Chapter 8 Conclusion and Recommendations

Conclusion

PPP projects are designed to bring in private capital, enhance efficiency and ensure professional management. One of the goals of a PPP arrangement is to effectively allocate risks among the contracting parties. Examination in audit indicated that risks had not been appropriately transferred to the concessionaire in the development of CSI Airport, Mumbai. Though the project cost more than doubled from ₹5,826 crore to ₹12,380 crore (restricted to ₹11,647.46 crore for the period upto March 2014 by AERA), the concessionaire did not appear to have faced financial vulnerability for the same as the funding gap was being largely absorbed by the passengers through levy of Development Fee (DF), though such levy was not in OMDA. Further, the project has been delayed by four years (from 2010 to 2014) with tardy progress noticed in mandatory capital projects as well as other projects. This delay, however, did not affect the concessionaire adversely as MIAL had not been penalised on this account and MOCA/AAI instead, approved extensions and agreed to reschedule the projects across different phases. As a result of the delay in project implementation, the terminal building is expected to be fully ready operationally, only by the time the airport would have reached its design capacity.

The agreement provides for a shared till system which, coupled with the treatment of significant revenue generating activities like ground and cargo handling as 'non-aeronautical', would lead to higher airport charges payable by the passengers as compared to other airports in the country (except Delhi).

Rights of commercial exploitation of 179.8 acres of land were provided to the concessionaire in the agreement. However, owing to poor maintenance of land records by AAI, the commercially exploitable land potentially increased to 190.1 acres. It may not be prudent to overlook the earning potential of even the minimum of 133 acres as allowed by the local authority. Benefit from the earning potential would accrue to MIAL as revenue out of 'non-transfer' asset. Though the same would not be considered for determination of airport charges in terms of SSA, the same would be a revenue enhancing activity having the potential for reduction of burden in the form of various levies on passengers. *MOCA/AAI need to carefully work out the economics of commercial exploitation of land.*

Besides, the provision of automatic extension of the contract period to 60 years with terms and conditions frozen in OMDA and the right of first refusal for a second airport would appear to confer a benefit on the concessionaire/private partners of MIAL.

AAI has received a gross revenue share of ₹2,857.33 crores over the period 2006-13. The revenue share of AAI is however set to decline with outsourcing of activities as noticed in the case of domestic and international cargo activities and the airport hotel project. The private partners have, on the other hand, received gross revenues of ₹4,526 crore during the same period on an investment of ₹888 crore without taking into account other potential benefits that would accrue over time from commercial exploitation of land.

The conflict between OMDA and AERA Act in respect of cargo and ground handling was resolved by MOCA's decision to categorise the revenues thereof as non-aeronautical as provided under OMDA. Ministry invited attention to AERA Act on determination of tariff duly considering the concessions offered by Central Government in the agreement. However, while levying development fee the express provisions of OMDA on financing have not been accorded the same centrality and the funding gap was bridged through levy of development fee on passengers.

There is a strong case for Government to critically review the outcomes from the PPP arrangement in MIAL in line with the findings in this report and recommendations of PAC in the report on Implementation of PPP in Indira Gandhi International Airport, Delhi and protect the interests of Government and passengers duly ensuring sanctity of various agreements entered into as also benefits in the form of open ended project cost and dilution of financial risk allocated to the private partner are not allowed in such arrangements in future.

Recommendations

Absence of review clause and re-negotiation appears to virtually allow MIAL the right to operate the airport for a period of 60 years with the terms and conditions frozen in OMDA. It is essential that a regular and well documented review of performance of MIAL by MOCA is in place to safeguard the interest of Government and to get MIAL to deliver the committed outputs. This would enable MOCA to address the concern expressed by PAC in a similar PPP arrangement for Delhi airport.

(Para 3.5)

There is a need for MOCA and AAI to devise time bound and regular monitoring structure related to progress of work.

(Para 3.9)

MOCA may continuously and critically review the financing pattern of MIAL and ensure that finance risk for the project as allocated in the agreement to private partners is duly observed.

(Paras 4.3 and 4.4)

MOCA/AAI may ensure that necessary survey of land is undertaken and physical markings erected to identify the demised land and carved out assets clearly. MOCA/AAI need to carefully work out the economics of commercial exploitation of land.

(Paras 6.1 and 6.3)

MOCA may critically assess the financial impact of concessions granted under OMDA and revenue ensured from MIAL after ground handling and cargo services were categorised as aeronautical services. MOCA may monitor and review the extent and adequacy of promised improvements in infrastructure and handling capacity in CSI Airport, compared to the projected reduction in revenues.

(Paras 5.2 and 5.4)

MOCA may note that PAC in its report of 06 February 2014 on Audit Report No. 5 of 2012-13 on Implementation of PPP in Indira Gandhi International Airport, Delhi, urged the Government to consider the aspect, while awarding airport contracts in future, that 'shared till' actually increased the burden on travelling passengers as aeronautical tariffs were not subsidised by a significant part of non-aeronautical tariff which are low capital intensive and high revenue in nature.

(Para 5.1)

New Delhi
Dated : 29 May 2014

(USHA SANKAR)
Deputy Comptroller and Auditor General and Chairperson, Audit Board

Countersigned

New Delhi
Dated : 30 May 2014

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India