



Regulatory Service lowers the airport charges for passengers and airlines on Brussels Airport

The Regulatory Service has examined the airport charges of Brussels Airport for the period April 2011 – March 2016 and has approved them under condition of amendment. The airport charges will be lower than those announced by The Brussels Airport Company, the operator of Brussels Airport.

The Regulatory Service – hereafter the regulator – found the procedure for consultation of the users (i.e. the airlines) to be respected by The Brussels Airport Company. Furthermore, the regulator concluded there was no formal dispute between the airlines and the airport operator, as foreseen in article 55 of the Royal Decree of 21 June 2004 regarding the granting of the operating license for the airport Brussels-National to the private company BIAC.

With respect to the content of the dossier announced by the Brussels Airport Company the regulator assessed some findings and requested corrections accordingly:

1. The Asset Base

The assets are found to be very heterogeneous. The historical assets are (often) mentioned as one entity while the recent assets are recorded on individual basis, even for very small amounts. The link between the different assets is not always very clear, with the consequence of possible overlaps. The total of assets contains the regulated as well as the non-regulated assets, and also assets belonging to another private company (the electricity power distributing company DNB BA). The allocation of the costs is done by allocation keys per category of assets, even for assets who can be clearly and exclusively assigned to regulated or non-regulated activities. Moreover they are insufficiently tied up with the annual accounts.

With respect to the categories some structural errors were found:

- Access roads to the airport and the public parking are in the category “Airside”;
- Security activities are not allocated to a specific category;
- Commercial activities are not appointed to a specific category.

The regulator also found errors in the allocation of assets:

- Company cars were incorrectly allocated to the category “airside” instead of “payroll”;
- Certain road construction work were allocated to “Buildings” while the description clearly indicated an allocation to “Airside”;
- Some technical equipment was allocated to the category “Art” instead of “Buildings”.

Besides the issue related to the allocation of the costs, these anomalies are not financially neutral because of differences in amortization.

Following items were also assessed:

- A large number of assets are insufficiently detailed with description, supplier or localization;
- An inventory for demolished assets (disposals) only exists for the financial year 2009, while invoices clearly show evidence of demolished assets during other financial years. The accounting processing cannot be established;
- Some investments (CAPEX) resemble like operational costs (OPEX), for reasons of description or the amount.
- The depreciation period for some constructions in a building is longer than the remaining depreciation period of the concerned building.

The regulator carried out corrections as much as possible. Other aspects were subject of recommendations for the future.

2. The Activity Based Costing model

Some surfaces were wrongly allocated to the regulated activities. Mainly it concerned:

- Waiting area in front of commercial counters;
- Waiting area in front of check-in and self check-in;
- Surfaces used for different commercial purposes (exhibition cars, vending machines for drinks, pay phones, children entertainment to pay, ...).

The regulator reallocated these surfaces.

With respect to allocation keys the regulator assessed the following:

- The cost for medical service MEDA is 100% allocated to the passengers, whereas this service is also at the disposal of personnel of all organizations at the airport. Correction: 50% regulated and 50% non-regulated.
- The bussing infrastructure is 100% allocated to the passengers whereas recent surveys clearly show only 15% of the people taking the bus are passengers. Correction: 80% non-regulated and 20% regulated.
- The commercial incentives to support airlines in their start-up or further development are 100% allocated to regulated activities, which implicates that commercial advantages of some airlines are paid by all airlines. Correction: 100% non-regulated;
- The PRM-activity is subject to its own procedure. The cost related to this service is excluded from the regulated cost base.
- The cost regarding the maintenance of boarding bridges are 100% allocated to the regulated activities. Nevertheless, this cost also contain the maintenance of the commercial services of power supply (400Hz) and pre-conditioned air for aircrafts. Correction: 66,67% regulated – 33,33% non-regulated.

The values of depreciation in the ABC-model do not correspond with those in the Asset Base. Consequently, the regulator used the values of the asset base, which are closer to those in the legal accounts, in the ABC-model. This results in a yearly difference of approximately 5 million euros.

Regarding the evolution of the cost during the 5 years period, the regulator cannot agree with following aspects:

- A yearly increase of personnel cost with 2% above inflation. Correction: 1% above inflation.
- An increase of the operational cost (OPEX) above inflation as a function of investments. This factor of approximately 5% yearly increase could not be explained by The Brussels Airport Company in economical terms. Consequently, the regulator executed its own analysis of additional cost in function of new assets taken into operation.

3. The investment program

The regulator has found and corrected the following:

- Some projects were considered 100% regulated, contrary to their logic and/or other known practices:
 - The project 'Fly-over Brucargo' will be considered as regulated for 30% and 70% non-regulated;
 - The project 'bus platform' will be considered 20% regulated and 80% non-regulated;
 - The project ERP II will be considered 88% regulated.

- The method of calculation for the cost basis of the regulated activities, the “RAB”, has been revised on following aspects:
 - The value of the cost basis for the period 2011-2016 must be calculated in function of the known value 2009, by yearly adding investments and deducting depreciation.
 - The calculation of depreciation is linked to the calculation of the cost basis.
 - The opening value for calculating the “RAB” of a certain year must equal the closing value of the “RAB” in the preceding year.
 - The yearly revaluation of the assets with 2% cannot be allowed because of the fact that revaluations need to be conclusive and cannot be anticipated upon, e.g. by aligning with inflation.
 - The amounts of the investment projects are only integrated within the RAB value when the corresponding assets are put in exploitation.

4. Financial aspects

When calculating the yield (ROCE) of the regulated activities, the regulator used the adjusted values for the depreciation values (CAPEX) and the increase of the operational cost (OPEX), as mentioned above.

Moreover, when calculating the earnings before interests and taxes (EBIT), the taxes on revaluation capital gains 2009 cannot be accepted in the EBIT calculation, as pointed out in the Technical Paper 2010-01 (8 September 2010) of the Belgian Commission for Accounting Standards.

5. Analysis of the formula for tariff control and the tariff system

Taking into account the preceding, the regulator decided the evolution of the airport charges with $CPI+0,9\%$ would generate a yield way to high (approximately 5,5% in 2015). Therefore, the regulator adjusted the formula for tariff control to $CPI-0,55\%$. This formula will generate a legally acceptable yield of 4,1% in 2015, based on the data provided by the Brussels Airport Company and the corrections by the regulator.

The regulator agrees with the announced formula from The Brussels Airport Company to implement an additional raise of the airport charges with 0,25% per 10 million euros of expenditures for the construction Pier A West (based on planned and actual disbursements) and this as of 1st April in the year the construction of Pier A West begins. The regulator demands to be informed about the details used for the calculation of the eventual raise.

Furthermore, the regulator noticed not all planned investments for the period 2006-2011 have been executed. The difference between planning and reality is about 27 million euros. However, the corresponding depreciation value – to the extent of 6.695.780 € - were part of the cost basis for that period and the airport charges. Since the majority of the not implemented investments are situated on the airside of the airport, the regulator decides a decline of the unit rate for landing and take-off with 0,07 € during the period 2011-2016. This repayment closes the period 2006-2011 and is not part of the yield for the period 2011-2016.

Finally, notwithstanding the fact that the regulator assesses the market return of 6% (WACC) as not unreasonable, the regulator cannot agree upon the method of calculation for the WACC, which determines the maximum allowed rate of return after 4 regulated periods, by the Brussels Airport Company. The calculation of the WACC must represent the financial market situation of an airport

operator instead of showing the financial needs of the airport operator since the latter is the result of the financial policy by the airport operator, which cannot be passed through to the users.

6. Recommendations

Bearing in mind that the regulator could only implement clear and evident corrections in the data and methods of calculation without impacting the annual accounts of The Brussels Airport Company, the regulator also formulated some recommendations for the future:

- A consistent follow-up of the assets in function of a “Asset Life Cycle” that needs to be implemented consistently;
- Clear reference between the Asset Base and general accounting on the one hand, and provide technical data for description of assets on the other hand;
- Establishing a clear distinction between CAPEX and OPEX;
- Clarification of the deactivation of assets and their financial impact;
- Improvement of the allocation drivers, e.g. for ICT;
- Clear reference between values in the Asset Base and the ABC-model;
- A full justification of the return per year based on the costs;
- A more extensive and precise documentation of the investment programs;
- A meticulous follow-up of the method of calculation of the financial needs based on the market references instead of the internal financial needs.

The complete text of the regulator’s decision (French and Dutch only) is available at www.regul.be

The Brussels Airport Company does have right to appeal this decision at the Brussels Court of Appeal.

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