Approaches to Landing Charges

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Quick Survey

1. Do you currently charge landing / passenger fees?

No:
We don't like money

Yes:
Of course…

Yes… but
Not enough

3. How confident are you that your charges cover costs?

Yes:
We're good at math

No:
We know we need to increase them

I don't know:
Math is hard

2. When was the last time they were changed

Last year:
We're organized.

Last 3 years.
We're organized

Over 3 years ago.
Change is hard.

4. What do you value – Financial returns or community service?

Community Service:
For the people!

Financial Returns
For the money!

Balanced!
It's a challenge!

Principles of Pricing
Key ideas behind the pricing methodology

1. Prices are established on a financial capital maintenance (FCM) basis

Airport investors recover depreciation and a return on capital (WACC) over the life of assets.

2. The Airport is compensated for risk as an airport owner through a pricing WACC

The airport owner takes on the operating and investment risk of running the airport. It is compensated for this risk through a pricing WACC that reflects debt costs (credit risk) and equity return (systematic investment risk)

3. Passengers and airlines only pay for the aeronautical services they use

Under the principle of accounting based allocation approach (ABAA) developed by the Commerce Commission. Aeronautical-only costs included; shared costs apportioned; commercial-only costs excluded.

4. Pricing structures should promote efficient outcomes and reflect key cost drivers

Prices should align with future costs, be simple to implement, and easy to understand.

Are you a Community Asset or a Commercial Operation?
Clarify what you are and why you're doing it.

What's your target return?

Comparative to others?

Cost Recovery

Return on Assets
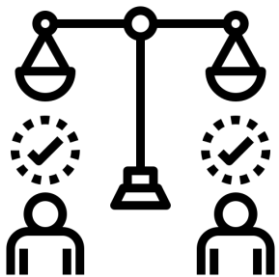
Who do you prioritise?

The old-timers

The Community

The Local Businesses

Thinking strategically

- **Don't copy others:** Base pricing on your costs, not competitors.
- **Benchmarking:** AKL, WLG, CHC, have published figures on their cost base for refence.
- **Think long term:** Balance access with sustainable cost recovery.
- **Keep it simple:** Transparent pricing builds trust and avoids conflict.

Ensuring you are recovering your costs
Plan ahead – allocate costs

Costs aren't obvious

↓

Good data Good accounting

Capital is lumpy

↓

Smooth Pricing

Pressure to keep prices low

↓

Transparent Communication

Costs and Pricing Realities

Costs are not obvious:

- **Hidden costs:** It's not always clear how much a single flight contributes. Good data and accounting are essential.
- **Capital assets:** Track the useful life of investments and recover depreciation.
- **Overheads:** Allocate fairly, everyone plays a part.
- **Land:** Remember land has an opportunity cost; allocate it appropriately.

Capital is lumpy: Large costs can appear after years of stability. Proper accounting allows price increases to be smoothed over time.

Short-term vs long-term: Operators focus on today; airports must think decades ahead. Be transparent about costs and the long-term pricing path.

Only costs directly or indirectly related to providing aeronautical services should be recovered through aeronautical prices.

Aeronautical Allocation

Key Principle: Only costs directly or indirectly related to providing aeronautical services should be recovered through aeronautical prices. Airports classify costs into three broad types:

Direct Costs: These are clearly linked to aeronautical services. Examples would include Runway maintenance, security, check-in.

Excluded Costs: These are clearly related to non-aero services (e.g. car parks, retail leases, property development).

Indirect or Shared Costs: These support both aero and non-aero activities (e.g. terminal cleaning, IT systems, admin, energy).

Allocated using cost drivers or rules.

The Input Methodologies: allow flexibility but expect reasonable, supportable, and transparent allocation rules. Airports must consult with airlines and justify why the approach is fair. Allocation mechanisms must be justifiable, consistent, and transparent.

Common Allocators

Cleaning Costs	Terminal space (aero vs non-aero % area)
Management Salaries	Time allocation surveys or FTE split
Roading	Total Revenue Split aero vs non-aero %
Energy Use	Metered use by area

Allocation to Unit

Airport should avoid cross subsidizing such as making International prices higher to subsidize Domestic. Therefore, a similar suballocation process based on floorspace, movements, or passengers is used to allocate to 'unit'.
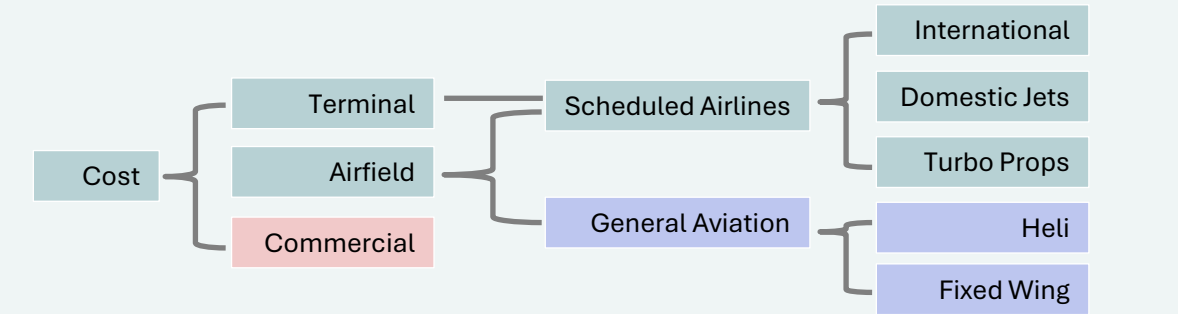
Building blocks model
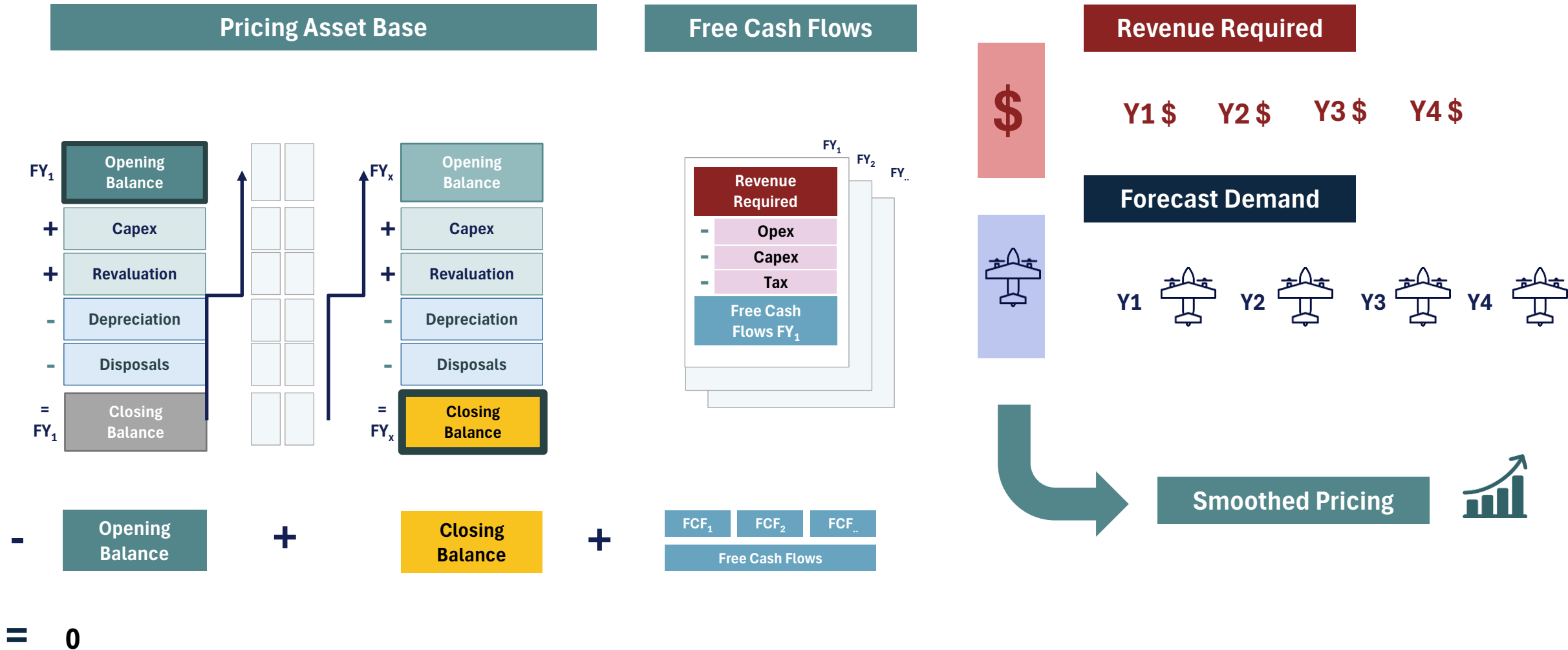
Wrap up

Key Takeaways

- **Clarity of Purpose** – Decide whether the airport is a community asset or a commercial operation, and price accordingly.

- **Cost Recovery First** – Only recover aeronautical costs, but ensure full coverage of depreciation, overheads, and land.

- **Transparency Builds Trust** – Use simple, fair, and well-explained pricing structures.

- **Plan for the Long Term** – Airports operate on decades-long horizons; smooth lumpy capital costs and avoid short-term pressure traps.

- **Good Data, Good Decisions –** Robust accounting and defensible allocation methods are the foundation of credible pricing.

Michael Hawley - Services Overview

My approach is analytical, practical, and transparent, helping airports and operators make well-supported decisions, build trust with stakeholders, and plan for long-term sustainability.

I provide specialist consulting in **aviation economics and airport management**, with expertise in:

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- **Regulated Pricing** – Developing transparent, defensible pricing models that balance fair returns with stakeholder expectations.

- **Passenger Forecasting & Reporting** – Delivering robust, data-driven forecasts and automated reporting to support strategic planning.

- **Slot Coordination** – Designing and implementing slot allocation processes that align airport capacity with demand.

- **Aviation & Tourism Insights** – Translating complex data into actionable strategies for airports, councils, and tourism bodies.