

Airport Infrastructure Investment

- Best Practice Consultation

Introduction

As airports are only built to serve as aviation infrastructure enabling airlines to operate, airlines are the primary customers of airports and a major source of revenue for airport authorities and operators, ancillary industries and services.

A direct cost relatedness exists between airport charges and infrastructure investments that airlines fund, whether capital or operating expenditures. Airport infrastructure investments therefore need to be affordable, fit for purpose and deliver a return on investment for airlines.

Investments should only proceed where a clear Business Case exists, supported by a positive cost benefit analysis and the explicit agreement of airlines.

Meaningful and effective airline community consultation is essential to align airport – airline infrastructure objectives, secure airlines buy-in and maximize the benefits of infrastructure investments.

The alternative will result in disparate, uncoordinated strategies and investments that are incorrectly prioritized, mistimed, and neither functional nor cost effective. Inefficient or poorly planned airport development adversely affects traffic growth and the broader economic benefits the airport delivers.

Ultimately an airport's goal should be to enable the success of airlines to ensure the economic benefits for all parties are maximized.

Objectives and Benefits

Best practice airport-airline community consultation should achieve the following objectives:

- A phased, prioritised and flexible capital investment plan agreed and endorsed by airlines, resulting in clearly defined airline benefits and affordable airport charges.
- Cost efficient infrastructure investment that is demand led, fit for purpose and delivers best value for airlines.
- Investment plans that are compatible with the airport's Master Plan taking account of longer term developments.

- A transparent consultation process that values airline inputs, works towards consensus and results in informed decision making.
- Equitable treatment, non-discrimination and open access resulting from airline community consultation and adoption of ICAO mandated principles.

The benefits of best practice airline community consultation are clear:

- Business cases that clearly demonstrate a return on investment for airlines. Project investments should only proceed that result in operating cost reductions and efficiencies with the airline community's agreement i.e. a reduction in operating cost per passenger.
- Airport development plans phased to balance capacity with demand to avoid over or under investment and supply.
- Infrastructure that meets the airlines' functional airport passenger and operational requirements.
- Improvements in passenger experience and airport service quality taking account of alternative innovative solutions and technology.
- The support and buy-in of airline customers.
- Airport investments that are independently benchmarked and demonstrate assurance and value for money to airlines.
- Resilient investment plans phased to minimize operational disruption during construction.
- Open access to facilities and services at an agreed minimum service standard and lowest possible cost.
- Infrastructure designed to be flexible and adaptable, safeguarded for modular expansion and able to accommodate changes in functionality over time.
- A quality check with airline subject experts that investments deliver the intended outcomes taking account of industry best practices.

Scope of Investments

The scope of infrastructure consultation is broad ranging and should include the following elements:

- Airport Master planning
- Airside infrastructure i.e. runways, taxiways, aprons, stands and gates.
- Passenger terminal i.e. departure forecourt, check-in or baggage drop hall, passenger security, emigration and immigration, airside departures lounge, retail concessions piers,

stands, gates, jet bridges, arrivals hall, baggage handling systems, wayfinding.

- Surface access within the airport boundary i.e. roads, car parks, rail, sea.
- Cargo terminal developments.
- Airport support elements.
- Asset replacement.

Best Practice Consultation and Governance

User consultation is essential from an early stage in the infrastructure development process before irreversible decisions are made:

- Identify the common airlines-airport business drivers that form the basis of the investment plan.
- Agree an affordable capex threshold for investments considering airport user charges.
- Establish an airport-airlines consultation Governance structure that ensures timely and well informed decisions with airline inputs.
- Capture airline functional requirements and agree planning inputs and assumptions.
- Analyse the positive and negative effects on Airports operating expenses.

A jointly agreed airport-airline community Governance structure is required that ensures a structured and planned approach to consultation. This should also include:

- Meaningful discussions between subject matter experts experienced in airport infrastructure planning and commercial areas, and empowered to take decisions.
- Clear objectives, decision making and alignment between steering groups and working groups.
- Terms of Reference (ToR) for each working group including objectives, scope, accountabilities, frequency, attendees, and dependencies with other work streams.
- Sufficient time for consultation dialogue typically between 6-12 months before business plans approvals.
- Meeting schedules agreed in advance to ensure airline subject experts are able to attend and a structured approach is implemented.

A Consultation “protocol” or “charter” setting out the behaviours required for effective consultation:

- Work towards airport-airline community consensus decision making.
- Transparency is a critical aspect of any commercial agreement between airport providers and airline customers.
- Commitment from airport and airlines to provide the necessary resources to participate in a regular, structured dialogue.
- A “Constructive Engagement” based on mutual respect, collaboration, openness and trust between business partners.

Infrastructure Planning Process

Airport infrastructure development is iterative and requires a regular, ongoing dialogue with the airline community. “One-off” or irregular meetings updating the airline community on pre-determined outcomes does not constitute consultation.

IATA recommends capital investment programs should cover the short (0 – 5 years) to medium (5 – 10 years) terms and be reviewed annually.

Consultation with the airline community is required at key decision points by engaging the airline community in a timely manner at the relevant stages of the planning process.

Consideration should be given to identify break points in Programmes and Projects should demand not materialise as anticipated.

Programme Level Consultation

Programme management is recommended to provide an overview of project investment activities and to align airport and airline objectives in order to:

- Prioritize projects depending on airlines willingness to fund investments considering airport charges.
- Provide an overview of constructability and project phasing to minimise operational disruption.
- Identify key milestones supporting informed airport-airline community decisions.
- Ensure projects align to business plan objectives.
- Address major changes or resolve any escalated issues.
- Monitor and track the performance of multiple projects to support successful delivery.
- Manage project risks across multiple projects.

Programme and project assurance is important to assess the reasonableness of all key decisions made on selected projects. Independent third party checks to assess at key stages in the development process is recommended.

Project Business Cases should be developed in parallel with the key design and development stages to analyse costs, benefits and ensure the intended project outcomes are on track.

Setting criteria to determine which projects are targeted for airline community consultation is recommended:

- Capital threshold above a certain monetary value threshold.
- Project scope and/or complexity.
- Project timeframes.
- Airlines impact.
- Strategic impact.

Project Level Consultation

Best practice requires airports to consult with the airline community at key stages common to most projects. Noting different project processes and terminologies exist this typically includes:

- *Initiate/Concept stage* – agree investment objectives and identify project options.

- *Options selection* stage– identifies design solutions and how project benefits will be delivered.
 - Estimated 50% cost and design certainty.
- *Scheme Design stage* – development: of the preferred option:
 - Estimated 85% cost and design certainty.
 - Fixing project costs and programme is recommended.
- *Implementation and Delivery phase* – construction and engineering works focusing on implementation and delivering the agreed benefits and outcomes:
 - Operational Readiness and Airport Transfer (ORAT) is a critical project element to involve Users in.

“Gateway” events for each of the key project stages consulted upon with airlines are required as a prerequisite to progressing to the next stage of feasibility:

- A review of technical solutions and the Business Case.
- Airline queries or issues should be fully resolved before moving to the next stage.
- A formal sign-off based on airline community consensus.

Business Case Consultation

The purpose of a project Business Case is to clearly set-out all relevant information as to why the project is required, what benefits will be achieved for airlines typically funding the investments, and alternatives available to airlines. A detailed cost-benefit analysis is required to clearly demonstrate the monetary return on investment for airline stakeholders.

Typical elements of the Business Case are:

- Project justification or need i.e. capacity development projects should be clearly linked to passenger growth or defined Levels of Service outcomes agreed with the airline community.
- Link to strategic objectives and the master plan.
- Expected benefits and outcomes.
- Capital costs associated with constructing the infrastructure.
- Operating costs for airlines and airports. Capital investments should result in efficiencies and lower operating costs.
- Depreciation – the rate at which assets reduce in value and its cost is re-allocated over its useful life in-line with industry norms.
- Project dependencies.
- The impact on aeronautical and non-aeronautical charges.
- Assurance that existing assets are being used as efficiently as possible.

Efficient Airport Investments

Capital investments should aim to deliver cost efficient outcomes by optimizing a project’s scope, specifications, time, costs and risks supported by a well-managed, structured development process.

Investments should take into account what is being constructed, how it is being constructed, and when facilities are required, in addition to capital cost benchmarks. The airline community should be closely involved in agreeing the optimum balance between elements that have a material impact on costs and the efficiency of the solution:

- Scope – ensure the functional requirements of airlines are captured and business case benefits are delivered.
- Specifications – airlines require functional airport facilities that deliver their required levels of service at the lowest possible cost. Over-specifying terminal finishes is to be avoided.
- Timeframes – efficient project delivery focused on the beneficial use of assets for airlines taking account of construction phasing to minimise airline and operational disruption.
- Procurement and contracting strategy – selecting the appropriate tendering and contracting strategy to maximise the efficiency of projects and purchasing power of airports.
- Capital costs – benchmarked and independently checked by a third party to ensure estimates are in-line with the market.
- A rebate mechanism should be introduced if assets are not delivered to the defined timeframes or projects delayed.

Common Issues

Airline and airport subject expert feedback highlights some issues to be aware of:

- Avoid done deals and “lip-service” consultation.
- Recognize airlines affordability and airport charges as a fundamental criteria.
- Avoid over specifying and “gold-plating” investments – consult with Users.
- Operational disruption – plan to minimise disruption during build.
- Project priorities – balance operational requirements with airport commercial revenues.
- Alternate options to optimise the use of existing infrastructure and “do-nothing” scenarios.

Supporting Documents

This paper provides a framework for other papers and related to airport infrastructure development:

- IATA Airport Consultative Committee (ACC) - Terms of Reference.
- IATA Airport Service Level Agreements – Best Practice.
- IATA Levels of Service (LoS) – Best Practice.

Additional relevant papers and guidance materials supporting best practices are:

- ICAO Doc. 9082 – 9th Edition, paragraph 21.
- EC Airport Charges Directive 2009/12/EC.
- IATA Airport Charges - Transparency position paper.
- IATA Airline Engagement in Consultations position paper.
- IATA Airport Development Reference Manual (ADRM) – best practice airport planning manual.