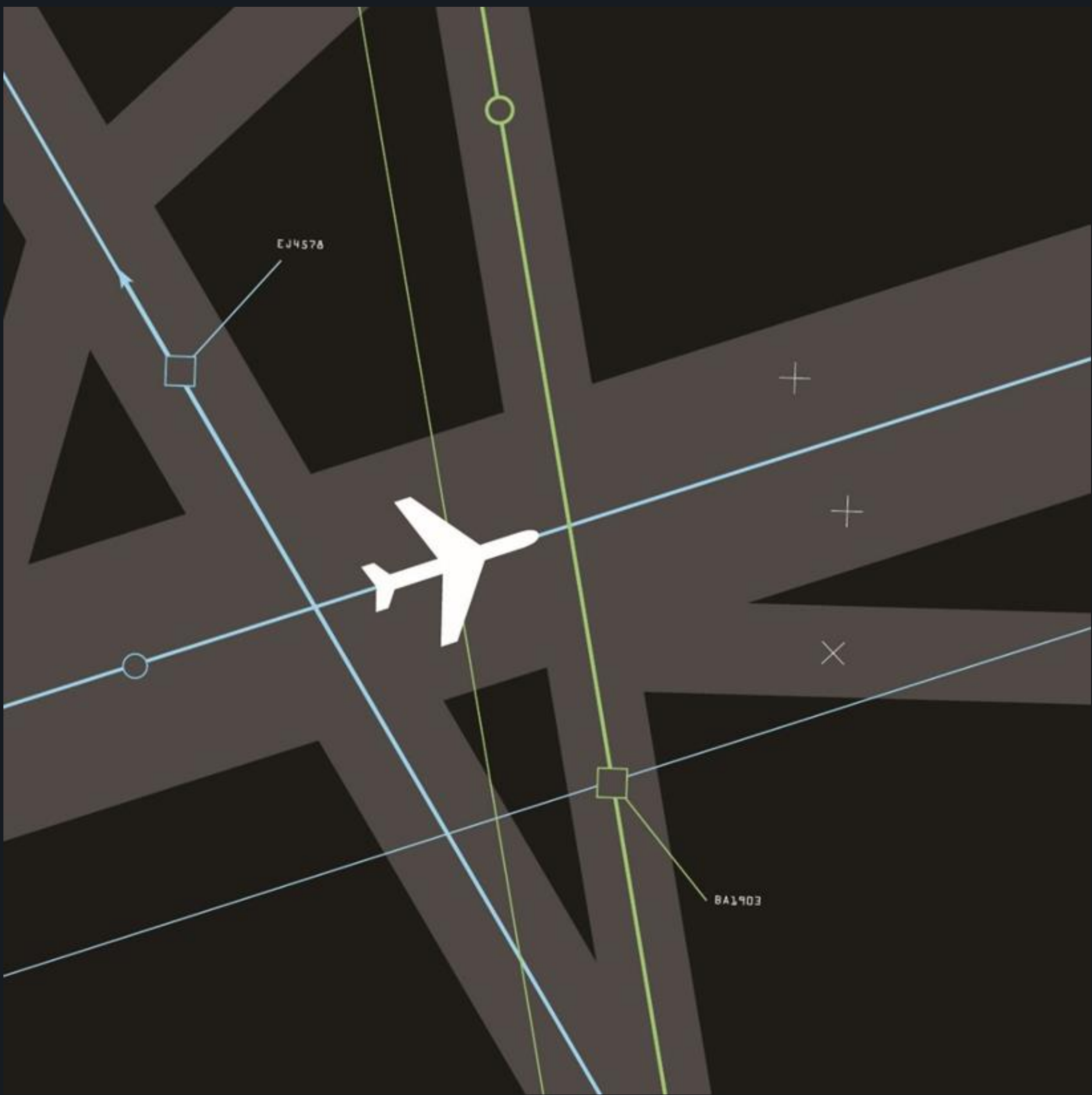
Consultation Response Report
September 2021

IAA ANSP 2020-2024 Operating Costs: Consultation Response Document and Revised Estimates



Commission for Aviation Regulation
Our ref: 23831102
Client ref: SRFT 1/2020

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IAA ANSP 2020-2024 Operating Costs: Consultation Response Document and Revised Estimates

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Introduction

Steer was contracted by the Commission for Aviation Regulation (CAR) to provide operating cost advice and supporting spreadsheet modelling relating to the Irish Aviation Authority (IAA) Air Navigation Service Provider's (ANSP's) contribution to Ireland's Single European Sky Performance Plan for Reference Period 3 (RP3, 2020 -2024). CAR took over the role of the national regulator overseeing Ireland's performance plan in January 2020, i.e. at the start of the RP3 period.

Steer was requested to undertake its analysis of IAA ANSP's operating expenditure in a number of Phases. In the first Phase, we undertook an analysis of the ANSP's performance during RP2 and during 2020, the first year of RP3 and also of the COVID-19 pandemic. In the second Phase, we reviewed the "cost containment" measures undertaken by the IAA ANSP during 2020 and planned for 2021.

In the third Phase, we reviewed the ANSP's Revised RP3 Business Plan, and in particular its operating expenditure forecasts for the 2022 to 2024 period (i.e. the final three years of RP3).

- Steer's Final Report resulting from this third phase of work was produced in July 2021.
- A non-confidential version of this was published alongside CAR's own report as part of the consultation process.

In the fourth Phase of work, Steer has reviewed responses to the consultation on the RP3 Performance Plan in relation to operating costs in the IAA ANSP's Revised RP3 Business Plan, which included comments from stakeholders on Steer's Final Report and how this had been incorporated in CAR's own proposals.

This Consultation Response Report sets out Steer's responses to stakeholders' comments on our proposals, as set out in our July 2021 Final Report published as part of the consultation.

Base Year 2020-2021

Stakeholder comments

Steer has reviewed the Stakeholder comments received during the consultation in relation to the "Base Year" period, defined as the two calendar years 2020 and 2021.

The IAA ANSP considered that Steer's approach to identifying savings for 2020 – 2021 was inappropriate, noting that the "*ANSP does not agree with disallowing costs which had already been incurred*". This position was also supported by the IAA Staff Panel. The ANSP also disagreed with the approach used to select benchmarks for cost savings from other European ANSPs.

The airlines which commented on the proposed operating cost levels in 2020-2021 were supportive of adopting Steer's Scenario B (the "commercially focussed" scenario out of the two proposed by Steer for the Base Year period) rather than Scenario A (the "ANSP-oriented" scenario). British Airways noted that "*the level of savings achieved in 2020 at 9.1%, is underwhelming considering the significant reduction in traffic levels experienced*". Ryanair was disappointed that no long-term cost reductions were achieved during the COVID-19 period, with only temporary reductions being achieved.

On pensions, the ANSP has advised that the contribution rates will be lower than the levels included in their Business Plan.

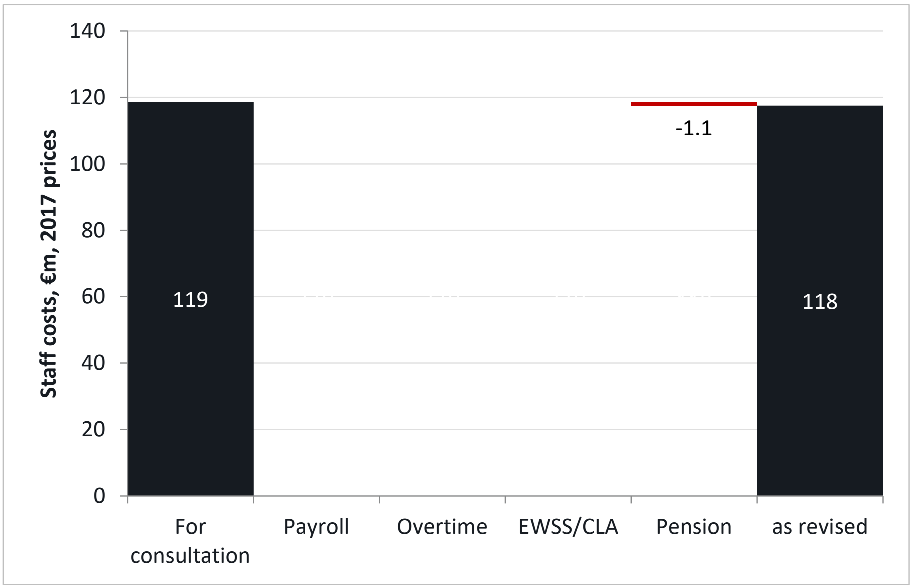
Steer Analysis and revised forecast

In respect of 2020-2021, Steer does not consider that the stakeholders have provided new evidence which should be taken into account in relation to the proposed cost savings for those years (other than the advised changes to pension contribution rates).

We therefore consider that Steer's proposals on operating costs for the 2020-2021 period, in both Scenario A and Scenario B, should remain unchanged from those published in Steer's Final Report for the purposes of consultation, other than pension costs, which should reduce by €1.1 million in 2021 due to the lower pension rates [✂] stated in the IAA ANSPs consultation response.

The chart below shows a comparison between Steer's aggregate operating cost projections under Scenario A for 2020-2021 following implementation of the changes identified above compared with those in our Final Report used for the consultation. The chart only shows changes for staff costs as there are no proposed changes for non-staff costs.

Figure 1: 2020-2021 change in staff costs (Scenario A)



Source: Steer operating model

Forecast years 2022-2024

Stakeholder comments – overall operating cost levels

IATA and airline respondents including Aer Lingus and British Airways expressed concern about the significant increases in operating costs over the period 2022 – 2024 in the IAA ANSP's RP3 Business Plan. Airlines generally expressed support for CAR's approach to the consultation in proposing a reduced level of operating expenditure by the ANSP, based on the analysis undertaken by Steer.

In contrast, the IAA ANSP was critical of CAR's and Steer's approach. It stated that: "*While IAA ANSP has been required to go to great lengths to identify its required costs and to justify those costs, the same rigour does not appear in the NSA's consultation where proposals have almost entirely been based on a theoretical methodology developed by external consultants Steer. This is a significant shortcoming in the consultation which undermines the confidence that stakeholders can have in the Performance plan delivering the required outcomes.*"

The ANSP also stated that there were interdependencies between the allowed level of operating costs and the other KPAs and that, in adopting Steer's assumptions, there would be a risk of increased delay, quoting figures of up to 700,000 additional minutes of delay.

The Staff Panel went further, stating that the "*Steer report completely ignores the interdependencies between safety, capacity and cost*" and going on to say that "the lack of concern by Steer for the safety of the users of the Air Navigation Service renders the Steer report unfit for purpose".

However, IATA and some of the airline respondents noted the lack of evidence provided for IAA ANSP's assertion that staff reductions put the achievement of other KPAs, including capacity, at risk. IATA said that it had reviewed the same Network Manager analysis on which the IAA ANSP claim was based and did not consider that it was convincing.

Stakeholder comments – staff costs

In relation to staff costs, the IAA ANSP noted that the ATCO staff numbers modelled by Steer are below "*the identified ANSP headcount requirement for each of the RP3 years*". It also said that Steer had underestimated its salary costs in the period 2022-2024 because the Steer model "*does not take into account increments paid in 2020 and 2021 and materially underestimates the cost of annual increments in 2022, 2023 and 2024*".

On pensions, the ANSP noted a previously identified error in Steer's model and also advised that the estimated contribution rates were now lower than previously advised and that Steer should use these lower values.

Stakeholder comments – non-staff costs

The IAA ANSP expressed dissatisfaction with the approach used by Steer to model non-staff operating costs over the period 2022-2024. The ANSP's concerns about the non-staff operating cost projections include:

- the "*methodology fails to fully recognise sector specific inflationary pressures and relies primarily on general inflation from 2022-2024*"; and
- the analysis fails "*… to fully consider the Step Changes table in the ANSP's RP3 Business Plan*".

The ANSP made specific comments in relation to the following cost non-staff cost categories:

- Training;
- Telecommunications;
- Maintenance;
- Spares;
- Power;
- Rent and rates;
- Computing;
- Insurance;
- Building repairs;
- Security;
- Professional fees; and
- Cleaning.

On non-staff costs, IATA noted the IAA ANSP's intention to increase operating costs by 24% by 2024, stating that it believed: "*some savings could be generated by a further review of all sub* *items included*". British Airways stated that it was "*concerning that there is the expectation that real term operating costs will rebound to above 2019 levels in 2022 despite the continued depression of traffic levels that will not recover to 2019 levels until 2024 according to the latest STATFOR traffic forecasts*".

Steer analysis - overview

In developing our approach for the cost projections for 2022 – 2024, Steer has adopted as a principle that the starting point for costs in 2022, i.e. following the (assumed) end of the period of COVID-19 disruption, that costs should revert to the levels in 2019 (with an allowance for CPI inflation), except where there is a credible rationale for deviating from this.

We accept as a credible rationale for deviations from this approach the following factors:

- contractual obligations reasonably entered into by the IAA ANSP, either before the start of RP3 or during 2020 or 2021 where these represent the actions of an efficient economic operator in the circumstances of the pandemic;
- changes to unit costs of input materials or services materially different from CPI inflation;
- changes to the footprint/asset base of the ANSP; and
- efficiency improvements resulting from capital investment.

Given the level of detail provided by the ANSP in its consultation response, which goes beyond that provided during our earlier engagement with it, we have adapted our approach to the non-staff operating costs. In our earlier analysis, we had applied the general principle of reverting to 2019 costs, with exceptions for a few specific cost lines. Taking into account all the particular comments made by the ANSP on individual cost lines, we now consider all major non-staff cost lines individually.

Steer analysis and revised forecast – staff costs

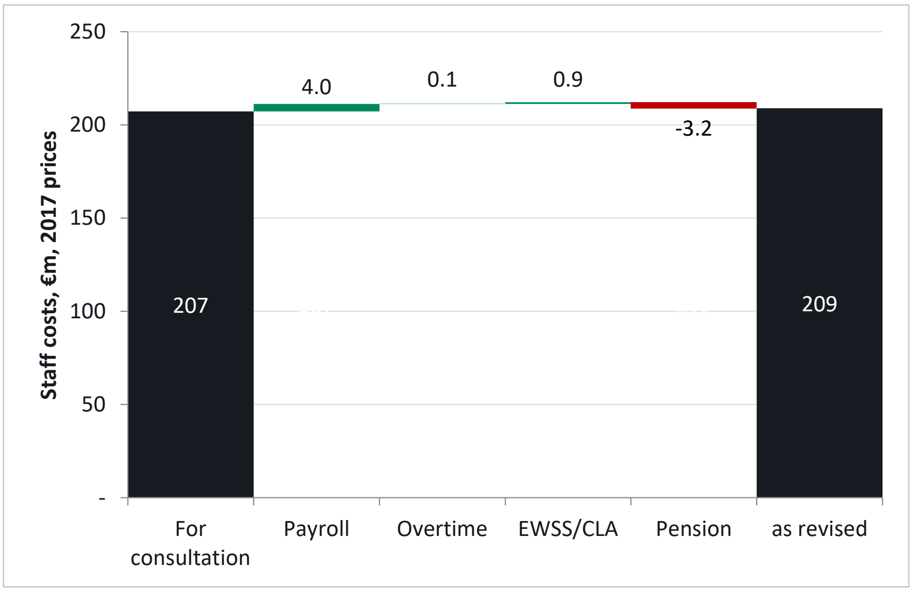
On staff numbers, we have recognised the need to consider the practicalities of ATCO training and have taken into account comments by both the ANSP and Staff Panel that it is not feasible to bring 30 newly qualified ATCOs into the organisation in a single year (as was implied by our projections for ATCO number growth between 2023 and 2024). As a result of these changes, we have effectively "brought forward" ATCO staff training and hence the introduction of qualified ATCOs into the organisation, resulting in a lower number (25) joining the organisation in 2024 (and an additional one ATCO by the end of RP3).

On salary levels, we have modified our approach to estimating salary levels to take into account the cumulative net salary grade progression-related uplift over the period 2020-2022 of +5.9%. Given that the increases in average salary implied for 2022 due to salary progression under this approach, we have adjusted our assumption for the general level of salary increase (i.e. an uplift of the salary scales themselves) to be equal to CPI inflation in that year. The assumed salary scale increases in 2023 and 2024 remain as previously assumed, at CPI + 1%. We have also accepted the CLA uplift of [✂] proposed by the ANSP.

On pensions, we have fixed the error identified in the pension calculations and have included the reduced contribution rates subsequently advised by the ANSP for each pension scheme.

Implementing the changes described above increases payroll costs by +€4.0 million between 2022 and 2024, whilst costs associated with the CLA increase costs by a further +€0.9 million. A saving of -€3.2 million is achieved through the reduction in pension costs payable due to the reduced hybrid pension rate uplift expected from 2021 and the rate for the 1996 and 2008 schemes being maintained rather than increasing as previously assumed. The overall change in staff costs between 2022 and 2024 amounts to +€1.7 million, as shown on the chart below.

Figure 2: 2022-2024 change in staff costs



Source: Steer operating model

Steer analysis and revised forecasts – non-staff costs

In response to the specific comments from the ANSP concerning non-staff operating costs, Steer has modified its approach for the following cost categories:

- **Staff training** – consistent with the modifications for ATCO staff numbers described above;
- **Power** – taking into account the increased asset base of the ANSP, allowing for an energy price index instead of CPI and achieving operating cost savings due to capital project implementation;
- **Rent and rates** – adjusting the forecast of the Dublin headquarters to take account of new information on rents and adding in additional rates costs identified by the ANSP;
- **Insurance** – estimating increased costs based on a benchmark;
- **Building repairs** - taking into account the increased asset base of the ANSP and achieving operating cost savings due to capital project implementation;
- **Professional services** – making an allowance for additional compliance costs; and
- **Cleaning costs** – adjusted from 2023 to allow for the increased asset base of the ANSP and allowing for the faster wage escalation for minimum wage staff.

For the following cost categories, Steer has changed its approach by adopting the ANSP's own Business Plan cost forecasts:

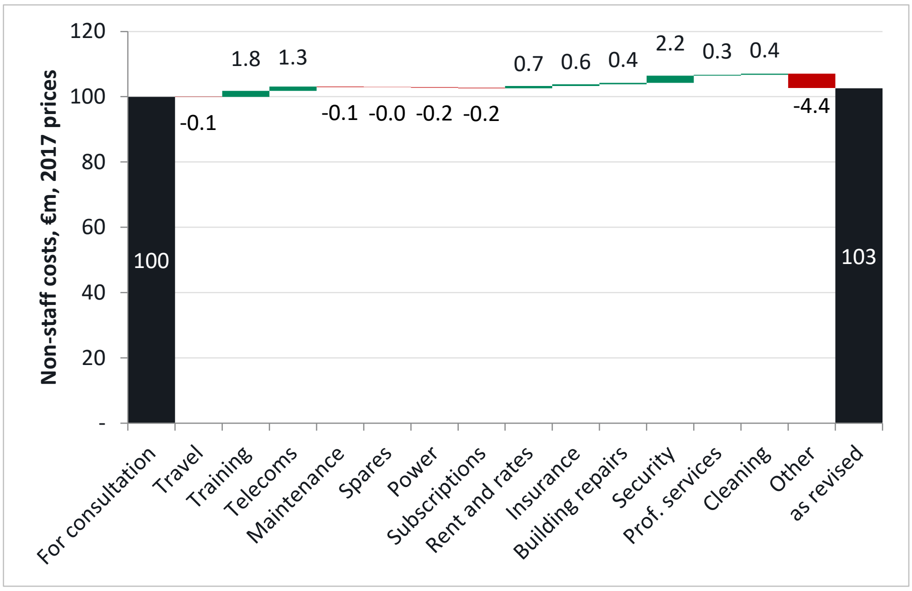
- Travel;
- Telecommunications;
- Subscriptions;
- Security; and
- Other Costs.

The remaining non-staff cost categories remain unchanged from the values provided for consultation.

As a result of these changes, security, training and telecommunications costs increase cumulatively over the 2022-24 period by +€2.2 million, +€1.8 million, +€1.3 million respectively due to the implementation of the changes identified, whilst smaller increases apply to other categories. The reduction in ‘other’ non-staff costs by -€4.4 million derives from Steer accepting cost levels for “other costs” included in the IAA ANSP July 2021 Business Plan for the period 2022-2024, rather than using the previous ‘overall approach’ (returning to 2019 costs) for this category. Given the tailored methodology use for the other line items, this methodology was no longer appropriate for other costs.

The overall change in non-staff costs between 2022 and 2024 amounts to +€2.6 million as shown on the chart below.

Figure 3: 2022-2024 change in non-staff costs



Source: Steer operating model

Conclusions

Steer has reviewed the stakeholder comments on the operating cost projections provided as part of the consultation on the IAA ANSP’s Revised RP3 Business Plan. We have made changes where we assess that evidence has been presented which indicates that an adjustment to the forecast needs to be made. However, where stakeholders have indicated a dislike of the results set out in the consultation documents, we have not considered that this, in itself, provided a reason for making any changes.

In general terms, there has been a balance of comments from stakeholders in terms of supporting either higher or lower cost projections, with the ANSP and Staff Panel generally supporting higher projections and airlines supporting lower projections. In contrast, there has been less balance in the level of detail of comments received, with the ANSP in particular providing more detailed inputs. We have responded to this by increasing the granularity of some of our approaches, particularly for non-staff cost lines.

The overall changes to Steer's operating costs projections following the consultation are an increase of +€3.3 million over RP3 compared to the projections provide for the consultation.

1 Introduction

Background

1.1 Steer was contracted by the Commission for Aviation Regulation (CAR) to provide operating cost advice and supporting spreadsheet modelling relating to the Irish Aviation Authority (IAA) Air Navigation Service Provider's (ANSP's) contribution to Ireland's Single European Sky Performance Plan for Reference Period 3 (RP3, 2020 -2024). CAR took over the role of the national regulator overseeing Ireland's performance plan in January 2020, i.e. at the start of the RP3 period.

1.2 The study is being undertaken in the context of the significant impact of the COVID-19 pandemic, which has significantly reduced air traffic volumes in Ireland, Europe more widely and across the world. The effect of this has been to require a new Reference Period 3 (RP3) Performance Plan as the assumptions used in the original RP3 Performance Plan for Ireland are no longer appropriate.

1.3 The European Union has recognised the changed circumstances through issuing Commission Implementing Regulation (EU) 2020/1627 "*on exceptional measures for the third reference period (2020-2024) of the single European sky performance and charging scheme due to the COVID-19 pandemic*". The Performance Review Body (PRB), and the European Commission (EC) have reset RP3 Union-wide targets and expectations of ANSP performance in the context of the pandemic.

1.4 Steer was requested to undertake its analysis of IAA ANSP's operating expenditure in a number of Phases. In the first Phase, we undertook an analysis of the ANSP's performance during RP2 and during 2020, the first year of RP3 and also of the COVID-19 pandemic.

1.5 In the second Phase, we reviewed the "cost containment" measures undertaken by the IAA ANSP during 2020 and planned for 2021, based on information provided by the IAA ANSP, in particular its cost containment report and financial results for 2020, as well as its submissions to the PRB on its cost containment measures for both 2020 and 2021.

1.6 In the third Phase, we reviewed the ANSP's Revised RP3 Business Plan, and in particular its operating expenditure forecasts for the 2022 to 2024 period (i.e. the final three years of RP3). A draft "Service Delivery in 2020-21 and Business Plan 2022-24" for the Revised RP3 Period was issued by the ANSP in April 2021, followed by a Final version in July 2021. Steer's work initially focused on the April version, subsequently updating our analysis when the July version became available.

- Steer's Final Report resulting from this third phase of work was produced in July 2021.
- A non-confidential version of this was published alongside CAR's own report as part of the consultation process.

Response to consultation

1.7 In the fourth Phase of work, Steer has reviewed responses to the consultation on the RP3 Performance Plan in relation to operating costs in the IAA ANSP's Revised RP3 Business Plan, which included comments from stakeholders on Steer's Final Report and how this had been incorporated in CAR's own proposals.

1.8 This Consultation Response Report sets out Steer's responses to stakeholders' comments on our proposals, as set out in our July 2021 Final Report published as part of the consultation.

1.9 This Consultation Response Report does not seek to replicate the full analysis set out in Steer's Final Report, as used for the consultation, but it follows a corresponding structure, with separate chapters on the 2020-2021 "Base Year" period and on the 2022-2024 forecast period. Within each of these chapters, we set out:

- a summary of stakeholder comments received relevant to each operating cost category for the period covered in the chapter;
- Steer's own analysis of these comments and any changes it has made to its operating cost projections in response to them; and
- the revised Steer forecast for the period covered in the chapter.

1.10 The remainder of this report is organised as follows:

- **Chapter 2**: Base Year 2020-2021;
- **Chapter 3**: Forecast years 2022-2024; and
- **Chapter 4**: Conclusions and summary of revised forecasts.

2 Base Year 2020-2021

2.1 This chapter reviews stakeholder comments on Steer's Final Report[1] as published for the purposes of consultation in relation to the IAA ANSP's operating costs for the "Base Year" period of 2020 and 2021. In the first section below, we consider the stakeholder comments by topic area. In the second section we provide Steer's response and analysis. The final section sets out proposed revisions to the forecast for 2020-2021 in Steer's Final Report.

Stakeholder comments received

2.2 In this section we consider stakeholder comments in relation to:

- The overall level of operating costs in 2020-2021;
- Staff-related costs: staff numbers, salary levels and pension contributions; and
- Non-staff operating costs.

Overall operating cost levels

2.3 The IAA ANSP considered that Steer's approach to identifying savings for 2020 – 2021 was inappropriate, noting that the "*ANSP does not agree with disallowing costs which had already been incurred*". It also disagreed with the approach used to select benchmarks for cost savings from other European ANSPs.

2.4 The IAA Staff Panel also stated that it did not think it appropriate to incorporate cost reductions for the Base Year period beyond those which had actually been achieved. It stated that the Steer approach was flawed as it seeks "*to apply regulation retrospectively, for example by placing unachievable financial targets on the ANSP for 2020. They are unachievable as 2020 has already happened.*"

2.5 The airlines which commented on the proposed operating cost levels in 2020-2021 were supportive of adopting Steer's Scenario B (the "commercially focussed" scenario out of the two proposed by Steer for the Base Year period) rather than Scenario A (the "ANSP-oriented" scenario). British Airways noted that "*the level of savings achieved in 2020 at 9.1%, is underwhelming considering the significant reduction in traffic levels experienced*". Ryanair was disappointed that no long-term cost reductions were achieved during the COVID-19 period, with only temporary reductions being achieved.

Staff numbers

2.6 No specific comments were received in respect of staff numbers during 2020 and 2021, beyond the comment above by Ryanair that longer-term savings should have been sought.

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[1] Comments were received from: the IAA ANSP, the IAA Staff Panel, Aer Lingus, Ryanair, British Airways, Atlas Air and IATA.

Salary levels

2.7 The IAA ANSP noted that it did not consider it reasonable for Steer to propose savings beyond what it had agreed with the unions.

2.8 The Staff Panel criticised the use of Scenario B, stating that: "*Given that the salary reductions achieved by the IAA are part of a collective agreement, and have already been realised, for Steer to assume a greater reduction was achievable does not have any realistic basis.*"

Pensions

2.9 In its response to the consultation, the IAA ANSP stated that pension contributions to the 'Hybrid Scheme' would increase from 2021 to a different (lower) level than was stated in the RP3 Business Plan published in July 2021 [✂]. This change has been reflected in the modelled outputs.

2.10 Subsequent to the formal consultation, the ANSP has also advised that the contribution rate for the 1996 and 2008 pension schemes remain at [✂].

Non-staff operating costs

2.11 Aer Lingus and British Airways both considered that benchmarking operating costs against other ANSPs (Steer's Scenario A approach) represented "flawed benchmarks" for 2020-2021 as "*they represent ANSPs that are inefficient to varying degrees*". Instead, Scenario B should be preferred (comparing against Irish companies operating in the aviation and other industries).

2.12 In contrast, the IAA ANSP did not agree with Steer's approach of setting cost savings targets based on the top quartile of ANSPs within SES, which it considered meant that its costs were being compared with those of Latvia and Slovenia. It stated that: "*It is not clear why these States are relevant and accordingly this approach is lacking appropriate substance in terms of eligibility, justification or local circumstances*".

2.13 The Staff Panel also criticised the use of "*comparisons to nations such as Slovenia*" in Steer's Scenario A. It stated that "*These comparisons are not useful nor justified, given the required similarities between these nations [and Ireland] do not exist*". With respect to Scenario B, the Panel stated that: "*When creating "Scenario B" for this period Steer has chosen to make comparisons to unrelated industries, such as shipping and banking. There is no regulatory basis for these comparisons, and therefore Scenario B is unrealistic, invalid and should be discarded.*"

Steer analysis

2.14 In respect of 2020-2021, Steer does not consider that the stakeholders have provided new evidence which should be taken into account in relation to the proposed cost savings for those years (other than the advised changes to pension contribution rates). The points made by stakeholders have been more matters of principle: whether comparison to other ANSPs was appropriate in Steer's Scenario A (and whether too stretching or too lax a benchmark) and similarly, whether the comparison to other companies in Steer's Scenario B was appropriate. In relation to the comments about comparisons with other ANSPs, Steer's approach was to compare against all the Single European Sky ANSPs to identify a suitable benchmark based on the performance of the top quartile of the ANSPs collectively, not specifically Latvia or Slovenia. All the ANSPs suffered similar very large falls in traffic due to the pandemic, and the comparison of the level of response to this in terms of cost reductions was therefore valid across the complete set of ANSPs and not specific to individual countries.

2.15 A further point of principle was whether it was reasonable for Steer to propose savings for 2020 (and to some extent 2021) beyond what was actually achieved in that year. Steer's approach was to develop two scenarios to estimate what savings might have been achieved during the COVID-19 crisis by an efficient operator, consistent with its brief from the CAR. Of necessity, this meant that counterfactual scenarios would be developed, i.e. scenarios implying savings different to what has actually been achieved for the 2020-2021 period.

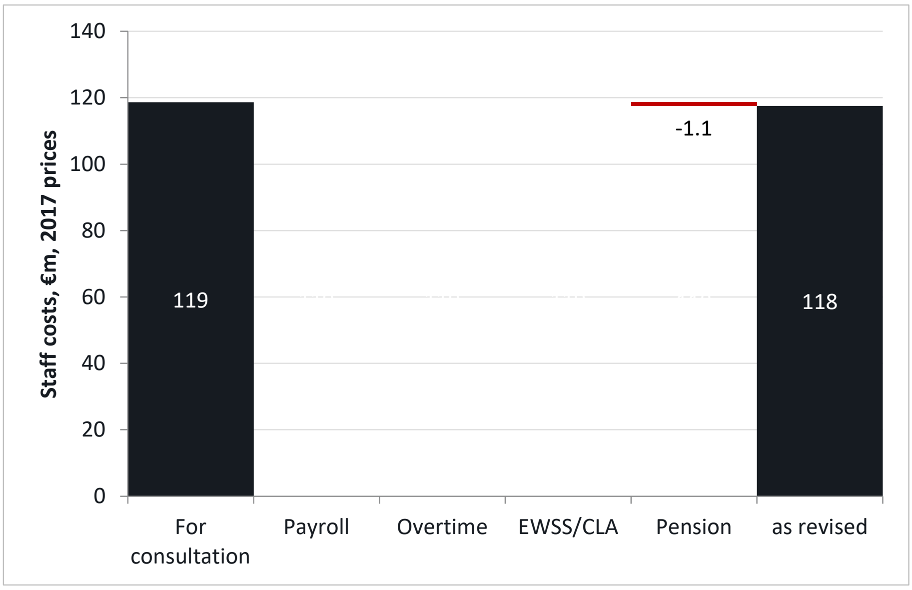
2.16 Steer developed two different scenarios (Scenario A: an ANSP-focused scenario; Scenario B: a commercially focused scenario) to provide two alternative perspectives on what might be achievable, recognising the particular circumstances of ANSPs but also looking more widely at how organisations in Ireland, including those in the aviation industry such as airlines and airports subject to comparable reductions in demand due to the pandemic, had responded to the situation fostered by the COVID-19 pandemic. While we understand that CAR has decided to proceed on the basis of Scenario A and understand the reasons for this decision, we consider that both perspectives remain valid.

Revised Steer forecast

2.17 We therefore consider that Steer's proposals on operating costs for the 2020-2021 period, in both Scenario A and Scenario B, should remain unchanged from those published in Steer's Final Report for the purposes of consultation, other than pension costs, which should reduce by €1.1 million in 2021 due to the lower pension rates.

2.18 The chart below shows a comparison between Steer's aggregate operating cost projections for the 2020-2021 following implementation of the changes identified above compared with those in our Final Report used for the consultation. The chart only shows changes for staff costs as there are no proposed changes for non-staff costs.

Figure 2.1: 2020-2021 change in staff costs (Scenario A)



Source: Steer operating model

3 Forecast years 2022-2024

3.1 This chapter reviews stakeholder comments on Steer's Final Report as published for the purposes of consultation in relation to the IAA ANSP's operating costs for the forecast period 2022 – 2024 inclusive. In the first section below, we consider the stakeholder comments by cost category. In the second section we set Steer's response and analysis. The final section sets out proposed revisions to the forecast for 2022 - 2024 in Steer's Final Report.

Stakeholder comments received

3.2 In this section we consider stakeholder comments in relation to:

- The overall level of operating costs in 2022-2024 and the relationship between costs and the delivery of the ANSP's other Key Performance Areas (KPAs);
- Staff-related costs: staff numbers, salary levels and pension contributions; and
- Non-staff operating costs.

Overall operating cost levels

3.3 IATA and airline respondents including Aer Lingus and British Airways expressed concern about the significant increases in operating costs over the period 2022 – 2024 in the IAA ANSP's RP3 Business Plan. Airlines generally supported expressed support for CAR's approach to the consultation in proposing a reduced level of operating expenditure by the ANSP, based on the analysis undertaken by Steer.

3.4 In contrast, the IAA ANSP was critical of CAR's and Steer's approach. It stated that: "*While IAA ANSP has been required to go to great lengths to identify its required costs and to justify those costs, the same rigour does not appear in the NSA's consultation where proposals have almost entirely been based on a theoretical methodology developed by external consultants Steer. This is a significant shortcoming in the consultation which undermines the confidence that stakeholders can have in the Performance plan delivering the required outcomes.*"

3.5 The ANSP also stated that there were interdependencies between the allowed level of operating costs and the other KPAs and that, in adopting Steer's assumptions, there would be a risk of increased delay, quoting figures of up to 700,000 additional minutes of delay.

3.6 The Staff Panel went further, stating that the "*Steer report completely ignores the interdependencies between safety, capacity and cost*" and going on to say that "*the lack of concern by Steer for the safety of the users of the Air Navigation Service renders the Steer report unfit for purpose*".

3.7 However, IATA and some of the airline respondents noted the lack of evidence provided for IAA ANSP's assertion that staff reductions put the achievement of other KPAs, including capacity, at risk. IATA said that it had reviewed the same Network Manager analysis on which the IAA ANSP claim was based and did not consider that it was convincing.

Staff related costs

Staff numbers

3.8 The IAA ANSP noted that the ATCO staff numbers modelled by Steer are below "*the identified ANSP headcount requirement for each of the RP3 years*". As noted above, it quoted "*detailed independent analysis by the Network Manager*" which it stated would lead to capacity issues. The ANSP also stated that Steer's forecast of ATCO numbers implied "*an erroneous assumption … that it is possible to train 30 ATCOs in one-year*" and highlighting that this would go beyond simulator capacity constraints. It stated that the maximum ATCO training class size was 24, with an expectation of 18 of these successfully qualifying.

3.9 The Staff Panel considered that the ATCO staff projections in the IAA ANSP RP3 Business Plan were too low and suggested that instead of the ANSP's suggested 328 ATCOs in 2024, the required number should be raised to 334 by that year, due to the implementation of Regulation (EU) 2017/373 which it considered would require rostering changes. It follows that the Staff Panel also considers that the (lower) projected number of ATCOs in the consultation, based on Steer's modelling, was too low. The Panel also agreed with the ANSP statement that it was not possible to train 30 new ATCOs in one year.

3.10 No specific comments were received from airlines concerning staff number projections, although, as noted above, the airlines generally supported the approach taken by Steer and British Airways stated that it agreed with "*Steer's bottom-up approach to creating its forecasting model for 2022 to 2024*".

Salary levels

3.11 The IAA ANSP stated that Steer had underestimated its salary costs in the period 2022-2024 because the Steer model "*does not take into account increments paid in 2020 and 2021 and materially underestimates the cost of annual increments in 2022, 2023 and 2024*". The ANSP also stated that the "*cost requirement for the collective labour agreement (CLA) has also been excluded by the consultants in its modelling of ANSP costs*". It stated that this additional cost [✂] has been approved by the IAA Board in July 2021 and claimed that the CLA is a "*very effective and proven mechanism for achieving additional productivity measures*".

3.12 As noted above, Ryanair expressed disappointment that "*the IAA ANSP was unable to demonstrate any long-term cost reductions*" during the COVID-19 crisis, "*with pay reductions and other measures being temporary in nature*". British Airways questioned the "*suitability of forecasting cost containment related salary reductions being reversed in 2022… given the ongoing uncertainty in travel demand even as we approach the final quarter of 2021 and that STATFOR Scenario 2 traffic levels are significantly depressed compared to 2019 levels in 2022*".

3.13 In respect of Corporate Services staff, the IAA ANSP stated that: "*The Steer model incorrectly calculates the actual cost of Corporate Services staff*" due to the use of headcount numbers rather than FTEs.

Pensions

3.14 The IAA ANSP stated that, while Steer had modelled pension contributions based on information supplied by the ANSP, "*being the best information available at the time of the preparation of the ANSP business plan*", the estimated contribution rates was now lower than previously advised and that Steer should use this lower value.

3.15 The ANSP also identified an error in the Steer model which led to the attrition rate of staff from the defined benefit scheme into the hybrid pension scheme being overstated (and hence ANSP contributions being understated).

3.16 The Staff Panel stated that: "*The main [pension] scheme is subject to a funding proposal approved by the Pensions Authority. This funding proposal addresses the deficit in the scheme and additional risk reserve elements. Additional funding is required under the RP3 plan to bring the pension to a fully funded state. This additional funding is not addressed by the IAA in their submission nor by Steer*". Therefore, the Staff Panel considers that the pension costs in the IAA ANSP Business Plan (and in the consultation document based on Steer's modelling) are too low.

Non-staff operating costs

3.17 The IAA ANSP expressed dissatisfaction with the approach used by Steer to model non-staff operating costs over the period 2022-2024. It stated that it had identified: "*many legitimate oversights and inconsistencies with the unpublished [Steer] Opex model*". The ANSP noted that: "*Steer's methodology for 2022-2024 … reverts back to 2019 costs incurred by IAA ANSP before ultimately inferring that the identified cost requirement should be reduced by a further €30.1m*". It considered that this meant that "*this methodology largely overlooks the new cost line items since 2019 despite providing token increases for certain categories*".

3.18 The ANSP's concerns about the non-staff operating cost projections include:

- the "*methodology fails to fully recognise sector specific inflationary pressures and relies primarily on general inflation from 2022-2024*"; and
- the analysis fails "*… to fully consider the Step Changes table in the ANSP's RP3 Business Plan*".

3.19 In relation to the second point, the ANSP states that "*It is not acceptable that the NSAs have chosen a methodology which bypasses a detailed assessment of the … step changes*". These include costs relating to training, compliance, operating costs for new projects, restructuring, NIS compliance, environmental and other costs.

3.20 The ANSP also provided comments about specific cost lines, as follows:

- **Training**: Steer's approach underestimates the unit costs of training (which were based on the costs in the April 2021 version of the Business Plan rather than the July 2021 version) as well as the number of required trainees and timings of courses and their cost allocation. Insufficient provision was made for training required due to new regulations, including Regulation (EU) 373/2017.
- **Telecommunications**: IAA ANSP is migrating to IP Networks from Synchronous Networks and it is necessary to run the two Networks in parallel as part of the transition. The asset base is also increasing due to the New Tower and Parallel Runway in Dublin, the En-Route Contingency Centre in Shannon and the New north Dublin radar facility leading to higher operating costs.
- **Maintenance**: Additional maintenance costs will be incurred due to the increased footprint and introduction of additional systems. A five-year contract for the ANSP's air traffic management system under the COOPANS programme has been signed, including significant costs. The facilities management contract is being retendered and is expected to result in increased costs.

- **Spares**: Consistent with the additional systems relevant to maintenance costs, there will be a corresponding increase in the costs of spares.
- **Power**: The increase in the ANSP's footprint due to the Dublin Tower and second runway and the CEROC facility will increase electricity costs. Unit costs of electricity are expected to rise more rapidly than general inflation.
- **Rent and rates**: Ongoing rent negotiations imply that the rent on the ANSP's Dublin headquarters will rise to a level above that allowed by Steer in the consultation document. There is an addition cost of rates that will be payable as a result of CEROC, the new radar site at Tooman and the new tower at Dublin Airport during RP3.
- **Computing**: In modelling the required costs for computing, Steer has applied a 5% annual increase over 2019 actuals compared to the 10% growth provided for by the IAA ANSP business plan based on evidence in RP2. Steer has not taken into account the additional costs to be incurred in relation to enhanced cyber security protection and monitoring (beyond NIS costs, which have been included).
- **Insurance**: Insurance premia are continuing to increase, not allowed for by Steer.
- **Building repairs**: IAA ANSP's building footprint is increasing due to the new Tower Building at Dublin, CEROC Facility, Radar building North Co. Dublin, and the Parallel Runway and all associated equipment buildings for Glide Paths (GP), Localisers (LOC), Distance Measuring Equipment (DME), while the age of the IAA ANSP's existing buildings is also increasing, with older buildings requiring more maintenance.
- **Security**: Steer has disregarded the existence of a 5-year security contract entered in to by the IAA in 2019.
- **Professional fees**: The ANSP disagrees with the Steer projection based on 2019 costs, due to additional costs of annual reporting that has been required by CAR and additional advice required on pensions.
- **Cleaning**: Additional cleaning protocols due to COVID-19, which are expected to continue during RP3 have not been accounted for.

3.21 The Staff Panel disagreed with Steer's assumption for maintenance costs that "*because new projects typically exhibit lower maintenance costs at the start of their service lives, we assume that maintenance costs increase at a 50% rate*". The Panel stated that while some savings were possible, the rate of 50% was unachievable.

3.22 IATA noted the IAA ANSP's intention to increase non-staff operating costs by 24% by 2024, stating that it believed: "*some savings could be generated by a further review of all sub items included*" and noting that "*the IAA over RP2 underspent on all areas of determined cost*", i.e. including non-staff operating costs.

3.23 British Airways stated that it was "*concerning that there is the expectation that real term operating costs will rebound to above 2019 levels in 2022 despite the continued depression of traffic levels that will not recover to 2019 levels until 2024 according to the latest STATFOR traffic forecasts*".

Steer analysis

3.24 This section sets out Steer's approach to responding to the stakeholder comments and any supporting evidence provided. In general, where specific evidence has been provided, we have adapted our approach and/or the values used in our modelling accordingly. However, where comments appear to reflect a dislike of the results of our approach without any such evidence, or where we do not consider that they provide sufficient rationale for making a change, we have left the modelling approach unchanged.

3.25 In line with the section on stakeholder comments above (and with the addition of a section relating to the impact of capital projects on operating costs to support the more detailed review of operating cost line items requested by IATA), our analysis is structured as follows:

- The overall level of operating costs in 2022-2024 and the relationship between costs and the delivery of the ANSP's other KPAs;
- Staff-related costs: staff numbers, salary levels and pension contributions;
- Non-staff operating costs; and
- Operating cost savings resulting from capital investment projects.

Overall operating cost levels

3.26 In developing our approach for the cost projections for 2022 – 2024, Steer has adopted as a principle that the starting point for costs in 2022, i.e. following the (assumed) end of the period of COVID-19 disruption, that costs should revert to the levels in 2019 (with an allowance for CPI inflation), except where there is a credible rationale for deviating from this.

3.27 The logic of reverting to 2019 costs is that the costs in 2020 and 2021 were reduced from those in 2019 in response to the pandemic so that, assuming an end to pandemic conditions, costs would naturally revert to their previous level. This is supported by the fact that traffic volumes in 2022 are forecast to be significantly lower than those in 2019, so that, all else equal, it would be anticipated that real-terms costs would be no higher than those in 2019 (and possibly lower if there are opportunities for costs to be lower related to lower levels of activity than in 2019).

3.28 We accept as a credible rationale for deviations from this approach the following factors:

- contractual obligations reasonably entered into by the IAA ANSP, either before the start of RP3 or during 2020 or 2021 where these represent the actions of an efficient economic operator in the circumstances of the pandemic;
- changes to unit costs of input materials or services materially different from CPI inflation;
- changes to the footprint/asset base of the ANSP; and
- efficiency improvements resulting from capital investment.

3.29 We note the contrasting comments by airlines on the one hand and by the IAA ANSP and the Staff Panel on the other concerning the overall level of costs, with airlines anticipating that costs should be no higher than in 2019 given that traffic is anticipated not to be higher than 2019 levels during RP3, while the ANSP considers that there are a range of cost-line-specific reasons justifying higher costs above those of 2019. We have tried to maintain a balance in responding to these comments by maintaining the principle that 2019 costs are a reasonable starting point but making adjustments according to the principles set out in the previous paragraph.

3.30 Given the level of detail provided by the ANSP in its consultation response, which goes beyond that provided during our earlier engagement with it, we have adapted our approach to the non-staff operating costs. In our earlier analysis, we had applied the general principle of reverting to 2019 costs, with exceptions for a few specific cost lines. Taking into account all the particular comments made by the ANSP on individual cost lines, we now consider all major non-staff cost lines individually.

Staff related costs

Staff numbers

3.31 The ANSP and the Staff Panel considered that our staff number projections were too low, while airlines were generally supportive of our approach. In our assessment, no evidence was provided to cause us to change our general modelling approach, but we have recognised the need to consider the practicalities of ATCO training and have taken into account comments by both the ANSP and Staff Panel that it is not feasible to bring 30 newly qualified ATCOs into the organisation in a single year (as was implied by our projections for ATCO number growth between 2023 and 2024). In addition, we recognise the need for an additional ATCO staff member to support the training schedule.

3.32 The changes to proposed training schedules are described in more detail from paragraph 3.44 below, cognisant of a maximum class size of 24 staff due to constraints on the availability of simulators, with an expected number of qualifying ATCOs of 18 (i.e. a pass rate of 75%). As a result of these changes, we have effectively "brought forward" ATCO staff training and hence the introduction of qualified ATCOs into the organisation, resulting in a lower number (25) joining the organisation in 2024 (and an additional one ATCO by the end of RP3). The table below shows the changed projections of ATCO staff by year on the basis of Scenario A/C as adopted by CAR.

Table 3.1: ATCO headcount projections

ATCO headcount	2019	2020	2021	2022	2023	2024
Consultation (Scenario A/C)	309	301	290	290	295	325
Proposed now (Scenario A/C)	309	301	290	290	301	326

3.33 The projections of Corporate Staff numbers and their associated costs are not affected by the use of headcount or FTEs in our analysis, because this has been done on a consistent basis through the modelling approach. Therefore, we have not made any change in response to the ANSP comment on Corporates Staff numbers and do not assess that an error has been made.

Salary levels

3.34 Consistent with the approach set out in paragraphs 3.27 - 3.28 above, we accept that the ANSP is contractually bound under its Collective Labour Agreement (CLA) with the trade unions to allow salary progression up the agreed salary scales for each specified job description, and that this obligation persisted during the 2020-2021 Base Year period. We have modified our approach to estimating salary levels to take this into account.

3.35 A comprehensive examination of contracted annual pay increments through ATCO staff progression up the salary scales with increasing length of service was undertaken to determine expected change in average salary levels due to staff progression, allowing for the fact that there have not been the normal complement of new joiners in 2020 or 2021 (arriving at the bottom of the relevant salary scales) to balance out the increasing pay of those progressing up the scales. The IAA ANSP has provided information relating to contractual ATCO pay scales in 2019 by job role, together with summarised information presenting the positioning of ATCO staff on these pay grades in 2019.

3.36 Including allowances for retirements, early retirements and new joiners (assumed to be completing the trainee programme), the profile of average ATCO staff pay resulting from staff progressing along the salary scales, was determined to change as follows:

- 2020: +2.0%
- 2021: +1.7%
- 2022: +2.0%.

3.37 The effect of progression up salary scales has been allowed for in the latest forecast outputs, taking into account the cumulative net salary grade progression-related uplift over the period 2020-2022 of +5.9%. Given that the increases in average salary implied for 2022 due to salary progression under this approach, Steer has adjusted its assumption for the general level of salary increase (i.e. an uplift of the salary scales themselves) to be equal to CPI inflation in that year. The assumed salary scale increases in 2023 and 2024 remain as previously assumed, at CPI + 1%.

3.38 Steer also recognises that the CLA uplift of [✂] p.a. is a practical approach to achieving staff buy-in for productivity improvements, so we have added this to the salary costs.

Pensions

3.39 Steer acknowledges that there was an error in the pension cost calculation, which overstated the proportion of staff benefitting from the hybrid pension scheme in future years. This has been amended in the updated modelling outputs.

3.40 The IAA ANSP has now provided further clarity that the 1996 and 2008 pension schemes (defined benefit) for ANSP staff will have a contribution rate of [✂].

3.41 Additionally, it was noted in IAA ANSP consultation response that pension rates payable for staff benefitting from the 'hybrid' pension scheme have been reduced from [✂] (as presented in the IAA ANSP July 2021 Business Plan) to [✂] from 2021. This change has been incorporated into the calculations.

3.42 We do not consider it appropriate to incorporate further increases proposed by the Staff Panel which go beyond what has been proposed by the IAA ANSP, due to the lack of supporting evidence and the fact that such decisions fall to the ANSP rather than the Panel.

Non-staff operating costs

Travel

3.43 Travel costs submitted in the IAA ANSP July 2021 Business Plan have been accepted by Steer for the period 2022-2024. Travel costs over this period are therefore €108,000 lower than was proposed in the consultation.

Training

3.44 Calculations for training costs have been modified so that the number of trainees graduating and entering service with the ANSP does not exceed practical levels and so that the associated costs of training are recognised at the time of training.

3.45 Four training programmes (SCP17-SCP20) have been plotted out on a monthly basis over the period 2022-2024 ensuring that no two classes are run in parallel and that no more than 18 trainees are expected to graduate per class. Steer recognises that the 11 students on the SCP17 programmed were part way through their training when the course was suspended due to COVID and all 11 trainees are expected to resume training in 2022 in the model, based on information provided by the ANSP.

3.46 Training programme costs are calculated on a monthly basis using monthly costs per student (by year) derived from the IAA ANSP July 2021 Business Plan. Monthly costs per student vary by year as it is assumed costs per student per month in 2022 will be higher due to the fact that students on the 2022 course (SCP17) will resuming training they started pre-COVID-19 and the final eight months of training required are more resource intensive than the first ten.[2]

3.47 Annual salary costs for new starters in 2023 and 2024 have been pro-rata adjusted to reflect their start dates during the year.

3.48 Training costs over this period are therefore €1.8 million higher than was proposed in the consultation.

Telecommunications

3.49 Steer acknowledges the additional costs associated with the migration to IP and related to the NTPR project as noted in the IAA ANSP's consultation response document. When accounting for these factors, Steer's estimation of telecommunication costs was broadly similar to those presented in the IAA ANSP 2021 Business plan. Telecommunications costs presented in the IAA ANSP July 2021 Business plan have therefore been accepted by Steer for the period 2022-2024.

3.50 Telecommunications costs over this period are therefore €1.3 million higher than was proposed in the consultation.

Maintenance

3.51 While the IAA ANSP has identified additional systems which will require maintenance and stated the level of cost in its COOPANS maintenance agreement, in our assessment it has not provided a rationale for moving away from Steer's previous approach for estimating maintenance costs, i.e. to allow for the increase in the ANSP's gross asset base (thereby incorporating new equipment and systems) while assuming that maintenance costs of new equipment and software will be lower than those of its existing assets. Steer's approach provides a consistent and quantified approach to estimating the additional costs for new equipment and systems.

3.52 Therefore, no changes have been made to Steer's approach to maintenance costs.

Power

3.53 The methodology for calculating power costs was modified so that:

- Power consumption is related to the increased size of the ANSP's gross asset base (rather than reverting to 2019), with an uplift of 11% in 2022 now being included in the model following the same approach as for maintenance costs.
- An overlay of projected energy cost unit cost increases (in addition to CPI) has been included based on information obtained from the 2020 EU Reference scenario (there is no specific energy inflation index available for Ireland). This assumes that energy costs are expected to rise at a rate of CPI+0.9% per annum between 2020 and 2025.

[2] Costs per student per month, 2022: €12.7k, 2023: €9.4k, 2024: €8.2k)

3.54 In addition, the costs for power have been modified (reduced) due to a review of the impacts of capital projects not considered in Steer's analysis prior to the consultation. These are set out in the *Operating cost savings resulting from capital investment projects* section below.

3.55 Power costs over this period are therefore €158,000 lower than was proposed in the consultation (including the savings resulting from capital investment projects).

Subscriptions

3.56 Subscription costs submitted in the IAA ANSP July 2021 Business plan have been accepted by Steer for the period 2022-2024. Subscription costs over this period are therefore €230,000 lower than was proposed in the consultation.

Rent and rates

3.57 Steer acknowledges that rent payable at the Times Building premises in Dublin is currently under negotiation and an uplift in rent payable is expected. The IAA ANSP consultation response document stated that an uplift of [✂] was expected, however on further investigation the rent payable was likely to increase by [✂] per annum. The IAA ANSP's 50% portion of this, [✂], has been added.

3.58 Additional information detailing the expected uplift in rates of [✂]per annum was received from IAA ANSP and this additional cost was included in the model.

Computing

3.59 IAA ANSP has stated that it based its projections of IT costs on the cost growth it experienced during RP2. The ANSP provided a spreadsheet with the percentage increases in its IT costs for each year from 2016 to 2020. Computing the average annual increase in costs (CAGR) between 2015 and 2020 gave a CAGR of 8.4% p.a., i.e. lower than the 10% p.a. assumed by the ANSP for RP3.

3.60 However, Steer noted that the increase in 2016 was very large, at 25% over 2015, and considered that this appeared to be an exceptional value indicating that 2016 was atypical. Therefore, Steer used the ANSP's data to calculate the CAGR over the period 2016-2020 (i.e. excluding the increase in the atypical year 2016). This gave a CAGR of 4.6%.

3.61 Based on this analysis, Steer has used a real cost increase estimate of 5% p.a. in each year of RP3, which it considers fairly represents the trends in the historical data provided by the ANSP. Steer does not consider that any of the comments in the ANSP's response to the consultation provides sufficient evidence to change this assumption as no further information has been supplied and the estimate was based on the ANSP's own evidence.

Insurance

3.62 Steer has noted the comments of the ANSP in regard to increasing insurance premiums, but also noted that no specific evidence was provided on the actual level of increases in insurance costs. Based on Steer's research, the calculation of insurance costs has been updated to account for increasing insurance premia in the aviation industry, using an uplift of +6% per year taking account of information from the aircraft insurance market[3]. Given the most serious risks for the ANSP relate to costs associated with aircraft accidents, the rate of change of

[3] https://www.marketresearchfuture.com/reports/aircraft-insurance-market-9535

aircraft insurance rates provide a reasonable benchmark for the rates of change for the ANSP's insurance costs.

3.63 Insurance costs over this period are therefore €551,000 higher than was proposed in the consultation.

Building repairs

3.64 Steer accepts that it is reasonable for building repair costs to be increased due to the increased footprint of the ANSP during RP3 and also accepts the ANSP's comment that older buildings require more maintenance. As no information has been provided on the exact increase in building footprint, the same approach has been adopted as for maintenance costs, with an uplift of 11%, based on increases to the Gross Asset Base (GAB), with allowances for efficiencies due to the lower repair costs associated with new infrastructure.

3.65 In addition, the costs for building repairs have been modified due to a review of the impacts of capital projects not considered in Steer's analysis prior to the consultation. These are set out in the *Operating cost savings resulting from capital investment projects* section below.

3.66 Building repair costs over this period are therefore €387,000 higher than was proposed in the consultation (including the savings resulting from capital investment projects).

Security

3.67 The IAA ANSP has indicated that its security costs are based on a 5-year security contract entered into by the IAA ANSP in 2019 following a competitive tender. Taking account of the principles set out in paragraph 3.28, namely that pre-existing contracts constitute a credible rationale for accepting projected costs, Steer has accepted the Security costs submitted in the IAA ANSP July 2021 Business Plan for the period 2022-2024.

3.68 Security costs over this period are therefore €2.2 million higher than was proposed in the consultation.

Professional Services

3.69 Steer accepts that some increase in professional service costs is likely given the new relationship between the ANSP and its regulator. Steer has made an allowance for one significant consulting project each year to support this. Therefore, a 20% uplift in professional services costs has been included from 2022 to account for the additional workload described by IAA ANSP[4]. This equates to an additional cost of €108,000 in each year.

3.70 Professional services costs over this period are therefore €324,000 higher than was proposed in the consultation.

Cleaning

3.71 Steer accepts that it is reasonable for cleaning costs to be increased due to the increased footprint of the ANSP during RP3, but it has been assumed that additional cleaning costs associated with COVID-19 will no longer be required from Q1 2023. We have used the ANSP's forecast cleaning cost for 2021 (plus inflation) as the projection for 2022, as we have not seen

[4] Additional cost of: Annual reporting to CAR and triennial actuarial variation (2021/2024) and legislative changes to pensions.

a credible rationale for the large step-change in the ANSP's cleaning cost forecast between 2021 and 2022.

3.72 For 2023 onwards, as no information has been provided on the exact increase in building footprint, the same approach has been adopted as for maintenance costs, with an uplift of 11% on 2019 costs, based on increases to the Gross Asset Base (GAB), with allowances for efficiencies due to more modern buildings being easier to keep clean.

3.73 Additionally, the impact of minimum wage escalation was also included based on analysis of historical trends in Ireland. Minimum wages have grown on average at a rate of CPI+2.3% between 2015 and 2021, and this factor has been included in the model.

3.74 Cleaning costs over this period are therefore €367,000 higher than was proposed in the consultation.

Other Costs

3.75 Given the more detailed "line-by-line" cost projections we have developed in response to the IAA ANSP's responses to the consultation, in line with the approach set out in paragraph 3.30, Steer assesses that it is no longer appropriate to take the previous 'overall approach' (returning to 2019 costs) for the "other costs" category. In the absence of further information from the ANSP about these "other costs", Steer has accepted the cost levels for "other costs" set out in the IAA ANSP July 2021 Business Plan for the period 2022-2024.

3.76 Other costs over this period are therefore €4.4 million lower than was proposed in the consultation.

Operating cost savings resulting from capital investment projects

3.77 The impact of five additional capital projects has now been reviewed by Steer and has been included in Steer's revised operating cost forecasts following consultation. These are detailed in the table below.

Table 3.2: Capex projects included and assumptions for impact on operating costs

Project	Cost (000s) IAA ANSP	Cost (000s) CAR	Asset Life	Line item	Assumed project opex savings as % of project depreciation	From
T007 - Energy Management Upgrade works	€3,600	€2,880	15	Power	100%	50% in 2021, 100% 2022 onwards
T014 - Replacement of Building and Equipment cooling system - Dublin ACC	€850	€680	15	Building repairs	30%	50% in 2021, 100% 2022 onwards
V002 - Climate Action Plan	€5,000	€4,000	20	Power	25%	25% in 2021, 50% in 2022, 75% in 2023, 100% in 2024
V003 - Essential Building	€775	€620	15	Building repairs	30%	50% in 2021, 100% 2022 onwards

Project	Cost (000s) IAA ANSP	Cost (000s) CAR	Asset Life	Line item	Assumed project opex savings as % of project depreciation	From
Upgrade works at Mt. Gabriel						

Source: IAA ANSP, Steer analysis and assumptions

3.78 The impact of the capital projects included above, together with the capex projects previously included, on each of the operating cost line items has been presented in the table below. The values relate the absolute percentage saving achievable in each year against a baseline where no savings from capex items are included.

Table 3.3: Operating cost savings calculated (includes capex projects previously included)

		2022	2023	2024
Staff	Staff Costs	-	-	-
Staff	Pension	-	-	-
Travel	Travel	-	-	-
Training	Training	-	-	-
Utilities	Utilities	-	-	-
Telecommunications	Telecommunications	-	-	-
Operational	Maintenance	(2.5%)	(3.7%)	(5.0%)
Operational	Spares	-	-	-
Operational	Power	(16.2%)	(17.1%)	(18.1%)
Operational	Other	-	-	-
Subscriptions	Subscriptions	-	-	-
Administration	Rent and rates	-	-	-
Administration	Computing	(1.8%)	(2.6%)	(3.3%)
Administration	NIS	-	-	-
Administration	Consultancy	-	-	-
Administration	Insurance	-	-	-
Administration	Building repairs	(5.6%)	(6.3%)	(7.1%)
Administration	Environmental	-	-	-
Administration	Security	(2.4%)	(4.3%)	(4.4%)
Administration	Professional services	-	-	-
Administration	Cleaning	-	-	-
Administration	IAA Restructuring	-	-	-
Administration	Impairment	-	-	-
Administration	PR	-	-	-
Administration	Staff related	-	-	-
Administration	Other	-	-	-
Depreciation	Depreciation	-	-	-
Cost of capital	Cost of capital	-	-	-

Source: Steer analysis and assumptions

Revised Steer forecast

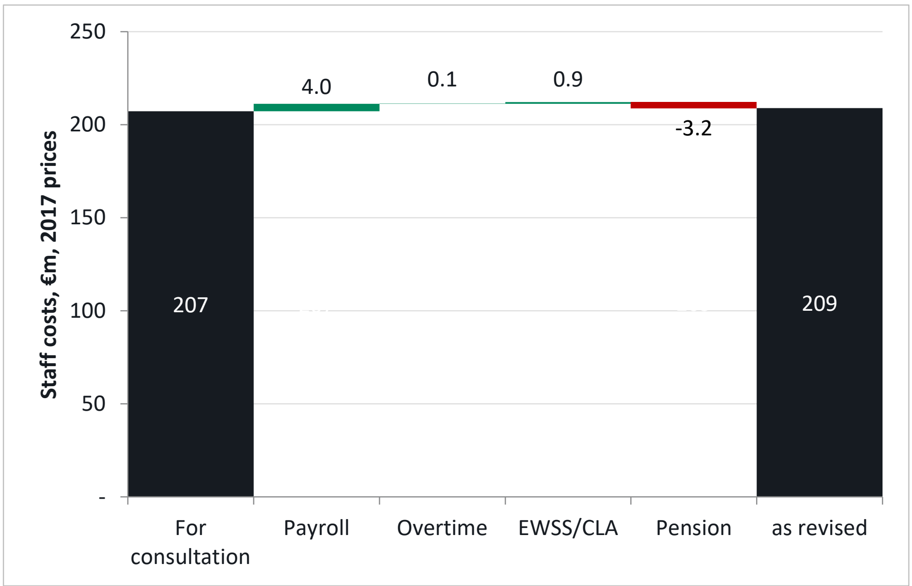
3.79 The charts below show a comparison between Steer's aggregate operating cost projections for the 2022-2024 following implementation of the changes identified above compared with those in our Final Report used for the consultation.

3.80 These are shown separately for staff and non-staff costs.

Staff costs

3.81 Implementing the changes described above increases payroll costs by +€4.0 million between 2022 and 2024, whilst costs associated with the CLA increase costs by a further +€0.9 million. A saving of -€-3.2 million is achieved through the reduction in pension costs payable due to the reduced hybrid pension rate uplift expected from 2021 and the rate for the 1996 and 2008 schemes being maintained rather than increasing as previously assumed. The overall change in staff costs between 2022 and 2024 amounts to +€1.7 million.

Figure 3.1: 2022-2024 change in staff costs



Source: Steer operating model

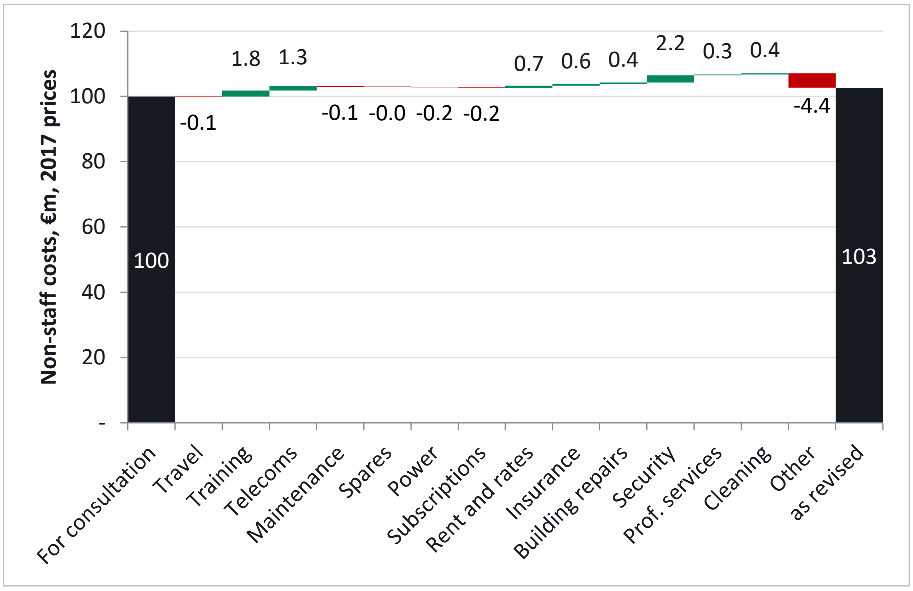
Non-staff costs

3.82 Security, training and telecommunications costs increase cumulatively over the 2022-24 period by +€2.2 million, +€1.8 million, +€1.3 million respectively due to the implementation of the changes identified, whilst smaller increases to rent and rates (+€0.7 million), insurance (+€0.6 million), building repairs (+€0.4 million), cleaning costs (+€0.4 million) and professional services (+€0.3 million) have also been added. Small reductions in costs relating to power (-€0.2 million), subscriptions (-€0.2 million), maintenance (-€0.1 million), travel (-€0.1 million) and spares were identified from updated capital expenditure information or reversion to costs outlined in the IAA ANSP July 2021 Business Plan where cost estimations were of similar magnitude.

3.83 The reduction in ‘other’ non-staff costs by -€4.4 million relates Steer accepting cost levels for “other costs” included in the IAA ANSP July 2021 Business Plan for the period 2022-2024 rather than using the previous ‘overall approach’ (returning to 2019 costs) for this category. Given the tailored methodology use for the other line items, this methodology was no longer appropriate for other costs.

3.84 The overall change in non-staff costs between 2022 and 2024 amounts to +€2.6 million.

Figure 3.2: 2022-2024 change in non-staff costs



Source: Steer operating model

4 Conclusions and summary of revised forecasts

Conclusions

4.1 Steer has reviewed the stakeholder comments on the operating cost projections provided as part of the consultation on the IAA ANSP's Revised RP3 Business Plan. We have made changes where we assess that evidence has been presented which indicates that an adjustment to the forecast needs to be made. However, where stakeholders have indicated a dislike of the results set out in the consultation documents, we have not considered that this, in itself, provided a reason for making any changes.

4.2 In general terms, there has been a balance of comments from stakeholders in terms of supporting either higher or lower cost projections, with the ANSP and Staff Panel generally supporting higher projections and airlines supporting lower projections. In contrast, there has been less balance in the level of detail of comments received, with the ANSP in particular providing more detailed inputs. We have responded to this by increasing the granularity of some of our approaches, particularly for non-staff cost lines.

4.3 The overall changes to Steer's operating costs projections following the consultation are +€3.3 million over RP3 compared to the projections provide for the consultation.

Summary of revised forecasts

4.4 The table below shows Steer's revised operating costs following implementation of the changes identified above. The table follows the same format as in our Report for the consultation, comparing the IAA ANSP's RP3 Business Plan projections for operating costs and staff numbers with Steer's corresponding (updated) projections based our assumptions from Scenario A (2020-2021) and Scenario C (2022-2024).

Table 4.1: Scenario A/C results

			IAA Updated Business Plan						Modelled						Delta					
Group	**Line Item**		**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Staff	Payroll (inc. Early redundancy)	*€,000s 2017 prices*	52,214	51,304	48,017	54,932	57,119	59,319	52,214	49,806	46,848	53,318	55,319	57,197	-	(1,498)	(1,168)	(1,614)	(1,800)	(2,122)
Staff	Overtime	*€,000s 2017 prices*	1,870	661	961	1,413	1,608	1,785	1,870	661	661	951	1,413	1,677	-	0	(300)	(461)	(195)	(108)
Staff	EWSS	*€,000s 2017 prices*	-	(1,357)	(4,009)	-	-	-	-	(1,357)	(4,009)	300	300	300	-	-	-	300	300	300
Staff	Pension	*€,000s 2017 prices*	13,466	13,121	12,941	13,889	14,180	14,484	13,466	13,121	11,837	12,549	12,752	12,815	-	0	(1,104)	(1,340)	(1,428)	(1,669)
Staff		*€,000s 2017 prices*	**67,550**	**63,729**	**57,909**	**70,233**	**72,907**	**75,588**	**67,550**	**62,231**	**55,337**	**67,118**	**69,783**	**71,989**	**-**	**(1,498)**	**(2,572)**	**(3,115)**	**(3,124)**	**(3,599)**
Travel	Travel	*€,000s 2017 prices*	1,284	401	782	1,113	1,266	1,365	1,284	1,095	1,185	1,113	1,266	1,365	-	694	403	-	-	-
Training	Training	*€,000s 2017 prices*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	Utilities	*€,000s 2017 prices*	480	470	621	635	635	635	480	409	443	480	480	480	-	(61)	(178)	(155)	(155)	(155)
Telecommunications	Telecommunications	*€,000s 2017 prices*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operational	Maintenance	*€,000s 2017 prices*	4,185	4,048	5,017	5,837	6,220	6,268	4,185	3,570	3,863	4,529	4,475	4,417	-	(478)	(1,154)	(1,308)	(1,745)	(1,851)
Operational	Spares	*€,000s 2017 prices*	779	879	1,093	1,378	1,378	1,378	779	664	719	865	865	865	-	(215)	(374)	(513)	(513)	(513)
Operational	Power	*€,000s 2017 prices*	833	914	1,162	1,340	1,340	1,340	833	711	769	782	780	779	-	(203)	(393)	(558)	(560)	(561)
Operational	Other	*€,000s 2017 prices*	435	423	453	774	778	779	435	371	402	435	435	435	-	(52)	(51)	(339)	(343)	(344)
Subscriptions	Subscriptions	*€,000s 2017 prices*	453	249	389	383	376	370	453	386	418	383	376	370	-	137	29	-	-	-
Administration	Rent and rates	*€,000s 2017 prices*	2,574	2,734	2,921	2,947	2,997	2,997	2,574	2,196	2,376	2,813	2,813	2,813	-	(538)	(545)	(134)	(184)	(184)
Administration	Computing	*€,000s 2017 prices*	1,660	1,612	2,319	2,907	3,028	3,266	1,660	1,416	1,532	1,549	1,613	1,684	-	(196)	(787)	(1,358)	(1,415)	(1,582)
Administration	NIS	*€,000s 2017 prices*	-	-	-	190	280	274	-	-	-	190	280	274	-	-	-	-	-	-
Administration	Consultancy	*€,000s 2017 prices*	1,013	414	1,118	1,626	1,545	1,625	1,013	864	935	1,013	1,013	1,013	-	450	(183)	(613)	(532)	(612)
Administration	Insurance	*€,000s 2017 prices*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administration	Building repairs	*€,000s 2017 prices*	949	809	1,594	1,399	1,455	1,400	949	809	876	994	987	980	-	0	(718)	(405)	(468)	(420)
Administration	Environmental	*€,000s 2017 prices*	-	-	161	332	332	332	-	-	-	332	332	332	-	-	(161)	-	-	-
Administration	Security	*€,000s 2017 prices*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administration	Professional services	*€,000s 2017 prices*	538	520	527	799	799	799	538	459	497	646	646	646	-	(61)	(30)	(153)	(153)	(153)
Administration	Cleaning	*€,000s 2017 prices*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administration	IAA Restructuring	*€,000s 2017 prices*	-	339	693	-	-	-	-	-	-	-	-	-	-	(339)	(693)	-	-	-
Administration	Impairment	*€,000s 2017 prices*	-	873	-	-	-	-	-	-	-	-	-	-	-	(873)	-	-	-	-
Administration	PR	*€,000s 2017 prices*	355	83	350	1,063	819	899	355	303	328	355	355	355	-	220	(22)	(708)	(464)	(544)
Administration	Staff related	*€,000s 2017 prices*	523	437	761	1,068	1,068	1,068	523	446	483	523	523	523	-	9	(278)	(545)	(545)	(545)
Administration	Other	*€,000s 2017 prices*	3,794	297	1,290	2,253	2,355	2,360	3,794	3,236	3,502	2,253	2,355	2,360	-	2,939	2,212	-	-	-
Redacted Items		*€,000s 2017 prices*	11,839	10,946	13,035	16,170	16,875	15,224	11,839	10,099	10,927	14,404	15,393	14,247	-	(847)	(2,108)	(1,766)	(1,482)	(977)
Non-Staff Operating Costs		*€,000s 2017 prices*	**31,694**	**26,448**	**34,286**	**42,214**	**43,546**	**42,379**	**31,694**	**27,035**	**29,254**	**33,658**	**34,988**	**33,936**	**-**	**587**	**(5,032)**	**(8,556)**	**(8,558)**	**(8,443)**
Total	**Total**	*€,000s 2017 prices*	**99,244**	**90,177**	**92,195**	**112,447**	**116,453**	**117,967**	**99,244**	**89,266**	**84,591**	**100,777**	**104,771**	**105,926**	**-**	**(911)**	**(7,604)**	**(11,670)**	**(11,682)**	**(12,041)**
ATCOs		*Headcount*	309	301	291	300	311	328	309	301	290	290	301	326	-	-	(1)	(10)	(10)	(2)
Engineers		*Headcount*	72	73	84	90	93	94	72	72	72	87	91	91	-	(1)	(12)	(3)	(3)	(4)
Data Assistants		*Headcount*	39	39	38	38	38	38	39	39	39	38	38	38	-	-	1	-	-	-
Ops Management and support		*Headcount*	60	60	64	68	70	70	60	60	60	67	67	67	-	-	(4)	(2)	(3)	(3)
Corporate services		*Headcount*	68	66	65	57	57	57	68	68	68	57	57	57	-	2	3	-	-	-
Total		*Headcount*	**548**	**539**	**542**	**553**	**569**	**587**	**548**	**540**	**529**	**539**	**553**	**578**	**-**	**1**	**(13)**	**(15)**	**(16)**	**(9)**

Control Information

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