



WORKING PAPER

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND
AIR NAVIGATION SERVICES**

Montréal, 15 to 20 September 2008

**Agenda Item 1: Issues involving interaction between States, providers and users
1.2: Economic performance and minimum reporting requirements**

**ECONOMIC PERFORMANCE AND MINIMUM REPORTING REQUIREMENTS
FOR AIRPORTS AND AIR NAVIGATION SERVICES PROVIDERS**

(Presented by the Secretariat)

SUMMARY

This paper discusses the importance of performance management and stresses the need for States to encourage their airports and air navigation services providers to develop performance management systems. The paper concludes that service providers should establish performance objectives related to, at least, four key performance areas (KPAs), i.e. safety, quality of service, productivity and cost-effectiveness, and to report relevant performance indicators for each KPA. An amendment of the text in *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) is proposed to better reflect the elements of a performance management process, including the four KPAs and consultation with users and other parties concerned.

Action by the Conference is in paragraph 5.

1. INTRODUCTION

1.1 Performance management is an important management tool for service providers, regulators and users. It is a subject that has already received much attention by ICAO. The Conference on the Economics of Airports and Air Navigation Services (ANSConf 2000) supported the application of performance management for both airports and air navigation services. The Eleventh Air Navigation Conference (AN-Conf/11, 2003) recommended that ICAO continue its work on economic performance of air traffic management and benchmarking, and assess the need for standardization of minimum reporting requirements. More recently, the topic of economic and management performance of air navigation services providers (ANSPs) was discussed at the Worldwide Symposium on Performance of the Air Navigation System (SPans 2007).

1.2 This paper focuses on economic and management performance of service providers (operational and technical performance aspects are addressed in other forums) and discusses what can be considered as minimum performance reporting requirements in the process of performance management. It also reviews current text of *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082).

2. DISCUSSION

2.1 The need for an appropriate performance management system is independent from the type of organization (government department, autonomous public sector organization, or private sector organization) that provides airport or air navigation services. This is because the performance of a service provider is more related to its governance and best practices than to its ownership and control structure (see WPs 7 and 12).

2.2 As service providers become more commercially-focused through privatization, commercialization or simply from adopting a more business-oriented management process, greater importance is placed on the improvement of performance. At the same time, increased cooperation within the aviation community may help to improve the performance of service providers through benchmarking. Therefore, States should ensure, within their economic oversight process, that performance management systems are properly implemented by their service providers.

2.3 A performance management process consists of several steps, i.e. defining performance objectives, selecting performance indicators and setting their targets, monitoring performance, and reporting and assessing performance. This is an iterative process through which the performance of a service provider is expected to improve over time.

2.4 A critical first step toward developing a successful performance management process is to define performance objectives through consultation with users and other parties concerned. Performance objectives should focus on a limited number of measurable key performance areas (KPA). If too many objectives are pursued, efforts will be spread too widely with the likely result that not all objectives will be achieved. Therefore, selecting a few key, high-level, realistic objectives is a good rule to follow.

2.5 For air navigation services, four KPAs were identified in the ICAO Secretariat's document "*Performance Management and Measurement for Air Navigation Services Providers*" presented at SPans 2007, i.e. safety, quality of service (such as capacity, delay and flight efficiency), productivity and cost-effectiveness. This document recommends that the objectives, targets and plans of ANSPs should be related, as a minimum, to continuously improving these four KPAs. At SPans 2007, there was a common understanding that minimum reporting requirements on economic and management performance of ANSPs should include these four KPAs for information disclosure. While the Symposium's theme was the performance of air navigation services, the discussion is also applicable to airports, given the commonalities, while at the same time noting that there are many differences, in the provision of airports and air navigation services.

2.6 In addition to the above four KPAs, States may choose additional areas according to their objectives and their particular circumstances. For air navigation services, such additional areas should relate to the eleven KPAs identified in the *ICAO Global Air Traffic Management Operational Concept* (Doc 9854), which are, in alphabetical order: access and equity, capacity, cost-effectiveness, efficiency, environment, flexibility, global interoperability, participation by the ATM community, predictability, safety and security). Again, some of these KPAs could be used for airport performance, as long as they are relevant to each airport's circumstances.

2.7 The degree to which performance objectives on selected KPAs are being and should be met is measured by using performance indicators. The number of indicators within each KPA should be limited so as to ease the burden on monitoring (collecting and processing statistical data), but should be relevant and sufficient to allow for a comprehensive review of a service provider's performance. Adopting too many indicators has the potential to overload both the service providers and regulators, whilst too few may not allow for an adequate assessment to be made of performance. In general, service providers should select and report at least one indicator for each of the four KPAs. It is understood that indicators for airports' performance may differ to those used for air navigation services.

2.8 Each performance indicator should have a unique target value that needs to be reached or exceeded to consider a performance objective as being fully achieved. The targets should focus on results rather than on the process to achieve those results. Consultation with users and other parties concerned is an integral part of setting performance targets. A plan to achieve the targets should also be created and implemented in cooperation with users and other interested parties.

2.9 Performance reporting should enable an effective dialogue between all interested parties by offering a measurable means by which to ascertain how a service provider is performing against its stated objectives and targets, and what improvement opportunities can be pursued. Performance reports could also be used as a means of benchmarking a service provider's performance against others. However, a straightforward comparison of different service providers' results may not give a true picture of their relative performance. This is due to a number of reasons, including the difference of reporting methods and economic conditions of States and service providers, as well as the levels of complexity and the composition and volume of air traffic handled by the service providers involved. At airports, there are also great differences in the organization and provision of services (for example out-sourcing of certain services).

2.10 With respect to air navigation services, in order to assist States and their ANSPs, it might be useful to establish an independent regional performance review process with the objective to develop performance targets at a regional level, and to produce regular reports on performance and benchmarking. This would require a commonly-agreed specific set of minimum reporting requirements and would have the merit of producing independent analyses for the various interested parties.

2.11 The major elements of a performance management process discussed above are not fully reflected in Doc 9082. Although paragraph 16 ("Development and application of performance parameters") of Doc 9082 states that providers should collect data on performance and recommends their use for specific purposes, there is no direct reference to the performance management process *per se*, nor to the minimum reporting requirements.

2.12 Considering that there is already a common understanding on the importance of performance management and KPAs, there is a need to update paragraph 16 of Doc 9082. In order to improve the visibility, the title of the paragraph should be changed to "Economic performance and minimum reporting requirements". Details given in the paragraph should include the essence of the process of performance management discussed above with emphasis on the selection of KPAs (the four critical ones as a minimum) and relevant performance indicators.

3. CONCLUSIONS

3.1 From the foregoing discussion, the following conclusions may be drawn:

- a) Since performance management is an important management tool for service providers, regulators and users, States should ensure, within their economic oversight function and through the consultation process, that appropriate performance management systems are developed and implemented by their service providers.
- b) States should encourage their service providers to establish performance objectives with the purpose, as a minimum, to continuously improve performance in four KPAs, i.e. safety, quality of service, productivity and cost-effectiveness, and to report at least one relevant performance indicator for each KPA. States may choose additional KPAs according to their objectives and their particular circumstances.

- c) ICAO should amend paragraph 16 of Doc 9082 to recommend the establishment of performance management systems by service providers, and to include the major elements of a performance management system with emphasis on the selection of KPAs and related indicators.

4. PROPOSED AMENDMENTS OF POLICIES

4.1 In accordance with conclusion c) of paragraph 3.1, it is proposed to replace paragraph 16 of Doc 9082 with the following text:

Economic performance and minimum reporting requirements

16. The Council recognizes that performance management is an important tool to improve the efficiency in the provision and operation of airports and air navigation services, and an essential element in the economic oversight process. The Council therefore recommends that States encourage their airports and providers of air navigation services to:

- i) Define performance objectives related to key performance areas that should include, as a minimum, safety, quality of service, productivity and cost-effectiveness;*
- ii) Select and report at least one relevant performance indicator and its target for each of the key performance areas selected;*
- iii) Use the results to evaluate and improve performance objectives; and*
- iv) Undertake consultations with users and other interested parties to achieve a mutual understanding and consensus, where appropriate, on performance objectives, level of performance targets and plans to achieve the targets.*

5. ACTION BY THE CONFERENCE

5.1 The Conference is invited to:

- a) review and adopt the conclusions in paragraph 3.1; and
- b) review and endorse the proposed amendments of Doc 9082 in paragraph 4.1.

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