

Steer's assessment of CAR's proposed NSA costs

Background

- 1.1 The NSA submitted its RP3 business plan and accompanying spreadsheet on 14 May, CAR revised the costs and produced a new spreadsheet model with new assumptions and provided for Steer's review on 14 July 2021.
- 1.2 The Business Plan covers the 2020 to 2024 period, with the following coverage:
- **For 2020:** it reflects actual costs within the IAA of SRD (before CAR charged any costs).
 - **For 2021:** it is based on the budget and these values will be reviewed with Year to Date values in September 2021 before finalising Ireland's Performance Plan.
 - **For 2022 to 2024:** an estimate of the new Irish Regulatory Authority (covering current IAA SRD and CAR functions) is provided on a bottom up basis.
- 1.3 CAR has updated and refined the original projections undertaken by the NSA IAA SRD. The costs from 2021 onwards are approximately €2.4 million higher than incurred in 2020 growing to €3.2 million higher by 2024.
- 1.4 In addition to the NSA costs, Ireland's Determined Costs include cross charges from EUROCONTROL, the International Civil Aviation Organisation (ICAO), European Civil Aviation Conference (ECAC) and Ireland's Department of Transport (DoT).
- 1.5 The costs are summarised in the table below.

	2020	2021	2022	2023	2024
Staff	1,857,358	3,001,159	3,365,245	3,832,932	3,813,588
<i>Of which is pension</i>	<i>309,560</i>	<i>500,193</i>	<i>582,629</i>	<i>662,759</i>	<i>658,743</i>
Other operating costs	934,371	2,240,514	1,797,985	1,789,455	1,964,091
Depreciation	19,321	22,998	285,386	285,386	285,386
Total NSA	2,811,050	5,264,671	5,448,616	5,907,773	6,063,066
ECTRL, ICAO, ECAC and DTTAS Costs	10,441,958	10,887,607	10,859,380	10,994,578	11,191,750
Total Regulatory costs	13,253,008	16,152,278	16,307,996	16,902,351	17,254,816

Source: CAR spreadsheet of NSA costs received on 14 July 2021

- 1.6 Total Regulatory Costs are then allocated to Terminal, En-route and North Atlantic Communication Centre (NAC) by percentage of 73%, 15% and 12% respectively calculated by CAR.

Key assumptions

- 1.7 The key assumptions applied in the 2022-2024 period are:
- The staff costs are based on individual-level pay/PRSI and pension costs for relevant CAR and SRD staff. There are 5 relevant positions within SRD (including the new SAR roles) which will not be filled until within 2022. Therefore, based on an assumption of these new roles been filled in mid 2022 only half the costs are included, then full costs for 2023-2024.

- Most non-staff operating costs are set to 2019 actuals, then inflated from 2022 using CPI. CAR non-staff operating costs are added to this where likely additive, e.g. travel, training, otherwise CAR costs (such as cleaning, etc) are considered to be subsumed.
- Corporate services and other central cost forecasts of the new regulator (e.g. the ICT department, depreciation) are apportioned to the NSA on the basis of total planned NSA FTEs divided by total planned operational FTEs, which is 17%.
- Then, the total NSA costs are apportioned between ENR, TER and NAC. The previous proportions between these has been maintained, however the 'SRD' allocation will no longer be relevant post-merger so that has been subsumed within ENR, TER, and NAC.

Key issues arising

- While there are increases in NSA costs resulting from the consolidation of CAR and IAA SRD, we expect some of these costs would be offset by reductions in IAA ANSP costs. It would therefore be useful to see the net position across the two organisations.
- There is a step-up in non-staff Administrative operating costs in 2021, the justification for which should be better explained. There are some one-off costs in the breakdown including "CAR costs" and "Consultancy fees" which require further explanation.
- The General approach to non-staff operating costs of allowing 2019 level costs from 2022-2024 unless there are exceptional items to add is recognised as consistent with Steer's approach to producing independent projections for the IAA ANSP RP3 business plan.
- The index used to inflate 2019 costs is drawn for 2022-2024 CPI projections. CAR should consider whether it would be more accurate to apply the cumulative CPI from 2020 onwards to each of the years 2022, 2023 and 2024.

Overall assessment

- 1.8 The latest version of the NSA costs is significantly reduced from that presented in the first draft from the IAA SRD in the period 2022-24 (approximately €1 million lower in 2022, and €0.5 million lower in each of 2023 and 2024).
- 1.9 We consider that most of the assumptions are appropriate and consistent with Steer's approach to reviewing the IAA ANSP. Some reconsideration of the approach to indexation and better explanation of the step change in Administrative costs in 2021 is recommended.