JERSEY AIRPORT: FUTURE FUNDING

Lodged au Greffe on 5th November 2002
by the Harbours and Airport Committee

STATES OF JERSEY

STATES GREFFE

150 2002 P.198

Price code: C

PROPOSITION

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

(a) to agree that Jersey Airport should be viewed as a strategic asset for the Island and that -

(i) future capital expenditure comprising the replacement or resurfacing of the runway, taxiways, concrete aprons, the fireground and associated works should be met from general revenues;

(ii) the Airport should otherwise be funded in the manner set out in the report of the Harbours and Airport Committee dated 5th November 2002 and that the Committee should operate Jersey Airport in a profitable manner as described in the said report by charging all users of its facilities and services the full costs to the Airport;

(b) to request the Harbours and Airport Committee to operate the Channel Islands Control Zone for so long as the full costs are met from the United Kingdom and French Governments by way of the Memorandum of Understanding dated 16th February 2000, but to review the operation of the Zone where the cost-recovery no longer meets the costs of its operation and its associated capital expenditure;

(c) to agree that from 1st January 2004 the cost of providing the non-aeronautical meteorological service should be met from public funds, and to charge the Finance and Economics Committee to make available the required funds and to take the necessary steps to seek an appropriate contribution from the States of Guernsey and the States of Alderney;

(d) to agree, in principle, that the cost of providing those community services presently funded from Airport dues where the public of the Island, or the States of Jersey, is identified by the appropriate Committees as the true user should be met from public funds, and to agree that the Harbours and Airport Committee should identify any services it provides at present for which no paying user can be identified and to take steps to discontinue those services;

(e) to agree, in principle, that additional funds from general revenues should be made available for use in encouraging the provision of new air services and/or the offer of low fares on existing and/or new air services, and to request the proposed Economic Development Committee, together with the Harbours and Airport Committee, to bring forward for approval by the States proposals for implementation in 2004;

(f) to charge the Human Resources Committee with facilitating any manpower transfers and reductions, and to agree that any costs relating to manpower reductions should be met from general revenues; and

(g) to rescind paragraph 3 of their Act dated 3rd November 1998 in which they approved, in principle, the incorporation by 2002 of Jersey Airport Limited, as a company wholly owned by the States.

HARBOURS AND AIRPORT COMMITTEE

Notes: 1. The Policy and Resources Committee’s comments are to follow.

2. The Finance and Economics Committee’s comments are to follow.

3. The Industries Committee’s comments are to follow.

4. The Tourism Committee’s comments are to follow.

5. The Human Resources Committee’s comments are to follow.

6. The Jersey Transport Authority’s comments are attached at Appendix 2.

REPORT

Introduction

Jersey Airport was opened in 1937. It has a proud record of acting as a strategic asset for the Island and the surpluses it has generated have swelled the public coffers to the tune of £50 million.

Now, 65 years on, the Airport faces its most serious challenge: to fund substantial investment in its infrastructure over the next 20 years. Such a challenge could hardly have come at a worse time; there is a gentle annual decline in the number of arriving passengers as the tourism industry goes through a period of re-structuring, an uncertain future for airlines after the terrorist outrages of September 2001 and a squeeze on the funds available from the States to spend on capital projects.

The money is required not for luxuries but for the replacement of essential items without which the Airport will be unable to discharge its responsibility to greet and despatch passengers in safety, according to the highest standards employed at airports elsewhere. The people of Jersey have come to expect nothing less and this report addresses the question of who should pay for those standards to be maintained.

How we got to where we are

The present debate over the future funding of Jersey Airport has been informed by 3 reports.

First, a Strategic Service Review in 1997 prompted by the idea that Jersey Airport might be incorporated and set at arm's length from the States. The review concluded that -

- Substantial increases in Airport charges would be needed if the Airport were to remain financially self-sufficient. Increases to bring the charges into line with those of U.K. regional airports would yield an operating surplus of £7 million per annum- identified as enough for the Airport to remain self-sufficient.

- Increases in Airport charges to bring Jersey fees and charges closer to those at U.K. regional airports were appropriate.

- A duty-free shop should be provided.

- Meteorology and Electronics should consider their charges to non-airport customers.

- On the basis of the above actions, incorporation could proceed in 3 - 4 years after the Service Review was fully implemented.

The Review made it clear that Jersey Airport was unlike any other in the British Isles. This is because the Harbours and Airport Committee provides for a commercial airport tasked to make a profit and for -

- an international air navigation service to the British and French governments and to other Channel Islands;

- a meteorological department which provides services to non-airport customers paid for out of airport landing dues;

- a Communications Services department which provides electronic systems support to many other States departments but is sometimes supported by airport operating surpluses.

This complexity of operations made bench-marking of the Airport against others in the United Kingdom very complex but the report data showed that in 1997 Jersey Airport offered cheap landing dues when compared with several other regional airports and was very efficient in the use of its 230 staff.

Second, the Committee prepared its own report on the Airport's future in an attempt to set out, clearly, the work which would be required over the next 20 years and the likely cost."Airport Masterplan 2020" was published in April 2002 and estimated the work at £140 million over 20 years.

Its conclusions were verified by Vector Management Limited whose directors investigated every single item in the capital programme. Vector concluded that the Airport 2020 programme was technically satisfactory and a necessary and robust programme of expenditure if the Airport were to continue to operate in the future as it was doing in 2000.

Third, the Policy and Resources Committee commissioned a study by consultants OXERA to consider how the Airport benefited the Island, to assess the degree of any "funding gap" and to report on the potential for applying the principle of "user pays". OXERA identified a number of key issues -

- The number of passengers using the Airport has been falling at a rate of around 2% per annum in 1998, 1999 and 2000 accelerating to 5% in 2001. The downward trend in passenger numbers reflects Jersey's position as a "destination" airport (i.e. there are few passengers using the Airport for interlining and there is limited traffic originating from the Island). The Island's position as a tourist market relative to competing locations in the Mediterranean and elsewhere is weaker than in the past.

- The Airport derives only 20% of its revenue from non-aeronautical activities; this is in contrast to U.K. airports where often 50% is derived from non-aeronautical activities. Jersey Airport is, thus, more reliant on fees and charges to fund its operation than other British regional airports of a similar size.

- There are a large number of capital projects which need to be undertaken over the next 20 years if the airport is to continue to operate at the same standard of service as it does today. These projects are replacement or refurbishment of assets which are/will be beyond their useful lives. Such is the size of some of these projects that it would require the Airport to borrow to pay for them. For example, aprons and runway replacement by 2007-8 will call for nearly £30 million worth of expenditure at 2001 prices.

- Jersey Airport funds a range of non-aeronautical activities (such as public service meteorology) and the costs of these currently have to be met from landing and passenger charges.

- Jersey Airport is effective in terms of operational expenditure so the scope for significantly reducing the size of any funding gap through cost efficiencies is limited.

The OXERA report labelled the Airport a strategic asset of the Island with a vital role to play in maintaining links with key locations in the United Kingdom and Europe to enable the finance and tourism industries to operate. And it highlighted the following points -

- The Airport generates a substantial amount of cash on operating activities.

- The States wished the Airport to fund its entire capital programme from operating surpluses or borrowings.

- For the period out to 2020 there exists a "Funding Gap" of around £4 million per annum at 2000 prices.

- Loan structures should be linked to the life of the asset being invested in.

The report suggests that the Airport's cash position is not sufficient to meet the investment requirements up front - additional financing will be required - but that with increases in airport fees, charges and some additional non-aeronautical income the Airport could be self-financing. In other words, it could pay its way and meet the servicing costs of the capital expenditure plan spread over a number of years. Its most controversial recommendation was that part of the additional financing should come from an increase in landing dues at a rate of £3.00 per passenger: an extra £1.50 in January 2003 and a further £1.50 in January 2004.

The authors of the OXERA report also considered the question of public funds being used to support the Airport and felt that such a move could be justified because -

- The Airport is a strategic asset for the Island providing lifeline links to the mainland and contributing to the tourism and business sectors. The value to the Island of the Airport is considerably more than the costs of running it.

- If the States or public opinion denies the Airport the ability to adopt a more commercial position (i.e. removing duty free purchasing or a capping of airport charges) then there is a compelling case for the States to "compensate" the Airport so that it remains operationally and commercially viable; in other words, it will need public funding.

- The Airport provides a number of public service activities which are not remunerated such as public service meteorology. The funding of these services by airport users is not economically efficient, nor is it equitable that airport users should pay for the broader public meteorological service or other public services.

- Some parts of the capital programme such as the replacement of the aprons and runway and the remediation of the fire training ground can be clearly identified as major infrastructure projects which in the United Kingdom or Europe would attract European Investment Bank funding (at 1% rate of interest) or infrastructure grants from the European Community. The States should consider infrastructure payments to the Airport as grants, interest-free loans or a combination of both.

These 3 reports provide the essential background to the current debate. The OXERA report came out strongly in favour of laying the costs of running the Airport, and investing in its future, at the door of the user - including the States. If this is the way forward there is a need to -

- recover from general revenues the sum of money required to meet the cost of what can be described as “community services”;

- recover from either the airlines or general revenues the discount presently offered for certain airport services;

- increase the income obtained from trading activities associated with the Airport.

These requirements are expanded upon as follows.

Community services

Like most States-funded institutions, Jersey Airport grew up after the Occupation without much thought being given to who paid for what. Different charging regimes applied at different stages of its development but the background was always the general affluence of the States. In the late 1990s the Harbours and Airport Committee started to analyse whether the Airport’s running costs were being apportioned correctly. It considered, first, the “community services”.

Meteorology

The Meteorological department has been established at Jersey Airport under the Harbours and Airport Committee since the end of the last war. It provides a range of non-aeronautical services (a few of which are obligations of the States of Jersey for maritime warnings) and certain aeronautical forecasts required for commercial flying. The Department with 21 staff cost £1.84 million in 2001, of which some £650,000 was reclaimed through the Eurocontrol Memorandum of Understanding dated February 2000 leaving approximately £1.19 million as an expense against landing fees which should be paid for from central funds.

Generally speaking, in Europe and U.K., all public service meteorology is provided free of charge to the public and it is estimated that, on a comparison of populations, the States of Guernsey should contribute approximately £350,000 because it currently receives its public meteorological forecast services free from Jersey Airport. Additionally, OXERA identified that it is clearly wrong to charge air passengers for a non-aeronautical/public service meteorological service.

An alternative to having a dedicated meteorological service would be to seek provision of aeronautical meteorology and public service meteorology from another source. As recommended by OXERA, approaches have been made to the United Kingdom Meteorological Office (UKMO) and Météo France for information. The projected cost of a full aeronautical service from UKMO is approximately £400,000 including a number of ancillary services provided by Jersey Airport as part of the UKMO agreement. No account of provision of an aeronautical service to Guernsey has been made. Alternative costings have been sought for the provision of a full public service and maritime meteorological facility from the U.K.; the quote for a “day office” in Jersey (0600-2000hrs daily) would be approximately £450,000 per annum to include 4-8 staff.

Proposals from Météo France for an aeronautical and non-aeronautical service rely on keeping 50 to 60% of the present staff numbers at a cost of approximately £1.2 million per annum.

Early opening

The Airport is staffed from 05.15 hrs daily in order to accommodate early morning newspaper flights 7 days a week and mail flights on 5 days a week. The Newspaper Publisher's Association of U.K. contributes £182,000 for this early-opening facility using freight sheds for distributing the newspapers. Jersey Post pays £130,000 per annum for its early use of the Airport. Aircraft landing fees are paid in addition to this but are discounted for freight aeroplanes; this is discussed below.

A previous Harbours and Airport Committee was persuaded by both the local newspaper importers and the Postal Committee in the early 1990s to continue its policy of seeking to recover only 50% of its early opening charges as a "community service". There is a shortfall of approximately £312,000 for this early opening provision as the Airport could be staffed from 06.15 hrs daily in order to meet the first departures at 07.00 hrs.

The Committee intends to negotiate with the Newspaper Publishers Association and Jersey Post using up to date information/statistics and including the benefit that the Airport gets from landing fees before seeking to revise any payments made; these would not alter before 1st January 2004.

Ambulance flights

Jersey Airport maintains the ability to open at any time for medical evacuation flights. Islanders have come to expect this as routine but should be aware that it is highly unusual among British airports; indeed, a recent mercy flight from Jersey encountered problems when Southampton Airport refused to open out of hours. The Airport is seeking to recover the costs of these flights and is negotiating with the Health and Social Services Department. Dependant on the number of flights performed out of hours, the Committee will be seeking to recover its costs which could be up to £100,000 in 2002.

Communications services

This is a division of the Airport Department of Electronics which provides electronic systems and services to non-airport customers from a separate premises at St. Ouen. It charges customers for all work undertaken and has a target of making 15% profit margin over expenses and establishment costs; this equates to approximately £60,000 per annum but is not profitable every year. It is a non-core airport activity but, as it provides many services for other States Departments (including Police, Fire and Ambulance, H.M. Prison, Public Services, Housing, and the Harbours Department) any shortfall in income should be paid by the taxpayer rather than by Airport landing fees. This Department could be transferred elsewhere but, provided it makes a profit, there is considerable synergy between it and the remainder of the Department of Electronics.

Hidden subsidies

The study by the Harbours and Airport Committee also identified a number of services whose cost was being met partly by the user and partly by the revenues of the Airport - a hidden subsidy.

Freight flights

During the mid 1980s, the Harbours and Airport Committee agreed to discount freight flights (commercial flights with no passengers on board) after pressure from other committees. This followed a 3 week seaman's strike in the United Kingdom. The Committee agreed that freight flights would operate at approximately 60% of the landing charge of passenger flights; this policy is being reviewed as part of the review of the charges structure for the Airport. It is a discount worth approximately £175,000 to the carriers collectively per annum.

Inter-Island flights

Aurigny Air Services Ltd has long enjoyed substantial discounts on aircraft flying between the Islands and for the passengers carried on those flights. In 2001 this discount was worth about £440,000 to Aurigny.

General aviation

Reduced landing fees have been put into operation for visiting private aircraft weighing under 3 metric tonnes. Some increase in business has been generated, not at much profit to the Airport but rather to the Island as a whole because the pilots and their guests stay in hotels and eat out. In parallel with this marketing exercise, Jersey Aero Club Limited agreed to handle the passengers from those aircraft and the charge paid by Jersey Airport (£25,000 per annum) is a large slice of the landing fees received from those private aircraft of £50,000. This is a stimulus for Tourism, not a profitable exercise for the Airport.

Increasing trading income

Having established that, for various reasons, a number of services were being subsidised from general revenues, the Committee considered how its trading income might be increased; rentals, concession fees and car parking charges are all included in this section.

Duty-free shop

Passengers at international airports like Heathrow and Gatwick use their waiting time between flights to shop. Jersey, however, is a destination airport and the scope for duty free sales is limited. Nevertheless, the Duty Free experiment in Jersey is continuing and the Committee will benefit from a substantial income. Alpha Airports Group plc., the Airport's long-term trading partner, is in the process of upgrading the other retail outlets, Café Rapide, the bookshop, the perfume shop and Island Quarters - the departures hall food court.

Channel Islands Control Zone

The agreement between the French and British governments relating to the Channel Islands Control Zone will expire at the end of 2011. However, every 3 years a new financial protocol is to be negotiated which, for the period 2000-2002, repaid £3,500,000 (in euro) for Jersey Airport's functions as an air navigation service provider. The "en route service" provided relates to Air Traffic Control in the Zone for all aircraft departing or arriving at Jersey, Guernsey and Alderney or flying through the Zone but excludes approach and aerodrome control at each airport. It covers the cost of staff, the provision of buildings, installations, equipment and electronic systems (radars etc), meteorological services and some costs relating to administration and training. Negotiations have commenced for 2003 - 2005 but are not yet concluded.

Any money received is on a cost-recovery basis to a set of agreed international principles with no profit allowed. If, at some stage in the future, the cost recovery does not meet full costs then the Committee will, together with the States of Guernsey, have to consider whether to give up the responsibility for the Channel Islands Control Zone. This could lead to staff reductions and dramatically reduce the rate of aircraft arrivals and departures at all 3 Channel Islands' airports during busy periods.

Car park charges

OXERA recommended that additional revenue should be raised from users of all parking facilities at the Airport. An indicative £300,000 per annum has been modelled by OXERA if all these charges are implemented -

- Public car parks have now had all free time removed so all users of public car parks are contributing.
- Coaches and minibuses should pay 50p per entry to the arrivals car park by using a swipe card which would count the number of vehicles through the car park. Free swipe cards are issued at present.
- Taxis/cabs should pay 50p per pick-up at the Airport; application should be made to the appropriate Committee for a £1 Airport surcharge which will be split between the taxi/cab and the Airport in a 50:50 basis.

The costs

What has been said above is set out in the table at Appendix 1. It gives a fair idea, at a glance, of who is paying for what and the areas in which the Committee believes income could be increased. Implementing these changes would not only make the distribution of costs and income fairer; it would also raise an additional £2.27 million every year. And that £2.27 million would make a significant contribution to the Airport's funding gap.

The funding gap

The OXERA report identifies the financing shortfall of £2.65 million each year, averaged over 20 years, to satisfy the capital expenditure programme. The report assumes average operating surpluses of about £3.0 million each year but the Committee believes surpluses will reduce with declining passenger numbers; it has calculated £700,000 per annum to correct this. Also, OXERA assumes borrowings over the whole life of all assets including 40 years for concrete; the Committee has been advised by its bankers that a maximum of 20-year loans was preferable. The Committee has calculated this will cost £700,000 more per annum in servicing charges -

	£ million
OXERA financing gap	*2.65*
Declining passenger numbers	.70
Servicing charges	.70
"New money" needed per annum	4.05

The Committee has calculated that the "new money" may be raised by the following -

	£ million	
Community services costs recovery	*2.3*	*(see Appendix 1)*

OXERA - new income, duty free, parking etc.	1.0
£1 increase per passenger	.75
Total	4.05

This table shows that it may be possible to produce the £4.05 million of new money needed to service the capital projects and raise passenger charges by only £1.

It has the advantage of redistributing the costs of running the airport fairly before placing any additional burden on passengers through an increase in dues. Such an approach should be welcomed not only by airlines and their passengers but by the Tourism Committee and the industry who have repeatedly said that airline fares are price-sensitive.

This rebalancing of the Airport's finances will require an element of public funding and the proposition reflects this by charging the Finance and Economics Committee appropriately. If the proposition is not approved by the States there would, obviously, be a need to replace public funding with a new income stream.

Increase in passenger numbers

Some have suggested that the course of action to follow is to *reduce* landing fees and passenger dues in order to attract the successful low-fares airlines and encourage the existing operators to further promote their low fare offers. The principle is that the airlines would carry sufficient *additional* traffic not only to replace the "missing" revenue to the Airport but also to produce additional revenue.

This is an argument which has been considered carefully by the Committee. Neither the Committee nor the promoters of such a scheme can say whether it would work. However, increased passenger numbers will not come overnight and any reduction in revenue from Airport charges would have to be safeguarded, in the interim, by the States. It is, in effect, a public subsidy rather in the way that the Chamber of Commerce and Industry in Dinard has chosen to pay Ryanair around £600,000 per year to serve its airport. The Committee cannot say for how long such a subsidy would be required but it is clear that the risk in trying to woo the low-fares airlines would have to be carried by the States without any guarantee of getting the money back.

From the Airport's point of view, all passengers enjoy the same level of facilities and service whatever fare they have paid; there are risks in reducing landing fees and service charges by so much that a vital part of its income is removed. The low-fares airlines, particularly Ryanair, claim that the additional passengers which will be generated by this move will replace the lost income over time, but none are prepared to give guarantees. Ryanair, which proposes a daily service to and from Stansted but wants to pay only 10% of the normal handling fee for 12 years, is effectively asking for a subsidy of £650,000 per year (£7.8 million over 12 years).

The Jersey Transport Authority has said, publicly, that Ryanair would almost certainly gain a licence to fly from Stansted. No formal application has been received but it is clear that the JTA does not oppose the concept of a low-fares operation: on the contrary - in 1997 it licensed EasyJet to operate from Luton but that airline concluded that Jersey's population was too small to support the service.

So, the question of whether Ryanair flies to Jersey has always been - and remains - a question of subsidy. The Harbours and Airport Committee is concerned that, if such concessions are granted to Ryanair, they will be demanded by the full service airlines operating on other routes - notably Gatwick and London City.

The Committee has discussed this point with the British Air Transport Association (BATA) whose members include British Airways and Flybe and recognises that it may not be able to reduce fees to the level demanded by Ryanair. The aim for the States must be to create a climate in which low-fares carriers will consider serving Jersey (with all the attendant publicity attaching to such services) and in which the existing full service airlines will be incentivised to offer additional low fares.

Ryanair is proposing a Stansted return fare of £88.00 (including taxes). Increasingly, this compares unfavourably with fares offered by the full service airlines. British Airways and Flybe have recently removed a number of restrictions to offer fares of £59.00 return to Gatwick (including taxes). The Southampton service has, for the past 3 years, guaranteed 50,000 seats every year at £29.00 single (excluding taxes) - a deal negotiated by the Jersey Transport Authority when the licence was awarded to British Regional Airlines Limited.

The Committee considers that it is for the proposed Committee for Economic Development or the Tourism Committee to identify to the States the level of subsidy that they believe would be justified to encourage and sustain low fare services provided by existing and prospective carriers.

Future airport charges

If the Airport charges have to be increased to meet the funding gap, a number of different charging mechanisms can be considered.

For some years the Airport operated a winter/summer pricing differential (congestion charging) but, at the request of the scheduled airlines, this was abandoned in 1987. It was replaced with a flat-rate system all year round.

Landing fees are based upon the weight of the aircraft and the same service charge is applied to every passenger regardless of the price of their tickets. This system is increasingly under attack, particularly from the new “low-fares” airlines, as a disincentive to the introduction of the type of very low fares enjoyed elsewhere in Europe.

The Harbours and Airport Committee sets out below a number of different mechanisms which may be sufficiently attractive to airlines to maintain or reduce the fares currently on offer in order to generate additional traffic.

Winter/summer differential

This is favoured by some of the year-round scheduled service operators who are faced with loss-making winter services which need to be sustained by the profits earned in the summer months. However, any reduction in the Airport charge in the winter months would need to be compensated for by an increase in the charge in the summer months, a policy unlikely to gain favour with the tourism industry.

Off peak/peak differential

An alternative approach is to increase the Airport charge for those days when the capacity of the Airport is under greatest pressure (i.e. summer weekends) and reduce the charge for those days when the pressure on the capacity is at its lowest. This would be similar in its effect to the winter/summer differential and would be equally unlikely to be favoured by the tourism industry.

According to fare charged

Some airlines have argued that passenger dues should be directly related to the air fare charged. If this is not done, the Airport charge can become a high proportion of the total travel cost when low promotional fares are offered. While this arrangement appears to be an equitable solution it would be difficult to apply and to police as only the airline knows the fares actually paid.

According to the number of passengers carried

Charges might be based on the number of passengers carried by using a set of “bands” within which different charges would apply. As more passengers were carried, the charges would reduce. This would be an incentive to airlines to sell more tickets, probably at the lower end of the fare scale, and could enable Jersey Airport to establish a partnership with airlines.

For a full service airline it would certainly be possible to devise charging bands based upon its historic figures of arriving and departing passengers. For a low-fares airline it would be a way of moving towards the airline’s demand for greatly reduced dues while sharing the risk between the airline and the States.

Further consultation

Following the decision of the States on the overall approach to the funding of the Airport, it is proposed to enter into further discussions with the airlines to see whether a consensus can be reached on the most equitable way of distributing increased Airport charges having regard to the mechanisms referred to above.

Incorporation

This Proposition also seeks the rescindment of the States decision in P.213/98 which approved in principle the incorporation by 2002 of Jersey Airport Limited as a company wholly owned by the States.

The Committee is strongly of the belief that in the future the Airport requires some form of corporate structure that gives it the ability to act commercially whilst taking account of its strategic role. The Trading Committee status is unsatisfactory in that it allows too much political interference on a day to day basis and does not permit commercial situations to be reacted to in a timely manner.

Conclusions

The Harbours and Airport Committee acknowledges the States decision in 1998 that the Airport should be financially self-sufficient. However, having examined all the details of current and projected future expenditure and revenue streams, together with various permutations, financial self-sufficiency will not be possible without increasing landing charges. The Committee believes that, at present, its remit from the States is to continue to work towards financial self-sufficiency and, if possible, to remain outside the States' capital expenditure programme.

It is unfortunate that, 20 years ago, when the Airport was paying money into the Treasury, no-one thought about the long-term reinvestment needs of the Airport infrastructure. If those profits remitted to the Treasury in the past had been "ring fenced" for future infrastructure investment then there would not now be a "funding gap". The Committee believes that the funding gap of some £4.05 million of new money will be needed each year to fund the capital programme until 2020.

OXERA states "… **the Airport is worth considerably more to the Island than the cost of running it**". It is a strategic asset without which we would not have achieved the success of the finance industry nor would we have had such a successful tourism industry.

There is a popular fallacy that the taxpayer has poured money into the Airport. Nothing could be further from the truth; the Airport has been a net contributor to central funds over many years.

Who pays for the running of our Airport? The answer is -

Visitors to the Islands	85%
Local residents	15%
Taxpayers	Nil

The Committee believes that if all the Community Services identified on pages 7-9 are paid for and if all the commercial initiatives identified by OXERA bear fruit then it may not be necessary to increase the landing charges by more than the cost of living for some time to come i.e., the £1 surcharge could be foregone. The Committee believes that any shortfall should be met from central funds and any that subventions, discounts or subsidies should be paid from general revenues to avoid any conflict of interest between the Airport and its major customers.

Recommendation

In this report and proposition, the Harbours and Airport Committee is recommending a reapportioning of the Airport's costs to enable it to adopt a consistent approach to existing airlines and prospective carriers whilst operating the Airport in a safe, efficient and profitable manner.

APPENDIX 1

COMMUNITY SERVICES AND HIDDEN SUBSIDIES

Service	User	Total value or cost	Cost recovered from user p.a.	Shortfall currently paid by the passenger	Comments
ight ,hts	Aircraft operators	£437K	£262K	**£175K**	Freight flights enjoy a 40% discount on landing charges.
:r-Island ,hts	Inter-Island aircraft operators	£1.1M	£660K	**£440K**	Inter-Island flights enjoy a 40% discount.
·ly opening	Newspapers	£364K	£182K	**£182K**	50% discount currently given.
	Mail	£260K	£130K	**£130K**	50% discount currently given.
ıch/bus ilities	Coach/bus companies	Loss of car parking income, estimated £10K	Nil	**£10K**	Coaches occupy short-term car park free of charge.
κis	Taxi Operator/rank drivers	Loss of income estimated at £50K	Nil	**£50K**	
ıbulance ʒhts	Health and Social Services Committee	Staff on recall and available overnight; up to £100K	Nil	**£100K**	Operating costs to be charged @ £2,050 per hour or full extension charge.

Service	User	Total value or cost	Cost recovered from user p.a.	Shortfall currently paid by the passenger	Comments
teorology	States of } Jersey } States of } Guernsey } States of } Alderney } as the public	£1.84M	£650K	**£1.19M**	Cost of an aviation only Met service approx. £130K from U.K.; about £450,000 if reduced staff in Jersey.
			TOTAL	**£2.277M**	

Values at 2002 prices

APPENDIX 2

COMMENTS OF THE JERSEY TRANSPORT AUTHORITY

The Jersey Transport Authority is responsible for looking after the interests of all users of the Island's air transport and sea shipping services. These interests have been reflected in the Authority's statements of policy over the years. On air transport the Authority's policy has been to seek to ensure -

- the provision of air services from as many points of origin in the United Kingdom and the Continent of Europe as possible;
- the provision of sufficient capacity and frequency to meet all categories of demand;
- the provision of services at the lowest possible cost;
- that existing traffic levels are sustained and traffic growth is encouraged;
- the continued viability of the air services provided upon which long-term security of service provision depends.

In respect of the Airport this policy calls for -

- the provision of adequate airport facilities to accommodate present and future aircraft movements and passenger throughput;
- a level of Airport charge that encourages airlines to provide air services at the lowest possible cost to the customer.

With the latter point in mind the Authority shares the Harbours and Airport Committee's view that passengers using the Island's air services should not be expected to pay for -

- non-aeronautical/public service meteorological services;
- early opening of the Airport for newspaper and postal services;
- ambulance flights;
- communication services provided to non-Airport customers;
- discounting freight flights.

The Authority also shares the Harbours and Airport Committee's view that every opportunity should be taken to maximise the Airport's trading income through the duty free shop, car park and related charges, and the leasing of space to operators and other commercial users.

The Authority accepts that users of the Airport should contribute to the cost of providing Airport facilities upon which the landing and taking off of aircraft, and the handling of passengers and freight, depends. However, it should be recognised that the Island is in competition with other destinations for business and tourist traffic and in the European Union it is not unusual for the European Commission and/or national governments to meet some of the cost of investing in transport infrastructure. This was recognised for the investment at Elizabeth Harbour, and also for the investment in the Airport passenger terminal, and justified part of the cost of those facilities being met out of general revenues. In the view of the Jersey Transport Authority similar arguments apply to replacement investment for the runway and aprons at the Airport. The Authority agrees with OXERA that this should be reflected in infrastructure payments to the Airport by the States as grants, interest free loans or a combination of both. Investment that is required to sustain the Airport as a strategic asset should be met in part from -

- a percentage of the capital expenditure being met from general revenues; or
- a proportion of the capital expenditure being financed by an interest free loan from the States, plus also a degree of deferred repayment; or

- a proportion of the interest and repayments on a private loan obtained by the Airport being met from general revenues.

The Authority considers that it is important that the States should decide in principle whether any part of the future capital expenditure of the Airport should be met from general revenues rather than from the users.

The Authority has given particular consideration to the section of the Harbours and Airport Committee's report dealing with increasing passenger numbers and future Airport charges.

The Authority is encouraged by the further steps that are being taken by those airlines currently serving the Island to pursue a low fare strategy. Most of these airlines have done so without demanding the substantial reductions in Airport charges that the so-called low fares airlines have demanded as a price for providing air services to and from the Island. This does not mean of course that the existing airlines are satisfied with the present level or structure of Airport charges. Some if not all have called for -

- a change in the basis of the Airport charge so that it relates only to the passengers carried and not to the all up weight of the aircraft as well as to the passengers carried;

- the level of charge to be varied to avoid the present high proportion of the fare that the Airport charges represent when low fares are offered to the travelling public.

Reference also has been made in the Harbours and Airport Committee report to the possibilities of a winter/summer differential, an off-peak/peak differential, a charge according to the fare level, and a lower charge if more passengers are carried. A report prepared by consultants for the Harbours and Airport Committee has identified the difficulties that would be experienced in attempting to implement changes to the present charging system. The report also refers to ways in which an 'ability to pay' principle could be reinforced and passenger growth might be encouraged. However it also points out that with any change inevitably there will be losers as well as gainers and the losers can be expected to object vigorously to any such change that is proposed.

In the view of the Authority support from general revenues should be made available -

- to meet the cost of "community" services presently being paid for by the users of the Airport;

- to help meet the cost of the replacement infrastructure as a strategic investment.

The Authority considers that if there are grounds for supporting particular air services it should be in anticipation of the effect of doing so on passenger numbers. What might be justified would be some form of underwriting to cover what should be a short period between the introduction of a lower Airport charge and a consequential impact of passenger numbers on Airport revenues.

The Jersey Transport Authority considers it important that there should be a level playing field in the treatment of competing airlines. If the view is to be advanced that Airport charges should be reduced to encourage the offer of more low fares to promote traffic growth, or the retention of existing traffic, then in the view of the Authority such a policy must be applied to all airlines offering low fares. The Authority considers there is little if any benefit to be gained from offering lower Airport charges to an airline providing a low fare service out of, say, Stansted if the effect is to divert traffic from Gatwick and London City to such an extent that the continued viability of those services is adversely affected, particularly if the airlines providing these services are also offering fares at least as low as the new operator out of Stansted.

The Authority considers the States should debate and decide in principle whether general revenues should be used to encourage the provision of new services, and the offer of lower fares by new and/or existing airlines; and if so whether the proposed Committee/Ministry of Economic Development jointly with the Harbours and Airport Committee should be requested to bring forward detailed proposals for implementation in 2004, on the basis that general revenues are already fully allocated for 2003.