

# Review of CAR's financial model

A review of CAR's financial model has highlighted several errors that will need to be corrected in the final decision.

1. Pre existing triggers such as the Northern Runway (M2) should be adjusted to Feb'22 prices and yearly price cap formula should ensure this gets adjusted by CPI from Feb'22 to the appropriate point
2. CIP projects that have been completed up to the end of 2022 where CAR deem a portion of their costs has already been remunerated (e.g. HBS 3 and Pace Type 1) should have their useful lives reduced to align with the portion that is unremunerated – refer to “2020-2022 Capex” tab.
3. The formula to estimate real construction inflation uses the incorrect denominator. On “IFS Cost Allowances” tab the formulae in column K should have column J as the denominator rather than column I.
4. There is a double count for PACE Type 2 projects being deducted from the opening RAB. Further detail on this can be found in Appendix 1.

## Appendix 1 – Opening RAB Calculation Error

CAR’s proposed approach for setting the 2023 opening RAB for Dublin Airport is to update the value from the 2019 Determination for actual expenditure to the end of 2021 and budgeted expenditure in 2022.<sup>1</sup> As the actual/budgeted expenditure over the period 2020–22 is lower than foreseen in 2019 due to the effects of COVID-19, the 2023 opening RAB is expected to be lower than in the 2019 determination. In other words, only the actual/budgeted expenditure is added to the 2023 RAB, while the other CAPEX allowed in the 2019 determination is removed from the 2023 opening RAB.

The assets comprising the 2023 RAB are classified into three ‘categories’:<sup>2</sup>

1. ‘category 1’, composed of: the 2020–22 CIP allowances across seven groups; the PACE projects not yet completed (referred to as ‘PACE type 2’ projects); the StageGate projects not yet completed; and the Sustainability projects;
2. ‘category 2’, composed of the PACE projects already completed (referred to as PACE type 1 projects);
3. ‘category 3’, composed of the StageGate projects already completed.

The three categories are separately accounted for. In this section of the response we focus on the analytical approach followed by CAR for the definition of the 2023 opening RAB for ‘category 1’.

As a starting point, in the tab ‘2020-2022 Capex’ of the Draft Financial Model, CAR compares outturn expenditure to the allowances in nominal terms for the period 2020–22. The original 2019 allowances, covering the five years from 2020 to 2024 (five-year period), are pro-rated by three fifths to scale them to the period 2020–22 (three-year period). The amount to be added to the RAB is identified by considering only the actual/budgeted expenditure, while the remaining expenditure is excluded from the 2023 opening RAB defined in the 2019 Determination. The calculations are shown in the table below.

**Table 1** 2020–22 CAPEX reconciliation

Category	Original 2020–24 allowance (€m 2019)	Pro-rate adjustment	Pro-rated 2020–22 allowance (€m 2019)	Actual/ budgeted expenditure (€m 2019)	Enter RAB (€m 2019)	Excluded form RAB (€m 2019)	2019/2020 price conversion factor	Excluded form RAB (€m 2022)
	[A][H]	[B]	[C]=[A]*[B]	[D]	[E]=[D]	[F]=[C]-[E]	[G]	[H]=[F]*G
Asset Care CSF <sup>1</sup>	121.2	0.6	72.7	43.9	43.9	28.8	1.06	30.7
Asset Care M&E <sup>1</sup>	99.9	0.6	60.0	25.2	25.2	34.7	1.06	36.9
Commercial <sup>1</sup>	118.6	0.6	71.1	26.3	26.3	44.8	1.06	47.6
IT <sup>1</sup>	78.2	0.6	46.9	33.3	33.3	13.7	1.06	14.5
Security <sup>1</sup>	57.5	0.6	34.5	10.9	10.9	23.6	1.06	25.1
Other <sup>1</sup>	21.9	0.6	13.2	13.0	13.0	0.2	1.06	0.2
Capacity <sup>1</sup>	110.8	0.6	66.5	27.3	27.3	39.2	1.06	41.7

<sup>1</sup> See page 102 of the Draft Decision.

<sup>2</sup> The term ‘category’ is used solely in this note for the sake of describing the process undertaken by CAR. It is not used in the Draft Decision.

Total 7 groups	608.2	-	364.9	179.9	179.9	185.0	-	196.7
Sustainability	NA	NA	-	1.8	1.8	- 1.8	1.06	-1.9
PACE Type 2	169.2	0.6	101.5	40.8		60.8	1.06	64.6
StageGate (not yet completed)	1,091.4	0.6	654.8	20.2	20.2	634.6	1.06	674.8
<b>Grand total</b>	<b>1,868.8</b>	<b>-</b>	<b>1,121.3</b>	<b>242.6</b>	<b>242.6</b>	<b>878.6</b>	<b>-</b>	<b>934.2</b>

Note: 1 Included in the 'seven groups' categorisation.

Source: Analysis on the basis of the Draft Financial Model, tab '2020-2022 Capex', rows 10–25.

As a second step to determine the 2023 opening RAB of 'category 1', in the tab '2023 Opening RAB calcs' of the Draft Financial Model, CAR identifies the 2023 RAB of the 2019 Determination, excluding the PACE T1 and StageGate projects already completed which, as described above, are accounted for separately in 'categories' 2 and 3. Once adjusted for inflation, the 2023 opening RAB of the 2019 Determination is equal to €2,667.4m (2022 prices).<sup>3</sup>

To derive the updated 2023 opening RAB, the unspent allowances as calculated above are subtracted from the RAB of the 2019 Determination. This is done separately for 2020–22 CIP allowances across the 'seven groups', the PACE type 2 projects and the StageGate projects not yet completed. The figure below is a screenshot of the relevant section of the Draft Financial Model performing such calculations.

**Figure 1 2023 opening RAB calculations in the Draft Financial Model**

Line Item	Units	Price Base	
2023 Opening RAB from 2019 Determination	€ millions	model	2667.4
2020-2022 Outturn Spending Adjustment (Groups)	€ millions	model	-259.4
2020-2022 Outturn Spending Adjustment (SG)	€ millions	model	-674.8
2020-2022 Outturn Spending Adjustment (PACE T2)	€ millions	model	-64.6
<b>2023 Baseline RAB after adjustments</b>			<b>1668.6</b>

Source: Draft Financial Model, tab '2023 Opening RAB Calcs', rows 18–25.

According to the calculations in the figure above, the 2023 opening 'category 1' RAB is equal to €1,668.6m (2022 prices).

However, we consider that there is an error in the calculation of the 'Outturn Spending Adjustment' of the 'seven groups'. The formula used in the Draft Financial Model, includes an adjustment not only for the unspent CAPEX of the 'seven groups' but also for the 'PACE T2' and 'Sustainability' projects. As shown in table 1 above, the unspent CAPEX for the 'seven groups' is equal to €196.7m (2022 prices), or to €194.8m by also considering the 'Sustainability' projects, which is lower than the €259.4m calculated in the

<sup>3</sup> In the Draft Financial Model, the 2023 opening RAB from the 2019 Determination is equal to € 2,508.7m in 2019 prices, which adjusted for inflation using a 1.06 price conversion factor is equal to € 2,667.4m (2022 prices).

Draft Financial Model. As the 'PACE T2' projects are accounted for separately, the unspent CAPEX for those projects (€64.6.m in 2022 prices) is being subtracted twice from the RAB of the 2019 Determination. Our revised calculations are shown in the table below.

**Table 2**                    **2023 opening RAB revised calculations**

Line item		€m (2022 prices)
2023 Opening RAB from 2019 Determination	[A]	2,667.4
2020-2022 Outturn Spending Adjustment (Groups) – including 'Sustainability'	[B]	194.8
2020-2022 Outturn Spending Adjustment (SG)	[C]	674.8
2020-2022 Outturn Spending Adjustment (PACE T2)	[D]	64.6
<b>2023 Baseline RAB after adjustments</b>	<b>[E]=[A]-[B]-[C]-[D]</b>	<b>1,733.2</b>

Source: revised analysis.

**Our revised calculations show that correcting the error leads to a 2023 opening 'category 1' RAB of €1,733.2m, €64.9m higher than the value calculated by CAR in the Draft Financial Model.**