

Heathrow Airport Limited

2012-13 Actuals to Table 6-3 Variance Analysis

Year ended 31 March 2013

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 2013.

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 2012 to 31st March 2013.

This paper includes Table 6-3 for Q5 and an update showing this table uplifted to nominal prices using RPI for 2012/13 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 Index	2.97% 1.030					0.46% 1.034		4.96% 1.086		4.70% 1.138		3.09% 1.173		Trading	Statement	Variance to Table 6-3
											2012-2013					
Em	Breakdown Table 6.3 in 07/08p					Breakdown Table 6.3 in Outturn										
Baggage, Check-in & CUSS	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	89.081	86.720	87.721	87.361	89.472	91.727	89.703	95.242	99.402	104.949			126.372	21.423		
Direct Cost	82.3	79.1	79.4	78.3	79.8	84.703	81.852	86.196	89.126	93.581			117.350	(23.770)		
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	11.369			8.202	3.167		
Total costs	89.081	86.720	87.721	87.361	89.472	91.727	89.703	95.242	99.402	104.949			125.552	(20.603)		
Total (Under) / Over Recovery at 31 March 2013													0.820			
Staff Car Parking	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	19.510	19.570	19.550	19.530	19.500	20.089	20.243	21.226	22.222	22.873			22.074	(0.799)		
Direct Costs	7.853	7.871	7.857	7.843	7.826	8.086	8.142	8.531	8.925	9.180			11.525	(2.345)		
Annuity	7.453	7.480	7.476	7.472	7.464	7.674	7.737	8.117	8.502	8.755			5.762	2.993		
Allocated Costs	4.204	4.219	4.217	4.215	4.210	4.329	4.364	4.579	4.796	4.939			4.939	0.000		
Total costs	19.510	19.570	19.550	19.530	19.500	20.089	20.243	21.226	22.222	22.873			22.226	0.647		
Total (Under) / Over Recovery at 31 March 2013													(0.151)			
Airside Licences	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.847	0.888	0.915			1.029	0.114		
Direct Costs	0.378	0.378	0.378	0.378	0.378	0.390	0.391	0.411	0.431	0.444			0.625	(0.181)		
Annuity	0.041	0.041	0.04087	0.04087	0.041	0.042	0.042	0.044	0.04651	0.048			0.048	0.000		
Allocated Costs	0.361	0.361	0.36068	0.36068	0.361	0.371	0.373	0.392	0.41039	0.423			0.423	0.000		
Total costs	0.780	0.780	0.780	0.780	0.780	0.803	0.807	0.847	0.888	0.915			1.096	(0.181)		
Total (Under) / Over Recovery at 31 March 2013													(0.067)			
Electricity	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	29.490	28.750	28.420	27.920	28.970	30.366	29.739	30.859	31.774	33.981			30.561	(3.421)		
Direct Costs	22.212	21.478	21.375	20.957	21.754	22.871	22.217	23.208	23.846	25.517			18.011	7.506		
Annuity	4.771	4.764	4.618	4.565	4.727	4.913	4.928	5.014	5.195	5.545			5.545	0.000		
Allocated Costs	2.510	2.507	2.430	2.402	2.487	2.585	2.593	2.638	2.733	2.917			2.917	0.000		
Total costs	29.493	28.749	28.422	27.925	28.968	30.369	29.737	30.859	31.774	33.980			26.473	7.506		
Total (Under) / Over Recovery at 31 March 2013													4.087			
Fixed Electrical Ground Power	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.730	8.067	8.281			7.266	(1.015)		
Direct Costs	3.094	3.085	3.055	3.042	3.038	3.186	3.191	3.317	3.461	3.563			4.281	(0.717)		
Annuity	2.078	2.072	2.089	2.079	2.054	2.140	2.143	2.268	2.365	2.409			2.409	0.000		
Allocated Costs	2.008	2.003	1.977	1.969	1.968	2.067	2.072	2.146	2.241	2.309			2.309	0.000		
Total costs	7.180	7.160	7.120	7.090	7.060	7.393	7.406	7.730	8.067	8.281			8.998	(0.717)		
Total (Under) / Over Recovery at 31 March 2013													(1.732)			
Heating and Ventilation	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	0.980	0.950	0.930	0.910	0.890	1.009	0.983	1.010	1.035	1.044			1.388	0.344		
Direct Costs	0.702	0.681	0.666	0.652	0.638	0.723	0.704	0.724	0.742	0.748			1.096	(0.348)		
Annuity	0.565	0.548	0.536	0.525	0.513	0.582	0.567	0.582	0.597	0.602			0.602	0.000		
Allocated Costs	0.299	0.290	0.284	0.278	0.272	0.308	0.300	0.308	0.316	0.319			0.319	0.000		
Total costs	1.567	1.519	1.487	1.455	1.423	1.613	1.571	1.614	1.655	1.669			2.017	(0.348)		
Total (Under) / Over Recovery at 31 March 2013													(0.629)			
Water & Sewerage	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	0.950	0.930	0.930	0.930	0.930	0.978	0.962	1.010	1.054	1.091			0.938	(0.153)		
Direct Costs	0.598	0.597	0.600	0.605	0.610	0.616	0.617	0.651	0.688	0.715			0.927	(0.211)		
Annuity	0.163	0.156	0.152	0.149	0.146	0.167	0.161	0.165	0.169	0.171			0.171	0.000		
Allocated Costs	0.189	0.181	0.176	0.173	0.170	0.195	0.187	0.192	0.197	0.199			0.199	0.000		
Total costs	0.950	0.934	0.928	0.927	0.926	0.978	0.966	1.008	1.055	1.086			1.297	(0.211)		
Total (Under) / Over Recovery at 31 March 2013													(0.359)			
Security ID	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	2.730	2.750	2.780	2.800	2.730	2.811	2.845	3.018	3.186	3.202			5.661	2.458		
Direct Costs	1.327	1.337	1.351	1.361	1.327	1.366	1.383	1.467	1.548	1.556			1.564	(0.008)		
Annuity	0.079	0.080	0.081	0.081	0.079	0.081	0.082	0.088	0.092	0.093			0.093	0.000		
Allocated Costs	1.324	1.334	1.348	1.358	1.324	1.363	1.379	1.464	1.545	1.553			1.553	0.000		
Total costs	2.730	2.750	2.780	2.800	2.730	2.811	2.845	3.018	3.186	3.202			3.210	(0.008)		
Total (Under) / Over Recovery at 31 March 2013													2.450			
Bus and Coach	08/09	09/10	10/11	11/12	12/13	08/09	09/10	10/11	11/12	12/13						
Income	1.390	1.390	1.390	1.390	1.390	1.431	1.438	1.509	1.582	1.630			1.477	(0.153)		
Direct Costs	0.109	0.109	0.109	0.109	0.109	0.113	0.113	0.119	0.124	0.128			1.758	(1.630)		
Annuity	0.783	0.783	0.783	0.783	0.783	0.806	0.810	0.850	0.891	0.919			0.919	(0.000)		
Allocated Costs	2.523	2.523	2.523	2.523	2.523	2.598	2.610	2.739	2.870	2.959			2.959	(0.000)		
Total costs	3.415	3.415	3.415	3.415	3.415	3.517	3.533	3.708	3.886	4.006			5.636	(1.630)		
Total (Under) / Over Recovery at 31 March 2013													(4.159)			

**Baggage, Check-In & CUSS
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	119,806				
London 2012 Olympic and Paralympic Games adjustment	3,856				
11/12 bfwd (under) / over recovery	2,711				
Total Revenue	126,372	104,949	21,423	Actuals reflect pricing increase to cover cost changes below	
				Additional scope - Inter Terminal Operation (assumed reduced due to opening of T1-T5 Tunnel)	(4,600)
				Additional scope - T1 - T4 Tunnel operating at fuller capacity than previously assumed	(1,000)
				Additional scope - T1 Out of Gauge assumed closed	(900)
				Additional scope - Terminal 4 Ancilliary Baggage Facility	(400)
				Additional scope- T4 following transfer of responsibilities from BA	(1,400)
				Additional scope - T4IB	(1,100)
				Under estimated T5 Operating & Maintenance costs, now based on actuals and reflecting extended scope.	(6,000)
				Additional scope - Baggage Recovery Facility	(900)
				Check-in & CUSS - check-in under estimated and CUSS fully recovered	(3,600)
				Other	(14)
Direct Expenditure	113,495	93,581	(19,914)		(19,914)
Allocated costs	8,202	11,369	3,167	Agreed efficiency savings incorporated in allocated costs	
London 2012 Olympic and Paralympic Games adjustment	3,856		(3,856)	London 2012 Olympic and Paralympic Games adjustment	
Net (under) / over recovery at 31 March 2013	820	0	820		

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
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	19,369				
London 2012 Olympic and Paralympic Games adjustment	975			London 2012 Olympic and Paralympic Games adjustment	975
11/12 bfwd (under) / over recovery	1,730			Pricing adjusted primarily to reflect cost decreases driven by lower annuity	(2,339)
Total Revenue	22,074	22,873	(799)	Increase in 3rd party share from 81% per Table 6-3 to 83% per Actuals	565
					(799)
Direct Expenditure	10,550	9,180	(1,370)	Coaching & Fuel - additional schedules and increased fuel costs.	(1,240)
				Rent & Rates	140
Allocated costs and Annuity	10,701	13,694	2,993	Increase in 3rd party share from 81% per Table 6-3 to 83% per Actuals	(226)
				Other	(45)
London 2012 Olympic and Paralympic Games adjustment	975		(975)		(1,370)
Net (under) / over recovery at 31 March 2013	(151)	0	(151)	The annuity for terminal adjacent car parks has been adjusted in accordance with the release of spaces	
				London 2012 Olympic and Paralympic Games adjustment	

**Airside Licences
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	1,591				
11/12 bfwd (under) / over recovery	(562)			Pricing primarily adjusted to reflect prior year under-recovery	178
Total Revenue	1,029	915	114	Decrease in 3rd party share from 100% per Table 6-3 to 93% per Actuals	(64)
					114
Direct Expenditure	779	444	(335)	Higher staff costs to reflect agreed focus on airside safety and compliance	(309)
Allocated costs and Annuity	471	471	0	General Costs - Unit Load Device Management	(120)
Trading Statement Adjustment	(154)		154	Other	93
					(335)
Net (under) / over recovery at 31 March 2013	(67)	0	(67)	Trading Statement Adjustment	

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					
2012-13					
3rd Party Element only					
	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	27,122				
Backbilling Income Adjustment	4,246				
11/12 bfwd (under) / over recovery	(807)				
Total Revenue	30,561	33,981	(3,421)	Additional backbilled income relating to prior years	4,246
				Pricing adjusted to reflect cost decreases and lower total airport consumption	(3,021)
				Decrease in 3rd party share from 39.5% per Table 6-3 to 34.1% per Actuals	(4,646)
					(3,421)
Direct Expenditure	15,155	25,517	10,362	Decreased total airport consumption and costs	6,874
				Decrease in 3rd party share from 39.5% per Table 6-3 to 34.1% per Actuals	3,488
					10,362
Allocated costs and Annuity	8,462	8,462	0		
Backbilling Cost Adjustment	2,856		(2,856)	Direct costs related to the adjustment for additional revenue for backbilled 3rd party consumption in the period prior to 12/13	
Net (under) / over recovery at 31 March 2013	4,087	0	4,087		

**Fixed Electrical Ground Power (FEGP)
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	9,490				
11/12 b fwd (under) / over recovery	(2,224)				
Total Revenue	7,266	8,281	(1,015)	Reduced consumption	<u>(1,015)</u>
Direct Expenditure	4,449	3,563	(885)	Higher electricity cost driven by Electricity NRC pricing Reduced maintenance costs	<u>(1,206)</u> <u>322</u>
Allocated costs and Annuity	4,718	4,718	0		(885)
Ash cloud rebate	(168)		168	Ash Cloud Rebate	
Net (under) / over recovery at 31 March 2013	(1,732)	0	(1,732)		

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 2012-13

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000
Revenue per 12/13 Trading Statement	1,388		
Total Revenue	1,388	1,044	344
Direct Expenditure	1,096	748	(348)
Allocated costs and Annuity	921	921	0
Net (under) / over recovery at 31 March 2013	(629)	(625)	(4)

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
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	1,296				
Backbilling Income adjustment	110				
11/12 bfwd (under) / over recovery	(468)				
Total Revenue	938	1,091	(153)	Additional backbilled income relating to prior years	110
				Pricing adjusted to reflect cost decreases and lower total airport consumption	(1,276)
				Increase in 3rd party share from 16% per Table 6-3 to 31% per Actuals	1,013
					(153)
Direct Expenditure	927	715	(211)	Reduced Water supply costs	453
				Increase in 3rd party share from 16% per Table 6-3 to 31% per Actuals	(664)
					(211)
Allocated costs and Annuity	371	371	0		
Backbilling Cost Adjustment	81		(81)		
Cap backbilling to CAA decision 3rd party share	(81)		81	Direct costs related to the adjustment for additional revenue for backbilled 3rd party consumption in the period prior to 12/13	
Net (under) / over recovery at 31 March 2013	(359)	5	(364)		

**Security Documentation
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	3,562				
11/12 bfwd (under) / over recovery	2,099				
Total Revenue	<u>5,661</u>	<u>3,202</u>	<u>2,458</u>	Significant increase in volume of passes issued without incurring an increase in costs plus introduction of new tariffs to ensure greater compliance with security standards	2,635
				Decrease in 3rd party share from 85% per Table 6-3 to 80% per Actuals	(176)
					<u>2,458</u>
Direct Expenditure	<u>1,564</u>	<u>1,556</u>	<u>(8)</u>	Staff savings	456
Allocated costs and Annuity	<u>1,646</u>	<u>1,646</u>	<u>0</u>	Purchase of ID issue cards, card holders and lanyards	(576)
				Other	112
Net (under) over / recovery at 31 March 2013	<u>2,450</u>	<u>0</u>	<u>2,450</u>		<u>(8)</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.

**Bus & Coach
2012-13**

3rd Party Element only

	Trading Statement £'000	Table 6-3 £'000	Variance Table 6-3 £'000	Commentary on variance	£'000
Revenue per 12/13 Trading Statement	1,477			Underlying decrease in income	(452)
				Increase in 3rd party share from 73% per Table 6-3 to 86% per Actuals	299
Total Revenue	1,477	1,630	(153)		(153)
				Staff	(28)
				Property Related	(6)
				Maintenance & Equipment	(121)
				Management fees	(1,452)
				Increase in 3rd party share from 73% per Table 6-3 to 86% per Actuals	(23)
Direct Expenditure	1,758	128	(1,630)		(1,630)
Allocated costs and Annuity	3,878	3,878	0		
Net (under) / over recovery at 31 March 2012	(4,159)	(2,376)	(1,783)		

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.

