

Preparations for an  
**Intra-Scotland Air Services Review**  
Scoping Exercise



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# 1 Executive Summary

A discussion paper on a number of transport issues relating to air services, ferry services, fixed links and governance, collaboration and partnership arrangements was tabled at a meeting of the Island Areas Ministerial Working Group held on 2nd June 2015 in Kirkwall. A key focus for the meeting was a number of issues concerning air services between the island local authorities and the Scottish mainland.

Following the meeting, it was agreed that the Island Local authorities prepare a scoping paper to establish evidence and data around the key issues that were identified including the affordability and reliability of the air services. It was also agreed at this meeting that a forum be set up to consider all strategic transport issues affecting Scotland's islands.

The Islands Transport Forum which will meet biannually and will include representatives from local authorities with island communities had its inaugural meeting on January 12th 2016. At this meeting it was agreed that the Air Services Scoping Paper be brought to the next Islands Transport Forum.

With the exception of the Wick to Aberdeen/Edinburgh and Campbeltown to Glasgow services all scheduled Intra-Scotland air services involve links to or between islands.

**This Scoping paper therefore builds upon previous work and proposes a more detailed and comprehensive outline review of Intra Scottish Air Services** that addresses a number of short, medium and long term priorities including;

- Affordability of services for passengers
- Affordability for Scottish Government / Local Authorities
- Evidence on the reliability of the different air services
- Improving collaboration between Transport Scotland, Regional Transport Partnerships and the Islands Councils.
- Establishing a process that fully accounts for island-specific views.
- Considers all air services between Islands and the Scottish mainland.
- Current and potential aircraft deployed on island to mainland routes
- Airfield infrastructure and staffing

In preparing this Scoping Paper a working group of officers from each of the Local Authorities with air Services (Orkney Islands Council, Shetland Islands Council, Comhairle nan Eilean Siar, The Highland Council and Argyll and Bute Council), together with the Regional Transport Partnership, HITRANS and ZETTRANS have reviewed recent available data, undertaken new research including a review of the reliability and punctuality of air services between Scottish Islands and the Mainland and also commissioned the Scottish Council for Development and Industry (SCDI) to undertake an **Islands Air Connectivity Survey. The survey received over 1400 responses and provided evidence of many of the recent problems encountered by the island communities using each of 23 Island to Mainland air services.**

## **Context of Scoping Paper**

- 1.1.1 Through Our Islands Our Future campaign Scotland's three island unitary authorities have laid out a vision for a stronger future with a commitment that the needs and status of island areas are clearly recognised in Scotland.
- 1.1.2 In response to the Our Islands: Our Future campaign and as a key output of the Island Areas Ministerial Working Group chaired by Derek Mackay MSP, Scottish Government published the Empowering Scotland's Island Communities Prospectus in June 2014. The key message within the Prospectus is the recognition that all of Scotland's island communities can benefit from greater empowerment whilst also emphasising that increased power brings increased responsibility and accountability.
- 1.1.3 With regard to issues associated with transport provision to and within the island areas, key areas of commitment relate to air services, ferry services, fixed links and governance, collaboration and partnership arrangements.

## **Intra-Scotland Air Services Review**

- 1.1.4 Progress has already been made on a number of the commitments given and a discussion paper was tabled at a meeting of the Islands Area Ministerial Working Group in Kirkwall on 2<sup>nd</sup> June 2015.
- 1.1.5 Among the issues discussed in relation to air services were;
  - Production of a "costed and legally compliant business case" for inclusion of business use in the Scottish Government's Air Discount Scheme
  - Undertake a review of air services from mainland airports to the Western Isles, Orkney and Shetland, the objective of which would be to identify and appraise options associated with addressing widespread and growing concerns within the island communities relating to high and increasing air fares (despite the availability of the Air Discount Scheme), the lack of meaningful competition on these routes resulting in their monopolisation by a single operator, and the continuing reliance of that operator on a very small range of ageing and outdated aircraft
  - Development of revised governance, consultation and engagement arrangements for transport services (ferry, air and other) to facilitate more effective and efficient working relationships between Transport Scotland, the Islands Councils, the Regional Transport Partnerships (HITRANS and ZetTrans), service operators and other key stakeholders; including the establishment of an Islands Transport Forum
- 1.1.6 It was subsequently agreed that scoping work considering a number of issues relating specifically to intra-Scottish air services research be undertaken by the Island Local Authorities. HITRANS agreed to support the process by preparing an initial draft report to facilitate further discussion and consideration at the Islands Transport Forum.

- 1.1.7 This Scoping exercise builds upon previous research and available information, and proposes a more detailed and comprehensive review of Scotland's scheduled internal Air Services. Part of this preparatory work has been to review recent data and relevant reports so as to establish the scale of particular issues and also identify any gaps in knowledge could usefully be addressed.
- 1.1.8 Air links from and between Scotland's Islands make up the vast majority of Scotland's internal scheduled air services – the exceptions being Wick to Aberdeen / Edinburgh and Campbeltown to Glasgow which also operate in a very similar context and experience common challenges to the island based services.
- 1.1.9 **This Scoping Paper proposes a comprehensive review of aviation policy and delivery to, from and within the Highlands and Islands.** It proposes additional elements are included in any subsequent review. For instance an examination of appropriate governance and consultation mechanisms is suggested as well as some high level examination of policy interventions.
- 1.1.10 This report identifies some case studies and practices of potential relevance from other parts of the world that face similar challenges, including Iberian Atlantic island groups, Norway, Sweden and Canada.
- 1.1.11 The headings under which the issues have been considered are as follows:

### **Overview and Background – Baselining and Audit**

#### **Short Term Priorities**

- Affordability for passengers
- Reliability / Utility / Punctuality

#### **Broader and Longer Term Issues**

- Thirty year forecasts of future passenger demand.
- Future proofing of air services
- Investigations into Governance, Consultation, Engagement, Collaboration and Competition.
- Affordability and Sustainability for Public Sector
- Value for Money and Cost Benefit Assessment

#### **Conclusions and Recommendations**

- Considering five, ten and thirty year time horizons.

- 1.1.12 The report concludes with proposed next steps and an outline scope for further work that will help address both short and longer term issues and opportunities. Discussion on the prioritisation of the proposed work to improve the outcomes is required but the Island Local Authorities and Regional Transport Partnerships charged with developing this review have identified the following **seven key areas**.

## Proposed Action Plan

1. A full review of the affordability of the air services for both the passenger and local and national governments similar to that undertaken in the Scottish Ferries Plan
2. Consider the merits of extending the Air Discount Scheme based on the recently commissioned research on behalf of HITRANS, ZetTrans and the Island based local authorities.
3. A review of the reliability and punctuality of all scheduled internal Scottish air services with the publication of an annual report on the performance of these services.
4. Establish a Working Group to address these short term priorities of affordability and reliability of the air services. This would need the full support of the operators.
5. A review of current and possible aircraft types to serve the network and possible adaptations to supporting infrastructure including airfields and terminals and staffing.
6. The development of a longer term coordinated and structured approach to engagement, consultation and participation across the islands authorities, Transport Scotland and other key stakeholders.
7. Development of an Intra-Scottish aviation strategy as part of the commitment to update the National Transport Strategy



*Twin Otter landing at Barra*

## 2 Background

- 2.1.1 In 2013, Comhairle nan Eilean Siar, Orkney Islands Council and Shetland Islands Council launched the Our Islands – Our Future (OIOF) campaign. The campaign sought to ensure that: “...*the position and needs of island areas are adequately taken into account and the particular nature of Scotland’s three main islands’ areas acknowledged and recognised.*” In relation to transport the mission called for effective transport links to maximise Island resources, and effective engagement with the EU to seek appropriate targeting of structural fund assistance.
- 2.1.2 In 2014 the Scottish Government produced a prospectus entitled *Empowering Scotland’s Island Communities* which set out the Government’s response to the issues raised through Our Islands Our Future and the subsequent discussions that were facilitated through the Island Areas Ministerial Working Group.
- 2.1.3 Subsequently to the Empowering Scotland’s Islands Communities (ESIC) prospectus, a commitment was made at the Islands Area Ministerial Working Group (IAMWG) that the case could be made by OIOF and their partners for a review of island air services to be undertaken through the development of a scoping paper setting out the issues that any later review might cover.

Empowering Scotland’s Island Communities report observed that, “Our remoteness means that connectivity of all kinds is fundamental to us, be it grid connections, postal services, digital communications, or crucially transport by sea or air, both internal to our Island Areas and external to the Scottish mainland.” The aim it claimed should be to work toward more democratic (in the sense of facilitating subsidiarity in decision making), fairer and more prosperous communities.

- 2.1.4 In a subsequent and derivative June 2015 report to the IAMWG that focussed specifically on TRANSPORT it was suggested it would be helpful to:

Undertake a review of air services from mainland airports to the Western Isles, Orkney and Shetland, the objective of which would be to identify and appraise options associated with addressing widespread and growing concerns within the island communities relating to high and increasing air fares (despite the availability of the Air Discount Scheme), the lack of meaningful competition on these routes resulting in their monopolisation by a single operator, and the continuing reliance of that operator on a very small range of ageing and outdated aircraft.

- 2.1.5 It is proposed that key action areas be developed on a project basis including;
- Establishment of specific project governance and management arrangements,
  - Agreement of clear and unambiguous aims, objectives and measures of success,
  - Clarification of roles and responsibilities relating to project sponsorship and management, and

- Development of a coordinated and structured approach to engagement, consultation and participation across the islands authorities, Transport Scotland and other key stakeholders.
- 2.1.6 At the IAMWG the decision was made to prepare a scoping paper to guide the development of a suitable Research brief and that this paper be taken for consideration on the agenda of the Islands Transport Forum.
- 2.1.7 By February 2016 the Group were able to add more detail to the intentions stating that any review should involve the development of a scoping paper to establish evidence and data around a number of the key issues which had been identified including the affordability and reliability of the services.
- 2.1.8 It was also agreed at this meeting that a forum be set up to consider all strategic transport issues affecting Scotland's islands. The Islands Transport Forum will consider opportunities and difficulties, including:
- Improving collaboration between Transport Scotland, Regional Transport Partnerships and the Islands Councils.
  - Establishing a process that fully accounts for island-specific views.
  - Ensuring efficient and effective lines of communication between all key stakeholders.
  - Consider all air services between Islands and the Scottish mainland.
  - Current and potential aircraft deployed on island to mainland routes
  - Evidence on the reliability of the different air services
  - Affordability for passengers
  - Affordability for Scottish Government / Local Authorities
  - Roles and responsibilities
- 2.1.9 It was also agreed to undertake an online survey to help gather views on the existing services and information on what issues were most important to passengers. SCDI were subsequently engaged to support the development, distribution and analysis of the survey which has received over 1400 responses. The survey closed on 4<sup>th</sup> January.
- 2.1.10 The survey information has been augmented by HIAL sharing further up to date statistical information which has helped shape the outline brief for a Scoping study. Other opportunities are considered in more detail within the supporting documentation.
- 2.1.11 At this point it is considered likely that key elements of a more comprehensive review of internal Scottish air services would include the following;

## **Overview and Background**

- Outline baseline information on route structure and timetable with trends and likely developments without interventions including a review of relevant Council, Scottish, UK and EU roles and policies (currently and post Brexit) and acknowledgement of role of airfreight and the oil sector with its rotary activity and Scatsta.
- Audit of current airfields and their challenges.
- Consider issues highlighted by stakeholders
- Review of relevant emergent technologies and trends (eg Global Navigation Satellite Systems (GNSS), Single Engine Turbines, Regional and LCC airlines, Current and potential Scottish air operators, New runway in UK south East, Scottish short and long haul route developments, tourist and local economic trends and opportunities, multi-modal transport developments, network usage forecasts, requisite staffing, training and skills, security, sustainability considerations and environmental impacts)

## **Reliability / Utility**

- A review of the following data for each airline and route;
  - Punctuality data
  - Reliability data
  - User Survey
- Operator's Rectification and Quality Assurance Plans
- Interlining and onward travel
- Ticketing and marketing
- Publication of an annual report

## **Affordability for passengers**

- Analysis of the range of fares on each route including the average fare, and the full price fare for last minute bookings. (The SCDI survey highlighted that some special discount fares could be more expensive than the "normal" fares on sale at particular times).
- Benchmarked comparisons, if suitable ones can be identified.
- Consider merits of extending Air Discount scheme for certain types of business travel.
- Review of other options for encouraging more competition on the routes and improving the affordability for passengers and where applicable government at both a local and national level.

## **Affordability for Public Sector**

- A review of all known costs including;
  - Operating and capital costs for supporting airfields
  - Current and likely capital costs on publicly owned aircraft
  - Costs of Public Service Obligations (PSOs)
  - Cost of Air Discount Scheme
  - Travel budgets, where available, of key users such as Health, Education, Public Administration.
- Consider opportunities for collaborative procurement and marketing of services

- Regulation, Licensing, Security and SGEI certification
- State Aid Issues and possible adjustments to mix of instruments used
- Other possible sources of funding

#### **Airfield Infrastructure and Operation**

- Undertake a review of current and possible aircraft types to serve the network now, and in the future, and possible adaptations to supporting infrastructure / airfields / terminals / access roads and services to accommodate.
- Address problems relating to the recruitment and training of airport staff on islands where there has difficulty in recruiting firefighters on islands (which are mainly volunteers through Scottish Fire and Rescue in the case of Argyll managed airstrips)

#### **Conclusions and Recommendations**

- Development of an Intra-Scottish aviation strategy within an updated National Transport Strategy that considers short medium and long term time horizons.

### 3 Strategic Objectives

- 3.1.1 It is useful to consider issues connected with air transport in relation to the three high level aims highlighted in the 2014 Empowering Scotland's Island Communities prospectus namely working toward more democratic, fairer and more prosperous communities.
- 3.1.2 **More Democratic** in the sense of facilitating subsidiarity in decision-making implies that island communities should have a significant say in the specification and running of their transport systems, recognising that central government support funding is also required to achieve these ambitions. This democratic impulse must also recognise that central government have wider responsibilities and obligations both to the national electorate and taxpayer that have to be balanced with the more specific interests and ambitions of the island communities.
- 3.1.3 This aspiration can be addressed by considering what more permanent and occasional consultation mechanisms are required and how key stakeholders and service users should best be involved. Surveys and other time limited interventions would also be required to ensure that island communities are fully engaged in the development and delivery of air transport solutions.
- 3.1.4 **Fairer.** It should be recognised that this term and aspiration can mean different things to different people and would likely inspire varied responses in different circumstances. To clarify thinking we outline how fairness, equity, equality and equivalence can all lead to different outcomes. Stakeholders should agree a common objective of fairness.
- 3.1.5 Indeed each of the current air support schemes responds to different priorities. The Highlands and Islands Airport Ltd (HIAL) subsidy can be seen as providing necessary infrastructure; the Air Discount Scheme (ADS) is justified as a measure of social inclusion and Public Service Obligation (PSO) air services has historically been understood in Scotland as providing services that would not be economically viable for commercial provision on a frequency that meets community needs (facilitating social and economic development combined with the notion of providing a minimum level of provision). The Air Passenger Duty (APD) exemption is a Treasury response that recognises the special challenges of the region, and the potential double and triple whammy taxation required to reach another UK or international destination via the requisite connecting flights. The Treasury should also be mindful of the relatively small amount of revenue this exemption foregoes. Route Development Funding (RDF) is usually perceived as a time limited facilitative intervention to achieve a self-sustaining route enhancement.
- 3.1.6 Shetland Islands Council (SIC) and Orkney Islands Council (OIC) and Transport Scotland have set themselves the task of working towards a mutually agreed 'fair funding' position on internal transport by June 2017.

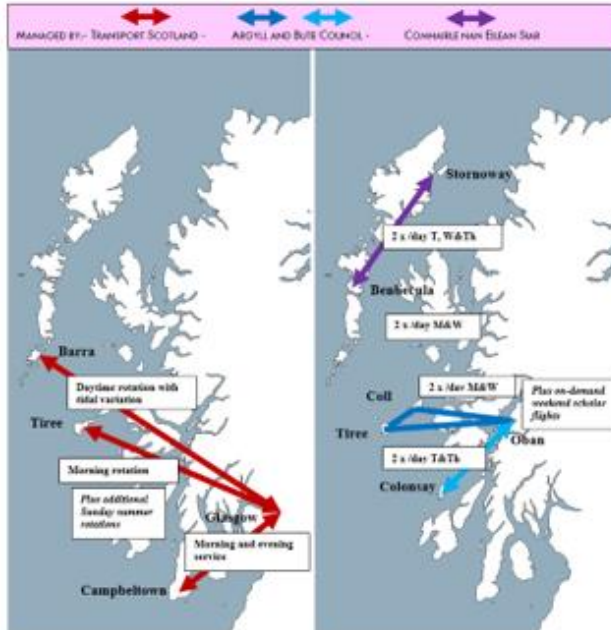
3.1.7 **More Prosperous.** There is a tendency amongst some to consider transport as a fixed piece of infrastructure like roads or harbours that governments should supply as a basic requirement. However it is recognised that the causal relationship between air services and economic development is two way and indeed there is emerging evidence that in less developed economies improvements in connectivity speedily translate into improvements in economic performance. This provides a stronger rationale for state investment in transport, where services could potentially lead, rather than just follow or respond to, demand.



**Westray airstrip**

## 4 Overview – Baselining and Audit

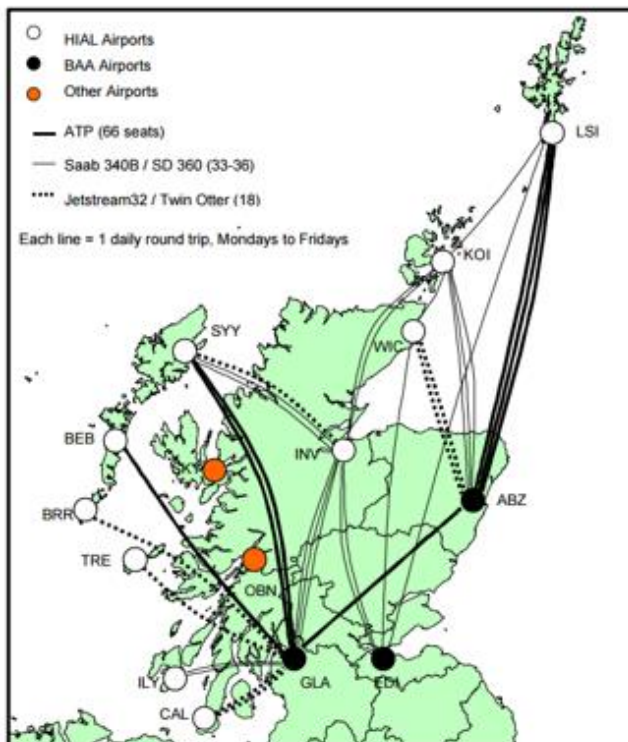
4.1.1 Various aspects of the intra-Scotland air service route structure and timetable have been subject to previous review, but these need updated with trends identified and likely developments highlighted and interpreted.



2013 Western Seaboard PSO summary covers only the publicly supported PSOs-Frequencies vary by day and season.



Orkney and Shetland Inter Island Air Service Routings (2015)



Intra Scottish scheduled air services operated in Nov 2001



- 4.1.2 The recent draft *Appraisal of Inclusion of All Business Travel Within the Air Discount Scheme* work examined frequency and timings on the main intra Scottish routes with a particular emphasis on their utility for business use.

<b>TABLE 3.1: ADS ELIGIBLE ROUTE TIMETABLES: JUNE 2016</b>			
	<b>Number of Days Operation</b>	<b>Weekday Frequency (Direct Return Flights)</b>	<b>Weekday Day Trip Possible (at least 5 hours before return flight)</b>
<b>Shetland</b>			
Aberdeen	7	4	✓
Edinburgh	7	3	✓
Glasgow	7	2	x
Inverness	7	2	✓
Kirkwall	7	1-2	✓
Bergen	1	0	x
<b>Orkney</b>			
Aberdeen	7	3-4	✓
Edinburgh	7	3	✓
Glasgow	7	1	x
Inverness	7	1-2	✓
Shetland	7	1-2	x
Bergen	1	0	x
<b>Outer Hebrides-Stornoway</b>			
Aberdeen	5	1	x
Edinburgh	7	1-2	✓ (except Friday)
Glasgow	7	4	✓
Inverness	7	2-3	✓
<b>Outer Hebrides-Benbecula</b>			
Glasgow	7	2	x
Inverness	3	2	x
<b>Caithness and North Sutherland</b>			
Aberdeen	5	2	✓
Edinburgh	6	1	x
<b>Islay</b>			
Glasgow	7	2	✓

- 4.1.3 A review of relevant Council, Scottish, UK and EU roles and policies and an acknowledgement of role of airfreight, the oil sector with its rotary activity and Scatsta, and other non-scheduled aviation activity including aeronautical activity such as Air Charter and Inclusive Travel flights, General Aviation, Business Aviation, Flight Training, aero-engineering and aerial work (remote sensing, reconnaissance, emergency response etc.) is also required.
- 4.1.4 Recent profiles of Orkney and Shetland airfields has been undertaken for their current inter island transport reviews. These need to be combined with the latest information from Argyll and Bute and HIAL airfields; ideally in similar formats and with key characteristics selected and documented. Further integrative work is required.
- 4.1.5 A review of pertinent aviation industry, tourist and local economic trends would be helpful in providing fuller context to aid understanding and insight.

It is likely that any substantial study should include some level of key stakeholder consultation so that additional issues can be identified and their relative importance better assessed. As an example, NHS is a major user of intra Scottish air services for the efficient delivery of island passengers, chaperones, and staff. Efforts to effectively involve them in the provision of transport services are important in optimising PSO, timetable, disabled and patient aircraft and airport access solutions. PSO specification reductions can for example impose extra costs and inconvenience on the service and the arrangement of patient appointments that may not be fully appreciated by transport planners. Changes in the way NHS organizes itself such as their Highlands and Islands Travel Scheme (HITS) scheme has seen a related increased focus on transport cost and demand for NHS reductions.

- 4.1.6 Another approach is to create some understanding of the differing multi-modal connectivity scores / indices of the different parts of Scotland. Being able to visualise and quantify the challenge may help guide policy. Developing some sort of index of connectivity for Scotland and then tying this to a commitment to meeting certain minimum standards of accessibility could provide a model for Scottish remote and peripheral regions.

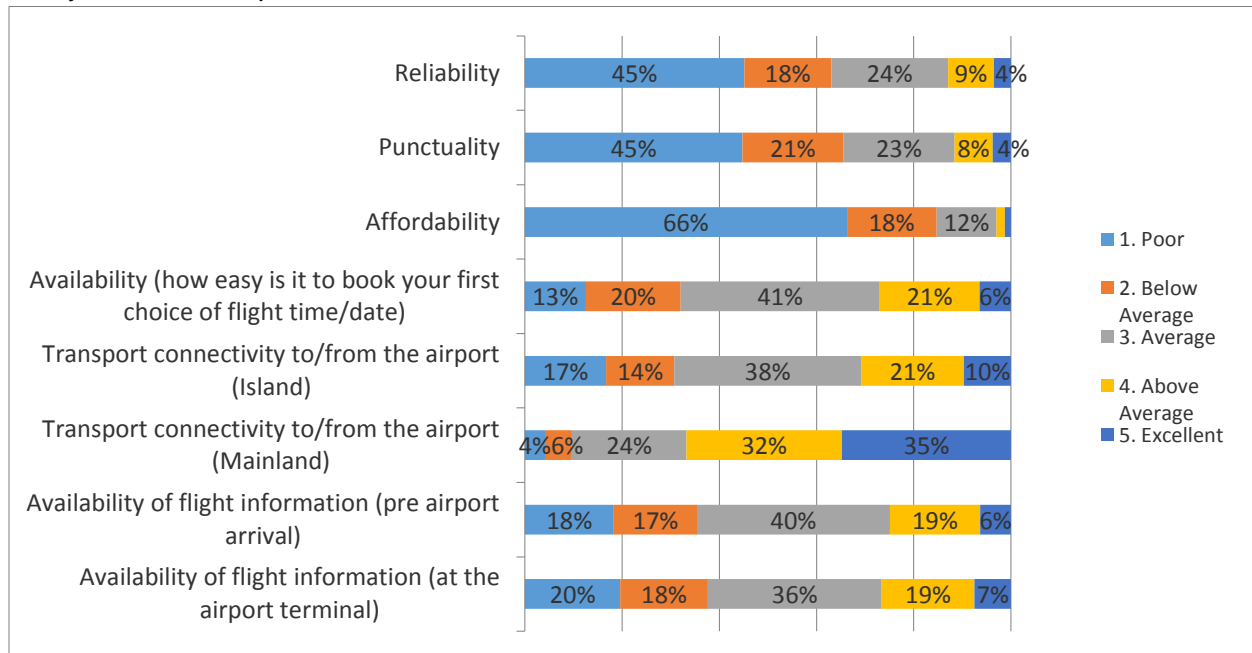
## **4.2 Recommended Next Steps**

- Overview – Baselineing and Audit including;
  - Outline of route structure and timetable with trends including a review of relevant Council, Scottish, UK and EU roles and policies (currently and implications of post Brexit) and acknowledgement of role of airfreight, the oil sector (eg rotary activity & Scatsta), and other non scheduled aviation activity including air cargo, Air Charter and Inclusive Travel flights, General Aviation, Business Aviation, Flight Training, aero-engineering and aerial work (remote sensing, reconnaissance, emergency response etc.)).
- Audit of current airfields and their challenges.
- Consideration of issues highlighted by key stakeholders during a study consultation exercise.
- Review of aviation industry, tourist and local economic trends.
- Evaluate against measures of connectivity – eg Reachability and Accessibility.

## 5 Costs and affordability (personal / leisure, business & public sector)

5.1.1 An Islands Air Connectivity Survey was commissioned by HITRANS and ZetTrans and undertaken by SCDI between 10<sup>th</sup> December 2015 – 3<sup>rd</sup> January 2016. The survey raised a series of issues relevant to this scoping exercise, but it is clear from this summary (below) that **punctuality, reliability and affordability were the three top concerns.**

Q. Thinking about the route you've used most often over the past 12 months how would you rate your overall experience from 1-5?



5.1.2 It would be useful to gain some clearer information on what fares are currently being paid. This could be accomplished by sampling ticket prices on routes using online next day, next week and next month itinerary interrogations. A comparison of the various Scottish PSO programme ticket prices should also be included.

5.1.3 In specific relation to PSO programmes, they have several explicit or implicit socio economic aims which could be expressed as;

- Aiming to ensure the travelling public (its citizens and guests) enjoy competitive pricing and good service as a result of the tender competition, and operator selected.
- Transport integration to facilitate social, business, educational, (Visiting Friends and Relatives (VFR), sporting, public administration and other purposes, including addressing social inclusion of poor, aged, job seekers and other marginalised groups.
- Diversifying the economy by improving / maintaining connectivity with the rest of Scotland, United Kingdom and beyond.
- Supporting more balanced development across all Scotland's regions.

- Supporting the development of SMEs<sup>i</sup> and entrepreneurship on the islands.
- Endeavouring to counter depopulation.
- Supporting inward, business and tourist investment and providing certainty for such investment by demonstrating the government's commitment to protecting and enhancing national and international connectivity.
- Supporting economic vitality in the tourism sector by:
  - Increasing the catchment of tourists able to access the Scottish islands
  - Facilitating trips from metropolitan centres to regions
  - Attracting more lucrative long haul and emergent market tourists<sup>ii</sup>
  - Extending tourist season into shoulder months and winter.

## 5.2 PSO Routes

5.2.1 As a result public authorities desire affordable fares on the PSO routes. Cranfield University's good work on comparative PSO practice illustrates the wide diversity in PSO fare levels across the continent.

**Figure 1: Highest return fare comparisons on selected PSO routes**



- 5.2.2 The comparative study concludes that, “In many cases the line between PSO and non-PSO designation is arbitrary and often the product of how successful regional lobby groups have been at influencing national policy. Such decisions rest strongly on whether a government’s aviation policy is inherently interventionist or market-orientated. Differences in approach are very apparent when the attitudes to PSOs of decision-makers in both Scotland and the UK as a whole are compared with those prevailing in France. The route linking Nice and Figari (Corsica), for example, can be compared with Aberdeen-Sumburgh in terms of distance, frequency, aircraft size and overall capacity. Both services link airports on the respective mainland with island communities. The French air service however is subsidised while the comparable Scottish route is not.” January 2004
- 5.2.3 A 2013 PSO paper examined how transport authorities dealt with the affordability issue in their PSO programmes.
- 5.2.4 Most sponsoring authorities (14/16) try to influence affordability by specifying a maximum fare. However, by weighting the responses by number of routes the picture is reversed to some extent (39 routes without a cap), suggesting that in some of the larger PSO programmes (possibly more concerned about regional development than lifeline links) the affordability issue is less key.

**TABLE 1: SUMMARY OF WHAT MAXIMUM FARES INCLUDE**

	AIRPORT TAXES	PASSENGER TAXES	LUGGAGE CHARGES	CREDIT CARD PAYMENT CHARGES	DATE CHANGE FLEXIBILITY	NAME CHANGES	PRIORITY BOARDING	IN-FLIGHT REFRESHMENTS
<b>AUTHORITIES</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>ROUTES</b>	<b>36</b>	<b>30</b>	<b>34</b>	<b>36</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>8</b>

**NOTE: THE OPTION “OTHER” WAS NOT SELECTED BY ANY OF THE RESPONDENTS**

- 5.2.5 Among those authorities who specify maximum fares, there is a strong view that these fares must include primarily airport and passenger taxes, but a significant proportion also includes other aspects as standard, as shown in Table 2. As free market aviation continues to disaggregate / unbundle the fare there is therefore a tendency for established PSO routes to continue with practices that are becoming less commonplace around the industry. One potential unintended consequence of these requirements is the complexity this could inadvertently impose on a bidding airline, which does not have the capability to easily cater for these additional impositions in their IT and booking systems.

## Impacts of Expense

*"I only use the air services if it's an emergency, otherwise, I spend £50 return from Edinburgh to Stornoway (that includes the ferry) and it takes me 13 hours to complete."*

Location: Edinburgh

*"Due to recent unreliability of flights and them regularly being delayed or cancelled for technical reasons I now travel the day before I need to for connecting flights / meetings / appointments etc this means extra accommodation expense and having to use extra days holiday from work."*

Location: Stornoway

*"They are always late, usually technical, they cannot be depended on for onward travel so usually have added expense of extra days away to ensure getting where you want to go."*

Location: Shetland

*"The flights are continually delayed or cancelled and it is having a devastating effect on the Island economy"*

Location: Lewis

*"Prices are crippling users, I had to return home urgently from Edinburgh. I had to pay VIP prices and it was really hard to recover from this cost."*

Location: Sanday

*"Unreliable and expensive. If you have an onward journey you sometimes need to leave the day before and incur costs of overnight stays in hotels as the service from the Island is so unreliable!"*

Location: Stornoway

***Extracts from Air Connectivity Between The Scottish Islands And Mainland – SCDI online survey 2016***

**Table 2: Summary of type of fare concessions that the PSOs specify<sup>iii</sup>**

	<i>Pensioners</i>	<i>Student and child</i>	<i>Other social</i>	<i>Discounted (advanced booking)</i>	<i>Local residents</i>	<i>None specified</i>	<i>Other</i>
Authorities	5	6	1	2	6	7	1
Routes	31	61	21	2	41	21	30

5.2.6 Similarly, although not unexpected, the typical PSO contract also includes various requirements and types of fare concessions that are pre-specified by the authorities. Beneath the maximum fare price it is then left to the discretion of the operator to offer further discounted fares. That PSO contracts are pre-specified by the authorities to support particular socio-economic aims is similar to general public transport policy. What is different in the aviation context is, however, for local residents to enjoy favoured treatment, particularly in the larger programmes (on not less than 41 routes).

**Figure 2: Inner Hebrides Air Service**



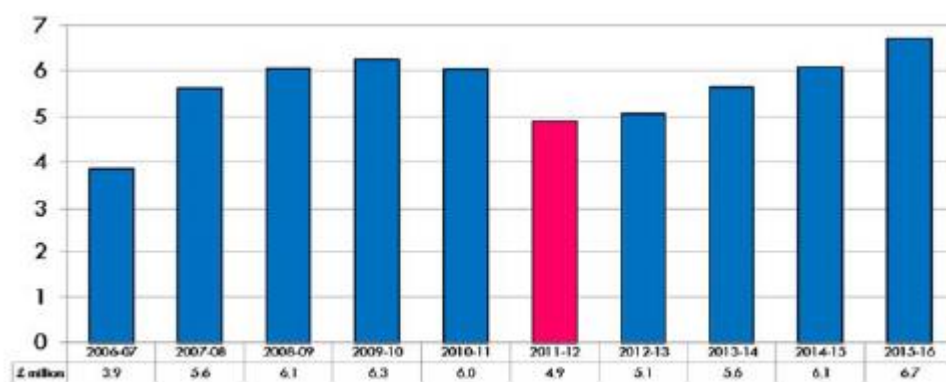
### 5.3 Air Discount Scheme

5.3.1 The Scottish Air Discount Scheme (ADS) is managed by Transport Scotland. It provides discounted fares on eligible routes to people whose main residence is in Orkney, Shetland, the Western Isles, Islay, Colonsay, Jura, Caithness and north-west Sutherland. The scheme was extended to include Colonsay residents in the light of the new non-PSO service between Colonsay and Islay. The scheme withdrew eligibility to non-private users in April 2011, but then permitted a reinstatement for Third Sector and charity organisations in July 2012. Communities argue that business users should also benefit, but there are some state aid concerns. There has been a recent increase of the rate from 40% to 50% from January 2016.

5.3.2 Those not eligible include people whose residence is not in the specified geographic area, except students that are studying away from home and their main residence is in an eligible area.

- People travelling on Public Service Obligation (PSO) flights
- People travelling for the purpose of business. Business related travel is considered any journey where there is a business component, regardless of whether there is also a leisure-related component
- People travelling on NHS-funded trips
- Anyone in the eligible geographic area who does not have a live, valid card

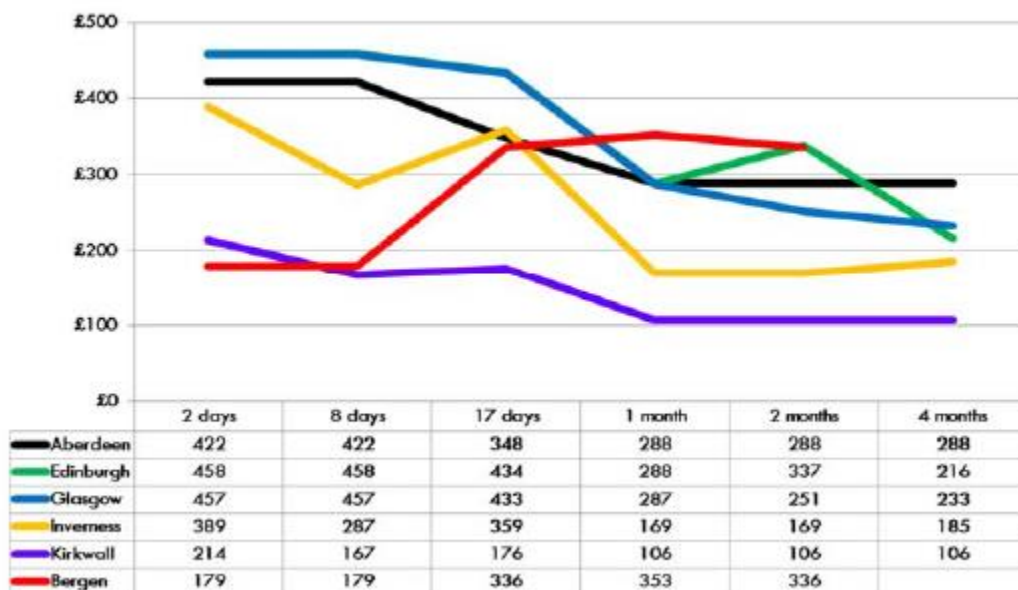
**Figure 3: ADS Annual Expenditure (£ millions)**



iv

- 5.3.3 Research is currently being undertaken to explore the case for business user eligibility. This draft report has produced some interesting analysis on cost of tickets based upon advance booking. Some charts are extracted from the report without explanation and comment (which are required to better understand), but they underline how a consistent analysis across PSO and ADS qualifying routes would be helpful in appreciating how affordable intra Scottish air services are.

**Figure 3.5: Cheapest Available Fares By How Far Booked in Advance: Shetland**



**Figure 3.6: Cheapest Available Fares By How Far Booked in Advance: Orkney**

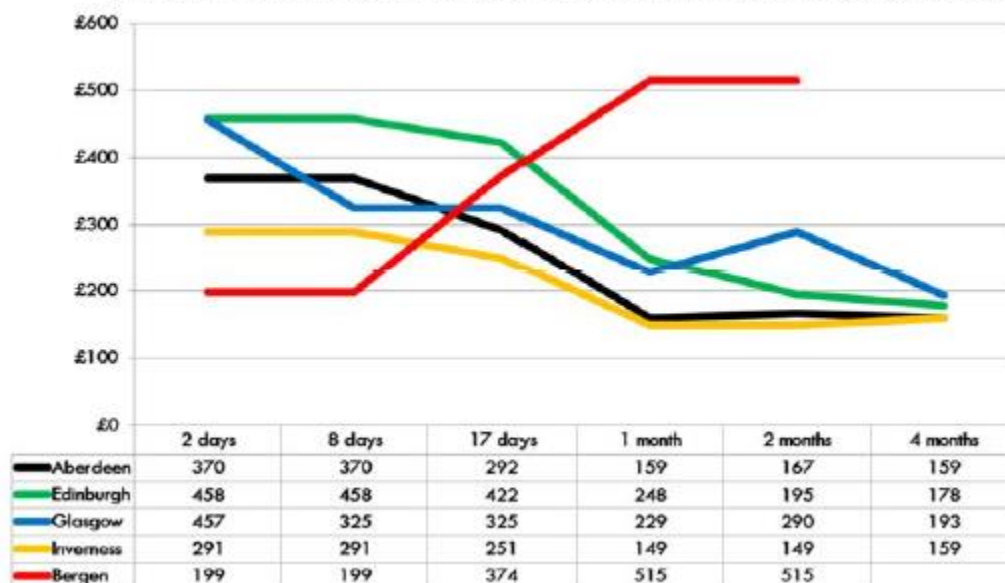


Figure 3.7: Cheapest Available Fares By How Far Booked in Advance: Stornoway

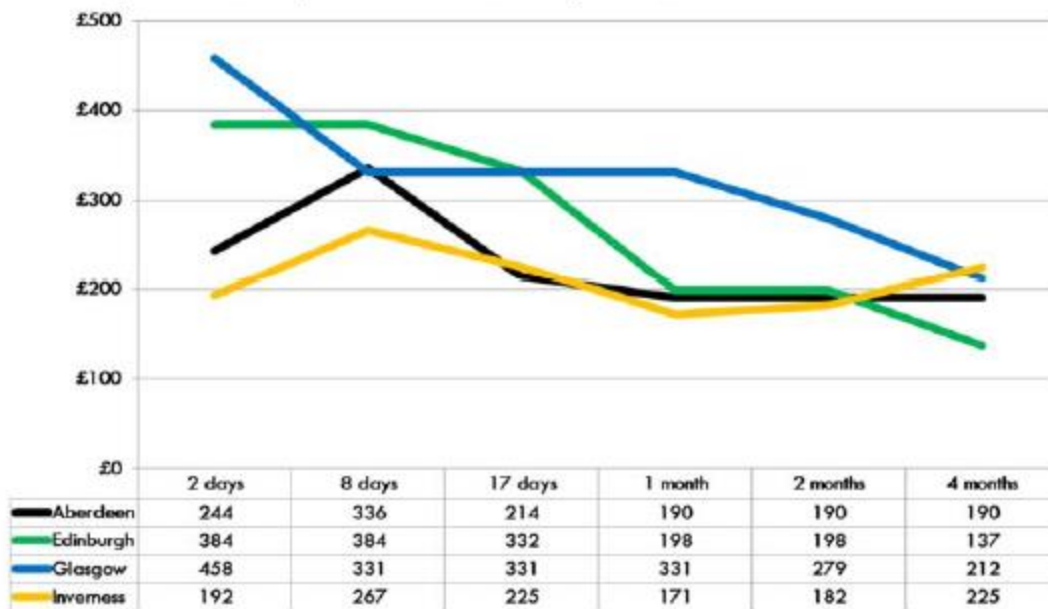
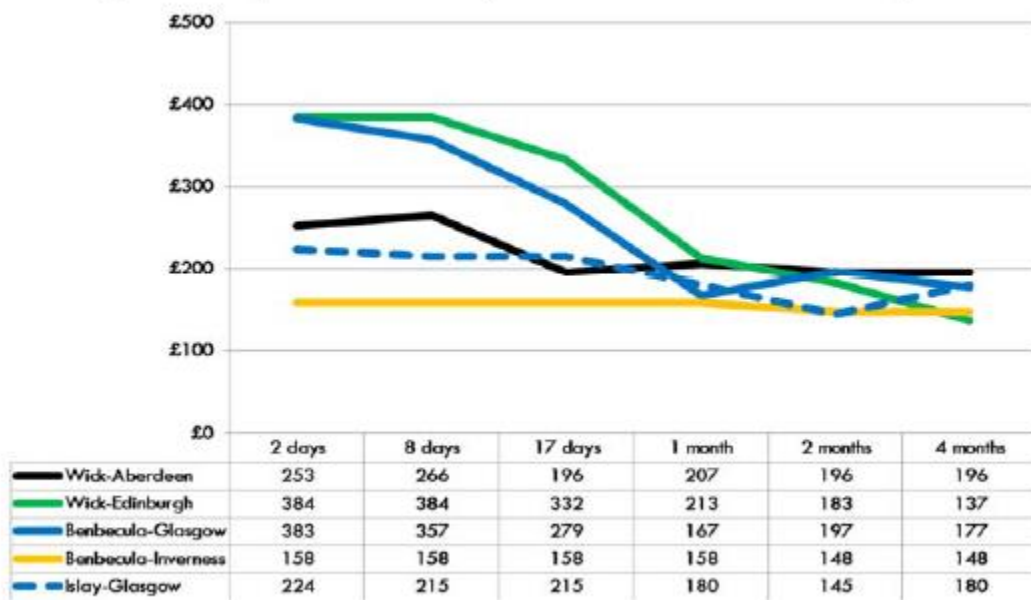


Figure 3.8: Cheapest Available Fares By How Far Booked in Advance: Benbecula, Wick and Islay



- 5.3.4 The ***Appraisal of Inclusion of All Business Travel Within the Air Discount Scheme Report*** examines the effect on both private sector and public sector business and makes an estimate of both the potential cost to Transport Scotland (c. £3.4m) of extending the scheme to business, and also explores justifications / mechanisms, whereby this could be achieved in a state aid compliant way. The data and insights produced by this study, which was supported by an extensive business consultation exercise, could become one of the scenarios that a bespoke intra Scottish forecasting model (see below) could incorporate, especially as estimates of price elasticity were produced. A subsequent value for money, or cost benefit calculation could then be made.
- 5.3.5 In Cabrera, Betancor & Jiménez's 2011 paper<sup>v</sup> the researchers found evidence that where the fares were subsidised the air operators were adept at not passing on the full benefit to passengers in the form of comparable fare reductions.
- 5.3.6 The Scottish Air Discount Scheme currently subsidises remote region residents on open market flights but not on PSOs as this is considered as double subsidy. However our understanding is that such a double subsidy is not forbidden. For example, Dubrovnik residents enjoy discounts, on their already nationally subsidised PSO flights to the capital. Could ADS be applied to Scottish PSO routes as a way to better distinguish between business and private users and improve affordability on PSO, whilst charging business users more?
- 5.3.7 The intra island PSO services have found several ways to deliver further discounts to local island residents. There are OAPs, children and Student categories and via cheaper uni-directional return tickets (from the outer isles). There have also been a per head allocation of free travel vouchers approach for outer island residents. All these mechanisms need documented and their impacts assessed.
- 
- 5.3.8 Loganair's recently announced a compassionate travel policy on its 19 Scottish routes giving eligible customers access to a 50 per cent discounted fare in times of a family emergency is a voluntary attempt to address some concerns and underlines the socially important role these services perform and the airline's understanding of this.

#### **5.4 Recommended Next Steps**

- Review of the affordability of internal Scottish air services for passengers through;
  - Analysis of the range of fares on each route to establish the current situation
  - Benchmarked comparisons, if suitable ones can be identified.
- Consider merits of extending Air Discount Scheme for certain types of business travel.
- Seek recommendations potentially relating to PSO fare specifications, detailed operation of ADS scheme, operator yield management policies and appropriate incentives for both travellers and operators.

## 6 Reliability / Punctuality / Utility

6.1.1 Based upon data on reliability supplied by Loganair and data on punctuality (time off chocks) supplied by HIAL we have been able to prepare the following analyses. Reliability refers to whether the flight was operated, delayed or cancelled, and Punctuality refers to the difference between the flight's scheduled departure time and the flight's actual departure time.

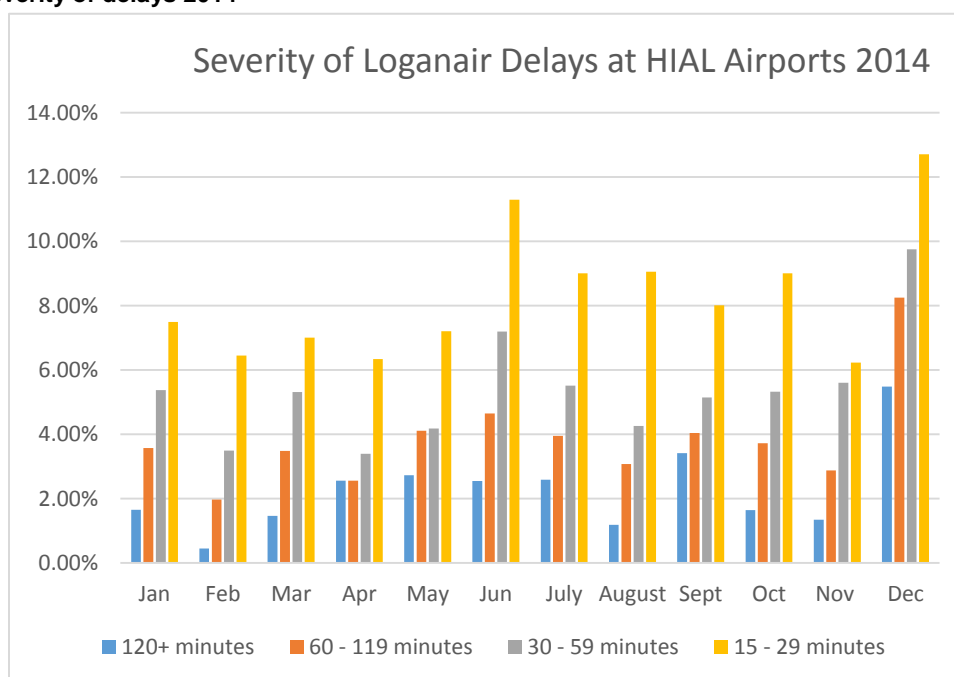
**Table 3: 2014 & 2015 Punctuality Statistics for each HIAL Airport (Delays of 15 mins+)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	
<u>PERCENTAGES</u>		0-5		6-10		11-20		21-30		31-40		40+	<u>COLOUR</u>	<u>KEY</u>
<b>Barra</b>	25%	12%	21%	32%	14%	19%	12%	28%	23%	42%	24%	33%	23%	2014
<b>Barra</b>	78%	19%	32%	33%	25%	29%	17%	20%	15%	35%	38%	20%	28%	2015
<b>Benbecula</b>	16%	14%	16%	14%	12%	22%	21%	15%	20%	19%	15%	40%	19%	2014
<b>Benbecula</b>	41%	20%	21%	17%	23%	25%	22%	19%	26%	29%	34%	28%	25%	2015
<b>Campbeltown</b>	7%	8%	2%	2%	1%	13%	5%	10%	6%	16%	8%	19%	8%	2014
<b>Campbeltown</b>	21%	10%	17%	19%	10%	21%	10%	20%	9%	24%	37%	15%	18%	2015
<b>Inverness</b>	19%	11%	15%	10%	11%	18%	21%	16%	20%	15%	25%	33%	18%	2014
<b>Inverness</b>	31%	18%	21%	17%	20%	19%	23%	21%	25%	25%	30%	10%	23%	2015
<b>Islay</b>	17%	13%	15%	10%	13%	28%	16%	17%	19%	31%	18%	33%	19%	2014
<b>Islay</b>	41%	13%	25%	31%	26%	24%	25%	23%	18%	19%	36%	29%	25%	2015
<b>Kirkwall</b>	17%	11%	24%	12%	20%	26%	19%	15%	20%	15%	11%	34%	34%	2014
<b>Kirkwall</b>	25%	14%	30%	19%	16%	16%	21%	20%	23%	20%	19%	15%	20%	2015
<b>Stornoway</b>	16%	6%	12%	15%	14%	23%	19%	19%	20%	15%	14%	37%	18%	2014
<b>Stornoway</b>	33%	17%	22%	16%	19%	22%	22%	19%	25%	24%	32%	17%	23%	2015
<b>Sumburgh</b>	25%	20%	18%	22%	25%	34%	30%	18%	23%	28%	22%	45%	26%	2014
<b>Sumburgh</b>	37%	23%	28%	23%	20%	26%	29%	16%	24%	26%	32%	19%	25%	2015
<b>Tiree</b>	13%	25%	0%	15%	30%	21%	24%	24%	10%	31%	16%	29%	20%	2014
<b>Tiree</b>	34%	21%	19%	23%	15%	33%	17%	25%	21%	45%	32%	40%	27%	2015
<b>Wick</b>	7%	8%	15%	18%	21%	25%	26%	38%	46%	22%	14%	20%	22%	2015
<b>Wick</b>	30%	17%	31%	15%	12%	20%	32%	12%	38%	10%	8%	0%	20%	2015

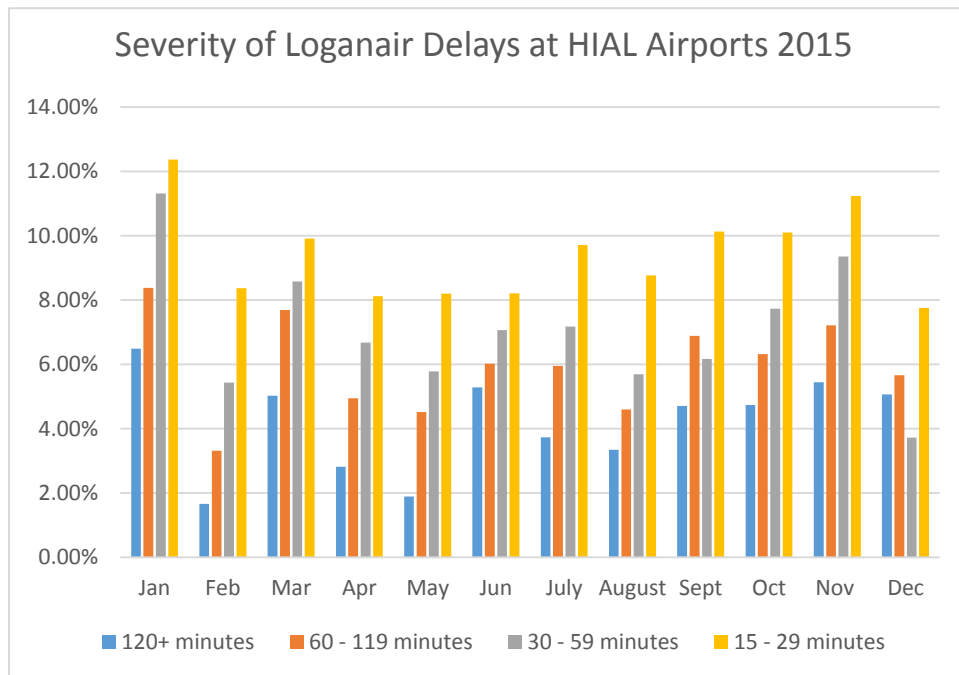
*NB: December 2015 statistics are not fully complete. Eastern's performance on ABZ-SYY and ABZ-WIC have not been included.*

- 6.1.2 This data demonstrates a significant amount of timing delays (exact length not covered here) over a cut off of 15 minutes. Table 3 illustrates in some detail the punctuality of Loganair's flights at HIAL airports. Seven of the ten airports reported an increase in delays of 15 minutes or more in 2015 compared to 2014, with Kirkwall, Sumburgh and Wick the few airports reporting an increase in on-time flights.
- 6.1.3 Nevertheless airlines should be aiming for 95%+ punctuality dispatch rates. Some caution is required in interpreting HIAL figures as these may refer to departure times rather than off chock times, and aircraft can often be held by ATC outside of the operator's own control.
- 6.1.4 A delay of 15 minutes is not too serious as onward connections and business plans should not be compromised. However it is the longer delays that are most disruptive and concerning and these will tend to be more closely associated with technical problems and typically take more time to rectify, and sometimes involve a replacement aircraft being deployed. We were able to analyse HIAL data for 2014 and 2015 with the following picture emerging.

**Figure 4: Severity of delays 2014**

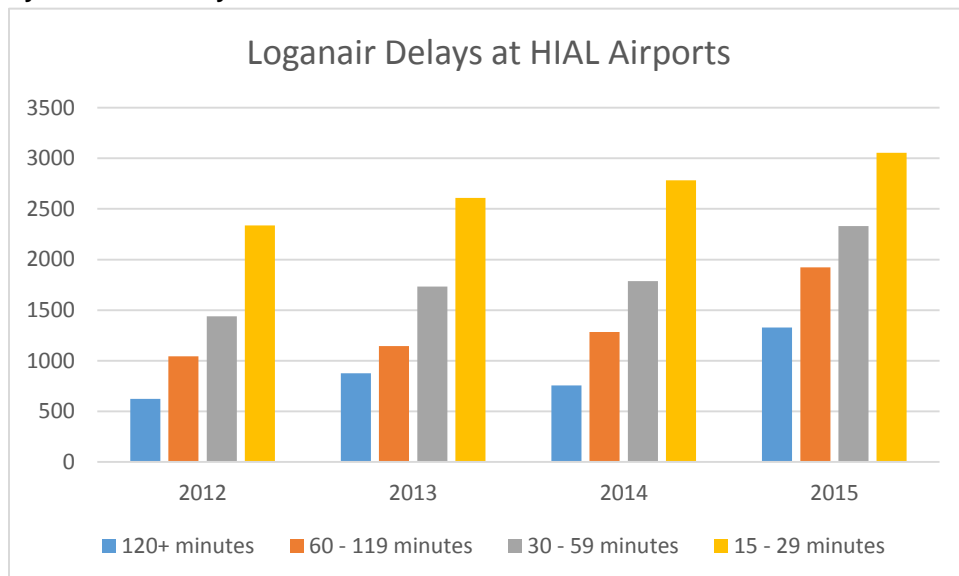


**Figure 5: Severity of delays 2015**



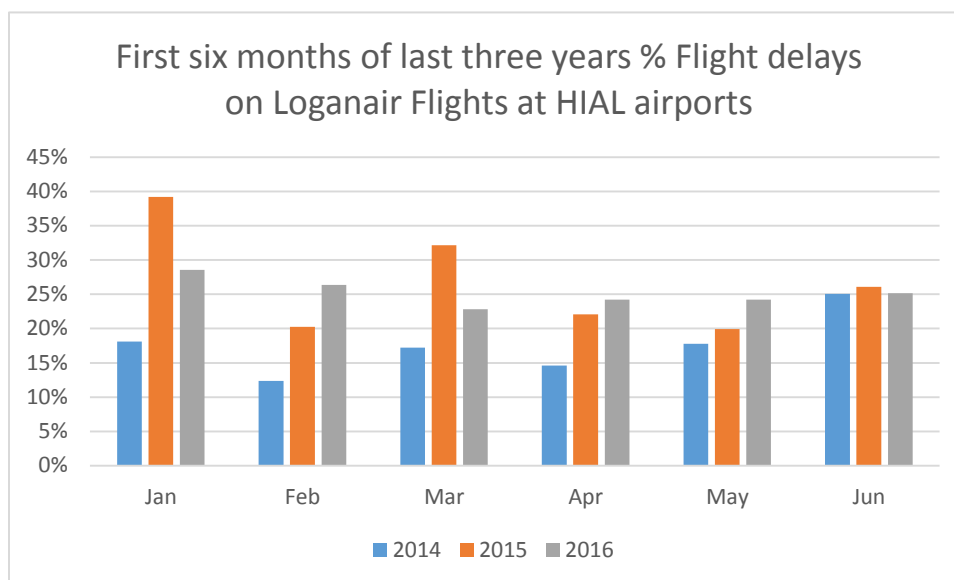
6.1.5 No clear trends are apparent, except that longer delays appear to have increased in 2015 over 2014. However another analysis (averaging the year's delays by severity) captures an apparently clearer picture, suggesting that all delays have increased in number and severity over the survey period. Once again caution with what HIAL figures are actually measuring is required, but the trends do not look particularly positive.

**Figure 6: Delays over last four years**



6.1.6 As this report was being finalised some more recent punctuality data was able to be analysed which covered the first six months of 2016. The point of interest was what trends in punctuality were at work. The high level comparison of the first six months of the last three years seems to indicate that the worst winter punctuality was experienced last year whilst spring punctuality is the same or slightly worse than previous years – a mixed picture. However this total percentage figure does not tease out the severity of the delays or the reasons thereof.

**Figure 7**



6.1.7 By sampling two months (January and June) we can gain further insight into the severity of the delays.

**Figure 8**

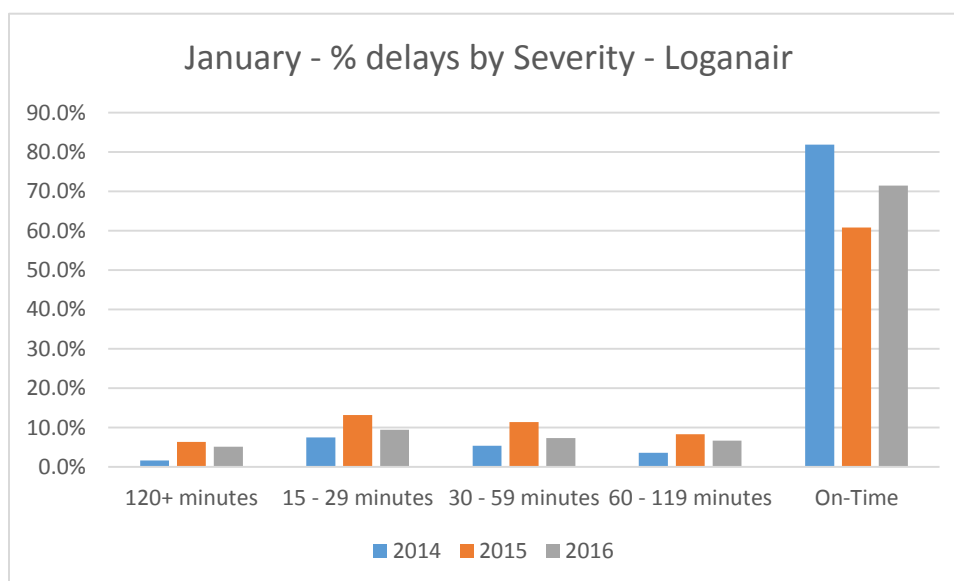
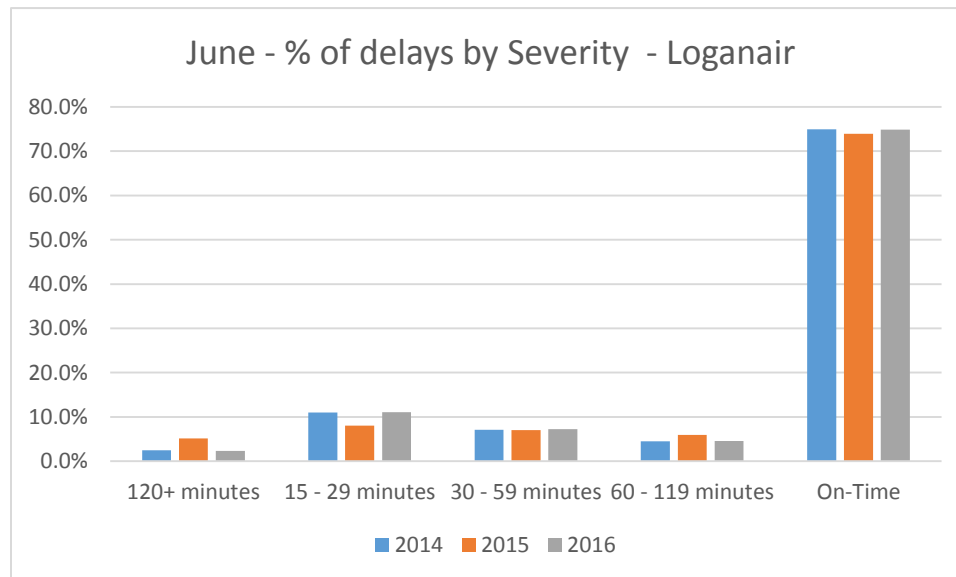


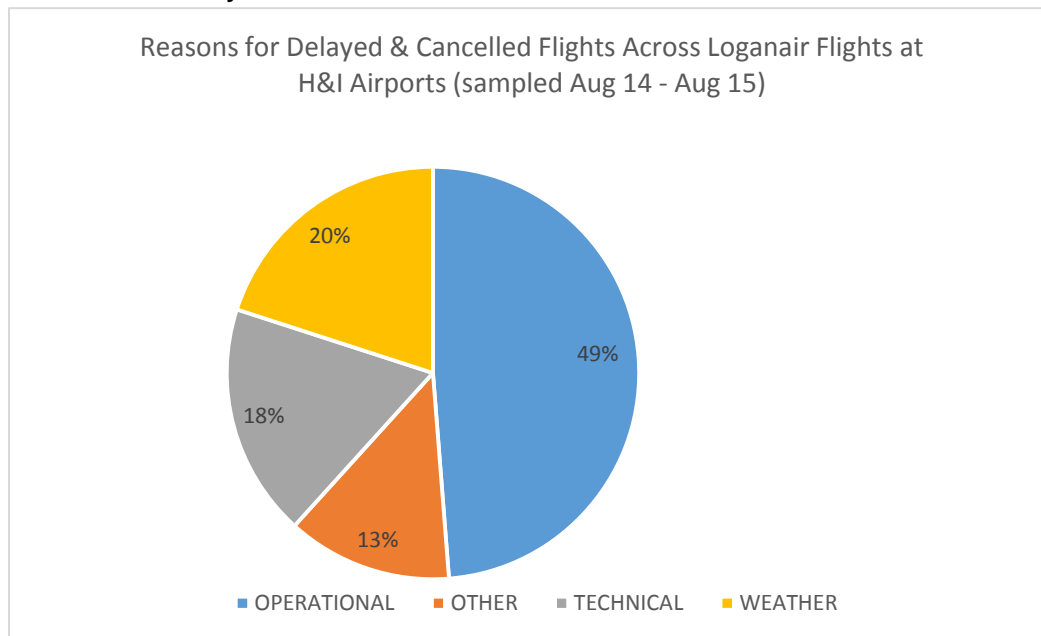
Figure 9:



- 6.1.8 The general impression was that 2015 was the worst year for delays, but 2014 appears the best and 2016 somewhere in between. This may be reflected as a dip and then partial recovery.
- 6.1.9 ***Please note that consistent Punctuality and Reliability data has not been collected in an accessible way on the Scottish BN2 Island inter island PSOs.***
- 6.1.10 It would make sense that punctuality data was more easily available and easier to analyse and the study could consider how best this might be achieved.
- 6.1.11 Indeed there are also issues with punctuality and reliability in the BN2 Islander services apparent in the current review in the Northern Isles. Some consistent trans Scotland and trans operator data collection would be helpful if it delivered a consistent means of monitoring punctuality and reliability. Prima facie for instance it appears that 34% of DirectFlight's inter island Shetland services are delayed, although the definition of 'delay' is not clear and likely will not be consistent across all operators. It would for instance be instructive to compare the performance of the BN2 operators across Scotland to see if there are differences in their punctuality and reliability performance. Eastern Airways services to Wick and Stornoway should also be included in such a review.
- 6.1.12 In a recent press release Loganair made mention of their "previously announced initiatives to ensure punctuality and customer service are fully returned to the levels our customers have rightly come to expect over many years<sup>vi</sup>." The scoping exercise it is suggested should examine more closely the company's Rectification and Quality Assurance (QA) Plans.
- 6.1.13 Punctuality refers to the difference between the flight's scheduled departure time and the flight's actual departure time, although one stakeholder reflected that perhaps arrival times might be a more pertinent metric.

- 6.1.14 Reliability on the other hand refers to whether the flight was operated, delayed or cancelled, and Loganair provided some analysis on this for this exercise.
- 6.1.15 Loganair reported a 97.5% reliability rate on its services between December 2014-November 2015, with the majority of its cancellations reported as a result of weather issues (61% of all cancellations) and technical difficulties (29% of all cancellations).
- 6.1.16 If we examine the other reason recorded for delay during this survey period the data reports a lower weather causing component, and the reason for the discrepancy is not clear at the time of writing.

**Figure 10: Reasons for Delays and Cancellations**



- 6.1.17 As can be appreciated in this summary pie chart weather is only responsible for 20% of delays and operational, other and technical reasons for the rest.
- 6.1.18 The definitions of these three categories of course is worthy of further investigation but the 18% 'technical delays' is particularly of interest, and operational delays may also cover some downstream delays caused by earlier failures, some of which may be technical. Inconsistencies by reporter, and consistency in the application of classifications are always a challenge with performance reports. This preliminary data raises questions that further research should be able to address.
- 6.1.19 Many of the respondents to the SCDI survey highlighted the challenge of missed hospital appointments and extensive delays to treatment as a result. They seemed also to suggest that whilst air service reliability is a key part of this, there also seems a clear need for greater flexibility to be shown on the part of hospitals towards island patients.

6.1.20 The Islands Transport Forum could play a role in monitoring punctuality and reliability and in monitoring operator's Quality Assurance programmes. This could perhaps be achieved through the sub group referred to in earlier sections of this report. If there is a view that there are specific short term problems which are not being sufficiently addressed by the operator(s) – potentially including reliability and punctuality, and other areas of passenger experience – then it might be worthwhile suggesting a Working Group is established to address these. This would need the full support of the operators to be at all effective, but it could be argued that as the indirect beneficiaries of Government funds through airports, ADS, PSOs etc, that Transport Scotland should be able to formally request and ensure attendance, and that airlines are suitably open and transparent about problems with their services, and are willing to engage with the Working Group to discuss solutions. It could be that such a Working Group would have a short-term role, but there is perhaps also an argument that it should become a permanent feature, meeting at least twice per year with a network-wide remit, and including relevant airport operators as well as airlines?

6.1.21 Interlining and onward travel is an important component of intra Scottish flights. Lack of interlining for passengers tends to result in higher combined fares, no through ticketing of baggage, and no protection if connections are missed.

6.1.22 It should be noted that Loganair/Flybe offer a range of codeshare and interline connections, which are a major positive for Island travellers. Apart from the BA codeshares, they now also offer connections (either through codeshare or interline) with a number of international services at Glasgow and Edinburgh including those operated by Air France/Hop, American Airlines, Emirates, Etihad and Virgin Atlantic). Eastern operate a codeshare with Wideroe providing connections via Aberdeen to a range of destinations in Norway, although do not provide interlining with the likes of BA or KLM – which would arguably be more attractive.

### Impacts of Poor Reliability

*"I usually end up driving and taking the boat because the flights are so overpriced. I can fly to the continent cheaper than flying home.... I would use it 5x the amount if it was 50% cheaper"*

Location: Aberdeen Source

*"I have missed three health appointments in the last year due to delayed or cancelled flights."*

Location: Lewis

*"Service can be really hit or miss. Sometimes there have been no issues, other times there have been lots of impact due to late flights, such as missing an appointment for an MRI scan for a family member or missing connecting transport."*

Location: Kirkwall

*"We have had far more disruption due to flights being cancelled coming in to Orkney. I have had two significant business related events cancelled this year because Flybe flights were cancelled. I have significantly reduced my air travel because of poor links."*

Location: Orkney

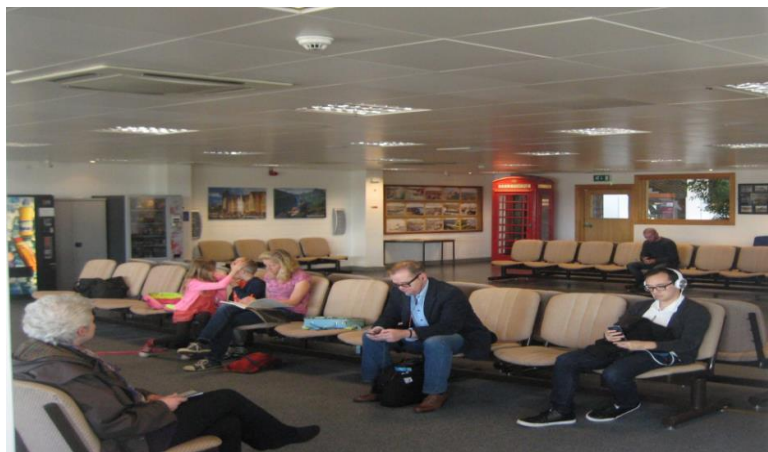
*We would like to do a day trip to Edinburgh, as the times of the flights theoretically allow for this: however, the unreliability of Loganair makes this totally impossible, as there is currently no guarantee that we would arrive in good time, or actually get home on the same day."*

Location: Orkney

- 6.1.23 In other parts of the world such as Canada and the USA public authorities encourage operators in remoter areas to interline with operators at larger hubs to facilitate such onward travel. The extent to which interlining is used and whether it could be further facilitated either at the larger airports into which island services feed, or from the outer islands into intra Scottish services should be reviewed in the research.
- 6.1.24 It should also be noted that punctuality and reliability also impact on the appetite of operators to develop codeshares as one downside for them of such collaborations is they are taking responsibility for missed flights with financially and organisationally onerous denied boarding obligations.
- 6.1.25 Additionally multi modal, rover or season ticketing might well be attractive to travellers in the region. Air/Ferry cooperation could be of benefit to both visitors and residents.
- 6.1.26 Collaborative and consistent destination marketing efforts appear to be another useful role that state actors could play by increasing demand for the air services. The Islands' Transport Forum should foster, or at least be informed on, such efforts.

## 6.2 Recommended Next Steps

- A review of the following data for each airline and route
  - Reliability
  - Punctuality
  - User Survey
- Operators' Rectification and Quality Assurance (QA) Plans
- Interlining and onward travel
- Ticketing and marketing
- Publication of an annual report with recommendations for a Regional air service QA monitoring and intervention mechanisms (eg a Working Group that takes this role under its wing)
- Recommendations and Conclusions considering five, ten and thirty year time horizons. This allow short term, medium term and long term issues to be aired and considered. Operators tend to work to a five year horizon whilst it is the responsibility of government to consider longer term, systemic and strategic view on matters.

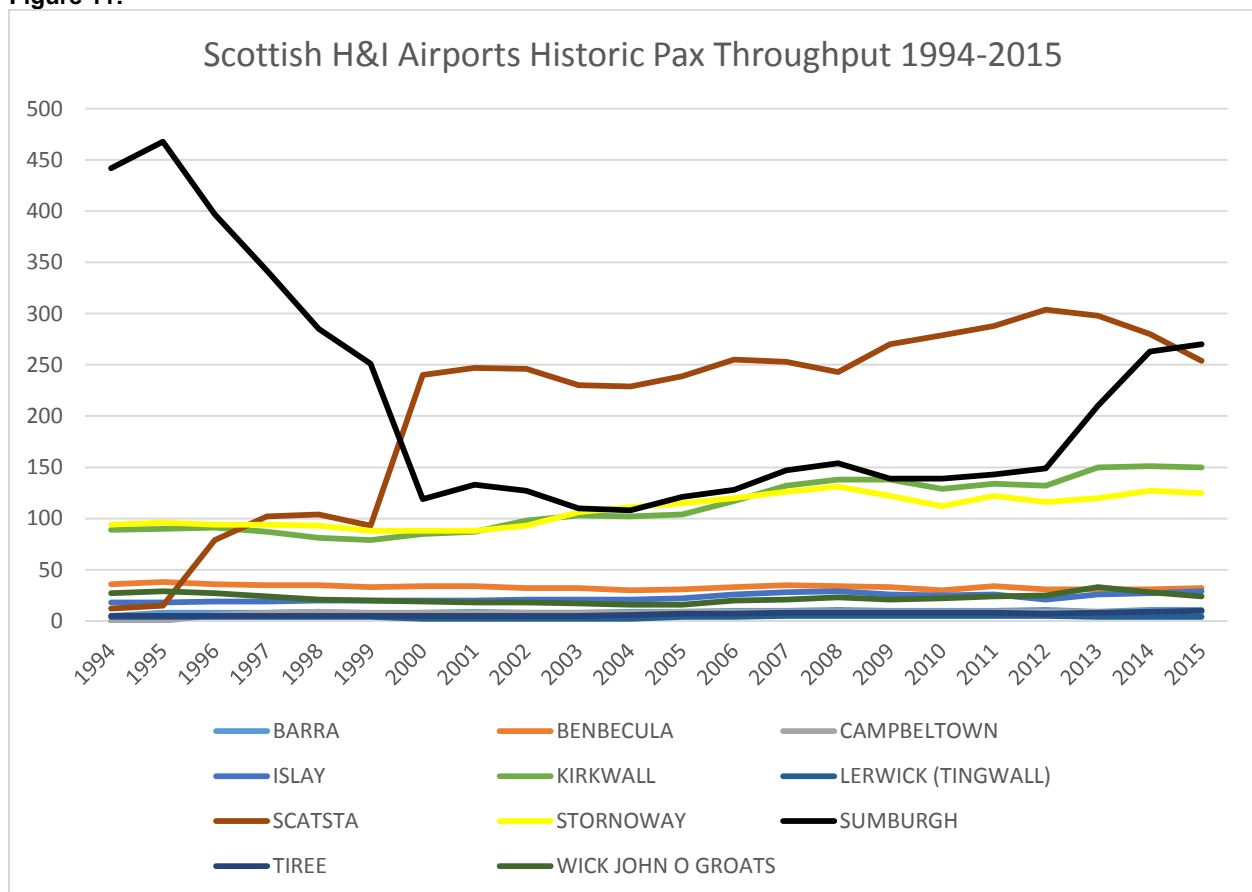


Sumburgh Airport Departure Lounge

## 7 Forecasting

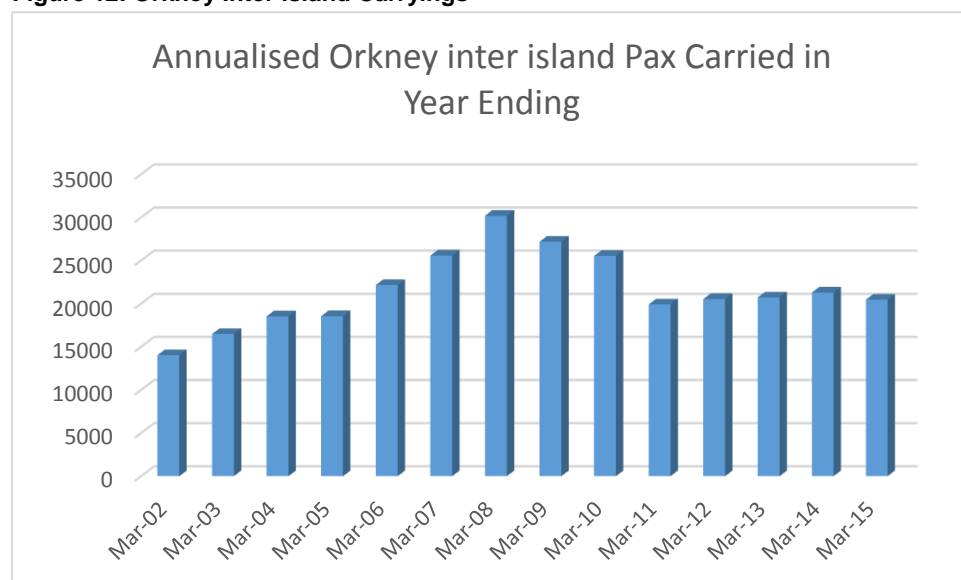
- 7.1.1 Undertaking demand forecasting would be useful to gain an idea of future passenger demand and how that will feed into air services and potentially aircraft types. A route by route output would be particularly useful for assessing future appropriate aircraft capacity. This would have parallels with the work being led by Transport Scotland on Ferry Vessel Replacement and Demand Planning.
- 7.1.2 This implies building a Scottish Airports Forecasting model with the capability to be used for a variety of purposes, including:
- Challenging the Scottish outputs from DfT's UK wide model;
  - Understanding the impact of external environmental changes (e.g. macro-economic conditions, carbon-trading);
  - Assessing the effects of different policy interventions – such as the reduction of APD, pro-active route support, airport closures; and
  - Evaluating the return on different forms of investment in connectivity via airports, airlines, specific infrastructure projects or direct support for travellers.

Figure 11:



7.1.3 Passenger data on the inter-island services in Orkney, Shetland and the Inner Hebrides are gathered from various sources, but show recent decline in Shetland, re-established plateau of usage in Orkney after a recession led downturn, and recently reported growth in the Inner Hebrides air service out of Oban (see Figures 5 – 6 and Table 1).

**Figure 12: Orkney Inter island Carryings**



**Figure 13: Shetland Inter island carryings**

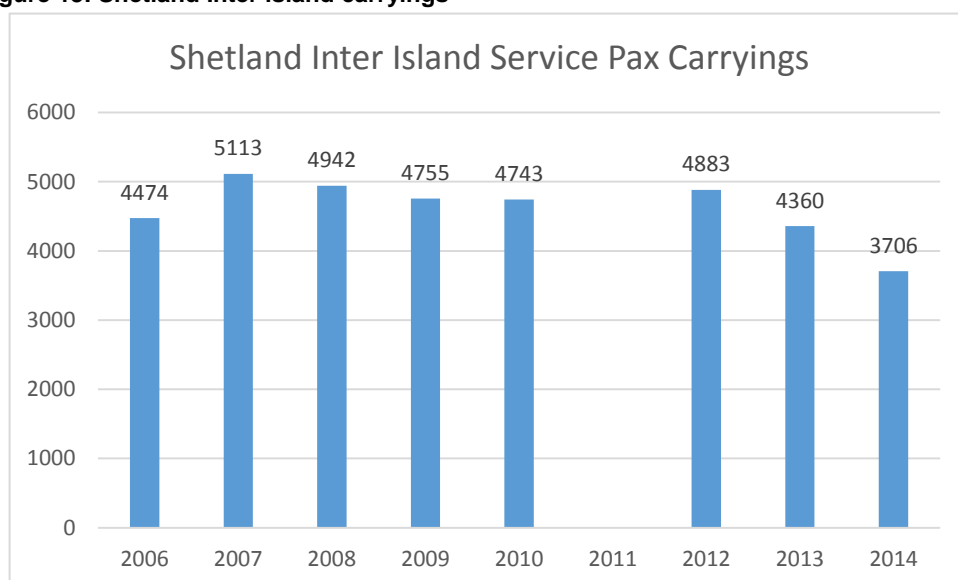


Table 4: Inner Hebrides Air Service

Passenger Figures from Services Operated out of Oban airport (excluding scholar flights)									
Month	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	-	200	100	173	216	241	249	223	379
February	-	168	145	249	215	258	287	335	373
March	-	233	-	244	336	357	390	456	284
April	-	181	86	131	195	256	296	330	266
May	-	181	88	147	310	328	311	232	334
June	137	223	189	251	279	304	279	362	379
July	137	207	210	212	317	353	318	378	236
August	197	206	246	201	327	286	293	379	
September	153	227	221	216	236	260	313	414	
October	189	133	151	246	308	287	292	262	
November	159	137	239	294	282	235	325	461	
December	151	195	151	146	203	169	163	430	
<b>Total</b>	<b>1,123</b>	<b>2,291</b>	<b>1,826</b>	<b>2,510</b>	<b>3,224</b>	<b>3,334</b>	<b>3,516</b>	<b>4,262</b>	

Source: Hebridean Air Services

7.1.4 In 2012, the volumes using Oban services, excluding scholars, has risen to 3,224 passengers compared to 2,510 during 2011; a 28% annual increase. In addition, some 304 scholar trips were made using these services. Carryings to/from Tiree are the highest in the Inner Hebrides at over 1,000 per annum. Those for Colonsay total over 900, followed by Coll with approaching 800 passengers per annum. The services to Islay see around 550 passengers.

## 7.2 Recommended Next Steps

- A thirty year forecast of future passenger demand under baseline conditions, and with selected intervention options applied to assist future planning and policy at a strategic level.

## 8 Future Proofing

- 8.1.1 There are a range of emerging technologies and equipment that could dramatically change costs and services in the next thirty years.
- 8.1.2 A review of these factors and their likely timelines will help guide investment decisions.
- 8.1.3 Exciting areas of relevance including changes to air traffic practices and navigation aids, less expensive runway lighting systems, next generation smaller aircraft. Some high level overview of relevant topics are listed below, but as each topic requires access to specialist knowledge and insight a further synthetic exercise in drawing these all together and assessing their relevance is required.
- 8.1.4 Future proofing should also consider human resources in terms of recruitment, training and retention (which is often a particular challenge on the islands) and options with regard to state involvement in the funding of infrastructure and assets.
- 8.1.5 Looking to the future should include consideration of business development efforts to broaden the income base of smaller airports, and thereby reduce their burden on the public purse, and potentially facilitating the development of aviation and non aviation employment clusters at the region's airfields.

### 8.2 Recommended Next Steps

- Review of relevant emergent technologies and trends (eg Remote Tower, Global Navigation Satellite Systems (GNSS), Airfield Lighting and Markings, Airport Collaborative Decision Making (ACDM) initiatives, Greening Aviation, Threat to or reformulation of AvGas, Single Engine Turbines, Rotary, Regional and LCC airlines, Current and potential Scottish air operators, New runway in UK south East, Scottish short and long haul route developments and opportunities.
- Consider Multi-modal transport developments, requisite staffing, training and skills and security.
- Review of current and possible aircraft types to serve the network now, and in the future, and possible adaptations to supporting infrastructure / airfields / terminals / access roads and services to accommodate.
- Consideration of best ways to secure capital investments for the modernisation of airports and aircraft.
- Develop Route and Business Development Strategy including non-scheduled aeronautical activity such as air cargo, Air Charter and Inclusive Travel flights, General Aviation, Business Aviation, Flight Training, aero-engineering and aerial work (remote sensing, reconnaissance, emergency response etc.)
- Identify opportunities to optimise airports as business and employment clusters / facilitators and potential to increase non-scheduled revenue to reduce burden on public purse.

## 9 Governance, Consultation, Engagement, Collaboration and Competition

- 9.1.1 A review of these strategic issues in relation to the supervision, specification and provision of appropriate air services and in the management of airports / airfields, ideally supported by best practice or benchmarking insights.
- 9.1.2 Consultation with key stakeholders would highlight other issues that could inform the optimal means for improving engagement of stakeholders in the region. Inverness City Region Bid for instance has outlined a model for more effective key stakeholder engagement to support route development in the Highland area (Inverness, Wick and potentially Skye). The islands working with HIAL and the Regional Transport Partnerships could adapt such an engagement model to their own needs and this could feature in an Islands Deal.
- 9.1.3 In order to address some of the specific short term problems which this report has identified including reliability and punctuality, and potentially other areas of passenger experience it is proposed that a Working Group is established. This would need the full support of the operators to be at all effective. It could be that such a Working Group would have a short-term role, but there is also a strong case that it should become a permanent feature, meeting at least twice per year with a network-wide remit, and including relevant airport operators as well as airlines?
- 9.1.4 The BN2 Islander operations reviews in both Orkney and Shetland are also producing common recommendations along these lines. Some of these are extracted from draft of reports under preparation as part of the STAG 2 Internal transport studies currently being undertaken for the Northern Isles.
- Collaborative Action - The similarities between the Orkney, Shetland and Inner Hebrides PSOs suggest that collaborative investigations would deliver benefits on a range of matters. HITRANS and ZetTRANS and other agencies working together can help support a more integrated approach. Opportunities for jointly funding and procuring services and developing combined applications for additional funding for strategic enhancements also need explored.
  - Technological enhancements to improve reliability - Air service reliability rates and night-time (dusk) operations need to be improved particularly in the winter. GNSS, LED battery powered runway lights, runway markings and approvals for GNSS use at the relevant airfields should permit flying in lower visibility than currently possible.
  - A possible Scottish Summit with BN2 Islander operators may help identify the most cost beneficial nationwide investments to make. The three air operators currently operating in Scotland (Loganair, DirectFlight and Hebridean Airways) have now all developed considerable operational, engineering and other expertise in the Islander aircraft type.
  - Seek economies of scale in acquisition, wherever possible and improve systemic resilience and future proofing air systems e.g. by sharing a backup BN2 islander aircraft across the three BN2 Islander operations.

- There are cross Council synergies in RFFS<sup>vii</sup> recruitment, retention and training and in accountable management and safety managements systems and there may be benefit in more exchanges of their various approaches and solutions. HITRANS / ZetTRANS may provide a platform for such discussions. IT would be advantageous if the other bodies such as the CAA, HIAL and the Scottish Fire and Rescue Service could also input into such a forum or collaboration.
- Demand for air services could be lifted by increased resourcing of marketing, and a recognition that the regional island services have great similarity and are attractive to similar niche visitor groups. Solutions such as integrated or interchangeable ticketing with ferries may also require broader solutions rather than solely within Council areas.
- Implicit in this is the potential to develop better destination branding (ideally acting collectively with other Scottish Islands, and other Agencies including VisitScotland.
- Cooperate with agencies and other analogous EU areas, to address common issues (marketing, seeking additional sources of funding – such as INTERREG ERDF, UK and Scottish agencies, EU cohesion funding, Lottery<sup>1</sup> and Heritage<sup>2</sup> funding. The funding of GNSS approaches and runway lighting and terminal infrastructure are other possible elements that have been and could further be addressed through collaborative funding from a range of sources.

9.1.5 An open ended workshop of all the relevant parties where issues were aired and new solutions sought would help to identify priorities. Perhaps separate airport management and air operator QA workshops could be convened.

## **9.2 Competition**

- 9.2.1 The lack of meaningful competition on island routes has been commented upon by the Islands Area Ministerial Working Group and in discussions at the Islands Transport Forum. This is a concern as the effect is a dependency on a single supplier. Concerns have been raised and gained significant media profile on the issue of high fares and concerns over service reliability.
- 9.2.2 The study should be tasked to review mechanisms to facilitate more competition in the system and the development of measures to ensure that in the absence of competition fares are reasonable and reliability meets a median industry level.
- 9.2.3 This study could review the effectiveness of PSO competitions, the use of other mechanisms such as Memorandum of Understanding (MOUs), quality partnerships and service level agreements, periodic reviews and the availability of KPI data can also play a role in sustaining and improving service levels.

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<sup>1</sup> The Big Lottery Fund awards grants to UK organisations to help improve their communities

<sup>2</sup> “We give grants to sustain and transform our heritage in the UK”

### 9.3 Recommended Next Steps

- 9.3.1 An intra-Scottish air services review should include a review of governance, consultation mechanisms, engagement, collaboration on funding, procurement and competition with the aim of making recommendations for improvement. The aim to improve local democratic involvement in the delivery of air services will also be implicit in such a review.
- 9.3.2 This review can be informed by a baseline review, key stakeholder consultations, (perhaps even involving workshops) and reviewing relevant benchmarking and best practice on both the local and national government's involvement with airports and their management, and its interface with air operators.



Sumburgh flight (Saab 340b) being prepared for departure

## 10 Affordability and Sustainability for Public Sector

- 10.1.1 It would be useful to bring together all known public costs connected with Aviation in the Highlands and islands (H&I). This would include subsidy to HIAL, PSO subsidies, the cost of ADS, any route development funding and the estimated benefit of the Highlands and Islands Air Passenger Duty (APD) dispensation. A similar approach has been undertaken by the Scottish Government with regard to the provision of ferry services. It should also include depreciation on the publicly owned aircraft, and any other direct or indirect costs, and public sector time spent on managing these various programmes.
- 10.1.2 Alongside this the costs that key public sector departments spend on intra Scottish flights / travel would be of interest and relevance (See HITRANS Appraisal of Inclusion of All Business Travel within the Air Discount Scheme, August 2016)
- 10.1.3 Some awareness of significant upcoming maintenance and renewal costs and risks connected with regulation and compliance needs to be quantified. This includes the renewal of aircraft or potential migration to new types and how that might be achieved with or without state aid.
- 10.1.4 An understanding of how taxpayers' funds are allocated through various intermediaries such as HIAL and the Councils, and if there are any bottlenecks, risks or hotspots in that process.
- 10.1.5 The study should also profile the environmental impacts of aviation (including land access issues) and document any ameliorations that are being applied or planned.
- 10.1.6 In assembling this information, and in discussion with budget holders, suggestions for improvement and savings would be assessed.

### **Total Cost Quantification**

TS PSO Cost

HIAL Support

ADS

OIC PSO, CapEx and OpEx

ABC PSO, CapEx and OpEx

SIC PSO, CapEx and OpEx

CnES PSO

NHS and other public bodies  
air travel budgets

## 10.2 Recommended Next Steps

- The review should assemble all known costs including;
  - Operating and capital costs for supporting airfields
  - Current and likely capital costs on publicly owned aircraft
  - Costs of PSOs
  - Cost of Air Discount Scheme
  - Travel budgets, where available, of key users such as Health, Education, Public Administration.
- Regulation, Licensing, Security and SGEI certification
- Consider opportunities for collaborative procurement and marketing of services
- State Aid Issues and possible adjustments to mix of instruments used
- Environmental Impacts and current and future amelioration strategies
- Explore other possible sources / models for funding

## 11 Value for Money and Cost Benefit Assessment

11.1.1 Some work has already been undertaken on value for money and cost benefit assessment on aviation in Scotland. This should be adapted and refined to deliver estimates of the benefit of intra Scottish Aviation, and that can then be compared with the state costs. The key parameter is if changing the spending delivers positive or negative effects.

11.1.2 It is suggested that the forecasting model should be sophisticated enough to cater for likely policy interventions and can thereby show varying impacts and hence benefits and dis-benefits be assessed. Such a model, even if only at high level, would be of great benefit to policy makers and budget holders at both the national and local level in exploring scenarios. Examples include;

- Proactive marketing support and discounting on any new routes or increased frequencies (eg SYY-ABD 2/day or BEB-INV direct or BRR-OBN)
- Enhanced PSO provision (eg 7 day / week) or (3/day) or increased capacity ahead of demonstrable demand or on new routes OBN-GLA or Skye – EDN/GLA
- Reduce PSO ticket prices or broaden ADS (although maximum percentage has apparently already been reached – extension of ADS to business usage or even to PSO routes could be modelled).
- PSO imposition on key strategic routes such SYY-GLA; BEB-GLA; SUM-ABD as a means of reducing ticket prices.
- Investment in airport infrastructure (eg NAV AIDS, Lighting, cross runways) to improve utility or reliability.
- Increased frequency on intra island services (eg third BN2 Islander in Orkney)

### 11.2 Recommended Next Steps

11.2.1 Having an understanding of cost benefit will be useful though it should be remembered that certain minimum service levels need to be delivered under lifeline rather than economic justifications. In a recent publication<sup>viii</sup> Swedish officials highlighted the following - *“in February 2007, Rikstrafiken published a consultation report assessing the PSO routes and the merits of a continued PSO regime on those routes. Part of this report was a cost benefit analysis (CBA) never before carried out in respect of this issue. As expected, costs exceed benefits to society as a whole for most routes. In fact, on some routes the negative external effects from environmental pollution alone were estimated to equal the benefits to passengers. This means that even if one were to disregard the cost of producing the air services, benefits may not exceed the costs to society as a whole. In other words, there are PSO-routes where the benefits to consumers are but a fraction of the costs associated with producing the air services. This puts a huge question mark to the issue of continuing PSO status on such routes. But then again, Rikstrafiken’s objective is justified by transport policy objectives like accessibility and socio-economic development rather than economic efficiency.”* (our underline)

11.2.2 Reflect on the effectiveness of current and alternative ways to fund .... iteratively applied to the forecasting model. This should be summarised under a STAG evaluation methodology.

## 12 Bibliography

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<sup>i</sup> Small and Medium Enterprises

<sup>ii</sup> UK National Connectivity Taskforce Research Paper No 7 – Inbound Tourism – March 2015

<sup>iii</sup> Merkert, R. and O'Fee, B. (2013): Efficient procurement of public air services - Lessons learned from European transport authorities' perspectives, *Transport Policy*, 29, 118–125.

<sup>iv</sup> Appraisal of Inclusion of All Business Travel Within the Air Discount Scheme – Draft Report – Reference Economics July 2016

<sup>v</sup> Fare differences between domestic and international air markets on routes from Gran Canaria

<sup>vi</sup> David Harrison quoted in press release

<sup>vii</sup> Rescue and Fire Fighting Services

<sup>viii</sup> Chapter 7 of Air Transport Provision in Remoter Regions by George Williams and Svein Bråthen, *Göran Anger, Johan Holmér and Pär-Erik Westin*