

7 January 2021

This document has been prepared by the Irish Aviation Authority's Air Navigation Service Provider (IAA ANSP) in response to a request from the Commission for Aviation Regulation (CAR). It details the cost containment measures taken, and planned, by IAA ANSP as a result of the COVID-19 pandemic. It has been developed in the context of the significant uncertainty and volatility that existed throughout 2020 with regard to the impact of the pandemic on society, public health, business and the aviation sector, and which continues to exist with regard to planning uncertainty in 2021. It is highlighted that the pandemic struck before a 5-year regulatory plan was finalised for the IAA. The IAA's en-route and terminal revenues collapsed with a 90% reduction in air traffic levels in Ireland in April 2020; however, the IAA has been required under statute to ensure the provision of a full safe, efficient and high-quality service to its customers. In addition, like many businesses in Ireland, the IAA has had to make significant investments to protect the health of its staff while other initiatives such as unconventional rostering in addition to contingency provisions to manage the crisis also impact on cost savings. While it is clear at this point that the pandemic has been longer lasting and had deeper damaging impacts on aviation than many had initially predicted, IAA ANSP has had to continue to maintain readiness for a recovery, in order to ensure that there is no loss of safety or quality of service once air traffic levels start to increase.

1. IAA ANSP Report on actions taken as a result of the COVID-19 Pandemic

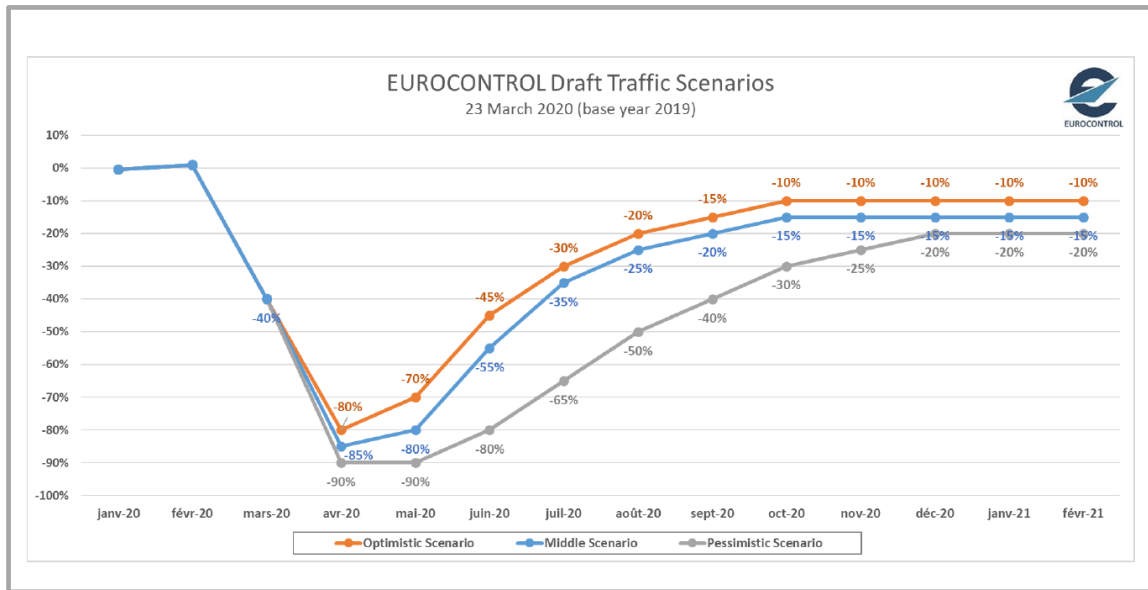
1. Pursuant to Article 6(1) of Implementing Regulation (EU) 2020/1627, European air navigation service providers (ANSPs) were required to submit a report to their National Supervisory Authority (NSA) detailing the measures put in place in order to address the financial and operational impact of the COVID-19 pandemic on its activities. Specifically, ANSPs were required to quantify the impact of actions taken as a result of the pandemic compared to the original Draft RP3 Plans of November 2019.
2. In November 2020, the PRB circulated a pre-filled Excel template on the additional monitoring and reporting for Ireland in which it sought quantitative and qualitative information regarding the impact of any actions taken or planned for RP3 as a result of the Covid-19 pandemic and in comparison to the draft Performance Plan submitted in November 2019. The PRB stated it was interested in actions covering both measures introduced to respond to traffic decrease and recovery measures.
3. The IAA ANSP therefore completed the pre-filled templates for 2020 and 2021, and CAR subsequently submitted the tables to the PRB on 15 December 2020.
4. It is important to note that this report complements the PRB's pre-filled Excel template that is required under EU Regulation 2020/1627 by providing further information on the cost containment measures that were undertaken by IAA ANSP. It is the case that cost containment has typically been implemented on a Company-wide basis to date. Appendix 1, however, reports the effect of these cost containment measures on IAA ANSP's en route and terminal businesses only.
5. Since the end of March 2020, the IAA ensured there has been a particularly strong focus on cost containment with all non-essential expenditure being deferred in order to preserve the Company's cash position.

6. The cost containment actions of the IAA were implemented in consultation with Staff Panel representatives and since March 2020 it has been the Company's intention to take a phased and considered approach to implementing cost avoidance and cost containment measures.
7. Phase 1 focused on cost avoidance and commenced in March 2020. Phase 2 was subsequently implemented in July 2020 and involved a reduced working week for most staff. This will be superseded by Phase 3 on 8 January 2021, whereby payroll reduction measures are being introduced following a collective agreement, and this Phase is expected to be in place until 6 January 2022.

2. Background

8. During RP2, traffic was much higher than forecast and through a reliance on overtime and other measures, IAA ANSP met the various performance targets, but it was clear that further recruitment was required in the RP3 period. The original RP3 Plan endorsed by the NSA and State was based on maintaining service quality levels, business sustainability and ensuring capex commitments were delivered. In addition, IAA ANSP remained highly efficient entering this crisis with one of the lowest unit rates in Europe.
9. The IAA established a Coronavirus Taskforce in February 2020 and as the month unfolded, it was clear that the traffic outlook was rapidly deteriorating. Nevertheless, traffic in the first two months of 2020 remained largely intact and it was not until March 2020 when the impact of the pandemic began to affect the traffic handled by the IAA. The Company's objective right from the start of the crisis was to protect staff and maintain safety and service levels to customers.
10. While the full effects of the decline in traffic had not yet materialized, the IAA implemented the first phase of its cost containment programme, detailed in Section 3 below.
11. It is important to note that from the beginning of the pandemic, the crisis was first and foremost a health crisis even though it was soon to also become a financial crisis. To provide some context, there was one instance, for example, in the US on 18 March 2020 where more than 100 flights were cancelled at McCarran International Airport due to a shutdown that was triggered when an air traffic controller tested positive for COVID-19. The Federal Aviation Administration (FAA) ordered the air traffic control tower to temporarily shut down in order to ensure a safe work environment for controllers and technicians, and the backup system had limited capacity and resulted in cancelled flights. It was not known at the time when the tower would reopen, and it remained closed the following afternoon as the FAA sought to determine how many other controllers would have to self-isolate.
12. The IAA followed best practice policies that ensured the airspace remained open and full services were provided throughout the pandemic.
13. On 20 March 2020, EUROCONTROL distributed a report titled "Chinese Flight Recovery" which showed that flights in China had doubled in 4 weeks since the peak infection rate mid-February. It further noted in this publication that the recovery in Europe might start at the end of April or mid-May 2020.

Figure 1: Draft Traffic Scenarios by EUROCONTROL as of 23 March 2020



14. As the situation deteriorated in April 2020, the industry was focused on ensuring continuity in the aviation global supply chain.
15. IAA ANSP had to act fast to preserve business stability throughout the unfolding liquidity crisis and in the absence of a reliable traffic forecast, it was necessary to maintain service levels albeit with lower traffic. It was only possible to do this by using the IAA’s cash reserves, established through prudent management over a number of years. This was an appropriate use of these reserves, maintaining service levels and safety for customers through the pandemic, rather than reducing service levels in order to further cut costs. The absence of a final RP3 Plan and further uncertainty surrounding amendments to the regulation further complicated the environment. IAA ANSP also ensured that required investments took place in order to protect staff (including appropriate screens, optimal rostering, tiger teams, general screening, staff availability in the event of other staff becoming unavailable due to the virus) and planning for an eventual recovery.
16. As IAA ANSP is obliged by statute to keep the skies open and maintain a safe and effective service, and an awareness of the challenges of an eventual recovery has been important. In other words, while costs have been contained appropriately during the pandemic, it has been important that cuts do not hamper the IAA’s ability to provide service in future years (e.g. by excessive staff cuts, lack of investment or inability to ramp-up as required when the recovery takes place). In this context, the nature of our business is a key consideration given the specialist staff required, the length of time required to train staff in addition to the various licensing requirements (continuity of service, maintaining rating etc.) – all of which require a considerable time period, thereby contributes to the fixed nature of our costs.
17. There is also a high level of other fixed costs in the business and requirement to continue with maintenance and investment plans – certain projects had to advance irrespective of the pandemic and unfolding liquidity crisis. Regulatory costs are also fixed and increasing as a result of Regulation 373/2017 and other regulatory requirements, which had been reflected in the original RP3 Plan and these costs have not been reduced due to the pandemic.

18. IAA ANSP maintained a full air traffic management service, while air navigation and terminal charges due from the airlines in respect of flights in February, March, April and May 2020 were deferred for payment in future months in order to provide some relief to our customers at that time.
19. Despite the high level of uncertainty over the short term that existed, IAA ANSP advanced plans for cost containment Phase 2 in consultation with staff representatives, as set out in Section 4. IAA ANSP subsequently advanced the next phase of cost containment – Phase 3 – which is expected to be in place for a period of 12 months beginning in January 2021.

3. Cost Containment Phase 1 – implemented March 2020

20. Moratorium on Recruitment and Promotions

All planned recruitment and promotions were paused except where contracts had issued to new entrants – no additional staff were added to the IAA’s payroll. It was confirmed to staff that there will be no further promotions and where there is a business requirement for a supervisory position, such positions may be filled but without any uplift in pay for the duration of the impact from the crisis. It was accepted that the absence of additional planned manpower will have an impact on capital projects. In this regard, existing resources were to be reassigned to key capital projects where possible with this to be completed as a matter of priority.

21. General Pay Increase

Planned general pay increases for both 2020 and 2021 were cancelled. These savings are permanent cost savings. However, it was agreed with the Staff Panel that discussions would continue with a view to concluding a revision to the 2015 Collective Labour Agreements (CLA) as a matter of priority.

22. Accrued leave

Staff who had been carrying accrued days from 2019 in excess of 5 days had to take the accrued days between 1 April 2020 and 30 June 2020 to reduce accrued leave to a maximum of 5 days, and where operationally possible all accrued leave was to be burned off.

23. Annual Leave

In addition, all staff were required to burn off annual leave of between 8-10 days by the end of May 2020, in consultation with their line manager.

24. Training

All non-essential technical and soft skills training ceased.

25. Capital Projects

A fundamental review of all capital project activity was initiated, and it was agreed that projects would be deferred or closed unless critical to operations.

26. Other Staff-Related Measures

In addition to the foregoing measures, the Company sought expressions of interest from staff to the following options:

- Unpaid Leave

- Job Sharing
- Career Breaks

27. Other Cost Savings

A review of all other operating costs was undertaken to defer/cancel non-essential expenditure in light of the pandemic and associated traffic downturn. Naturally, travel costs and overtime costs were reduced as a direct result of travel restrictions and reduced traffic levels.

4. Cost Containment Phase 2 – implemented July 2020

28. With the introduction of Phase 2 in July 2020, it is important to note that Phase 1 measures remained in place.
29. Under Phase 2, a company-wide 4.5 day working week was implemented, affecting all IAA staff earning in excess of €38,500 per annum.
30. Despite the implementation of Phase 2, many non-operational staff and frontline engineers continued to work in excess the 4.5 day working week, as required.
31. As part of Phase 2, IAA Management sought agreement from staff who can retire with pension entitlements in 2020 to do so. In addition to this, 26 staff who were within two years of qualifying for pension benefits were offered the option of retiring early and becoming deferred members of their pension scheme. As these represented voluntary options, they were not considered to be as reliable in terms of a cost reduction measure.
32. Student Controller Programmes 17 and 18 were suspended pending a final review of the ATCO manpower requirements for the period beyond September 2020. Due to the extent of the deterioration in traffic and the consensus that emerged regarding the expected nature of the recovery, these were cancelled without any plans to recommence training until 2022.

5. Cost Containment Phase 3 – implemented January 2021

33. Discussions with the trade unions on Phase 3 measures required the intervention of our internal dispute board. Following mediated discussions, agreement was reached on a temporary pay reduction throughout 2021, subject to an ongoing review of traffic developments, for example, and these proposals were successfully balloted for acceptance at the end of 2020.
34. Phase 3 measures will implement a banded pay reduction of up to 10% for staff from 8 January 2021 until 6 January 2022 and achieve approximately €6m of a cost reduction.
35. More specifically, all ATCOs earning in excess of €38,500 per annum will incur a 10% reduction in salary. Non-ATCOs earning between €38,500-€56,930 will incur a 5% reduction, whereas non-ATCOs earning more than €56,930 will incur a 9.75% reduction.
36. In order to proceed with formal negotiations on Phase 3 cost containment measures, it was agreed that all staff would be restored to full salary at the Phase 2 expiry date of 29 October 2020. Therefore, while Phase 2 remained in place in November and December 2020, a subsequent adjustment is required to enable the Phase 3 measures to commence in January 2021 in line with the collective agreement.

6. Non-Cost Containment Reductions

37. The 2019 RP3 Plan had assumed that the regulatory reform process would be completed by 2020, which has not proved to be the case. There is, therefore, a considerable saving in 2020 compared to the original RP3 Plan, which is not related to the cost containment measures implemented in response to the pandemic.
38. The eligibility of the IAA to seek State supports in the form of the Temporary Wage Subsidy Scheme was minimal. The Company has, however, been availing of the Employment Wage Subsidy Scheme and these savings are being applied for the benefit of our customers.

7. New Cost Items

39. Certain costs have been incurred in 2020 that were not anticipated at the time of submitting the original RP3 Plan, including but not limited to higher pension related costs as a result of a funding proposal to 2024 approved by the Pensions Authority in May 2020.
40. It is also important to note that the cost containment measures implemented in 2020 have been partially offset by unanticipated costs directly related to the pandemic. These include, for example, costs required to provide sufficient PPE, costs required to ensure the operational facilities were regularly deep cleaned and costs associated with stocking the operational facilities with necessities should the operational team be required to stay within the facility for periods of up to three weeks per cycle as part of the contingency plans.

8. Adapting to the realities of the pandemic

41. The IAA ANSP rostering system was modified in order to keep staff segregated insofar as it was possible. It has been possible to minimise the number of teams coming into contact with each other by adopting an approach structured around pods – the reality of this approach, however, is that it has limited the amount of savings that could be generated above the cost containment phases detailed in Sections 3-5.
42. IAA ANSP has also had to have regard to policy statements from Europe, including the Director General of DG MOVE, Mr. Henrik Holelei, who stated at the TRAN Committee in June 2020 that there is no plan to deplete ANSPs of resources. Mr. Holelei stated that, to the contrary, ANSPs should get the necessary financial resources to get through the current downturn, keeping up the services needed during this time and should be able to respond once the demand comes back.
43. Against this backdrop, it is important to note that ANSPs have had to plan against significant uncertainty. Following the publication of STATFOR scenario forecasts on 4 November 2020, for example, ANSPs were being advised to plan for Scenario 1 being the most optimistic recovery scenario by the Network Manager, while at the same time, the PRB was advising ANSPs to plan in accordance with Scenario 2 (the equivalent of a base case or mid scenario) for RP3 purposes. It is also worth noting that the Network Manager continues to request a 10% buffer in ANSP resourcing plans, with respect to the traffic demand outlook, in order to avoid sudden capacity problems. This level of uncertainty has constrained the Company's ability to achieve further cost containment measures despite the severity of the downturn.
44. It is also noted that there remains significant uncertainty and planning challenge; Ireland and much of Europe is now going through a third wave of COVID-19 infections, with further

lockdowns and restrictions being imposed. The variant of COVID-19 identified initially in the UK in December 2020 has required a travel ban to be in place between Ireland and the UK from 20 December until 9 January 2021, with significant restrictions on travel thereafter. With such significant uncertainty around the trajectory of the virus and the pace of vaccine roll-out across Europe, the planning horizon remains difficult for the IAA.

9. Summary

45. IAA ANSP remains committed to maintaining a full service on its operations. Given the ongoing volatility with respect to the public health situation, IAA ANSP is ensuring that a safe service is available and that the Company is appropriately positioned to facilitate the recovery in air travel. A cost containment programme that went further than what has been achieved to date would have greatly compromised our ability to maintain a full service and ensure we are well placed to facilitate a recovery in line with the EUROCONTROL Scenarios of November 2020.
46. In summary, IAA ANSP remains committed to reviewing further cost containment measures beyond 2021 as required and in line with the recovery of its traffic. However, IAA ANSP has implemented a phased cost containment programme that is a necessary and temporary solution to ensure liquidity throughout the crisis and as traffic returns, necessary costs will be reinstated to achieve the required performance.

Appendix 1: Description of actions taken by IAA ANSP in 2020 and planned in 2021*

1.1 - Staff costs					
#	Aim/objective of the action	Description of the action taken/planned. For example change in working hours, State measures.* Quantified where appropriate	Total impact of action (in nominal Euro currency)	Annual impact of action (in nominal Euro currency). Cost reductions should be entered as a negative value	
				2020	2021
1	Reduce staff costs	Reduction of working week	-1,559,000	-1,559,000	0
2	Reduce staff costs	Reduced pay	-5,255,500	0	-5,255,500
3	Reduce staff costs	Government subsidy	-2,781,000	-1,881,500	-899,500
4	Deferred staff costs	Moratorium on recruitment	-5,871,000	-2,428,500	-3,442,500
5	Reduce staff costs	Pay freeze	-4,954,000	-1,615,600	-3,338,400
6	Reduce staff costs	Reduced variable pay	-4,428,500	-2,281,500	-2,147,000
7	Reduce staff costs	Early retirements	-408,000		-408,000
Impact of action taken (in euro currency)			-25,257,000	-9,766,100	-15,490,900
1.2 - Other operating costs					
#	Aim/objective of the action	Description of the action taken/planned. For example change in working hours, State measures.* Quantified where appropriate	Total impact of action (in nominal Euro currency)	Annual impact of action (in nominal Euro currency). Cost reductions should be entered as a negative value	
				2020	2021
1	Reduce/defer other operating costs	Cancellation of student controller training and deferral of other training	-3,648,000	-2,037,000	-1,611,000
2	Reduce/defer other operating costs	Deferral of costs associated with re-scheduled capital projects	-848,000	-413,600	-434,400
3	Reduce/defer other operating costs	Reduction/deferral of expenditure across all operating categories	-6,792,000	-4,267,900	-2,524,100
4	Reduce/defer other operating costs	Cancellation of travel and subsistence costs	-1,044,000	-626,000	-418,000
Impact of action taken (in euro currency)			-12,332,000	-7,344,500	-4,987,500
1.3 - Depreciation					
#	Aim/objective of the action	Description of the action taken/planned. Quantified where appropriate	Total impact of action (in nominal Euro currency)	Annual impact of action (in nominal Euro currency). Cost reductions should be entered as a negative value	
				2020	2021
1	Deferral of costs	Deferral of operational date	-2,988,000	-2,988,000	
Impact of action taken (in euro currency)			-2,988,000	-2,988,000	0
1.4 - Cost of capital					
#	Aim/objective of the action	Description of the action taken/planned. Quantified where appropriate	Total impact of action (in nominal Euro currency)	Annual impact of action (in nominal Euro currency). Cost reductions should be entered as a negative value	
				2020	2021
1	Deferral of costs	Deferral of operational date	-2,520,000	-2,520,000	
Impact of action taken (in euro currency)			-2,520,000	-2,520,000	0
Total impact across categories			-43,097,000	-22,618,600	-20,478,400

* Tables submitted to the Performance Review Body in December 2020