

INTRODUCTION TO THE ANALYSIS OF POLISH AIR NAVIGATION SERVICES AGENCY'S OF THE FINANCIAL RESULTS AND COSTS BY NATURE IN 2007-2011

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Polish Air Navigation Services Agency (PANSa) is the only institution in Poland that provides services ensuring security of the air traffic. On the other hand, it is observed the systematic intensification of the competitive actions created by the European institutions working in the similar field of airspace management. The effectiveness of the counteractions that aims at the maintenance of the Polish independent airspace, is based on competitive prices and high quality of the provided services. Presented article includes the analysis of the expenditures incurred by PANSa in order to ensure the existence of carried activities. Furthermore, such expenditures influenced enterprise's financial situation to a great extent.

K e y w o r d s: PANSa, analysis of the costs, en-route navigation services, terminal navigation services.

1 INTRODUCTION

Polish Air Navigation Services Agency is an enterprise, which activities are closely associated with other projects allowing for existence of safe, continuous, fluent and effective air navigation in Single European Sky. [9] The tasks imposed on the PANSa, and perform by air traffic services consist of commercial and complimentary services. Nevertheless, the activities mainly implemented by PANSa includes: assertion of the air traffic services, communication and flight information services and navigation services. Moreover, PANSa's duties cover training and research-development activities in the field of air navigation.[1]

However, management of such diverse enterprise require sustainable funding. As a result PANSa covers expenditures using its own, earned financial resources. Variety of provided services and possibilities to receive incomes from additional sources allow PANSa to become self-sufficient. Supplementary sources of PANSa incomes are, for example:[2]

- revenues from charges for provided services;
- voluntary payments and endowments;
- interest on bank deposits;
- subsidies;
- other revenues including nonrefundable aid.

The Act of 8 December 2006 on the Polish Air Navigation Services Agency imposed a duty to self-finance the enterprise. It states that: „*In financial aspects the Agency operates independently taking into account the European Union law, international agreements and legal provisions established by the European Agency for*

the Safety of Air Navigation EUROCONTROL, hereinafter referred to as „EUROCONTROL”, on air navigation charges system including principles for establishing and collecting the charges as well as issuing invoices by organizational unit of EUROCONTROL - Central Route Charges Office (CRCO)”.[9]

Further article contained in this act, specifies that: „*The Agency shall cover costs of its activities from its revenues*”.[9] Expenditures connected with PANSa's activity concern two basic services implemented by the enterprise, namely en-route costs and terminal costs. Whereas, the overall distribution of the expenditures is regulated by the ordinance No. 1191/2010 adopted by The European Commission on December 16, 2010. According to this ordinance services provided by PANSa concern costs by nature, which includes: staff costs, additional operating costs, depreciation, costs of capital and exceptional costs.

2 ANALYSIS OF THE FINANCIAL RESULTS

Polish Air Navigation Services Agency was created on the 1st April 2007, under the law of Act adopted on December 8, 2006. It became an independent unit separated from the structures of “Polish Airports” State Enterprise. Therefore, the analysis of financial results in the first period of PANSa existence includes an incomplete year.

Analyzing the financial results of the Polish Air Navigation Services Agency between 2007 and 2011 it should be stated that revenues fluctuated during this period, however, the overall trend was increasing.

Table 1. PANSa Financial Results between 2007 and 2011 (PLN '000)

Years	Revenues	Costs	Net profit
2007*	446 031	379 185	65 459
2008	644 916	565 967	63 694
2009	531 479	570 823	-33 667
2010	600 091	580 648	24 260
2011	674 900	629 467	55 047

* period from 01.04.2007 to 31.12.2007.

Source: Collation of the PANSa's annual reports from the years 2007-2011.

Excluding year 2007, when the agency commenced operation at the present shape, the only year when the enterprise registered reduction of the revenues was the year 2009. The necessity of covering the losses using PLN 33 667 thousands from supplementary capital, was connected with reduction of revenues achieved by disposal of the navigation services. Such situation was a direct result of decrease of the air traffic intensity in 2009. The decline of the revenues in 2009, in comparison with the previous year, was influenced not only by the growing worldwide economic crisis but also by alteration of the prices of air navigation services. As a result, total number of en-route movements in FIR Warszawa in 2009 reached 553 572, while in terminal movement there was 142 821 operations. It was about 8% less operations in comparison with year 2008, when 597 023 operations was conducted in en- route traffic and about 154 900 in terminal traffic.

The revenues of the Polish Air Navigation Services Agency in the following years underwent the constant grow, finally exceeding PLN 600 million. Value of the revenues achieved by sale of the air navigation services in 2010, in comparison with the previous year, was affected by change of the prices of

navigation services, for example, single rates of the en-route costs and terminal costs increased. In 2011 further changes concerning valuation of the flight services provided by the PANSA were implemented. The price of the en-route services was diminished by 10.71 PLN, however the terminal costs were again increased from 867.88 PLN to 1051.03 PLN. [6][7]

What resulted in, PANSA's operating costs constant increase. Development of the infrastructure, and what is much more important adapting organizational structures to ongoing process of increase of the effectiveness of the work and optimization of the management, together with maintaining the same level of security and quality of services provided, required higher financial resources.[3]

In order to understand existing tendency of PANSA's expenditures sizes better, it is necessary to analyze each particular type of costs. It will allow to specify which groups of costs by nature are the greatest financial burdens for the agency and what is more, it will allow to determine in which group the largest changes appeared during the study period.

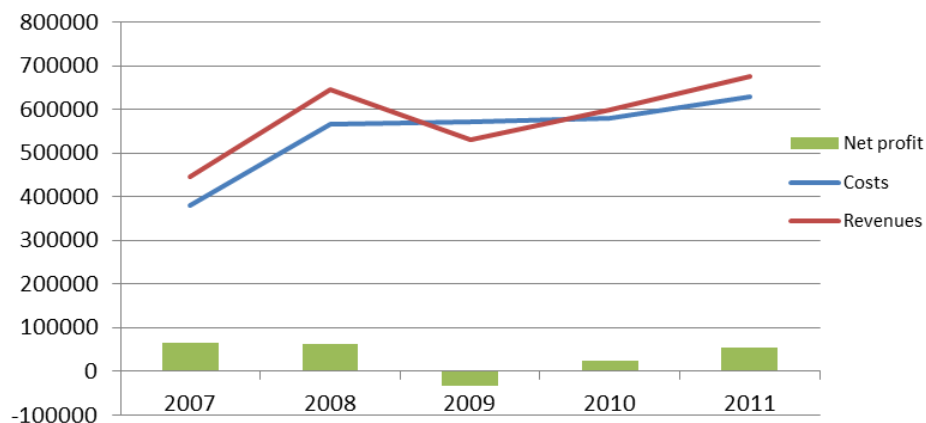


Figure 1. Financial Results PANSA in 2007 - 2011

3 ANALYSIS OF THE COSTS BY NATURE

While analyzing the costs by nature, it is possible to observe that the greatest amount of money is spent to fulfill the staff costs. The expenditures includes gross salary for the agency employees, rewards for work

overtime, social security charges, pensions and other fringe benefits were accounted on 67% of overall incurred costs. The domination of the staff costs in the total agency expenditures is proved by the data from the year 2008. In this year labor costs reached PLN 375 185 thous., from which PLN 311 405 thous. were spent to regulate the

Table 2. PANSA costs by nature in the period 2007-2011 (PLN '000)

Costs	2007*	2008	2009	2010	2011
Staff costs	246 453	375 185	383 151	383 882	432 019
Other operating costs	86 141	133 897	130 780	133 633	135 947
Depreciation	31 370	41 467	45 076	45 941	47 981
Cost of capital	1 947	163	546	5 207	157
Exceptional items	13 247	15 255	11 270	11 985	13 364
Total costs	379 158	565 967	570 823	580 648	629 467

* period between 01.04.07 and 31.12.07.

Source: Collation of the PANSA's annual reports from the years 2007-2011.

salary costs.[5]

In the following years the staff costs still consumed the majority of the agency revenues achieved by providing of air services. It should be highlighted, that the staff costs were increasing along with increasing revenues, additionally influencing the expansion of the overall costs to a great extent.

Cost of capital is another Polish Air Navigation Services Agency financial burden used in order to finance services including rising of capital between 2007 and 2011. This cost was calculated upon Weighted Average Cost of Capital of all financial sources of the enterprise. In order to determine the cost of capital, average book value of fixed assets and the average net asset value were



Figure 2. PANSO costs by nature in 2007-2011

Remaining operation costs are second the greatest PANSO expense after the staff costs. Remaining operation costs are expenditures incurred for the purchase of the goods and services, which are utilized to ensure the air navigation service. This costs concerned mainly services contracted to external companies, in such areas as: communication, specialist consultations, purchases of materials, tools and electricity. Further financial burdens calculated as a remaining operation costs includes: fees for rental of buildings, money spent to equip the properties, expenditure on ownership maintenance as well as insurance costs and business trip expenses. Despite significant number of the aims, expenses incurred as part of this group states only little more than 20% of the overall PANSO expenditures.

Another cost constituting a substantial position in the PANSO expenses was depreciation of fixed assets. Depreciation charge pertained to fixed assets, which were utilized in order to ensure the implementation of services connected with air navigation service. Decrease of the fixed assets value was a financial burden that have ranged from 7.4% to 7.9% of the PANSO total expenditures. The maintenance of the depreciation on the constant level of PLN 45 million – PLN 47 million in case of straight-line depreciation, is an evidence of limited investments in new fixed assets. Exceptional items are costs covering the disposable agency's expenditures, which ensured services connected with air navigation service. This expense includes non-refundable duties and taxes, and other charges connected with this area. In PANSO overall expenditures, exceptional items constituted a relatively meager amount, as in the relevant period they varies between 1.9% and 2.3% of the total costs.

taken into account. However, cost of capital constituted definitely the lowest expenditure and during considered period, it varied from 0.02% to 0.8% of agency overall expenditures, finally leading to its' invalidity in the scale of the total expenses.

Small amount of money allocated to cover the cost of capital, in comparison with the financial resources at the disposal of PANSO, indicate that the agency financed undertaking activities using mainly its own funds. Moreover, PANSO plans to realize similar activities in the following years of its existence. The interest rate, according to which agency is planning to raise finances, should be adjusted below the market costs. Such action is a direct result of the agency management's policy, which assumed that profitability index of borrowed funds should be lower than the interest rate on 10-year bonds. It is planned to systematically reduce costs of raising the finances, which in 2012 reached 3.69%, in 2013 it amounted to 3.79%, subsequently decreasing to 1.79% in 2014.[4]

4 SUMMARY AND CONCLUSION

Polish Air Navigation Services Agency functioning costs are an important factor, allowing to assess activities undertaken by agency and opportunities of competition in Single European Sky. This article presents in general, the development of the costs in particular types of activities carried out by the agency. Additionally, it creates the possibility to judge the decisions, which were taken by the management. Many of them were undertaken in order to optimize the functioning of the enterprise in case of

exacerbation of competition in the area of security of flights in the airspace.

Specific conclusion, possible to draw from the conducted analysis is that the staff cost is the highest PANSA expenditures. Expenses connected with staff costs consume more than two – thirds of the total agency outgoings. In case of achieving PLN 50 million - PLN 60 million of net profit in the existing activities, high staff costs significantly reduce enterprise investment opportunities. It should be also noticed that the branch of the market providing air traffic service is extremely unstable. As an example the year 2009 can be provided, when escalating crisis in the Eurozone reduced Polish Air Navigation Services Agency revenues, forcing the enterprise to finance its activity using supplementary capital.

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