

## Note for IAA ANSP on Developing RP3 Business Plan

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1.1 This note has been developed to assist the IAA ANSP in developing its revised Business Plan. Many aspects of the original RP3 Business Plan (as submitted to the NSA, dated 18 June 2019) provide good detail which would enable the development of a robust revised Performance Plan for Ireland, thus it provides a good reference point for developing the revised plan. References to numbered tables in this note relate to the original RP3 Business Plan. Some cost elements not included in the BP, or in a less detailed way, are also set out in this note. In providing the below we also hope to pre-empt answers to the types of questions that commonly arise and thus lead to more efficient development and consideration of the Business Plan for both NSA and ANSP.

### General

1.2 The Business Plan (BP) should set out and explain the following:

- Underlying economic and other assumptions (including IMF Inflation projections) and how these relate to traffic and cost forecasts, particularly in relation to COVID-19.
- Description and justification of traffic forecast used, and how this affects cost projections.
- Description of change management procedures.
- Description of any adjustments beyond the provisions of the International Financial Reporting Standards adopted by the Union pursuant to Commission Regulation (EC) No 1126/2008.

1.3 A description of the interdependencies and trade-offs between the KPAs.

1.4 The ANSP may wish to provide a proposal in relation to Article 11 incentive schemes.

1.5 Our current thinking in relation to costs for the ANSP associated with the institutional separation should be categorised as Opex/Capex and each aspect should be considered within the appropriate cost category outlined below, rather than set out as restructuring costs. Details underpinning any capital/operating cost assumptions (e.g. step changes or adjustments to forecasts) should be set out in line with the guidance below for such costs. This can be discussed further if necessary.

1.6 A general rule of thumb to keep in mind when considering the level of detail/explanation to provide on forecasting assumptions or the basis for cost estimates, is that it should be sufficient for a reader to be able to re-create the figures provided if they were to have access to the underlying data.

1.7 In relation to potential redactions from the published BP, in our view these should be avoided. Transparency will allow stakeholders (and ultimately the PRB and EC) to engage with the details of the plan and thus potentially be supportive of it. For that reason, below we identify material which we would generally consider to be commercially sensitive based on previous work of this nature, and suggest that this is provided directly to CAR. This can be discussed further if necessary.

### Capital Expenditure

#### *Previous Capex*

1.8 The BP should provide description and quantification of the existing asset base at the start of

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RP3, ie the 2020 opening RAB. This will hopefully be agreed and validated in advance with CAR, analysis which is currently underway.

1.9 The BP should set out and explain the ANSP's position on any:

- return of unspent Capex over RP2, including identifying which projects which unspent allowances relate to.
- return of COOPANS incentive payment.
- return of EU grants or other funding received.

### *RP3 Proposed Capex*

1.10 In relation to the grouping of projects, broadly, the level of detail provided in Table 49 appears suitable, with 2 potential exceptions where we would likely request a more detailed breakdown by project and business case for each:

- There is a large 'other' group in 'ATM Operations and Technology Projects' which accounts for a significant portion of the Capex.
- COOPANS projects.

1.11 For each project, or group of projects where a project allowance is grouped as per the previous paragraph:

- Description of the planned investment, in the context of the operations and technology strategy, and including any appropriate references to cross-border initiatives, SESAR implementation and SES regulations.
- The level of impact of the investment (network or local).
- Lay out the Business Case. This will naturally vary by project: Broadly, maintenance Capex proposals should identify the system or equipment that is End of Life (evidence of same can be provided directly to CAR). For a step change in business requirements (eg the requirement to develop a new tower at DUB because of the North Runway), this should be set out and the benefit or necessity of this explained. For other projects, we would expect a quantified business case either with reference to achieving efficiencies or a quantified impact on other KPAs. It may be best to provide just the key business case findings in the BP, but provide the actual internal business cases to CAR.
- Overview of cost assumption(s) underpinning each estimate. We understand that the detailed build-up of the cost estimate may be considered commercially confidential and provided directly to CAR rather than in BP. Where cost estimates are based (or partly based) on previous procurements (or 'off the shelf' prices), this procurement material should be provided directly to CAR together with any reconciliation workings (eg. adjustment for project scope differences or construction price inflation).
- Proposed asset life and associated explanation/justification (where a blended asset life is proposed for a project, the asset life of the individual components, and the blend, should be set out).
- Provide an Opex interdependency estimate where relevant/non-negligible, or confirm that the ANSP's view is that the Opex impact is negligible. In particular, provide

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quantification of any efficiencies expected to be generated by a capital project.

- 1.12 Provide details of optioneering of project solutions, where relevant, for substantial projects. It may be best to provide an overview of optioneering in the BP, and provide any more detailed internal optioneering as supporting evidence provided to CAR.
- 1.13 Provide an overview in relation to the strategy for requests for funding from relevant EU programmes (or otherwise). How will the ANSP seek such funding and to what extent, if any, will such funding be assumed in the proposed project costings?
- 1.14 Provide a detailed programme timeline for delivery.
- 1.15 Provide a proposal for reporting on delivery schedule of allowed Capex over the period (eg twice-yearly publishable reports to be sent to NSA).
- 1.16 Any '*major investments*' or '*change management plans for the entry into service of major airspace changes or for ATM system improvements, aimed at minimising any negative impact on the network performance*' as per Article 10(2i).
- 1.17 The ANSP may wish to provide details on its financing/ capital structure strategy, if it wants CAR to consider the question of funding Capex during RP3 and associated financial ratio analysis as part of the PP.
- 1.18 The ANSP may wish to set out its position for future treatment of Capex outturn expenditure, with appropriate reference to the Regulation (eg should underspends or overspends be grouped, in whole or in part, or considered on a project-by-project basis).

### Operating Expenditure

- 1.19 Description and justification of staffing levels and/or forecasting assumptions on an annual FTE basis, staff costs and pension cost assumptions.
- 1.20 In relation to the level of granularity of FTE categories, the categorisations in Table 27 are appropriate with the exception of:
  - ATCOs. There should be a split between operational and non-operational and, within operational ATCOs, also a split between en route and terminal. In addition, trainees should also be separate. This would allow for better direct comparability with the NSA forecasts.
  - Corporate Services. This should be split at a further level of granularity (eg HR, Finance, Senior Management etc).
- 1.21 For each category:
  - Quantified analysis of the proposed FTE count.
    - o For example, rather than just 'FTEs need to increase from X to X+5 due to a particular reason', also set out how X+5 has been identified as the required number. This might be done either through explaining forecasting assumptions linked to traffic levels or some other driver (eg ATCOs), or setting out a business case for a change in headcount in a particular category.
    - o Where any expected impact on other KPAs forms part of the business case, this should be explained and quantified to the extent possible.

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- If a new or changing regulation is being cited, describe the planning assumption (eg consideration of whether the change is additive or certain aspects replace other regulatory requirements). If the requirement is identified as additive this should be clearly demonstrated (noting that in certain cases regulatory changes tend to replace earlier requirements).
- Explicitly account for any Capex interdependencies as set out above.
- Identify and provide quantified analysis of any step changes within the period, with reference to the specifics of the step change (for example, commencement of parallel runway ops at DUB).
- Provide the 2020 actual average FTE count and end-of-year count.
- Outline unit payroll costs and pension cost forecasts, and forecasting assumptions. Highlight any overtime assumptions. Provide 2020 actuals.

### *Other Operating Costs*

- 1.22 Detailed breakdown and justification of other operating cost items. Tables 34 to 47 are an appropriate level of granularity.
- 1.23 Provide quantified analysis as to how the figures have been specifically arrived at. Including business case analysis for any step changes - particularly providing details on any interrelatedness with the other KPAs.
- 1.24 Provide 2020 actuals.

### **Cost of Capital**

- 1.25 Description and justification of the methodology used to calculate the return on equity, interest rate on debt and gearing.
- 1.26 Overview of the application of the proposed Cost of Capital to the forecast RAB.

### **Other**

- 1.27 Lay out 2019 and 2020 actuals for each cost category above.
- 1.28 Provide any evidence, at a staff category/Capex project level, of consideration whether cost savings in response to COVID-19 could be made, and reasons as to why potential savings measures were/were not/were partly implemented. An overview might be provided as a standalone subsection in the BP and/or where relevant within any of the cost forecasts outlined above. Any more detailed confidential substantiating material might be provided directly to CAR, which might allow us reference in the Performance Plan that this material was provided and assessed/validated.
- 1.29 Full description of the cost-allocation methodology/methodologies between en-route, terminal, and unregulated. Provide overview of the application of this methodology in the BP and the full set of allocations to CAR.