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The context of airport governance in Australia: a national case study comparison

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Abstract[1]

The aviation industry is rapidly changing and evolving to meet the demands of consumers and business. The evolution of this context is impacting airports globally, and the way in which airports respond is increasingly through the adoption of alternative governance models to more effectively manage and operate the airport infrastructure. Airports operate within complex, multifaceted contexts subject to the needs of a wide variety of stakeholders and internal and external factors. As a result, airport operators cannot 'copy and paste' a governance framework for their airport, given how contextually bound they are. Airport operators can however, learn from case study examples of governance and enact the most appropriate model, with the most suitable legislative overlay to ensure the effective operation of their airport. This paper presents the airport governance environment of Australian airports, highlighting the dichotomy of major airports with the smaller regional airports. Strengths and weaknesses of each model are discussed.

1. Introduction

Aviation is one of the fastest growing industries in the world and passenger transport is the major driver of growth at airports globally. In 2015, 3.6 billion passengers were transported by air (IATA, 2016). In addition to passenger transport, approximately 51.1 million tonnes of cargo are transported through airports (in 2015) (IATA, 2016).

Airports are hubs of economic activity, not all of which is necessary or related to air transport. Airports employ a considerable number of people, which emphasises their strategic and necessary role within communities, cities, and regions. The context of airport planning is evolving, and the role of airports as economic hubs, rather than transport providers, reflects this (Freestone, 2011).

To address and respond to the challenges which arise in an evolving context, a range of governance structures are employed airports globally. Varying governance models offer airport owners and operators with changeable levels of control, profitability, flexibility, and investment return. Each model offers a different role for private investors and local, state, and federal governments. The objective of this paper is to provide an overview and review of the governance arrangements in place across a contemporary airport context in Australia and to ascertain whether there is a 'best practice' model available to airport operators. To achieve this objective, the paper presents a summary of the global airport governance context, outlining the models and approaches commonly adopted. The proceeding focus of this paper is on the airport governance models adopted in an Australian context, supported by case studies across the country. An empirical analysis follows these, highlighting the strengths and weaknesses of each.

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2. Global airport governance

Globally, airports and airport governance has evolved in parallel with a broader shift of globalisation. In the 1980s and 1990s, airline deregulation and the liberalisation of financial markets allowed for more foreign investment (Cidell, 2006). Deregulation became common place in OECD countries as a result of stagflation in the 1970s and with strategies mostly focused on financial services, transportation, and communications (Oman, 1996). National governments began deregulating and liberalising their airport assets in the period of globalisation in the 1980s and 1990s. The first major airport privatisation process to occur globally occurred in April 1987 in the UK with the privatisation of the British Airports Authority (BAA) which at the time owned seven airports and collectively held over 65% of the passenger traffic in the UK (Ison et al., 2011).

This paper is focuses on the Australian context of airport governance which reflects varied models of governance, depending on the size and context of the airport. The following section outlines the Australian airport governance context in more detail.

2.1. Australian airport governance context

The aviation and airport planning and regulatory environment in Australia has evolved rapidly since Australia became a Commonwealth nation in 1901. The Federal Airports Corporation (FAC) was established in 1987 and commenced operations in early 1988 (Kiel, 1991). The FAC was a business enterprise of the Australian Government that was responsible for the operation of major passenger airports in Australia at the time. The FAC took over 22 airports and the responsibility and obligations made by the Commonwealth government on these (Kiel, 1991).

In 1995, the Commonwealth government announced the decision to privatise the 22 airports the FAC was operating as a result of the 1994-95 budget (Australian National Audit Office, 1999). Operators were to have 50-year leases with the option of a 49-year extension. Legislation was introduced to regulate the privatised airport following the 1996 election and subsequently the Airports Act 1996 ("the Airports Act") came into effect on 9 October 1996 (Kiel, 1991).

The purpose of the Airports Act was to regulate the airports after privatisation (Kiel, 1991). The privatisation process began in 1997. Phase 2 of the airport privatisation process occurred in 1998 and Sydney was privatised in 2002 (Australian National Audit Office, 1999; Kiel, 1991).

During the time of this privatisation, smaller regional airports in Australia were mostly transferred to local government, and some to the state government, to own and manage. The AAA argue that the respective local government authorities often find it difficult to supplement the funding shortfall that exists at many regional airports due to limited budgets and the variety of other infrastructure and community services that compete for the funding (AAA, 2016).

There is an evident dichotomy between governance and planning of Australia's major airports and the smaller regional, rural, and remote airports. In response to growing challenges, particularly regarding funding infrastructure upgrades, some smaller airport operators (typically local governments) have been investigating various models of ownership and management structures which might improve this context. The following section provides an overview of the existing and potential governance models for airports in Australia and outlines some key strengths and weaknesses of each.

3. Airport governance models

There are several airport governance models which are either adopted in Australia, or are identified in this paper as potential models for airport governance. The following subsections outline those found to be prominent in practice: long-term leasing; corporatisation;

BOOT/BOT/BOO/PPP arrangements; freehold; and amalgamation. Case studies for each model are provided, in addition to an overview of their strengths and weaknesses.

3.1. Lease to private sector investor or operator

The long-term lease model is that which was outlined earlier as adopted nationally for the largest airports and several GA airports. In this process, the government's sales objectives were to optimise sales proceeds, minimise the Commonwealth's exposure to residual risks and liabilities; ensure the lessees have necessary financial strength and managerial capabilities; ensure majority Australian ownership and control of the privatised airports; and ensure fair and equitable treatment of transferred employees.

3.1.1. Summary of model

There are a number of advantages and disadvantages of the long-term lease model, for both the lessee and the lessor. The advantages of leasehold arrangements for the government organisation (lessor) include: the annuity stream from the ongoing lease payment; capital and operating expenditure is the responsibility of the lessee; quality of service standards can be established for the lessee. From a lessor perspective, a wide range of business development initiatives can be resourced from the lessee.

3.2. Corporatisation

The process of corporatisation (in this context) results in a transformation of council-owned airports to a corporate footing. Corporatised entities are separate legal entities with their own board of directors. Several Australian regional airports have investigated the potential for their airport to be corporatised however the Gladstone Regional Council is one of the few local governments authorities that have completed the corporatisation of their airport.

3.2.1. Summary of model

Corporatisation must satisfy a public benefits test in the first instance. The benefits of corporatisation include the ability to achieve a greater commercial focus at the airport through revenue diversification and improved cost control by the organisation; more transparency of the organisation's performance achieved by a more explicit recognition of organisation costs and standalone reporting; a singular focus by airport board and management on the airport; the retention of the ownership with the council, or not "selling the farm", and, subject to the particular jurisdiction, corporatised entities may be able to borrow in their own right, resulting in a broader funding capacity for the airport.

3.3. BOOT/BOT/BOO/PPP Arrangements

In these arrangements, a private entity (or consortium) is granted a concession by the airport owner to finance, design, construct, and operate specified airport infrastructure, in exchange for the rights to operate and earn a suitable return on the investment for the concession period. These models include build, own, operate, transfer (BOOT); build, operate, and transfer (BOT); built, own, operate (BOO); and public private partnerships (PPP). At the conclusion of the concession period, the relevant assets are transferred back to the grantor of the concession if there were a transfer mechanism (BOOT/BOT arrangements).

3.3.1. Summary of model

The key consideration for the Government agency is to ensure the contractual documentation is tight, to ensure an appropriate transfer of risk to the private operator and the concessionaire has the capacity to fund the initial investment, upgrades from time to time and can effectively manage the project to scope and cost. Moreover, there will usually be some form of service standards specified on the concessionaire to ensure service quality is maintained. This will typically require some form of oversight by either the providing government agency, or another independent government agency.

3.4. Freehold

The key differences between the leasehold and freehold sale models is under the freehold model the vendor has no oversight of the airport once it has been sold other than through any specific legislative right. Further, they have no the residual interest in the airport. A limited number of Australian regional airports have been sold on a freehold basis.

3.4.1. Summary of model

The freehold sale model effectively transfers all the risks and benefits of ownership to the buyer. In some instances, overseas, the government has retained a residual equity interest (sometimes referred to as a 'Golden Share' in consideration of national interests). The disadvantages of lack of oversight and residual control extend into operational and long-term development and commitment, particularly in the longer term.

3.5. Amalgamation of airports under a single entity

Some airport owing local government authorities own and operate more than one aerodrome. This has been by default, rather than by design and in these circumstances typically does not provide the benefits that a planned amalgamation would deliver outlined below. Privately, the amalgamation of airports into a single entity has occurred to a varying extent in Australia and was initiated by the Commonwealth's privatisation process. Generally, it involved the offer of a significant capital city airport with a smaller airport. In the Northern Territory, there were three airports bundled together, with one being a loss-making airport.

3.5.1. Summary of model

Properly constructed, the benefits of this model include access to a central pool of qualified staff, trained in aviation matters, with economies of scale achieved by not having to duplicate these resources across multiple locations; central and consistent points of contact between airports, regulators and other key stakeholders; centralised and lower cost access to aviation specific knowledge; a more balanced relationship with key airport partners (airlines, regulators); diluting the patronage and concentration risk; and access to a broader range of funding solutions.

4. Conclusion[2]

Airports operate in considerably different contexts between cities, regions, and countries around the world. A common anecdote amongst airport managers is "if you have seen one airport – you have seen one airport". Cultural and institutional environments, city size, political context, ownership structure, passenger movements, and the main function of an airport are all important factors on how an airport operates. The governance of airports can be either a result of these factors, or the driver of them, and can change over time.

As outlined in the above analysis and case study representations, the suitability of the governance model for each airport is contextually bound. The success of one model over another correlate to a number of factors, including the number of passenger movements through the airport annually, and the passenger profile (for example tourism, resource sector, business, or visiting friends or relatives). The attraction for private investors is dependent on a number of local and regional factors, including broader economic contexts, local and regional business drivers, and other potential infrastructure or investment opportunities in the region. The effectiveness of a governance model is largely reflective of the legislative overlay in which it operates. The success and failure of airport governance can often be linked to the legislative environment established at the time of the model adoption.

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Airport operators and owners are required to adapt to a fast-paced, ever-changing environment. Adoption and enactment of an appropriate governance model has the capacity to build a successful business, which can still meet the needs of its community effectively and integrate within the region.

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