JERSEY AIRPORT: FUTURE STATUS AND FINANCING

Lodged au Greffe on 20th October 1998
by the Harbours and Airport Committee

STATES OF JERSEY

STATES GREFFE

175 1998 P.213

Price code: B

PROPOSITION

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

(1) to agree that Jersey Airport become financially self-sufficient in 1999 and remain so thereafter, and that this objective should be achieved by means of -

(i) increasing airport charges with effect from 1st April 1999; and

(ii) writing off the existing capital debt of the Harbours and Airport Committee in respect of the Jersey Airport;

(2) to charge the Finance and Economics Committee to take the necessary steps to secure the writing off of the capital debt (approximately £10 million) of the Harbours and Airport Committee in respect of Jersey Airport;

(3) to approve, in principle, the incorporation by 2002 of Jersey Airport Limited, as a company wholly owned by the States, and to charge the Harbours and Airport Committee to present the necessary proposals to the States for approval in 1999.

HARBOURS AND AIRPORT COMMITTEE

NOTES: 1. The text of the report accompanying this proposition was published separately.

2. The Policy and Resources Committee comments are to follow.

3. The Finance and Economics Committee believes that the main decision the States should make is whether they wish the Airport to become self-sufficient or not from 1999 with the intent that it should be moving towards incorporation by 2002.

The Airport's Strategic Service Review, conducted by BAA Plc., identified the need for an additional £4 million income per annum, in order to fund the Airport's capital investment plans. This can be achieved by -

(i) increasing the Passenger charge by an average of £6 per person; **OR**

(ii) increasing the passenger charge by an average of £3 per person, with a capital write-off of approximately £10 million. The write-off will remove the need for the Airport to make any capital repayments to the States; **OR**

(iii) increasing the passenger charge by an average of approximately £3.50 per person, and introducing a duty free outlet at the Airport. The effect of this on the overall Island economy is currently being assessed by the Business Unit of Strathclyde University, and the results of this study (which encompasses many other aspects of the Island's economy) should be known by the end of 1999.

It is estimated that either of the first two options presented will generate the required additional income for the Airport.

At this time the Finance and Economics Committee does not recommend the third option (duty free), as the overall effect (via Impôts and Income Tax receipts) on the Island's economy could be detrimental.

Passenger Charge

In the first instance the Harbours and Airport Committee proposes that the Passenger Charge is raised by an average of £6 per person, as recommended by the Strategic Service Review.

This charge will be reduced to £3 per person should the States agree to write off the outstanding Capital Debt of the Airport, at approximately £10 million.

The impact on the Tourism and other industries in the Island has not been assessed by the Airport, however, both Committees believe that an increase of £3 should be more acceptable than an increase of £6. As the Harbours and Airport Committee has indicated that the introduction of the charge will be phased, the impact on Tourism in any one year should be decreased.

Increasing the charge by only £3 per passenger should result in approximately £2 million additional income per annum. The Capital write-off will enable the Airport to retain an additional £2 million per annum which would otherwise have been repayable to the Capital Fund.

Should the States approve the introduction of a £6 charge, then the capital write-off will not be required.

Capital Write-off

A precedent has been set in the write-off of major infrastructure projects which benefit the Island as a whole.

The cost of the Port of St. Helier development was written off in 1992 and 1994 (capital outstanding at that time - £17.5 million). In addition, approximately 50 per cent of the cost of the re-profiling of the Airport runway was written off in 1992 (£1.7 million) for the same reasons.

The write-off of approximately £10 million relates to the existing Capital debt of the Airport, **excluding** the Airport Terminal Development. The current balance to be written off totals £9.3 million, however, the projected expenditure to the year-end on projects still to be completed is over £645,000, bringing the amount to be written off to approximately £10 million. The exact amount to be written off will only be known at the year-end, and the write-off will take place in January 1999.

The States' funded element of the cost of the Airport Terminal Development is also to be written off by the Finance and Economics Committee in the 1999 Budget in the sum of approximately £13.8 million. This was agreed in principle by the Finance and Economics Committee in 1995, when the development was commencing, but could not be actioned until completion of the project. The write-off is in line with information included within the report accompanying P.75/95 "Airport Terminal Development" - which stated that the States' funded project cost would be written off upon completion. Although not a part of this Report and Proposition, the Finance and Economics Committee believes that it is important that the States are made aware of this related transaction.

The £12 million privately financed element of the Airport Terminal Development will continue to be funded by the Airport on an annual basis, and will not be written off by the States.

A schedule is attached (Appendix 1) showing the Airport's capital balances currently outstanding, together with details of projected expenditure to the year-end on projects not yet complete.

Effect on the States

The write-off of the Airport's Capital debt will have a nil effect on the budget for 1999, as the book cost of the write-off in General Funds expenditure will be offset by the credit to the Capital Fund. However, the effect in future years will be to reduce the amount repayable from the Airport to the Capital Fund.

Should this Report and Proposition not be approved, it will mean that alternative funding will have to be found for the Airport's Capital spending plans, and this will affect the proposed States' Capital programme.

Incorporation

The 1995 Strategic Policy Report and Action Plan "2000 and Beyond" recommended that the "States Trading Activities be structured and organised in the most effective way to meet the challenges of the future". The Committee for Postal Administration and the Telecommunications Board have received States' approval for incorporation into Limited Liability Companies, wholly owned by the States. The Harbours and Airport Committee seeks to do the same for the Airport.

As a step towards this, the Harbours and Airport and Policy and Resources Committees believe that Jersey Airport should be self-financing.

The options put forward by the Harbours and Airport Committee should have the same financial effect, however, it would be easier for the Airport if it had no capital debt prior to incorporation. This follows the lead taken by the other two Trading Committees, who intend to repay their capital debt prior to incorporation.

Conclusion

Looking towards incorporation, and assessing the potential impact on Tourism and other Island industries, the Finance and Economics Committee believes that the proposal to increase the passenger charge by £3, with a capital debt write-off of approximately £10 million (excluding the Airport Terminal Development - to be written off separately) is the best option at this time, as it limits the impact on the passenger, whilst providing for the future capital needs of the Airport, and results in the Airport being in a strong financial position upon incorporation.

The Airport Terminal Development will be written off in the 1999 budget as previously advised to the States.

Should the proposals be agreed, the Airport should fund **all** future capital projects from its Trading Fund.