

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* ECONOMIC DEVELOPMENT

REVIEW OF AIR TRANSPORT LICENSING

Letter of Comment from the Policy & Resources Committee on the item lodged by the Committee *for* Economic Development entitled "Review of Air Transport Licensing".

HM Greffier
Royal Court House
St Peter Port
GUERNSEY
GY1 2PB

11 July 2018

Dear Sir

**Letter of Comment – Proposition No. P.2018/62 – Committee for Economic Development
– Review of Air Transport Licensing**

The Policy & Resources Committee supports the designation of a lifeline route for each of Guernsey and Alderney. The Committee is of the view that, by definition, there should only be one lifeline route for each island and, in respect of Alderney, this should be the route to Guernsey which then gives access to the full route network available from and to Guernsey.

The formal financial relationship between Guernsey and Alderney stems from a pivotal agreement made between the Islands and the United Kingdom Government in 1948 (“the 1948 agreement”) and the two islands are de facto in fiscal union, although not in political union. Under the 1948 agreement, tax contributions from Alderney accrue to Guernsey and services which are designated as transferred services (including health; education; policing and immigration; and Alderney Airport) are funded by the States of Guernsey. When the 1948 agreement was put in place, the intention was that it would only be a temporary measure whilst the community was rebuilt following World War 2. However, it has remained in place, albeit with some modifications, and inevitably, there have been substantial changes to both the population make-up and the nature of the services provided, particularly in the areas of health care and social care services. The States of Alderney are responsible for domestic services outside the transferred services (e.g. Alderney Harbour, refuse services, social housing, road maintenance and repair) and they are funded by Alderney revenues (e.g. Occupiers’ rates, congé) with an annual top-up from Guernsey (£1.8million in 2018).

Responsibility for the Breakwater in Alderney formed no part of the 1948 Agreement, because at that time the structure was maintained by HM Government. However, in 1987 Guernsey also assumed ongoing responsibility for maintaining the Breakwater in Alderney, as part of an agreed package of measures offered in response to a request from HM Government for a contribution from the Bailiwick of Guernsey as a whole towards the costs of defence and international representation.

Following a decision of the States of Deliberation in February 2016, an analysis of income and expenditure attributable to Alderney is published annually. The total net cost (excluding social security contributions and costs) was £6.8million in 2017 and £6million in 2016 (including £3.3million and £2.7million respectively in respect of the Aurigny operating loss on Alderney routes). With regard to social security attributable to Alderney, it is estimated that benefit payments exceed contributions by approximately £2-2.5million per annum. There are a number of businesses based in Guernsey which benefit from the e-Gaming Sector in Alderney; it is estimated that their annual contribution through personal income tax and social security contributions is in the region of £1.1million per annum. **For comparison, the total per-capita funding deficit in respect of Alderney would equate to approximately £250million for Guernsey.**

It is important to clarify that provision of funding for any Alderney air routes is not an obligation of the States of Guernsey under the 1948 agreement. It is only because Aurigny is now owned by the States of Guernsey and its recent operating losses have been funded by the States of Guernsey through recapitalisation of the company that the Alderney routes have effectively been subsidised by the States of Guernsey.

Given the reliance of Alderney on its transport links, the Committee is of the view that a reasonable level of funding should be made available from the Bailiwick's collective resources to contribute toward the provision of an appropriate level of service on the lifeline route to Guernsey. However, it would be entirely unrealistic to assume that the sum of the current losses on the Alderney routes of approximately £3million per annum could be made available from General Revenue for funding a Public Service Obligation. To be clear, there is no funding set aside for this matter: the provision of this level of subsidy on an ongoing basis would require either substantial expenditure reductions in other areas in order to reprioritise budget, or increasing income through expansion of the tax base.

The Committee is of the view that an important outcome of the Public Service Obligation process will need to be a range of costed service levels so that the appropriate choice can be made. Both the States of Guernsey and the States of Alderney will need to give full and realistic consideration to the appropriate service level and resultant funding requirement together with the funding source and impact on other service areas. Furthermore, the operating arrangements, particularly the opening hours, and costs of Alderney Airport are intrinsically linked with the frequency and timing of flights on the Alderney routes – different services levels could have a significant impact on the Airport's operating costs.

These considerations will inevitably focus on the future arrangements for the use of the Alderney Gambling Control Commission (AGCC) surpluses. The AGCC surpluses are currently being used to fund the States of Alderney capital programme; in particular to address a significant back-log of vital infrastructure works. However, as part of the 2017 Budget Report, the States agreed that, with effect from 2020, the AGCC surpluses will be credited to the General Revenue Account. Therefore, it is important that the extent to which the AGCC surpluses are used to fund a Public Service Obligation is carefully considered and managed to ensure that this does not result in a funding pressure elsewhere. It must also be considered that the level of the AGCC surpluses do fluctuate and should not necessarily be relied upon as a sustainable funding source.

The Policy & Resources Committee is aware that, given the 1948 agreement has been in place for seventy years without fundamental review, there is inevitably some misunderstanding about its scope and obligations; and the range and level of services it covers. It is clear that a full assessment of the financial relationship between Guernsey and Alderney cannot be undertaken in isolation of the 1948 agreement. Therefore the Committee is of the view that a comprehensive review would be beneficial in order to ensure that the terms of the agreement are appropriate and sustainable; and to provide clarity on a number of aspects concerning the relationship between Guernsey and Alderney. This would build on and encompass the findings of the recent review of the financial relationship between the islands, as well as the ongoing work that is being done in response to that review.

The Policy & Resources Committee has mandated responsibility for external relations and constitutional affairs, which includes relations with the other islands of the Bailiwick. Therefore it intends to initiate discussions with the States of Alderney with a view to establishing a joint group to undertake this review and report back to the States. It is anticipated that the 2019 Budget Report will include an update in this regard.

For the avoidance of any doubt, the Alderney Breakwater would not be in the scope of this review; the States of Guernsey have clear obligations for its maintenance and the intention is that these will be fulfilled.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Gavin St Pier', written in a cursive style.

Deputy Gavin St Pier
President