

INTERNATIONAL CIVIL AVIATION ORGANIZATION

AIRPORT PRIVATIZATION SEMINAR/FORUM FOR THE NAM/CAR/SAM REGIONS

(Guatemala City, 13 to 16 December 1999)

CONTROL AND MONITORING MEASURES STATES SHOULD APPLY IN A PRIVATIZED AIRPORTS ENVIRONMENT

by

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1. INTRODUCTION

1.1 The main ICAO objectives, established in the International Civil Aviation Convention, are to develop the principles and techniques of international air navigation and to foster the planning and development of international air transport so as to:

- Ensure Safe and orderly growth of international civil aviation
- Ensure Safe, regular, efficient and economical air transport
- Encourage the development of aviation infrastructure, facilities and services

1.2 In order to achieve such mentioned objectives, ICAO issue and permanently review the Standards and Recommended Practices as well as other non compulsory dispositions and recommendations applicable to all the component areas of international civil aviation. Furthermore, ICAO Member States contribute to the universal standardization of civil aviation adopting and applying said dispositions through their inclusion in national laws, rules and procedures.

1.3 In a privatized airport environment, States need to regulate and oversee the airport business and operation to ensure the achievement of above objectives that involve a large amount of international commitments. The transference of the ownership or operation of airports does not mean that States transfer their responsibilities to other hands, therefore, States have to take into consideration all the involved dispositions which would be affected by when a privatization process is undertaken. The new airport owners and/or operators should be committed and compelled to comply with all national and international regulations, to provide opportune and appropriate statistical and financial information, and to be able to receive regular audits conducted by designated authorities.

1.4 The principal aspects covered in this presentation are: Security and Facilitation, Development Planning and Environmental Protection, and Financial and economical Efficiency. Other important aspects such as Safety and Operational Efficiency are presented to the Seminar through other documents prepared by the Secretariat.

2. SECURITY AND FACILITATION

2.1 Annex 17 (SECURITY) to the Chicago Convention establishes the standards and recommended practices (SARPs) related to the safeguarding of international civil aviation against acts of unlawful interference and Annex 9 (FACILITATION) includes the corresponding SARPs which are requested to facilitate and expedite the air transport between the territories of Contracting States and to prevent unnecessary delays to aircraft, crews, passengers and cargo. States should take into consideration that although the civil aviation authority is responsible of adopting and applying the mentioned SARPs, the international airports are the core point for applying such measures and dispositions and so, especial actions have to be taken in order to guarantee that airport authorities and administrations appropriately fulfill these international commitments. In order to assure full compliance with the mentioned Annexes, the State should develop and issue national rules and procedures aimed at legally supporting, compelling and endowing with the appropriate resources, the comprised activities by these areas of civil aviation.

2.2 Regarding Security (AVSEC) , the national legislation should require the authorities to develop, maintain and implement a National Aviation Security Programme (NASP); designate the appropriate responsible authority and establish a National AVSEC Committee; require airports, airlines and other operators to comply with the provisions of NASP; authorize inspections to determine compliance with relevant legislation and monitor the effectiveness of NASP; etc.

2.3 On the other hand, Facilitation (FAL) also requires the provision of legal support in order to create and encourage the adoption of national procedures and tools which allow the compliance of the dispositions of Annex 9. With this aim, States should establish National and Airport Facilitation Committees as well as National Facilitation Programs which provide the State with the appropriate mechanisms required to achieve the FAL goals and objectives outlined by ICAO and the national authorities.

3. DEVELOPMENT PLANNING AND ENVIRONMENTAL PROTECTION

3.1 ICAO Regulations

3.1.1 As mentioned above, ICAO member States are committed to adopt, as a part of their national legislation, the international Standards and Recommended Practices included in all the Annexes to the Chicago Convention, specifically, Annexes 9, 14, 16 and 17 which deal with international airport specifications, services and procedures. In order to help the civil aviation authorities to fulfill the dispositions on the matter, more detailed guidance information is included in diverse documents issued by ICAO, such as the “Aerodrome Design Manual” (DOC 9157), the “Airport Planning Manual” (Doc 9184), the “Airport Services Manual” (DOC 9137), the “Manual of surface movement guidance and control systems” (DOC 9476) and the “Security Manual for safeguarding civil aviation against acts of unlawful interference (Doc 8973, Restricted), among others.

3.1.2 In the field of environmental protection, States should proceed in accordance with ICAO’s dispositions included in Annex 16 (Environmental Protection), the Part 2 of Airport Planning Manual (Land use and Environmental Control) and the Resolutions A28-3 and A32-8 adopted by ICAO which, based on the recommendations made by the Committee on Aviation Environmental Protection (CAEP), establishes standards on noise certification and engine emissions of aircraft as well as ICAO’s position on the imposition of environmental charges.

3.2 Regional Air Navigation Plans

3.2.1 Due to the international and worldwide nature of the civil aviation, its development requires of a careful planning process which is coordinated by ICAO. The world is divided in nine air navigation regions that encompass the main geographical regions, allowing to agree and from time to time review the Regional Air Navigation Plans (RANPs). These RANPs set for in detail the facilities, services and procedures required for international air navigation within a specified area, and contain recommendations aimed at assuring that facilities and services furnished are in accordance with an integrated plan adequate for all the States of the Region in the foreseeable future.

3.2.2 The technical scope of RANPs comprises statements of required facilities and services in all the different civil aviation fields which include the aerodromes devoted to serve the international commercial air transport operations. Regular aerodromes and their alternates are determined to meet the needs of the flights included in an approved table of aircraft operations. Physical characteristics and visual aids are determined for each regular and alternate aerodrome required for international operations, and include general information such as runway length and strength, as well as the aerodrome reference code selected for runway and taxiway planning purposes. Each contracting State of ICAO is committed under Article 28 of the Convention to provide in its territory the facilities and services included in the respective RANP.

3.3 National Aviation Regulations

3.3.1 States develop and issue civil aviation and environmental legislation that incorporates the international standards and recommended practices and other dispositions considered necessary to regulate the activities of civil aviation at a national level. This regulatory framework establishes the legal basis by which the authority is created, performs its duties and all relations between governments, users and industry should be performed.

3.3.2 As a part of the national civil aviation system, airports are subject to operate in accordance with its State's national legislation. Since the civil aviation authorities are responsible of fulfilling all the national and international dispositions on the matter, the airport operations should be monitored and supervised in order to assure that all the involved dispositions are fully applied by the airport administration.

3.3.3 It is generally known that all governmental actions which modify in any form the operational and/or legal status of airports should be taken following the *applicable national regulations*. In the case of airport development and operations the authorities are committed to proceed in accordance to dispositions such as those included in:

- the Civil Aviation Law as well as the national regulations on Airports and National Land Use and Environmental Protection which would include dispositions on Airport Operating Licenses,
- the National Aviation Transport Sector Development Plan (NATSDP) that provides scheduled information on economic and financial conditions and implications of the milestones and requirements involved in the air transport sector development which meets the expectations of the National Development Program,
- the National Airports System Development Plan (NASDP) that establishes the national priorities, requirements and the chronological economic and financial implications of the role and development of airports to achieve the goals arisen from the NATSDP,

- the Airport Master Plan which defines the schedule of economic, financial, operational and physical requirements for the infrastructure and services development of an specific airport, such as it is requested in the NASDP, and
- the National Policy on public utilities and services fees and tariffs as well as the Economic policy on airport charges of ICAO which defines the principles ruling such charges, how the airport charges should be determined, what charging systems could be used, the need of consultations with users and the development of revenues from non-aeronautical activities.

4. FINANCIAL AND ECONOMICAL EFFICIENCY

4.1 *The economical efficiency* of airports depends of diverse factors linked to their geographical location, economic importance for their area of influence, the appropriate evaluation and selection of development alternatives, the level of utilization of the infrastructure available and the accuracy of the business plans developed for different periods and the achievement of its target goals, among others. States and airport administrations should weigh the economical efficiency of a specific airport checking the operational results against the effects of the advantages and disadvantages foreseen, under a cost-benefit standpoint, in the airport master plan, for example: the adverse environmental effects considered as a disadvantage and, on the other hand, the industrial development and the growth of tourism, transportation and trade taken as advantages.

4.2 *The financial performance* would be affected by one or several of the following most important factors: national taxation policy, staff expertise and skills, financial autonomy and use of appropriate internal procedures and organization, as well as the policies on staff wages, use of financing resources, charges level and collection, and level of debt.

4.3 The Chicago Convention gives ICAO the authority to request and collect from States *statistical and financial information* related to the advancement of air navigation and the operation of international air services including information on about cost of their operations. This information which allows ICAO to prepare studies on the evolution of civil aviation activities, is the same required by States to assess and monitor the performance of their civil aviation facilities and the development of the air transport sector. In this regard, airports are committed to provide on time and in the established way the information requested by ICAO and the national authorities. Without this information, neither planning nor following up activities nor economic studies on the matter can be carried out.

4.4 Arisen from Article 15 of the Chicago Convention, ICAO has also established the principles that States should follow when the airport and air navigation charges are developed and established. Doc 9082/5 “The Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services” includes a set of dispositions on which the *financial management and accounting procedures* to be used by airports, are provided in the Airports Economics Manual, as guidance material by ICAO. The civil aviation authorities have in the above documents important terms of reference that should be used as contractual requirements when airport concession/privatization contracts are granted. Through these kind of provisions the authorities are in a position to monitor the management of airport activities, to take the corrective actions when needed, and to fulfill their commitments on the matter with ICAO.

4.5 As a matter of illustration, it is important to mention that **the main principles on airport charges established by ICAO** are:

- The airport charges have to be established on a real costs basis. In this regard, airports should maintain accounts which provide a satisfactory basis for determining and allocating the cost to be

recovered and adequate information that identifies the facilities and services related to airport charges as precisely as possible, for the needs of authorities, users and the airport itself.,

- The costs to be charged is the full cost of providing the airport and its ancillary services,
- Aircraft operators and other airport users should not be charged for facilities or services they do not use, other than those provided for and implemented under the Regional Plan,
- The costs relating to space or facilities used by government authorities should be allocated separately,
- The costs allocated to various categories of users should not be burdened with costs not incurred by them and no discrimination between them should be exercised.
- The users' capacity to pay should not be taken into account until all costs are fully assessed and distributed in an objective basis,
- The charging system applied should be simple and suitable,
- The charges must be non-discriminatory, should not discourage the use of facilities and services, should be consolidated as far as possible and should be introduced on a gradual basis,
- When preferential charges are extended to particular categories of users, under-recovery of costs should not be shouldered onto other users,
- When any significant revision of charges or imposition of new charges is contemplated, users should be noticed, with at least two months in advance, provided with adequate financial information aimed at giving them the opportunity to submit their views, and the airport should give them reasonable advance notice of the final decision.

4.6 On the other hand, it should be also highlighted that the Airports Economics Manual contains recommendations on appropriate *financial management and accounting procedures* which should be adopted by States and requested to the airports privatized or not. In the mentioned document, the authorities can find a detailed description of important aspects such as organizational structures, financial control procedures and measures, determination of costs basis for charging purposes, charges establishing and their collection, development and management of non-aeronautical activities and financing of airport infrastructure.

4.7 Regarding the *Airport Financial Control* it is important to mention that its basic purpose is to ensure that all airport resources are being utilized and developed in an effective, timely and reliable manner. It involves the monitoring of airport operations in financial terms to ensure the magnitude of expenses and identify when and where they were incurred, the comparison of actual income and expenses with those planned, determination of causes of the significant differences found and corrective measures needed to, or can be taken. The Financial Management requires to use diverse instruments and practices such as budgeting, accounting, and banking and cash management, which require of appropriate links for their integration as a complete financial system. At this point, the importance of good internal and external auditing must be emphasized; co-operation between both of them is fundamental to achieve an appropriate financial control of the airport operations.

4.8 Taking into account that for a long time most airports have been operated by governmental entities and that their financial practices are oriented to the national accounting system which substantially differ from those used by profit making enterprises, airports should use *Accrual Accounting Systems* instead of those which use the cash accounting basis, since they best reflect the financial position of the entity concerned. Nevertheless the airport operators and managers should not assumed that an elaborate and highly sophisticated accounting system is allways the most desirable due to its management associated costs. A successful and efficient airport enterprise is likely to operate with a financial system based on budgetary control.

4.9 Following ICAO recommendations, the authorities should request the use of a *cost basis for charging purposes* to the airport operators. Where the accounts are very complete and cover all airport functions, they can serve that purpose well. However, it may not be advisable to rely only on airport accounts when determining the cost basis for charges, because while the costs of operation and maintenance, and administrative overheads, would remain unchanged, the situation may be different with regard to capital costs, so appropriate approaches should be used to reflect the real costs of the services. In this regard, the authorities should define the rules and procedures to be applied to airport operators when new or adjustments to charges are requested.

4.10 When revenues or profits expected are not achieved, usually, the first action considered is to increase the charges without a review of causes and an assessment of the airport management and operational efficiency. Full cost recovery may not always be feasible unless traffic volumes reach a sufficient high level to permit an efficient utilization of the airport facilities. Charges are likely to become prohibitively high affecting the airport traffic and revenues, and possibly the economy of the region where the airport is located. In this case, and in recognition of local, regional, or national benefits received from the airport, States should consider other kind of financial assistance, such as to subsidize the airport operations which deficit can not be covered by profits from non-aeronautical activities.

4.11 The *non-aeronautical activities* are one of the most important contributing sectors to the revenues and profitability of airports. This revenue is in fact the principal source by which a growing number of airports recover their total costs and cover the losses incurred in their air-side operations. However, inadequate terminal space management and lack of terminal space, as well as of financial resources can contribute to low levels of non-aeronautical activities development. On the other hand, in the development of non-aeronautical revenues it is important that no concession or other non-aeronautical activity could in any way compromise safety or security on airport land premises. Guidance material on how to develop non-aeronautical revenues at airports was issued in Appendices 13 and 15 of the ICAO Circular 142 and recommended management practices are included in Chapter 6 of the Airports Economics Manual.

4.12 Means of measuring performance and productivity (financial and performance indicators)

4.12.1 For airports to operate efficiently there is a need for them to be able to measure their performance. This enables management to analyze changes in performance over time and identify areas needing attention, to prepare realistic future plans and budgets and in setting specific target for individual management areas. In choosing parameters for measuring airport performance, emphasis should be placed on measures which indicate productivity changes, that is, measures that relate outputs to inputs. It should be highlighted that the performance measurement is aimed at assessing the performance of a specific airport and that the comparison of figures from measures of different airports should lead to dangerous misleading since the great disparities in operational, geographical, physical and economical characteristics existing among them.

4.12.2 The selection of financing sources and their composition in the airport financial structure as well as the preparation of appropriate studies and programs are the cornerstone of a successful financial management and determines the financing efficiency level. An adequate financial system will provide managers with a variety of *financial indicators* which use depends of the natures of decisions to be taken. Such is the case of the Strategic indicators which are required for policies with medium to long term effects, the Tactical Indicators that assist in decision making for the short and medium term, the Day-to-day Indicators that allow immediate and very short-term courses of action, and the Target Indicators which are agreed at national, state, or local government level, in the case of a public airport. The following are the most used indicators:

- Strategic indicators: Return on capital investment, Payback period, Self-financing ratio, Current assets/liabilities, Debt/Capital ratio, Debt/Current assets ratio, and Accounts receivable/Current assets ratio.
- Tactical indicators: Income and cost per passenger or work-load unit, Income and cost per unit or facility or throughput, Trading profit per passenger, Aeronautical and non-aeronautical income per passenger, Passengers and income per employee, Capital expenditure per passenger, Net assets per employee, Gross profit on sales, Rate of return on sales, Percentage of concessionary sales, Overtime hours/normal hours ratio.
- Day-to-day indicators: Cash, Revenue and Expenditure flows; Actual and budgeted revenues and expenditures; Outstanding debts; and Outstanding receivable accounts.
- Target indicators: Return on capital, Cost improvements, Productivity improvements, Level of service (equipment availability, complaints, and compliments), etc.

4.12.3 The above measures are not exhaustive and are not necessarily relevant to all airports.

4.12.4 Authorities should consider the establishment of a set of financial and performance indicators to be used by and requested to the airport operators, in order to facilitate the monitoring of the airport financial and operational performance. More specific guidance information on this matter is included in Section C of Chapter 3 of the Airports Economics Manual.

4.12.5 Aspects to be taken when performance measures are established:

- It is not essential to have a very sophisticated information systems in order to start performance measurement.
- If performance measurement is established as a useful management and monitoring tool, it must form part of an airport's plan.
- Debates on the shortcomings of the measures should be avoided clarifying that their imperfection is better than nothing.
- If the formal performance measurement system is adopted too rigidly, efficiency problems could arise because of the risk of managers devoting attention to measured targets at expense of other important un-measured items.

5. CONCLUSIONS

- In a privatized airport environment, States should establish a clear set of requirements to airport operators in order to assure the fulfillment of the international Standards and Recommended Practices of ICAO, guarantee that airports provide the information required to monitor their management, operations, economical and financial performance, and oversight that the contractual terms are being fulfilled in accordance with the national law and regulations.

- States and airport operators avail of diverse financial and management means, tools and procedures which are recommended by ICAO and allow the assessment and improvement of the performance airport operations in terms of financial and economical efficiency, and the application of corrective actions when needed.
- The monitoring of airports operational, economical and financial performance through efficiency indicators by States and airport operators benefits the airport users and shareholders, as well as the State that is the final recipient of the economical contribution of its airports.