PORTS OF JERSEY
YOUR ISLAND GATEWAY

Ports of Jersey Price Adjustment April 2018

Submission to JCRA

December 2017

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Summary

Ports of Jersey Ltd (POJL) is tasked with ensuring the provision of safe, secure and efficient port operations whilst meeting the Public Service Obligations as set out in the Air and Sea Ports (Incorporation) (Jersey) Law 2015 and to do so without recourse to the States of Jersey, as shareholder, for additional funding.

POJL is asking for a price adjustment to the tariff for our air and sea port services as set out in Appendix 1 of this price submission with effect 1st April 2018. As a result of not having adjusted tariff rates in 2017, the increase proposed amounts to an uplift of a little over 2.5% per annum along with further specific increases in relation to maritime passenger and vehicle prices which include an additional 20p per maritime passenger and 55p per car.

This submission sets out our price proposals in respect of investment in corporate IT infrastructure and systems and the planned investment in the Elizabeth Harbour Terminal. These elements are detailed in Appendices 2 and 3 respectively. We look forward to working with the JCRA on both finalising the 2018 price adjustment and developing a longer term framework for regulating our prices.

Interim Approach for 2018

POJL recognises that it may take some time to develop a long-term pricing framework model in sufficient detail to set a formal price control and that there is insufficient time available to fully develop, consult upon and agree the approach, in time for the 2018 price setting process. The decision to defer the 2017 price submission means that port prices have declined in real terms by the rate of inflation, while the majority of our costs continue to rise in line with inflation and that, without a price adjustment in 2018, this adverse trend will continue. This increases the likelihood of sharper tariff increases in future years, which presents difficulties for customers when consumer market prices cannot rapidly adjust to significant cost increases.

POJL would like to propose a practical approach for 2018 that addresses some of the financial pressures raised by the need for business-critical expenditure in 2017 for IT Infrastructure and new investment in the Elizabeth Terminal, while a longer term approach is being developed.

POJL is therefore proposing a price increase in April 2018 to support these two critical investment areas.

What POJL is seeking

POJL is seeking a price increase equivalent to c£1.3m to cover the expected cost of the IT infrastructure, Ports Operational Database (PODB), Finance System and Elizabeth Harbour Terminal investments.

Table 1 summarises the annual costs of these business-critical incremental investments that POJL propose should be funded by the 2018 price increase.

IT system	£820k
PODB	£60k
Finance System	£250k
Elizabeth Term.	£195k
Total	**£1.32m**

To put this in context, POJL's operational costs have increased by 10.4% from £32.6m in 2016 to an estimated £36m in 2018 as a result of increased infrastructure, security and insurance costs in addition to usual inflationary pressures. The proposed price rise therefore accounts for half of our increase in operating costs, while the general level of prices (as measured by the RPI) has increased by 5% over the last 2 years[1] and RPI in 2018 is predicted to be 2.4%.

The IT infrastructure, PODB and Finance System investments could be recovered from the harbour and airport businesses (since they are the main users of the systems) possibly by the proposed increases detailed in Appendix 1.

We have proposed that the investment in IT infrastructure and systems be apportioned across the business based upon business activity (resulting in a total 5.2% increase or 2.6% per annum) in preference to applying the investment required on a 50:50 basis. If the alternate approach is taken this would result in a 4.2% Aviation increase and 7% for Maritime.

The investment in Elizabeth Harbour Terminal would be attributed to passenger and vehicle Harbour users which will result in overall price increases of up to 15% for certain tariff items.

All other tariff items would remain unchanged (NIL increase).

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[1] September 2017 (latest number published), Jersey Statistics Unit

Approach to recovery of investment costs

Because of the nature of this price increase submission – for a number major infrastructure projects where the actual costs are being projected but will be known in the future, there are potentially a number of alternative ways to recover the cost – including fixed price contract, pass-through and 50:50 share.

A fixed price contract would be based on a price rise equal to the expected cost of the IT and PODB investment, with POJL facing the full cost of any under/over-recovery. This gives POJL the strongest incentives to ensure that the costs are as low as possible in order that any surplus can be reinvested in other parts of the posts infrastructure, however any efficiency savings would not be passed back to customers but retained by the company.

Alternatively the price settlement could be based on the expected costs of the investment, but with any difference between the expected and outturn costs (higher or lower) passed through to customers at future price settlements. This ensures that POJL do not make any windfall gains or losses from the investment due to over or under forecasting of costs and that customers only pay the actual costs of the investment (which may be higher or lower than the estimate), but at the expense of weaker efficiency incentives to deliver lower prices, since POJL do not share any of the benefits of efficiency savings.

In this price submission, POJL is suggesting an approach that incorporates an efficiency incentive where if the outturn cost of the investment projects is higher/lower than the expected costs, this would be shared 50:50 with customers in future price settlements– ensuring that POJL retain an incentive to ensure that the costs are as low as possible, but that customers gain a share of any cost savings through lower future prices (if POJL did not complete the investment, we would not expect the charge to increase).

The appropriate way to recover the cost – fixed price, pass through, 50:50 share (or another alternative) could be included in CICRA's consultation. Whichever approach was adopted, we would capture and report the costs of the investments to allow any subsequent price adjustment to be undertaken.

What would the consequences be of not granting the price increase?

POJL is committed to ensuring ports remain at all times open, safe and secure; therefore due to the critical nature of the IT infrastructure, PODB and finance systems it believes the investment is fundamental as this is an operational requirement for continuing to deliver open, safe and secure port services. However there would be consequences for the long term financial sustainability of the ports if CICRA did not allow POJL to raise its prices, which would lead to:

- the need for very significant prices rises for customers in the future, and/or

- reductions in the quantity and/or quality of the services that we are able to provide safely and securely, and/or
- deferring and/or reducing future investments increasing the risk of impacts on services and reducing the resilience to shocks, and/or
- the need for a cash injection or other financial support from the States.

Customer Engagement

POJL proposes to provide customers with an opportunity to engage and be involved in the pricing process, however it is difficult to effectively discuss pricing propositions with customers when POJL is not in in a position to introduce any changes agreed with customers without regulatory approval. The 2017 pricing process showed that it is not productive to suggest price changes to customers in advance of regulatory buy-in to the pricing proposals. We therefore propose that we consult with and engage with customers alongside the regulatory consultation process. This will ensure that customers are able to engage with pricing proposals that are supported by both POJL and CICRA and that they do not receive mixed messages about pricing possibilities. The timescales that CICRA have set out in the price submission process are sufficient to allow engagement between POJL and its customers to occur alongside the more formal regulatory consultation, with feedback occurring through both the formal and informal channels.

POJL has decided to adopt the well-established process (outlined below) as 'best practice' and to use this as the consultation framework at both the Airport and the Harbour. POJL will:

- consult operators about airport and maritime charges annually
- give reasonable notice of proposed changes to prices (unless there are exceptional circumstances)
- provide specific information to operators on how prices are calculated
- (if practicable) announce decisions on changes to prices at least 2 months before they come into effect
- consult operators on major infrastructure projects

POJL have decided that, in addition to implementing some improvements to the structure and processes for 'user groups' that are already in place, it will implement a consultative process that seeks to encompass the points outlined above. POJL believes this approach to be in alignment with the Airport Charges Directive (ACD). As this process is established in a number of regulated airports, this is the most effective way of working with customers and is an agreed and proven way of meeting the requirements of the regulator.

Our regulatory regime is significantly different from those of other UK regulated utilities in that CICRA has asked POJL to provide a price submission and if it is not approved we are not allowed to change any of our regulated prices. The more usually applied approach is for the regulator to publish a consultation on a set of principles for determining regulated charges, the company then responds and provides information based on which the regulator sets a price cap or pricing regime. In this case the regulator always actively sets a price path that is expected to allow the company to finance its activities over the long term, rather than leaving the company with flat nominal charges if their submission is not approved. We believe that we have made a strong case for a price increase in April 2018, but whatever CICRA's view on our proposed approach, it is critically important that it allows POJL to set our prices so as to allow us to finance our activities over the long term – prices should only be held constant in nominal terms if CICRA have assured themselves that this is a credible, sustainable long-term pricing strategy (which we do not believe it is).

Conclusion

POJL believes that it is critically important for the long term future of the Ports that CICRA agree to a price increase in 2018 that allows us to ensure that it is able to continue to deliver high quality services to our customers and that it remains safe, secure and open. We are happy to provide further information about the costs of running our business and of the critical investments set out in this submission that we are undertaking (or for CICRA to separately review those costs). We look forward to working closely with CICRA over the forthcoming months to agree the price rise.

Appendix 1

Business	Charge Unit	Old Rate	New Rate	Increase (£)	Increase (%)
Airport	Passenger	£5.25	£5.52	£0.27	5.1%
Airport	Security per Passenger	£2.09	£2.20	£0.11	5.3%
Airport	Aircraft – ATM/Ton	£4.24	£4.46	£0.22	5.2%
Airport	Aircraft – Private/Ton	£4.24	£4.46	£0.22	5.2%
Harbour	Passenger	£2.13	£2.44	£0.31	14.6%
Harbour	Passenger (Transit)	£1.07	£1.22	£0.16	15.0%
Harbour	Vehicles - Cars	£9.33	£10.37	£1.04	11.1%
Harbour	Cars (Transit)	£4.67	£5.18	£0.52	11.1%
Harbour	Vehicles - Bikes	£1.75	£1.94	£0.19	10.9%
Harbour	Bikes (Transit)	£0.88	£0.97	£0.10	11.4%
Harbour	Vehicles - Caravan	£14.42	£16.03	£1.61	11.2%
Harbour	Caravan (Transit)	£7.21	£8.01	£0.80	11.1%
Harbour	Ships Call 501-1000 GT	£37.10	£39.04	£1.94	5.2%
Harbour	Ships Call 1001-3000 GT	£79.50	£83.66	£4.16	5.2%
Harbour	Ships Call >3000 GT	£132.50	£139.43	£6.93	5.2%
Harbour	Freight/Ton - Container	£9.00	£9.47	£0.47	5.2%
Harbour	Freight/Ton - Bulk	£8.51	£8.96	£0.45	5.3%
Harbour	Fuel/Ton - Light	£8.76	£9.22	£0.46	5.3%
Harbour	Fuel/Ton - Heavy	£8.92	£9.39	£0.47	5.3%
Harbour	Freight Facility Charges - 0-2.99m	£3.35	£3.53	£0.18	5.4%
Harbour	0-2.99m (Transit)	£1.68	£1.76	£0.09	5.4%
Harbour	Freight Facility Charges - 3-9.99m	£14.99	£15.77	£0.78	5.2%
Harbour	3-9.99m (Transit)	£7.50	£7.89	£0.39	5.2%
Harbour	Freight Facility Charges - >10m	£15.13	£15.92	£0.79	5.2%
Harbour	>10m (Transit)	£7.57	£7.96	£0.40	5.3%
Harbour	Trade Vehicles	£9.42	£9.91	£0.49	5.2%
Harbour	Trade Vehicles (Transit)	£4.71	£4.96	£0.25	5.3%
Harbour	LoLo Crane Charge/Ton	£1.36	£1.43	£0.07	5.1%

Please note percentages vary a bit due to rounding.

Appendix 2

The Ports' IT strategy and renewal of IT Infrastructure

The current POJL IT infrastructure is hosted by the States of Jersey Information Services Department (ISD). It is based on 57 different applications which sit on 59 physical and virtual servers (with additional virtual servers for POJL to exist on SOJ infrastructure) and 344 IT assets under management by POJL IT, as well as the Ports Operational Database (PODB). These applications and services are used by 290 staff to fulfil port operational services in all areas of our business. They cover:

- airport engineering,
- air traffic engineering,
- business systems,
- passenger systems,
- ports operations systems, and
- external customer systems.

POJL recognises that it has historically obtained excellent value for money from ISD which has been able to deliver services to POJL at a marginal cost. For example:

- POJL pays £100,000 pa to access shared services with Enterprise grade applications, security, shared infrastructure and support that would be likely to cost around £500,000 if sourced from the market;
- POJL pays £70,000 for Microsoft licencing plus £25,000 for 'connector licences', which would normally cost £225,000;
- Operational applications / inter-site communications are managed by ISD as part of the fees which would normally cost around £250,000 pa in staff or 3rd party costs;
- ISD pay 50% of our core network (£75,000 pa paid to JT by ISD), saving POJL £75000 pa.

However ISD served notice in September 2016 that "*it is not desirable to maintain the relationship for more than another 2 years*"[2]. ISD are going through their own service provision changes which focus on the supply of services to internal States departments. At the same time we expect ISD to increase its charges over time and potentially introduce penalty costs if we continue to rely on its services. While we might have wished to continue using ISD's services, given that this is not an option beyond late 2018, we are taking the necessary step to develop a new IT platform that is Open (accessible from anywhere), Flexible (to enable the organisation to accommodate change) and Secure (from cyber-attack to ensure robust processes that provide comfort to potential partners).

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[2] Meeting on 1st September 2016 between PoJ and ISD

Investment in this platform is required to 'keep the lights on', in that it provides the necessary infrastructure to continue to operate the Ports to the same service levels that we achieve today. As our operations have developed over the decades, there are aspects of our business where there is no real fall back on manual operations, even considering the large increase in inefficiency that would occur.

Components of the IT Infrastructure investment include:

- IT Platform and network to provide services currently provided by ISD
- A replacement Finance System
- A replacement billing and information management system (the Ports Operational Database)

POJL plan to move away from ISD to enable the use of Cloud computing where this is beneficial/cost effective and private infrastructure where operational security and Cyber Security compliance is paramount. Having considered a range of options, POJL decided on a twin mirrored Data Centre infrastructure, located securely on the Airport campus, paired with Office 365. This will enable POJL to run a modern business that is agile and accessible, yet robust and secure in light of modern cyber threats. It avoids inherent risks from staying 'as is' with ISD which includes reducing access from over 6,000 users to around 300. The proposed hybrid approach will enhance productivity and accessibility delivering better performance for the business and customers. The project includes inter-site communications, telephony separation from ISD, IT platform to host PODB as well as core IT platform separation and user engagement communication strategy.

Risks if the investment is not undertaken

Currently the majority of POJL IT is hosted on ISD infrastructure. However, this is now presenting a number of difficulties due to the inability to implement systems requested and required by the organisation as it strives to improve customer service and control costs. The following risks to the business have been identified and need addressing:

- ISD are slow to change and create a barrier to innovation. Ports are not able to install the latest applications to improve efficiency and effectiveness and control costs.
- ISD are going through major changes, which is affecting the service delivered to POJL. Changes to structure, staffing and service levels are out of the control of the Ports regardless of what impact they might have and are creating a significant risk to the business.
- Collaborative working with external entities is not possible on the current infrastructure, this presents difficulties in working together and increases delivery times and hurdles to decision making.

- Mobile working is too restrictive, POJL is not able to extend the functionality of its maintenance and auditing applications to mobile platforms.
- Communication is restricted within the SoJ environment, there is no unified communications platform available to improve effectiveness.
- POJL cannot develop a true fit with the business requirements using its current IT systems because it is not able to provide the applications that best suit its operation.
- There is a greater threat of a cyber incident because the Ports is part of a 6,000 plus States community rather than a 300 person POJL one, this inherently increases the risk of user error causing a security breach on the network.

If POJL do not implement a new IT infrastructure it will not be able to harness the latest technologies to support the business needs. Efficiencies will be difficult to implement and costs will rise through the use of manual processes and procedures. POJL must harness the benefits of the latest technologies if it is to remain competitive and control costs.

How to ensure the investment is efficiently procured

In all cases PoJL are targeting the most efficient manner in which to deliver the new infrastructure whilst ensuring our services can be maintained to existing levels. We expect the new infrastructure will enable future opportunities to better service and collaborate with business partners, but these can only be considered from the basis of a new IT platform.

Prosperity 24.7 were engaged to provide an impartial, high level, technology focused IT strategy review to outline options and a roadmap. The primary focus being the consideration of the impact and opportunities that could be derived from a separation from ISD given the restrictions that the ISD infrastructure presented to POJL.

The scope of the review was all the services required by POJL regardless of who currently supplied and supported them, which included all applications, server environment, network, communications, controls, services and budgets. The review concluded that there were significant benefits to be gained from separating from the ISD infrastructure and implementing a hybrid infrastructure for the Ports to gain the best possible functionality from both onsite and cloud hosted solutions.

A number of suppliers were selected for different elements of the new infrastructure after quotes were received from suppliers and taking into account the knowledge of the POJL systems. Prosperity's staff have significant knowledge of the Harbour infrastructure due to being party to the implementation of systems prior to ISD.

- Prosperity 24.7 were selected for the server infrastructure procurement and implementation as well as to aid with the roll out of the new Office 365 suite of applications.
- Sure were selected to provide the external and inter-site connectivity together with the management of the perimeter security,
- JT were selected to provide the telephony solution and unified communications platform
- It was decided that the internal network would be designed, implemented and managed internally to reduce costs and to cater for the changes that are required to rationalise the separate operational and business networks in the future to make more savings.

The benefits being sought are greater efficiency and effectiveness by implementing the most up to date applications and infrastructure to create a true fit between the IT provision and the business requirement. The new digital platform will:

- Support collaborative working both internally and with external parties such as suppliers, business customers and regulatory bodies.
- The use of mobile technology will be greatly improved allowing POJL to access applications from anywhere across the Harbour and Airport campuses at any time.
- Improved communication using a unified communications platform
- Improve security, POJL will not be vulnerable to attacks aimed at the States of Jersey's many departments
- Remain up to date with the latest technology advances
- Improve the capacity of the current staff through automation of tasks and improved software system design
- Support business growth by being flexible and agile to deploy

Expected costs of the IT Infrastructure project

We have sought to achieve an appropriate balance between risk and cost, for example in considering the location of the twin data centre infrastructure resulting in the IT strategy having an indicative incremental cost of £8,264,000 over 10 years which is believed to be extremely good value for an organisation of the size and complexity of the Ports. This includes a requirement for increased headcount to manage the new system:

	2017	2018	2019	2020-21	2022	2023-26	TOTAL
Network Audit, Design & Documentation	25,000	0	0	0	35,000	0	60,000
Network Switches	171,000	0	0	0	180,000	0	351,000
Dual Site Server & Data Hardware & Replication Software	385,000	57,000	57,000	60,000	400,000	60,000	1,259,000

Unified Communications & Telephone Migration	180,000	32,000	32,000	32,000	220,000	35,000	668,000
Intersite Communications/Hardware	213,000	100,000	100,000	100,000	118,000	100,000	1,131,000
IT Training & Infrastructure Management	25,000	30,000	32,000	34,000			155,000
Phase I Implementation	200,000	150,000	100,000	100,000			650,000
MS Licence Costs	174,000	174,000	174,000	174,000	174,000	174,000	1,740,000
Staff Costs	50,000	200,000	250,000	250,000	250,000	250,000	2,250,000
	1,423,000	743,000	745,000	750,000	1,377,000	619,000	8,264,000

The Ports Operational Database (PODB)

The Airports Operational Database (AODB) and associated billing application is used by the airport for facilitation of sharing critical information (such as weather information, slot times, instrumental runway visual range, baggage belt, stand information etc) both internally and externally as well as for billing and flight information purposes. The current AODB is 20 years old and is now obsolete and no longer supported by the manufacturer, given the ongoing operational requirement for such a system the airport is looking to procure a replacement, without a replacement there is a critical operational risk of failure of part or all of the current AODB .

The current billing application (Airbill) relies on data held in the AODB and is therefore intrinsically linked to AODB. Airbill is also over 20 years old, has very limited support and will not work with a new AODB because billing systems are an integral part of a modern operational database. The harbours use a billings system called Charts that has limited support and would be difficult and expensive to modify and we believe that it would be more efficient to work with an AODB supplier to develop an existing aviation billing product to replace Charts at the same time (this bespoke system will be identified as part of the tender process). We will also replace the bespoke ship information display system at the harbour terminals. The Ports Operational database (PODB) is a development of an Airport Operational Database to seek efficiencies by reducing the cost and complexity of implementing multiple systems. It is one of the savings we are seeking as a combined entity rather than buying separate systems for each element of the business.

Risks if the investment is not undertaken

If the investment is not undertaken there is a significant risk to airport operations (which is included on the corporate risk register) – for example any failure of AODB would affect:

- POJL's ability to raise invoices
- Flight information to the public – to ensure that they are aware of the status of their flights and of where they need to be
- Critical information to the terminal operation teams to allow them to manage passenger movements
- Resource planning to ensure the correct resource is available in the correct location to manage passenger movements (ie passenger gate/stand allocation)

Failure of the AODB system would also lead to significant reputational and political risk due to its importance for almost every step of the passenger journey (supply of check-in, security gate, departure, arrival and baggage collection information) as well as POJL's ability to accurately invoice customers and collect revenue.

How to ensure the PODB is efficiently procured and customer engagement

POJL has undertaken a pre-qualification questionnaire (PQQ) to identify a short-list of suitable suppliers and then used a tender process to select the best option. The tender was built on the principle of both replacing the functionality of the current system where appropriate and exploring all opportunities to use new technologies to improve operational efficiency wherever possible. Suppliers were asked to identify any situation where they felt this was the case. This process should ensure that the PODB was procured at an efficient cost and therefore that customers received value for money.

The tender took into account the results of a customer consultation undertaken with business partners where their views on how the new PODB could facilitate effective information sharing were sought. As the project advances customers are continuously updated and views on how the system's implementation could be used for collaborative decision making are invited.

Benefits to Airlines, Ground Handling Agents and Security providers will include:

- The implementation of a modern PODB will enable these business partners to implement and build upon best practice from other airports.
- There will be improvements to the speed and availability of key information that will enable improved planning and use of resources.
- The new system will enable improved communication between the various business that serve the airlines and the travelling public. A good example of this will be the timely availability of flight and passenger information to G4S (this is not currently available to them in a meaningful way)
- The new software will enable significant improvements in communication to the travelling public. In addition to improved updates on flight information the new software enables information to be shared via a range of social media channels. Poor availability of up to date flight information is a common issue raised by passengers.
- All of the above will enable service providers to improve operational efficiency and effectiveness and may lead to a renegotiation of the commercial terms between the Airlines and Ground Handlers. However, this is not expected to lead to a reduction in the cost of fares to the travelling public.

Expected costs of the PODB project

The expected capital costs associated with the project are:

Pre-project research: site meetings etc **£1,500**

Capital investment: initial enquiries with potential suppliers indicate a sum of **c£600,000**

Project management: project management fees of 2 x 0.5days/wk x 10 months = **£20,000**

Post-bid evaluation: site meetings etc **£2,500**

Contingency: 10% of project costs **£62,400**

Total capital costs: £686,400

In addition there would be on-going revenue costs and some efficiencies

Licence costs: annual licence costs expected for the PODB to be **c£50,000 pa**

Saving of current licence and support costs: current dues system licence and support costs are **£17,000 pa**. There are no licence fees associated with the current AODB as it is unsupported.

Saving of revenue officer processing: the current systems require the use of two separate systems which are old and require significant time each month to manually process the information to create accurate invoices – this is carried out by two revenue officers. It is expected that a modern system would reduce the need for manual processing and save staff time (approximately 1FTE - **c£50k pa**).

POJL Finance System

POJL is proposing to introduce a new accounting system to replace the current system which uses the SoJ central finance system (known as 'JDE'). Despite being cost effective (nil cost) there are a number of reasons why it is no longer appropriate to use the SoJ platform:

- SoJ have full access to POJL ledgers and ability to post to them, this is of concern to the POJL Board, and has been raised as a management letter point by Ernst & Young (POJL's auditors).
- POJL reports under a different accounting framework to SoJ (FRS102 vs JFReM), JDE only allows one framework to be used.
- Users of JDE find it difficult to use, inaccessible and non-intuitive.
- Additional reporting (e.g. to provide information for the JCRA and to provide FRS102 based accounts) cannot be met by JDE, requiring manual intervention and therefore increased risk of inconsistency and errors.
- JDE is developed and bespoked in line with SoJ corporate needs, as POJL continues to commercialise, the system is becoming less fit for purpose for POJL. It is unlikely we would be able to roll out JDE to any acquisitions.
- A number of initiatives have been identified in the Acceleration workshops for purchasing and billing that we will be unable to realise unless we have the ability to develop our finance system.

- SOJ is currently reviewing their options to replace JDE, as such is an opportune time to review PoJL requirements.
- PoJL IT is working to move PoJL off SoJ IT infrastructure by 2019 (see discussion above). JDE is a major system tying PoJL to SoJ, to enable full separation it is necessary to move off the shared finance system.

Risks if the investment is not undertaken

If the investment is not undertaken, this could potentially lead to an outcome where POJL does not have a viable financial management system, particularly as the SoJ wish to cease providing support under our current arrangements. Even with the likelihood of SoJ/ISD unilaterally severing all support being relatively low, POJL is also exposed to more likely risks, including:

- The requirement for an increase in FTE to compensate for the inefficiencies with the current system
- An increase in auditing costs due to the time and support required to change the SoJ accounting framework to our accounting framework each year
- Risk of reporting under differing frameworks, one not being system generated and requiring manual intervention
- Reduction in efficiency saving opportunities
- Due to system integration issues, this is having a detrimental effect on our ability to manage our business using consistent & correct data, and
- With the implementation of our new IT infrastructure, not moving our core finance system would mean users would need to interact with two system providers, depending on what software they are using.

When coupled with the other key projects that are already in progress, the risks surrounding the current finance system continue to grow.

How to ensure the investment is efficiently procured

To procure the new finance system, a programme has been created using dedicated resource to effectively manage and deliver all the way through to implementation & go-live.

As part of programme delivery, a simple 3 phase approach will be adopted which is proven in delivering successful transformation programmes focusing on User Centred Design. The delivery model utilises the outputs from the Target Operating Model (TOM), as the foundation for delivering the IT changes required across POJL. The 3 stage gates (SG1 – 3), provide regular feedback to the client, ensuring their needs are being met throughout the programme lifecycle.

To ensure the final solution has been correctly selected and procured, the purchase of the new finance system will be controlled using our in-house Tender Portal which manages the process from identification all the way through to contract sign. As with any new system it is important that effectively meets our requirements, not exceeds them by either providing redundant functionality or functionality that would be deemed as 'nice to have' within our current organisation. While this is a difficult balance to strike, the programme aims to control this by conducting solution Demos to the relevant areas of the business, rather than submitting pages and pages of system requires which can easily be misinterpreted.

Expected costs of the project

The total cost of the new Finance system is estimated at £1.4m, made up of £200k project management, £130k feasibility and procurement costs and £1,070k for purchase, implementation and roll-out. The benefits will be from improved business intelligence and resilient reporting to allow the business to make more informed business decisions and to support the provision of financial information to stakeholders, including CICRA. Delivery of identified Acceleration initiatives will free some staff time to work on improved customer service across the wide range of Finance function stakeholders. It is important to develop a POJL finance system to avoid the constraints of the JDE system which threaten to compromise the integrity of POJL's accounting records as it moves forward under the FRS102 reporting framework.

Appendix 3

Part 2: Elizabeth Terminal Investments

Elizabeth Terminal is the primary gateway for ferry passengers to arrive or depart into the Island. Each year we handle c. 670,000 passengers as both foot and vehicle passengers.

The Elizabeth Terminal is in need of investment for both remedial maintenance on the building and to make improvements to the passenger experience. Currently the building does not generate sufficient revenue to warrant reinvestment beyond that required to maintain a basic level of passenger and vehicle processing.

Due to the nature of its design and the ventilation requirements for Elizabeth terminal, the current roofing solution is suboptimal and prone to frequent malfunction. This has significant consequences for the poor ventilation and temperature control within the terminal. In addition, due to ageing and deteriorating seals, the building suffers from a number of leaks from the roof area. A replacement roof remains part of strategy with a cost estimate of £1.725m.

For a number of years the terminal has been in need of an update and requires operational improvements to the gate and lounges areas. Whilst relatively minor, these works will deliver significant customer benefits and ensure the terminal is both safe and comfortable - circa £230k.

Operational constraints, both landside and portside, must also be addressed to make the environment more efficient and, most importantly, safe for customers and staff. These changes require quite significant infrastructure investment to move vehicle flow lanes, taking into account security requirements and we anticipate spend of circa £575k.

Risks if the investment is not undertaken

The risks associated with not completing the anticipated upgrades fall into three categories: safety, customer experience and operational resilience.

Reliable ventilation control is a key factor when managing serious incidents such as fire and the lack of adequate roof ventilation currently impacts the risk in this respect. In addition, water ingress from leaks creates slip risks.

The combination of roof leaks and poor ventilation and temperature control contributes to the primary causes of poor customer experience.

The proposed minor works within the terminal would help to create a more enjoyable environment for passengers and staff; the current poor condition will only deteriorate further without investment. Poor rationalisation of gate access impedes efficient operation through the passenger terminal areas resulting in a substandard customer experience. Lack

of investment will also make it more difficult to maintain and clean and hard to provide a safe and comfortable environment for passengers and staff. Ageing infrastructure and furnishing (particularly flooring) can be hazardous and is in need of an update.

Operationally, the constraints of the port and landside external environment results in cross pollution of commercial, leisure, inbound and outbound traffic, which is a risk to safety and security that needs addressing. Commercial vehicles are often operating near or around passengers and passengers are frequently on foot outside their vehicles. The risk of accident is high and the staffing required to mitigate the risk is an expensive and suboptimal solution.

How to ensure the investment is efficiently procured and customer engagement

Working with our customers in the terminal, their feedback has fed into our master plan development. This ensures we take into consideration what customers think and need through ongoing dialogue; this has been documented through stakeholder sessions during our master plan consultation session, conducted by our master plan partner, Mott MacDonald. Using benchmark data from industry, we have used specialist teams to help generate appropriately managed high-level costs assumptions.

At all the relevant project stages, PoJ will ensure efficient design solutions are implemented, utilising industry best practice. Contract tendering will be executed through the Proactis tender system.

PoJ has a dedicated projects team to deliver projects as cost effectively as possible.

Expected costs of the project

Elizabeth Terminal Upgrade Costs			
Item	Description	Estimate cost	Notes
1	Replacement roof / ventilation	£ 1,500,000	Based on LTCP update 2017, with £2m split across 2018/19
2	Landside/Portside re-organisation	£ 500,000	Based on QS rates 2013 plus contingency
3	Interior minor building works	£ 100,000	Rationalising gate lounges based on Airport 1st floor fit-out rates
4	Interior carpeting/decoration	£ 100,000	Based on costs from Airport 1st floor refurb
	subtotal	£ 2,200,000	
	Allowance for fees	£ 330,000	Assume 15% for design costs and planning fees
	Overall total	£ 2,530,000	

PoJL wish to invest c£2.53m (which we would seek to recover over the next 10 years to 15 years) in infrastructure and passenger improvements. In order to achieve this, we require an increase in maritime port charges including an uplift in the headline passenger handling price of £0.20.

We should note that this investment is on the building and infrastructure, and does not include the planned investment in the Elizabeth Terminal Restaurant, which is the subject of a commercial investment project.

Should we not achieve this revenue increase, then we will not be able to make this investment into the terminal building. We will attempt to keep the building sheltered from the elements as well as possible by undertaking the minor maintenance and cleaning current funding provides for.