
STATES OF JERSEY



FINANCIAL CASE FOR THE JERSEY AIRCRAFT REGISTRY

**Presented to the States on 7th August 2014
by the Minister for Economic Development**

STATES GREFFE

REPORT

1. Introduction

During the States debate on the Aviation Legislative Bundle on 8th July 2014, the Minister for Economic Development gave an assurance to the States Assembly, and particularly the Economic Affairs Scrutiny Panel ('the Panel'), that no further development would take place on the establishment of the Jersey Aircraft Registry (JAR) until such time as the Panel were satisfied with the financial forecast for the proposed registry. Whilst the Panel has now agreed to the presentation of this particular financial report and therefore the continued development of the JAR, it will maintain an active interest and involvement in its establishment, including addressing its outstanding concerns regarding matters contained in supporting documentation due to be addressed within the operational business case.

This paper details the establishment costs for the JAR including costs incurred working with Guernsey on the abortive attempt a joint Channel Islands registry. In addition, there are details of the proposed annual revenue costs and likely income that will be generated, on a 'break even' basis over the first 5 years.

Supporting background documentation includes details of the benefits, competition and potential market, an outline of the Jersey proposition as well as an assessment of the options for delivery.

2. Budget

There are 2 distinct phases to the business model: the establishment costs and the ongoing revenue costs.

The following budget breakdown (*Table 1*) details the establishment costs for the JAR. Whilst substantial, the Economic Development Department has budgeted to cover these costs.

The establishment costs include –

1. A contribution towards the Strategic Outline Case for a joint Channel Islands Aircraft Registry.
2. A report commissioned by Economic Development to consider a Jersey only aircraft registry.
3. Costs associated with seeking a legal opinion on the joint venture with Guernsey.
4. Legal costs incurred contesting the registration of the name Channel Islands Aircraft Registry Limited and contesting the use of the branding of the Channel Islands Aircraft Registry.
5. Professional Services in relation to the development of the aviation legislative bundle and establishment of the JAR.

6. IT costs for the online registration of aircraft and aircraft engines based on the IT solution being part of the well-established and highly regarded Security Interest Registry.
7. Contractor Establishment Costs borne by the preferred Technical Services Provider but will be passed onto Economic Development – this figure is based on the submissions from the Tenderers for preparing the requisite reports/manuals and training of staff.
8. Civil Aviation Pre-audit – before the JAR can register its first aircraft, the UK authorities, for which JAR will be a sub-registry, the CAA must be satisfied that the JAR has the necessary governance, processes and procedures in place.

To date (July 2014), just over £130,000 has spent on the development of an aircraft registry.

Table 1 – One-off establishment Costs

Establishment Costs						
	2014*	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Establishment Costs						
Consultant & Legal Fees	180					180
IT & Communications	130					130
Contractor Establishment Costs	45					45
CAA Pre audit	10					
Office Costs	5					5
Promotion	10					10
Total Establishment Costs	380					380

* includes all costs, from 2011 onwards, associated with the concept of the establishment of an aircraft registry.

The following table (*Table 2*) outlines the ongoing revenue costs for the next 5 years and the income required to cover these costs. In compiling the financial forecast, the following assumptions have been made –

1. Staff costs – the job description for the Registrar has been Hay Evaluated at a G12, and the individual will be recruited for the last 4 months of 2014. Existing Economic Development staff will support the Registrar in the performing the functions. If registrations increase significantly, it will be necessary to recruit a Deputy Registrar. The Registrar will be tasked with the production of a business plan for the JAR.
2. Property costs – office space required by the Registrar (C.500 sq ft) at £12 per sq ft, based on current market leasing opportunities.
3. IT and Communications – having developed the online registration process, an annual service contract will be required. For 2014, this has been calculated for the last 4 months of the year.

4. Insurance – it will be necessary to take out an insurance policy. The Cayman Islands and Guernsey have entered into a Group Policy that covers up to \$30 million dollars for any one incident to cover investigations and recovery if required. There is a joining fee to become part of the consortium of \$10,000 (£5,800) plus a charge per aircraft on the register of £150, based at 01 January each year. The Isle of Man have a similar policy and negotiations have not yet taken place with them to see if a better deal can be reached.
5. AAIB charge – The Air Accidents Investigations Bureau is part of the Department for Transport and is responsible for the investigation of civil aircraft accidents and serious incidents within the UK and its overseas territories. In addition to the insurance, and as a contribution towards the cost of these services in the event of an accident, a charge will be levied on each aircraft registered on the JAR at a cost of £50 for simple aircraft and £120 for complicated aircraft. The charge will be levied on the number of aircraft as at 01 April of each year. In the calculations it is assumed that in 2015, and thereafter that a quarter of the annual registrations will take place before 01 April. For ease a charge of £90 has been assumed.
6. Training and Promotion – the Registrar will be required to keep up-to-date on specific requirements with regard to aircraft registration. In addition, it will be important to promote the JAR at exhibitions and conferences such as EBACE.
7. CAA Audits – as part of good governance the CAA will audit the JAR on a regular basis. After undertaking the initial pre-audit in 2014, it is assumed that a full-blown audit will be undertaken in 2016 and thereafter on a triennial basis.
8. Registrations – it is assumed that following initial registrations, aircraft will remain on the JAR for a minimum of 4 years and that there will be one new registration per month from 2015.
9. Financial Benefits – the financial forecasts are based on the average net income that the Isle of Man Government receives for both the initial registration and annual ongoing Certificate of Airworthiness. This figure, for initial registration, will vary from between £1,000 to over £30,000 for large ‘parked aircraft’.
10. The financial forecast is based on an average total revenue cost of £126,000 for the full 4 years – 2015 – 2018 with an average total revenue income of £188,000 over the same period leaving a net average income of £62,000 per annum.
11. No account has been taken for the costs of the Technical Service Provider as the charge will be passed directly onto the client with a Registry administrative charge. A Scheme of Charges will be agreed between the Registrar and the Contractor. A further Scheme of Charges will be published that will include the charges for the Technical Service Provider. With the latter, a sum will be incorporated for the JAR administration fee. For example the Technical Service Provider may charge £130 per hour for undertaking airworthiness surveyor work and the published charge would be £150 per hour to include the administration fee.

12. No fee income has been calculated for the registering of commercial aircraft engine mortgages. There is little work involved for the Registry, and the fee income is likely to be low in comparison to registering aircraft.

Table 2 – Costs and Benefits (rounded figures)

Operating Income and Expenditure						
	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Expenditure						
Staff Costs	22	66	68	70	72	298
Property Costs	2	6	6	6	6	26
IT & Communications	7	20	20	20	20	87
Insurance	2	6	9	10	12	39
AAIB Charge		1	2	3	4	10
Training & Promotion		5	7	7	7	26
CAA Audits			50			50
Total Revenue Costs	33	104	162	116	121	536
Revenue Income						
Initial Registration*	(24)	(96.0)	(98)	(101)	(103)	(422)
Ongoing Certificate of Airworthiness*		(12.0)	(62)	(113)	(168)	(355)
Total Revenue Income	(24)	(108)	(160)	(214)	(271)	(777)
Total Net Revenue Expenditure/ (Income)	9	(5)	2	(98)	(150)	(242)
Cumulative Net Expenditure/ (Income)	9	5	7	(92)	(242)	
Number of Registrations						
Number of initial registrations*	3	12	12	12	12	
Ongoing Registrations*		3	15	27	39	
Total number of registered aircraft	3	15	27	39	51	

* The initial Registration fee will be £8,000 and the Renewal fee £4,000 with 2.5% increase after the first year in line with States policy.