



Guernsey Airport

YOUR GATEWAY TO THE CHANNEL ISLANDS



BUSINESS PLAN

2018 - 2022

'YOUR GATEWAY TO THE CHANNEL ISLANDS...'

31 MAY 2018

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BUSINESS PLANNING: INTRODUCTION AND EXECUTIVE SUMMARY

The demands associated with providing an efficient and consistent aerodrome for 15 hours a day, across 364 days of the year, with a largely fixed cost base, a requirement to maintain high standards, a safe operating culture and a financial return, should not be underestimated.

The Airport as a business unit of the States of Guernsey is dependent on wider government processes which determine pay and conditions, capital investment procedures, legal representation and more general requirements associated with good governance and government processes. These processes are embraced but create tensions, from time to time, as the Airport operates within a trading environment, balancing commercial freedom with political accountability and good governance provisions.

The Airport is a key lifeline asset and operates under government control, but with an expectation that it is run on a fully commercial basis.

There is only one airport on Guernsey and therefore issues of competition are limited. It is a critical economic enabler for the Bailiwick of Guernsey, providing facilities and services that enable aircraft, people and cargo to travel year round. The provision of this lifeline link facilitates business and leisure connectivity and wider economic and social enrichment for the Islands.

The Airport is hugely dependent on its customers, whether they are airlines and their passengers, private aircraft owners or business jet operators. They, in turn, are dependent on the safe operation of the facilities under our control. This symbiotic relationship must remain our primary focus and is of critical importance both to the commercial operation of the airport and to the wider local economy.

This business plan provides strategic direction for our management, staff and the Guernsey Ports Board. It will act as a guide in setting policy and operational priorities that are aimed at making the business more focused and streamlined. It is a document that will be shared with our customers.

This plan covers the medium term and will be updated annually to reflect progress and capture new challenges and opportunities for our business and for the wider economy. A dynamic review process for this business plan is critical as we operate within an ever-changing world where events and fortunes, often beyond our immediate control, necessitate responses and reactive behaviours which need to be reflected in regular reviews of this plan, with a continual consideration of responses that match the market and industry in which we are placed.

The Guernsey Ports fiscal demands must be met in such a way so as to ensure that airport charges are sustainable and that the level of charging does not make regular travelling too expensive for the Guernsey resident and the welcome visitor to our island.

This is recognised as a challenge for the Airport and with current levels of travel (2017 - 813k passenger movements, down 11% on the previous peak in 2008), it is highly likely that financial support in the medium term will be required in order to increase the number of those travelling at reasonable cost.

Once previous levels of travel have been achieved through the implementation of this business plan the Airport operation should become more sustainable in the longer term thus reducing the need for direct financial support.

Guernsey Ports Board

30 May 2018

Four specific priorities have been set with a target date of 31 December 2019 and are outlined in this plan:

- to increase passenger numbers to at least 855,000
- to increase non-aeronautical revenue to £3.8m.
- to commission a Property Utilisation plan
- to reduce operating costs from 2017 levels by £340k

GUERNSEY AIRPORT FINANCES

Guernsey Airport is largely funded from charges levied against Airport users. The majority of the income is derived from aeronautical income levied on airlines, private aircraft owners, business jet operators through aircraft and passenger charges, although increased emphasis over recent years has seen a larger switch to non-aeronautical sources of revenue, including retail, advertising and car parking.

Surplus and deficits at both the Guernsey Airport and Guernsey Harbour are aggregated and held in reserve in the Ports Holding Account balancing profit and loss at each port. Surpluses in this account finances routine capital expenditure at both ports and at the end of 2017 that Account held a balance of £2.8m. The balance in this account has been depleted over time; both through increased losses primarily at the Airport, capital spend for routine and exceptional investment in the infrastructure and contributions toward centralised capital allocations funded by the States of Guernsey. This includes a significant investment (funded centrally by the States of Guernsey) for the Guernsey Airport Pavements Project.

The Airport as part of the Ports Capital Programme regularly assesses and prioritises its capital investment. The prioritisation process is dependent on resources available and cash flow.

Options for borrowing against the asset base for Guernsey Ports are possible as the capital programme is advanced however it is imperative that the fundamental fiscal performance of Guernsey Ports is maximised to ensure that the capital programme and the investment particularly at the Harbour is sustainable in the medium to longer term.

The Airport generates an annual turnover of around £12.2m with ordinary expenditure at a similar level. However the Airport incurs depreciation charges of circa £1.2m resulting in an annual loss. It should be noted that an increase of 5% in passenger movements over a year would half this deficit. Returning to passenger numbers circa 900k per annum would move the Airport to a break-even position.

Effort needs to continue to be applied in both minimising operating costs and in diversifying income away from aeronautical revenues; not least as reductions in passengers travelling over recent history indicate that increases in aeronautical charges are likely to act as a deterrent to increasing the numbers of regular travellers.

The Airport is a critical economic enabler and whilst it has an important role in supporting the islands prosperity, it is unable to directly influence the number of people who travel to and from the island. It therefore has limited scope to improve passenger-related turnover. The Airport is however committed to developing a positive culture of growth, working with key partners to achieve the right business environment to promote use of the Airport and its facilities.

GUERNSEY AIRPORT: OUR STRATEGY

The Airport is one of a group of business units operating under the political mandate of the States Trading Supervisory Board (STSB). These businesses are expected to operate commercially and to ensure they are focussed on good business practice, a financial return and operational success.

The Airport and the Harbour are managed by one sub-committee of the STSB, the Guernsey Ports Board and under one single management structure across both ports.

The Board's overarching strategy can be summarised as follows:

The Airport shall be operated in a commercial manner to maximise its financial performance, with emphasis being placed on providing services that are suitable and fit for a wide popular market through the provision of well-regulated facilities for the transportation of passengers and freight.

In order to achieve this strategy and maximise financial performance, whilst remaining fit for a popular market, the following key objectives have been identified for the term of this business plan:

- 1) Increase the income to the Airport by:**
 - a. Increasing the Number of Passengers and Air Movements**
 - b. Maximising the Value of the Estate**
- 2) Reduce the Costs and Financial Risks of Operating the Airport**
- 3) Streamline the Interrogation and Prioritisation Process for:**
 - a. Capital Expenditure**
 - b. Operational Initiatives**

Airports are complex and highly regulated businesses. Guernsey Airport's key functions are subjected to regular independent inspection and an overarching aerodrome licencing process. In identifying key financial objectives within this business plan it can be assumed that the emphasis on this important safety element will not be compromised. These simple key objectives will be subject to regular review

and dynamic re-assessment to reflect changing circumstances and market-led influences.



INCREASING THE NUMBER OF PASSENGERS AND AIR MOVEMENTS

Increasing the number of passengers passing through the airport will help improve the financial performance of the Airport whilst importantly reinforcing its role as a critical economic enabler for the island.

Guernsey Airport has until recent years seen little fluctuation in its overall passenger numbers over time. The highest recorded peak in passenger numbers was in 2008; with 918,978 passenger movements in the year. This compares against a 2017 passenger level of 813,595; a reduction of 11% in just 9 years. Comparisons at a route level quickly reveal the primary cause to be a slump in inter-island travel and dramatic reductions on passengers flying to and from Southampton.

The Board aims to increase passenger numbers to at least 855,000 before the end of 2019

The Airport works with a variety of partners [Airlines and Government Agencies] to bring passengers to Guernsey Airport and cannot achieve this objective without working closely with these essential partners. In order to achieve this objective the Airport will value the special relationship with all of its partners and passengers and manage their expectations sensitively and respectfully.

Initiatives to achieve this:

- Investigate opportunity to freeze or reduce charges to passengers by airlines thereby encouraging more passengers to travel (see below)
- Promote air travel as a means of travelling to and from Guernsey.

- Exploit any opportunity to increase passenger numbers and make air travel more sustainable by working proactively with all of our partners to encourage the development of new routes, better aircraft utilisation and extending and increasing capacity. A new route discount policy will be established to promote these opportunities.
- Engage proactively with our partners to ensure that they understand what we are doing and why. This communication must raise awareness of their own demands and challenges as we endeavour to provide them with a nurturing environment in which sustainable air services can survive and thrive.
- Review options for extending the operating hours of the airport to increase operational accessibility
- Review impacts of fog and low visibility and monitor developments in technology to minimise cancellations
- Work with Economic Development to encourage an increased number of carriers and promote the social and economic benefits of air travel, leading to an increase in the number of airlines servicing Guernsey on regular scheduled services.
- Maintain a positive proactive Customer service focus to passengers through the use of proactive communication that seeks to answer questions before they are raised, actively addresses problems before they occur so that we reduce complaints, gathers feedback quickly, and supports the needs and expectations of airlines, business partners and passengers through the provision of enhanced processing of passengers and improved facilities

A number of these initiatives aimed at increasing passenger numbers are highly likely to require cross-subsidy or other similar financial support, in the medium term, to achieve this higher base level of passenger traffic. Once higher sustainable passenger traffic levels have been achieved it will then be possible to set charges which are sustainable from this larger passenger base and thereby reduce reliance on support over the longer term.

- Examine the possibility for cross subsidy of the airport operations in the short to medium term to facilitate increased passenger numbers and facilitate a transformation of the current business model of charging out all costs to the airlines. This subsidy will ensure that charges are set at a level that remains fit for a popular market.

Key Performance Indicators:

- Aircraft movements by type (commercial and private)
- Passenger numbers increased by at least 2% per annum (comparison – 2017 baseline); achieving target of 900,000 passenger movements in life of this plan.
- Average load factor on UK routes



MAXIMISING THE VALUE OF THE ESTATE

The Airport recognises the significant investments in the infrastructure over the last 10 years, with a new terminal and major reconstruction of all of its paved areas and associated airport infrastructure effectively constructing a new airport on an existing site.

We recognise the need to maintain our assets in a safe state as aircraft operations are demanding on both infrastructure and systems. To achieve this we programme a number of external audits each year. A property utilisation plan for the airport will also be developed in the life of this business plan.

Whilst passengers and air movements are the largest part of the income to the airport it is recognised that a valuable part of the income stream to the Airport is the non-aeronautical revenue that is currently being exploited at the Airport and stands at 27% of total revenue (as at 31 Dec 2017). Other airports are able to exploit this income stream more easily than Guernsey Airport is able to as the local opportunities are limited by the low availability of land with suitable planning permission and the short distances of travel to the airport by its regular passengers which restricts retailing and parking options. However it is possible to exploit the airport estate as it enjoys immediate access to airside facilities.

The Board aims to maximise the investment in infrastructure and maximise the returns from the various elements of the operation; including car parking, freight services, private hangar operations, third-party tenancies and leases, retail, accommodation and services ancillary to, but dependent on, the airport operation.

The Board aims to improve non-aeronautical revenues to £3.8m of total revenue before the end of 2019.

Initiatives to achieve this:

- Use feedback from our tenants and partners to ensure that their demands and expectations to improve and grow their business can be met through continued development of the estate and to ensure that their growth can be met through improved facilities. To facilitate these opportunities the Ports will commission a Property Utilisation plan by the end of 2019, to determine if demands for additional airside space can be met in the short to medium term.
- Keeping the airport facilities safe and well maintained at all times of the year, at reasonable cost and in an effective and efficient manner; Ensuring timely and well-funded capital investment in infrastructure.
- Exploit opportunities to maximise revenue from non-aeronautical sources including potential investments from third parties in airport-related infrastructure build.
- Extend car parking facilities and service options including premium parking and auto-pay functions.

Key Performance Indicators:

- % of total Revenue from aviation sources
- % of total Revenue from non-aviation sources
- Duty free Gross Turnover
- Catering Gross Turnover
- Revenue / car parking space
- Total Rental Income



REDUCING THE COSTS AND FINANCIAL RISKS OF OPERATING THE AIRPORT

Reducing the costs and financial risks of operating the Airport is an essential element in improving the financial performance of the Airport and thereby encouraging more passengers to travel whilst importantly reinforcing its role as a critical economic enabler for the island.

Costs to the Airport are a result of services directly provided by our own staff and those levied by third party contractors. The airport needs to better understand its cost base, apply pressure on budgets and efficiencies following its integration with the Harbours, taking into account opportunities for improving efficiency. It must reduce the costs of its supply chain and labour costs and apply better use of technology. Costs can be reduced in a variety of ways and can be the result of an over-specification of the services required in the first place. Risks however may lie in relying on too narrow a customer base and permitting too heavy a reliance on large third party service providers to develop.

Historically all the net costs of operating the airport have been passed on to its customers. This culture must be challenged as the level of current charging is at risk of taking regular travelling out of people's reach.

The Board aims to reduce operating costs from the 2017 level by £340k before the end of 2019 whilst having due regard of the need to provide an open, safe and secure airport facility.

Initiatives to achieve this:

- Improve operating efficiency of operating the airport
 - As existing contracts expire, review to determine better means of delivery of contracts, opportunities for efficiency and seek to lower costs on renewal. Options may include in-sourcing, out-sourcing or re-scoping of deliverables.
 - As existing posts become vacant, review to determine whether the posts are essential and need to be filled. Use the opportunity to challenge assumptions, increase use of technology or other mechanisms to reduce headcount.
 - Continue to exploit collaboration and integration opportunities with Guernsey Harbours
 - Undertake a detailed financial assessment of each operational department to determine opportunities for more efficiency in cost.
- Carry out a benchmarking exercise of costs against other similar airports in other jurisdictions.
- Review and ensure maximisation of income from Fire Service Training Services.
- Study the effect of changes in employment practices in relation to T&C's, manning levels and shift patterns might have in cost efficiency and whether commercialisation of the Airport with greater commercial independence might provide a better and more responsive commercial operating environment. Such independence might also have a beneficial effect on commercial activities undertaken by our tenants and partners.
- Manage the risk of being over reliant on too few carriers serving the island. The Airport will need to influence a change in the over-reliance and potential market dominance of too few airlines serving the island.

Key Performance Indicators:

- Total Operating Costs
- Percentage change in Direct Costs compared to previous 12 months
- Percentage change in Indirect Costs compared to previous 12 months
- Percentage change in FTE compared to previous 12 months
- Market share of the 3 main airline carriers into Guernsey

STREAMLINE THE INTERROGATION AND PRIORITISATION PROCESS FOR CAPITAL EXPENDITURE AND OPERATIONAL INITIATIVES



It is recognised that the delivery of capital projects at Guernsey Airport remains a challenge, across a number of different fronts. Cash flow, resources for project delivery and adherence to appropriate processes established by the States of Guernsey can and do conspire to restrict our teams ability to deliver capital projects in a timely and efficient manner.

Identifying streamlined processes, appropriate levels of resource and quick wins must remain a priority for the life of this business plan. An appropriate level of investment made in a timely and cost effective manner is essential if we are to continue to deliver a safe and efficient air service to the Island.

Where Operational initiatives are identified then we need to be able to respond and deliver in a more proactive manner.

Initiatives to achieve this:

- Establish a capital delivery team across Guernsey Ports to provide the administrative support and guidance for our business managers to help them deliver capital projects
- Continue dialogue with Procurement and STSB to establish streamlined procedures for the delegation of decisions at an appropriate level of the organisation
- Establish resources or teams to assess, evaluate and trial new operational initiatives

- Continue to develop and apply a capital prioritisation process to target resources into appropriate tasks and to prioritise effort and expenditure into key areas of investment that will produce maximum gain and benefit to the business.

Key Performance Indicators:

- Current number of Active Capital Projects as approved by Guernsey Ports Board