Heathrow Airport (ie. third party revenue) for the fifth quinquennium (Q5). This forecast is based on certain assumptions and any derivation from this forecast is required to be explained and justified to users and the CAA.

The specified activities are:

- Baggage, Check-in desks and Common Use Self Service Machines (CUSS)
- Other Desk Licences
- Staff Car Parking
- Airside Licences
- Electricity
- Fixed Electrical Ground Power (FEGP)
- Heating and Ventilation
- Water and Sewerage
- Security Documentation
- Bus and Coach Services

The variance analysis has been made against third party elements of the actuals for the period 1st April 2011 to 31st March 2012.

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2011/12 from The Office for National Statistics (ONS), and Oxford Economic Forecast (OEF) for future years. The RPI uplift is applied to provide a consistent comparison between CAA forecast and actuals in nominal prices (ie. current year prices). These variances are explained on the following sheets.

As charges for Passengers with Reduced Mobility (PRMs) were not included in the Q5 Settlement they have not been analysed in this report.

RPI						2.97%	0.46%	4.96%	4.70%	2.37%	Trading	Statement	Variance to Table 6-3
Index						1.030	1.034	1.086	1.138	1.165			
£m	Breakdown Table 6.3 in 07/08p					Breakdown Table 6.3 in Outturn					2011-2012		
Baggage, Check-in & CUSS Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	89.081	86.720	87.721	87.361	89.472	91.727	89.703	95.242	99.402	104.222		112.994	13.592
Direct Cost	82.3	79.1	79.4	78.3	79.8	84.703	81.852	86.196	89.126	92.932		102.170	(13.044)
Annuity	0	0	0	0	0	-	-	-	-	-		0.000	0.000
Allocated Costs	6.8	7.6	8.3	9.0	9.7	7.024	7.851	9.045	10.276	11.290		8.113	2.163
Total costs	89.081	86.720	87.721	87.361	89.472	91.727	89.703	95.242	99.402	104.222		110.283	(10.881)
												2.711	
Staff Car Parking Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	19.510	19.570	19.550	19.530	19.500	20.089	20.243	21.226	22.222	22.715		22.253	0.031
Direct Costs	7.853	7.871	7.857	7.843	7.826	8.086	8.142	8.531	8.925	9.116		9.734	(0.809)
Annuity	7.453	7.480	7.476	7.472	7.464	7.674	7.737	8.117	8.502	8.694		5.993	2.509
Allocated Costs	4.204	4.219	4.217	4.215	4.210	4.329	4.364	4.579	4.796	4.904		4.796	0.000
Total costs	19.510	19.570	19.550	19.530	19.500	20.089	20.243	21.226	22.222	22.715		20.523	1.699
												1.730	
Airside Licences Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.847	0.888	0.909		0.724	(0.163)
Direct Costs	0.378	0.378	0.378	0.378	0.378	0.390	0.391	0.411	0.431	0.441		0.829	(0.399)
Annuity	0.041	0.041	0.04087	0.04087	0.041	0.042	0.042	0.044	0.04651	0.048		0.047	0.000
Allocated Costs	0.361	0.361	0.36068	0.36068	0.361	0.371	0.373	0.392	0.41039	0.420		0.410	0.000
Total costs	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.847	0.888	0.909		1.286	(0.399)
												(0.562)	
Electricity Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	29.490	28.750	28.420	27.920	28.970	30.366	29.739	30.859	31.774	33.746		25.162	(6.611)
Direct Costs	22.212	21.478	21.375	20.957	21.754	22.871	22.217	23.208	23.846	25.341		18.041	5.805
Annuity	4.771	4.764	4.618	4.565	4.727	4.913	4.928	5.014	5.195	5.506		5.195	(0.000)
Allocated Costs	2.510	2.507	2.430	2.402	2.487	2.585	2.593	2.638	2.733	2.897		2.733	0.000
Total costs	29.493	28.749	28.422	27.925	28.968	30.369	29.737	30.859	31.774	33.744		25.969	5.805
												(0.807)	
Fixed Electrical Ground Power Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.730	8.067	8.224		6.161	(1.906)
Direct Costs	3.094	3.085	3.055	3.042	3.038	3.186	3.191	3.317	3.461	3.539		3.780	(0.319)
Annuity	2.078	2.072	2.089	2.079	2.054	2.140	2.143	2.268	2.365	2.392		2.365	0.000
Allocated Costs	2.008	2.003	1.977	1.969	1.968	2.067	2.072	2.146	2.241	2.293		2.241	(0.000)
Total costs	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.730	8.067	8.224		8.386	(0.318)
												(2.224)	
Heating and Ventilation Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	0.980	0.950	0.930	0.910	0.890	1.009	0.983	1.010	1.035	1.037		1.603	0.568
Direct Costs	0.702	0.681	0.666	0.652	0.638	0.723	0.704	0.724	0.742	0.743		1.017	(0.275)
Annuity	0.565	0.548	0.536	0.525	0.513	0.582	0.567	0.582	0.597	0.598		0.597	0.000
Allocated Costs	0.299	0.290	0.284	0.278	0.272	0.308	0.300	0.308	0.316	0.316		0.316	0.000
Total costs	1.567	1.519	1.487	1.455	1.423	1.613	1.571	1.614	1.655	1.657		1.930	(0.275)
												(0.327)	
Water & Sewerage Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	0.950	0.930	0.930	0.930	0.930	0.978	0.962	1.010	1.054	1.083		0.723	(0.331)
Direct Costs	0.598	0.597	0.600	0.605	0.610	0.616	0.617	0.651	0.688	0.710		0.824	(0.136)
Annuity	0.163	0.156	0.152	0.149	0.146	0.167	0.161	0.165	0.169	0.170		0.169	0.000
Allocated Costs	0.189	0.181	0.176	0.173	0.170	0.195	0.187	0.192	0.197	0.198		0.197	0.000
Total costs	0.950	0.934	0.928	0.927	0.926	0.978	0.966	1.008	1.055	1.079		1.190	(0.136)
												(0.468)	
Security ID Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	2.730	2.750	2.780	2.800	2.730	2.811	2.845	3.018	3.186	3.180		4.877	1.691
Direct Costs	1.327	1.337	1.351	1.361	1.327	1.366	1.383	1.467	1.548	1.545		1.141	0.408
Annuity	0.079	0.080	0.081	0.081	0.079	0.081	0.082	0.088	0.092	0.092		0.092	0.000
Allocated Costs	1.324	1.334	1.348	1.358	1.324	1.363	1.379	1.464	1.545	1.542		1.545	0.000
Total costs	2.730	2.750	2.780	2.800	2.730	2.811	2.845	3.018	3.186	3.180		2.778	0.408
												2.099	
Bus and Coach Income	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13			
	1.390	1.390	1.390	1.390	1.390	1.431	1.438	1.509	1.582	1.619		1.739	0.157
Direct Costs	0.109	0.109	0.109	0.109	0.109	0.113	0.113	0.119	0.124	0.127		1.878	(1.754)
Annuity	0.783	0.783	0.783	0.783	0.783	0.806	0.810	0.850	0.891	0.912		0.891	(0.000)
Allocated Costs	2.523	2.523	2.523	2.523	2.523	2.598	2.610	2.739	2.870	2.939		2.870	(0.000)
Total costs	3.415	3.415	3.415	3.415	3.415	3.517	3.533	3.708	3.886	3.978		5.640	(1.754)
												(3.901)	

**Baggage, Check-In & CUSS
2011-12**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	110,398				
10/11 bfwd (under) / over recovery	2,595				
Total Revenue	112,994	99,402	13,592	Actuals reflect pricing increase to cover cost changes below	
				Additional scope - ITO operation (5T)	(900)
				Additional scope - T1 - T4 Tunnel operating at fuller capacity than previously assumed	(400)
				Additional scope - T1 OOG assumed closed	(100)
				Additional scope - Terminal 4 Ancilliary Baggage Facility	(200)
				Additional scope- T4 following transfer of responsibilities from BA	(1,100)
				Additional scope - T4IB	(900)
				Under estimated T5 O&M costs, now based on actuals and reflecting extended scope.	(4,900)
				Additional scope- Building 560/Baggage Recovery Facility	(900)
				Check-in & CUSS - check-in under estimated and CUSS fully recovered	(3,600)
				Other minor items	(44)
Direct Expenditure	102,170	89,126	(13,044)		(13,044)
Allocated costs	8,113	10,276	2,163	Agreed efficiency savings incorporated in allocated costs	(2,163)
Net (under) / over recovery at 31 March 2012	2,711	0	2,711		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

Staff Car Parking**2011-12****3rd Party Element only**

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	19,662				
10/11 bfwd (under) / over recovery	2,591			Pricing adjusted to reflect cost increases	1,565
				Decrease in 3rd party share from 81% per Table 6-3 to 75.41% per Actuals	(1,534)
Total Revenue	22,253	22,222	31		31
				Additional staffing and maintenance costs	(162)
				Coaching & Fuel - additional schedules and increased fuel costs.	(1,221)
				Rent & Rates	(85)
				Passenger Transport Levy	41
				Decrease in 3rd party share from 81% per Table 6-3 to 75.41% per Actuals	616
Direct Expenditure	9,734	8,925	(809)		(810)
Allocated costs and Annuity	10,789	13,297	2,509	The annuity for terminal adjacent car parks has been adjusted in accordance with the release of spaces	
Net (under) / over recovery at 31 March 2012	1,730	0	1,730		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Airside Licences
2011-12**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	1,294				
10/11 bfwd (under) / over recovery	(570)			Pricing adjusted to reflect prior year under-recovery	(101)
				Decrease in 3rd party share from 100% per Table 6-3 to 93% per Actuals	(62)
Total Revenue	<u>724</u>	<u>888</u>	<u>(163)</u>		<u>(163)</u>
				Increased direct staff costs to reflect agreed focus on airside activities.	(331)
				Property Related	(17)
				Maintenance & Equipment	(58)
				General Costs	(24)
				Decrease in 3rd party share from 100% per Table 6-3 to 93% per Actuals	30
Direct Expenditure	<u>829</u>	<u>431</u>	<u>(399)</u>		<u>(399)</u>
Allocated costs and Annuity	457	457	0		
Net (under) / over recovery at 31 March 2012	<u>(562)</u>	<u>0</u>	<u>(562)</u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

Electricity					
2011-12					
3rd Party Element only					
	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	27,107				
10/11 b fwd (under) / over recovery	(1,945)				
Total Revenue	25,162	31,774	(6,611)		
				Pricing adjusted to reflect cost decreases	(2,911)
				Decrease in 3rd party share from 39.5% per Table 6-3 to 34.9% per Actuals	(3,700)
					(6,611)
Direct Expenditure	18,041	23,846	5,805		
				Decreased consumption and costs	3,028
				Decrease in 3rd party share from 39.5% per Table 6-3 to 34.9% per Actuals	2,777
					5,805
Allocated costs and Annuity	7,928	7,928	0		
Net (under) / over recovery at 31 March 2012	(807)	0	(807)		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Fixed Electrical Ground Power (FEGP)
2011-12**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	7,220				
10/11 b fwd (under) / over recovery	(1,059)				
Total Revenue	6,161	8,067	(1,906)	Unit price per 15 minute period driving under recovery; to be recovered during 12/13 and 13/14	(1,906)
Direct Expenditure	3,780	3,461	(319)	Higher electricity usage Reduced maintenance costs	(620) 302 (318)
Allocated costs and Annuity	4,606	4,606	0		
Net (under) / over recovery at 31 March 2012	(2,224)	0	(2,224)		

Income is charged per qtr hour periods, whereas Electricity costs represents the actual cost of the electricity supplied.

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

Heating & Ventilation 2011-12

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000
Revenue per 11/12 Trading Statement	1,603		
Total Revenue	1,603	1,035	568
Direct Expenditure	1,017	742	(275)
Allocated costs and Annuity	913	913	0
Net (under) / over recovery at 31 March 2012	(327)	(620)	293

Commentary on variance

T5 Energy Centre costs were not included in the Table 6-3 submission, neither was the reduction in the other boiler houses caused by the relocated usage. The additional costs and revenue reflect the net increase in the provision of H&V facilities.

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Note: Heating & Ventilation income is based upon rents agreed by the AOC rents group, therefore any (under)/over recoveries are not rolled forward into the following year's price setting.

**Water & Sewerage
2011-12**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	1,218				
10/11 b/wd (under) / over recovery	(495)			Unit price per cubic metre driving under recovery; to be recovered during 12/13 and 13/14	(793)
				Increase in 3rd party share from 16% per Table 6-3 to 23% per Actuals	461
Total Revenue	<u>723</u>	<u>1,054</u>	<u>(331)</u>		<u>(331)</u>
Direct Expenditure	<u>824</u>	<u>688</u>	<u>(136)</u>	Cost savings	165
				Increase in 3rd party share from 16% per Table 6-3 to 23% per Actuals	(301)
Allocated costs and Annuity	<u>366</u>	<u>366</u>	<u>0</u>		<u>(136)</u>
Net (under) / over recovery at 31 March 2012	<u>(468)</u>	<u>(0)</u>	<u>(468)</u>		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

**Security Documentation
2011-12**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	4,753				
10/11 b fwd (under) / over recovery	124			Increases in pass volumes	1,254
				Introduction of new tariffs to ensure greater compliance with security standards	400
				Increase in 3rd party share from 85% per Table 6-3 to 86% per Actuals	37
Total Revenue	4,877	3,186	1,691		1,691
				Staff savings	562
				Property	127
				Purchase of cards, card holders, lanyards etc	(264)
				Increase in 3rd party share from 85% per Table 6-3 to 86% per Actuals	(18)
Direct Expenditure	1,141	1,548	408		408
Allocated costs and Annuity	1,638	1,638	0		
Net (under) over / recovery at 31 March 2012	2,099	0	2,099		

Note: Due to the predominantly fixed nature of the total costs, usage volume reductions will lead to an increase in the price per unit. Conversely, usage volume increases will result in a decrease in the price per unit.

Bus & Coach**2011-12****3rd Party Element only**

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 11/12 Trading Statement	1,739			Underlying decrease in income	(190)
				Increase in 3rd party share from 73% per Table 6-3 to 89% per Actuals	347
Total Revenue	1,739	1,582	157		157
				Staff	(28)
				Property Related	(10)
				Maintenance & Equipment	(153)
				Management fees	(1,536)
				Increase in 3rd party share from 73% per Table 6-3 to 89% per Actuals	(27)
Direct Expenditure	1,878	124	(1,754)		(1,754)
Allocated costs and Annuity	3,762	3,762	0		
Net (under) / over recovery at 31 March 2012	(3,901)	(2,304)	(1,597)		

Note: Bus and Coach income is based upon commercial agreements with suppliers, therefore any (under)/over recoveries are not rolled forward into the following year's price setting.

