STATES OF JERSEY

INCORPORATION OF PORTS OF JERSEY

Lodged au Greffe on 27th July 2012
by the Minister for Economic Development

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

(a) to approve the incorporation of Jersey Airport and Jersey Harbours as a single limited company wholly owned by the States of Jersey, to be known as 'Ports of Jersey' as set out in the attached Report;

(b) to request the Minister for Economic Development to take the necessary action to prepare for incorporation, including the preparation of legislation for the Assembly's consideration, with a target date for achieving incorporation of 1st January 2015.

MINISTER FOR ECONOMIC DEVELOPMENT

REPORT

1. Executive Summary

The primary goal in incorporating Jersey Harbours and Jersey Airport is to enable them to continue to be the provider of essential, lifeline public services to the Island, but to do so in a commercial and sustainable manner that will improve services for customers and generate a positive return to the States.

If the Harbours and Airport businesses were to continue to operate as they did before 2011, they would be unable to meet capital requirements from current cash-flows. This would, in the absence of major, unbudgeted States funding, jeopardise the ongoing operation of the Island's key strategic gateways and threaten the continued provision of vital safety services such as the Coastguard and the Channel Islands Control Zone.

There is the opportunity through incorporation, not only to grow the businesses and increase efficiencies, but also to remove a potentially major financial burden for the States and to generate a positive return to stakeholders. This would be in the form of taxation and possibly dividends paid to the States as well as enhanced services to users of the Ports.

There is a well-established model for incorporation, as exemplified by Jersey Post and Jersey Telecom, which transfers the businesses to a limited company wholly-owned by the States, but led by a Board of Executive and Non-Executive Directors, with the relationship with the States as shareholder governed by a formal shareholder agreement.

While there is a cost to incorporation, comprising both a one-off element and ongoing expenditure, the overwhelming balance of evidence illustrates that the commercial disciplines required by an incorporation will repay this investment many times over. The financial model, using the assumptions contained in **Appendix A**, indicates that the Ports will be self-sustaining contributors to the States for the long term.

Attempts to apply the commercial disciplines referred to above without an incorporated structure and the governance processes that go with it have not, to date, had an effective impact, because management and control is too dissipated between various components of the States, such that commercial focus and consistent decisive action is often inhibited.

The process of incorporation involves the transfer of assets and staff to a 100% States-owned company that will operate as a utility company within Jersey and therefore be required to pay taxes and rates as any other utility company would. **Appendix B** outlines the project governance, critical path and projected costs to allow the incorporation of the Ports of Jersey on 1st January 2015.

2. Background

Jersey Harbours and Jersey Airport are "Trading Operations" defined within Part 4 of the Public Finances (Jersey) Law 2005. Other Trading Operations, notably Jersey Telecom and Jersey Post, have subsequently been incorporated and are operating successfully as independent wholly-owned companies with an independent Board. The Minister for Treasury and Resources represents the shareholder interest on behalf of the States. When the incorporation of Jersey Telecom and Jersey Post was first mooted in the 1990s, the clear intention was that the other Trading Operations would follow suit. This report is consistent with the Policy and Resources Committee report: '2000 and Beyond: Strategic Policy Review', endorsed by the States in 1995, in that it seeks in-principle approval for the incorporation of Jersey Harbours and Jersey Airport.

Since the formation of the Trading Committees in 1991, both Jersey Harbours and Jersey Airport have become substantial businesses with a combined turnover of £43.7 million. The 2 ports are the strategic transport gateways on which the Island's community, economy and therefore the well-being of its residents, are totally dependent. In 2011, the 2 ports handled the movement of 2.2 million passengers and 488,000 tonnes of freight and fuel. A more detailed breakdown of passenger and freight services is given at **Appendix D**.

In addition to commercial port activity, Jersey Harbours provides marinas and moorings for local boat-owners and visitors – from the "Five Gold Anchor" marinas in St. Helier to moorings in the outlying harbours. Jersey Airport provides a comprehensive network of commercial routes, facilities for business aviation and for local and visiting private aircraft. Jersey Airport is contracted, through the Minister for Economic Development, to provide air traffic control for the Channel Islands Control Zone on behalf of the French and UK authorities. Importantly, Jersey Harbours also provides the coastguard service for our territorial waters; this essential public service, which in most jurisdictions is funded by taxpayers, is funded in Jersey entirely from the Harbours' revenues.

In 2010, the Minister for Economic Development appointed a 'Shadow' Board of Directors for Jersey Harbours and Jersey Airport. The Terms of Reference for the Shadow Board were approved by the Assembly in P.47/2011. The purpose of this was to improve the governance of the 2 organisations, and to drive their commercial development, efficiency and effectiveness, to the point where incorporation represented a credible proposition.

Jersey Harbours and Jersey Airport have made excellent progress in this regard over the last 18 months under the guidance of the Shadow Board. Significant operating efficiencies have been achieved, and a range of commercial developments are being actively pursued. Under the leadership of a new Group Chief Executive, the 2 organisations have been integrated into one. This has already yielded efficiencies resulting in annual cost savings of £1 million, some of which has been reinvested into building future capability in the businesses. There is a high degree of confidence that, within an incorporated governance structure, further business improvements can be made.

When announcing the appointment and Terms of Reference of a Shadow Board in 2010, the Minister for Economic Development defined the first objective of the Shadow Board –

- to define the optimum operational and governance structure and make recommendations to the Minister for Economic Development to implement changes as necessary.

On 24th March 2011, and consistent with this objective, the Minister formally requested that the Shadow Board should consider governance options and recommend any proposed changes. The Shadow Board has completed this process and reported to the Minister that, subject to States approval, Jersey Harbours and Jersey Airport should be incorporated as a single entity. The Minister accepted this recommendation and, in a Statement made on 15th September 2011, confirmed that he had instructed the Group Chief Executive to work with the Shadow Board to prepare a business case. It is this business case that forms the basis of this Report and Proposition.

With the experience of Jersey Telecom and Jersey Post behind it, the States has a model for the incorporation of Trading Operations, and the intention would be to adopt the same broad approach where appropriate, or to adapt based on lessons learned. This will include clear arrangements under the Island's competition policy regime to protect and promote the interests of consumers. This aspect is of particular importance given that, by definition, both the port and the airport are, and will remain, natural monopolies in Jersey.

The process of incorporation will include the transfer of defined assets from the States of Jersey into the ownership of the new 100% States-owned company, the drafting and approval of necessary legislation, establishing proper regulatory oversight, preparing the governance and company structure, identification of the range of continued service obligations for the new business and the transfer of staff. To ensure that the process of Jersey Harbours and Jersey Airport incorporation can be delivered efficiently, a consolidated high-level project plan has been developed and included at **Appendix B**. The high-level project plan demonstrates the timeframe and critical path that incorporation will follow if agreed in principle by the States. If approved, detailed project planning and implementation will commence with immediate effect.

3. The drivers of change

3.1 Intent and precedent

It was the clear intent of the States during the 1990s when the Trading Committees were originally established that, in time, they would be incorporated. Jersey Telecom and Jersey Post are now well established as successful, independent businesses, which have been free to manage the opportunities and challenges in their respective markets. Since incorporation, both Jersey Telecom and Jersey Post have been able to respond quickly to market dynamics in a manner that, in all probability, would not have been possible had they continued as States Departments.

3.2 Financial sustainability

The incorporation of Jersey Harbours and Jersey Airport supports the Resource Principles outlined in the States Strategic Plan in providing the mechanism to ensure sustainable services to the Island, and by creating the ability to plan expenditure on capital and infrastructure over the long term, together with considering carefully the appropriate sources of funding for major projects. Incorporation of the Ports further removes what could be significant liability, risk and uncertainty from the States planning and budgetary process.

In order for long-term sustainability of these businesses to be achieved, there needs to be adequate income generated from their operations to support continued investment and provision of community services (such as maintaining the Island's historic harbours and providing coastguard services). As Trading Operations, all current investments are met from the Trading Funds rather than general taxation and as such, in order to avoid raising tariffs to cover such public interest burdens, the cost base must be reduced or business growth must be achieved.

3.3 Performance improvement

Whilst progress has already been made during the integration of Jersey Harbours and Jersey Airport, the required improvements in performance can only occur once management and Shadow Board are held fully accountable for results. Success of this business can then be measured across the following dimensions –

1. Financial – Requiring profitable, sustainable and growing businesses;
2. Operational – Facilities must remain open, safe and secure;
3. Environmental – Reducing the impact on the Island and raising environmental standards;
4. Social – Participating actively in the community, economy and society.

Identifying and implementing high impact improvements across these dimensions will deliver demonstrable gains for Jersey, but will depend for success on enabling the new organisation to pursue corporate best practices within the relevant policy framework set by the shareholder.

3.4 Transparency, regulation and governance

Incorporation will bring greater clarity for safety and security of the Island's ports by clearly separating regulatory from operational functions. In order to ensure these essential services are operated in the most effective way, the businesses will be governed by a Board of Directors accountable, through the Minister for Treasury and Resources, to the States as sole shareholder, and with the appropriate regulatory agencies retaining proper oversight of the business and its operations.

3.5 Ports estate

There is a clear need to preserve the integrity of the port and airport operational estates to ensure the ports can adequately address future demands, changing needs and regulatory requirements. Current arrangements have resulted in missed opportunities to optimise operational efficiency, and the return achieved has been compromised because of complex procedures or inconsistent decision-making.

4. The benefits of change

The primary goal in incorporating Jersey Harbours and Jersey Airport is to enable them to continue to be the provider of essential, lifeline public services to the Island, but to do so in a commercial and sustainable manner that will improve services for customers and generate a positive return to the States.

Greater commercial freedom will mean being able to take a more flexible approach to develop a wider range of products and services to meet the needs of customers and plan for the future.

There will be particular benefits for different groups and organisations –

4.1 Customers

Incorporation will deliver a more responsive organisation with higher levels of customer service and the introduction of new and improved services. By increasing the agility and flexibility in the organisation, the Ports of Jersey will be better able to adapt the operations to customer needs. Through the process of moving towards incorporation, some services currently within the Ports of Jersey portfolio, such as those currently provided by Communications Services, may require further review to determine where such services may best be delivered.

Incorporation will allow the Ports to leverage their asset base for development and growth in a way not possible under current arrangements. By deriving incremental revenues from the assets, revenue streams will be diversified, with consequently reduced reliance on fees and tariffs from commercial customers.

In an incorporated entity, management is focused on building a business that is successful in terms of financial performance, operational and safety effectiveness and which increases the range of products and services available to customers. Quicker decision-making and operational agility will bring these new products to market faster than is possible today.

Finally, the intention is to transfer all staff into the incorporated entity on their existing terms and conditions. Through consultation with staff and trade unions, the entire organisation will be linked firmly to the success of the business through a fit-for-purpose reward and remuneration structure. Incentivising excellent performance will lift customer service levels.

4.2 States of Jersey

Based on current financial projections, by incorporating the Ports, the States provides the opportunity for significant new revenue streams to the Treasury to be realised in the form of taxes and dividends.

The Ports should be required to provide a return to the States commensurate with the fair value of the assets made available to the company, adjusted to reflect community and heritage obligations undertaken by the businesses. Through incorporation, these businesses would be treated as any other utility in Jersey and hence provide income to the States through taxation, dividends, and licences.

The financial model for incorporation indicates that of the potential £140 million profit that could be generated by the Ports through to 2032, £76 million could be returned to the States in the form of cash (comprising tax receipts and dividends) as well as continued Service Obligations. This projection would still allow the Ports to settle recognised obligations (including the pre-existing pension liability), fund the identified capital programme and retain reasonable funds for investment. It should be noted that included in the £140 million profit are significant Service Level Agreements with other States Departments, in particular engineering services. The value of this relationship to the States is estimated at £60 million over the period of the model.

On incorporation, the scope of the service obligations currently provided by Jersey Harbours and Jersey Airport will become the responsibility of the new company. If this Proposition is agreed by the States, the next stage will be for each of the non-commercial services to be defined and the forecasted costs confirmed. The benefit of defining each of the obligations in this way is that non-commercial service provision, such as the Coastguard, will be given much greater transparency and will allow political agreement on the standards to which such services will be provided.

The additional cash receipts of £42 million for taxes and dividends would be incremental to the existing provision of public services in the Island (£34 million). **Appendix A** of this report illustrates our current financial projections.

	£'m	
	Ports Financial Projection	**Return to States of Jersey**
Profit before Tax and Public Service Obligation	140	
Value of Public Service Obligation to States	(34)	34
Profit before Tax after Public Service Obligation	106	
Tax payable to States	(29)	29
Profit after tax	77	
Dividends payable to States	(13)	13
Retain for investment	64	
Amounts due to States		76

While the financial gains for the States are significant, further wider benefits include –

- Public services – the intention is that all current service obligations, for example Jersey Coastguard, continue to be provided through the Ports.
- Heritage services – the Island's historic harbours will require continued repair and maintenance, and the financial model is based on the Ports continuing to provide this important service.
- Community and economy – becoming a commercial business, focussed on the needs of customers and able to seek new business opportunities, the Ports will contribute to the Island's economic growth on a broad front as well as providing a more vibrant environment.
- Incorporation will enable proper management of the extensive asset base of the company and, in doing so, reverse the position where the Ports represent a potential financial burden to the States to one where there is a very realistic expectation of generating a sustainable return to the States Treasury.

4.3 Employees

A growing business must attract, retain and develop talented people to keep growing. This necessary growth comes from a commercially astute organisation identifying and delivering new products, services and business which will provide employees of the new incorporated company with greater development opportunities than is possible today.

Staff will be transferred to the incorporated entity on identical terms and conditions to those to which they are entitled as States' employees. There will be a full process of consultation with staff and trade unions. Over time, the incorporated company could change its terms and conditions of employment to reward individuals and teams for their contributions to the success of the business, but entitlements for existing employees, such as pension entitlement, would not be affected by this. The ability to recognise and reward individuals and teams for their contributions to the success of the business is not possible within the current States remuneration structures.

Finally, as the integration of Jersey Harbours and Jersey Airport has already demonstrated, there is great power in engaging and listening to employees. The integration process has already started to provide the environment that allows creative ideas to be developed and implemented to improve business performance and customer experience. The ability to incentivise the delivery of such improvements in an agile and responsive manner will create a platform for further suggestions for improvement, increasing overall capability, performance and delivery.

4.4 Ports of Jersey Limited

Incorporation will deliver commercial freedoms, while retaining the ability to reap the benefits of a satisfactory return on assets that will allow the Ports to re-invest in quality services directly for the Island's benefit, and to continue to ensure that the ports meet Island and public service obligations as will be defined in detail as part of the project.

This will be achieved through the ability to –

- Optimise the use of the asset base to generate greater revenues and diversify our income stream.

- Build cash reserves through growth and efficiency and/or raise external funding in order to invest in improved technology and high quality services, and improvements to facilities for customers.

- Act in partnership and joint ventures with other companies, or negotiate more favourable terms, to provide more comprehensive service packages and achieve economies of scale to the benefit of the Island as a whole. This has been a key ingredient for the growth and success of Jersey Telecom that is enabled by a company able to act independently and commercially, yet within a well-ordered regulatory framework operated in the interests of consumers.

- Create a better working environment for employees by achieving greater performance eventually through reward, training and career development, which also provides additional flexibility within the organisation.

The Ports will aim to be valued as an essential service provider to the Island whose success is measured by its business performance, customer experience and engaging its people. Business performance includes lifting financial and operational performance, and also extends to improving the environment and society. It will set at its overall aim to delight customers through excellent service, and to create an agile and high-performing team across the ports.

4.5 Parishes

The Parishes of St. Helier and St. Peter will benefit from the payment of occupiers' rates by the Ports, compared with the current position where the States does not pay rates on its own property. Given the nature of the land occupied by both the port and the airport, it is expected that it will be necessary to develop bespoke valuation arrangements for this, perhaps mirroring the UK Central Rates List regime for large-scale sites. There has already been initial dialogue on this with the Connétables of St. Helier and St. Peter, and this issue will be taken forward with the relevant rates committees.

5. What regulatory oversight of the new company will be required and how will it be achieved?

Incorporation of Jersey Harbours and Jersey Airport will require a modern regulatory framework to ensure proper accountability for the diverse functions of the new organisation, as well as governing its relationship both with the States as its shareholder and with other bodies that oversee economic, marine and aeronautical regulation.

A crucial aspect of incorporation will be to ensure that the new company's rights to operate the Island's airport and seaport, parts of which will by definition be exclusive, are matched by clear and enforceable but realistic obligations to secure and promote the interests of users, customers and through the States as shareholder, taxpayers. Such obligations must allow for the financing of its operations to be wholly sustainable whilst ensuring that operational safety is fully assured.

Regulatory arrangements will be required that, whilst proportionate, are sufficient to ensure, and give public assurance, that the company is not able to abuse its dominant or exclusive position in the markets in which it will be operating; and that there is a high level of transparency in, for example, its pricing policy and contract procedures. There is work to be done on developing the necessary legal and administrative arrangements for this aspect of incorporation, but it is envisaged at this time that legislation will provide for licensing in a way similar to the approach taken in regulating other incorporated former States Trading Operations.

Arrangements will be put into place to ensure that the new company does not abuse any 'natural' monopoly in the provision of harbours and airport services in Jersey and that, for example on pricing, it acts appropriately in the interests of its shareholder, users and its customers. Consideration may also need to be given to the possibility of extending the regulatory framework to other dominant providers within the ports.

For the new company, incorporation would bring freedom to take decisions to enhance the services provided to the Island but, importantly, within an agreed policy and regulatory framework that ensured transparency and accountability. For example, it is likely that the current enforcement roles of Harbour Master and Airport Director would be separated from commercial activities. This has been the case in the past with the separation at times of the roles of Chief Executive of Jersey Harbours and Harbour Master. In practice, this happens under current arrangements; however within an incorporated entity, the separation would be transparent.

6. Legislation

A legislative model for incorporation of a States Trading Operation was developed a decade ago for the incorporation of Jersey Telecom and Jersey Post and it will be the intention to follow this as closely as practicable, including development of an appropriate competition and regulatory regime. The existence of this model, agreed ten years ago by the Assembly, will make the law drafting requirements considerably easier than might otherwise have been the case.

Notwithstanding, there will need to be a range of other legislative or rule changes in order to achieve the policy objectives set out in this report. This will include –

- Giving the new company utility rights, privileges and obligations necessary for the provision of port, coastguard and airport services in Jersey.

- Amendment as necessary of the Harbour and Light Dues (Jersey) Law 1947 and the Harbours (Administration) (Jersey) Law 1961, and various Regulations made under them, for example on control of boats and protection of cables in territorial waters.

- Ditto, *inter alia*, the Civil Aviation (Jersey) Law 2008 and associated Regulations, the Airports Act 1986 (Jersey) Order 2000, the Air Navigation (General) (Jersey) Regulations 1972, the Airport Dues (Jersey) Law 1956 and certain other relevant legislation.

- Enabling the Minister to authorise the new company to do certain things on her or his behalf, such as, for example, taking formal responsibility for relations with the Channel Islands Director of Civil Aviation (air safety regulation) and strategic relations with bodies such as the UK Civil Aviation Authority and the UK Maritime and Coastguard Agency.

- Setting out an appropriate legal and contractual framework to allow the new company to undertake, with the assent of the Minister, ‘non-commercial’ activities on behalf of the States. Examples would include the Coastguard (which is currently funded from commercial port income in the form of Harbour and Light dues), maintenance of the Island’s historic harbours, opening the Airport especially for emergency flights and receiving Royal Navy vessels or Royal Air Force aircraft without charge.

7. Corporate structure and shareholder arrangements

The corporate structure of the new company is of paramount importance and this will be a particular focus of the Shadow Board in the lead-up to incorporation. Discussions will take place between Jersey Harbours and Jersey Airport, the Minister for Treasury and Resources and the Comptroller and Auditor General to reach agreement on the principles for the corporate structure of the Ports based on the following –

- It is expected that the overall financial contribution made by the company to the States will be at least as great as it is now and will increase as the profitability of the company increases.

- The future returns to the States of the incorporated Ports are dependent on the transfer of sufficient assets into the new entity.

- The structure and mechanism for determining the amounts and timings for payment of the licence fee and dividend will be agreed prior to incorporation, and thereafter between the company and the Minister for Treasury and Resources.

- The relationship between the incorporated Ports and the States as 100% shareholder will be governed by an appropriate shareholder agreement in the form of a Memorandum of Understanding (MOU). There are examples in the case of Jersey Telecom and Jersey Post on which to draw.

- Both Jersey Harbours and Jersey Airport provide ‘non-commercial’ services to meet the needs of public policy. Examples of such public services include the Coastguard and the maintenance of outlying harbours. Within the incorporated structure, arrangements will need to be put in place with the States as shareholder that protect such services and ensure their viability.

8. Property

All relevant land and buildings owned by the public and under the operational control of Jersey Harbours and Jersey Airport at the point of incorporation will be transferred to the Ports on a basis to be negotiated and agreed with the Minister for Treasury and Resources. In principle, it is proposed that the assets to be transferred will be as described in **Appendix C**.

9. Transfer of staff

At December 2011, Jersey Harbours and Jersey Airport had a total of 250 employees. Upon incorporation, the intention will be that all employees at the transfer date will transfer to the company carrying over their existing terms and conditions. During the process of integration there has been extensive consultation with staff and Unions, and it is fully recognised that this approach will continue to be undertaken openly and thoroughly in the months ahead.

Specifically on pensions, there has already been good dialogue with the PECRS Committee of Management about the proposed incorporation, including the treatment of Jersey Harbours’ and Jersey Airport’s share of the so-called ‘pre-1987’ debt that the

States agreed in 2005. Jersey Harbours' and Jersey Airport's combined 'share' of this debt has been calculated by the PECRS Actuary to be circa £18 million.

Firm proposals on this will be included in the detailed papers on the incorporation that will be put to the Assembly in due course.

10. Project timescales

The critical path for the incorporation project is described fully in **Appendix B** showing a realistic completion date for the incorporation project as the end of 2014. The development of legislation and conveyancing have ultimately determined the length of the project, and these timescales have been agreed by a newly-formed working group consisting of representatives of the Law Officers' Department, Law Draftsman's Office, CICRA, Economic Development and Chief Minister's Department. Any delay in the progression of work in these areas will have an effect on the project delivery date.

To drive the project forward, a programme office will be established with a strong governance structure based on project management best practice, and to oversee all aspects of the programme and keep under constant review all details, timelines and costing.

11. Conclusion

This Report lays out a compelling case for the incorporation of Jersey Harbours and Jersey Airport under the Ports of Jersey Limited, a 100% States-owned company. Not only through the reduction in financial liability, but also through a significant return to the States and a better deal for customers, the ability for the States to meet public service obligations will be very considerably enhanced.

The incremental benefits to a range of stakeholders demonstrate substantial improvements for our customers, employees, the parishes and the public at large**.**

Whilst there is a cost associated with the project of incorporation, this is an investment to achieve greater gains than is possible under the current arrangements.

There will no doubt be several challenges to be addressed on the path to incorporation, but in drawing on sound models developed through the previous incorporation of Trading Operations we have an excellent framework for the successful delivery of the project.

12. Resource implications

Based upon initial planning, the estimated project cost of incorporation to the Trading Fund is as follows –

Area	**£000s**
External Finance and Audit	225
Legal Support (including legal, legislative, regulatory, corporate structure and contracts)	920
Consolidated IT (including systems, databases, assets registers, maintenance, etc.)	160
Project work-stream support	100
Programme Management	150
Review of Financial Model and Business Case	35
Consultation (including public, notices, feedback, meetings)	30
Contingency (@ 10%)	162
Total estimated project cost to 31st December 2014	1,782

Financial and manpower implications

The full cost of the incorporation project is detailed above. These funds will be drawn from the existing trading fund and so have no direct effect on the finances of the States. There are no manpower implications beyond those directly funded as part of the incorporation project.

APPENDIX A

FINANCIAL MODEL

A consolidated financial model has been created based upon 2 separate standalone models previously in use at the Jersey Airport and Jersey Harbours, which seeks to provide an indication of potential performance based on certain key assumptions as outlined below. We have reflected the increased project costs within our cash balances to ensure these are captured within the model.

Assumptions

The consolidated model is predicated upon a number of key assumptions, including –

1. **Period/Timing** – The model period is to 2032 and the Incorporation Date is set as 1st January 2014. The current project plan has identified 1st January 2015 as the target date for incorporation, which should not have material impact on the overall 20 year financial model.

2. **Capital Programme** – Capital Expenditure is based upon the Capita Symonds Review undertaken in 2011.

3. **Balance Sheet** – The balance sheet is based upon States of Jersey published accounts. It is important to note that the asset base is therefore as currently stated and not, for example the property estate specified in **Appendix C**. This is an identified work-stream in conjunction with Treasury/Jersey Property Holdings and it is anticipated that any net difference in valuations will not be material.

4. **Staff** – Employees will be transferred on existing terms and conditions.

5. **Pension** – Liability (c.£18 million) to be paid in full on incorporation from existing Trading Fund balances.

6. **Inflation** – Inflation is set at 2.5% per annum throughout the model for both tariffs and costs. Airport Dues increases have been set at inflation less 0.5%.

7. **Borrowing** – No borrowing is included in the model.

8. **Growth Volumes** – No increases in passenger volumes are included in respect of Harbours and are limited to +1% per annum in respect of Jersey Airport. A cumulative +5% increase in Jersey Harbours' freight volume is also included.

9. **Channel Islands Control Zone** – it has been assumed that the provision of services to the UK and France will continue through life of the model on substantially the same basis as currently exists.

10. **Commercial Opportunities** – Commercial Projects targeted at a minimum of 8% return.

11. **Tax** – Taxation is charged at a 20% of net profit before depreciation, and after an estimate for capital allowances payable in the following year. The pension liability has been deemed a tax deductable expense and therefore 20% of the value added to the deferred tax asset.

12. **Capitalisation** – States to own 100% Ordinary Shares (no Preference Shares).

13. **Dividend** – A dividend policy will be agreed with the shareholder in due course; however for the purposes of the model, a dividend assumption of 12.5% of Profit before Tax has been made.

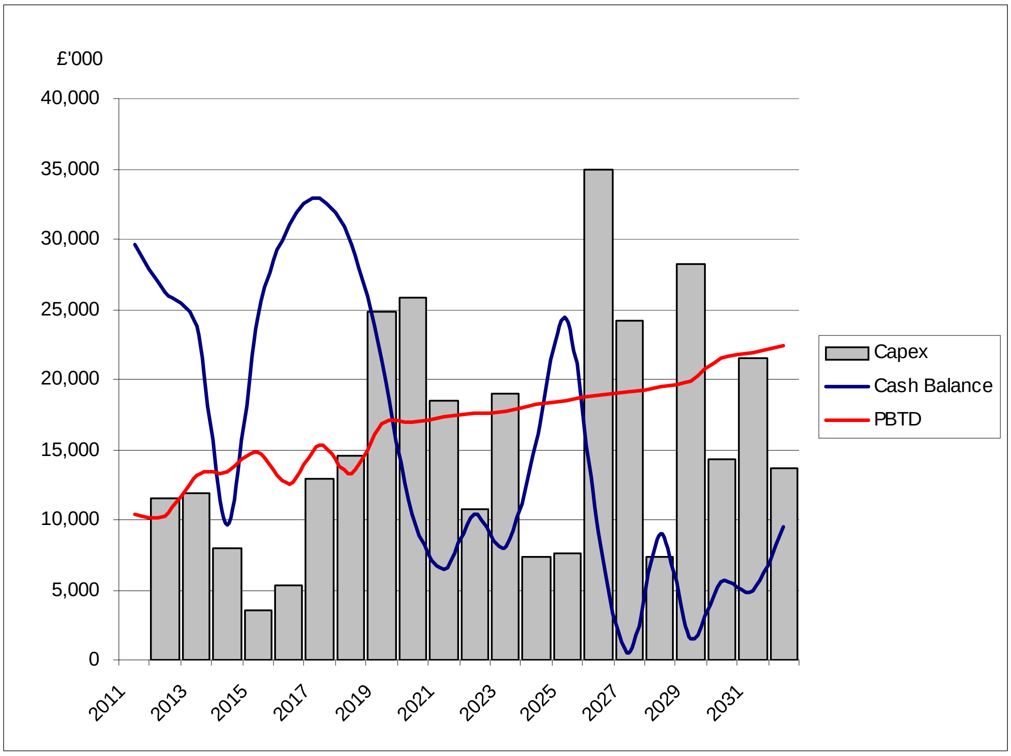
14. **Return** – All current Service Obligations will continue, for example Coastguard, as a Return to the States and services currently received continue on the same basis.

15. **Cash** – The cash from both businesses will be combined and available funds used for investment in either business.

Against an agreement in principle to incorporate the Ports of Jersey, an independent validation of the financial model, including the revised target date of 1st January 2015, and the respective assumptions will be commissioned during the project of incorporation.

The output of the model indicates a sustainable Jersey Harbours and Jersey Airport *as essential service providers* that are able to finance the defined capital programme whilst delivering to the States of Jersey a potential cash return by way of taxation and dividend, as well as non-cash contributions in respect of existing service obligations.

Figure 1 – Summary of cash-flows for Incorporated Ports of Jersey



(Note: PBTD = Profit before tax and depreciation.)

This forecast should be considered the context of the past performance of the Trading Funds which have each required cash injections from the States from time to time, including below-ground works at the Airport and St. Catherine's Breakwater in respect of Harbours. Following a period of modernisation which has precipitated incremental improvements in performance (including integration), each department is now in a position where a modest profit of £1 million is being reported whilst generating substantial £10 million trading cash surpluses. Furthermore, this has allowed the departments to build up viable cash Trading Fund balances of c.£30 million.

£'m	**2009**	**2010**	**2011**
Income	41.8	42.5	43.7
Expenditure	31.0	33.9	33.0
Trading profit	**10.8**	**8.6**	**10.7**
Depreciation*	12.5	11.1	9.6
Profit	**(1.7)**	**(2.5)**	**1.1**
One-off impairments*	0.0	13.8	0.0
Retained profit	**(1.7)**	**(16.3)**	**1.1**
Capital Expenditure	18.0	4.5	8.8
Add back non-cash items (*)	12.5	24.9	9.6
Other Balance Sheet movements	3.9	1.9	1.6
Transfer to/(from) Trading Fund	**(3.3)**	**6.0**	**3.5**
Opening Trading Fund balance	23.8	20.5	26.5
Trading Fund movement	(3.3)	6.0	3.5
Closing Trading Fund balance	**20.5**	**26.5**	**30.0**

This outcome, combined with the independently verified review of the long-term capital programme (which resulted in the removal of significant discretionary projects, most specifically the East of Albert scheme at a value of c.£30 million) has resulted in a more favourable current position than would otherwise have been anticipated.

£'000	**2014 – 2018**	**2019 – 2023**	**2024 – 2028**	**2029 – 2032**	**Total**
Buildings and Infrastructure	30,273	31,189	12,065	31,915	**105,442**
Plant and equipment	13,910	66,501	69,747	46,527	**196,685**
Total	**44,182**	**97,690**	**81,812**	**78,442**	**302,126**

The potential performance indicated by the forecast is, however, firmly predicated upon an ability to create a sustainable step-change in profitability of the organisation by the application of commercial discipline with particular focus on a more effective use of the underlying asset base. Commercial projects currently under review are consistent with the Island Plan and future projects are anticipated on a reasonably conservative 7 year cycle. Whilst current projects remain commercial in confidence these include projects related to growth in corporate aviation, expansion of aviation cargo facilities and office/light industrial/residential development in conjunction with the States of Jersey Development Company. The wider commercial objective is underpinned by the ability to operate within an environment of continued investment in providing 'Open, Safe and Secure' facilities whilst contributing to the wider society and community by recognising their position as a strategic asset to the Island, our people and the economy.

Table 1 – Proforma Revenue Account for the period from Incorporation to 31st December 2032

	£'m	
	Ports	**States**
Revenue	1,081	
Operating costs	(706)	
Gross profit	375	
Depreciation	(242)	
Profit after Depreciation	133	
Net Interest received	3	
Profit from sales of Fixed Assets	4	
Profit before Tax and Public Service Obligation	140	
Value of Public Service Obligation to States	(34)	34
Profit before Tax after Public Service Obligation	106	
Tax payable to States	(29)	29
Profit after tax	77	
Dividends payable to States	(13)	13
Retain for investment	64	
Return to the States		76

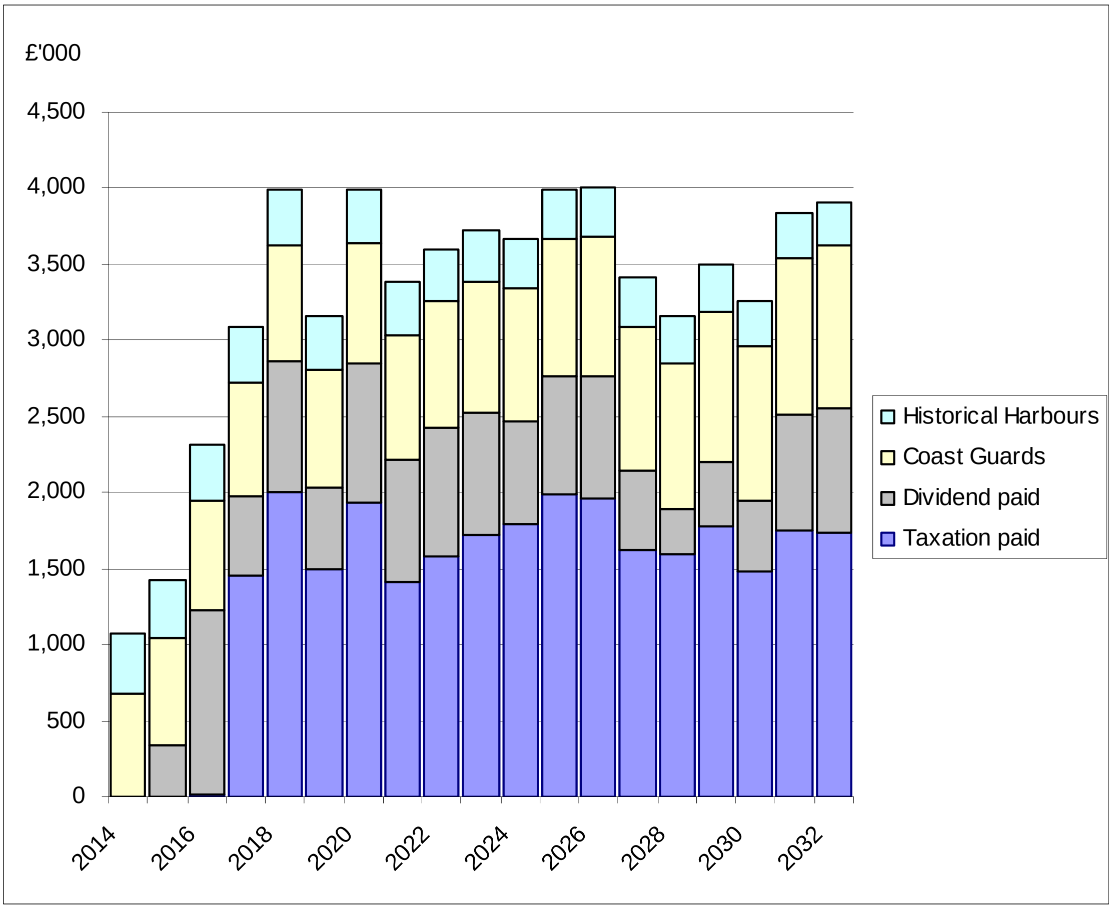
This means that the States would receive £76 million over the period of the model, £42 million in cash and £34 million as contribution for the Public Service Obligations (non-cash).

Whilst the £34 million in Public Service Obligations contributions are present today, and would be provided to the States with or without incorporation, the £42 million is incremental cash for the Treasury. This needs to be considered in the context of an annual turnover of c.£50 million and a 20 year time period.

The return to the States is made up of 3 components –

- Contribution to the Public Service Obligations (e.g. Coastguard and Historic Harbours);
- Tax paid; and
- Dividends paid.

Figure 2 – Incorporated Ports of Jersey – composition of the return to States

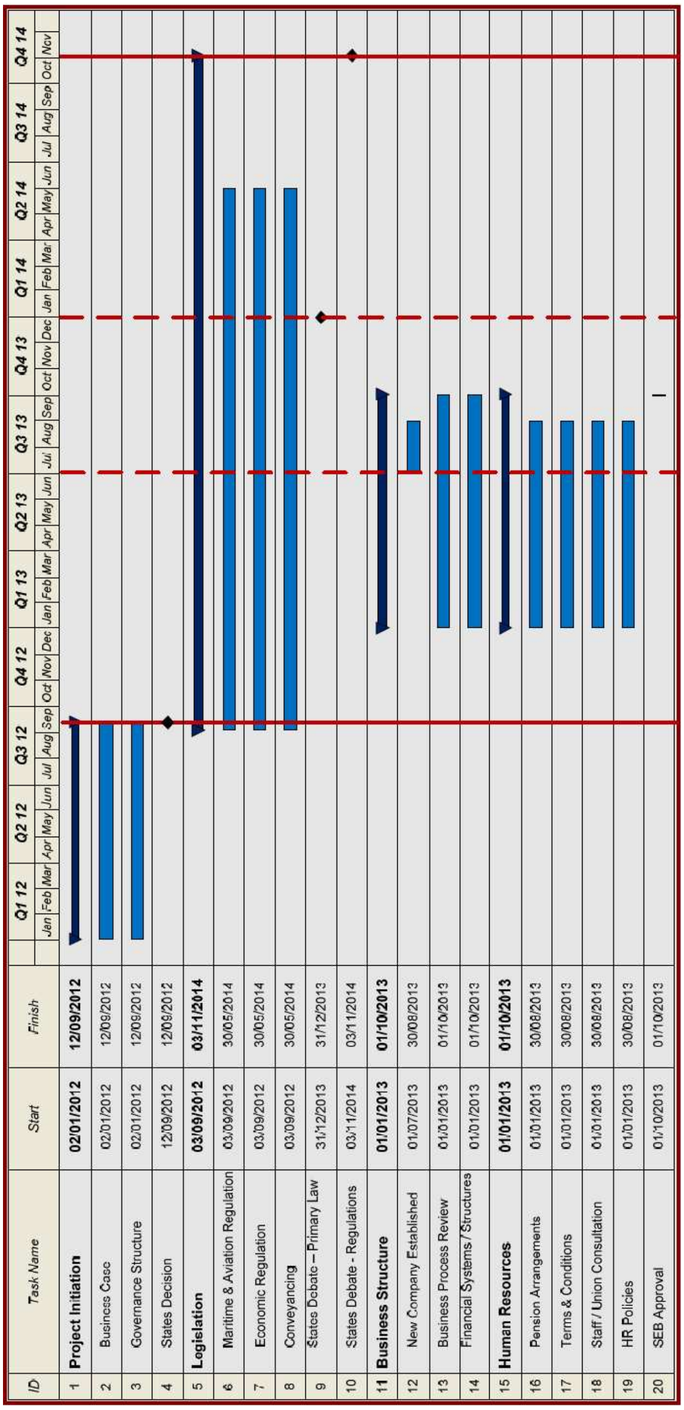


It should also be noted that included in the underlying costs of the combined entities are significant Service Level Agreements with other States Departments, in particular Engineering Services. The value of these relationships to the States is estimated at £60 million over the period of the model.

APPENDIX B

PROGRAMME PLAN

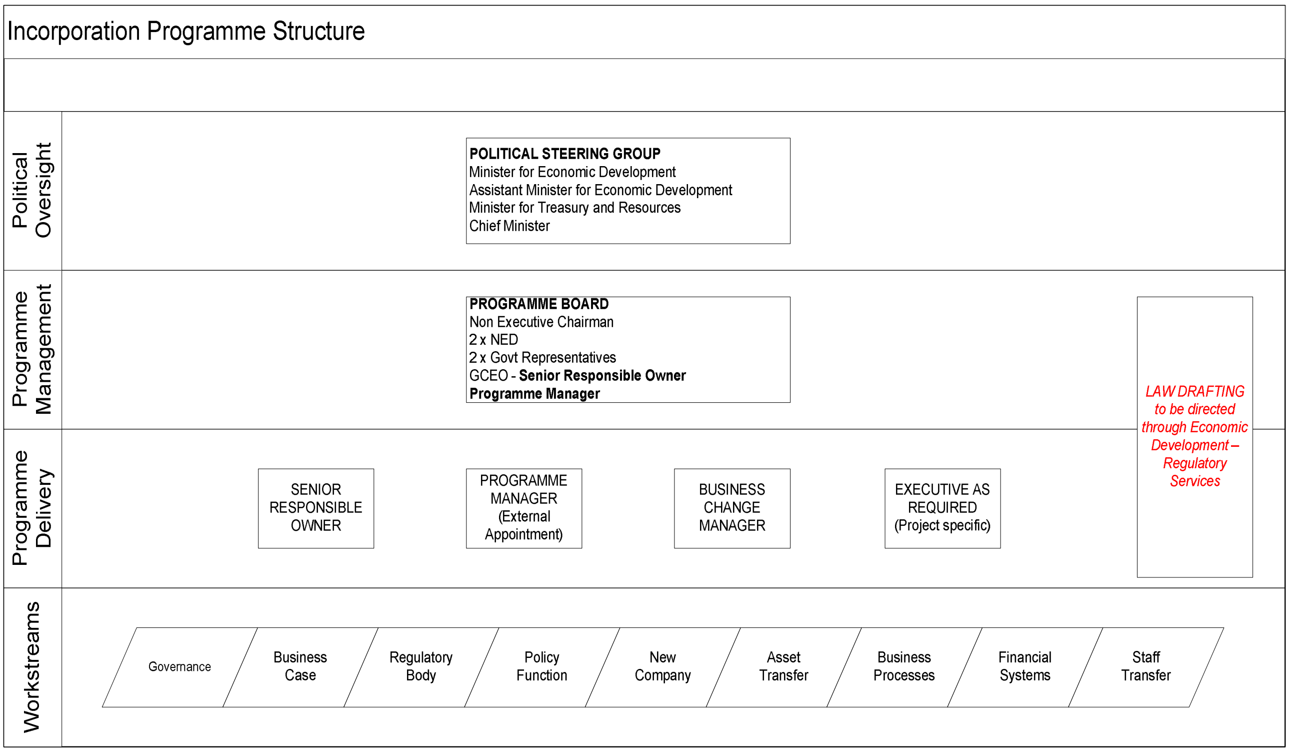
This Programme Plan is indicative of what needs to be achieved in order to meet the milestones identified. Upon agreement of this Report and Proposition by the States, there will be further detailed engagement with the relevant States Departments to validate the assumptions and timelines made within this high-level plan. A programme office will be established with a strong governance structure based on project management best practice, and will keep under constant review the programme details, timelines and costing.



Key political decisions

PROJECT	OUTLINE TIMING
States Decision	Q3 2012
Approval of primary Law	Q3 2012 to Q4 2013 (exact timing to be confirmed, however as early as possible to allow for MoJ consideration)
Approval of subordinate legislation (Regulations)	Q4 2014

Programme Governance Structure



Programme Costs

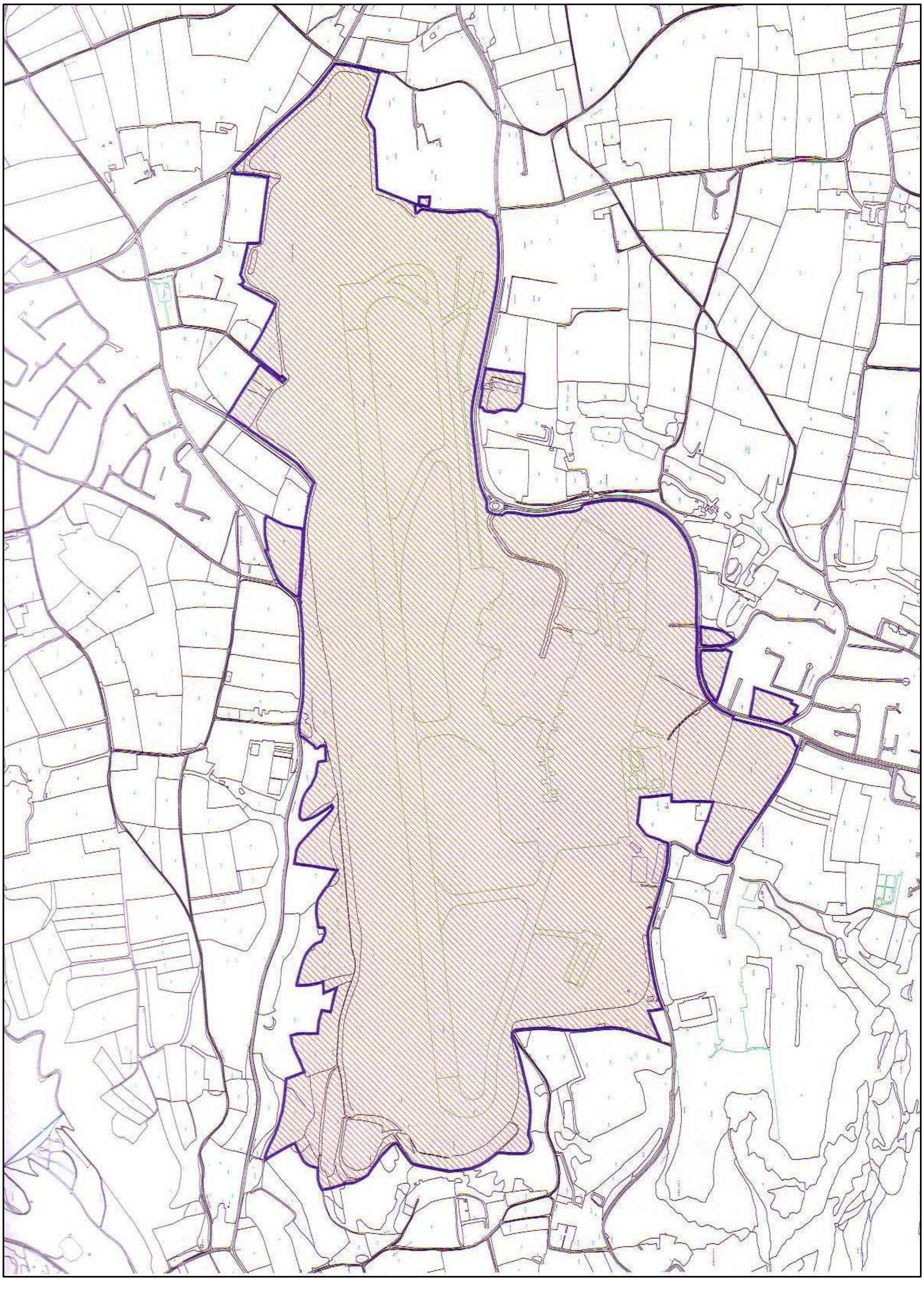
Area	**£000s**
External Finance and Audit	225
Legal Support (inc. legal, legislative, regulatory, corporate structure and contracts)	920
Consolidated IT (inc. systems, databases, asset registers, maintenance, etc.)	160
Project work-stream support	100
Programme Management	150
Review of Financial Model and Business Case	35
Consultation (inc. public, notices, feedback, meetings)	30
Contingency (@ 10%)	162
Total estimated project cost to 31st December 2014	1,782

Work-streams

REF	WORK-STREAM	DESCRIPTION
1.0	Governance	To establish the governance structure under which the incorporation programme will run, and to set objectives and milestones.
2.0	Business Case Developed	To develop the initial business case for incorporation of Jersey Harbours and Jersey Airport.
3.0	Regulatory Body Established	To agree the regulatory framework under which the new organisation will function. This will cover economic regulation, as well as aviation and marine.
4.0	Policy Function Established	To agree the MOU by which States of Jersey policy decisions will be issued to the new company.
5.0	New Company Established	To establish the new legal entity, Ports of Jersey Limited.
6.0	Asset Transfer to new Company	The process to transfer property and other movable assets and staff to the new organisation.
7.0	Business Processes	All business processes will be reviewed to ensure that the new organisation is fit for purpose on incorporation.
8.0	Financial Systems/ Structures	New financial systems and accounting policies will need to be established for the incorporated entity.
9.0	Staff arrangements	Upon incorporation, all employees will transfer to the company, carrying over their existing terms and conditions. There will be extensive consultation with staff and Unions during this process.

MAPS

AIRPORT OPERATIONAL AREA



PORT OPERATIONAL AREA

STATISTICS

20. Coastguard

Jersey Coastguard provides the response, initiation, co-ordination and international co-ordination service for maritime Search and Rescue (SAR) within Jersey's territorial waters. The team also coordinates pilotage and shipping movements for the Port of Jersey, run the VTS (Vessel Traffic Services) for the port and undertake operational liaison with the Shipping Companies which serve Jersey. The Coastguard manages the counter pollution and salvage response for the Island under the *Shipping (Jersey) Law 2002* and maintains the voyage safety reporting service for all vessels on passage in territorial waters, with 3,400 reports being received and processed in 2011. The Coastguard also assists the Fire and Rescue Service, Ambulance Service and Police to respond to incidents where persons are at risk of injury or death on the Island's cliffs or the shoreline.

Search and Rescue Incidents (SAR)

In 2011 there were a total of 160 incidents that required the use of Coastguard SAR Service (see Table 20.1 and 20.2). The service assisted a total of 270 people during the year, and saved a further 6 from imminent danger. 36 Alarms with good intent were raised by members of the public to a potential problem at sea; each of these were investigated either from ashore or by an SAR unit. There were 80 vessels that needed assistance during 2011 and a further 10 needed saving from imminent danger. The most common reasons for incidents occurring at sea were mechanical/cooling failure or due to fuel or oil problems.

Coastguard Vessels

As well as helping with SAR operations and assisting the other emergency services, the fleet also operates a 24 hour pilotage service for the port of Jersey and assists vessels to safely dock in port. The fleet also conducts maintenance and inspection of aids to navigation (lighthouses, buoys and beacons), harbour and offshore reef structures. Additionally, if required, the fleet also carries out salvage operations, oil pollution response, offshore towage and other contract work in the Channel Islands area.

20.1 Jersey Coastguard SAR Co-ordinated Incidents, Outcomes 2011

Number of Incidents	Persons assisted[a]	Persons saved[b]	Persons lost[c]	Vessels assisted[a]	Vessels saved[b]	Vessels lost[c]
160	270	6	2*	80	10	1*

**Occurred in French waters*
[a]Life not in immediate danger i.e. vessel needed a tow
[b]Person or vessel in danger and not able to assist themselves
[c]Person lost before, during or as a result of incident, vessel may subsequently be found.

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Table 20.2 – Jersey Coastguard Sea Rescue Statistics, 2000 - 2011

	Total Incidents	Main Rescue units							
	MRCC* Jersey	St Helier ALB / ILB***	St Catherine ILB	Fire Service IRBs	CI Air Search	Other Vessels	Duke of Normandy & States Vessels	Helicopters	Alarms with good intent
2000	150	30	22	50	4	50	3	3	37
2001	164	28	22	50	13	56	13	6	42
2002	163	26	17	44	7	57	2	3	40
2003	173	27	22	49	1	56	11	0	36
2004	129**	22	23	30	2	34	14	1	24
2005	102	14 / 11	14	20	3	30	5	0	27
2006	99	15 / 15	10	17	9	32	15	2	33
2007	119	17 / 18	21	17	7	46	17	5	21
2008	133	30 / 25	14	26	4	26	21	3	42
2009	175	45 / 27	17	35	9	52	21	4	59
2010	148	32 / 19	18	23	1	40	23	1	34
2011	160	31 / 19	22	24	7	59	22	3	36

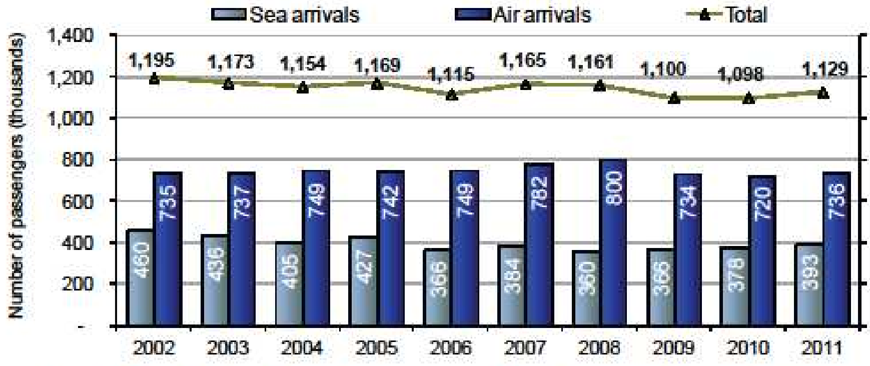
** MRCC: Marine Rescue Coordination Centre*
*** change in recording data due to the Jersey coast radio station moving from Corbière to Maritime House.*
**** ALB = All Weather Lifeboat, ILB= Inshore Lifeboat*
Further Reading: Jersey Coastguard www.jersey-harbours.com

23. Sea and Air Transport

Total Number of Passengers, by Route

The total number of passenger (air and sea) arrivals in 2010 was around 1,125,000, some 30,000 more than in 2010, an increase of 2%. Sea arrivals and air arrivals were both up on 2010.

Figure 23.1 Total Number of Sea and Air Passenger Arrivals, 2002-2011

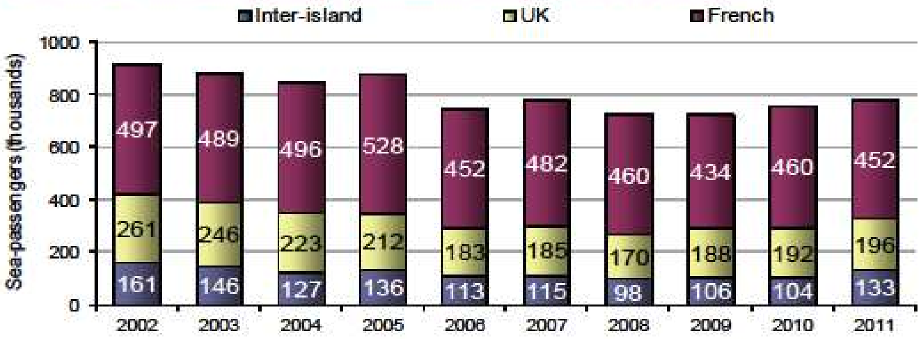


Numbers are in thousands of arrivals only. Passengers by air exclude transit passengers.
Source: Jersey Harbours Department and www.jersey.com/marketinginfo.

Sea Transport

In 2011, the total number of sea passengers (arrivals and departures) for all routes was over 785,000, around 30,000 more than in 2010. Cruise passengers are also included on the chart – there were over 4,000 in 2011.

Figure 23.2 Total Number of Sea Passengers, by Route, 2002-2011



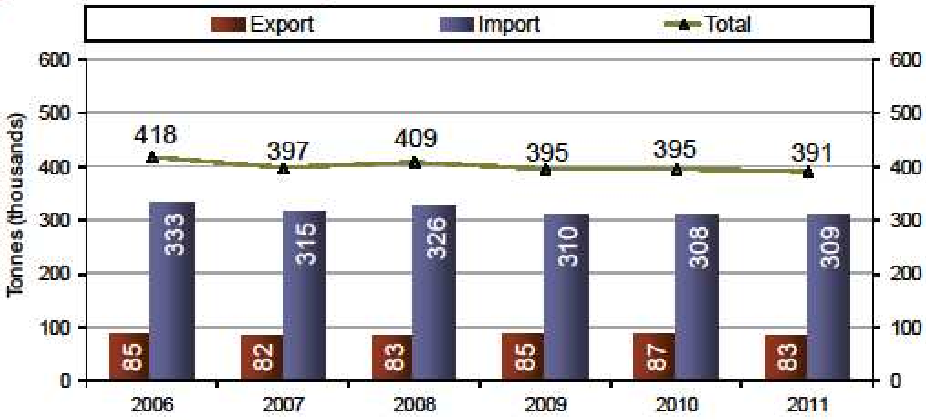
Source: Jersey Harbours Department.
Notes: Breakdown figures for 2000-2003 are considered less accurate than 2004 onwards, although the total number of passengers are regarded as reliable. The passenger figures shown are for regular scheduled routes in and out of the Island.

23. Sea and Air Transport

Sea Freight

More than 391,000 tonnes of freight were shipped (exports and imports combined) through St Helier Harbour in 2011.

Figure 23.3 Annual Sea Freight, 2001-2011



Source: Jersey Harbours Department.

Table 23.1 Freight by Commodity (Import and Export), 2010 & 2011, tonnes

	2010	2011
Aggregate	200	-
Cement	26,760	21,670
Containerised Freight	338,128	349,499
Fertiliser	1,286	1,001
General Freight	2,285	2,164
Scrap	10,565	6,185
Timber	4,402	959
Trade Vehicles	11,625	10,133
Lift on, Lift off Freight (Lo Lo)	118,479	101,376
Roll on, Roll off Freight (Ro Ro)	276,793	290,085
Total	395,272	391,461

Source: Jersey Harbour Department.

Along with freight, Jersey harbour saw 96,499 tonnes of fuel pass through the port, around a third (30%) was diesel, a quarter (25%) was petrol and a sixth (17%) was aviation fuel (Jet One). The remainder was comprised of kerosene (15%), butane (8%), propane (1%) and avtur (0.5%).

Further Reading: Jersey Harbour Department, Annual Report.

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Airport Traffic

The total number of air passengers (arrivals) in 2011 was 735,522 (of a total 1,474,373 passengers using Jersey Airport), an increase of 2.2% on 2010.

Total UK passenger arrivals increased by 2.5% on the previous year, while Channel Island arrivals increased by 5.1%. International arrivals were down 10.3% reflecting continued stress in the global economic environment.

Table 23.2 Passenger Arrivals 2010 and 2011

Point of Origin	2010	2011
UK Passengers	609,234	624,792
Inter-Island Passengers	73,573	76,724
International Passengers	37,442	34,006
Total Passengers	**720,249**	**735,522**

Source: www.jersey.com/marketinginfo

APPENDIX E

RISK MATRIX

Risk	How it will be covered
States are giving away the 'crown jewels' in terms of property.	As 100% shareholder in the incorporated entity, the States of Jersey will hold ultimate control. Further, by placing the property in a separate company, then the parishes benefit from the rates and the Ports of Jersey benefit from consistent and long-term decision-making in respect of the estate.
With monopolies constructed through the incorporation, how can we make certain that prices will not increase and services decline?	A significant work-stream for the incorporation project is to establish how the business will be regulated. The appropriate oversight will be established in conjunction with the JCRA to ensure that the consumers of the facilities continue to derive value for money.
Staff terms and conditions will be reduced and the overall staffing levels will reduce.	As stated in the report, the intention is to transfer all staff as at the date of incorporation into the new entity with their existing terms and conditions. Some efficiencies have already been identified and delivered in the Ports of Jersey, and management will continue to look for better ways to deliver our services – however, this will continue to be conducted in an open and transparent manner.
Many of the facilities provided (harbour, moorings, marinas, airport) are public services and should be provided for the benefit of the Island.	These are asset-intense businesses, and as such will continue to have high capital requirements. If the management of the Ports of Jersey can generate sufficient returns to fund future developments, this will avoid the need for central tax funding or dramatically raising fees and dues. Incorporation is the structure which can achieve this.
How can the Island protect these strategic assets under incorporation in the long term?	As 100% shareholder, the States have ultimate control of these assets. With a solid regulatory regime, the consumers will be protected.
The taxpayers of Jersey have actually paid for the assets in the first place – will there be any compensation for this?	Since 1991 when the Trading Committees were created, the asset maintenance has come from the cash generated by the operations of the businesses rather than central tax funding. Furthermore, with these asset-intense businesses, unless the environment for further commercial success is created, there will be an increasing burden on Jersey's taxpayers in the future.