Chairman's statement

Covid

The economic effects of the measures taken by governments to control the Covid-19 pandemic continued to have a significant impact on aviation and our operation. Our licence requires us to provide a service capable of meeting on a continuing basis any reasonable level of demand. While air traffic volumes improved on the prior year, the income we received for this level of flights fell far below the cost of keeping airspace open during the pandemic. Accordingly, our financial focus continued to be on our liquidity and continuing to limit expenditure to what was essential.

Last summer we completed a full debt refinancing which bolstered our financial resilience to the benefit of the aviation sector overall and to ensure we are well placed for a range of recovery outcomes. Operationally, we maintained our focus on protecting our employees while delivering a safe and resilient ATC service. We have taken the actions necessary to support the recovery in aviation by retaining critical skills while also operating cost efficiently.

NR23

We consulted extensively in the year on a new price control (NR23: 2023 to 2027) business plan with airlines, airports, passengers and the CAA. Alongside service quality, our plan focuses on resilience and enables us to progress our technology and airspace transformation programmes. The CAA will make its decision on our price control in the first quarter on 2023. It is essential that the outcome provides the resources necessary to support the sector's recovery and for investment in the UK's ATC infrastructure. This is alongside recovering the costs for maintaining the service and infrastructure throughout the Covid period, in recognition of the financeability obligations of the CAA and of DfT.

External factors, including Ukraine

Since February the Board has been monitoring the dire situation unfolding in Ukraine and assessing the risks to our business. Air traffic volumes have not yet recovered to pre-pandemic levels. The conflict makes forecasting air traffic volumes in the near term and through NR23 even more challenging. The associated economic consequences will inevitably impact the sector's recovery, potentially prolonging it substantially. In particular, the significant increase in aviation fuel costs will add to already elevated inflationary pressures on air fares, with associated consequences for the demand for air travel which is likely to be affected by the increased cost of living generally.

Cash flow, results and dividends

For a second consecutive year, the cash receipts from our customers failed to cover our daily operating costs let alone the replacement of critical systems. Overall, after the essential investments we continued to make in our infrastructure and the costs of financing our operation, our net cash outflow this year was £124m (2021: net cash outflow £266m).

Total revenue and regulatory allowances of £750m were lower than the prior year (2021: £823m). These have been determined in accordance with applicable accounting standards, in the absence of the CAA determination for 2020 to 2022 (which is due in early 2023). Following Covid, the regulatory mechanism is expected to allow NERL to recover its costs, which were lower in the year and lower than RP3 allowances, allowing airlines to benefit from efficiencies made in response to Covid. The profit for this year of £9m after refinancing costs of £42m, was £47m better than the prior year loss of £38m, which included redundancy costs and asset impairment charges.

The company did not pay a dividend in the year (2021: nil). The Board remains committed to restoring regular dividends once the business and regulatory outlook is more stable.

Strategy

During the period since Covid, the Board has assessed the group's strategy (see page 7), its resilience and considered the opportunities likely to arise post-pandemic. This review, which was completed this year, considered longer-term objectives for the business through to 2040. It recognises the group's role as provider of the nation's critical airspace infrastructure and anticipates: growth in demand from new airspace users, the importance of our talented employees and our role in a sustainable future for aviation.

NERL's licence extension

In September the Secretary of State for Transport extended NERL's licence termination notice period from 10 to 15 years. This is a clear affirmation of NERL's critical role in supporting the aviation sector and its contribution to the UK's prosperity. This was positive news for all our stakeholders.

Chairman’s statement

Environmental sustainability

We are committed to a net zero estate by 2035 with a target aligned with the Science Based Target initiative (SBTi) and during the year we were rated A- by CDP (formerly known as the Carbon Disclosure Project), demonstrating our commitment to environmental stewardship, decarbonisation and best practice. I was pleased that for the second year in a row NATS was included in the Financial Times’ list of Europe’s Climate Leaders.

Improving fuel efficiency to reduce CO_2 emissions is one of the greatest challenges for the aviation industry. Since early 2020, multiple reports have been published about pathways to decarbonise aviation. These are largely consistent in estimating air traffic management’s contribution to decarbonisation at between 4–6% of the overall emissions aviation needs to reduce or offset to achieve net zero by 2050. Free route airspace and, in future, the wider redesign of the airspace network will enhance airspace efficiency, supporting the industry’s net zero targets and increase network capacity as traffic volumes grow. There is a significant dependency on airports to agree and deliver their respective changes to lower airspace. Synchronised airspace change of this scale requires the continued commitment of the DfT and the CAA which have sponsored the Airspace Change Organising Group (ACOG), which is under NATS’ auspices, to coordinate the programme.

Our Board and employees

The membership of the Board remained unchanged since last year’s annual report, providing stability as we responded to the challenging environment. The composition, skills and experience of the Board is always kept under review, and over the next year we will need to recruit new members given planned retirements.

The Board has continued to focus on diversity and inclusion, which is explained in more detail on page 31, and maintained its focus on employee wellbeing in response to the pandemic. It has been another very challenging year for our employees and I would like to thank them for their resilience, dedication and commitment in maintaining a safe service for all our customers.

Paul Golby

Dr Paul Golby, CBE FREng
Chairman