

Chapter 2

Performance

2.1 Absence of a Corporate Plan

The Authority did not have any Corporate Plan. An unsuccessful attempt was made in January 2004 for finalising such a Plan. The attempt was revived again in May 2005 when the Indian Institute of Technology, Delhi was appointed (at a cost of Rs. three lakh) to prepare a Corporate Plan for the Authority. The draft report was received in February 2006 but was yet to be approved. The Management stated (August 2006) that a Corporate Plan was under consideration.

2.2 Financial Outlay on Infrastructure/Capital Projects

The Tenth Plan documents for 2002-2007 laid great emphasis on infrastructure creation at the airports. The infrastructure facilities at terminals and runways and the operational and safety equipment needed upgradation, particularly at the international airports. Towards this end, major schemes in respect of the IAD and NAD were approved in the year wise plan outlay. The schemes included works of extension/strengthening of runways, runway lighting, construction of aprons, taxiways, hangars, terminal buildings, cargo complexes, car parks and provision of CNS, operational and passenger facilitation equipment.

The year wise Plan outlay and actual expenditure on capital works executed by the Authority in the six year period upto 2005-06 covered by Audit were as below:

(Rupees in crore)

Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Original Plan Outlay	835.53	573.71	996.05	800.00	795.08	892.30
Actual Expenditure	348.00	319.49	445.66	566.22	606.49	876.08
Shortfall	487.53	254.22	550.39	233.78	188.59	16.22
Percentage of shortfall	58.35	44.31	55.26	29.22	23.72	1.82

The shortfall in expenditure that ranged from 1.82 *per cent* in 2005-06 to 58.35 *per cent* in 2000-01, was mainly due to delay in sanctioning of schemes, delay in finalisation of tenders, non availability of clear sites and modification and midway changes in scope of work (**Annexure III**). Some of the schemes relating to Delhi and Mumbai airports were kept in abeyance on account of the proposed restructuring of the airports. Consequently, the facilities planned were either not created or were completed after considerable time and cost overruns as discussed subsequently. The goal of creating capacity ahead of demand was thus not met fully.

2.3 Sources of Funds

The Authority's main sources of funds for incurring expenditure on infrastructure development were as below:

(Rupees in crore)						
Source	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal	282.80	255.15	383.04	516.14	526.82	787.82
North Eastern Council Grant	20.00	20.00	25.00	4.50	7.88	5.00
Budgetary support	25.20	40.24	33.59	22.08	30.00	36.00
Ministry of Defence/Andhra Pradesh Government	-	-	-	23.50	38.50	46.45
Himachal Pradesh Government	-	-	4.03	-	3.29	0.81
Foreign Loan	20.00	4.10	-	-	-	-
Total	348.00	319.49	445.66	566.22	606.49	876.08

2.4 Fund Management

The Authority undertook works for which as per agreements, the cost of construction was to be financed by the State Governments. In the following cases, the Authority did not recover the capital cost incurred on the projects as discussed below:

2.4.1 Non recovery of capital cost of Rs.7.25 crore from HP State Government

The development of Gaggal and Bhuntar airports in Himachal Pradesh at an estimated cost of Rs.18.23 crore was to be funded by the State Government as per the Memorandum of Understanding (MoU) signed (3 March 2000) between the Authority and the Government. For executing the project, the Authority was to receive five *per cent* deposit works fee of the approved estimated cost. As per the MoU, any increase in cost arising out of changes in scope of work or price escalation was to be borne by the State Government. As there was an increase in the project cost by Rs.7.25 crore due to additional works undertaken and due to escalation, the Authority approached (June 2004) the State Government for reimbursement but the latter expressed (November 2004) its inability to bear the extra expenditure. The Authority decided (February 2005) to meet the additional expenditure from its own funds.

Audit observed that the design and scope of work were changed midway during execution phase and these midway changes resulted in time and cost overrun. It was replied (September 2006) that changes in plan were necessitated due to operational requirements. As Gaggal and Bhuntar were regular 'cash loss' incurring airports, by not insisting on getting the reimbursement of this additional cost as per terms of the MoU and agreeing to bear the cost by itself, the Authority ended up incurring infructuous expenditure of Rs.7.25 crore in developing the airports. Even though it was replied that the creation of infrastructure cannot be considered only from the point of view of return and socio economic benefits derived in the region have also to take into account, the reply was not tenable as the investment in a project with a negative rate of return without financial support from the State Government was against the Policy on Airport Infrastructure.

2.4.2 Non recovery of capital cost of Rs.8.58 crore from Rajasthan Government

As per decision taken (August 2000) to extend the existing length of runway at Jaipur airport to make it fit for operation of wide bodied aircraft, the Authority acquired land at a cost of Rs.14.89 crore. To undertake the project, an existing nullah had to be diverted. The Rajasthan Government agreed to reimburse the cost of construction of a culvert over the nullah amounting to Rs.8.58 crore. The project was completed in December 2004. The Authority thereafter tried to recover the cost of construction of the culvert from Rajasthan Government but the amount could not be recovered resulting in blocking of funds to that extent. The Management stated (September 2006) that action was being taken to recover the amount from the State Government.

2.5 Traffic/Non Traffic Revenue

2.5.1 Declining share of Non Traffic Revenue

The task force set up by the Planning Commission suggested (October 2001) in its 'Integrated Transport Policy', an increase in the share of airport revenue from non-aeronautical services for making the airports viable and for generating surplus for further expansion. Audit observed that the position was far from encouraging as far as the Authority was concerned as shown below:

	(Rupees in crore)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Traffic Revenue (A)	1531.28	1656.74	1764.15	2080.15	2387.23
Non Traffic Revenue (B)	267.20	312.80	346.71	414.07	489.96
Cargo and other Revenue	446.36	414.95	519.73	505.44	613.27
Total Revenue (C)	2244.84	2384.49	2630.59	2999.66	3490.46
Percentage of (A) to (C)	68.21	69.48	67.06	69.35	68.39
Percentage of (B) to (C)	11.90	13.12	13.18	13.80	14.04

It was observed in audit that the share of non traffic revenue was more than 50 per cent at major international airports*. In comparison, the share of non traffic revenue of the Authority was only 11.90 per cent in 2001-02 which increased marginally to 14.04 per cent in 2005-06.

Audit observed (April 2006) that commercial exploitation of land, which is the main source of non traffic revenue, was not optimal. This is discussed in Chapter 10.

Recommendations

- In terms of the Policy on Airports Infrastructure and as suggested by the Planning Commission, the Authority should work out measures to augment non traffic revenue.

* British Airports Authority, Toronto, Sydney, Houston, Heathrow, Kuala Lumpur, Los Angeles, Singapore, Paris and Zurich.

- A decision in line with Para 14.7 of the Policy on Airports Infrastructure needs to be taken to ensure that wherever any Government requires the Authority to invest in non-viable projects for fulfillment of social objectives, the initial cost of the project and the recurring annual cash loss sustained by the Authority is reimbursed.
- Corporate Plan for the Authority should be approved early.