



# Alderney Economic Development Study

Draft final report

August 2014

# Summary

## The key issue

- There is clear evidence of economic and population decline on Alderney in recent years.
- Population decline is forecast to continue without policy action designed to reverse the trend.



## Role of the study

- Frontier Economics were commissioned by the States of Guernsey to assess economic drivers on Alderney and the scope for future economic development.
- We were also asked to consider policies which would enable this development, including assessing the role of different options for improving Alderney airport in unlocking economic potential.



## Key findings

- The main economic drivers on Alderney have been public administration, business services, finance, eGaming, tourism and energy.
- There are a number of economic opportunities, particularly around tourism, business services, renewable energy and drawing on Alderney's recognised global strengths in regulation.



- Policy actions were identified in 4 areas, with key points highlighted below:

Sector-specific issues	Governance	Cross-cutting issues	Airport
<p>Additional resources for tourist marketing, better data on tourism and a tourism strategy.</p> <p>Monitor scope for improved ICT.</p> <p>Monitor and identify opportunities for additional eGaming jobs on Alderney.</p>	<p>Flexible use of eGaming licence fees for intangible capital.</p> <p>Co-ordinated economic development strategy.</p> <p>Joint statement of intent between Alderney and Guernsey.</p> <p>More robust economic data collection and analysis.</p>	<p>Increased mentoring roles for experienced on-island residents.</p> <p>Market ease of re-location.</p> <p>Explore scope for targeted tax incentives to attract business.</p> <p>Identify options to interconnect to French electricity supply.</p> <p>Explore options to improve ferry connections.</p>	<p>Fund improvements to ensure regulatory compliance.</p> <p>Implement a Public Service Obligation for the Alderney routes.</p> <p>Better data on demand for air travel to Alderney.</p> <p>No clear case for extended runway now; do not preclude it in future.</p>

# Contents

1

Background and our approach to this study

2

Our key findings and recommendations

3

Analysis of Alderney's current economic situation

4

Detailed findings and recommendations from our analysis relating to:

- Key sectors driving Alderney's economy
- Issues around governance (on Alderney and between Alderney and Guernsey)
- Other cross-cutting issues affecting multiple economic sectors
- Alderney airport

5

Annexe: key sources

- Background

- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

Frontier Economics was commissioned by the States of Guernsey (Commerce & Employment) to assess Alderney's economic development and the role of the airport

The purpose of the study is twofold:

## 1 Alderney's economy

- To assess the economic drivers for Alderney's economy.
- To assess the potential for economic development on Alderney.
- To identify specific economic opportunities for Alderney.
- To identify, scope and detail policy (or other) actions that could be pursued to exploit such opportunities.

## 2 The airport

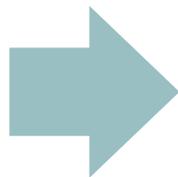
- To consider the role of the airport to the Alderney economy in shaping the opportunities and policy requirements, with due regard to proposals for improvements to the airport.

The study was motivated by the Requête submitted to and approved by the States of Guernsey in January 2014.

## We drew on existing literature, stakeholder engagement, and economic data from the States of Guernsey in developing our recommendations

We have drawn on the following evidence in developing our findings:

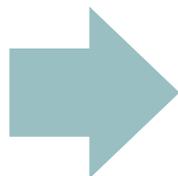
Literature and public evidence



We reviewed the literature and publicly available evidence, starting from (but not limited to):

- the States of Alderney Strategic Plan 2014;
- Guernsey's Economic Development Framework; and
- the Strategic Outline Business Case for Alderney Airport Runway Development V3.0.

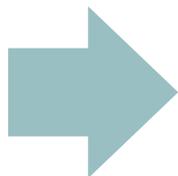
Stakeholder engagement



Our stakeholder engagement included:

- meetings and calls with policymakers, politicians, and businesses in Alderney and Guernsey while developing our interim findings; and
- workshops in Alderney and Guernsey to develop and refine our interim findings before finalising the report.

Analysing economic data



Analysing economic data, particularly that collected by the States of Guernsey.

## Our main analytical approach was the use of a SWOT analysis

SWOT  
analysis

- To understand Alderney's economic drivers, we undertook a 'SWOT' analysis.
- The framework explores 'helpful' and 'harmful' factors in reversing Alderney's economic and population decline that are:
  - internal (i.e. based on Alderney's characteristics); and
  - external (typically forward looking features of the external environment)
- This analysis is useful in developing policy actions or other strategies to:
  - build on strengths and overcome weaknesses; and
  - exploit opportunities and mitigate threats.

	Helpful	Harmful
Internal factors to Alderney	<b>Strengths</b>	<b>Weaknesses</b>
External factors	<b>Opportunities</b>	<b>Threats</b>

## We began by analysing a number of key economic sectors, and then identified a set of cross-cutting issues affecting a number of sectors, including the airport

We used the following framework to develop our findings and recommendations:

Alderney's economy	Sectors	<ul style="list-style-type: none"><li>• The sectors we looked into were renewable energy, tourism, eGaming, financial services, digital industries, and agriculture and fishing.</li><li>• We carried out a full SWOT analysis for each sector, excluding agriculture and fishing which is a very small sector on Alderney.*</li></ul>
	Governance	<ul style="list-style-type: none"><li>• Governance issues we considered included Alderney's autonomy with respect to spending, and policymaking capacity and co-ordination (both on Alderney and between Alderney and Guernsey).</li><li>• We also analysed the role of economic data pertaining to Alderney.</li></ul>
	Cross-cutting issues	<ul style="list-style-type: none"><li>• Cross-cutting issues identified included those relating to attracting staff and requisite skills to Alderney.</li><li>• We also analysed electricity and ferry connectivity.</li></ul>
Air links	The airport	<ul style="list-style-type: none"><li>• We considered the role of the airport in terms of Alderney being able to capitalise on its economic opportunities.</li><li>• We analysed this with regard to proposals to improve the existing runways, and to extend the long runway to accommodate larger planes.</li></ul>

<sup>8</sup> \* We understand there to be a single farm on the island and a very small fishing industry. The size of the sector in terms of number of employees and total remuneration can be seen in the chart below relating to economic data.

- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

# There is clear evidence of economic and population decline in Alderney, but there are a number of significant economic opportunities

## Alderney's economy

### Economic and population decline

- There is clear evidence of economic and population decline. Population decline is forecast to continue, and policy action is required to try to reverse this. In particular there is an urgent need to attract more younger people to live and work on the island.

### Economic drivers

- The main economic drivers on Alderney have been public administration, business services, finance, eGaming, tourism and energy.

### Potential cyclical economic recovery

- There are signs of recovery in a number of sectors (though not universally), driven in part by resumed economic growth in the UK and in part by a number of initiatives already underway. A lack of concrete, timely data makes a robust assessment difficult.
- Alderney should not rely on what may be a cyclical change to indicate structural change in the direction of economic travel.

### Economic opportunities

- There is scope for change. There are a number of economic opportunities, particularly around tourism, business services, renewable energy and drawing on Alderney's recognised global strengths in regulation.
- Given its size, only one or two opportunities need to land to engender real change on Alderney.

# Key recommendations: Alderney's economy

## Sector-specific recommendations

- Dedicate additional resources to market Alderney to tourists and improve tourism data as part of a dedicated tourism strategy.
- Continue to monitor opportunities to improve ICT connectivity (e.g. to enable eGaming servers on-island) besides the possible FAB interconnector.
- AGCC to work with Alderney and Guernsey authorities to monitor the impact of UK and EU regulatory reform on the eGaming sector and identify opportunities for new jobs on Alderney.

## Governance

- Allow Alderney to use e-gaming licence fees to fund intangible capital investments.
- Establish economic development policy capacity and overarching economic strategy in Alderney, supported by and with close links to Guernsey. Consider role for cross-island secondments.
- Alderney and Guernsey politicians should develop a jointly-agreed position on future strategic policy developments setting out roles and responsibilities.
- Collect, analyse and share more robust economic data.

## Cross-cutting issues

- Extend and integrate business mentoring roles of Alderney retirees, and co-ordinate with the Guernsey skills strategy as appropriate.
- Market ease of relocation to Alderney to businesses and individuals (e.g. to those seeking UK housing market equity release).
- Support improvements to the school as directed by the recent inspection.
- Explore scope for targeted tax incentives to attract business to Alderney (e.g. TRP, temporary holidays from Social Insurance Contributions for new businesses).
- Identify/evaluate options to interconnect Alderney with electricity supply from France before 2020, and explore options to improve ferry connections.

## Many of our recommendations should be developed jointly as part of an integrated, targeted package focused on economic revival on Alderney

- A clear economic development strategy is critical, and requires someone with the skills and expertise to oversee it, which may require a suitable individual to be recruited to the island.
- The strategy needs to be forward-looking, setting out clear milestones and objectives against which progress can be reviewed. Better economic data are clearly needed to assess whether objectives are being met and the impact of particular initiatives taken forward as part of the strategy.
- Given a lack of alternative revenue streams, funding for the strategy could come from diverted use of AGCC licence funds if agreed with Guernsey, though with clear recognition that this funding source is uncertain and not limitless.
- Any PSO for the Alderney airport routes will clearly need to be developed alongside an economic strategy for Alderney, since future expected economic trends will be a key input into the terms of a PSO.
- The need for collaboration between Alderney and Guernsey is central to a number of our recommendations. There appears to be a consensus on the need for action across islands, and there is an urgent need to increase co-operation between the islands and engender a greater sense of trust. Without buy-in from all parties the chance of success is greatly diminished. Opportunities for closer engagement could be identified building on e.g. the Alderney Liaison Group.
- A joint policy statement between the islands setting out mutually agreed objectives, roles and responsibilities for delivery could help to provide buy-in, and include a framework for how future economic opportunities for Alderney can be acted upon swiftly whilst minimising reputational risk to the Bailiwick.

# There is a clear case to improve the current airport facilities, but the current evidence does not support an extended runway as critical to unlocking economic potential

## The airport

### Case to improve current facilities

- There is a clear case to improve current facilities so that they are in line with regulatory standards and to reduce risks around weather- and infrastructure-related reliability.

We are not persuaded, on the basis of evidence gathered to date, that an extended runway at Alderney airport is critical to unlocking economic potential in the sectors identified. The option should not be ruled out in the future should conditions change.

### Route security

- The Southampton route does not appear to be under threat even without extension.

### Passenger growth

- There is scope for significant passenger growth within the current arrangements.
- A longer runway allowing larger planes to land would, in the absence of significant new entry, reduce frequency of service. Frequency is clearly identified as important for business, tourist and residential travel to and from Alderney.

### Fleet replacement

- Current plans to replace the Trislander fleet with Dornier aircraft do not appear to represent a significant threat to frequency, and would improve the quality and reliability of the service.

### Price of air travel

- Price is recognised as an issue for air travel. It is unclear that an extended runway would address this. Without a proven increase in demand, larger aircraft may suffer low load factors, such that the cost per served passenger is no lower.
- New entry by other operators (opening up possible new routes) is also unlikely unless there is proof of a significant demand increase.

## Key recommendations: Alderney airport

### The airport

- Fund improvements to the airport required to secure its regulatory compliance.
- The Treasury and Resources department of States of Guernsey should consider implementing a Public Service Obligation (PSO) for the Alderney routes.
- Base details of the PSO (fare, frequency) on evidence about economic impact. Review terms of the PSO regularly to ensure they reflect changes in Alderney's economic conditions.
- Data on use of and demand for Alderney airport should be provided and analysed, including more robust evidence on unmet demand on existing and new routes, with a view to re-examining the case for extending the runway in the future.
- No changes should be made which preclude future extension.

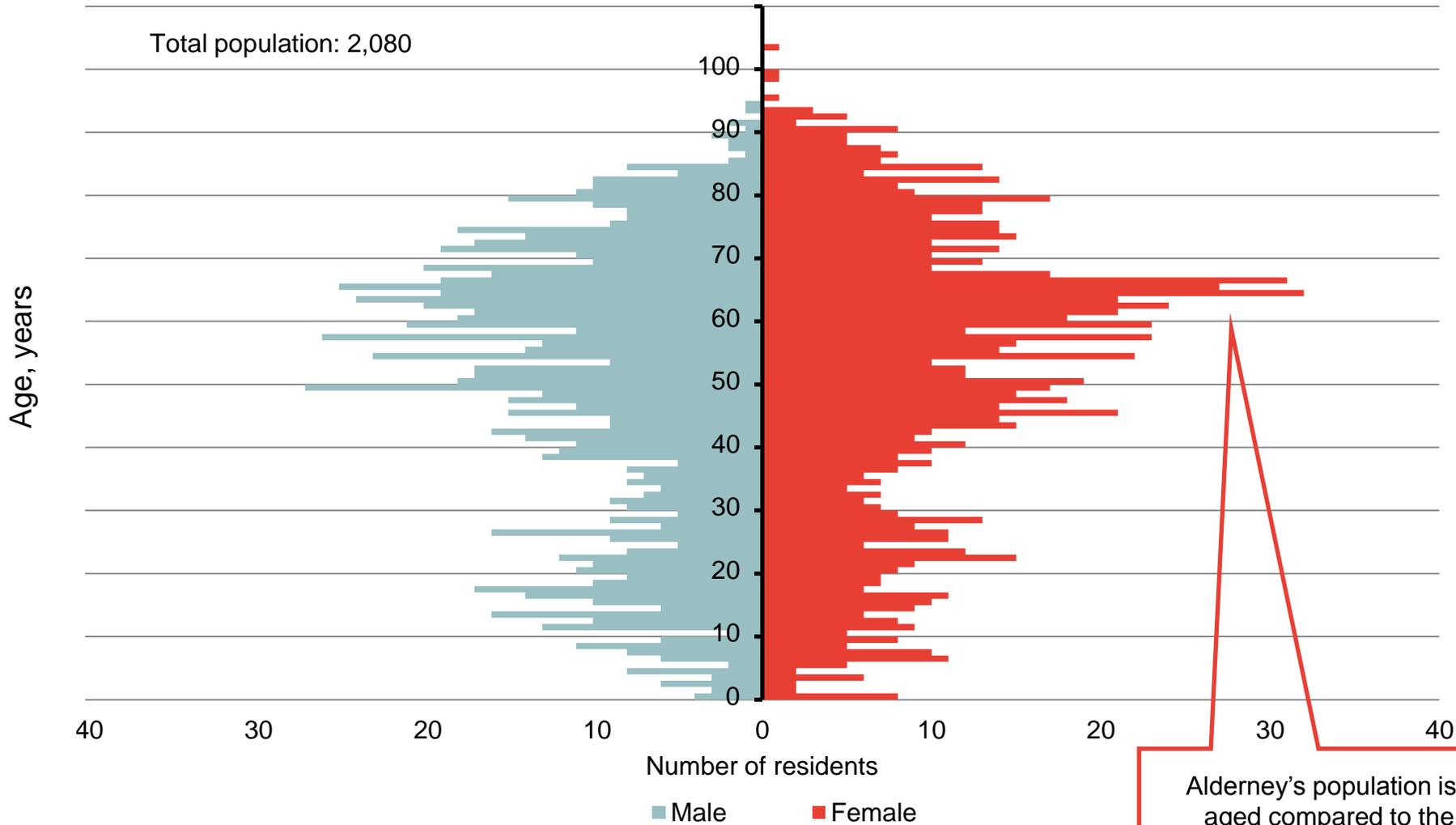
The rest of the report outlines the evidence supporting the recommendations for Alderney's economy and airport

- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

# Alderney's population is both decreasing and ageing

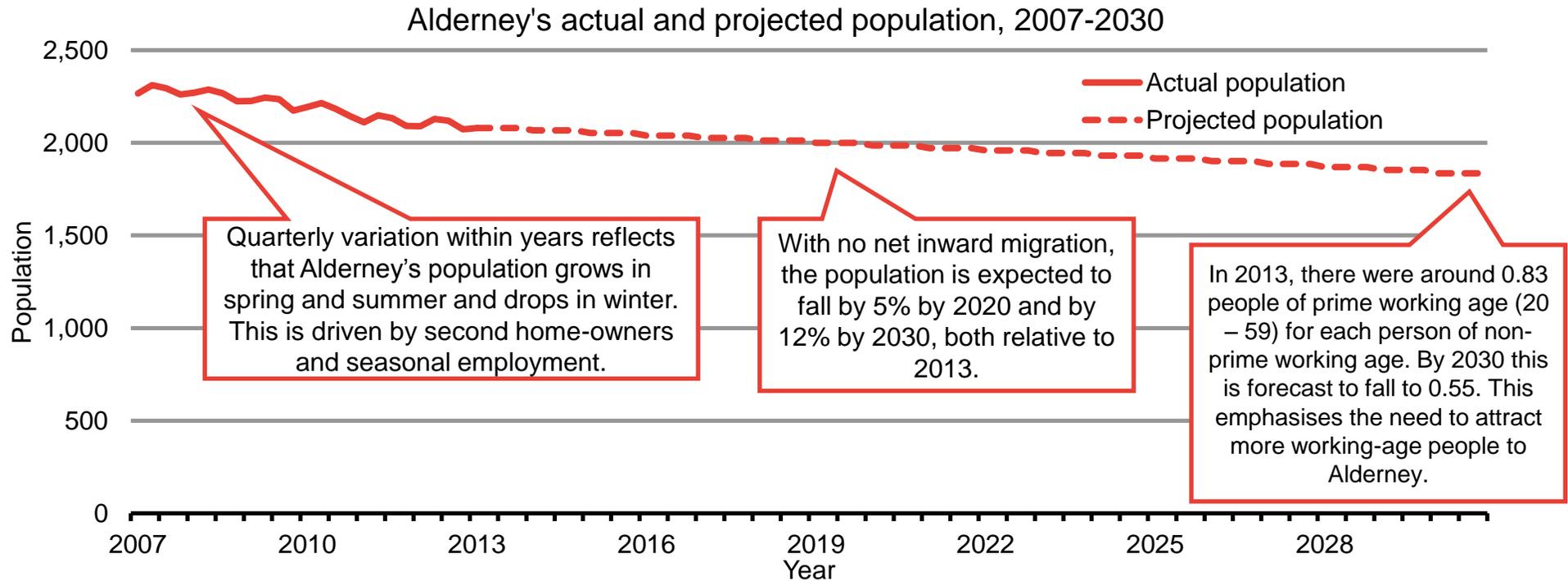
The 2013 census found a 17% fall in the population since the 2001 census. The number of children aged 14 or below fell by 50%.

Alderney population pyramid, Q1 2013



Alderney's population is more aged compared to the UK.

## Assuming zero net inward migration, Alderney's population is forecast to continue to decline over time

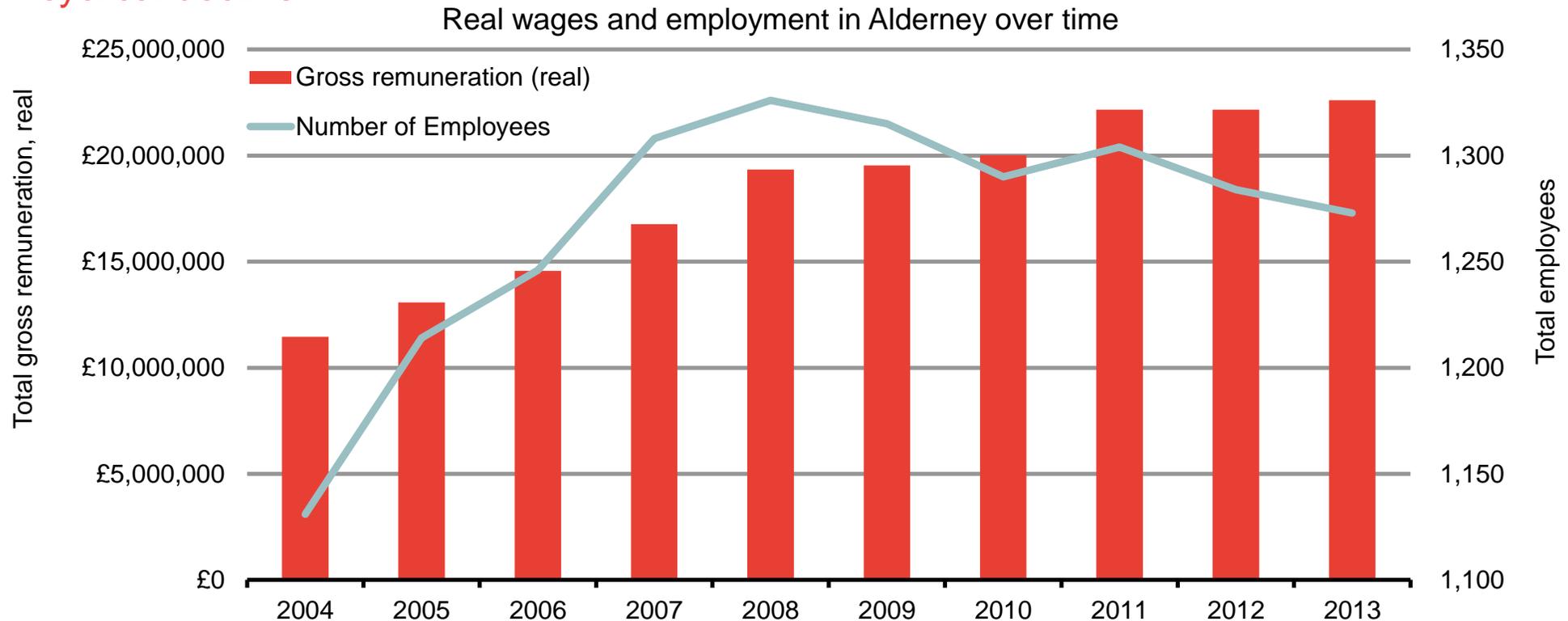


Source: Guernsey government population projections, assuming zero net inward migration

There are conflicting views on the island's actual population, which makes effective policy-making difficult and risks anecdotal evidence trumping facts. As we understand it, the population figures differ as follows:

- Guernsey government statistics are based on social security and education records, which may overstate the number of residents in Alderney year-round.
- The 2013 census estimated a population of 1,903, based on those resident as at midnight on April 28<sup>th</sup> 2013.
- Some residents view both as an overestimate of the permanent population (perceived figures closer to 1,500 are not uncommon).
- Regardless, the key issue is the trend in numbers and breakdown, where the Guernsey statistics paint a clear story.

## Alderney's economy has declined over time, displaying signs of both structural and cyclical decline

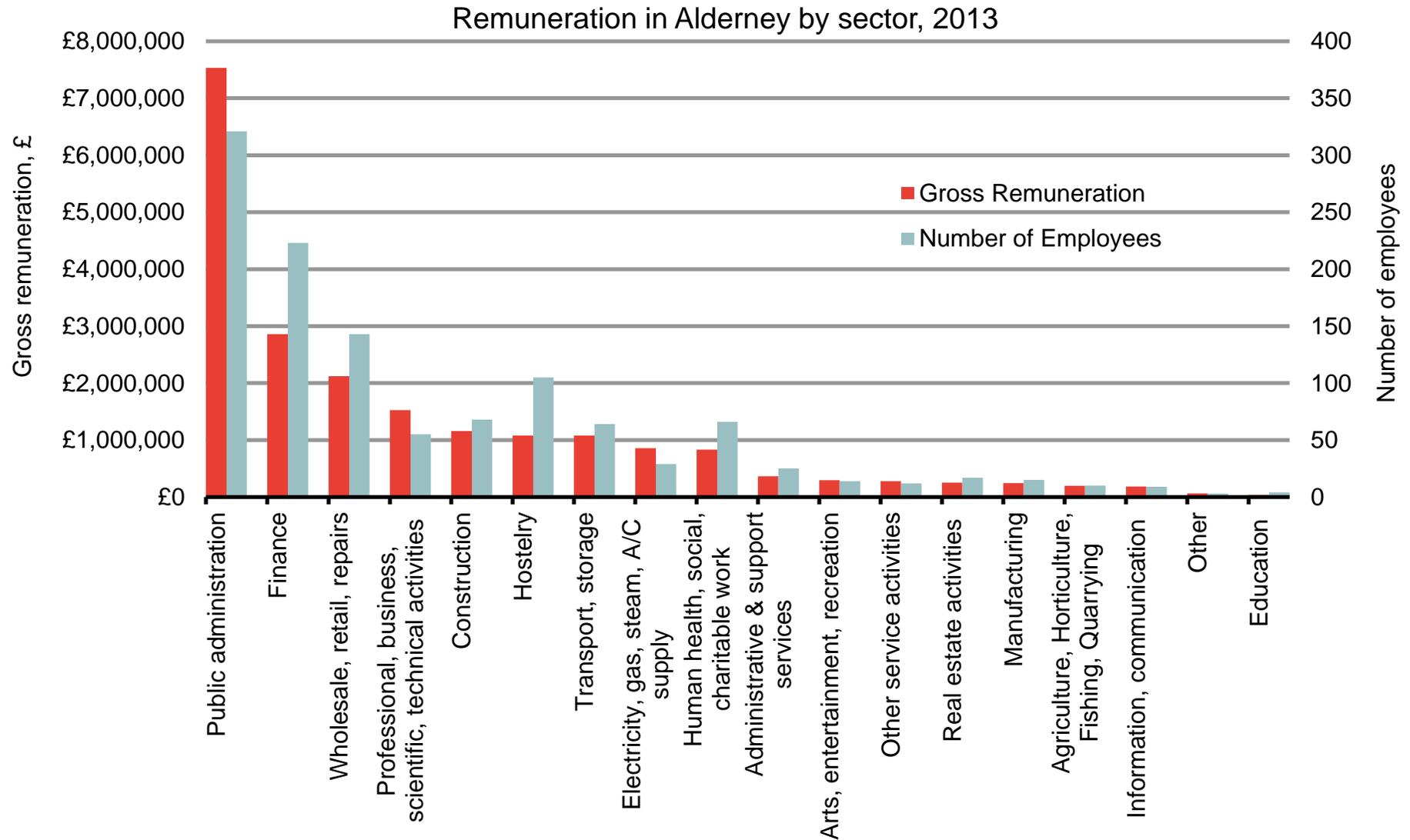


Employment on Alderney has fallen from a peak in 2008. Total remuneration has grown, though more slowly than in the mid-2000s, suggesting that employment has been falling among lower-wage professions in particular. In 2013, the average wage among employees (total wages divided by total employment) was around £17,760.

There is no measure of GDP for Alderney, and figures on other income sources (self-employment income, corporate profits and unearned income) are not reliably collected or are received only with a significant lag. Both self-employment income and corporate profits appear to have declined significantly in nominal terms since 2008 (from £10.8 million to £7.5 million for self-employment income, and from £21.9 million to £1.8 million for corporate profits), though it is not clear how far this represents measurement difficulties (for example the move to zero corporate tax for many businesses in 2008 and delays in receiving data). However it does suggest that the relative strength of gross remuneration does not imply there has been no significant economic decline.

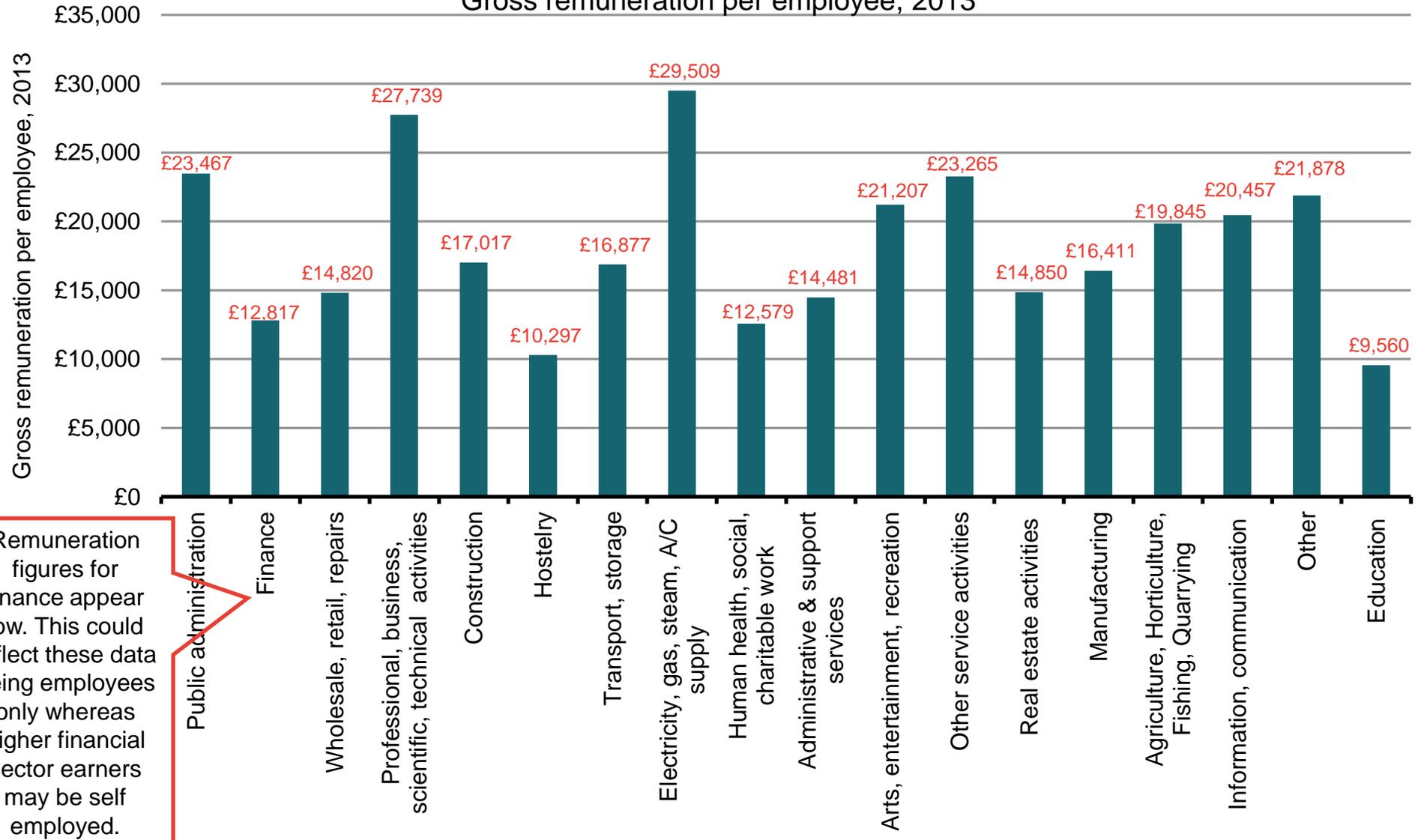
# Alderney's economy is predominantly service based

The largest sectors in 2013 by gross remuneration were public administration, finance, and wholesale, retail and repairs. Hostelery is also a significant employer.



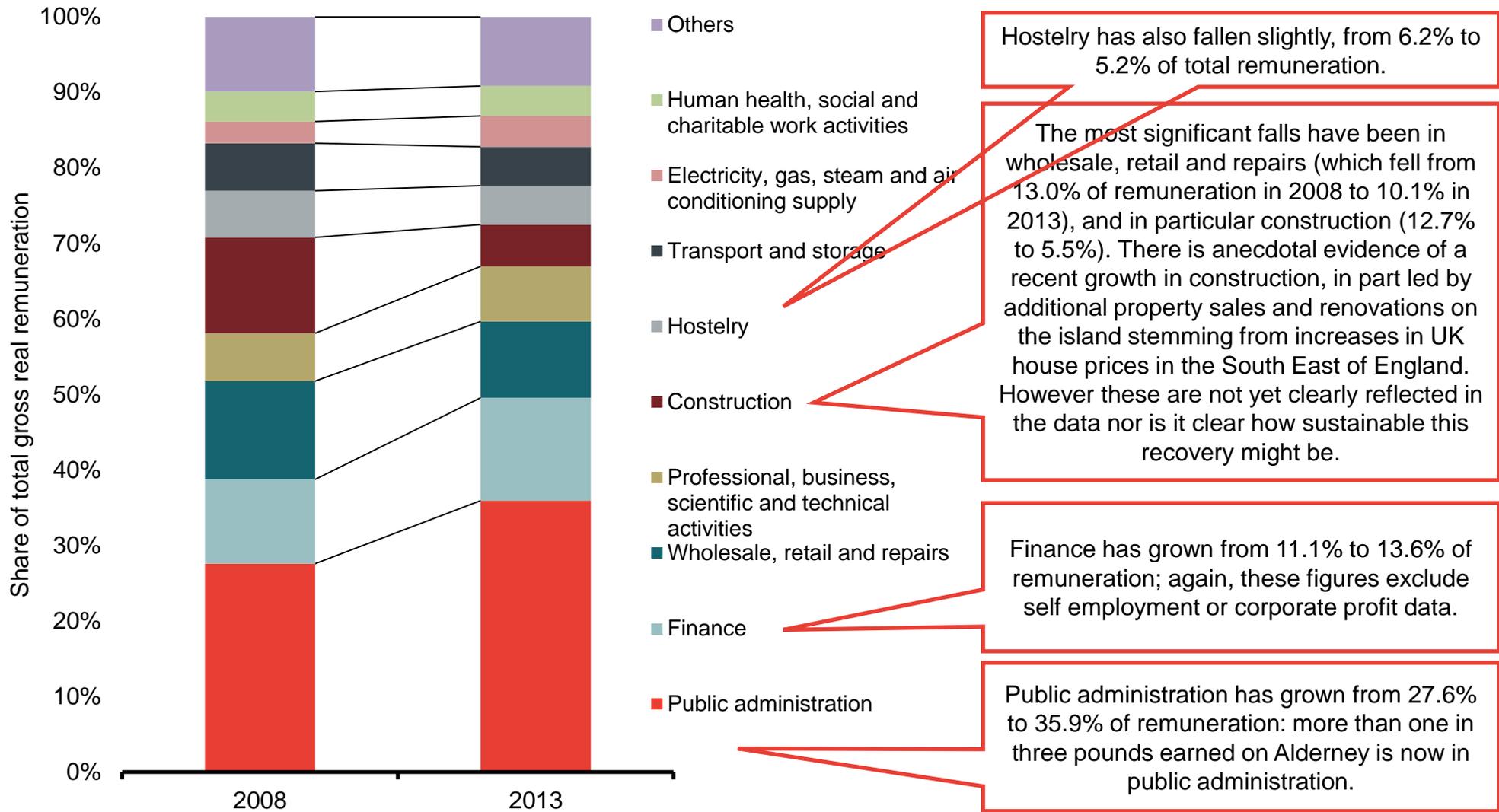
# Gross remuneration per employee is highest in the energy sector and professional services, and lowest in education and hostelry

Gross remuneration per employee, 2013



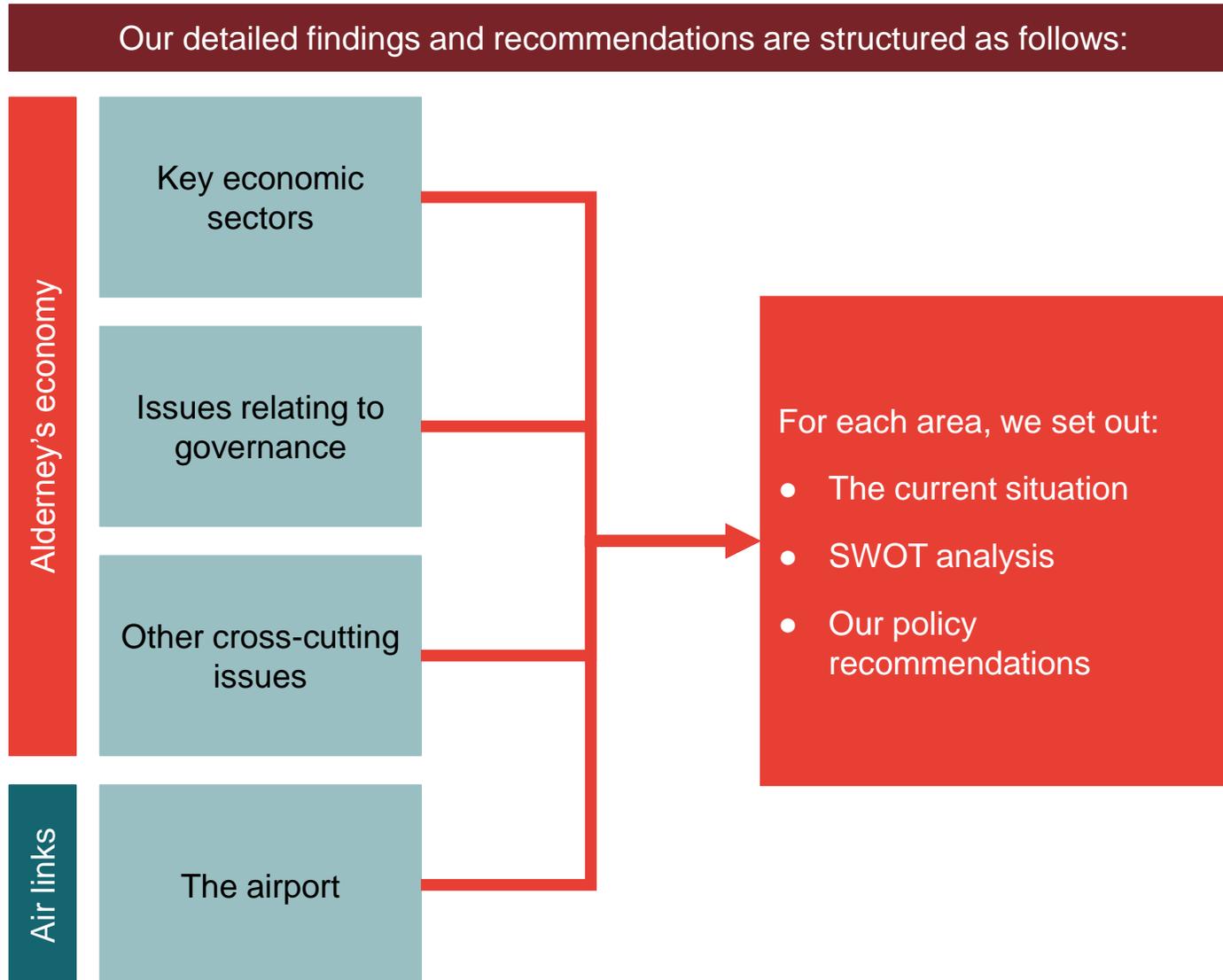
Remuneration figures for finance appear low. This could reflect these data being employees only whereas higher financial sector earners may be self employed.

## The break down of gross real remuneration over time shows trends in the (employment) composition on Alderney since the 2008 peak in the economy



- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

In this section, we set out our detailed findings for governance, specific sectors, cross-cutting issues, and the airport



- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

## The current situation

Renewable energy is currently small, and Alderney has put in place regulation to enable available renewable resources to be developed

- While currently a small employer on Alderney (with the energy sector as a whole accounting for 3% of employment according to the 2013 census), Alderney's economic strategy aims to grow the island's renewable energy sector.
- The strategy aims to achieve the following:
  - self-sufficiency in renewable energy within five years; and
  - increased energy efficiency.
- The Alderney Renewable Energy Commission licences and regulates renewable energy in Alderney and its territorial waters.
- Alderney Renewable Energy Ltd (ARE) has been licensed to develop a 300MW tidal farm in Alderney's waters.
- Licence fees from ARE also contribute to subsidising on-island energy costs, estimated at around 2-3p/kWh, approximately 6-10% of Alderney's electricity price in 2013.
- ARE is also developing an interconnector (the FAB Link) which would enable Alderney to export tidal energy and import power from France and Britain.

## SWOT analysis: renewable energy

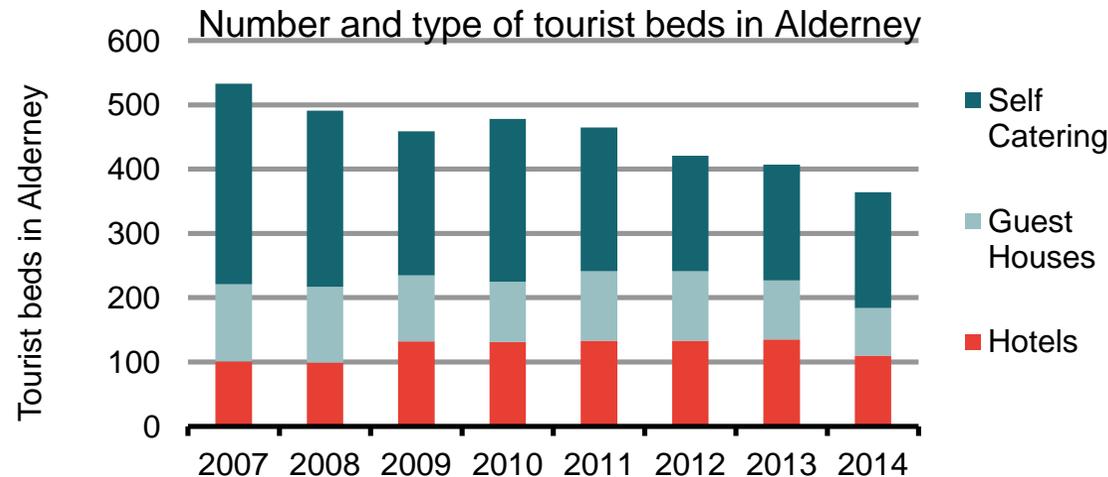
There is an opportunity for Alderney to develop a renewable energy sector based around tidal energy exported to the UK and France. However, the project is uncertain and the benefits would not be realised until after 2020.

	Helpful	Harmful
Internal factors to Alderney	<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>• Alderney has substantial renewable energy resources available.</li><li>• A regulatory regime is in place to enable resources to be developed and there is political support.</li><li>• Developing this sector is consistent with strategic priorities of protecting and promoting the environment.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>• The required skills base and scale is not available in Alderney - most of the employment benefits from the tidal power project are expected to be in France.</li><li>• Policy capability is lacking, e.g. to deliver detailed impact assessments for the potential in terms of jobs and growth.</li></ul>
External factors	<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>• Developing tidal power and the FAB interconnector offers economic and job opportunities in Alderney (e.g. research opportunities and administration).</li><li>• Alderney is only likely to capture a small part of the economic return, but the potential rewards are large, including the potential for licensing revenues.</li><li>• Working with France on the project could develop new tourism markets.</li><li>• By reducing electricity prices and improving ICT connectivity, FAB could increase Alderney's competitiveness as a business location.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>• Timescales are long and uncertain (with deployment and interconnection not before 2020). Previous estimates of when results would be delivered have been missed, leading to some scepticism among businesses on Alderney.</li><li>• Risks include technology and regulatory risk, as the tidal and interconnector projects are reliant on successful piloting of the technology, and regulatory approval from France and Britain (e.g. market access).</li></ul>

## The current situation

Tourism in Alderney has declined, and a programme is in place to develop the sector

- Alderney's tourism sector has declined in recent years. The decline is likely to reflect both cyclical (UK recession) and long-term drivers.
- Living Islands aims to contribute to the island's economic growth, while supporting and protecting Alderney's natural environment and historic heritage. It is targeting a set of groups/niches that Alderney appeals to. However, funding runs out soon. The project is funded for two years by the States of Alderney and the Royal Society of Wildlife Trusts.
- Tourism is partly an enabling sector: it contributes to maintaining the high street and facilities on-island which also attract residents and workers in other sectors.
- The majority of tourists travel from the UK (72% in 2011), over half arriving by air from Southampton (Island Analysis, 2011).



Capacity fell by 32% between 2007 and 2014. This is similar to the decline seen in Guernsey.

# SWOT analysis: tourism

There are substantial opportunities to develop Alderney's tourism sector and increase visitor numbers. This could build on the success of the Living Islands programme.

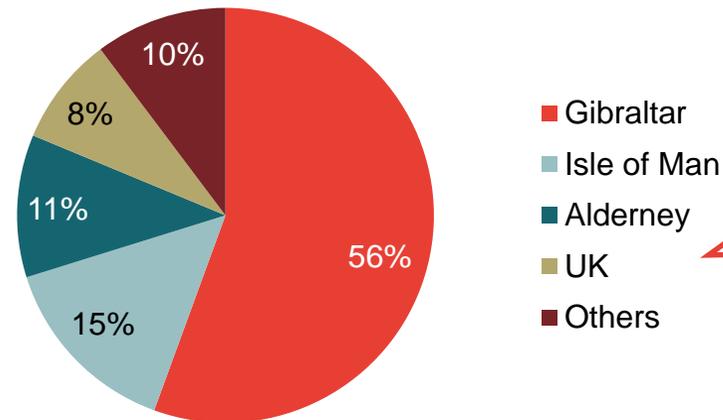
	Helpful	Harmful
Internal factors to Alderney	<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>• Alderney appeals to visitors, offering safety, quiet, history/heritage, wildlife, natural beauty, and being 'off the beaten track'.</li><li>• Living Islands is rebuilding tourism to Alderney. There is anecdotal evidence this is having an effect.</li><li>• Amenities associated with tourism help to attract other business and residents.</li><li>• Closed tourist infrastructure could be brought back into service.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>• The price of air travel is cited as a barrier, as is the need to arrive by Trislander which may put off some tourists.</li><li>• Passenger ferry services to Alderney are very limited, in part because of the nature of tides around the island. Demand may be insufficient to sustain ferry services without subsidy.</li><li>• The number of tourist beds has fallen. In the short-term, this limits the capacity to meet greater demand. However there is limited tourism data available, e.g. origin airport of visitors, occupancy data, unmet demand for travel.</li><li>• Although a number of initiatives to boost tourism are being taken forward there is some sense of them not being as well co-ordinated as they could be.</li></ul>
External factors	<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>• Global tourism is expected to grow by 4.2% p.a. from 2014-2024 (WTTC, 2014).</li><li>• There is anecdotal evidence of pent-up demand to visit Alderney (e.g. from France, Jersey) though this is contested and there is a lack of analysis about the scale and what new transport connections this could sustain in the long-term.</li><li>• There are substantial opportunities to grow tourism: increasing awareness of Alderney, developing/renovating tourist attractions, extending the season (particularly around wildlife), developing new niches (e.g. charter angling, eco-tourism around renewables); and broadening transport options.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>• Awareness of Alderney is low, which can result in reliance on repeat visits.</li><li>• A lack of data on tourism demand may inhibit a supply side response (re-opening hotels/ developing new tourism capacity) to increasing visitor numbers since investors may not be confident about the opportunities.</li><li>• Funding for Living Islands runs out in a year, raising a risk for continuity and momentum (including e.g. baseline data collected not being followed up).</li></ul>

## The current situation

Alderney was a world leader in developing regulation for eGaming, and continues to earn substantial licensing revenues

- 52 companies were licensed by the AGCC in 2013, a small fall from 56 in 2012. Revenue from licensing eGaming is paid by the AGCC to Alderney (minus AGCC's costs), and is typically £1-2million per annum.
- In 2011, gross eGaming revenue in the UK was £1.71bn.
- Alderney-based companies serving the UK market include Rank and NetPlay.

UK derived revenue (gross gaming yield) by domicile



£190m of revenue for UK online gambling was from Alderney based companies, 11% of receipts in 2011 (the latest year for which data are available).

Source: Gambling Data Report, 2012

# SWOT analysis: eGaming

There is uncertainty over future growth in the eGaming industry, in part due to regulatory and tax changes. Current licensing revenues provide a valuable resource for Alderney.

	Helpful	Harmful
Internal factors to Alderney	<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>● Alderney has built a strong regulatory brand through the AGCC in the eGaming sector. The AGCC is seen as world-leading.</li><li>● eGaming businesses are able to be licensed in Alderney, though servers and jobs are typically found on Guernsey.</li><li>● AGCC licence revenues are a valuable revenue resource for Alderney.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>● Jobs in Alderney associated with eGaming are limited, due to the size of Alderney's economy and associated infrastructure (e.g. ICT connectivity). eGaming jobs on Alderney mostly revolve around licensing and company formation services.</li><li>● There are fears that future licence fees could fall significantly.</li></ul>
External factors	<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>● There is an opportunity to attract additional licensees and additional eGaming jobs to Alderney.</li><li>● This is particularly true for EU countries who may follow a UK model of allowing regulation in Alderney to stand in place of national-based regulation.</li><li>● Alderney could expand its regulatory activities into additional areas where 'gold-plated' regulation is perceived as an advantage (e.g. virtual currencies, financial spread betting, online payment systems).</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>● There is uncertainty over the likely impact of tax and regulatory reforms on the eGaming sector in Alderney.</li><li>● Increased regulation and taxation of eGaming in the country where gambling occurs could drive activity back onshore.</li><li>● However if companies wish to try and recover additional tax advantages of being regulated in Alderney (zero VAT and corporate tax) to offset increased payment of gambling duties in the UK, they may have to carry out more real activity associated with eGaming in the Bailiwick, with some potential for Alderney to benefit.</li><li>● Given the size of Alderney's economy, a decline in the sector could have a major economic impact. This increases the need to diversify Alderney's economy.</li></ul>

## The current situation

Financial services are an important sector in Alderney, benefiting from the low tax regime

- Financial services is the second largest sector of Alderney's economy (in employment terms) after public administration.
- However, remuneration per employee in financial services is comparatively low (using Guernsey government data). This is unexpected, given that the sector is typically associated with comparatively high remuneration.
- The low remuneration could reflect a large number of administrative jobs within the sector, and/or a high degree of self-employment amongst those with higher earnings working in financial services.
- Financial services sector activity in Alderney is not concentrated within a single niche, though Alderney is seen as relatively more active in trust management.

## SWOT analysis: financial services

There is an opportunity to attract additional financial services sector activity to Alderney. This could focus on emerging financial services where innovative, high quality, regulation is required.

	Helpful	Harmful
Internal factors to Alderney	<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>● Financial services is currently one of Alderney's main employers.</li><li>● Alderney's low tax regime and ease of relocation is attractive to financial services businesses.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>● The cost of dedicated ICT connectivity (i.e. a private connection) in Alderney is high.</li><li>● A lack of ancillary/business support services in Alderney raises the costs of doing business.</li><li>● Attracting businesses with limited presence on or commitment to the island could bring only revenue benefits, rather than new jobs.</li></ul>
External factors	<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>● There are opportunities to attract additional financial services sector activity to Alderney, including recent interest from PWC in developing an Anti Money Laundering/Know Your Customer centre on the island (focused on financial security services).</li><li>● Alderney could build on its reputation for innovative, high quality, regulation by developing a regulatory framework around other emerging financial services (e.g. virtual currencies, financial spread betting). This could attract new financial services business.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>● There are reputational risks associated with attracting businesses in emerging financial services markets without established governance.</li></ul>

## The current situation

While the digital sector is not currently a large part of Alderney's economy, there are opportunities for growth

- The digital sector is not currently a large part of Alderney's economy.
- In the past, the island hosted a data centre while the eGaming sector was emerging. Currently there is not demand to reopen this.
- Guernsey's economic development framework defined the digital sector as including:
  - IT support services;
  - software developers;
  - web developers;
  - data centres; and
  - telecoms operators.

# SWOT analysis: digital industries

There is an opportunity for Alderney to build on success in eGaming and financial services by expanding into digital industries.

	Helpful	Harmful
Internal factors to Alderney	<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>● Alderney benefits from a strong regulatory reputation in the eGaming sector. This could benefit it in attracting businesses in digital industries and being able to develop appropriate regulation.</li><li>● Basic ICT infrastructure is good: household and basic business internet speeds are on average higher than those on Guernsey at the same cost.</li><li>● There is a (now defunct) data centre on Alderney which could be brought back to service quickly, though it was previously not well-utilised.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>● These are as for the financial services sector, in particular around dedicated ICT connectivity which, if required, comes at a much higher cost than on Guernsey. Options to develop ICT capacity beyond the FAB interconnector have been explored but appear prohibitively expensive.</li><li>● The skills required to develop this sector may not currently be available in Alderney.</li><li>● High electricity prices are a barrier to developing businesses with high power consumption.</li></ul>
External factors	<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>● Guernsey's economic strategy identifies an opportunity to leverage success in eGaming and financial services by expanding into digital industries.</li><li>● This could also apply to Alderney, e.g. hosting data centres/ ICT support services.</li><li>● Developing this sector would help to diversify Alderney's economy.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>● As for a number of sectors, there are risks around longevity of new sectors attracted to Alderney, e.g. pending future regulatory reforms outside of the control of Alderney or the wider Bailiwick.</li></ul>

## Recommendations: sector-specific issues

Issue	Objective	Policy recommendations
Opportunity to develop tidal power and an interconnector to France and Britain	Support renewable potential being realised (reduce prices and develop ICT capability)	<ul style="list-style-type: none"> <li>• Monitor economic impact to Alderney of planned development, including the number of potential jobs.</li> <li>• Work to ensure realistic timeframe for delivery and measurable goals/objectives. Ensure communication with business community on progress and expected impact.</li> </ul>
There are opportunities to boost tourism	Increase tourism to Alderney by raising awareness, extending the season, bringing unused facilities back into use, and potentially developing attractions	<ul style="list-style-type: none"> <li>• Given the sector's importance, a dedicated tourism strategy may be needed. This could be separate to or part of a wider economic development strategy, but should be taken forward by an identified individual with the requisite skills and experience.</li> <li>• Dedicate additional marketing resources to tourism, with a key focus on raising awareness in SE England.</li> <li>• Explore opportunities for corporate sponsorship to re-develop on-island tourist attractions, and identify low-cost investments which could have largest impact on tourist demand (e.g. developing existing harbour).</li> <li>• Build on success of Living Islands, e.g. in fostering co-ordinated approach, data collection and marketing.</li> <li>• Improve data on tourism (e.g. data sharing from Aurigny, entry/exit surveys at airport, measures of potential unmet demand, use of tourist facilities and beds) and provide information for potential investors in unused facilities.</li> </ul>
Potential to expand financial and knowledge-based services but costly dedicated high-speed ICT connections	Facilitate growth of these sectors in Alderney and explore options to improve ICT connectivity	<ul style="list-style-type: none"> <li>• Actions identified around marketing, connectivity, and improving policy coordination and support (see cross-cutting issues).</li> <li>• Continue to monitor opportunities to improve ICT connectivity other than through the FAB interconnector, and ensure that plans are in place to provide connectivity through the interconnector should it go ahead.</li> </ul>
Regulatory reforms in eGaming could offer job potential, though very uncertain	Draw on AGCC reputation, identify scope for jobs on Alderney	<ul style="list-style-type: none"> <li>• AGCC, Alderney and Guernsey should ensure impact of regulatory/tax reform in the EU in terms of location of activity is understood and steps put in place to mitigate any threats or exploit opportunities for Alderney and wider Bailiwick.</li> </ul>

- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

## The current situation

Alderney has its own government, but strong policy links to Guernsey based on the 1948 agreement

- Public administration is the largest employer on Alderney, but the “civil service” is small.
- The States of Alderney has 10 members, with two representatives also sent to the States of Guernsey. The Alderney Liaison Group was recently formed as a bridge in policy-making between the islands.
- Under the 1948 Agreement, the States of Alderney has law-making powers other than law and order and transferred services from Guernsey (health, police services and education being the most significant). Alderney pays taxes at the same rate as Guernsey into the general Bailiwick fund.
- For the last decade or so, an arrangement has been in place under which Alderney is able to use revenues from AGCC licence fees to pay for capital infrastructure investments, replacing a previous grant-based scheme. Projects still need to meet approval from Guernsey and be supported by a clear case for investment. Only capital infrastructure is in general allowed, and Bailiwick-wide procurement procedures need to be followed.

## Speed of decision making and willingness to take risks are strengths of Alderney's governance

### Issues

- The small size of Alderney's government means it is able to make decisions quickly, which is a benefit for businesses looking to locate in Alderney.
- Alderney is willing and able to take risks in new, unestablished, sectors, enabling the Bailiwick to benefit from new opportunities while protecting Guernsey's reputation.
- However, decisions still need buy-in and approval from Guernsey in most cases to be taken forward (including States approval) which can slow down processes. There is also some concern about possible Bailiwick-wide reputational risks from taking forward risky ideas (e.g. around new areas of financial regulation, building on the AGCC/eGaming experience).

### Our assessment

- Putting systems in place to safeguard the Bailiwick's reputation with respect to new opportunities while retaining quick movement in Alderney could increase the attractiveness of doing business in Alderney across sectors.
- This safeguarding is already in place for e-gaming where there is an agreement between the Alderney and Guernsey governments allowing for speedy adoption of new regulations. The AGCC is widely regarded as world-leading.
- However, the longevity of new sectors attracted to Alderney can be highly uncertain (e.g. depending on external regulation such as LVCR).<sup>1</sup>

## Lack of capacity to implement an economic strategy is a weakness, along with a lack of autonomy on use of eGaming licence fees

### Issues

- Some stakeholders have found a lack of policy coordination a barrier to potential economic development. This relates to co-ordination both between Guernsey and Alderney, and within Alderney itself.
  - Schemes to market Alderney as a destination to live, for example, had been taken forward by the Alderney Enterprise Group (AEG) without any awareness of what was being pursued by the Chamber of Commerce or the Alderney Liaison Group.
- The small scale of Alderney's civil service means there is a lack of strategic policy-making capacity around economic development (including tourism). There is a lack of a single figure who can co-ordinate and implement an economic strategy and take responsibility for delivery. This is seen as a barrier to effecting genuine change and innovation.
- Alderney has a lack of autonomy in how it spends revenue from e-gambling license fees. A restrictive definition of capital investment (allowing tangible capital only), prevents potentially valuable investment in intangible assets.

### Our assessment

- Developing an economic capacity to capitalise on new opportunities in Alderney could have a high impact, ensuring follow-up of enquiries and better co-ordination on Alderney and between Alderney and Guernsey.
- Developing an overarching strategy will require funding and increased autonomy over finances.
- With AGCC license fees currently £1-2m per annum, there is a high potential value to Alderney's economy of allowing it to invest in innovation and intangible assets (including an economic development capacity). Alderney struggles to use the existing revenues to pay for capital investments because of a lack of capacity to deliver programmes of that scale. There is also a lack of alternative funding sources (e.g. EU, Lottery).
  - Our understanding is that there is already a process in place through the States of Guernsey Budget process to allow Alderney to use some of the license fees over three years to develop an economic development capability.
  - Agreement in principle that Alderney should be able to use licence fees for intangible capital investments could be sought to reduce the procurement and other processes that need to be followed to allow investments to occur, though a clear business case would still need to be made. Alderney needs the capacity to be able to make a better economic case for investments and could work with Guernsey to be able to do this.
- There is a perception of a lack of trust between Alderney and Guernsey, though stakeholder engagement on both islands found a very high level of common agreement on the issues and opportunities.
- Closer working between the islands would help to increase trust and make more effective, co-ordinated policy.

## A lack of economic data also acts as a barrier to effective policy making

### Issues

- There is a lack of good economic data on Alderney on which to base policy and measure the impact of any development or other strategy.
  - There is no separate GDP data, meaning it is hard to accurately measure trends in economic activity and its composition over time. A move to European standards of GDP accounting could address this going forward but there will be a need for a reliable baseline measure against which to evaluate the impact of policy measures.
  - There is no separate price and inflation measure for Alderney, and Alderney data are not part of the Guernsey RPI. Differences in the cost of living and doing business on Alderney and Guernsey are therefore anecdotal, and it is hard to evaluate how effective policy interventions might be.
  - There is no formal registration of residents leading to uncertainty over population. We understand that Guernsey is moving to a rolling census programme but it is not clear whether this will cover Alderney.
  - As discussed in the sector-level analysis, there is a lack of good data on tourism, a critical industry.
  - Job vacancies are not routinely known about and the skills required to fill them are not advertised to see whether there is capacity to fill posts on-island.

### Our assessment

- Improving the accuracy and availability of data is central to setting and monitoring appropriate policy.
- A lack of a clear economic baseline will make it hard to know whether any policy strategies designed to improve the economic situation on Alderney are effective.
- Data are required on a regular basis, so that trends can be identified. Timely data are vital.
- Opportunities for additional data collection include routine data sharing from Aurigny on demand for passenger services, from the Chamber of Commerce regarding vacancies and from land registry or estate agents on house sales.
- Vacancy information could be shared with those already trying to recruit workers to the island (e.g. the AEG).
- There is a keenness on Alderney for more transparent data on tax revenue flows from Alderney to Guernsey and the value of service provision from Guernsey to Alderney. Economically, it is not clear that whether Alderney is a net contributor or not to the wider Bailiwick matters – regional redistribution is a normal feature of areas sharing fiscal union. However as a way to engender trust more transparent information on these flows could be useful.
- Better data on transferred services could also help those on Alderney identify opportunities for efficiency savings in their delivery on Alderney.

## Recommendations: governance

Issue	Objective	Policy recommendation
Lack of autonomy over Alderney's use of eGaming revenue	Enable Alderney's government to invest eGaming revenue to maximise economic opportunities	<ul style="list-style-type: none"> <li>• Agreement should be reached that some portion of AGCC revenues can be used for intangible investments with different procurement and economic/business case rules put in place to do so. This should not need primary legislation.</li> <li>• Rules over what is in scope and not could be agreed between Alderney and Guernsey along with a set of criteria for approval and monitoring of the impacts of any investments through a clear economic framework.</li> </ul>
Lack of capacity to prepare/implement a coordinated economic strategy in Alderney	Build policy capacity in Alderney, based around an underlying economic strategy	<ul style="list-style-type: none"> <li>• Establish an economic development policy capacity and coordinator in Alderney, supported by and with close links to Guernsey.</li> <li>• An economic development strategy, building on the existing Strategic Plan, should be implemented with the identified coordinator responsible for delivery. Funding could come from AGCC revenues if agreed, though options such as the Guernsey Strategic Investment Fund should also be explored.</li> <li>• The strategy should be forward looking, including clear policy actions, objectives, timetables for delivery and an approach to evaluating the impact of the actions taken. It should include a clear focus on jobs potential as well as revenue potential.</li> <li>• The potential for secondment between Alderney and Guernsey civil servants should be explored.</li> </ul>
Lack of good economic data on Alderney	Improve economic data available to policymakers by collecting new data and sharing existing data	<ul style="list-style-type: none"> <li>• Collect and analyse more robust economic data pertaining to Alderney; and routinely share data between Guernsey and Alderney.</li> <li>• Identify opportunities to obtain data from corporate and other sources and ensure it is shared as necessary (with appropriate safeguarding in place) with policymakers on Guernsey and Alderney.</li> </ul>
Alderney's government able to move quickly and willing to take risks	Enable Alderney to capitalise on new opportunities while safeguarding reputation of wider Bailiwick	<ul style="list-style-type: none"> <li>• A Memorandum of Understanding or joint policy statement between Alderney and Guernsey should be agreed, drawing the experience of the AGCC. This would set out a framework for how strategic policy opportunities will be followed-up, including a clear set of roles and responsibilities across islands.</li> <li>• The ALG is already established as a joint forum; consideration should be given to its role in co-ordinating policy responses across islands.</li> </ul>

- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

### The current situation

Alderney is a small-island economy and relatively isolated which poses challenges, though the island has a number of advantages

- Alderney is a small island economy reliant on another small island and with limited connectivity.
- Lack of scale increases the cost of serving Alderney's economy, increasing the cost of transporting people and goods to the island and limiting the extent to which businesses can grow (at least while remaining on the island).
- Relative isolation can also reduce the attraction of living or working on Alderney, though of course this can be a benefit to some groups who value the quiet and safety of the island in particular.
- However the low-tax regime on Alderney (shared with Guernsey) and the relatively free ability to live and work there (compared to Guernsey) are strengths which could appeal to a number of potential businesses and residents.

Alderney benefits from a skilled, retired workforce that is able to nurture new businesses, as well as low restrictions on relocation...

### Issues

- Alderney has a number of retired, experienced business people who are willing and able to help nurture new businesses, provide advice. This is a valuable resource.
- There are low restrictions on the ability to live and work in Alderney, and there is high availability of homes on the market, making it easy to relocate. House prices are lower than on Guernsey (though incomes are also lower, on average).

### Our assessment

- There is scope to extend mentoring roles of Alderney retirees to those starting up or moving businesses to Alderney, and current programmes offering support to entrepreneurs.
- This could be integrated:
  - into programmes to attract new businesses/residents including a wider economic development strategy;
  - with existing institutions (e.g. Chambers of Commerce); and
  - with the Guernsey skills strategy.
- There is a need to ensure that the experiences and skills of those on the island are pertinent to the current issues facing Alderney.
- This could increase the attractiveness of doing business in Alderney across sectors, contributing to reversing population decline.
- Linking in the ease of relocating to Alderney to awareness-building about Alderney amongst businesses and people that could relocate to Alderney could also address barriers.

...however it also has limited on-island amenities and services, a limited skills base, and difficulties attracting staff to relocate

### Issues

- Due to its small size, on-island amenities (e.g. leisure or cultural facilities) are limited. In addition, services such as the school are small, there is no further education opportunity and a limited amount of emergency healthcare provision.
- The school was recently found to require management and learning improvements by the Guernsey Education Department. The inspection directed the school to improve its management/ leadership and the consistency of teaching and learning.
- There are difficulties attracting people to relocate to work in Alderney, and some difficulties filling professional roles on-island.
- Ferry services to Alderney are currently very limited, effectively limiting transport to air-only.
- Electricity costs are relatively high due to a lack of interconnection and a reliance on fossil fuels.
- Costs of living are thought to be higher on Alderney, driven by extra shipping costs. This can also raise the cost of doing business (though wages and rents are typically lower).

### Our assessment

- Limited amenities and services act as a significant barrier to recruitment, and therefore to reversing depopulation. This could in part be addressed by supporting programmes designed to increase number and range of cultural activities/events on Alderney.
- Improving services such as the school may reduce recruitment barriers, particularly for younger people and families. Engaging with the Guernsey skills strategy could help address skills shortages in Alderney.
- Improving ferry services could have a high impact on tourism, particularly by diversifying the places from which tourists can travel directly to Alderney (e.g. meeting demand from Jersey). There is a risk around demand being insufficient for ferry operators to serve Alderney.
- Interconnection (via FAB or otherwise) would significantly reduce energy costs.
- A lack of data makes any assessment of relative costs of living and doing business difficult.
- There may be options to reduce costs of living or doing business on Alderney relative to Guernsey, such as reduced rates of TRP, or short-term exemptions from Social Insurance Contributions for new business.
  - Separating aspects of the tax regime may be feasible given the clear geographic distinction between Alderney and Guernsey.
  - Reduced rates of TRP would likely increase house prices or rents, benefitting existing property owners but having limited impact on new movers. This is because the tax incidence is likely to fall on owners given relatively inelastic supply.
  - Other options may give stronger incentives to locate on Alderney but would need to be assessed carefully in terms of impact (e.g. they could simply see some businesses relocate temporarily from Guernsey to take advantage of short-term tax cuts).

## Recommendations: cross-cutting issues

Issue	Objective	Policy recommendation
Businesses in Alderney have difficulties attracting staff or filling posts on-island with suitably-skilled workers	Increase the mentoring support available to those relocating to work in Alderney, and support improved skills within the island's existing workforce	<ul style="list-style-type: none"> <li>• Extend business mentoring roles of Alderney retirees.</li> <li>• Integrate mentoring with existing programmes and institutions.</li> <li>• Engage with the Guernsey skills strategy.</li> </ul>
Lack of attractiveness of relocation to Alderney, perceptions of high cost of living and doing business in general	Market Alderney's comparative advantage and address limitations of amenities and services	<ul style="list-style-type: none"> <li>• Market ease of relocation to businesses/people that may relocate. Target those seeking to use UK housing market equity (particularly in the South East close to Southampton).</li> <li>• Explore scope for reducing TRP or other taxes on Alderney but ensure a proper assessment of options is made.</li> <li>• Support improvements to the school as directed by the recent inspection, and programmes to increase number and range of cultural activities in Alderney.</li> </ul>
High electricity prices and high costs of non-FAB interconnection options	Explore options to reduce electricity prices	<ul style="list-style-type: none"> <li>• We understand that previous estimates of alternative interconnection options (e.g. linking interconnection to Guernsey) have shown costs to be very high.</li> <li>• Continue to monitor options should costs fall in the future.</li> </ul>
Passenger sea connectivity is limited	Secure ferry connection to Alderney to enable greater tourist connectivity	<ul style="list-style-type: none"> <li>• Explore options (consistent with existing arrangements) to improve ferry connections. This could include changing structure of landing fees (placing a greater weight on marginal per-passenger costs than fixed landing costs).</li> </ul>

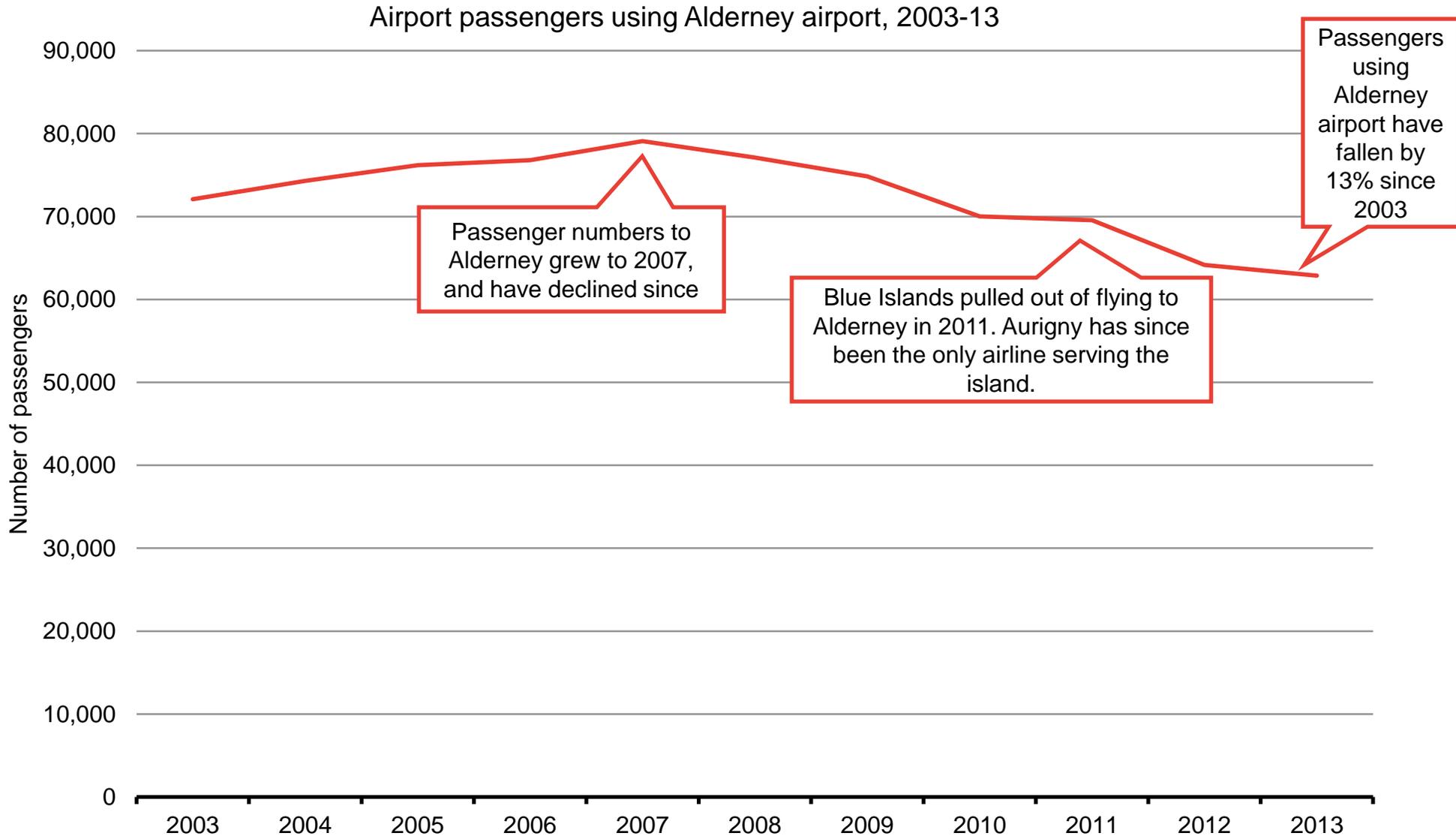
- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

## The current situation

Alderney is  
reliant on air  
connectivity

- Air connectivity is central to transport to and from Alderney, and is therefore a critical driver of economic potential on the island, including transport of residents, tourists, temporary workers, goods and post.
- This is because the potential for alternative passenger services is low due to its island location and limited potential for ferry services.
- There is also reliance on air travel for medical emergencies given the limited health facilities in Alderney. This includes medevac flights.
- Since 2011, Alderney has been served only by Aurigny (other than general aviation and occasional charter flights). Aurigny suggest that the Alderney routes are currently loss-making (around £900,000 per year). There is an implicit subsidy of the Alderney routes coming from the profitable Gatwick-Guernsey route.
- Aurigny services connections between Alderney-Guernsey and Alderney-Southampton using a fleet of (currently) three Trislanders which seat 14 passengers. Services to both destinations are regular each day, but are subject to disruption (especially in winter), are seen to be expensive and can be fully booked well ahead of time for some key periods (weekends, summer). Aurigny is able to run additional services at peak times (e.g. around Alderney week).
- On Alderney, connectivity to both Guernsey and the UK is perceived as vital (“lifeline”), but at present only the service between Guernsey and Alderney is recognised as a “lifeline” route imposing a minimum service obligation on Aurigny.
- The need for a frequent, reliable service is often cited as a critical factor in Alderney’s air connectivity. The price of the service also clearly matters for demand.

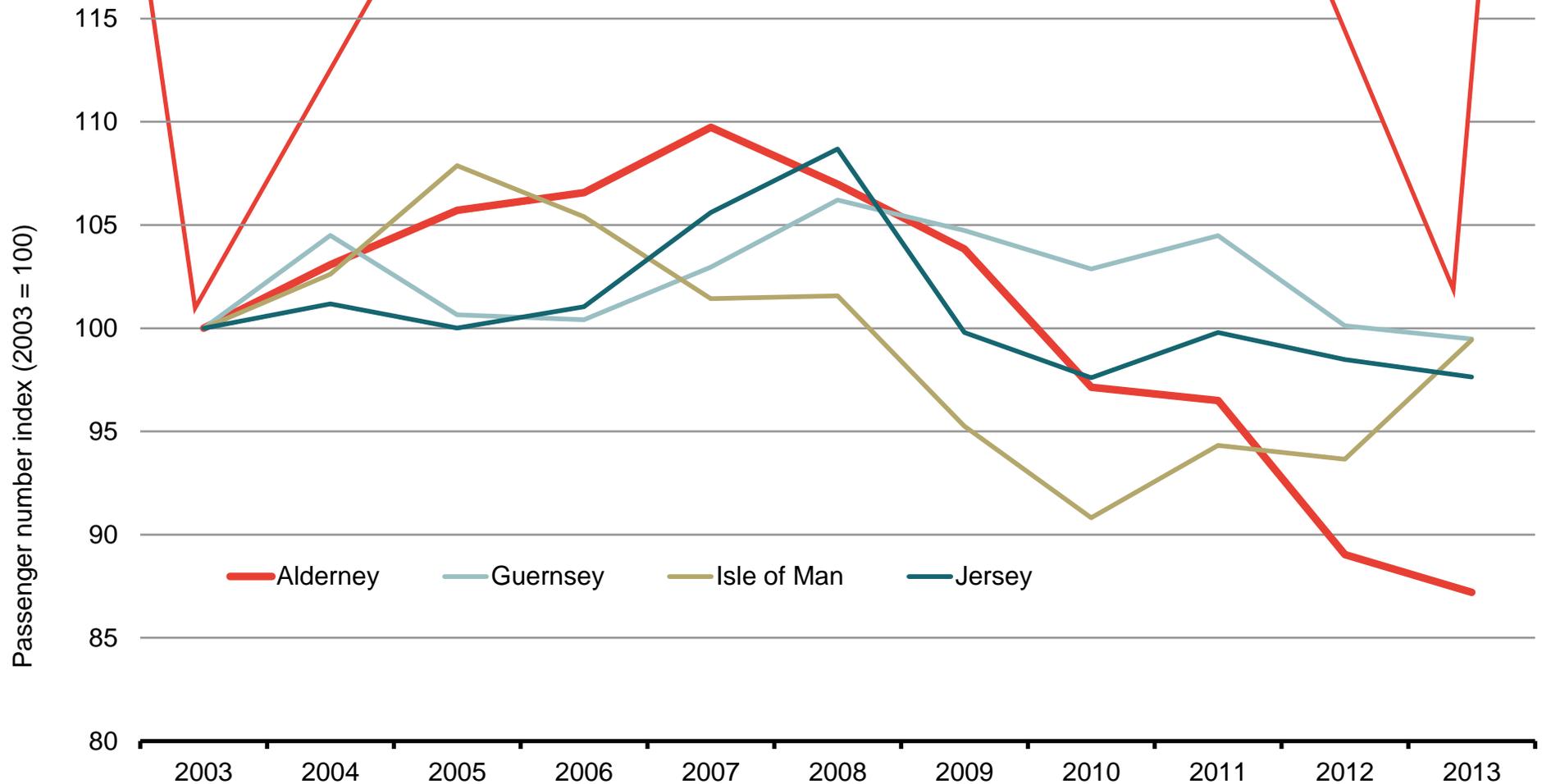
## Passengers using Alderney's airport grew between 2003 and 2007, and have since fallen



## By comparison, the number of passengers using Guernsey's airport have also fallen in recent years, but by a smaller percentage

Passenger numbers are expressed as an index (set to 100 in 2003) rather than as levels given the very different absolute numbers at different islands (in 2013, Jersey had 1.43 million passengers compared to 63,000 on Alderney)

There has been a recent decline at all the Channel Islands but most significant for Alderney. The Isle of Man has recently seen passenger numbers rise.



## The current state of the airport is a weakness, and improvements are required to ensure regulatory compliance

### Issues

- Options to improve the airport to ensure compliance are currently being explored by the States of Guernsey.
- Mott McDonald recommended (as at March 2014):
  - Repairing the asphalt runway, improving drainage, widening a section, and paving part of the runway.
  - Replacing the subsurface of the long grass runway and improving drainage.
- Aurigny is introducing new Dornier planes for the Alderney routes. The Trislanders will be scrapped. The Dornier planes are not planned to be spread across a larger number of routes on a regular basis than the current routes served by Trislanders.
- There is uncertainty about the precise timing of the introduction of Dorniers, partly driven by difficulties in sourcing the aircraft. Timetables have slipped, generating some uncertainties.

### Our assessment

- Although popular with some visitors and residents, the Trislander planes do appear to be a barrier to getting some tourists and potential residents to Alderney with anecdotal evidence of passengers being unwilling to fly.
- Under current proposals, the service is set to improve due to investment in making the airport compliant, and new planes being introduced, with the following impacts:
  - The frequency of the service is expected to remain the same.
  - Safety, reliability, comfort, speed, and passenger and baggage capacity will increase.
  - The scope for smaller private planes is expected to be maintained (though this may be affected by decisions regarding the 2nd grass runway). Flights from private aviation are down on previous peaks from the early 2000s and suffered a significant fall in 2012, though rebounded slightly in 2013. Private flights from wealthy individuals could attract additional income.
- Currently many flights are empty or near-empty one-way, especially in the case of extra capacity provided at peak such as Alderney Week. This makes load factors of ~50% the maximum available.
- Dorniers have slightly larger capacity (around 18-19 passengers compared to 14 on the Trislander). A fleet of three Dorniers will therefore be able to transport a slightly larger volume of passengers than at present. There would be scope to further increase frequency (and thus capacity) within the current airport arrangements.
- Reliability will increase owing to the Dornier being able to land in higher crosswinds than the Trislander.

## Alderney's current air links lack transparency and certainty over their future

### Issues

- Aurigny is wholly owned by the States of Guernsey. It is currently obliged to maintain 'lifeline' services, and to move towards breakeven across its full operation.
- The current arrangements result in a lack of transparency and certainty over the future of the service, as:
  - lifeline status does not impose any constraint on Aurigny other than a requirement to run the service; and
  - there is also a lack of clarity around which Alderney routes are considered 'lifeline.' Aurigny and T&R consider only Alderney-Guernsey as a lifeline route. Alderney – Southampton is also considered lifeline by Alderney residents.
- Some peak flights can be booked well in advance, limiting the ability of people to travel at short notice.
- Price of travel was seen as an issue by tourists on Alderney. Given they have chosen to meet those costs, it is likely to be a larger issue for those who do not travel. However there is a lack of evidence on the latter point. Further it is unclear that any proposals will have a significant impact on price.

### Our assessment

- Neither route to Alderney is currently at obvious risk of withdrawal. This would require Aurigny to seek approval from the States of Guernsey, which it is understood would not be provided.
- The financial savings to Aurigny from ending the Southampton route may not be very large, despite Alderney services operating at a loss (estimated at around £900k per year, with additional losses sustained at Alderney airport).
- However, the lack of transparency around lifeline routes and their status creates uncertainty, which could act as a barrier to businesses.
- In addition, the current arrangements prevent economic policy considerations from being explicitly incorporated into the requirements of the service.
- This is compounded by the lack of clarity around the implicit subsidy associated with the Alderney routes, leading to some scepticism about the size of the losses incurred.
- New planes will slightly increase capacity on each flight, but peak services are still likely to be booked well in advance. This could be an issue for businesses/individuals looking to move to Alderney.

There is an opportunity to extend the runway to accommodate larger planes, however there is not currently an economic case for this

### Issues

- The Requête proposed a runway extension.
- Extending the runway to enable ATR-42 planes to land in Alderney has been considered from an engineering perspective in TPS's work parallel to this study. The costs of this extension are not yet known.
- Businesses we engaged with did not view a lack of larger planes serving Alderney as an important barrier to their business in Alderney.
- Outside the Guernsey and Southampton routes, there is scope to charter services from other routes at peak periods, though the costs of this are high.
- Previous trials of services to Jersey suggested high demand (high load factors), but may have been keenly priced and subject to a novelty appeal; whether there is a long-term demand for these routes is less clear. It is not clear what work has been done to scope serious potential for new routes by Aurigny or by Guernsey.

### Our assessment

- A longer runway would allow larger ATR-42 aircraft to land on Alderney and appears to be technically feasible.
- This could open up opportunities for new operators to service Alderney.
- However, an extended runway is not essential to reversing Alderney's economic and population decline:
  - Moving to ATR-42 planes would reduce the frequency of the service to Alderney. Frequency is seen as of central importance to passengers. This could reduce demand, e.g. due to connecting flights from the UK to Guernsey becoming impractical.
  - There is substantial spare capacity which could be used to increase flights in the event of higher demand (illustrated by a greater number of flights offered during Alderney Week and public holidays). Around 70% load factors are needed to cover costs.
  - The barrier to increasing flights (either on existing routes or new routes) is a lack of demand (including the extent to which there is demand for a flight on its route in and out of Alderney). Currently there is not sufficient demand to necessitate larger planes. It is not clear that demand would increase in the event of an extended runway.

## We assessed the impact of runway extension on price, quality and reliability, frequency, and routes, under three scenarios

- The **price** of flights to/from Alderney is unlikely to fall under current proposals, and may increase with ATR-42s at current demand due to higher costs and lower load factors (meaning the cost per seat sold is no lower, and may be higher, with larger aircraft).
- **Quality and reliability** of flights is set to increase under current proposals (Dornier are more 'traditional looking' aircraft than Trislanders and less subject to weather-related delays). This increase would be greater with use of ATR-42s.
- **Flight frequency** would not change under current proposals, and would fall with use of ATR-42s without a significant demand increase, as fewer flights would be required to meet demand.
- **Routes** are likely to remain unchanged without a large increase in demand. ATR-42 planes could increase the scope for additional routes, but current routes are making a loss with smaller planes, calling the feasibility of additional routes into question.

Scenario	Price	Quality and reliability	Frequency	Routes
Current proposals (Dornier introduction, improved runway)	Unlikely to fall		No change	No change
Runway extension, demand static or increasing slightly, ATR-42s introduced				No change
Runway extension, large increase in demand above levels previously seen	Unclear, would depend on possible entry		Unclear, would depend on possible entry	Potential to increase, though profitability concerns

## Recommendations: airport

Issue	Objective	Policy recommendations
Improvements are required to the airport to ensure regulatory compliance	Make the improvements required to secure compliance	<ul style="list-style-type: none"> <li>• Fund improvements to the airport required to secure its regulatory compliance.</li> <li>• This is being explored in parallel to this study.</li> </ul>
Uncertainty around future of air transport links, which Alderney's economy relies on	Secure air transport links in a transparent way consistent with economic objectives for Alderney; minimise risk that uncertainty acts as a barrier to businesses or residents being willing to move to Alderney	<ul style="list-style-type: none"> <li>• The Treasury and Resources department of States of Guernsey should consider a Public Service Obligation (PSO) for the Alderney routes. This would commit Aurigny to running the service and allow for a more transparent process of subsidising the Alderney service.</li> <li>• Details of the PSO (fare, frequency, routes, data requirements, peak-time service obligations) should be agreed between the States of Guernsey and Alderney on the basis of clear evidence about the likely cost and economic impact of different policy options. Other stakeholders (e.g. airport operators) to be involved as well.</li> <li>• Agreement needs to be reached on how any additional subsidy would be funded.</li> <li>• Any legislative/regulatory requirements underpinning the PSO should be implemented as soon as possible. Likely timeframes for implementation need to be clearly articulated and mutually understood.</li> <li>• In the event of a lengthy timetable to implement a PSO, consideration should be given to an interim statement of intent between Alderney, Guernsey and Aurigny relating to the frequency of service in the immediate-term to improve confidence in the route security. The move to a PSO also needs to be properly articulated to the business and residential community on Alderney.</li> <li>• The terms of a PSO should be reviewed regularly to ensure they reflect any changes in Alderney's economic conditions. Details need to be developed alongside a wider economic development strategy for Alderney to ensure they are compatible and meet the same objectives.</li> </ul>
Potential need for increased capacity in future on existing and alternative routes	Monitor future need for increased capacity, and don't take action that precludes extension	<ul style="list-style-type: none"> <li>• Ensure action taken now doesn't prevent future extension in the event of a future economic case for this.</li> <li>• Key indicators which would highlight the need for increased capacity should be developed with Aurigny, and a process agreed by which data could be shared between Aurigny, Alderney and Guernsey.</li> <li>• This could include not only metrics on passengers, price and load factors, but also an approach to collect additional data on capacity constraints and unmet demand.</li> </ul>

- Background
- Main findings and recommendations
- Current economic situation
- Detailed findings
  - Sector-level
  - Governance
  - Other cross-cutting issues
  - Alderney airport
- Annex: evidence base

## We engaged with stakeholders including businesses, business groups, civil servants, regulators, politicians, and advisers working in parallel

During the project, we engaged with representatives of businesses in Alderney from the following sectors:

- Shipping
- Tourism
- Construction
- Aviation (airlines and airport management)
- eGaming
- Telecoms
- Property
- Energy

We also engaged with the Alderney Chamber of Commerce and the Alderney Enterprise Group.

We engaged with civil servants, regulators, and politicians in Alderney and Guernsey, including the following:

- Members of the Alderney Liaison Group
- Alderney politicians
- The AGCC
- Guernsey civil servants (both from Treasury and Resources, and Commerce and Employment)

We also engaged with advisers working in parallel to this study, including:

- TPS
- DRASS Economics

## We reviewed the literature and public evidence

- Connell, John, 2014, Alderney: gambling, Bitcoin and the art of unorthodoxy, Island Studies Journal, Vol. 9, No. 1, pp. 69-78.
- Gambling Data, 2012, European Regulated Online Markets Data Report.
- Island Analysis, 2011, Alderney Economic Strategy Plan
- Library of the European Parliament, 2013, Library Briefing, Online gambling in the EU
- Manx e-gaming Association, 2014, MEGA Sector Review 2014, Summary of views received from key MEGA members
- Mott McDonald, 2013, Alderney Airport Runway Review, Stage 2 - Develop Options
- Oxford Economics, 2012, Towards An Economic Development Strategy for Guernsey: Review of Guernsey's Economic Profile and Assessment of Future Opportunities
- Requête: the airfield in Alderney
- Sharp, John, The Channel Islands Marine Renewable Energy Group – CIMREG, Opportunity Case Study – The Channel Islands.
- States of Alderney, 2012, Future Economic Planning for the Island Of Alderney: A Roadmap.
- States of Alderney, 2014, Strategic Plan
- States of Guernsey, 2014, A Strategic Framework for Guernsey's Economic Development
- The Guernsey Retail Strategy Group, 2013, A retail strategy for Guernsey, Proposals to enhance Guernsey's retail sector
- World Travel & Tourism Council, 2014, Travel & Tourism Economic Impact 2014

## Economic data

We analysed economic data, particularly that collected by the States of Guernsey. Additional sources of data included:

- Alderney Economic Data Reports (2013 and 2014)
- Alderney Census Report (2001 and 2013)
- Civil Aviation Authority passenger and flight data
- Underlying tourism data for Alderney supplied by Living Islands

We are extremely grateful to all those who gave up their time to contribute so willingly to this study.



Frontier Economics Limited in Europe is a member of the Frontier Economics network, which consists of separate companies based in Europe (Brussels, Cologne, London and Madrid) and Australia (Melbourne & Sydney). The companies are independently owned, and legal commitments entered into by any one company do not impose any obligations on other companies in the network. All views expressed in this document are the views of Frontier Economics Limited.

**FRONTIER ECONOMICS EUROPE**  
BRUSSELS | COLOGNE | LONDON | MADRID

Frontier Economics Ltd, 71 High Holborn, London, WC1V 6DA  
Tel. +44 (0)20 7031 7000 Fax. +44 (0)20 7031 7001 [www.frontier-economics.com](http://www.frontier-economics.com)