

**THE STATES OF DELIBERATION**  
**of the**  
**ISLAND OF GUERNSEY**

30<sup>th</sup> January, 2019

**Proposition No. P.2018/138**

**Policy & Resources Committee**

**Alderney Airport Runway Rehabilitation**

**AMENDMENT**

Proposed by: Deputy G A St Pier

Seconded by: Deputy A H Brouard

To replace proposition 3 with:

“3. To delegate authority to the Policy & Resources Committee:

- a) To review the Full Business Case to be prepared and submitted by the States’ Trading Supervisory Board for the runway pavement rehabilitation scheme, in accordance with Option 3, with the review considering the overall value for money of the scheme and the ongoing financial obligations for Guernsey to Alderney (including the maintenance and replacement of the runway pavement) following the review of the relationship between the islands; and
- b) Following its approval of the Full Business Case, to increase the existing Capital Reserve vote for the Alderney Airport Project, to a maximum of £12.2 million to fund the runway pavement rehabilitation scheme.”

**Explanatory Note**

*Introduction*

As set out in the Policy & Resources Committee’s letter of comment on the Committee for Economic Development’s policy letter titled “*Review of Air Transport Licensing*”, the formal financial relationship between Guernsey and Alderney stems from a pivotal agreement made between the Islands in 1948 (“the 1948 agreement”) and as a result 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 an airfield) 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 and cost of the services provided.

As set out in the 2019 Budget Report:

*“The total net cost (excluding social security contributions and expenditure) was £6.8million in 2017 (including £3.3million 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. The per capita cost of the Alderney deficit is therefore over £4,000.”*

#### *Background to project*

The rehabilitation of the runway at Alderney airport has been a project in the capital portfolio since 2013. It was proposed as a project following an engineering inspection which identified numerous essential maintenance requirements for both the grass and asphalt runways. The original estimate for this essential work was in the order of £2m.

Following the development of the project over a number of years and the consideration of numerous options, including the extension of the runway to be able to accommodate larger aircraft, the States’ Trading Supervisory Board is now recommending that the existing pavement surfaces be restored to provide a longer life for the runway, including re-widening and other improvements, as the option which optimises public value. This option is expected to cost in the region of £12.2m.

#### *Policy & Resources Committee’s comment on project*

The Policy & Resources Committee wholeheartedly commends the structured and systematic approach to the development of detailed expenditure proposals through the use of a business case. Such an approach should ensure that all options are carefully considered, resulting in a preferred option which best meets strategic

objectives and represents value for money, notwithstanding that the preferred option may not be the least cost solution.

The 1948 agreement requires that an *airfield* is provided in Alderney as a transferred service and this obligation is now met through the provision of Alderney Airport which is budgeted to cost some £900,000 in 2018. Taken together with the significant capital investment required to rehabilitate the runway and the substantial subsidy by way of the losses on the Alderney air routes by Aurigny (which have been in excess of £3m per annum in recent years) and which are **not** a transferred service, the Policy & Resources Committee asked that the option appraisal include the examination of a ferry service to replace the current requirement to run an airfield. The Committee is pleased to see that an appraisal is set out in Section 9 of the policy letter but disappointed that this option has been dismissed with little or no detailed analysis based on the requirement of the 1948 agreement for an airfield along with the conclusion that a public subsidy would likely be needed to run a ferry service.

Given the lack of a comprehensive options appraisal on Alderney connectivity, and while the Committee acknowledges that the proposed solution offers best value in terms of the options for refurbishment of the runway, it has not been possible to assess whether the proposed option provides the best value for money overall.

#### *Rationale for this amendment*

Given the reliance of Alderney on its transport links, the Policy & Resources Committee is of the view that it is inevitable that a reasonable level of public funding will be required to contribute toward the provision of appropriate levels of connectivity for Alderney. It needs to be understood and decided what all these costs are, who is responsible for them and how they are to be funded.

The Committee therefore believes that the decision in relation to this project must be made in the context of discussions of how the 1948 agreement will need to evolve to meet the challenges of delivering public services in the 21<sup>st</sup> century. To put the proposed expenditure in context, the recent project to rehabilitate the Guernsey airport's runway cost a total of £69.85m equating to some £1,120 per capita for the population of Guernsey. While acknowledging that the per capita spend is always likely to be higher in Alderney given the small population and the requirement for essential infrastructure, the runway project is expected to cost £12.2m which equates to approximately £6,140 per capita based on the latest population data. This is in addition to the annual per capita deficit referred to above of over £4,000. It is only fair to taxpayers based in Guernsey that they should understand their likely future ongoing financial responsibilities to Alderney (in respect of the airport and overall) in the

context of an overarching agreement governing the relationship between the islands which is fit for purpose in the 21<sup>st</sup> century.

### *Summary*

Therefore, in proposing this amendment, the Policy & Resources Committee, whilst enabling the project to proceed as planned, is seeking to ensure that in reviewing and approving the Full Business Case, the Policy & Resources Committee also takes into consideration: any evidence regarding the likely return on investment provided by the States of Alderney's economic development strategy; the results and any publicly borne costs of the current exercise to establish a PSO for Alderney; a holistic understanding of the economic and fiscal linkages between the islands including the ongoing financial obligations for the maintenance of the asset following the review of the 1948 agreement and the future relationship between the islands.