

**REPLY BY THE PRESIDENT OF  
THE STATES' TRADING SUPERVISORY BOARD  
TO QUESTIONS ASKED PURSUANT TO RULE 14 OF THE  
RULES OF PROCEDURE BY DEPUTY NEIL INDER**

**Question 1**

*How frequently does the States' Trading Supervisory Board (a) request Aurigny's financial reports and forecasts, (b) receive Aurigny's financial reports and forecasts and (c) formally meet with Aurigny to discuss their financial reports and forecasts?*

**Answer**

The States' Trading Supervisory Board (STSB) has three established mechanisms for meetings with Aurigny:

- a) Firstly, formal regular shareholder meetings between nominated representatives of the STSB and Aurigny. The STSB is represented at these meetings by myself as President and one of its non-States Members, Mr Stuart Falla. Aurigny is represented by its Chairman, Chief Executive and Finance Director.

The purpose of these meetings is to review and discuss: strategic matters, financial performance, including management accounts and forecasts; the company's performance against its shareholder objectives and guidance; risk and assurance issues; and significant operational issues and updates. Accordingly, at the STSB's request, Aurigny submits its management accounts and forecasts to the STSB for discussion at those meetings.

These meetings are planned to be held on a quarterly basis, but the schedule or frequency may be adjusted during the course of the year to take account of other ad-hoc occasions where the full STSB may have had reason to meet with Aurigny. Notes of the meetings are circulated to the full STSB at subsequent Board meetings.

- b) Secondly, the Company's Annual General Meeting, which includes receipt of its audited annual accounts. Where practical, this meeting will immediately precede one of the aforementioned shareholder meetings and both will be attended by all Members of the STSB;
- c) Thirdly, ad hoc occasions during the course of the year where Aurigny attends STSB Board meetings to discuss significant matters of shareholder interest, which can include the Company's financial performance.

**Question 2**

*On what dates this year has the States' Trading Supervisory Board formally discussed at its meetings Aurigny's financial reports and forecasts?*

## Answer

Aurigny's financial reports and forecasts have been discussed at the following meetings during 2019:

a) 4<sup>th</sup> February – Shareholder Meeting

The meeting included a discussion on Aurigny's financial reports for Q3 of 2018 and its anticipated year-end position for 2018, which it was noted were within budget.

b) 21<sup>st</sup> February – States' Trading Supervisory Board Meeting

Representatives of Aurigny attended the STSB meeting when discussion included, inter alia, the anticipated negative impact on the company's revenues arising from the Heathrow service, the launch of which had been announced that day. The meeting also included a discussion about the potential impact of the new Southend service, the launch of which had been announced at the end of January. Aurigny provided the Board with a briefing about its plans to enter the Southampton and Jersey routes at this meeting.

c) 21<sup>st</sup> March – States' Trading Supervisory Board Meeting

The meeting noted that the Chief Executive of Aurigny had submitted an initial **projection** of the impact of the new Heathrow service on its revenues and that this has been circulated to Board members. As the Heathrow service was not due to commence until 31<sup>st</sup> March, the projection included a range of impacts based on differing assumptions around its load factors and the extent to which passenger traffic would be new or diverted from other services.

d) 18<sup>th</sup> April – States' Trading Supervisory Board Meeting

The meeting discussed correspondence between the Board and the Committee for Economic Development (CfED) in respect of the Heathrow service (further details on this correspondence are provided in the response to Question 6 below). The meeting also discussed the initial projection that Aurigny had provided of the impact of the Heathrow service on its financial results. The Board acknowledged that these were based on a range of assumptions and agreed that it remained too early to start taking any decisions about potential alterations to the Gatwick services to compensate.

e) 15<sup>th</sup> May – Shareholder Meeting

The meeting discussed Aurigny's management accounts for Q1 2019, noting that these remained within budget, but that it remained too early to determine the impact of the introduction of new routes to Heathrow, Southend and Liverpool (the Heathrow service commenced on 31<sup>st</sup> March, but the Southend and Liverpool services did not commence until 20<sup>th</sup> May and 21<sup>st</sup> May respectively.) The meeting also noted that there was no available indication as to whether the Heathrow service would be extended beyond its initial trial period of 7 months and was not currently for sale on the Flybe website for the winter period. Representatives of Aurigny advised that the impact of the new routes would become clearer

over the coming months and would be available in time to inform the 2020 States' budget process.

f) 16<sup>th</sup> May – States' Trading Supervisory Board

The meeting discussed a planned transfer of Aurigny's existing overdraft from the States to a private sector facility, which it was anticipated would reduce the airline's interest charges by at least £300,000 per annum.

g) 25<sup>th</sup> July – States' Trading Supervisory Board

The Board noted that the CfED had approached the Policy & Resources Committee (P&RC) for additional financial support to enable the extension of the Heathrow service beyond the initial trial period. At the request of the Office of the Policy & Resources Committee, it was noted that Aurigny had submitted a paper to it in June setting out its **projections** of the negative impact the ongoing operation of the Heathrow service would have on its passenger volumes and revenues based on the first two months of its operation. The Board agreed it would want to consider Aurigny's proposed mitigations, acknowledging that it remained difficult to determine the longevity of the Heathrow service and the challenge this created for Aurigny in planning its response.

h) 12<sup>th</sup> September – States' Trading Supervisory Board

The Board considered a paper from Aurigny that set out: its forecast outturns for 2019; its budget scenarios for 2020, which varied according to the outcome of the PSO process for the Alderney routes and whether or not the Heathrow service continued; its projected overdraft requirements for 2020; and, mitigations that Aurigny was considering to address the position. The Board agreed that, given the uncertainty around the future of the Heathrow service and the very fluid situation in the local market arising from the open skies policy, it was too early to consider the implementation of mitigation measures to address the financial position, but that Aurigny should continue assessing these.

i) 2<sup>nd</sup> October – Annual General Meeting and Shareholder Meeting

The meeting included discussion on Aurigny's latest management accounts, its forecast outturns for 2019, its 2020 budgets and the mitigations that Aurigny was continuing to evaluate.

### Question 3

*On what date this year was the States' Trading Supervisory Board advised by Aurigny of the increase in Aurigny's forecast losses?*

### Answer

As I have set out in parts (b), (c), (d), (e), (g) and (h) of the response to question 2, the Board has discussed the initial projections provided by Aurigny of the impact of new services on its revenues on multiple occasions during the course of this year. As part the process, the Chairman of Aurigny wrote to the STSB on 10<sup>th</sup> April setting out a range of likely impacts on revenues for its London and

Manchester services as a result of the Heathrow, Southend and Liverpool services. At that point, the Heathrow service had been operating for 10 days and the Southend and Liverpool services were not due to commence until the end of May, so forecasting the impact with precision remained a challenge. Aurigny undertook to measure the impact on its profitability in more detail and report to the STSB more fully in due course.

As the Board's delegated representatives for shareholder matters relating to Aurigny, Mr Falla and myself, as the STSB's President, met with representatives of Aurigny on 21<sup>st</sup> August. Aurigny's full forecast outturns for 2019 and its budget scenario projections for 2020 were tabled by the airline at that meeting. These were then submitted for discussion by the full STSB at its next meeting on 12<sup>th</sup> September.

#### **Question 4**

*How are the reported increase in Aurigny's losses accounted for, including (a) fuel costs, (b) station and ground expenses, (c) landing fees, aerodrome charges and navigation, (d) aircraft maintenance, (e) aircraft insurance, (f) aircraft leases, (g) tickets, sales and promotions, (h) losses on routes operated by Aurigny and (i) losses due to routes operated by other commercial operators?*

#### **Answer**

In responding to this question, I should note the following:

- The Budget Report<sup>1</sup> summarises the reasons for the increase in losses between 2018 (actual) and 2020 (forecast). In the interests of consistency, the same period has been used for this response;
- The line items set out in (a) to (i) of the question include a number (but not all) of high level cost areas from Aurigny's published accounts, but ignore revenue line items that have been adversely affected and need to be taken into account;
- Aurigny does not publish the financial performance of individual routes for the reasons set out in my responses to 7, 8 and 9 below.

The response therefore seeks to account for the increase in losses at a more granular and detailed level than reporting in accordance with the high level line items identified above.

In 2018, Aurigny recorded an operating loss of £3.6m. This comprised: firstly, losses of £2.8m on the operation of its Alderney services; secondly, £400,000 in overdraft interest; and, thirdly, £400,000 attributable to its other routes and activities.

In 2020, Aurigny is forecasting a loss of £9.6m, comprising of: an operating loss of £8.6m and a potential loss of £1m on the disposal of its two classic Dornier aircraft.

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<sup>1</sup> Article 1 of Billet d'Etat XXI of 2019: The States of Guernsey Annual Budget for 2020 (sections 8.28)

The increase in operating losses of £5m over this period is accounted for in the table below:

	(£m)	Notes
Revenues - Impact of Open Skies	(3.7)	The net effect on revenues arising from open skies and subsidised competition on the Heathrow route.
Alderney Routes – Projected Improvement	0.3	Pending the results of the PSO process, the Alderney services will move from a 3 to a 2 aircraft operation in 2020.
Introduction of ATR72 series 600	1.1	Projected benefits of: improved reliability; reduced delay & disruption costs; and, reduced maintenance costs.
Movement in Oil Prices	(0.6)	In common with most airlines, Aurigny operates a hedging policy and enters into hedging contracts to deliver predictable costs. The market price for crude oil has increased by approx. 20% between 2018 and 2020.
Sterling/US Dollar Exchange Rates	(0.4)	In common with most airlines, Aurigny operates a hedging policy and enters into hedging contracts to deliver predictable costs. The value of Sterling against the US Dollar has declined by approx. 5% between 2018 and 2020, with a subsequent increase in the costs of fuel and certain maintenance activities, which are charged in US Dollars.
Salaries & Wages	(1.1)	Pay awards in 2019/20; responding to skills retention pressures; training as a result of staff turnover.
Aircraft Maintenance	(0.3)	Maintenance tasks required prior to return of leased ATR42 to lessor.
Other	(0.3)	Net impact of other changes.
<b>Total</b>	<b>(5.0)</b>	

Aurigny is planning on providing 902,000 seats across its network in 2020 (including Alderney). The forecast operating loss of £8.6m in 2020 amounts to an average per seat of £9.53 per seat. By way of a benchmark, this compares to a direct subsidy from the States of Guernsey to Flybe of circa £28 for each seat it is providing on the Heathrow service (based on the published subsidy of £825,000 for the first seven months of the service's operation with a daily rotation of a 78 seat aircraft).

#### Question 5

*Has Aurigny lost any handling contracts during 2018-19, and if so, what effect has this had on the company profits in monetary terms and how has this impacted on the company losses?*

#### Answer

Aurigny has previously provided ground handling services for Blue Islands. Blue Islands withdrew from this contract during 2019. The loss in revenues arising from this contract has been partially offset by a reduction in the costs that Aurigny incurred in servicing Blue Islands. There is a contractual dispute between Aurigny and Blue Islands over the latter's withdrawal. Aurigny has advised that publication of the financial effects of the above would prejudice its position in determining this dispute. Therefore, the STSB will not publish any such figures until this dispute has been determined.

Aside from its own flights, Aurigny continues to provide ground handling services for Flybe, Loganair and Eurowings.



## Question 6

*What mitigations have been put in place by Aurigny during 2019 in response to the reported increase in losses?*

### Answer

Any mitigations that might be put in place by Aurigny need to take account of the wider policy considerations for the States of Guernsey. Therefore, very shortly after the launch of the Heathrow service was announced, the STSB wrote to the CfED seeking guidance on the associated policy issues. In its letter, the STSB noted that:

*"...the existing slots at Gatwick were secured by Aurigny for the strategic benefit of the Island. The shareholder objectives set for the airline by the STSB (and its predecessor) require it to operate and maintain control of those slots (up to six daily pairs), but that has been over a period when there appeared to be almost no prospect of access to Heathrow on a continued basis. The question therefore arises as to whether the re-introduction of services to Heathrow means that our strategic reliance on Gatwick can be expected to shift and, as a result, the STSB then has to re-assess those shareholder objectives, especially if what we do eventually see is a redistribution of existing traffic between the two airports. As I have said, I very much hope that will not be the case and that we will see overall traffic levels stimulated."*

The letter went on to ask what the CfED's expectations were for the route to be maintained in the event that the trial proved to be a success, noting that the STSBs intention in seeking guidance was to minimise the risk that any decisions it might take with Aurigny did not erode the wider strategic benefits expected from the Heathrow service, but taking into account the financial parameters within which Aurigny was expected to operate.

In his response, the President of the CfED set out the strategic case for and benefits of the new service and, whilst acknowledging the concern about the potential impact on other routes, was unable to provide any certainty over the long-term arrangements for Heathrow, noting that the:

*"...success of the Heathrow route will obviously depend on businesses, residents and visitors making the most of the new service. The higher the passenger load factors, the more likely it will be that Flybe will prioritise Guernsey as its destination of choice should it have access to the necessary Heathrow take-off and landing slots after the initial trial period."*

Full copies of this correspondence are attached as Appendix 1 to this document.

Aurigny started selling seats on its Gatwick route for its 2019 summer services in July of 2018, some 6 months before the new Southend service was announced on 25<sup>th</sup> January this year and 7 months before Heathrow was announced on 21<sup>st</sup> February. Any adjustments to its summer programme of flying to mitigate the impact of those new services would have involved amending or cancelling many thousands of passengers' advance reservations, with the inevitable reputational damage for both the airline and the Island.

A similar challenge has arisen this winter, with an extension to the Heathrow service into the 2019/20 winter season being announced only on 2<sup>nd</sup> September for bookings after 27<sup>th</sup> October. At that point, Aurigny's schedules for the same period had again been on sale for 7 months.

Whilst the STSB understands that Flybe's new owners have indicated they would like to provide a service between Guernsey and Heathrow in the long-term as part of Virgin's ambitions there, it also understands this is contingent on the construction of a third runway and the necessary slots thereby becoming available. In the meantime, the reality is that the short-term "rolling over" of the Heathrow route arrangement every six months creates uncertainty in the market place that hinders Aurigny's ability to plan effectively. That uncertainty is perhaps best illustrated by Flybe's decision to withdraw its services between the Isle of Man and Heathrow with effect from 26<sup>th</sup> October, having only launched them on 21<sup>st</sup> April this year.

Aurigny has historically been mandated by the States to both maintain its existing slot portfolio at Gatwick Airport (up to 6 daily slot pairs) and, more recently, to ensure that it provides sufficient capacity on the route to meet the demands of the London market. This was achieved, with the agreement of the States, through its acquisition of its larger Embraer jet following Flybe's decision to withdraw from the Gatwick market in 2014 after it sold its slots there. The substantial increase in capacity into the market place between the Island and the south-east of England during 2019 as a result of the quasi-open skies policy and the introduction of a subsidised service to Heathrow means that the time is now right for the States to review this mandate. Key considerations will include: how much certainty is there about the ongoing availability of slots for the Heathrow service; and, whether Aurigny should maintain all or part of the existing slot portfolio at Gatwick and, in doing so, what level of capacity should it be providing into the market place on that route.

In undertaking any such review, a key consideration will be the Island's requirement for security of supply in the Gatwick market place. Under the 80/20 "use it or lose it" slot allocation rules, airlines only have a right to keep their slots at Gatwick from one season to the next if they are used for at least 80% of the time. Any decision to switch services on or off has to be considered within this context and whether or not there is an appetite for Aurigny to sell or lease any of its existing slots to another carrier if it does reduce its service frequencies there.

In its 2018 policy letter<sup>2</sup> to the States on Aurigny's aircraft acquisitions, the STSB noted that the London operations were profitable, but that these profits were needed to cross-subsidise losses on its other UK regional routes, including Manchester, East Midlands, Leeds Bradford, Bristol and Norwich. In these circumstances, a material reduction in passenger volumes and revenues on the London services – regardless of the reason - has obvious implications for the airline's financial performance and, by extension, its current network structure.

It was for all the reasons above that the STSB tried to seek guidance from the CfED in its letter earlier this year. The STSB welcomes the acknowledgement by the P&RC in its 2020 Budget Report<sup>3</sup> that there are limited options for temporary measures that could be introduced to mitigate the projected losses in any meaningful way and that the possible long-term consequences of any permanent measures would need to be fully investigated and carefully considered. It fully supports the P&RC's proposal to develop a coordinated and coherent government framework for

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<sup>2</sup> Article 17 of Billet d'Etat XXVII of 2018: Aurigny Air Services – Aircraft Acquisitions (section 3.2)

<sup>3</sup> Article 1 of Billet d'Etat XXI of 2019: The States of Guernsey Annual Budget for 2020 (sections 8.35 to 8.43)

the consideration of all aspects of air route operation and support that is under the control or influence of the States of Guernsey and to report back to the States during 2020. The Budget Report notes that this work will need to consider the likely effects of the revised framework on Aurigny's financial position.

Aurigny has identified a number of potential mitigations that could be put in place. However, given the highly competitive market place within which it is operating, it would be entirely inappropriate to disclose these to its competitors through the responses to these questions. As I have set out in my response to question 2, the STSB has agreed that the uncertainty around the future of the Heathrow service and the very fluid situation in the local market arising from the open skies policy means it is too early to consider the implementation of mitigation measures to address the financial position.

### **Question 7**

*How have the losses that are reported to be due to the operation by another operator of the London Heathrow Airport-Guernsey route been calculated, and what are those losses?*

### **Answer**

Data from Guernsey Airport, which is attached as Appendix 2, shows that passenger numbers in 2019 (cumulative to 30<sup>th</sup> September) on all air services between the UK and Guernsey had increased by 27,475 (5.4%). Within that mix, services to and from the south-east of England had shown the following changes:

- The new Heathrow route carried 19,576 passengers and the new Southend route 10,357 passengers;
- The Southampton route carried an additional 16,928 passengers (Aurigny introduced its own services on the route on 25<sup>th</sup> May and, since then, Guernsey Airport data shows it has carried 10,606 passengers);
- Traffic on Aurigny's services to Gatwick and Stansted declined by 16,746 passengers.

The CfED has committed to monitoring the performance of all London routes closely to estimate the level and nature of any passenger redistribution from other routes (see Appendix 1) and the STSB looks forward to receiving the results of this research. Until then, it is not possible to definitively identify how any existing traffic has been redistributed around the newly available services and nor, therefore, is it possible to attribute the net reductions in Aurigny's revenues to one or more of those same new services.

In preparing its revised outturns for 2019 and its 2020 budget forecasts, Aurigny has had to revise its passenger forecasts in light of its experience to date this year. Given the short-term volatility within the market place, undertaking such forecasts remains a challenge. Within that context, Aurigny has forecast that, in 2020, the net effect on its revenues arising from both the introduction of open skies and subsidised competition on the Heathrow route will be a negative one of £3.7m.



## Question 8

*How have the losses due to the operation by another operator of the Southend Airport-Guernsey route been calculated, and what are they?*

### Answer

See response to Question 7.

## Question 9

*How have the profits or losses due to the operation by Aurigny of (a) the Jersey-Guernsey route, and (b) the Southampton-Guernsey route been calculated, and what are those profits or losses?*

### Answer

The Aurigny Board's decision to enter the Jersey and Southampton markets was enabled by the medium-term availability of spare aircraft capacity within its fleet pending the return to their lessors of: firstly, an ATR42 in April 2020 that had originally been acquired to operate the London City service; and, secondly, an ATR72 (series-500) that will be returned in November 2021 as part of the transition to the new fleet of series-600 aircraft. Pending their return to their lessor, the fixed lease and maintenance costs of these aircraft have and will continue to be incurred, regardless of whether or not the two new services are operated. Provided that the routes cover their marginal costs of operation, these services will improve Aurigny's financial performance by making a positive contribution to the two aircrafts' fixed costs.

Aurigny has never published the profit or loss performance of its services on a route by route basis. It operates in a highly competitive market and, in the case of its services to Southampton and Jersey, it competes directly with both Blue Islands and Flybe. Publication of the financial performance of individual routes would put Aurigny at a disadvantage by providing commercial information to their competitors which they could exploit by adjusting their own fares, service levels and product offering. Not only would this be damaging to Aurigny, but it would also be damaging to its owner, the States of Guernsey and, in the long run, the flying public.

## Question 10

*What was the business objective for Aurigny moving to operate on (a) the Jersey-Guernsey route, and (b) the Southampton-Guernsey route?*

### Answer

As I have set out in my response to Question 9, the decision to enter on to both the Jersey and Southampton routes was predicated on the medium-term availability of spare aircraft within the Aurigny fleet. The financial analysis in Aurigny's business case for the routes set out how the utilisation of those aircraft for the new services would make a positive contribution towards their ongoing lease and maintenance costs over a three year period and, as such, would have a positive effect on its profit & loss account.

Other drivers set out in Aurigny's business case included:

- The open skies policy introduced by the States to encourage competition on all but designated lifeline routes;
- An opportunity to reverse declines in passenger traffic that had been historically lost from both routes and provide consumers with greater choice, noting that traffic had fallen by circa 60,000 passengers on the Southampton route since 2014 and circa 25,000 on the Jersey route;
- An opportunity to address reductions in its own passenger numbers that it expected to follow the introduction of the Southend and Liverpool services;
- The provision of an alternative option for travel between Southampton and Alderney by connecting with its services via Guernsey.

### Question 11

*What rationale there is for the non-publication of Aurigny's full accounts to the community, given that the business and its losses are funded by the community through the taxes it pays?*

### Answer

Both Aurigny and the STSB agree entirely that members of the States and the public have a legitimate interest in Aurigny's financial performance. It is for this reason that the airline publishes its full audited accounts on an annual basis and supplements this with an Annual Report, both of which are available on the Company's website.

There is an inevitable tension between this political and public interest in the detail of Aurigny's financial performance and the need for our States' owned businesses – Aurigny and others - to operate commercially in a competitive market place. In Aurigny's case, it competes not just with other airlines operating to Guernsey, but also those flying to Jersey and with ferry operators serving the Islands. It is no coincidence that these other carriers do not publish more of their own detailed financial information, such as management accounts. Doing so would be a gift to their competitors, enabling them to establish a more detailed understanding of their rival's cost base and revenue structures and use that knowledge to maximise their own competitive advantage.

The same is true for Aurigny, but here the position is exacerbated by the tender process being run for the Alderney air services. Aurigny is competing against other airlines for a contract to operate those services. It is inconceivable that we should ask Aurigny to publish its detailed management accounts, thereby making that information available to those airlines preparing competing bids. It would totally undermine the integrity of what has already proven to be a challenging and protracted process.

For the above reasons, it would be entirely inappropriate to publish Aurigny's management accounts and the risks in doing so would erode value in the Company. This is not because of some misguided STSB feeling that Aurigny should be protected from scrutiny. The States has agreed a mandate for the STSB that delegates to it the role of shareholder and, as I have set out in my response to Question 1, we have formal procedures and meeting schedules in place to enable effective scrutiny of Aurigny, including its management accounts. The fact that we are able to do

so in confidence means that that scrutiny can take place robustly and openly without prejudicing Aurigny's commercial position within the wider marketplace.

Where necessary, the STSB will commission external and independent technical expertise to assist in its scrutiny of Aurigny. By way of example, in 2018, it commissioned such assistance to: firstly, undertake an independent review and verification of the findings of the airline's fleet review; and, secondly, to scrutinise the airline's business case for the replacement of its ATR fleet of aircraft. In 2019, it has commissioned further expertise to undertake an efficiency and benchmarking review of the airline, which was published on 31<sup>st</sup> October.

## Question 12

*How much money has been spent on external consultants and providers for branding, marketing and communications (including public relations and events) in (a) 2017, (b) 2018 and (c) 2019 to date?*

### Answer

Aurigny's expenditure on external consultants/providers for branding, marketing and communications is as follows: 2017: £327,674; 2018: £481,826; and, 2019 (to date): £312,380.

Expenditure in the above area includes: marketing agency services and support; website building, development and maintenance; advertising (radio, digital and other); social media; promotional events and activities; and, livery design costs for the new ATR aircraft.

## Question 13

*Was the States' Trading Supervisory Board formally asked to approve Aurigny moving to operate on (a) the Jersey-Guernsey route and (b) the Southampton-Guernsey route; and if so, on what basis was the decision supported?*

### Answer

In its 2018 policy letter<sup>4</sup> to the States on Aurigny's aircraft acquisitions, the STSB set out the updated guidance that it had issued to the airline following the States' adoption of its open skies policy. This included the following:

*"Whilst it may elect to do so, there is no absolute requirement for Aurigny to operate any other routes beyond Gatwick and, pending the outcome of the PSO process, the Alderney route(s). Responsibility for decisions on other routes rests with Aurigny's Board of Directors, taking into account commercial considerations and the requirements to breakeven."*

As I have set out in my response to Question 10, the financial analysis in Aurigny's business case for the routes set out how the new services were projected to have a positive effect on its profit & loss account.

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<sup>4</sup> Article 17 of Billet d'Etat XXVII of 2018: Aurigny Air Services – Aircraft Acquisitions (section 3.1.4)

As a result of the above, the STSB was not asked to approve Aurigny's entry onto the Jersey and Southampton routes (and nor was the airline required to ask). However, as I have noted in my response to Question 2, it was provided with a presentation by the airline on its plans at its meeting on 2st February. At that point, the STSB did advise Aurigny that, if the ongoing operation of the routes was contingent on replacing the ATR aircraft being used for the services when its lease expired in November 2021, Aurigny would need to engage at an early opportunity with the Board, as Aurigny is required to seek the shareholder's approval for any material investments, including aircraft acquisitions and long-term aircraft leases.

#### **Question 14**

*What were the overall remuneration packages including any additional payments for (a) the Chairman, CEO, Finance Director and Commercial Director of Aurigny in 2017, 2018 and 2019 respectively; and (b) the overall remuneration and any additional payments for the three non-executive directors of Aurigny in 2017, 2018 and 2019 respectively?*

#### **Answer**

Aurigny's published accounts identify that the total key management personnel compensation was £740,809 in 2017 and £837,713 in 2018. These figures include salaries, but exclude payments to a defined contributions pension scheme (2017: approximately £31,000; 2018: approximately £36,000) and States' Social Insurance contributions. The figures for 2019 will be included in its accounts for this year when they are published in 2020. The reference to "key management personnel" includes the Chairman; the three Non-Executive Directors; four Executive Directors (including a new position created during the course of 2017) and a number of other senior managers.

The terms and conditions of employment for Aurigny's employees are subject to employment contracts between the personnel involved and their employer, the airline, and cannot be disclosed by the STSB without the express permission of all parties.

The STSB is responsible for setting the remuneration for the Non-Executive Directors (including the Chairman) appointed to the States' trading companies. These are routinely published when undertaking recruitment. In the case of Aurigny, Guernsey Electricity and Guernsey Post, the STSB applies the same levels of remuneration, which for the Chairman is currently set at £14,144 per annum and for the Non-Executive Directors is currently set at £10,884 per annum. Aurigny's Non-Executive Directors are not entitled to any additional benefits.

The STSB's policy is to review these rates in line with changes in established civil servant salaries on a biannual basis. The current rates were effective from 1<sup>st</sup> April, 2017, and are subject to a review from 1<sup>st</sup> April, 2019, pending the determination of the civil service pay award for 2019.

## Question 15

*What was the criteria for the appointment of the Aurigny Board members?*

### Answer

In considering appointments to the Boards of the States' trading companies – Aurigny and others – the STSB seeks to ensure that, between them, Board members can demonstrate a range of essential core skills, experience and qualities that are summarised in the table below:

<b>Experience</b>	Board experience within a large complex organisation; experience & understanding of change management; strategic direction & leadership; customer awareness & responsiveness.
<b>Knowledge &amp; Skills</b>	Proven commercial acumen and ability to identify commercial opportunities through relevant market awareness; ability to evaluate, develop and deploy strategic options in a challenging industry; strategic and operational benchmarking; knowledge and experience of best corporate governance; and, knowledge and skills of legal and financial matters.
<b>Personal Qualities</b>	Strong interpersonal skills, with ability to develop personal relationships at Board level; independent mind-set, with the ability to be objective and take a view focused on the long-term success of the organisation; ability to offer constructive challenge and push the boundaries of debate; and, strong analytical and problem solving skills.
<b>Qualifications</b>	Professional qualification (eg, IoD Chartered Director, Diploma in Company Direction, Professional Management Qualification, Chartered/Certified Accountant or ICSA)

The STSB will also seek to ensure that each Board's membership also includes relevant industry experience and, in the specific case of Aurigny, this includes the aviation and airline industry.

## Question 16

*What specific knowledge and/or experience do members of the Aurigny Board have in the aviation industry?*

### Answer

Collectively, the Executive and Non-Executive Directors of the Aurigny Board have accrued over 170 years of aviation experience as far back as 1978 working for regional, national and/or international airlines, as well as aircraft manufacturers, aviation consultancies and the UK Armed Forces. Between them, they have experience of working for 15 other airlines before joining Aurigny with roles that include employment as Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Operating Officer; Commercial Director; Acting Vice-President for Line & Base maintenance; and, other aircraft engineering and avionics management positions.

### Appendices

Appendix 1: Heathrow Air Service - Correspondence between the President of the STSB and the President of the Committee for Economic Development.

Appendix 2: Guernsey Airport Passenger Data – January to September 2019

**Date of Receipt of the Question:** 22<sup>nd</sup> October 2019

**Date of Reply:** 4<sup>th</sup> November 2019





## Appendix 1



The President  
Committee for Economic Development  
Market Building  
PO Box 451  
Fountain Street  
St Peter Port  
GUERNSEY  
GY1 3GX

Brickfield House  
St Andrew  
Guernsey  
GY6 8TY  
+44 (0) 1481 231200  
tradingassets@gov.gg  
www.gov.gg

4<sup>th</sup> March 2019

Dear Charles

### Heathrow Air Service

I have made clear my view since it was announced that the reintroduction of an air link between Guernsey and Heathrow represents an important and welcome boost for the Island's connectivity.

The STSB clearly has a direct interest in the performance of the Heathrow route, given its responsibilities not just for Aurigny, but also for Guernsey Airport. The Airport published a new business plan in 2018 that set out its priorities, including increasing passenger numbers to at least 855,000 per year and is committed to continuing working with all its partners to make air travel more sustainable and encourage new destinations. The Heathrow route will be a welcome addition to Guernsey Airport's portfolio.

Clearly, there will be a need for the STSB to work with Aurigny to understand the impact of this service on its operations and, specifically, its services to London Gatwick and London Stansted. Whilst Aurigny has provided some initial estimates of what the financial impact could be, the actual outcome will depend on the extent to which the new Heathrow service stimulates additional traffic, rather than redistributing existing passengers from other services. I am sure that we all hope that it will be the former.

I am conscious that, if the Heathrow service is deemed to be a success and is likely to continue, this could have a bearing on future service provision by Aurigny to Gatwick and/or Stansted. I should be clear that it is not the purpose of this letter to seek your comments or views on the impact of the service on Aurigny. This is a matter that quite properly rests with the STSB to determine, taking into account the target that it has been set to reach a break-even position.

However, the existing slots at Gatwick were secured by Aurigny for the strategic benefit of the Island. The shareholder objectives set for the airline by the STSB (and its predecessor) require it to operate and maintain control of those slots (up to six daily pairs), but that has been over a period when there appeared to be almost no prospect of access to Heathrow

on a continued basis. The question therefore arises as to whether the re-introduction of services to Heathrow means that our strategic reliance on Gatwick can be expected to shift and, as a result, the STSB then has to re-assess those shareholder objectives, especially if what we do eventually see is a redistribution of existing traffic between the two airports. As I have said, I very much hope that will not be the case and that we will see overall traffic levels stimulated.

I do acknowledge that these are decisions that cannot be made in the short-term and that we need to wait to see what the effect of the new service is. However, it would be very helpful to the STSB as it starts to consider these issues to understand the following:

- Key elements of your Committee's business case for the trial that is now underway (respecting, of course, any commercial sensitivities and confidentialities that are owed to Flybe);
- The economic benefits to the Island from the operation of the service;
- The factors against which you expect to measure and determine whether the trial has been a success, including the extent to which traffic has been redistributed from other routes (Gatwick or other);
- What your expectations are for the route to be maintained in the event that the trial proves to be a success.

My intention in seeking clarity around the above is to try and minimise the risk that any decisions that the STSB may eventually take with Aurigny do not erode the wider strategic benefits that you are expecting to arise from the Heathrow service, but taking into account the financial parameters within which we expect Aurigny now to operate.

Yours sincerely



Deputy Peter Ferbrache  
President  
States Trading Supervisory Board

The President  
States' Trading Supervisory Board  
Brickfield House  
St Andrew  
GY6 8TY



21 March 2019

Dear Peter,

**Re.: Heathrow Air Service**

Thank you for your letter dated 04 March 2019, in which you ask for further information on the new Flybe Heathrow trial service.

In line with the Economic Development Strategy implementation plan agreed by the States of Deliberation on 28 November 2018, air transport connectivity is a critical priority in the States' Economic Development Strategy.

A Heathrow link was the top strategic investment objective for air connectivity in the Committee for Economic Development's policy letter which was approved by the States of Deliberation on 13 December 2018.<sup>1</sup>

Furthermore, in a report published recently alongside the Policy and Resources Committee's policy letter on the Review of Strategic Air and Sea Links Infrastructure, consultants PwC highlighted the strategic benefit of Guernsey securing a regular scheduled service to an international hub airport, with Heathrow cited as the best option:

*"There are significant connectivity benefits to Guernsey that would arise through connecting to a base carrier hub. Of these, Heathrow is by far the most beneficial."*

The Heathrow service will enable connectivity to new long-haul destinations (including the USA, Africa, Middle East and Far East), through Flybe's interlining and codeshare partners, which include Virgin Atlantic, Cathay Pacific and Emirates. (This is alongside the wide selection of global destinations and other carriers available via Heathrow.)

This enhanced connectivity to the rest of the world will help to grow the economy by generating new business and visitors to Guernsey. It is therefore not surprising that the

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<sup>1</sup> Committee for Economic Development, *States of Guernsey Air and Sea route policy development and investment objectives*. Billet XXVII, P.2018/133.

announcement of the new Heathrow link received the ringing endorsement of the local business community, namely the Guernsey International Business Association, the Guernsey branch of the Institute of Directors and the Guernsey Chamber of Commerce.

I understand your concern with respect to the potential impact on other routes, and in particular Aurigny's Gatwick services. We will be monitoring the performance of all London routes closely to estimate the level and nature of any passenger redistribution from other routes, and will be pleased to do so in collaboration with the States' Trading Supervisory Board.

The success of the Heathrow route will obviously depend on businesses, residents and visitors making the most of the new service. The higher the passenger load factors, the more likely it will be that Flybe will prioritise Guernsey as its destination of choice should it have access to the necessary Heathrow take-off and landing slots after the initial trial period.

We will of course ensure that Guernsey Airport and the States Trading Supervisory Board are kept informed of any opportunities to extend or renew the service as they arise, and we are grateful for the role that Guernsey Airport played in helping to secure this trial route.

Yours sincerely,

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

Charles Parkinson  
President



## Appendix 2

GUERNSEY AIRPORT - PASSENGER MOVEMENTS 2019																
ROUTE BY MONTH																
	JAN.	FEB.	MAR.	APR.	MAY.	JUN.	JUL.	AUG.	SEPT.	OCT.	NOV.	DEC.	TOTAL	2018	Change	%
BIRMINGHAM	2101	2278	2,494	2,378	2,427	2,477	2,624	2,744	2,436				21959	26819	-4860	-18.12
BOURNEMOUTH	3	0	4	4	83	71	34	88	25				312	162	150	92.59
BRISTOL	1107	1156	1,509	2,065	2,239	2,354	2,721	3,179	2161				18492	18858	-366	-1.94
CARROIFE	0	0	0	3	-	0	0	1	0				4	2024	-2020	-
EAST MIDLANDS	712	892	1,106	1,617	2,002	2,110	2,372	2,447	2099				15357	15393	-36	-0.23
EXETER	2000	1891	2,434	2,724	3,022	2,654	3,127	3,073	2755				23890	22480	1210	5.38
GATWICK	21633	23009	26,553	27,011	28,133	26,648	27,707	27,398	27923				235915	250039	-14124	-5.65
HEATHROW	0	0	63	2,837	3,155	3,180	3,577	3,711	3053				19576	0	19576	-
SOUTHEND	0	0	89	0	657	1,874	2,262	2,914	2261				10357	0	10357	-
LIVERPOOL	0	0	0	0	270	644	766	1,032	410				3122	0	3122	-
LEEDS BRADFORD	51	0	1	2	162	954	1,006	1,334	835				4355	5687	-1312	-23.15
MANCHESTER	3833	4010	4,650	6,233	6032	5,949	6,204	6,814	5816				49541	50045	-504	-1.01
NEWCLAY	0	0	0	0	0	105	175	192	316				473	0	473	-
NORMICH	2	0	0	0	153	269	272	267	316				1279	1143	136	11.91
SOUTHAMPTON	6688	6995	8,392	9,373	12390	14,335	15,697	17,503	16180				107443	90515	16928	18.7
STANTED	1309	1247	1,390	2,244	2373	1,225	2,813	3,228	2584				19313	21935	-2622	-11.95
OTHER U.K.	75	83	94	123	419	500	857	944	345				3440	2039	1401	68.71
LONDON CITY	0	0	5	0	2	-	1	3	0				11	45	-34	-75.56
UK TOTAL	39614	41461	48774	56615	63719	66270	72215	76,872	69198	0	0	0	534639	507164	27475	5.42
GUERNSEY	16	0	13	0	0	36	0	-	0				65	42	23	35.38
ALDERNEY	2066	1848	2,360	2,514	2720	2,706	2624	3,087	2852				22776	23387	-611	-2.61
JERSEY	7651	7333	10,045	7,890	9451	10,316	11089	9,992	11575				85332	77349	7983	10.32
CL TOTAL	9932	9181	12418	10404	12171	13058	13713	13,069	14227	0	0	0	108173	100778	7395	7.34
DUNARD	27	0	0	0	0	0	0	0	0				27	1261	-1234	-97.86
GENEVA	2	0	12	5	0	5	4	0	0				28	27	1	3.7
GRENOBLE	0	0	140	5	0	0	0	0	0				145	0	145	-
ZURICH	0	8	6	0	71	297	214	188	37				821	575	246	30.0
DUBLIN	0	2	10	0	0	-	14	-	0				26	20	6	23.08
DUESSELDORF	0	0	0	0	416	800	570	653	236				2854	2827	27	0.95
ROTTERDAM	0	0	0	0	285	395	338	391	224				1665	1684	-19	-1.13</

