



# **REGULATORY REPORT**

**SYDNEY AIRPORT**

**1998/99**

**December 1999**

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# **1 Introduction**

The Australian Competition and Consumer Commission (the Commission) has primary responsibility for implementing and administering the economic regulatory measures applying to ‘core regulated’ airports. ‘Core regulated’ airports include the Phase I airports sold in May 1996, the Phase II airports sold in May/June 1997, and Sydney Kingsford Smith Airport (Sydney Airport).

The regulatory regime for ‘core regulated’ airports comprises measures under the *Trade Practices Act 1974* (TPA), the *Prices Surveillance Act 1983* (PS Act) and the *Airports Act 1996* (Airports Act). It includes access arrangements, and a price cap on aeronautical services for the privatised Phase I and II airports. The framework also includes a range of measures designed to complement the price cap and increase the transparency of certain aspects of the airport business.

In order to meet the transparency requirements under the framework, the Commission reports annually on airport accounts, quality of service, price cap compliance and prices monitoring at the ‘core regulated’ airports. It should be noted that Sydney Airport is not yet privatised and, as such, is not subject to a CPI-X price cap.

## **The report**

This report relates to Sydney Airport and is divided into three sections. The first section addresses quality of service at Sydney Airport and provides a summary of results. The second section provides information on Sydney Airport’s financial accounts, and the third section addresses the formal monitoring requirements under section 27A of the PS Act.

It should be noted that this report is for information only and does not provide recommendations in relation to the matters covered.

## **Sydney Airport**

Sydney Airport is a Commonwealth Government owned airport that is operated by Sydney Airports Corporation Limited (SACL). Sydney Airport is subject to similar regulatory arrangements to the privatised ‘core regulated’ airports, including prices monitoring arrangements (Direction 16) and accounts reporting (Part 7 of the Airports Act). Sydney Airport is not, however, subject to a price cap on aeronautical services or section 192 of the Airports Act.

This is the first regulatory report for Sydney Airport. It provides details on quality of service, accounts reporting and prices monitoring at Sydney Airport for the 1998/99 financial year. The Commission would like to acknowledge the cooperation received from SACL in providing data and responding to queries that assisted in the preparation of this report.



## **2 Quality of service monitoring**

This section deals with quality of service monitoring. It begins by providing an overview of the Commission's role in quality of service monitoring at Sydney Airport. Following this is a summary of the 1998/99 quality monitoring results for Sydney Airport.

### **2.1 The Commission's role and approach to quality of service monitoring**

#### **Regulations**

The Commission is required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act.<sup>1</sup> Under the Regulations to the Airports Act, airport operators are required to provide information to the Commission on a range of indicators. These indicators cover various aspects of an airport's service quality performance and are detailed in Appendix 1.

Generally, quality of service monitoring is aimed towards:

- providing transparency about airport performance;
- discouraging airport operators from providing unsatisfactory standards for services which are associated with market power; and
- assisting the Commission to assess an airport operator's conduct as part of the review of prices oversight arrangements.

While, during the reporting period, the Regulations did not require SACL to provide information on the relevant performance indicators, it agreed to provide the Commission with information for the 1998/99 financial year.

#### **Commission's approach**

In reporting on the quality of service at Sydney Airport, the Commission focused on the standard and availability of facilities and services provided by, or which could be influenced by the airport operator. These facilities and services included airside facilities such as runways, taxiways and aprons; terminal facilities, such as international departure lounges and baggage claim; car parking; and taxi and bus pick up and drop off points. It should be noted that domestic terminals owned and/or operated by airlines were not included as part of the quality monitoring report.

In constructing this quality monitoring report the Commission sought information from a number of different sources, including:

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<sup>1</sup> For a detailed description see *Quality of service Monitoring Post Leasing*, ACCC February 1997. This publication is available on the Commission's web site at [www.accc.gov.au](http://www.accc.gov.au)

- passengers of the airport, through passenger perception surveys conducted by the airport operators;
- airlines, through surveys of airlines conducted by the Commission;
- airport operators, as required under the regulations; and
- Australian Customs Service (ACS) and Airservices Australia.

### ***Passenger perception surveys***

Passenger perception surveys were used as a source of information in assessing the quality of various services and facilities at Sydney Airport. SACL in conjunction with a market research firm (Marketshare Pty Ltd) designed the passenger perception survey and administered it over a two-week period.

The areas covered by the passenger perception survey included passenger check-in, security clearance, government inspection, lounges, washrooms, baggage collection, signage, car parking, and vehicle access for passenger pick-up and drop-off.

Respondents were asked to rate quality aspects such as reasonableness of waiting times; clarity of information provided, such as airport signage; space provided for kerbside access; the comfort of gate lounges; and the cleanliness of washrooms. See Appendix 2 for results of the passenger perception survey.

### ***Airline surveys***

In order to gain information on the quality of airside facilities and terminal facilities, the Commission conducted a survey of the airlines that used Sydney Airport. Seventeen surveys were received from the following airlines: Aerolineas Argentinas, Air Caledonie, Air Vanuatu, Ansett Australia, British Airways, Cathay Pacific, Egyptair, Gulf Air, Japan Airlines, KLM Royal Dutch Airlines, Lauda Air, Olympic Airways S.A., Polynesian Airlines, Qantas, Singapore Airlines, South African Airways, and United Airlines.

As part of the survey, airlines were requested to rate the availability and standard of particular facilities and services on a five-point scale ranging from 'very poor' to 'excellent'. Under the availability category, the Commission sought information from airlines regarding the availability of infrastructure and equipment and the occurrence of delays in gaining access to it. Under the standard category, the Commission sought information on the ability of equipment to perform the function intended, and the reliability of the equipment. See Appendix 3 for results of the airline survey.

### ***Airport Operators***

SACL was required to provide the Commission with information on the 'static indicators' at the airport for the 1998/99 period. These indicators included the number of passengers, the number of aerobridges, and the size of aprons. Details of the 'static indicators' for Sydney Airport are provided in Appendix 4.

### ***Australian Customs Service and Airservices Australia***

The Commission conducted a survey of ACS to assess certain quality aspects of Sydney Airport. ACS was asked to rate the quality of immigration facilities, baggage processing facilities, and SACL's consultation procedures. Results from this survey are incorporated in the 'quality of service results' section below.

Airservices Australia provided the Commission with information regarding busiest half-hours and information on delays for a select day at Sydney Airport. Airservices Australia, however, could not provide the Commission with data relating to aircraft delays for extended periods over the 1998/99 financial year.

### ***Issues***

In assessing the quality of service at Sydney Airport, there were a variety of factors outside the immediate control of SACL, which may have influenced the quality of service results. The first of these was the staffing of check-in services by airlines, and similarly staffing of immigration services by Customs, which may have affected the quality results obtained for related services. Secondly, airlines, Airservices Australia and other service providers might have contributed to quality outcomes at Sydney Airport.

Thirdly, during the 1998/99 period, Sydney Airport was undergoing major restructuring and building works in the lead up to the Olympics. Such restructuring had the capacity to cause short-term disruptions to airline operations and the general day to day running of the airport.

In addition, SACL has argued that it is subject to unique influences, which may have affected the quality of service results obtained over the period. SACL stated;

It should be emphasised that Sydney is the originating and terminating airport for most overseas destinations. As a result of overseas curfews, Sydney's geographical location, Sydney Airport's curfew, the movements cap and airline commercial arrangements, we have an extreme peak in traffic between 0600 and 1000 hours for arrivals and 0700 and 1100 for departures, resulting in nearly half of all international arrivals and departures occurring during these periods. As a result, Sydney International Terminal check-in availability and other operational facilities suffer from unusually high demand for 3-4 hours during the morning and lower demand for the rest of the day.

It should be noted when viewing results that it takes time to implement changes and to make improvements in quality monitoring areas. For example, there may be a lag between an increase in passenger and flight numbers and an increase in the capacity of terminal infrastructure. Given that investment in terminal infrastructure is 'lumpy', there may be increased crowding in the lead up to new investment which could reflect adversely in the results of some quality of service indicators. The Commission also recognises that there is a cost quality trade-off and that improvements in quality may not be made where the costs do not justify the expected benefits.

## **2.2 Quality of service results 1998/99**

The assessment of overall quality of service at Sydney Airport is made having regard to the passenger perception survey, the airline survey, a survey of ACS and the additional comments and data provided by SACL and Airservices Australia. A summary of the results of the passenger perception survey and airline survey can be found in Appendices 2 and 3 respectively.

Overall results suggest that airport users and passengers were satisfied with most aspects of the facilities and services provided at Sydney Airport. However, results from the airline survey indicated that airlines were somewhat dissatisfied with a number of facilities/services at Sydney Airport. Airlines appeared to be dissatisfied with the standard and availability of aerobridges and freight facilities.

### ***Runways, aprons and taxiways***

The quality of runways, aprons and taxiways at Sydney Airport were assessed using the results obtained from airline surveys and data provided by Airservices Australia.

Overall, the standard and availability of runways, was rated from 'satisfactory' to 'good' by airlines. Few negative comments were received regarding this facility.

Aprons were mostly rated from 'satisfactory' to 'good' in terms of both availability and standard. However, 4-5 airlines surveyed rated the facilities as 'very poor' to 'poor'. Comments received from airlines indicated that redevelopment of facilities at Sydney Airport was impacting on the quality and standard of aprons.

Taxiways were rated from 'satisfactory' to 'good' by most airlines. One airline rated the standard and availability of taxiways as 'excellent', while one airline rated taxiways as 'very poor'. Three airlines rated taxiways as 'poor'. Comments received from two airlines indicated that redevelopment of facilities at Sydney Airport was causing congestion.

Airservices Australia provided the Commission with data that showed that the number of movements for Sydney Airport in each of the 30 busiest half-hours over the 98/99 period was 38 (annual average). Aircraft movements in each of the 60 busiest half-hours was 36 (annual average).

In response to this SACL stated that:

During the reporting period, Sydney Airport was undergoing large-scale construction with both the Taxiway Enhancement Program and the Sydney Airport Enhancement Program (called the SA2000 project). The taxiway project involved the construction of 10 additional taxiway elements to facilitate better runway utilisation in support of the Government's noise sharing policy and to provide better access to Sydney International Terminal. This program is now 80% complete with the remaining two elements due for completion by March 2000.

Part of the SA2000 project involved constructing additional apron space and aircraft parking positions at the Sydney International Terminal. Once these works are completed in May 2000, there will be an additional 10 aircraft parking positions and associated apron facilities. Additionally, apron markings and adjacent airside roads and signs will be upgraded in line with international standards for apron markings and NSW RTA standards for roads and signage.



On completion of the construction works, the quality, standard and availability of aprons should improve and taxiway congestion ease.

### ***Gates***

The quality of gates at Sydney Airport was assessed using results obtained from the airline surveys.

Gates were rated from 'very poor' to 'good' by airlines. Nine airlines surveyed rated the availability of gates as 'poor', two airlines rated the availability of gates as 'very poor', and five airlines rated the availability of gates from 'satisfactory' to 'good'. The standard of gates was rated similarly.

Comments received from airlines expressed the view that redevelopment was impacting on the standard and availability of gates, with ten of the seventeen airlines surveyed commenting on this aspect. Most comments related to the limited availability of gates and the increased costs and delays to airlines resulting from the redevelopment.

In response to airline comments, SACL stated that the number of aircraft parking gates at the Sydney International Terminal provided during the reporting period was maintained and in some cases increased. During the period of terminal redevelopment some gates had been changed from aerobridged or contact gates to stand-off gates requiring an apron transfer bus service. Gate availability was maintained to meet airline demands and the standard of gate allocation has improved throughout the reporting period.

SACL also commented that rubbish and equipment left behind at the aircraft parking gates was the responsibility of airlines and airline ground handling agents and SACL had a comprehensive program of cleaning and gate maintenance to ensure that this issue was minimised

### ***Ground service equipment storage sites***

The quality of ground service equipment storage sites at Sydney Airport was assessed using airline surveys.

Ground service equipment storage sites was mostly rated from 'very poor' to 'poor' by the eleven airlines that used this facility. Eight of the eleven airlines that responded rated the availability and standard of ground service equipment storage sites as 'very poor' to 'poor'. Three airlines rated the facilities as 'good'. Five comments from airlines expressed the view that airlines were concerned with the amount of space or lack of storage sites available for use.

In response to airline comments regarding this facility, SACL stated that it was possible that the standard and availability of Ground Service Equipment (GSE) sites were affected by the SA2000 project construction, and several temporary sites were in use pending finalisation of the construction. SACL commented that additional space had been provided under the SA2000 project, although SACL was not satisfied that this would be sufficient for the expected demand over the next few years.

SACL stated that it had identified several subsidiary areas for use in storing GSE and baggage containers and was in the process of developing these areas. SACL commented that three areas had already been brought into service and two additional areas, including a multi-level container racking facility, would be available before the end of the financial year.

SACL also stated that it was implementing a system to manage and allocate space more effectively. This system will be fully implemented by the end of the enhancement project in May 2000.

### ***Freight equipment storage sites***

The quality of freight equipment storage sites at Sydney Airport was assessed through airline surveys.

Freight facilities were rated from 'very poor' to 'good' by airlines. Four comments received from airlines expressed the view that existing areas were congested and that there were insufficient areas made available to aircraft.

In response to airline comments, SACL stated that regarding concerns with congestion, it should be noted that Sydney Airport's Northern Lands precinct is being developed to accommodate several new and/or expanded freight handling terminals and freight related GSE equipment and container storage sites.

SACL also stated that in relation to areas for freight aircraft, there were no plans at this time, to develop additional dedicated space for freight aircraft parking. However, SACL was in the process of developing incentive schemes to provide better utilisation of bays in the off peak for freighters.

### ***Aerobridges***

The quality of aerobridges at Sydney Airport was assessed through airline surveys and information provided by SACL.

Sydney Airport had eight aerobridges available to service international aircraft at 30 June 1999 with almost 81% of embarking passengers using an aerobridge over the 1998/99 financial year. About 76.2% of disembarking passengers used an aerobridge over the same period.

Thirteen airlines rated the availability of aerobridges as 'very poor' to 'poor', with the remaining four airlines rating them as either 'satisfactory' or 'good'. The standard of aerobridges was most rated from 'poor' to 'good'.

Comments received from airlines outlined three main concerns. The first of these concerns related to the limited availability of aerobridges. Eight airlines suggested the number of aerobridges available was insufficient. The second main concern regarded the availability of aerobridges for B737 aircraft. Three airlines commented on the need for more gates and aerobridges to service B737 aircraft. Another comment received indicated that Sydney Airport would have more aerobridges in mid December, which would be an improvement. The final group of concerns focused on the cleanliness of aerobridges and gates.

In response to airline comments, SACL stated that the number of aerobridges available at the Sydney International Terminal during the reporting period varied due to the terminal redevelopment program. SACL stated that key aerobridges were maintained to support high frequency airline operations, and premium passenger movements while other aerobridges were removed and replaced with a successful apron bussing service. Aerobridge availability will increase from December 1999 to reach a maximum of 28 in March 2000. Aerobridged bays are utilised at present wherever possible and have high utilisation during peak traffic periods.

SACL also commented that at the completion of the SA2000 project four aerobridges will be capable of conducting B737 operations.

This number was based on airline-provided aircraft mix data during the design period of the SA2000 project. Since that date, airlines have advised an increased 737 frequency and SACL is currently looking at options to increase the number of B737-capable aerobridges. Because of the limited space available on the aprons at Sydney Airport, and the requirement to retain a 1 in 14 gradient on all aerobridges during operations, it will be difficult to provide a high number of B737-capable aerobridges. In any event SACL anticipates that aircraft size will increase, with more B767 and B747 aircraft in use, responding to changes in market demand.

### ***Check-in facilities***

The quality of check-in facilities at Sydney Airport was assessed through airline surveys, passenger perception surveys and information provided by SACL.

Sydney Airport had 130 check-in desks, with 108 of those managed by SACL and 22 managed by Qantas.

Airlines mostly rated check-in facilities at Sydney Airport as 'satisfactory' to 'good'. Three airlines rated the availability and standard of check-in facilities as 'very poor' to 'poor' and two airlines rated them as 'excellent'. Seven comments received from airlines suggested that there was some congestion at check-in during peak periods.

Passengers surveyed were 'somewhat satisfied' to 'very satisfied' with the check in waiting time at Sydney Airport.

In response to airline comments, SACL stated that the check-in areas at SIT will be significantly enhanced as part of the SA2000 project, with 66 additional check-in desks being added to bring the total to 192. In addition, enhanced queuing areas and improved lines-of-sight will allow better passenger management and wayfinding.

With regard to congestion at check-in, SACL stated that "congestion at the check-in areas is usually created by delays in processing by airline check-in agents and is not the result of design or layout of airport facilities."

### ***Government inspection***

The quality of government inspection at Sydney Airport was assessed using passenger perception surveys, a survey of ACS and information provided by SACL.

Sydney Airport had 62 inbound immigration desks and 54 outbound immigration desks at 30 June 1999.

Passengers surveyed were 'very satisfied' with the Government inspection waiting times for both outbound and inbound services.

ACS rated the adequacy of areas provided for circulation and queuing at immigration (arrivals) as 'good'. ACS also rated signage, lighting, desks and passenger facilities for immigration (arrivals) at Sydney Airport as 'good'. The quality of immigration facilities for departing passengers was rated similarly.

### ***Security***

The quality of security at Sydney Airport was assessed using passenger perception surveys and information provided by SACL.

Sydney Airport had seven security clearance systems at 30 June 1999.

Passengers were 'very satisfied' with the quality of passenger screening at Sydney Airport.

### ***Gate lounges***

The quality of gate lounges was assessed using passenger perception surveys and information provided by SACL.

At 30 June 1999, there were 2167 seats provided in gate lounges at Sydney Airport.

Passengers surveyed were 'somewhat satisfied' to 'very satisfied' with the comfort, cleanliness and availability of seating in the gate lounges. Passengers were also 'somewhat satisfied' with the size of gate lounge areas.

### ***Baggage processing facilities and trolleys***

The quality of baggage processing facilities and trolleys at Sydney Airport was assessed through airline surveys, passenger perception surveys, a survey of ACS and information provided by SACL.

At 30 June 1999, Sydney Airport had a baggage system with a capacity of 4940 bags per hour for outbound baggage, and 7350 bags per hour for inbound baggage.

Airlines rated the baggage handling system at Sydney Airport as 'very poor' to 'good'. Nine out of the seventeen airlines surveyed rated the availability of baggage processing facilities as 'satisfactory', five airlines rated it as 'good' and four rated it as 'very poor' or 'poor'. The standard of baggage processing facilities was rated similarly. Eight comments received from airlines expressed the view that the baggage system was unreliable and prone to breakdowns. Some airlines suggested that this was due to the baggage system being a combination of 'new' and 'old' technology. Airlines also commented that the breakdowns resulted in delays and substantial costs.

Passengers surveyed indicated that they were 'somewhat satisfied' with the baggage circulation space at Sydney Airport. The baggage reclaim facility rated a little better, with passengers indicating they were 'somewhat satisfied' to 'very satisfied' with the waiting time and information displays at baggage reclaim. With regard to trolleys at Sydney Airport, passengers appeared to be 'very satisfied' with this service/facility.

ACS rated the adequacy of space, signage, position, access, security and passenger inspection facilities at Sydney Airport as 'good'. Comments received indicated that baggage inspection benches in Pier C Baggage Hall were two short of estimated requirements for Quarantine and Customs inspections. ACS, however, commented that it was working with SACL to develop a redesign proposal to undertake the necessary works. ACS also commented that construction to double capacity in Pier C should overcome short-term periods of congestion.

In response to airline comments, SACL stated that "the baggage handling system at SIT was a highly complex and sophisticated cargo handling device with a very high level of reliability. Current service levels exceed 98% over all periods of operation and in the majority of cases the baggage handling system worked without fault or breakdown. During the reporting period, there were a number of baggage failures related to Y2K preparations and general system upgrades, however these have been short-lived and have been managed through appropriate continuity plans".

SACL also stated that "one of the common problems with the baggage system was that information transmission standards are not robust enough to ensure the reliable delivery of sorting messages from airlines to SACL's baggage handling system. When such messages fail to be delivered disruptions can occur".

At the completion of the SA2000 project, SACL stated that the baggage handling system should become significantly more stable with the addition of new software systems and improved handling facilities for airline ground handling agents. There will also be additional circulation space around baggage reclaim carousels which should significantly improve passenger comfort levels.

### ***Flight information displays***

The quality of flight information displays at Sydney Airport was assessed using passenger perception surveys.

Passengers surveyed were 'somewhat satisfied' to 'very satisfied' with the clarity and convenience of the flight information displays at Sydney Airport.

### ***Washrooms***

The quality of washrooms at Sydney Airport was assessed using passenger perception surveys.

Passengers were 'somewhat satisfied' to 'very satisfied' with the standard of the washrooms at Sydney Airport.

### ***Car parking and kerbside access***

The quality of car parking and kerbside access at Sydney Airport was assessed using passenger perception surveys and information provided by SACL.

Sydney Airport had 1364 international and 1320 long-term car parking spaces at 30 June 1999.

Passengers using the international car parking facilities at Sydney Airport were 'somewhat satisfied' with the standard and availability of car parking. Passengers were

‘very satisfied’ with the time taken to get into the international car park at Sydney Airport.

SACL surveyed the time taken to exit car parks at Sydney Airport.

The customer perception survey results on waiting time at the International Terminal Car Park exit were:

- 28% extremely satisfied
- 38% very satisfied
- 17% somewhat satisfied
- 12% neither satisfied nor dissatisfied
- 4% somewhat dissatisfied
- 1% extremely dissatisfied

This finding was based on a sample of 144 customers who exited the car park.

Kerbside access at Sydney Airport was, however, surveyed. Kerbside access is required to allow passengers to be dropped off and picked up by taxis, busses and other vehicles. Passengers surveyed were ‘very satisfied’ to ‘extremely satisfied’ with the waiting time for taxis. Passengers were also ‘very satisfied’ with the space provided for taxis. The standard of access facilities at the international car park however, was rated somewhat lower, with passengers being ‘neither satisfied nor dissatisfied’ with the facility.

### ***Consultation with airlines***

The quality of SACL’s consultation procedures was assessed through airline surveys and a survey of ACS.

Airlines rated SACL’s responsiveness to their concerns from ‘very poor’ to ‘good’. Six airlines rated SACL’s consultation procedures as ‘good’, four rated them as ‘satisfactory’, six rated them as ‘poor’, and one airline rated them as ‘very poor’. Seven comments received expressed the view that airlines were concerned that SACL did not address their queries or difficulties in a timely or coordinated manner.

ACS rated SACL’s responsiveness to concerns as ‘excellent’.

In response to airline comments, SACL stated that during the reporting period it operated a comprehensive consultation process with all airlines and stakeholders on Sydney Airport. SACL stated that this included existing consultation forums and new forums created by SACL to allow a higher level of consultation with airline customers. These included:

- the Airport Facilitation Committee
- the Airport Security Committee
- the Airline Consultative Committee
- the Flight Information Display Users group
- the SA2000 commissioning team
- SA2000 operations meetings
- SA2000 construction project delivery meetings.

SACL stated that it also routinely attended the Airline Operator's Committee to brief airline customers on current activities and to receive and respond to airline concerns about terminal operations.

SACL also commented that it had established a comprehensive regime of customer management including dedicated client managers for key customers. On the operational level, a team of Customer Relations Co-ordinators monitor daily airline operations and provide immediate assistance for technical or operational problems. Maintenance and facilities management issues are dealt with through dedicated help lines and response teams who are able to provide immediate assistance for technical failures.





### **3. Regulatory accounts reporting**

This section reports on Sydney Airport's financial accounts. It begins by outlining the financial reporting requirements under the Airports Act, and is followed by a summary of figures from the Sydney Airport financial accounts for the 1998/99 period.

#### **3.1 The Commission's approach**

Part 7 of the Airports Act requires SACL to provide the Commission with annual financial accounts for Sydney Airport within 90 days after 30 June for any given year. The accounts required include a Profit and Loss Statement, a Balance Sheet, and a Statement of Cash Flows. In addition to this, other supporting information, such as statements on accounting policies and cost disaggregations between aeronautical and non-aeronautical costs are required.

All information provided to the Commission must be audited. To authenticate this, a director's responsibility statement must be signed by at least two directors, stating that the regulatory accounting statements and supporting schedules are presented 'fairly' and in accordance with the guidelines, the Airports Act, and the regulations made pursuant to that Act.

SACL lodged its audited regulatory accounts with the Commission in the required 90 days following the end of the financial year. The Commission concluded that SACL had prepared its accounts in accordance with the guidelines.

#### **3.2 Sydney Airports Corporation Limited, regulatory accounts 1998/99**

SACL reported on a period of activity from 1 July 1998 to 30 June 1999. Over the entire airport, a profit after interest and tax of \$48 million was reported.

As at 30 June 1999, SACL controlled total assets valued at \$2,924.4 million. Property, Plant and Equipment represented most of this total at \$2,573.3 million. During the financial year SACL brought to account a significant increase in the value of land. This was done through a revaluation of \$1,087.8 million, giving a closing figure of \$1,658.3 million (net of amortisation).

SACL's independent auditors attested to the appropriateness of its systems and records which enabled it to comply with the requirement to separate accounting information between aeronautical and non-aeronautical activities. SACL employed an activity based costing model for this purpose and described it as follows:

The current ABC model was originally adopted in 1993 and has been used continuously since then to provide cost disaggregation across the major areas of activity undertaken by the Airport. Historically, output from the model has been used as a basis for consultation with the aviation industry and also to inform the ACCC about the underlying costs associated with the services that Sydney Airport provided to its passengers.

A major advantage associated with SACL's use of ABC principles is that its ABC model relies on a three stage process to allocate expenses, initially to activities (over 140) and ultimately to

aeronautical and Non-Aeronautical services. The allocation process treats all expense line items and therefore ensures that each expense can be allocated to any number of activities based on how that particular expense benefits the activity it supports. On this basis there is no grouping or allocation of like expenses using one best fit rule. Every expense has its own unique allocation and in total well over 2500 split rules are used to allocate expenses to activities and services. In all instances, expenses are allocated as directly as possible to services. However, expenses which are of an indirect nature are always allocated based on how the associated activities and services benefit from the consumption of resources underlying the expense.<sup>2</sup>

Some of the more prominent account items and ‘drivers’ were as follows.

- Depreciation was traced to each asset;
- Australian Protective Services were allocated on a landed tonne basis;
- Other expenses were allocated by: square metres for functions within the terminal;  
staff functions; or  
resource usage for each activity.

A summary of the regulatory accounts is attached at Appendix 5.

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<sup>2</sup> SACL, ‘Regulatory Accounting Statements for the Financial Year Ended 30 June 1999’

## **4. Monitoring of aeronautically related services.**

This section covers the Commission's role in the monitoring of aeronautically related services that are outside the price cap arrangements. This section begins with an outline of the Commission's approach to monitoring and is followed by a report on the activities of Sydney Airport for the 1998/99 financial year.

The Commission also reported on the operational statistics of Sydney Airport. Details of these statistics can be found in Appendix 6.

### **4.1 The Commission's monitoring role**

In May 1998, the Treasurer directed that aeronautically related services be the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covers the costs, revenues and profits of an airport. The rationale for monitoring is that airport operators may exert significant market power in relation to the monitored services at individual airports. As such, the Government considered that these services should be monitored for misuse of any market power the airport operator may have in setting prices.

Aeronautically related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking. A full list of aeronautically related services is given in the Treasurer's Direction no. 16, available on the Commission's web site. For a more complete outline of the Commission's monitoring role, see the publication titled "Economic Regulation of Airports".

Under section 27B of the PS Act, the Commission is required to report annually to the Treasurer on its formal price monitoring activities. The Commission is also required to make its reports publicly available.

In exercising its role in this area, the Commission may investigate particular pricing issues where users have raised concerns and it appears that the airport operator may have taken advantage of its market power.

### **4.2 Price monitoring –Sydney Airport, 1998/99**

SACL provided data to the Commission for the year ending 30 June 1999. The data is summarised in tables 1 and 2 below, and includes revenues and costs for services related to:

- aircraft refuelling;
- aircraft maintenance sites and buildings;
- freight equipment storage sites;
- freight facility sites and buildings;
- ground support equipment sites;
- check-in counters and related facilities; and
- public and staff car parks.

**Table 1: Monitored services: aero-related costs for the period ended 30 June 1999**

Revenue	Aero-Related services Total (1)
<b>AERO-RELATED SERVICES</b>	<b>\$'000</b>
Refuelling services	978
Aircraft maintenance sites & buildings	9,208
Freight equipment storage sites	83
Cargo facility sites & buildings	2,221
Ground support equipment sites	-
Check-in counters and related facilities (2)	2,034
Public car parking and staff parking	12,894
<b>TOTAL AERO-RELATED COSTS</b>	<b>27,418</b>

Notes:

1. Costs exclude amortisation of intangibles and interest.
2. At terminals operated by airport-operator companies.
3. For information on cost allocation see the accounts reporting section 3.2.

**Table 2: Monitored services: aero-related revenue for the period ended 30 June 1999**

Description	Basis of Charge(s)	Revenue \$'000
<b>AERO-RELATED SERVICES</b>		
Refuelling services	\$ per square metre	1,057
Aircraft maintenance sites & buildings	\$ per square metre	9,077
Freight equipment storage sites	\$ per square metre	143
Cargo facility sites & buildings	\$ per square metre	1,515
Check-in counters and related facilities (2)	\$ per hour	4,126
Service desks	\$ per hour	376
Public car parking <sup>3</sup>	Various	37,407
Staff car parking	Various	1,730
<b>TOTAL AERO-RELATED REVENUE</b>		<b>55,431</b>

It is important to note that the costs do not include borrowing costs or interest expense. Interest costs were significant, amounting to \$43.6 million for the airport. The Commission asked that interest costs be excluded because their allocation to services would have involved a degree of subjectivity. However, the Commission acknowledges that an allocation that recognises a cost of capital would be appropriate in any detailed analysis.

At this stage the Commission has not drawn conclusions regarding the pricing and provision of monitored services at Sydney Airport.

<sup>3</sup> Car Parking Rates: First 30 minutes \$5, 31-60 mins \$8, 1 – 2 hours \$12, 2 – 3 hours \$14, 3 – 4 hours \$17, 4 – 5 hours \$22, 5 – 24 hours \$27. Long stay car park: first 2 days \$25 per day, everyday thereafter \$10 per day.

## Appendix 1: Outline of quality of service indicators

The regulations to the Airports Act specify performance indicators to be used in quality of service monitoring. These cover a range of services and infrastructure for which the airport operator has some, or complete influence over. An outline of the indicators and the source of data for each is given in Table 3 below.

While, during the reporting period, the Regulations did not require SACL to provide information on the relevant performance indicators, it agreed to provide the Commission with information for the 1998/99 financial year.

**Table 3: Quality of service indicators**

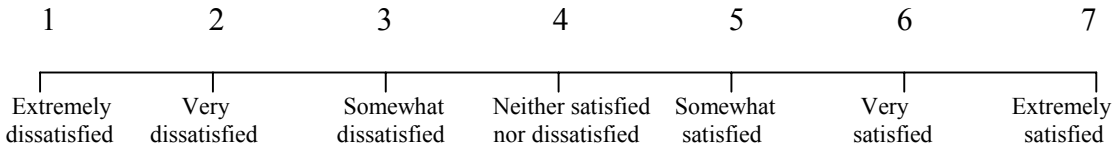
Service / Infrastructure	Type of indicator	Source of data
Runways, apron , taxiway system	<ul style="list-style-type: none"> <li>Average aircraft movements in 30/60 busiest half hours per month.</li> <li>Various delay indicators.</li> <li>Airlines and Airservices Australia questionnaire regarding adequacy of facilities.</li> </ul>	Airservices Australia; Airservices Australia;  Survey of airlines
Gates	<ul style="list-style-type: none"> <li>Number of aircraft parking bays.</li> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Airport operator;  Survey of airlines
Ground service equipment	<ul style="list-style-type: none"> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Survey of airlines
Freight facilities	<ul style="list-style-type: none"> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Survey of airlines
Aerobridges	<ul style="list-style-type: none"> <li>Number of aerobridges.</li> <li>Number and percentage of passengers using aerobridges for boarding and disembarkation.</li> <li>Satisfaction with the standard and availability of facilities.</li> </ul>	Airport operator  Airports operator  Survey of airlines
Check-in	<ul style="list-style-type: none"> <li>Number of desks.</li> <li>Number of hours when more than 80 per cent of check-in desks are open.</li> <li>Satisfaction with the standard and availability of facilities.</li> <li>Satisfaction with waiting time.</li> </ul>	Airport operator  Survey of airlines  Passenger perception survey
Government inspection	<ul style="list-style-type: none"> <li>Number of desks.</li> </ul>	
Security	<ul style="list-style-type: none"> <li>Number of clearance systems</li> <li>Satisfaction with the system.</li> </ul>	Airport operator  Passenger perception survey

<b>Service/ Infrastructure</b>	<b>Type of Indicator</b>	<b>Source</b>
Gate lounges	<ul style="list-style-type: none"><li>• Number of seats in gate lounges.</li><li>• Satisfaction regarding quality and availability of seating and crowding.</li></ul>	Airport operator;  Passenger perception survey
Baggage trolleys	<ul style="list-style-type: none"><li>• Passenger satisfaction with findability of trolleys.</li></ul>	Passenger perception survey
Flight information display and signs	<ul style="list-style-type: none"><li>• Passenger satisfaction with the system.</li></ul>	Passenger perception survey
Washrooms	<ul style="list-style-type: none"><li>• Passenger satisfaction with the standard of facilities.</li></ul>	Passenger perception survey
Car parking	<ul style="list-style-type: none"><li>• Number of car parking spaces.</li><li>• Throughput of the car park.</li><li>• Passenger satisfaction with standard of facilities and availability of spaces and time taken to get into car park.</li></ul>	Airport operator;  Airport operator;  Passenger perception survey
Kerbside access	<ul style="list-style-type: none"><li>• Passenger satisfaction with space and waiting time for taxis.</li></ul>	Passenger perception survey

## Appendix 2: Passenger perception survey results

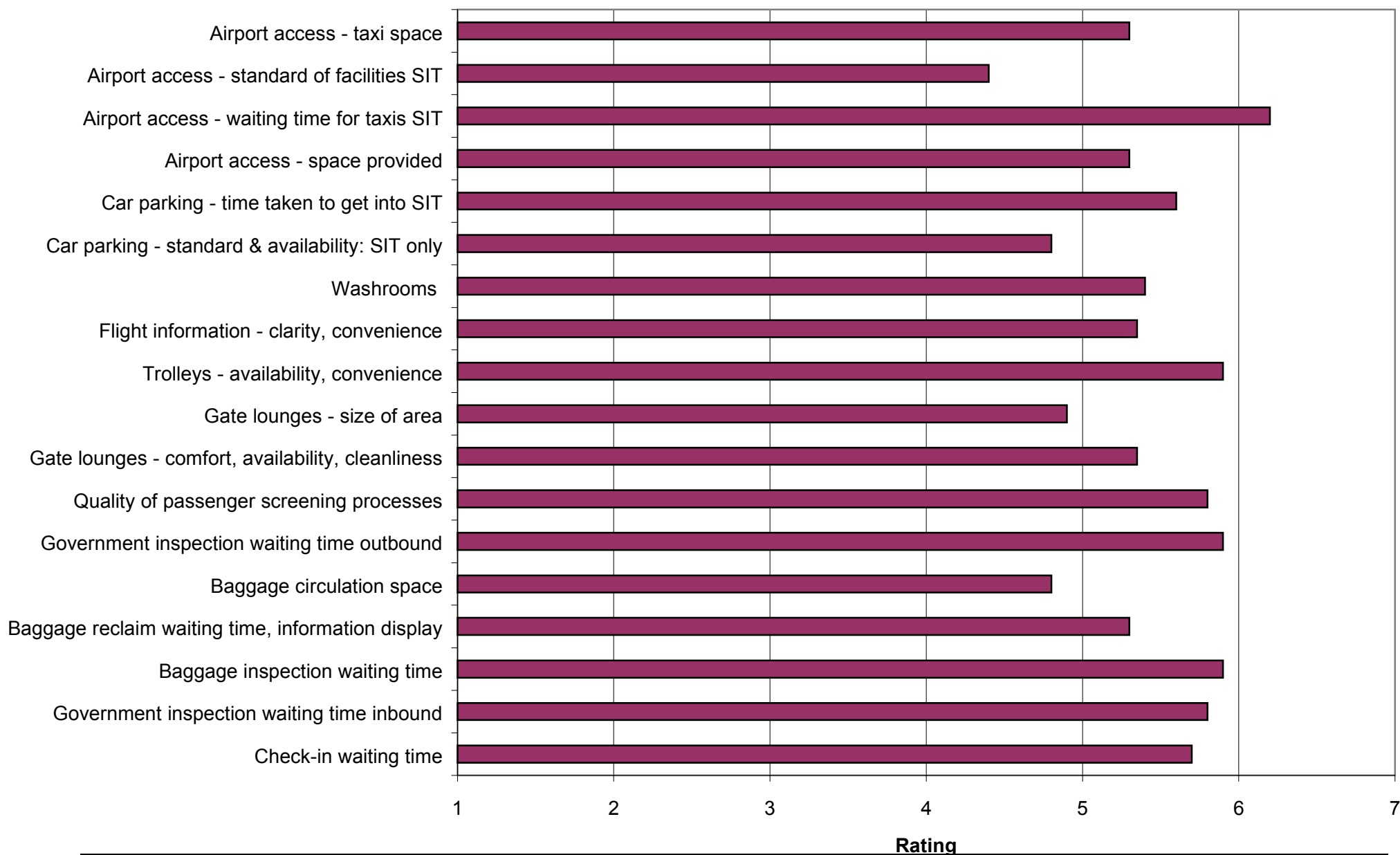
SACL commissioned an independent, registered market research company, Marketshare Pty Ltd, to conduct the passenger perception survey at Sydney Airport. The survey was conducted over a two-week period from 10 to 23 June 1999. Interviewing took place between 6.00am and 6.00pm each day at Sydney Airport's International and Domestic Terminals.

Passengers were asked to rate their level of satisfaction on a seven-point scale:



The survey covered check-in, government inspection, security, gate lounges, baggage handling and collection, information display, washrooms, and car parking. As can be seen from the graph on the following page, the results of the passenger perception survey indicate that most services achieved a rating of 5 or above, which indicates that passengers were 'somewhat satisfied' with the quality of services/facilities at Sydney Airport.

## Passenger survey results 1998/99





## Appendix 3: Airline survey results

The Commission received surveys from seventeen airlines that used Sydney Airport over the 1998/99 year. These airlines were: Aerolineas Argentinas, Air Caledonie, Air Vanuatu, Ansett Australia, British Airways, Cathay Pacific, Egyptair, Gulf Air, Japan Airlines, KLM Royal Dutch Airlines, Lauda Air, Olympic Airways S.A., Polynesian Airlines, Qantas, Singapore Airlines, South African Airways, and United Airlines.

Ratings were given with regard to both the availability and standard of facilities. Under availability, the Commission sought from airlines an assessment of the absence of delays in being able to use infrastructure and equipment. Under standard, the Commission sought an assessment of the capability of equipment to perform the functions intended and its reliability.

**Table 4: Responses from airline survey**

Facility	Aspect	Very Poor	Poor	Satisfactory	Good	Excellent
Runways	Availability		1	8	7	1
	Standard			6	9	2
Aprons	Availability	1	3	6	7	
	Standard	2	3	3	9	
Taxiways	Availability	1	3	6	6	1
	Standard		1	5	9	2
Gates	Availability	2	9	3	2	
	Standard	2	7	3	4	
Aerobridges	Availability	5	8	2	2	
	Standard	2	5	6	4	
Ground service equipment storage	Availability	5	3		3	
	Standard	4	4		3	
Freight equipment storage sites	Availability	3	3		3	
	Standard	2	4		3	
Check in facilities	Availability	1	2	5	7	2
	Standard	1	2	4	8	2
Baggage processing facilities	Availability	1	3	9	5	
	Standard	2	3	8	4	
Addressing airline concerns		1	6	4	6	



## Appendix 4: Static indicators provided by SACL.

Airport operators are required to report on the 'static indicators' of an airport for each year. The 'static indicators' as they relate to Sydney Airport are given in Table 5 below, and will be used in future years monitoring reports to assess changes in quality of service.

**Table 5: Static indicators as provided by SACL**

<b>Indicator</b>	<b>At 30 June 1999</b>
Number of (international) aircraft parking bays at 30 June 1998	24
Number of aerobridges at 30 June 1998	8
Percentage of passengers (embarking) using an aerobridge	80.8%
Percentage of passengers (disembarking) using an aerobridge	76.2%
Number of check-in desks – managed by SACL	108
- managed by Qantas Airways	22
Number of baggage inspection desks	35
Number of inbound immigration desks	62
Number of outbound immigration desks	54
Number of security clearance systems	7
Number of seats in gate lounges	2167
Capacity of outbound baggage handling equipment (bags per hour)	4940
Capacity of inbound baggage reclaim system (bags per hour)	7350
Number of car park spaces – International	1364
- Domestic	3140
- Long Term Car Park	1320
Throughput of the car park – International	1,685,585
- Domestic	1,152,527
- Long Term	59,564



## Appendix 5: Sydney Airports Corporation Limited accounts summary

### Profit and loss account for the period ended 30 June 1999<sup>4</sup>

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Revenue</b>			
Aeronautical revenue	113,704	113,704	
Non-Aeronautical revenue	180,514		180,514
Interest and dividend revenue	3,241		
<b>Total Revenue</b>	<b>297,459</b>	<b>113,704</b>	<b>180,514</b>
<b>Expenditure</b>			
Salaries and wages	32,927	25,490	7,437
Depreciation	56,935	35,934	21,001
Services and utilities	21,919	10,278	11,641
Property Maintenance	16,436	12,611	3,825
Australian Protective Service costs	6,383	6,383	0
Other costs	25,904	14,224	11,680
<b>Total Expenditure</b>	<b>160,504</b>	<b>104,920</b>	<b>55,584</b>
<b>Operating Profit/(Loss)</b>	<b>136,955</b>	<b>8,784</b>	<b>124,930</b>
Abnormal items	-	-	-
<b>Earnings Before borrowing costs and Tax</b>	<b>136,955</b>	<b>8,784</b>	<b>124,930</b>
Borrowing Costs	43,630		
<b>Operating profit before tax</b>	<b>93,325</b>		
Tax charge	45,353		
<b>Operating profit after tax</b>	<b>47,972</b>		
Dividends paid	29,038		
<b>Retained Earnings</b>	<b>18,934</b>		

\* Note: costs do not include amortisation of intangible assets or borrowing costs.

<sup>4</sup> The Commission did not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

**Balance sheet for the period ended 30 June 1999**

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>			
Cash	1,987		
Receivables	68,815	8,286	7,629
Inventories	-		
Accrued revenue	-		
Prepayments	4,089		
<b>Total current assets</b>	<b>74,891</b>		
<b>NON-CURRENT ASSETS</b>			
Receivables	10,000		
Investments	3,398		
Property, plant & equipment	2,573,272	1,174,452	1,398,820
Work in progress	249,042		
Other	13,790		
<b>Total non-current assets</b>	<b>2,849,502</b>		
<b>TOTAL ASSETS</b>	<b>2,924,393</b>		
<b>CURRENT LIABILITIES</b>			
Accounts payable	52,846		
Borrowings	49,000		
Provisions	66,173	4,354	1,306
<b>Total current liabilities</b>	<b>168,019</b>		
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	850,000		
Provisions	5,651	745	223
<b>Total non-current liabilities</b>	<b>855,651</b>		
<b>TOTAL LIABILITIES</b>	<b>1,023,670</b>		
<b>NET ASSETS/(LIABILITIES)</b>	<b>1,900,723</b>		
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	794,000		
Reserves	1,087,789	274,340	813,449
Retained profits	18,934		
<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>1,900,723</b>		
Accumulated profit/loss at the start of the year	-		
<b>Movements:</b>			
Profit/loss for the year	<b>18,934</b>		
Accumulated profit/loss at the end of the year	<b>18,934</b>		

## **Sydney Airports Corporation limited regulatory accounts**

### ***Significant Accounting Policies***

This special purpose financial report has been prepared in accordance with the requirements of the Regulatory Information Requirements under Part 7 of the Airports Act 1996 and Sections 21 and 27A of the Prices Surveillance Act 1983 – Guideline Version No. 2 – September 1998, for Sydney Airport.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

Sydney Airports Corporation Limited (SACL) was incorporated on 28 May 1998 and commenced operations on 1 July 1998. This 13-month period represents the first financial year of the company.

### **Revenue recognition**

Revenue is recognised on an accruals basis.

Aeronautical revenue is recognised as the invoiced amount of landing fees and international terminal charges which are based on the maximum take off weight of an aircraft. It also comprises aircraft parking fees and charges for the recovery of Counter Terrorist First Response costs.

Also recognised as Aeronautical revenue in this financial year are: check-in counter revenue; domestic terminal infrastructure charges; and parking infringement notices, being reimbursement of costs for administering parking infringements on behalf of the Commonwealth Government.

### **Income Tax**

Tax effect accounting principles are observed by SACL whereby income tax expense for the period is matched with the pre-tax result adjusted for permanent differences. The account "Provision for deferred income tax" records the income tax effect of items which will cause taxable income to be higher than book profits in the future. "Future income tax benefits" records the income tax effect of items which cause taxable income to be lower than book profits in the future.

### **Cash**

For the purposes of the Statement of Cash Flows, cash includes on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

### **Receivables**

Trade receivables are recorded at amounts due less any provision for doubtful debts. Credit sales are on 30-day terms.

### **Investments**

Investments are valued at the lower cost and net realisable value. Dividend income is taken into profits once the receipt of revenue is controlled.

### **Property, plant and equipment**

#### *Cost and Valuation*

The cost of non-current assets constructed by SACL includes all direct costs incurred. These costs include materials, labour, borrowing costs, and other directly related expenditure.

Items of property, plant and equipment comprising a class of non-current assets are revalued at the same date on a consistent basis. Revaluations will be conducted at least each three years. Where assets have

been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

#### *Depreciation and amortisation*

Property, plant and equipment assets are depreciated on a straight line basis at various rates dependent upon the average useful life for that asset type. Where assets have been revalued, depreciation is charged on the adjusted amount. Leasehold improvements are amortised over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives of each class of asset are:

Leasehold land	term of the lease
Leasehold buildings	5-60 years
Runways, taxiways and aprons	2-99 years
Other infrastructure	9-40 years
Operational plant and equipment	14-20 years
Other plant and equipment	1-20 years

#### *Assets acquired*

Assets acquired are recorded at the cost of the acquisition, being the purchase consideration plus costs incidental to the acquisition.

#### *Recoverable amount*

Where the carrying value of non-current assets exceeds their recoverable amount, the assets are written down to their recoverable amount. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market-determined risk-adjusted discount rate.

#### *Maintenance*

Major periodic maintenance expenditure on runways, taxiways and aprons is capitalised and written off over the period between major repairs. This recognises that major maintenance will increase the value of the asset and apportion the cost over the period of related benefit. Other maintenance costs are expensed as incurred.

#### *Borrowing costs*

Establishment costs are amortised on a straight-line basis over the term of the applicable borrowings.

Borrowing costs comprise interest and the amortisation of costs incurred in establishing borrowing costs.

Where borrowings are specifically incurred in relation to qualifying assets, the actual borrowing costs are capitalised to those assets. Where borrowings are not specifically incurred in relation to qualifying assets the capitalisation rate is determined as the proportion of the total borrowing costs which relate to the capital development. Borrowing costs are capitalised up to the date when the asset is substantially complete and ready for use and are subsequently amortised over the useful life of the asset.

#### *Employee entitlements*

In respect of SACL's defined benefits superannuation plans, any contributions made to the superannuation funds by the company are charged against profits when due.

Provision is made for employee benefits and related on costs accumulated as a result of employees rendering services up to balance date. The benefits include wages and salaries, incentives, annual leave, and long service leave. Provisions made in respect of employee entitlements expected to be settled within 12 months are measured at their nominal values and those not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows.



***Dividends payable***

Dividends payable are recorded when proposed.

***Derivative financial instruments***

Derivative financial instruments, predominantly interest rate swaps and forward foreign exchange contracts, are transacted to manage financial risk. Speculative trading is specifically prohibited by policy.

Interest income and expense incurred under interest rate swap contracts is recognised in the profit and loss statement on the same basis as the interest on the underlying financial liabilities. The carrying amounts of interest rate swaps, being a net interest receivable or payable, are accrued and included in the assets or liabilities respectively.

Gains and losses on other derivative instruments are accounted for on the same basis as the underlying exposures that are being hedged. Accordingly, these gains and losses are brought to account when the gains and losses arising on the underlying exposures are recognised in the profit and loss statement.



## Appendix 6: Sydney Airport operational statistics

### Operational statistics for the period ended 30 June 1999

Description	Number
<b>PASSENGERS</b>	
Domestic passengers	14,162,607
International passengers (excluding transit)	7,407,506
International transit passengers	577,686
Domestic on-carriage	306,069
<b>TOTAL PASSENGERS</b>	<b>22,453,868</b>
 <b>AIRCRAFT MOVEMENTS</b>	
Regular Public Transport aircraft movements	254,323
General Aviation aircraft movements	26,978
<b>TOTAL AIRCRAFT MOVEMENTS</b>	<b>281,301</b>
 <b>TOTAL TONNES LANDED</b>	<b>12,466</b>
 <b>AVERAGE STAFF EQUIVALENTS</b>	
- Aeronautical services	338
- Non-aeronautical services	89
<b>TOTAL AVERAGE STAFF EQUIVALENTS</b>	<b>427</b>
 <b>AREA (HECTARES)</b>	
- Aeronautical services	718.6
- Non-aeronautical services	167.9
<b>TOTAL AREA (HECTARES)</b>	<b>886.5</b>

Source: Sydney Airports Corporation Limited, "Quality of service monitoring – report on 1998-1999 financial year", prepared for the ACCC, 31 July 1999