

# Appraisal of Inclusion of All Business Travel Within the Air Discount Scheme

Final Report

to



by



August 2016

## **CONTENTS**

	<b>Executive Summary</b>	<b>i</b>
<b>1</b>	<b>Introduction</b>	<b>1</b>
<b>2</b>	<b>The Air Discount Scheme</b>	<b>3</b>
<b>3</b>	<b>Current Timetables and Air Fares</b>	<b>10</b>
<b>4</b>	<b>Current Private Sector Business Air Travel</b>	<b>23</b>
<b>5</b>	<b>Current Public Sector Business Air Travel</b>	<b>46</b>
<b>6</b>	<b>Mechanisms for Including All Business Travel Within ADS</b>	<b>64</b>
<b>7</b>	<b>Appraisal of Inclusion of All Business Travel Within ADS</b>	<b>70</b>

## Objective of The Research

The overall objective of the research was to explore the potential benefits, costs and feasibility of reintroducing ADS (the Air Discount Scheme) for all types of business users.

It took place at the same time as Scottish Government's consultation on reducing and ultimately abolishing Air Passenger Duty (APD). The ADS research is seen as complimentary to the APD consultation. That is because it addresses the specific issues around high business fares on some Highlands and Islands air routes.

## The Air Discount Scheme

Scottish Government introduced ADS in 2006. It provides a discount (currently 50% of the core air fare) on air fares for residents of eligible areas travelling on designated intra-Scotland air routes. The discount is provided to the residents as aid of a social character. The eligible areas are currently:

- Caithness and North West Sutherland.
- Colonsay.
- Islay.
- Jura.
- Orkney.
- Outer Hebrides.
- Shetland.

Between 2006 and 2011 ADS provided discounted fares for residents irrespective of the purpose of their trip. Thus, fare reductions were available for business flights by those in the private, public and third sectors as long as the individual making the trip was resident in an eligible area.

## Withdrawal of ADS for Business Travel

From April 2011 ADS was no longer available for business trips. Scottish Government had decided to exclude these from the scheme as a result of financial pressures. They argued that ADS had never been intended to reduce the travel cost of business flights. They also stated that businesses and local government have never been eligible for inclusion in the scheme.

Notwithstanding this, the original (2006) notification<sup>1</sup> of the ADS scheme to the European Commission stated that its aim is to:

*"reduce the isolation of these communities by tackling the high fare levels that create a barrier to social and commercial cohesion"*

The wording implies an intention that both social and commercial flights would be included in ADS.

---

<sup>1</sup> European Commission Brussels, 16.V.2006 C (2006) 1855 final

In 2011-12 ADS' total cost to Scottish Government fell by over £1.1 million compared to the preceding year, with 29,000 fewer single leg flights receiving ADS support. The cost reduction was much lower than the £2.7 million Scottish Government had expected to save from no longer supporting business flights.

In 2012 ADS was reinstated for business trips made by those working in the third sector and who are resident in an eligible area.

Scottish Government currently subsidises public and private sector business travel through a number of means. These are Road Equivalent Tariff fares on the Caledonian MacBrayne ferry network, Public Service Obligation air routes and Scotrail train services. These mechanisms provide subsidised fares for all passengers-both business and non-business.

### **Current Business Air Fares on the ADS Routes**

The research included analysis of current fares on the ADS routes. This was for flights that, as far as possible, enable travel to be undertaken outside working hours. Across the routes *fully flexible* return fares range from £230 to over £450. If ADS was applied then these would fall to between £130 and £274.

The *cheapest* fares vary markedly, depending on how in advance they are purchased:

- On most routes booking *over a month* in advance gives access to return fares of less than £200.
- On a number of routes sub-£200 fares are available one month in advance.
- When booking around a *fortnight or less* in advance most fares are above £300, with some over £400.

If ADS was applied then the *lowest available fares* (typically those booked one month or more in advance) would range between £70 and £165.

With ADS the *lowest possible fares irrespective of how far in advance they are booked* would run from c£120 to about £275.

### **Findings of Research With Private Businesses**

An online survey of businesses in the eligible areas was undertaken. This collected information on current flight making and how this could change if ADS was reinstated.

Over 340 usable responses were received. In addition follow-up telephone interviews were conducted with 21 of the respondents.

The businesses using air have a strong dependence on external markets. Over half generate more than 25% of their sales from these markets.

Trip costs are increased because most flights involve at least one overnight stay, with most businesses reporting a cost per night of £100-£120.

Businesses' current flights are mostly to attend conferences/networking events, for training or for business development. Most companies use the cheapest available, non-flexible tickets. However, more than one third of them have to book some flights no more than two weeks in advance, which can mean return fares of over £300 or even more than £400.

Despite a dependence on-and distance from-external markets, more than 40% of the businesses use surface travel *at least as much or more than air* for their external business trips. The level of air fares is by far the main constraint on the number of flights that businesses make. It is much greater influence than either reliability/punctuality or timetables.

Of those able to comment on the 2011 ADS withdrawal more than 90% stated it had a negative impact on their business. More than two thirds described this as a "significant negative" impact. Most businesses reported that they had been unable to pass on the increased flight costs to their customers.

The 2011 ADS withdrawal led companies to make greater use of surface transport rather than air and, to a lesser extent, to make fewer business trips. The main effects of this were to reduce the amount of staff training/development/CPD undertaken and attend fewer events that include networking opportunities. This is in a context where local pools of potential business partners are small and there are few specialist local training providers.

Businesses stated that most additional flights stimulated by reinstating ADS would be wholly new trips rather than ones diverted from surface transport. The main purposes of the additional flights would be business development, attending conferences/networking events and staff training.

The impacts from the travel cost savings and additional flights made as a result of reinstating ADS would be most positive for:

- Greater networking opportunities. Over 80% of respondents saw this potential impact as either "very significant" or "significant".
- Improved skills through access to training. Over 60% described this potential impact as either "very significant" or "significant".

Around 80% of businesses expect that the reinstatement of ADS would have a positive impact on each of staff productivity; turnover; operating costs.

The greatest impact was expected to be on staff productivity. Approaching half of the businesses forecast an increase of more than 10%. Around four in ten businesses expect to see their turnover increase by more than 10%, with slightly less forecasting a smaller rise.

### Findings of Research With Public Sector Organisations

Data on the current number and costs of flights were collected from the main public organisations with a presence in the eligible areas. In addition, 25 telephone interviews were undertaken with these organisations' staff.

The main findings were:

- The three island local authorities and the NHS account for a large proportion of flights made by staff who are resident in the eligible areas.
- The main purposes of additional flights that would be stimulated by ADS would be to attend conferences and seminars, undertake staff training and meet with staff in their organisation who are based elsewhere.
- Many of the organisations are facing financial pressures and static or falling staff numbers. In these cases, much of the travel costs savings from ADS would be diverted to general activities rather than reinvested in more flights.

### Mechanisms for Reinstating ADS For Business Travel

Transport Scotland told us that when they were developing proposals to reinstate third sector flights to ADS the European Commission's response was:

*"As long as aid granted to undertakings is in line with the de minimis Regulation we do not see any problem of granting it"*

"Undertakings" are entities engaged in an economic activity, offering goods or services on a given market. Thus, third sector business trips currently included within ADS receive the financial support as de minimus funding-not aid of a social character.

De minimus funding offers a model for including **private sector** business flights within ADS.

There is scope for **individuals whose place of work is outside an eligible area** to be included within ADS through aid of a social character. First, because they are not undertakings. Second, because the EC's decisions on other EU schemes refer to the ability of eligible residents to have reduced travel costs so that they can participate in economic life elsewhere.

A mechanism for supporting **public sector** flights (including NHS patients) is simply ADS as it stands for individuals via aid of a social character. There is a precedent for this elsewhere in schemes on which the EC has made a decision. For example, aid of a social character has been used to reduce the flight costs of public employees in Germany. This was accepted by the EC given that the trips directly serve the general interest of the residents of the eligible areas and are part of a public policy remit.

### Costs of Reinstating ADS For Business Travel

Two different methods were used to estimate the cost to Scottish Government of reinstating ADS for business travel by staff who are residents of the eligible areas, including the:

- Private sector (including individuals whose place of work is outside an eligible area).
- Public sector.

They suggest a total annual cost of £1.6-£1.7 million including an allowance for increased scheme administration costs.

This is based on an assumed 29,000 single business trips being included within ADS. Most of these would be existing flights rather than new ones stimulated by the lower fares available through ADS.

The additional annual cost of including NHS patient flights within ADS is estimated at £3 million.

These estimates are in a context of total ADS expenditure (including administration costs) of £6.7 million in 2015-16.

### Summary of Appraisal Findings

The following Tables provide a summary appraisal of using ADS to reduce the air fares of four specific groups of business travellers. They cover:

- The mechanism by which ADS could be applied.
- Estimated number of flights per year that would receive support through ADS.
- Estimated annual cost to the ADS scheme.

They also summarise the key impacts.

**TABLE E.1: PRIVATE SECTOR BUSINESS TRAVEL**

ADS Mechanism	De minimus funding (businesses) Aid of a social character (individuals working elsewhere)
Estimated ADS Passenger Numbers (return flights)	5,691
Estimated Annual Cost (excluding admin)	£661,000
<b>Key Impacts</b>	
Increased productivity through: reduction in unproductive travel time, enhanced skills and knowledge and greater adoption of innovation	
Investment of travel savings into the business	
Increased development of growth sectors	
Increased turnover and international sales, including from more face to face interaction with customers	
Increased income/population in ADS eligible areas by allowing a greater number of individuals to live there and work elsewhere	
Contribution to all four of <i>Scotland's Economic Strategy's</i> priorities of <i>Investment, Innovation, Inclusive Growth</i> and <i>Internationalisation</i>	

**TABLE E.2: PUBLIC SECTOR-EXCLUDING NHS BUSINESS TRAVEL**

ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	6,277
Estimated Annual Cost (excluding admin)	£785,000
<b>Key Impacts</b>	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to decision making and national policy	
Greater interaction between dispersed parts of regional organisations leading to greater cohesion and more efficient performance	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

**TABLE E.3: NHS STAFF BUSINESS TRAVEL**

<b>ADS Mechanism</b>	Aid of a social character
<b>Estimated ADS Passenger Numbers (return flights)</b>	2,754
<b>Estimated Annual Cost (excluding admin)</b>	£213,000
<b>Key Impacts</b>	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to national policy and strengthened relationships with other Health Boards	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

**TABLE E.4: NHS PATIENT TRAVEL**

<b>ADS Mechanism</b>	Aid of a social character
<b>Estimated ADS Passenger Numbers (return flights)</b>	23,800
<b>Estimated Annual Cost (excluding admin)</b>	£3,000,000
<b>Key Impacts</b>	
Investment of travel cost savings in core services	
Contribution to the <i>Investment</i> priority of <i>Scotland's Economic Strategy</i>	



## 1 **INTRODUCTION**

This is the final report of a study of the potential inclusion of all business travel within the Air Discount Scheme (ADS).

The research was undertaken for HITRANS between March and August 2016. It was led by *Reference* with inputs from *Eyland Skyn*.

The work took place at the same time as Scottish Government's consultation on reducing and ultimately abolishing Air Passenger Duty (APD). The ADS research is seen as complimentary to the APD consultation. That is because it addresses the specific issues around high business fares on some Highlands and Islands air routes.

### 1.1 **OBJECTIVES**

The overall objective of the research was to explore the potential benefits, costs and feasibility of reintroducing ADS for all types of business users.

The detailed objectives were to:

- Reviews trends in ADS funding and passenger numbers since it began in 2005.
- Analyse current schedules and air fares on ADS-eligible routes.
- Review existing business flight making by the private and public sectors.
- Assess the potential benefits of including private sector and public sector air travel within ADS.
- Estimate the potential increase in passenger numbers on the relevant routes that could be generated by ADS-related fare reductions for private and public sector air travel, and the related cost to Scottish Government.
- Identify options for a legally compliant funding mechanism and sources from which the cost could be met.
- Produce an overall appraisal of the inclusion of all business travel within ADS.

### 1.2 **RESEARCH METHODS**

The study commenced with an inception meeting with HITRANS. We then met with Transport Scotland to discuss the Air Discount Scheme and changes to it over time. This was followed by:

- An online survey of private sector businesses in the relevant areas. Follow-up telephone interviews were undertaken with some respondents to further explore a number of issues.
- Telephone consultations with a range of public sector bodies, from whom we also secured information on the flights they make on the relevant routes.
- Telephone consultations with the two airlines that operate the ADS-eligible routes.
- Collection of information on total passenger numbers by air route, current schedules and air fares.

- A web-based search for information on other EU schemes that offer reduced fares to business users.

### 1.3 STRUCTURE OF THE REPORT

<b>Chapter 2</b>	Provides information about the Air Discount Scheme.
<b>Chapter 3</b>	Places the research in context. It sets out the current schedules and air fares on ADS-eligible routes.
<b>Chapter 4</b>	Analyses information on current private sector business air trips.
<b>Chapter 5</b>	Reviews air business trips made by the public sector.
<b>Chapter 6</b>	Considers mechanisms for including business travel within ADS.
<b>Chapter 7</b>	Provides an overall appraisal of the potential benefits, costs and feasibility of the inclusion of all business travel within ADS.

## 2 **THE AIR DISCOUNT SCHEME**

### 2.1 **INTRODUCTION**

The Air Discount Scheme (ADS) reduces the cost of air travel for those whose permanent/main residence is in an eligible area of the Highlands and Islands. It does this by providing a discount of 50% on the core air fare (i.e. the total fare excluding airport charges and government taxes) on non-PSO (Public Service Obligation) air routes.

ADS was introduced in May 2006 for the following (“eligible”) areas:

- Caithness and North West Sutherland.
- Islay.
- Jura.
- Orkney.
- Outer Hebrides.
- Shetland.

Colonsay was added to the scheme in 2011.

In April 2011 Scottish Government decided that ADS would no longer be available for business-related trips. Thus, the cost of flights made as part of an individual's work for the private, public or third sector would no longer be reduced through the scheme.

This was relaxed somewhat in July 2012. It was decided that ADS would be available for business trips made by those working in the third sector who are resident in an eligible area.

In January 2016 the level of ADS discount was raised from 40% to 50%.

### 2.2 **SCHEME COSTS**

**Figure 2.1**, over, shows ADS expenditure since the scheme commenced in 2006-2007.

Expenditure increased between the start date and 2009-10. It grew from £4.6 million in the first full year of operation (2007-08) to £5.3 million two years later. It then fell slightly in the year 2010-11.

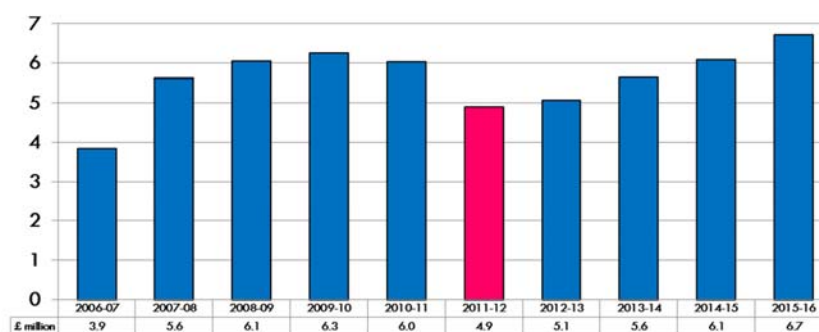
As stated earlier, business trips were no longer supported through the scheme from the start 2011-12. That year saw the total cost of ADS fall by over £1.1 million compared to the preceding year. That is much lower than the £2.7 million Scottish Government had expected to save from no longer supporting business flights. We understand that figure was based on data from an earlier evaluation of ADS<sup>2</sup>.

The total ADS cost increased only very slightly in 2012-13. Thereafter it has grown at a faster rate-around £0.5 million-in each of the last three years.

---

<sup>2</sup> *Review of the Air Discount Scheme*, Halcrow Group Limited 2008

Figure 2.1: ADS Annual Expenditure (£ million)



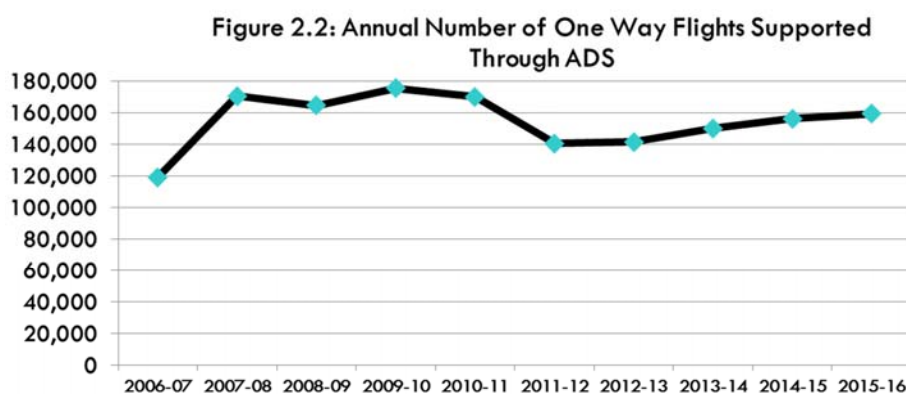
Transport Scotland did not provide us with a specific ADS budget figure for 2016-17. Rather, the cost of ADS is included in the £12m “Support for Air Services” budget line, published in “Scotland’s Spending Plans and Draft Budget 2016-17”. That line includes not only ADS but also provision of PSO air services and international route development.

The vast majority of ADS spend supports reduced air fares rather than administrative costs. Since 2008-09 the latter have accounted for only 4%-6% of total spend per year. Administrative costs were around £320,000 in 2015-16.

## 2.3 PASSENGER NUMBERS

### 2.3.1 ADS Supported One Way Flights

**Figure 2.2** shows the annual number of passenger flights made at a reduced rate through ADS.



The numbers grew in the years to 2009-10 when they peaked at 175,000. They then fell back slightly to 170,000 in the following year. In the first year when business trips were no longer included within ADS, passenger numbers fell by around 29,000 (17%).

Since then they have increased annually, although the rate of growth slowed in the most recent year. By 2015-16 passenger numbers were c19,000 higher than four years earlier.

### 2.3.2 Impact of Inclusion of Third Sector Business Flights

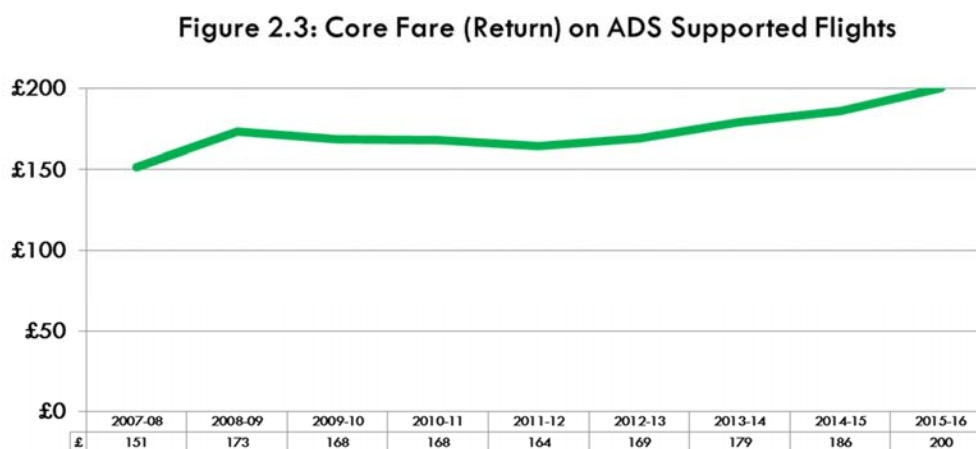
As noted earlier third sector flights have been eligible for ADS since July 2012. Some 52 such organisations are registered for ADS, covering 498 individuals.

Their inclusion has had little impact on scheme costs. In 2014-15 around £59,000 of funding was used to support third sector flights-c1% of the total scheme cost in that year.

### 2.3.3 Trends in The Core Fare

It is possible to calculate the average core fare being paid by ADS passengers before the discount is applied. (This is *not* the total gross fare as that also includes airport charges and government taxes).

The results are shown at **Figure 2.3**.



The core fare rose to an average of £173 in 2007-08. It fell back slightly thereafter reaching £168 by 2010-11. It fell slightly again in 2011-12, when business flights were excluded from ADS. It has since increased annually since then, reaching £200 in 2015-15.

Between 2007-2008 and 2015-16 the core return fare increased by £49 (32%). That is above the rate (23%) of Consumer Price Inflation (CPI) in the UK economy over that period.

Since 2011-12 the core return fare has increased by £35. That is an increase of 22%, much higher than the increase in CPI (8%) in the same period.

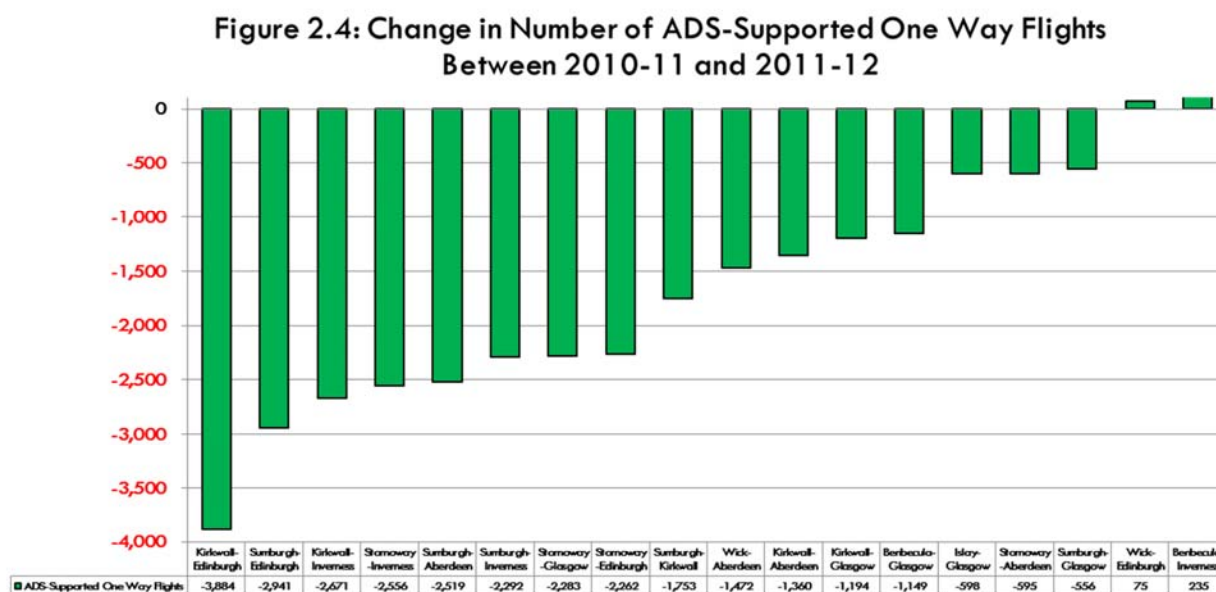
This increase in the average core fare may not only reflect general air fare inflation. It could also be due to:

- A change in the mix of ticket types (greater use of higher priced more flexible tickets); and/or
- Higher rates of passenger growth on routes where fares are higher than the average across all eligible routes, notably longer distance routes in the network.

## 2.4 DETAILED ANALYSIS

### 2.4.1 Route By Route

**Figure 2.4** shows that the number of ADS flights dropped on almost all routes in 2011-12 after business flights were no longer supported through ADS.

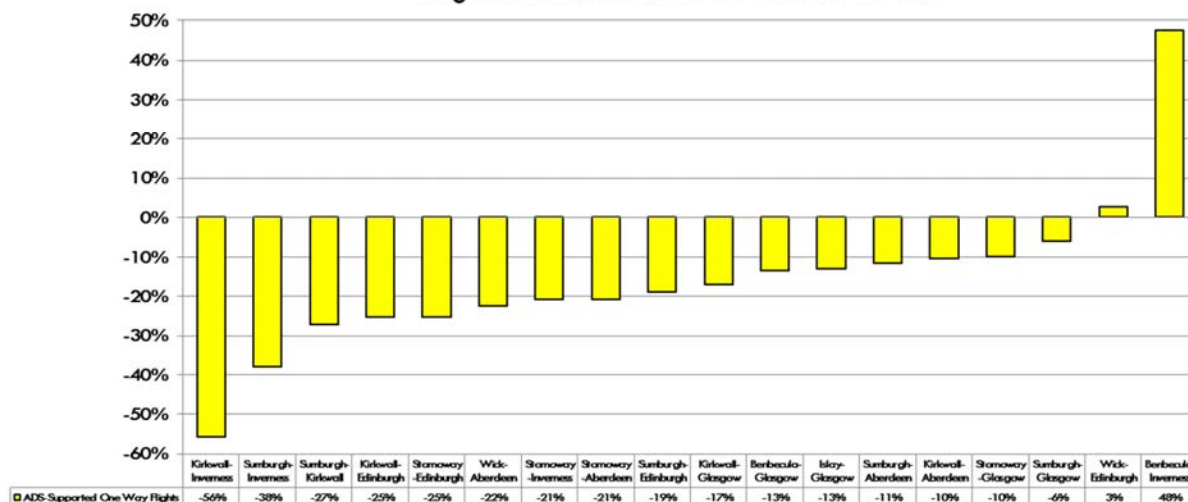


In around half the cases the fall was greater than 2,000 flights. The largest decrease was on Kirkwall-Edinburgh (3,884 flights) and the smallest (556) was on the Sumburgh-Glasgow route.

Two routes (Wick-Edinburgh and Benbecula-Inverness) actually saw an *increase* in the number of ADS supported flights. That is very likely to have been a result of timetable enhancements made in 2011-12.

**Figure 2.5** shows the *percentage* change in the number of ADS supported flights between the two years. Essentially, the higher the percentage decrease the more important is business travel as a component of all flights made by local residents.

**Figure 2.5: Percentage Change in Number of ADS-Supported One Way Flights Between 2010-11 and 2011-12**



The figures imply that business is a relatively important element of residents' flights on the Kirkwall-Inverness, Sumburgh-Inverness, Sumburgh-Kirkwall and Kirkwall-Edinburgh services. In each case the number of ADS supported flights fell by 25% or more-including by more than 50% on Kirkwall-Inverness.

However, it could be that some of these decreases also reflect timetable changes and/or other external factors. The position is also complicated by 2010-11 not being a typical year. It included the ongoing recession, cancellation of flights due to volcanic ash, a relatively severe winter and timetable changes. Each of these will have depressed demand for air travel on the ADS routes.

#### 2.4.2 Trends in Total Carrying on ADS Routes

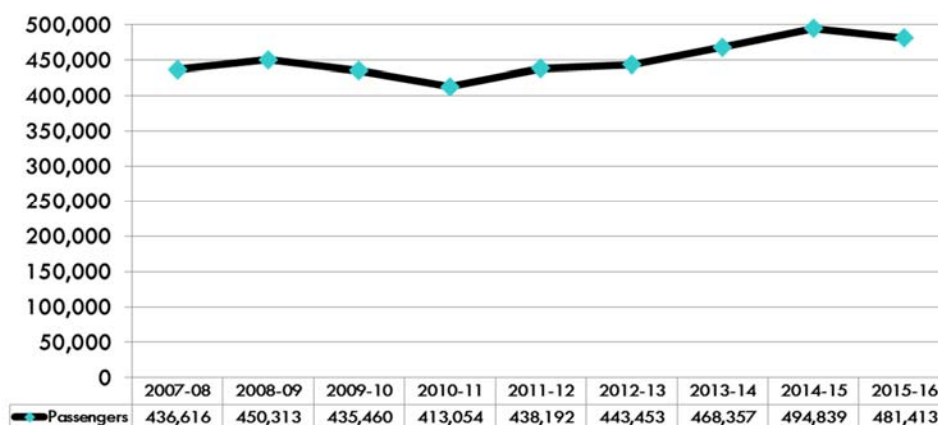
**Figure 2.6**, over, shows trends in the number of *all* passengers (outbound and inbound, business and leisure) on the ADS-eligible routes.

In 2015-16 passenger numbers were around 481,000. That is above the level (c436,000) eight years earlier, an increase of 10%.

Carrying increased in 2008-09 but then fell in each of the next two years. By 2011-12 numbers had returned to around their 2007-08 levels. They then grew by a further 56,000 over the next three years before falling back slightly in the most recent year.

The proportion of all flights which are ADS-supported varied between 37%-41% in the years to 2010-11. The figure fell to around 33% after ADS no longer supported business flights.

**Figure 2.6: Total Passenger Numbers on ADS Eligible Routes**



A lot of the growth in passenger numbers shown at **Figure 2.6** is actually due to increased traffic at Sumburgh. If that is excluded, then growth between 2007-08 and 2015-16 is only 2% rather than 10%.

## 2.5 2008 ADS EVALUATION

This 2008 evaluation of ADS<sup>3</sup> included an online survey of ADS members. That generated around 400 useable responses. Less than half (43%, 173 respondents) had used ADS to make at least one business flight. Across the sample as a whole, 40% of all flights reported were for business purposes.

The main impact on ADS was reported as being lower costs rather than additional trips. It was estimated that 75% of business flights made using ADS would still have been undertaken if the scheme had not been introduced.

A further 19% of trips would still have been made but by other modes of transport. Typically this led to journey time savings as air is much faster than, say, the same journey by ferry and car. Finally, just 6% of business flights were for business trips that would not have been made at all without ADS.

Consultations with a number of businesses confirmed the online survey findings. In most cases, the number of trips undertaken for business purposes stayed the same as businesses already used air services before the introduction of ADS. Thus, the main impact was on businesses' travel budgets.

<sup>3</sup> ibid



## 2.6 SUMMARY

To summarise the “before” and “after” positions, in the first year when business flights were no longer included in ADS (2011-12) there was:

- A fall of £1.1 million in ADS costs.
- A decrease of 29,000 one way passenger trips supported by ADS.
- A slight fall (£4) in ADS passengers’ average core return fare. This implies that business travellers had been paying, on average, a core return fare some £23 (14%) higher than that paid by non-business passengers.

However, not all of the decrease between the two years appears attributable to the exclusion of business flights. Passenger numbers and ADS costs had fallen-albeit slightly-in the year before (i.e. 2010-11) business flights were no longer included in ADS. There were also changes to the schedules on a number of routes in 2011-12.

The proportion of all flights which are ADS-supported varied between 37%-41% in the years to 2010-11. The figure fell to around 33% after ADS no longer supported business flights.

The core return fare has increased above the CPI rate of inflation since 2007-08. However, this could be due to a range of factors-one of which will be general air fare inflation.

Since 2011-12 the total cost of the ADS scheme has increased by £1.8 million: from £4.9 million to £6.7 million. This is very largely due to increases in payments for flights rather than administration costs. The latter have grown by only around £30,000.

The main driver for the increase in ADS costs is the rising payment per flight made using ADS. Since 2011-12 this has grown from £33 to £40. That is an increase of around 22%-compared to only 13% growth in the number of flights made.

The 2008 evaluation of ADS suggested that the main business impact of the scheme was to reduce business travel costs. It also concluded that ADS had:

- Increased the number of business *flights* from the eligible areas by 33%.
- Increased the total number of business *trips* from the eligible areas by 6%.

### 3 CURRENT TIMETABLES AND AIR FARES

#### 3.1 CURRENT TIMETABLES

Table 3.1 summarises the timetables for the relevant routes as at June 2016.

TABLE 3.1: ADS ELIGIBLE ROUTE TIMETABLES: JUNE 2016			
	Number of Days Operation	Weekday Frequency (Direct Return Flights)	Weekday Day Trip Possible (at least 5 hours before return flight)
<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	✓

A clear majority (15 out of 21) of the services operate seven days per week. The exceptions are:

- The two services from Wick.
- Stornoway-Aberdeen.
- Benbecula-Inverness.
- The seasonal service between the Northern Isles and Bergen (Saturday only).

Weekday frequency varies across the routes. However, most (12) have two or more flights each weekday. The highest frequency is four flights every weekday on Sumburgh-Aberdeen and Stornoway-Glasgow.

Three of the routes have no more than one flight per weekday-i.e. Kirkwall-Glasgow, Stornoway-Aberdeen and Wick-Edinburgh. Benbecula-Inverness operates on only three days of the week.

Most (12) of the routes offer a reasonable day trip opportunity for those travelling from the ADS eligible areas. These are mostly routes to Aberdeen, Edinburgh or Inverness.

Three of the five Glasgow services (from Orkney, Shetland and Benbecula) do not provide a day trip opportunity. Neither of the Benbecula services allows a day trip to be made.

**Table 3.2** provides further information on the timetables' usefulness for outbound business travel. It shows the earliest weekday arrival at the destination airport-recognising that on some routes (e.g. Wick-Aberdeen) arrival is later on some weekdays.

<b>TABLE 3.2: ADS ELIGIBLE ROUTES: EARLIEST WEEKDAY ARRIVAL AT DESTINATION AIRPORT: JUNE 2016</b>	
<b>Route</b>	<b>Earliest Weekday Arrival Destination Airport</b>
Wick-Aberdeen*	0735*
Shetland-Orkney	0820
Orkney-Aberdeen	0845
Orkney-Edinburgh	0855
Shetland-Edinburgh	0910
Stornoway-Inverness	0920
Stornoway-Glasgow	0925
Shetland-Aberdeen	0930
Shetland-Inverness	0930
Orkney-Inverness	0930
Stornoway-Edinburgh	0945
Islay-Glasgow	1020
Stornoway-Aberdeen	1020*
Benbecula-Inverness	1145
Orkney-Shetland**	1200
Benbecula-Glasgow	1230
Shetland-Glasgow	1320
Orkney-Glasgow*	1320
Wick-Edinburgh	1340
Orkney-Bergen	Saturday only
Shetland-Bergen	Saturday only

\* Monday only, later on other weekdays. \*\* Direct flights only

On only four routes do the flights arrive before the start of the normal working day (i.e. 0900). Thus, in the vast majority of cases business passengers are spending part of the working day flying to their destination airport, in addition to the subsequent onwards travel by taxi, bus, etc., to their final destination.

On most routes the flight arrives before 1000. However, that still leaves eight routes with a post-1000 arrival. Five of them are at midday or later limiting the amount of actual working time at the final destination.

**Table 3.3** shows the latest weekday departures back to the islands/Caithness, recognising that on some routes (e.g. Wick-Aberdeen) arrival is later on some weekdays.

<b>TABLE 3.3: ADS ELIGIBLE ROUTES: LATEST WEEKDAY DEPARTURE FROM DESTINATION AIRPORT: JUNE 2016</b>	
<b>Route</b>	<b>Latest Weekday Departure</b>
Aberdeen-Wick	1940
Aberdeen-Orkney	1840
Orkney-Shetland	1840
Inverness-Stornoway	1815
Aberdeen-Shetland	1810
Edinburgh-Orkney	1750
Edinburgh-Shetland	1745
Glasgow-Stornoway	1745
Inverness-Orkney	1730
Inverness-Shetland	1730
Glasgow-Islay	1700
Edinburgh-Stornoway	1655
Aberdeen-Stornoway	1610
Shetland-Orkney*	1515
Glasgow-Benbecula	1440
Inverness-Benbecula	1340
Glasgow-Shetland	1310
Glasgow-Orkney	1100
Edinburgh-Wick	1105
Bergen-Orkney	Saturday only
Bergen-Shetland	Saturday only

\* Direct flights only

In most cases (11 routes) the last flight back is at the end or beyond the normal close of the working day (i.e. at 1700). On five of these routes the last departure is after 1800.

Most of the pre-1700 departures are before 1500. On two routes (Glasgow-Orkney and Edinburgh-Wick) they are before noon.

On eight routes both the time of first arrival at, *and* last flight back from, the destination are within working hours. These are:

- Benbecula: to both Glasgow and Inverness.
- Orkney-Glasgow and Shetland.
- Shetland-Glasgow.
- Stornoway: Aberdeen and Edinburgh.

- Wick-Edinburgh.

Again, this limits the amount of working time at the destination and involves use of parts of the working day for relatively unproductive travel rather than attending meetings, etc. In addition, limited frequency/timings can necessitate an overnight stay-particularly for those routes with only one return flight per day.

### 3.2 APPROACH TO AIR FARE ANALYSIS

The airlines on the ADS routes (Loganair and Eastern Airways) both offer three types of ticket. These are:

- **Fully flexible**, where the flights can be changed at a no extra cost (Loganair's "All In" ticket, Eastern's "Flexible").
- **Changeable, semi-flexible**, where flights can be changed but a fare difference may apply (Loganair) or a fair difference plus fee will apply (Eastern). These tickets are called "Get More" and "Value", respectively.
- **The least flexible tickets**. These are "Just Fly" (Loganair) where the ticket can be changed for a fee plus a fare difference, and "Saver" (Eastern) which cannot be changed and is non-refundable.

The fully flexible fares do not change in price irrespective of how far in advance they are booked. However, the price of the other two ticket types is variable. Yet, on some flights where a booking is being made close to the day of travel only the fully flexible fare may be available.

The following analysis is based on the fares that were available for booking on June 4. They are taken from the online booking systems of the two airlines.

In each case they were for a trip originating in the ADS eligible area. To meet business travel requirements the trips were structured as follows:

- Both the outward and return leg on a weekday.
- Two days allowed between the outward and return leg-e.g. out on the Monday and back on the Wednesday.
- The outward leg on the first flight of the day and the return on the last flight of the day, to maximise the time available at the destination. However, in some cases the flights were the next best ones available as, for example, the first flight of the day was already fully booked.

### 3.3 FULLY FLEXIBLE FARES

#### 3.3.1 Fare Levels

**Figures 3.1 and 3.2**, over, shows the fully flexible return fares for each route. The values have been rounded to the nearest pound.

Figure 3.1: Fully Flexible Fares: Shetland, Orkney and Shetland

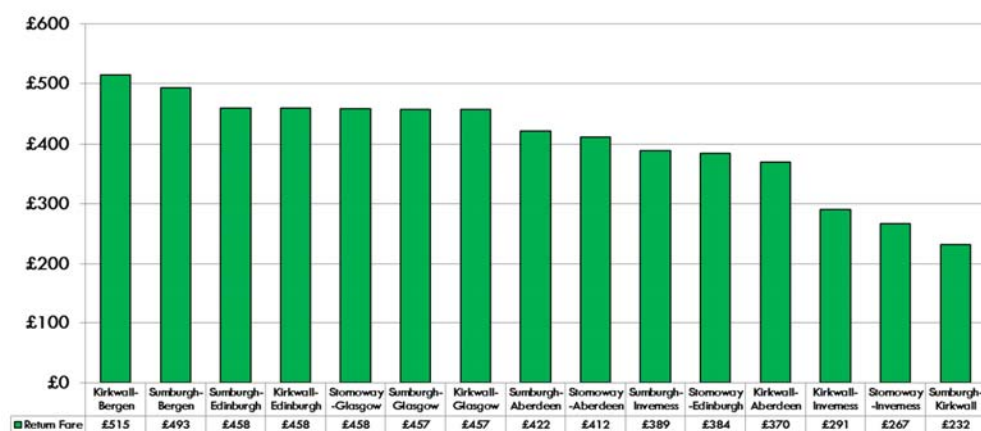
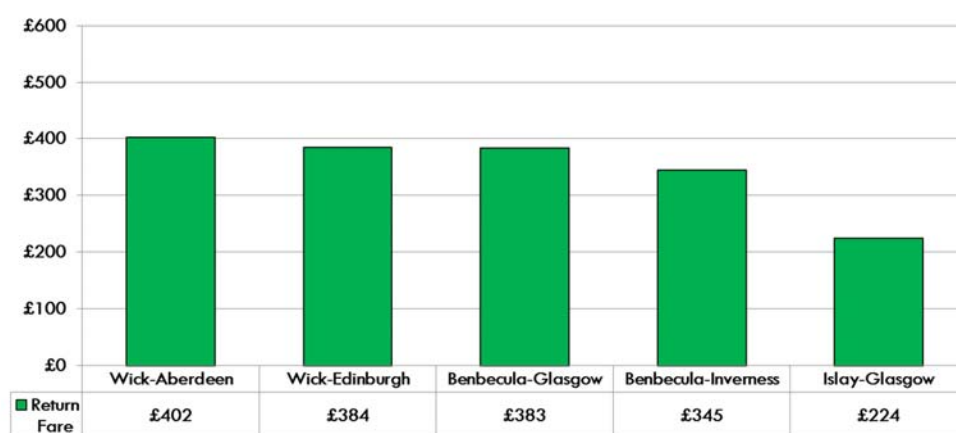


Figure 3.2: Fully Flexible Fares: Wick, Benbecula and Islay



The fares vary significantly—from £224 (Islay) to £515 (Kirkwall-Bergen). On half the routes the fare is more than £400.

The lower fares (i.e. those under £400) tend to be on the shorter routes (e.g. all the Inverness ones). On only four routes is the fully flexible fare less than £300.

### 3.3.2 Fare Components

**Figures 3.3 and 3.4**, over, break down the total fare between the *core fare element* and *what is shown on the airlines' websites as taxes and charges*.

The taxes and charges element is broadly similar across the flybe routes. It ranges from £33 on the two Bergen routes, to £42 on its Edinburgh and Aberdeen services.

Figure 3.3: Fully Flexible Fare Components: Shetland, Orkney and Stornoway

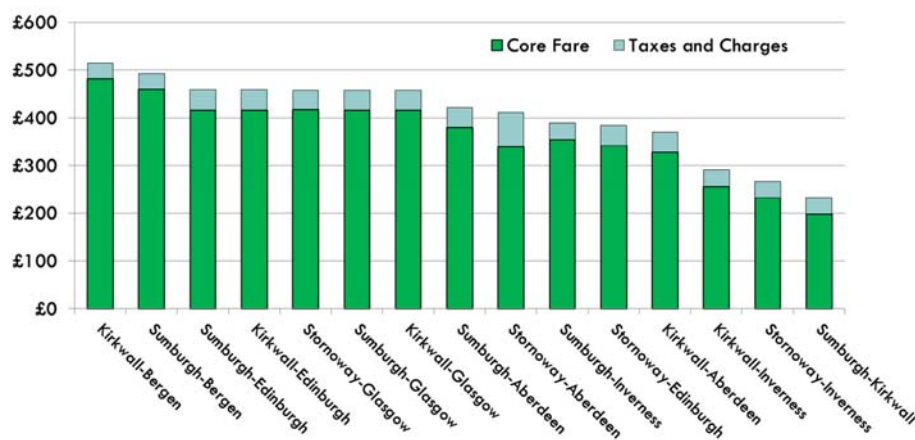
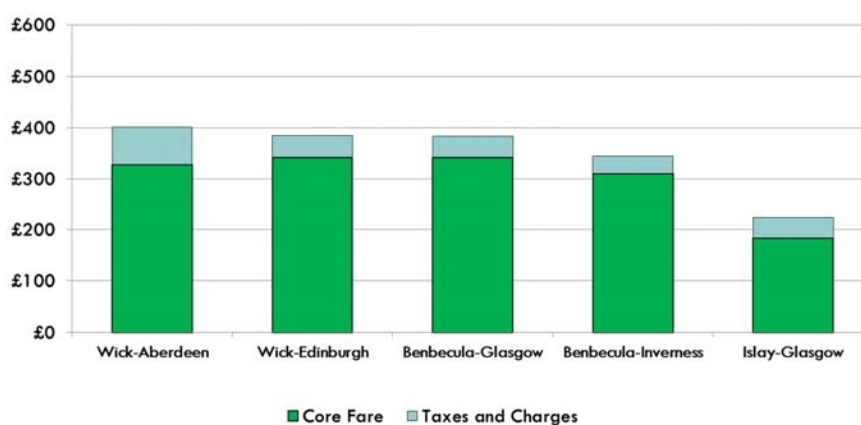


Figure 3.4: Fully Flexible Fare Components: Wick, Benbecula and Islay



However, the *percentage* of the total flybe fare due to taxes and charges varies considerably. That is because of the large variation in the fares between the routes, as shown earlier. The percentage due to the taxes and charges runs from 6% on Kirkwall-Bergen up to 18% on Islay.

The taxes and charges element is much higher on the two Eastern routes. It is £74 on the Wick-Aberdeen service and £72 on Stornoway-Aberdeen. That is over 70% more than the highest level on the flybe routes. As a result taxes and charges account for a relatively high percentage (17% and 18%) of the total fare on the two Eastern routes.

### 3.3.3 Fully Flexible Fares With ADS Applied

**Table 3.4**, over, shows the fully flexible fares after the application of ADS (at 50%) to the core fare elements shown above. These are the fares that would be charged to outbound business passengers if ADS was reintroduced for their flights.

**TABLE 3.4: FULLY FLEXIBLE FARES WITH ADS DISCOUNT**

Route	Fully Flexible Return Fare	Fully Flexible Return Fare With ADS Discount	Fare Reduction
Kirkwall-Bergen	£515	£274	£241
Sumburgh-Bergen	£493	£263	£230
Sumburgh-Edinburgh	£458	£250	£208
Kirkwall-Edinburgh	£458	£250	£208
Stornoway-Glasgow	£458	£250	£209
Sumburgh-Glasgow	£457	£249	£208
Kirkwall-Glasgow	£457	£249	£208
Sumburgh-Aberdeen	£422	£232	£190
Stornoway-Aberdeen	£412	£242	£170
Wick-Aberdeen	£402	£238	£164
Sumburgh-Inverness	£389	£212	£177
Stornoway-Edinburgh	£384	£213	£171
Wick-Edinburgh	£384	£213	£171
Benbecula-Glasgow	£383	£212	£171
Kirkwall-Aberdeen	£370	£206	£164
Benbecula-Inverness*	£345	£241	£104
Kirkwall-Inverness	£291	£163	£128
Stornoway-Inverness	£267	£151	£116
Sumburgh-Kirkwall	£232	£133	£99
Islay-Glasgow	£224	£133	£92

\*Note: ADS applies only to the legs between Stornoway and Inverness as Benbecula-Stornoway is a PSO route

The range of fares would fall from the current £224-£515 to between £133 and £273. Thus, no fare would be above £274. On four routes (e.g. Kirkwall-Inverness) the fare would be less than £200.

The actual saving would range from just under £100 on the Sumburgh-Kirkwall and Islay routes to more than £200 (seven routes).

Apart from Benbecula-Inverness the percentage reduction would vary from between 41% and 47%. That is less than the 50% headline ADS discount as that rate is applied only to the core fare element rather than the *total*/passenger fare, as explained at **Chapter 2**.

### 3.4 CHEAPEST AVAILABLE FARES

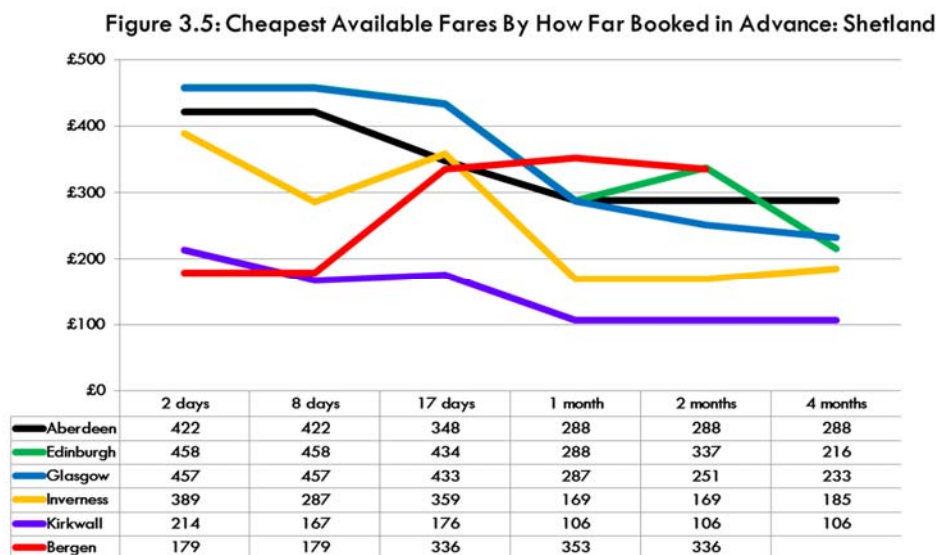
#### 3.4.1 Introduction

The two airlines websites were also searched for the cheapest fares available within the business travel parameters set out at 3.2. Thus, the fares shown are not necessarily *the* cheapest fares available that day as these may have been on middle of the day flights rather than flights which meet the set criteria. On some routes-particularly when not booking far in advance-the only fare available on the designated flights was the fully flexible one.



### 3.4.2 Shetland

Figure 3.5 shows the variation in fares for the Shetland routes.



On three routes (Aberdeen, Edinburgh and Glasgow) the fare available *eight days* in advance is the same as for *two days* ahead-i.e. the fully flexible fare is the only one available on the designated flights. In contrast those on the Inverness and Kirkwall services fall by around 25% between two days' and eight days' notice.

The drop in fares is relatively slight between two days and *17 days' notice*. It is between 5% and 18%.

More significant reductions are available by booking *one month in advance*. They range between 32% and over 50%. The actual savings go from £108 (Kirkwall) up to £220 (Inverness). Yet on three routes the fare is still more than £280.

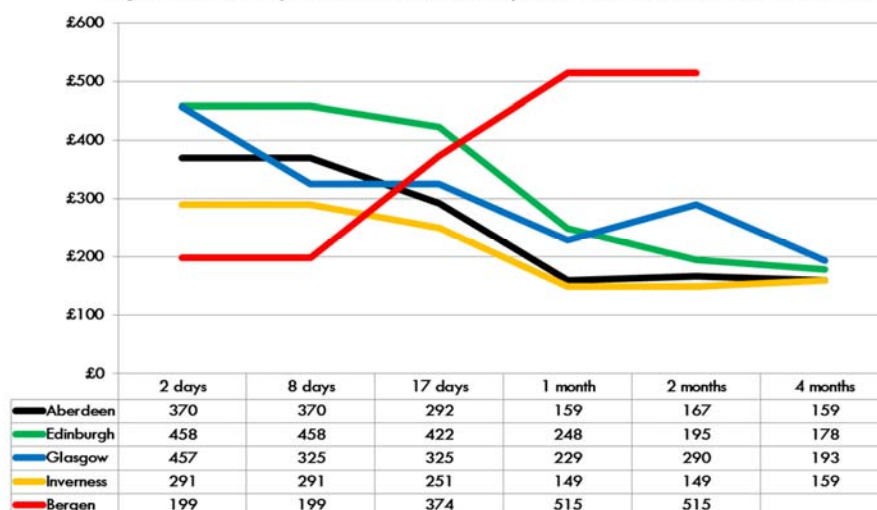
The fares are little different between one month in advance and *two months in advance*. As would be expected the largest reductions are available by booking *four months in advance*. They range between 32% (Aberdeen) and 53% (Edinburgh), and £108 to £242 in absolute terms. On three routes the fare available at four months in advance was more than £200-including a fare of £288 on the Aberdeen service.

The pattern on the seasonal Bergen route is different from the Scottish ones. The fares are actually cheapest (£179) for flights booked up to *eight days* ahead. This is likely to reflect higher demand in the peak summer season-i.e. from late June onwards.

### 3.4.3 Orkney

Figure 3.6, over, shows the variation in fares for the Orkney routes.

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



On three of them (Aberdeen, Edinburgh, Inverness) only the fully flexible fare is available when booking up to *eight days* in advance. In contrast, the fare on the Glasgow service falls by around £130 (29%) between *two days* and eight days' notice.

On two of the Orkney routes (Aberdeen and Glasgow) fares booked *17 days* in advance are more than 25% lower than those available two days ahead. The difference on the Edinburgh and Inverness services is much slimmer. On each of the five routes the fares available 17 days ahead are all above £250, and over £300 on three of them.

Significant reductions are available by booking *one month* ahead. They range from 46% (Edinburgh) to more than 50% (Aberdeen). On three of the four Scottish routes these fares are more than £200 lower than those available at two days' notice. Apart from the Bergen service, the fares available one month ahead are less than £250.

Yet, there is relatively little to be gained by booking *two months* rather than one month ahead. On two routes the fare actually increases between times, while on a third (Inverness) it is the same cost. There is a saving on the Edinburgh service, but only a relatively modest one (12%).

The largest difference is between booking *four months* ahead and two days in advance. The saving is more than 50% on all the Scottish routes bar Inverness. It ranges from c£130 on Kirkwall-Inverness up to £280 for the Edinburgh service. All the fares are less than £200.

Again, the seasonal Bergen route is different from the Scottish ones. The fares rise as the booking time increases with only the fully flexible fare (£515) available for travel booked at least one month in advance.

### 3.4.4 Stornoway

**Figure 3.7** shows that the fare pattern differs on each of the Stornoway services.



On Stornoway-Aberdeen the fare is below the fully flexible one at all times. It increases when booking *eight* rather than *two* days in advance. It declines thereafter but does not change when booking more than *one month* in advance.

On Edinburgh only the fully flexible fare is available *eight days* in advance. The fares decline thereafter, although it is the same if booked either *one month* or *two months* in advance. The fare at *four months* is c£250 (over 60%) cheaper than if booking two days ahead.

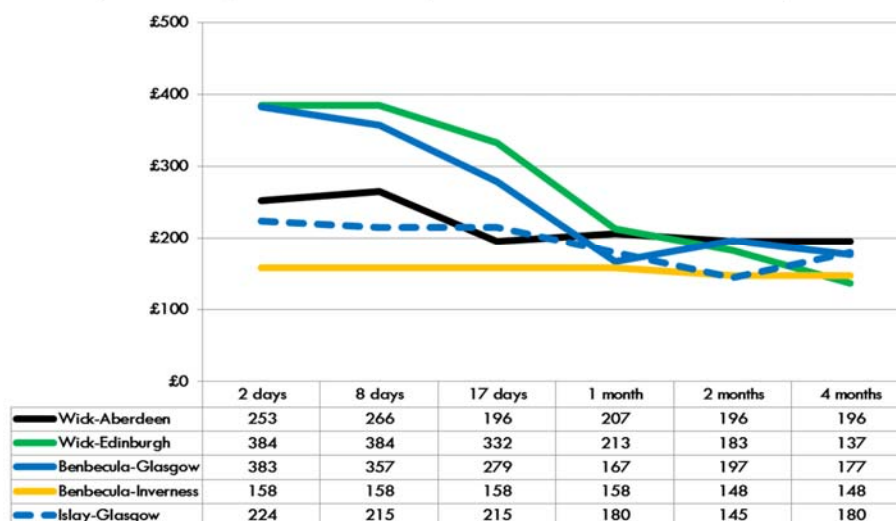
Only the fully flexible fare is available on Stornoway-Glasgow *two days* in advance. It is significantly cheaper (by more than £120) if booked *eight days* ahead. However, the fare at *one month's* notice is the same as that available just eight days before travelling. It falls from then onwards, with a significant saving of c£250 (over 50%) by booking *four months* ahead.

Stornoway-Inverness has a relatively cheap fare (under £200) available *two days* in advance. However, only the fully flexible fare is available if booking *eight days* ahead. The fares fall thereafter but then increase again if booking *two* or *four months* in advance.

### 3.4.5 Benbecula, Wick and Islay

The analysis for the remaining routes is given at **Figure 3.8**, over.

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



On three of the routes (Wick-Edinburgh, Benbecula-Glasgow and Islay) only the fully flexible fare is available when booking *two days* out. It is also the only one available on Wick-Edinburgh *eight days* in advance. Generally, there is little difference between the two day and the eight day fares.

By booking *17 days* ahead savings on some routes are more than £50, including £104 on Benbecula-Glasgow. However, there is only a slight (£9) saving on Islay and none on the Benbecula-Inverness service. On two of the routes (Benbecula-Glasgow, Wick-Edinburgh) the fares are more than £270.

There are significant reductions (of more than £170) by booking *one month* in advance on Wick-Edinburgh and Benbecula-Glasgow. Otherwise the savings are relatively modest (under £50). Benbecula-Inverness is different in that the fare booked one month in advance is the same price as one booked just two days ahead. The highest fare across the five routes is £213 (Wick-Edinburgh).

Finally, Wick-Edinburgh is the only route where the fare *four months* in advance is significantly lower (by around £75) than one booked a month ahead. The fares available four months ahead are less than £200 on each route.

### 3.4.6 Cheapest Fares With ADS Applied

**Table 3.5**, over, shows the effect of applying ADS to the fares analysed in this section.

The current *bottom of the range* fares-i.e. the lowest fares available for the designated flights-go from £106 on Sumburgh-Kirkwall up to £288 (Sumburgh-Aberdeen). The average (median) fare is £178 (Kirkwall-Edinburgh).

**TABLE 3.5: LOWEST FARES AVAILABLE ON SELECTED FLIGHTS WITH ADS DISCOUNT**

Route	Bottom of Range			Top of Range		
	Current Return Fare	Return Fare With ADS	Fare Reduction	Current Return Fare	Return Fare With ADS	Fare Reduction
Sumburgh-Aberdeen	£288	£165	£123	£422	£232	£190
Sumburgh-Glasgow	£233	£137	£96	£457	£249	£208
Sumburgh-Edinburgh	£216	£129	£87	£458	£250	£208
Stornoway-Glasgow	£212	£127	£86	£458	£250	£209
Kirkwall-Bergen	£199	£116	£83	£515	£274	£241
Wick-Aberdeen	£196	£135	£61	£266	£170	£96
Kirkwall-Glasgow	£193	£117	£76	£457	£249	£208
Stornoway-Aberdeen	£190	£131	£59	£336	£204	£132
Sumburgh-Bergen	£179	£106	£73	£353	£193	£160
Kirkwall-Edinburgh	£178	£110	£68	£458	£250	£208
Stornoway-Inverness	£171	£103	£68	£267	£151	£116
Sumburgh-Inverness	£169	£102	£67	£389	£212	£177
Kirkwall-Aberdeen	£159	£101	£59	£370	£206	£164
Benbecula-Glasgow	£167	£104	£63	£383	£212	£171
Kirkwall-Inverness	£149	£92	£57	£291	£163	£128
Benbecula-Inverness*	£148	£110	£38	£158	£117	£41
Islay-Glasgow	£145	£93	£52	£224	£133	£92
Stornoway-Edinburgh	£137	£90	£47	£384	£213	£171
Wick-Edinburgh	£137	£90	£47	£384	£213	£171
Sumburgh-Kirkwall	£106	£70	£36	£214	£124	£90

\*Note: ADS applies only to the legs between Stornoway and Inverness as Benbecula-Stornoway is a PSO route

If ADS was applied at a 50% rate then the fares would fall to between £70 and £165, with an average (median) fare of £108. The actual saving would range from £36 to £123. The average (median) saving would be £65.

**Table 3.4** also shows the *top of the range* fares. These are the highest fares available across the time periods covered in the analysis. As shown earlier in some cases these are the fully flexible fares.

These fares range from £214 on Sumburgh-Kirkwall up to £515 (Kirkwall-Bergen). After the application of ADS this range falls to between £124 and £273. The absolute savings vary by route-between £41 and £241. The average (median) saving is £171.

### 3.5 SUMMARY

Most ADS routes have schedules that are useful for business travel. They have a seven day service, more than one return flight per weekday and offer a useful day trip.

However, the timetables are less strong for arrival and departure times. In only a few cases does the first flight arrive before the start of the working day (i.e. 0900). On only around half of the routes is the last flight back after close of play (i.e. 1700). Thus, the amount of useful time at the destination is reduced by having to travel to/from the airport during the working day.

Some services do not perform so well across the various metrics. These are the routes from Benbecula and from Wick, flights between Sumburgh and Kirkwall, and between Glasgow and the Northern Isles. They lack a number of business-friendly characteristics-good frequency, day return opportunity, pre-0900 arrival, etc.

Across the routes *fully flexible* return fares range from c£230 to over £450. On half of them the fare is over £400. A 50% headline ADS rate would reduce the fares by between 41%-47%. With ADS the highest fully flexible fare would be £274 with the lowest around £130.

The cheapest fares on flights with business-friendly timings vary markedly, depending on how in advance the booking is made. The analysis showed:

- On most routes booking *over a month* in advance gives access to return fares of less than £200.
- On a number of routes sub-£200 fares are available *one month* in advance.
- In contrast, when booking *around a fortnight* in advance most fares are above £300, including some that are over £400. This is also the case for flights booked *c1 week* in ahead.
- On most routes when booking *around one week* in advance only the fully flexible fare was available.

If ADS was applied then the *lowest available* fares (typically those booked one month or more in advance) would range between £70 and £165.

With ADS the *lowest possible fares irrespective of how far in advance they are booked* would run from c£120 to about £275.

## 4 CURRENT PRIVATE SECTOR BUSINESS AIR TRAVEL

### 4.1 INTRODUCTION

#### 4.1.1 About This Chapter

This Chapter presents the findings of research with private sector businesses and self-employed individuals in the ADS eligible areas. Hereafter all respondents are termed “Businesses”.

#### 4.1.2 Online Survey

The online survey was developed using the *surveymonkey* platform. It was open between April 30<sup>th</sup> and May 27<sup>th</sup>. The survey was promoted via a mix of social media and traditional media.

Facebook approaches were made to a variety of ‘groups’. These included *Outer Hebrides Commerce Group* (450 Facebook followers) and *Islanders for Fair Air Fares* which has more than 15,000 Facebook followers, and particularly high numbers in Shetland, Orkney and the Outer Hebrides. These groups either shared details about the survey, or it was posted to their feed. This was also shared from HITRANS’ own Twitter feed.

A press release was prepared for HITRANS. This promoted the online survey, receiving good coverage through news outlets across the relevant areas. This included The Orcadian, Shetland News, Hebrides News Today, The Highland Times and the Stornoway Gazette.

#### Study examines feasibility of extending Air Discount Scheme

© Tuesday, May 10, 2016, at 9:32am

A study into the feasibility of the Scottish Government reintroducing the Air Discount Scheme for business users is under way.

HITRANS, the regional transport partnership for the Highlands and Islands, has commissioned the study to examine the benefits and costs of the scheme, which reduces the cost of air travel for those living in eligible geographical areas of the Highlands and Islands.

The scheme was introduced by the Scottish Government in 2006 to benefit businesses and individual travellers from air dependent communities. In April 2011, it was restricted to non-business trips. Flights made as part of an individual's work for the private, public or third sectors were no longer eligible for a discount.

This was relaxed in July 2012 when ADS was reinstated for business trips made by those working in the third sector. Further, in April 2015 the level of discount was raised from 40 per cent to its current level of 50 per cent.

An online survey is also collecting data on businesses’ current use of air services, including frequency, trip purposes and an estimate of their total annual spend on flights. This, says HITRANS, will capture information about changes in use of air services by businesses since 2011 and wider business impacts from the change in policy.

The survey can be found at <https://www.surveymonkey.co.uk/r/AirDiscountScheme>. The deadline for responses is Sunday, May 22.



Details about the study and survey were also carried on the websites of Highland Council and Comhairle nan Eilean as well as other local news sites (e.g. Caithness Business Index).

Contact was made with Business Gateway managers. They agreed to distribute details of the study and survey to their networks of local enterprises. This enabled the survey to appear in many businesses’ inbox.



In addition, the Federation of Small Businesses and Caithness Chamber of Commerce promoted the survey to their members, encouraging them to complete it.

A total of 342 usable responses were received. In the results shown in this Chapter it should be noted that *not all respondents answered every question*.

#### 4.1.3 Follow-Up Telephone Interviews

Short follow-up telephone interviews were conducted with 21 online respondents. These explored some issues in more depth. The findings are reported at various points in the Chapter.

### 4.2 PROFILE OF ONLINE RESPONDENTS

#### 4.2.1 Location

**Table 4.1** shows the location of respondents.

TABLE 4.1: LOCATION OF ONLINE SURVEY RESPONDENTS		
Location	Number	Proportion of Respondents
Orkney	194	57%
Outer Hebrides	99	29%
Caithness	28	8%
Shetland	17	5%
<b>Total</b>	<b>338</b>	<b>100%</b>

More than half (57%) were from Orkney, with most of the rest (29% of respondents) in the Outer Hebrides. The relatively low number from Caithness may reflect limited use of Wick airport by some local businesses (given the range of flights available at Wick), and also that surface travel is less time consuming as Caithness is on the mainland.

The reasons for the low response from Shetland are less clear. The survey was as well promoted there as it was in the other areas.

No responses were received from Islay, Jura, Colonsay or north west Sutherland. In part this will reflect the much lower number of businesses in these areas.

More than one in four (29%) respondents reported that their site is part of a company that also has sites outside the Highlands and Islands.

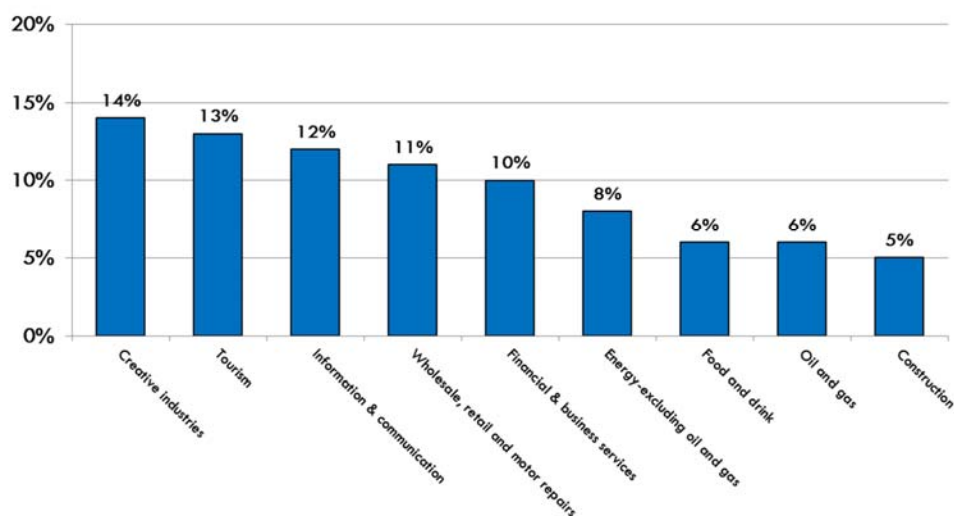
#### 4.2.2 Sector

**Figure 4.1**, over, shows the most commonly reported sectors in which the businesses trade.

The nine categories shown account for 85% of all respondents. They are largely service sectors.



Figure 4.1: Business Sector: Most Common Responses



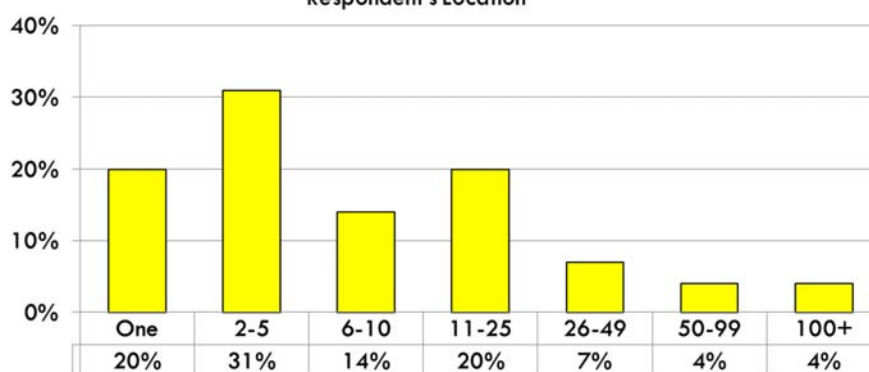
The most common ones were creative industries and tourism. Together they account for more than one in four businesses. These were followed by Information & communication, which includes the media.

#### 4.2.3 Size

##### Employment

Figure 4.2 shows that most of the businesses are small scale employers.

Figure 4.2: Number of Employees and Owner-Managers At Respondent's Location

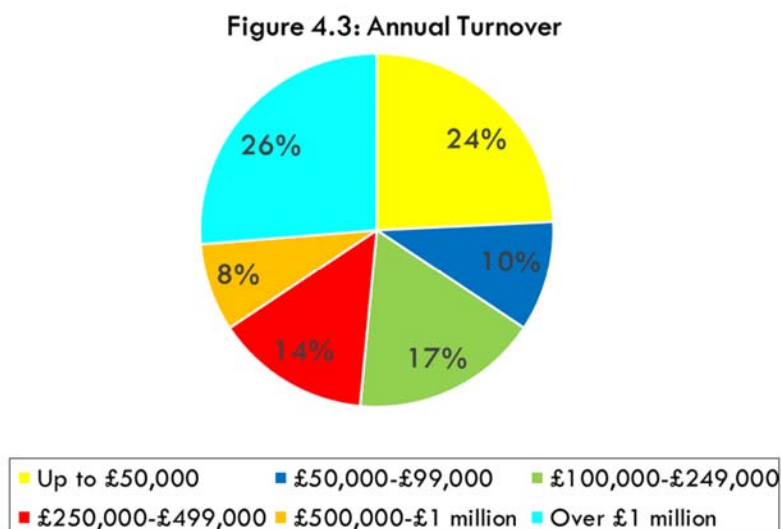


Around half have no more than five staff members at their site, with 20% being sole traders.

Some 15% of businesses have more than 25 staff members, although very few (4%) have 100 or more.

## Turnover

Figure 4.3 describes businesses' annual level of turnover.



Most lie at one end of the spectrum. Some 26% have a turnover above £1 million, while a similar amount (24%) have no more than £50,000. Most of the other businesses lie between £100,000 and £499,000.

## Total Company Size

Businesses were also asked to define the size of their company as a whole-i.e. across all its sites. The responses are shown at Table 4.2.

TABLE 4.2: DEFINITION OF TOTAL BUSINESS SIZE BY NUMBER OF EMPLOYEES		
Size	Definition-Employing..	Proportion of Respondents
Micro	Fewer than 10 persons	55%
Small	Between 10 and 49 persons	26%
Medium	Between 50 and 249 persons	5%
Large	More than 249 persons	14%
Total		100%

More than half (55%) are *micro* enterprises while most others (26%) are *small*. Around one in seven (14%) are *large*-i.e. non-SMEs.

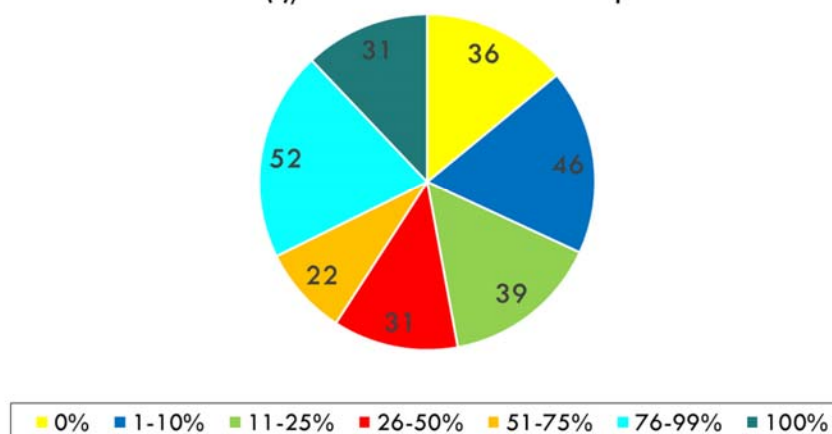
### 4.2.4 Geographical Distribution of Sales

We were interested to understand the extent to which the businesses were reliant on making sales outwith their local area (e.g. Shetland businesses selling to customers outside Shetland). The greater the extent of this then, arguably, the greater the importance of external transport links-including air.

Tourism businesses were excluded from the analysis for this survey question. That is because they will be heavily reliant on external transport links for customers to travel to them rather than vice versa.

The results are shown at **Figure 4.4**.

**Figure 4.4: Share of Turnover From Customers Located Outside Your Island(s)/Local Area: Number of Respondents**



Some 36 businesses (around one in seven) make *no sales* at all outside their island(s)/local area. A further 46 (18% of the total) get *1-10%* of their sales from external markets.

Therefore, external sales are important to most businesses. Specifically:

- Over half generate *more than 25%* of their sales from external markets.
- Four in ten businesses generate *more than 50%* of their sales from external markets.
- One in eight make *all their sales* to customers in external markets.

Compared to the sample as a whole those with a *greater than 75% dependence on external markets* were more likely to be in the energy sectors or manufacturing.

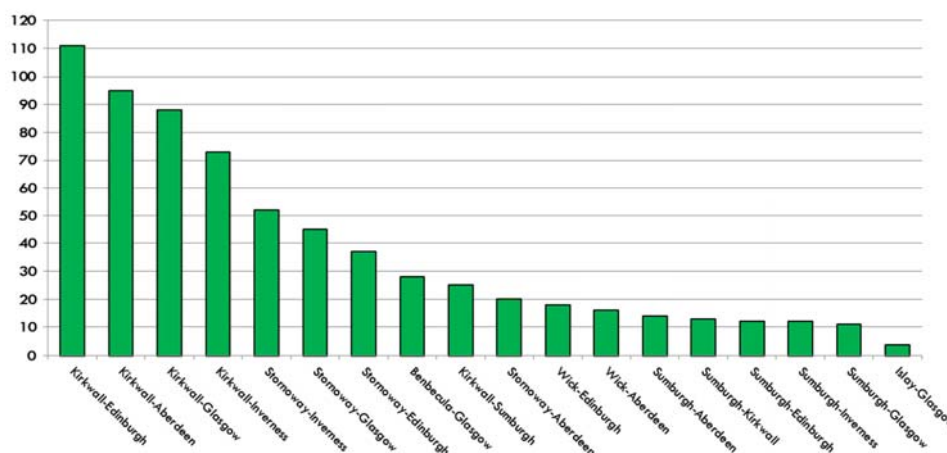
### 4.3 FLIGHTS MADE IN THE LAST 12 MONTHS

#### 4.3.1 Routes Used

Respondents were asked which ADS eligible air routes their staff had used to make outbound business trips from their island(s)/area. The results are shown at **Figure 4.5**, over. They are based on information provided by 231 respondents.

The number of businesses shown using each route will reflect their location. The highest numbers for the Kirkwall services reflect that more than half of the survey sample are Orkney businesses. Similarly, the low reported use of Sumburgh services reflects the small number of responses from Shetland business.

Figure 4.5: ADS Routes Used In Last 12 Months: Number of Respondents



The most commonly used services were, from:

- Kirkwall: Edinburgh, Aberdeen.
- Stornoway: Inverness, Glasgow.
- Sumburgh: Aberdeen, Kirkwall, Edinburgh, Inverness.

The two services from Wick were used in roughly equal measure. A small number (four) companies used the Islay-Glasgow service, albeit that none of them are based on Islay.

#### 4.3.2 Number of Return Flights Made

A total of c4,500 return flights were reported by the 231 businesses providing information for the relevant questions and who had made at least one flight in the last 12 months.

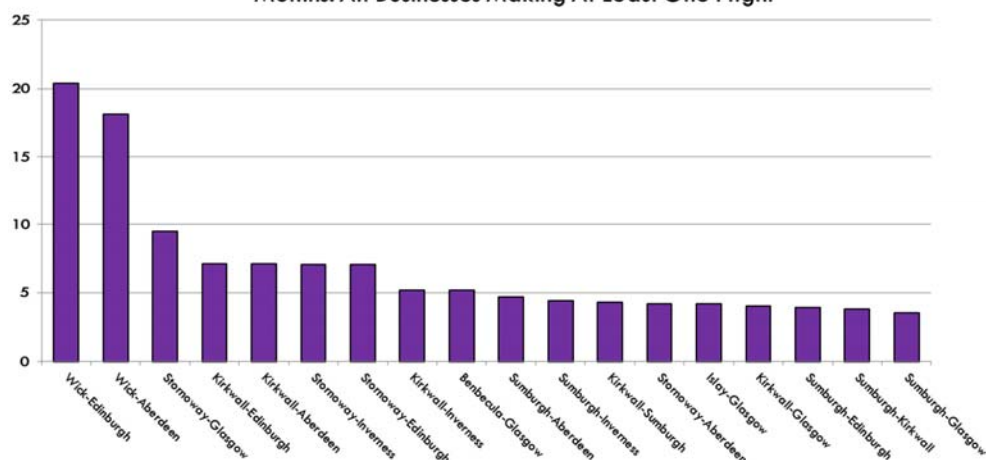
The average (median) was 10 flights per business. Around one in three made no more than 5 flights. At the other end of the spectrum just nine businesses account for almost 1,400 flights-i.e. around 30% of the total.

**Figure 4.6**, over, develops the analysis. It presents the average (mean) number of return trips per business on each route in the last 12 months.

It shows that there a number of high volume users on both the Wick services. The average number of flights per business is around 20 in both cases, with a number making even greater use than that. Stornoway-Glasgow also has a relatively high average-approaching 10 return flights per business.

Thereafter the number of flights per business are broadly similar for the Orkney and Outer Hebrides services. The figures are lower for the Sumburgh services. However, they should be treated with a degree of caution given the low number of Shetland businesses in our sample.

Figure 4.6: Average Number of Return Flights Per Business In Last 12 Months: All Businesses Making At Least One Flight



#### 4.3.3 Business Spend on Air Fares

The companies were asked to estimate the total cost of the flights they had made. Some 179 respondents provided a figure. The total spend was £820,000, equating to an average (mean) of £245 per return flight. Other information from the survey implies that this average spend figure may understate the actual cost.

The average (median) spend on flights was £2,500 per business. However, spend was not evenly distributed between the businesses. The “top 10” spenders (c6% of those providing the relevant information) spent £293,000 on flights (36% of the total across all businesses).

**Telephone interviewees** gave examples of typical fare levels paid. These are shown at **Table 4.3**. The variations for individual routes reflect the type of ticket used and how far in advance the flight is booked.

TABLE 4.3: TELEPHONE INTERVIEWS: EXAMPLES OF TYPICAL FARES PAID	
Route	Example Return Fares
Benbecula-Glasgow	Over £200
Kirkwall-Aberdeen	£400; £500
Kirkwall-Edinburgh	£240; £250; £400; £495
Stornoway-Edinburgh	£350
Stornoway-Inverness	£150
Stornoway-Glasgow	£250; £350
Sumburgh-Kirkwall	£200
Wick-Edinburgh	£134; £345; £400

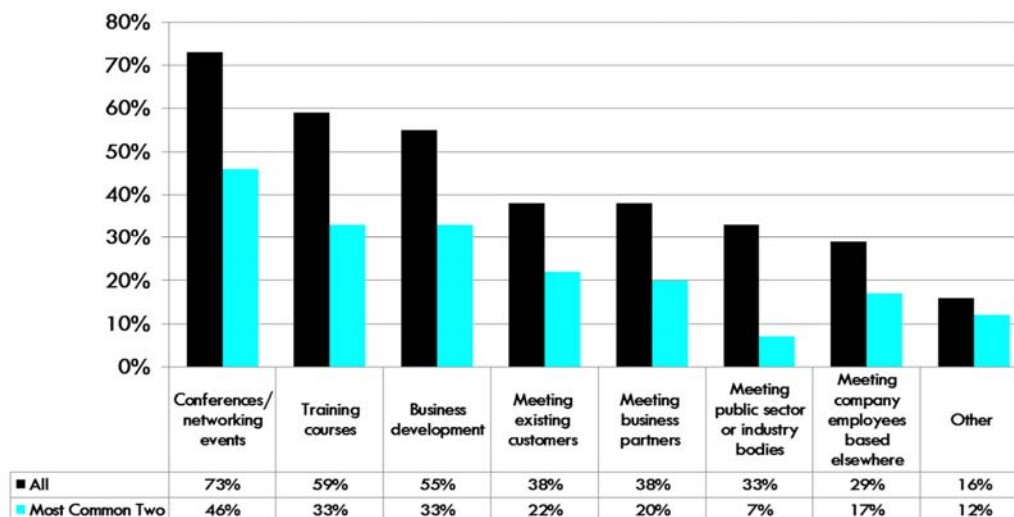
Telephone and online survey respondents in Uist and Barra use the other island’s air service for some trips. Uist businesses may fly to Glasgow on the PSO service from Barra because the available fare is cheaper than on Benbecula-Glasgow. In turn, Barra businesses may fly from Benbecula because no seats are available on a Barra-Glasgow flight.

#### 4.3.4 Trip Purposes

Respondents were asked about the purposes of the flights they had made in the last 12 months. First, *all* the various purposes and, second, the *two most common* purposes.

The results are set out at **Figure 4.7**.

Figure 4.7: Purposes of Business Flights (% of respondents)



All of the seven pre-defined trip purposes are important-that is, made by more than 25% of business.

The most common ones were attending conferences/networking events (cited by around three quarters of respondents) and then training (c60%). Business development trips were reported by more than half of the businesses.

The most common trip purposes within the “Other” category were attending trade shows/exhibitions and working at a project site or client’s premises.

The results were similar for the *two most common* purposes. Conferences/networking events were mentioned by approaching half the businesses, with one third referring to training. The results also indicate that flights to meet with public sector or industry bodies are relatively infrequent.

*Compared to the sample as a whole* the businesses that make the highest number of flights were much more likely to travel to:

- Meet company employees based elsewhere.
- Visit existing customers.
- Meet public sector or industry bodies.

#### 4.3.5 Trip Length and Costs of Overnight Stays

Most **telephone interviewees'** flights involve an overnight stay rather than a day trip. This is due to a number of factors:

- The desire to maximise the number of meetings, etc., per trip made.
- Some routes timetables not permitting a day trip-e.g. Kirkwall-Glasgow.
- Trips being made to destinations outside Scotland.
- Specific location of meetings. For example, ones at Stirling can require an overnight stay due to the travel time from either Glasgow or Edinburgh airport.

Overnight stays incur costs in addition to the air fare. These include accommodation, subsistence, taxis, etc.

Most telephone interviewees' spend £100 or more per night-mainly between £100 and £120. However, the amount spend tends to vary by business size and lifestage. Smaller ones and start-ups are more likely to stay with friends or relatives to save money. Otherwise, they are likely to spend between £60 and £90 per night.

#### 4.3.6 Use of Different Ticket Types

Businesses were asked about the type of ticket they had used for *most* of their flights in the last 12 months. A very clear majority (71%) said they had mostly used the *cheapest available, non-flexible* tickets. Some 17% had mostly used *fully flexible* tickets, while a similar amount (13%) had mostly travelled using a *semi-flexible* one.

Many respondents simply stated "cost" or similar as their reason for using the *cheapest available, non-flexible tickets*. However, around 10% of them specifically referred to what they see as the very high cost of the other two ticket types. Smaller numbers said that they used the non-flexible tickets for trips with dates which were firmly fixed, or that they did not see the higher fares as offering value for money.

Almost half of those mostly using *fully flexible* tickets did so because they may have needed to change the flights before the day of travel. Around one in five stated that this ticket was used because no other type was available at the time of booking. A smaller number said that their use of fully flexible tickets was because flights had to be booked at short notice.

The main reasons given for using *semi-flexible* tickets were that they allow changes to the flights if required, and that they are cheaper than the fully flexible ticket.

The **telephone** interviews showed that most businesses have a mix of short notice and longer notice booking of flights.

For example:

*Notice tends to be fairly short, within a week very often but can be a month (Creative industries, Uist)*

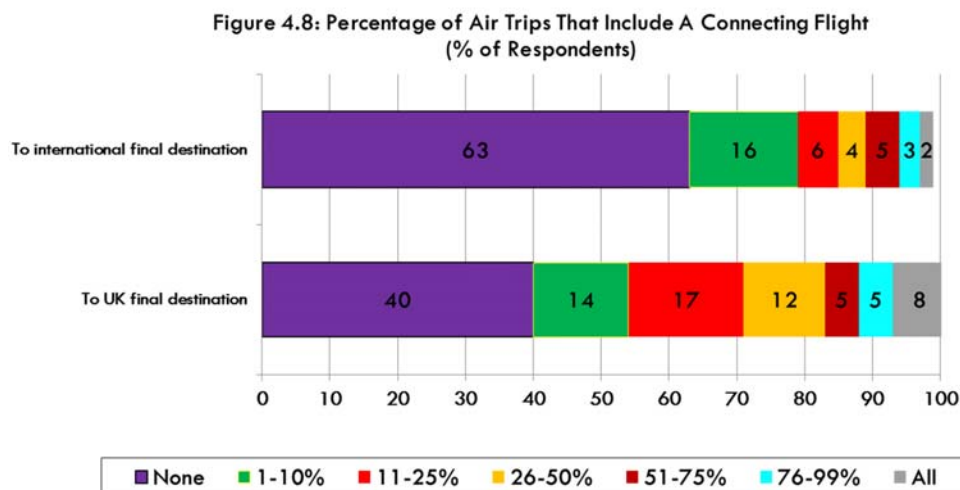
*Sometimes booking a month ahead, otherwise can be up to 6 months (Manufacturer, Orkney)*

*Travel notice is a mix. Can be one month but can also be shorter-e.g. one week  
(Business services, Outer Hebrides)*

Most interviewees gave examples of flights booked one or more months in advance. These tend to be where dates are quite fixed-e.g. trade shows, Board meetings. Nevertheless over one third have to book some flights no more than two weeks in advance-e.g. client meetings.

#### 4.3.7 Use of Connecting Flights

The use of connecting flights will increase the total air fare paid, with only one part of the overall trip made on an ADS eligible route. The extent of use of connecting flights is described at **Figure 4.8**.



Some 60% of respondents made at least one flight in the last 12 months that involved connecting with another flight to/from a final UK destination. Some 37% reported at least one international connecting flight during the same period.

Most businesses that use connections only do so on *up to one in four* of the flights they make. More extensive use is made of UK than international connections. Some 18% of businesses use a UK connecting flight on *more than half* of the air trips they make. That compares to a figure of only 10% for international connecting flights.



#### 4.3.8 Use of Surface Travel

Businesses were asked how their use of air services compares to their use of other transport modes (i.e. ferry, road, rail) for outbound business trips.

The results are shown at **Table 4.4**.

<b>TABLE 4.4: USE OF DIFFERENT TRANSPORT MODES FOR OUTBOUND BUSINESS TRIPS</b>	
<b>Transport Modes Used</b>	<b>Proportion of Respondents</b>
Use air for <i>all</i> these trips	23%
<i>Mostly</i> use air for these trips	35%
Use air <i>as much as</i> other modes of transport	14%
Use air <i>less than</i> other modes of transport	9%
Use air <i>much less than</i> other modes of transport	19%
Total	100%

More than half of the businesses use air either exclusively (23%) or *mostly* for outbound business trips (35%). Over one in four either use air *less* (9%) or *much less* (19%) than other transport modes.

Those who use air for *all* their outbound business trips are likely to be:

- Located in Shetland.
- In the oil and gas sector.
- In the highest turnover-i.e. over £1,000,000.
- Relatively dependent on sales in external markets.

Businesses that make *less* or *much less* use of air than other transport modes are likely to be:

- Located in Caithness.
- In creative industries.
- In the lowest turnover bracket-i.e. less than £50,000.
- Less dependent on sales in external markets.

More than half of the **telephone interviewees** make some use of surface travel. For island businesses this involves ferry and car travel, while surface travel by Caithness businesses is by car to either Aberdeen or Edinburgh.

Where ferry/car is used this tends to be on relatively short crossings, notably Orkney-Caithness and Stornoway-Ullapool. The main reasons for using surface transport are the cost of air fares and the need to have a vehicle-either for getting around at the other end or to transport product samples, promotional banners, etc. To a lesser degree surface travel is used because of flights times being unsuitable.

A small number of interviewees noted the advantage of being able to change a ferry booking at no extra charge up until very close to the time of departure.

#### 4.4 IMPACTS OF 2011 WITHDRAWAL OF ADS

##### 4.4.1 Effect of ADS Withdrawal

Businesses were asked if they had been affected by the withdrawal of ADS for business trips in 2011. Their responses are shown at **Table 4.5**.

<b>TABLE 4.5: WAS YOUR BUSINESS AFFECTED BY THE WITHDRAWAL OF ADS FOR BUSINESS TRIPS?</b>	
<b>Response</b>	<b>Proportion of Respondents</b>
Yes	61%
No-there was no impact on business	5%
Not applicable-not trading before April 2011	17%
Don't Know	16%
Total	100%

Over 60% reported that there had been an impact on their business from the withdrawal of ADS. Only a very small proportion (5%) stated that there had been no impact.

##### 4.4.2 Significance of Impacts

Of those reporting an impact more than two thirds (69%) described it as a “significant negative” one. The remaining 31% described it as a “slight negative”. Those who reported a *significant* impact were relatively likely to have a turnover more than £1 million and/or be highly dependent on external markets.

Respondents provided some information on the impacts through an open-ended question. A wide range of responses were provided.

The most common ones-beyond simply additional costs of flights-can be summarised as:

- Greater use of surface travel rather than air: 17% of those providing information on impacts.
- Fewer flights made: 14%.
- Reduction in the amount of staff training/development/CPD: 13%.
- No reduction in flights as air has to be used: 10%.
- Reduced “travel” (unspecified): 8%.
- Use/greater use of VC and teleconference: 8%.
- Reduced networking: 8%.

Of those explicitly commenting, most (70%) said that they had been unable to pass on the increased costs of flights to their customers.

This issue was also mentioned in some **telephone interviews**. For example:

*Some clients will pay travel-generally bigger ones-and some won't. We had to pass up a job in Glasgow because of travel costs* (Financial and business services, Outer Hebrides)

*If I charged the full cost I wouldn't be in business. Clients won't pay a £300 flight cost on top of my day rate* (Agricultural services, Orkney)

Four online respondents referred to actual or prospective reductions in the size of the business or staff numbers, or relocation of part of their operations, due to the withdrawal of ADS.

Some illustrative quotes on the impact of ADS withdrawal from the online survey:

*It increased our costs and reduced profit, which is marginal* (Tourism, Outer Hebrides)

*I don't fly for business any more as it's too expensive* (Information & communication, Outer Hebrides)

*Lack of face to face with potential clients, video conferencing used more with negative impact on meetings* (Oil and gas, Caithness)

*Sometimes the cost is just too much and the road/ferry alternative can mean days away which means a total loss of production until back in Orkney* (Property, Orkney)

*Fares are extortionate but we still have to fly due to time constraints. You lose a day travelling by ferry and car* (Agriculture, Outer Hebrides)

*Financial impact only, flights had to be made regardless* (Wholesale & Retail, Orkney)

*Meetings/networking opportunities missed-missed opportunities which could affect growth. Cost of travel can be seen by corporate headquarters as a significant negative of our location* (Manufacturing, Outer Hebrides)

*Attendance at business events had to reduce due to increase in costs, training for employees reduced as flights too expensive* (Tourism, Caithness)

*Consultants almost anywhere else in the world will be considered before Shetland residents due to costs and unreliability of air transport* (Oil and gas, Shetland)

*Due to the international nature of my business I must fly frequently from Orkney. Reducing profit. Increasing prices to offset this would have had an even more negative impact on my business* (Information & communication, Orkney)

#### 4.4.3 Reasons for No Impacts

The reasons given by those reporting *no impacts* largely related to their making few/no flights at that time. The following quotes illustrate this point.

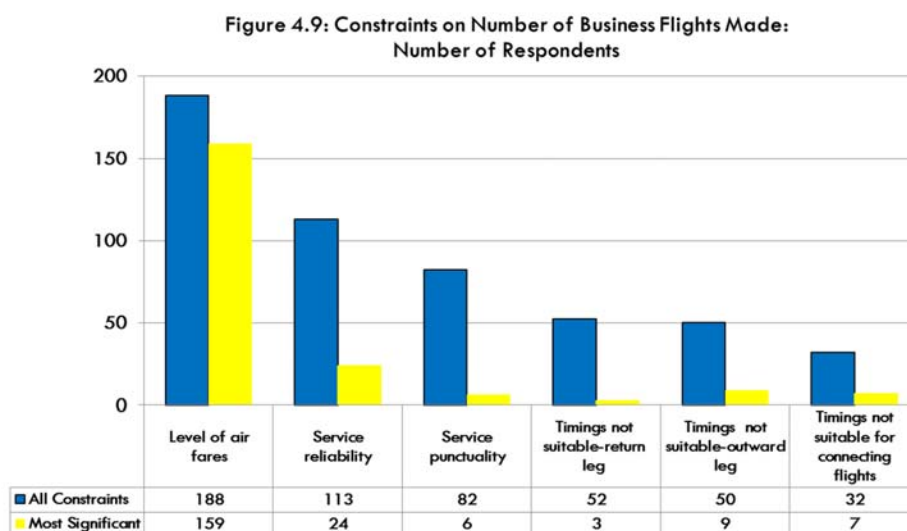
*No customers outwith local area at that time* (Construction, Caithness)

*Don't travel by air enough to make a difference* (Wholesale & Retail, Orkney)

#### 4.5 CURRENT CONSTRAINTS ON NUMBER OF FLIGHTS MADE

The survey asked businesses what, if anything, about current air services prevents staff from making as many business flights as they would like to. They were asked to note all such constraints and then the most significant one.

**Figure 4.9** shows that *level of air fares* are very much seen as the main constraint on the number of flights made.



It was highlighted by some 188 respondents. The second most common was *service reliability* (113) followed by *service punctuality* (82).

The position becomes stark when respondents identified the single *most significant* constraint on flight making. The vast majority-159-highlighted level of air fares: that is, three times more than the *total* for the other five aspects.

Thus, timetable issues are seen as less of a constraint on the number of flights made. This finding is supported by the **telephone interviews**. Most interviewees were positive about the timetables, including the ability to make onward connections.

However, two specific issues were raised. First, the middle of the day timings and lack of day trip opportunity for those travelling from the Northern Isles to Glasgow. Second, the timings of the services out of Wick are seen as causing a leakage of traffic to Inverness Airport by local businesses who are flying to England.

Very few telephone interviewees had reduced the number of flights made in the last 12 months due to airline reliability or punctuality issues. However, some had built in extra time (including overnight stays) in case of delays or cancellations.

## 4.6 INCLUDING ALL BUSINESS FLIGHTS WITHIN ADS: TRAVEL IMPACTS

### 4.6.1 Number of Flights

Respondents were asked to consider the potential impacts of a 40% reduction in the total air fare (i.e. including taxes and charges) through the inclusion of all business trips within ADS. The 40% figure reflects, as described earlier, that the headline 50% discount rate is applied only to the core fare element.

Some 218 respondents answered the question about the impact on the number of business flights they would make. The vast majority (90%) stated that their number of flights would increase, with the rest (10%) saying that their number of flights would not change.

### 4.6.2 Trip Generation and Diversion

#### **Flight Generation**

Respondents were then asked to estimate the number of extra return flights trips they would make in a 12 month period, on a route by route basis.

The additional number of flights was then compared to the current number to estimate the percentage uplift in demand. This was then compared to the percentage decrease in fare level (i.e. 40%) to estimate the implied elasticity of demand.

The elasticities varied by route. However, in most cases (13 out of 18 routes) they were between -1.3 and -1.6; that is, a 40% fare reduction would generate between 52% and 64% additional outbound business flights on the route. The *weighted average* across all routes was -1.5.

These elasticities are higher than would normally be expected for business air travel. This is likely to reflect a degree of overestimation of additional trips by survey respondents as might be expected from a stated intention-based survey. It can be expected that business demand for the air services would be price inelastic-i.e. a figure greater than -1.0. A recent study<sup>4</sup> referred to research-including by the UK CAA-that estimated short haul/domestic UK elasticities at between -0.5 and -0.7.

#### **Trip Generation and Diversion**

Respondents were asked to consider these additional flights in more detail. More than half (59%) stated that the flights would be a mixture of *wholly new trips* and *ones currently made by surface transport*.

Most others (28% of respondents) said that *all* the extra flights would be wholly new trips. The remaining 13% stated that the extra flights would all be ones currently made by surface transport.

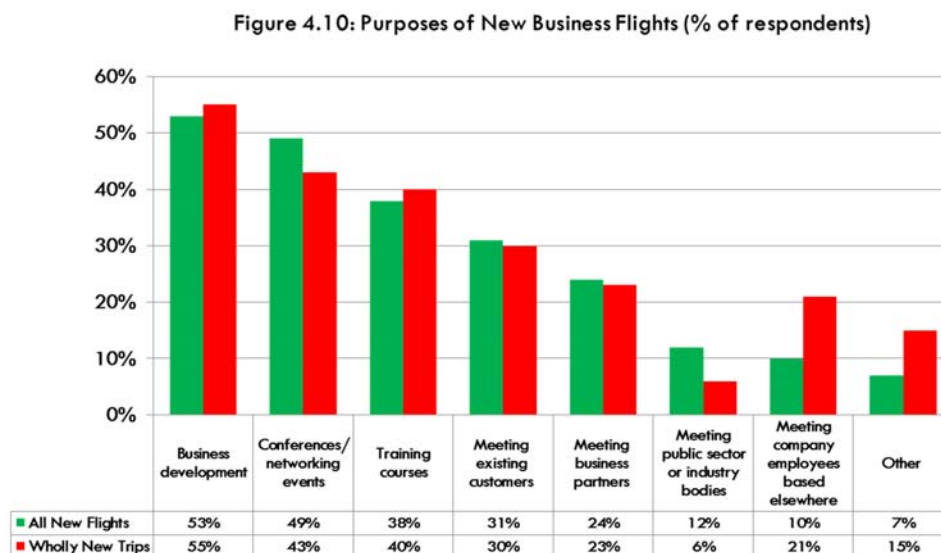
---

<sup>4</sup> *Exploration of Potential Demand for an Enhanced Stornoway-Aberdeen Air Service*, ekosgen, Reference Economic Consultants and RDC Aviation for HIE, September 2014

## 4.7 INCLUDING ALL BUSINESS FLIGHTS WITHIN ADS: BUSINESS IMPACTS

### 4.7.1 Purposes of Additional Flights

The purposes of these additional flights are shown at **Figure 4.10**.



For *all new flights* that would be made, the most common purposes would be business development, attending conferences/networking events and training. As shown at **Figure 4.7**, these three categories are also the most important ones for business' *existing* flights. However, business development would be *the most common* trip purpose for the new flights.

The results are similar for the flights that would be *wholly new trips*, which are also shown at **Figure 4.7**. However, meeting company employees based elsewhere is a more important purpose for these new trips.

### 4.7.2 Impact on Trip Duration and Types of Ticket Used

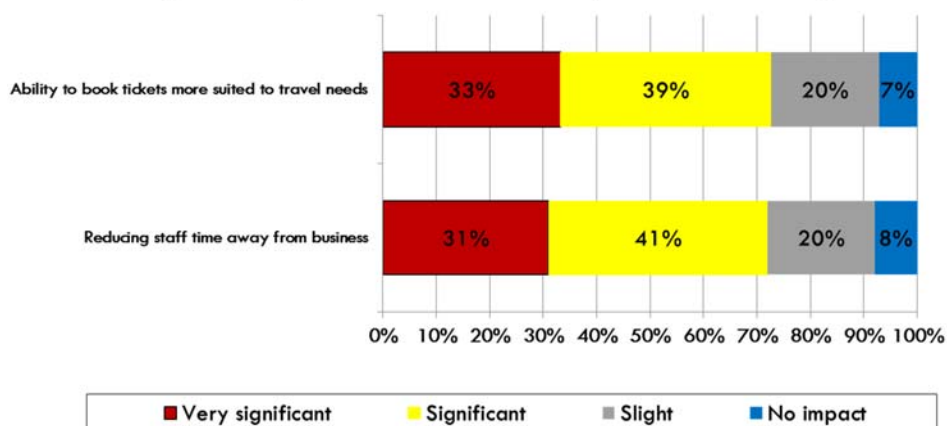
Respondents were asked about the impact of reinstating ADS (through both lower fares and any additional flights that they would make) in terms of:

- Increased use of air instead of surface travel-reducing staff time away from the business.
- Ability to book tickets more suited to travel needs-e.g. greater use of flexible tickets.

The results are set out at **Figure 4.11**, over.

They are very similar for both measures. Over 90% of respondents would expect a positive impact. Around one third see the potential impacts as "very significant", and a further c40% see them as "significant".

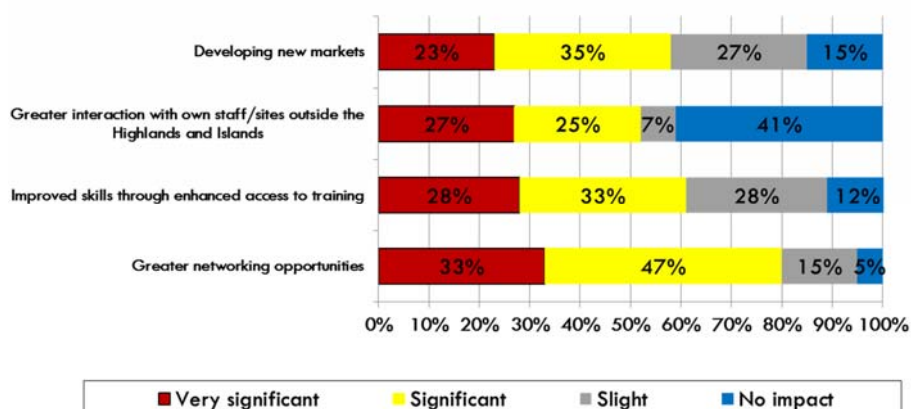
Figure 4.11: Impacts of ADS Reinstatement: Trip Duration and Ticket Types



#### 4.7.3 Business Impacts

Respondents were then asked to comment on the potential impact of reinstatement of ADS on a number of business aspects. The results are set out at **Figure 4.12**.

Figure 4.12: Business Impacts of ADS Reinstatement



Again the results are very positive. Between around one quarter and one third of respondents reported a “very significant” impact across all four measures.

The greatest impact is expected to be on networking opportunities. Some 80% reported either a “very significant” or “significant” impact. The figures for the other three measures are lower, lying between around 50%-60%.

The lowest impact is for interaction with parts of their company outside the Highlands and Islands.

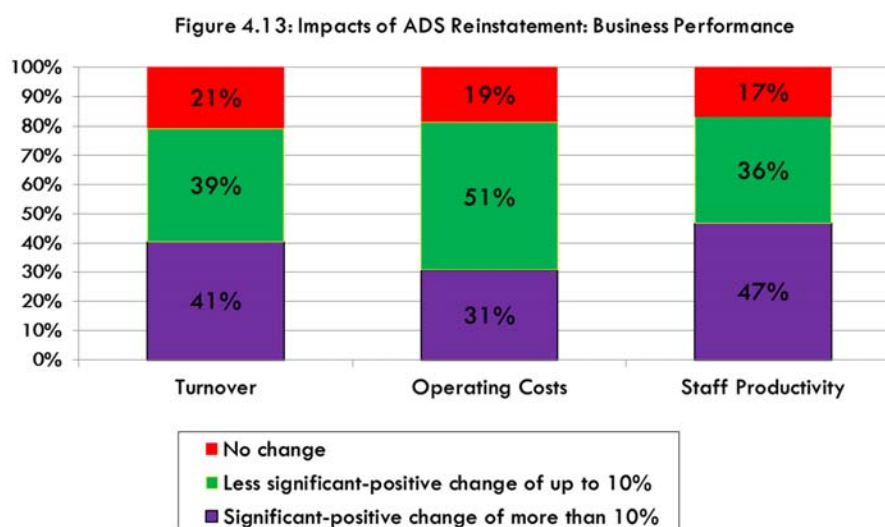
However, the picture is quite different for those businesses that *actually have sites outside the region*. Some 43% of them see ADS as potentially having a “very significant” impact on company interaction with the same amount seeing it as “significant”.

For businesses with sites outside the Highlands and Islands the impact on company interaction was higher than for the other three measures shown at **Figure 4.12**.

#### 4.7.4 Business Performance

##### Results

Finally, respondents were asked to assess ADS’ potential impact on three measures of business performance. The results are shown at **Figure 4.13**.



In each case c80% of businesses expect some impact. The greatest was expected to be on *staff productivity* with approaching half (47%) forecasting an increase of more than 10%.

Around 40% expect to see their *turnover increase by more than 10%* if ADS was reinstated for business travel, with slightly less (39%) forecasting a smaller increase. Compared to the survey sample as a whole, *those forecasting a more than 10% increase in turnover* were likely to be:

- Relatively small-i.e. annual turnover below £100,000.
- Heavily dependent on external markets-i.e. for more than 75% of their total sales.

There were lower expectations for operating costs. Still, around 30% expect a cost decrease of more than 10%.

Most **telephone interviewees** see the current cost of air fares as an issue for their business: although in most cases it is not the most important one that they face. Some representative quotes are shown overleaf.



*Good broadband and travel links are key* (Financial and business services, Caithness)

*Always trying to hunt for best deal/savings on air fares but broadband speed is going to be the most significant issue going forward* (Creative industries, Outer Hebrides)

*Air fares not one of the top issues for our business. However, ADS would definitely be a benefit* (Energy, Orkney)

*Cost is a really big factor but there are also issues with broadband* (Financial and business services, Outer Hebrides )

*Air fares is one of a number of issues we face* (Manufacturing, Orkney)

*Cost is less of an issue than reliability* (Agriculture and/or Forestry, Orkney)

### Supporting Information

Online respondents were asked to provide some information about the answers they gave to the business performance questions, as shown at **Figure 4.13**. A wide range of responses were provided. The most common ones can be summarised as follows:

- Improved productivity: 25% of those providing supporting information.
- More staff training and CPD: 18%.
- Potential new business/business development: 13%.
- The importance of face-to-face contact: 11%.

On the last point the **telephone interviews** showed that a number of people use VC-either their own or hiring other's-and skype is also well used. However, they are generally seen as better suited to some types of meeting (regular internal meetings with a small number of attendees) than others (large number of participants, those external to the organisation). Further, there was little expectation that businesses' number of flights would be further reduced by greater use of VC.

Some illustrative quotes from online respondents on the potential impacts of reinstating ADS are shown overleaf.

A number of businesses also referred to additional benefits if the last flight back of the day was later than at present. This would help to increase available working time at the destination.

The findings from the **telephone interviews** were quite similar to the online survey. However, a point made telephone respondents was that ADS would make short notice trips affordable which isn't always the case at present.

*While most of my work can be done remotely, it makes a big difference to business relationships meeting face to face, and there are contracts we may have own had we met face to face (Information & communication, Outer Hebrides)*

*I feel my business would benefit due to the fact lower fares would allow us to access more training courses (Wholesale & retail, Orkney)*

*Networking with the company would greatly improve, with Orkney/Shetland feeling "cut-off" from mainland business a lot. More staff involvement with training would be very beneficial (Wholesale & retail, Shetland)*

*The cost of air travel from Orkney to mainland Scotland in order to connect with transport links to the rest of the UK is my single largest costs. It equates to around 9% of my turnover and is growing (Financial and business services, Orkney)*

*Productivity-driving to Aberdeen is a waste of time (Oil and gas, Caithness)*

*For a small business, there is a massive trade-off between time and money on travel. For instance, being able to fly staff to and from Inverness might create significant new business (Information & communication, Outer Hebrides)*

*Easier to access our training needs and locations so as to remain compliant/competitive with mainland UK (Property, Orkney)*

*We are a new start up business and I will need to take numerous trips to develop our customer base (Food and drink, Orkney)*

*It would allow me to significantly increase my turnover as I would be able to visit trade customers and scope out new customers more often with less of a financial burden/risk (Creative industries, Orkney)*

*Face-to-face meetings are much more productive than teleconferences, especially if your persuading somebody to buy your product/service (Manufacturing, Caithness)*

#### 4.8 ONLINE RESPONDENTS' FINAL COMMENTS

The final online survey question was open-ended. It asked businesses to provide any other information on the potential impacts of reinstating ADS for all business flights.

Quite a number reiterated points covered earlier in the survey. However, additional points of note were:

- If new air trips could be generated this would improve load factors and either safeguard existing capacity or even lead to additional flights being put on. A number of Caithness businesses saw the opposite as currently happening at Wick, leading to reduced frequency of service and loss of business flights to Inverness Airport.
- Statements that the flight to/from the islands (or Caithness) is the most expensive leg of a trip to places outside Scotland.

- The effect of transport costs on business competitiveness-both in itself and compared to competitors elsewhere in Scotland and other parts of the UK.

A number of online respondents also stated that the financial cost of flights should be seen in the context of time-related costs associated with current flight frequencies and timings. They also need to be viewed in the context of what are seen as the high fare costs and time involved for inbound business visitors.

These points were also made by a number of **telephone interviewees**. They referred to the cost of return flights (e.g. £400 London-Benbecula, £400 Manchester-Sumburgh) discouraging business partners, suppliers and customers from travelling to their premises.

#### 4.9 SUMMARY

The survey respondents have quite a strong orientation to markets outside their islands/local area. Four in ten businesses make more than half of their sales to external markets. Thus, external transport is vitally important to them.

The businesses also serve markets beyond Scotland. More than half make flights to parts of the UK outside Scotland, and one in three to countries beyond the UK.

For businesses who use air, the average number of flights per year is slightly less than one a month. However, there is a wide variation-e.g. a third of businesses make no more than five flights a year.

The average annual spend on flights on the ADS routes is £2,500 per business. The most common purposes of flights are: conferences/networking; training; business development.

Most flights include an overnight stay. In addition to the air fare, the average spend is £100-£120 per night for accommodation.

Most businesses use the cheapest available, non-flexible tickets. Their bookings can be either short and longer notice ones. More than one third have occasion to book flights no more than two weeks in advance.

More than 75% of businesses use surface travel for at least some of their trips. Around 25% make *more* use of surface than air. This tends to be where relatively short ferry crossings are available-e.g. Orkney-and car travel by Caithness businesses.

More than half (61%) of businesses said that they had been affected by the 2011 withdrawal of ADS. Just 5% stated that there had been no impact. Most of those reporting an impact described it as a significant negative one.

Beyond simply increased travel costs the withdrawal of ADS was reported as having led to:

- Fewer flights being made.
- Greater use of surface travel.
- Reduced staff training/CPD.

- Reduced networking.
- Greater use of VC/teleconferencing.

There was little expectation that businesses' number of flights would be further reduced by greater use of VC.

Air fares are seen as a much greater constraint on the number of flights made than any other factor. Most businesses were generally positive about flight timetables, although some highlighted specific issues (e.g. no day trip opportunity) on individual routes.

The online responses imply quite a high level of price elasticity in response to air fare reductions. The levels are higher than those suggested by the 2008 evaluation. That is both in terms of number of additional *flights* that would be made, and the number of additional *business trips*.

The survey provides useful information on the likely positive response of the business' flight-making to a reduction in fares. However, in terms of *magnitude* of increase in flights, the trip reduction following the withdrawal of ADS (set out at **Chapter 2**) is probably a more accurate guide as to what might happen if ADS was to be reinstated.

It could be argued that if respondents are overstating the extra number of flights they would make then their business impacts could also be overstated. However, there is no numerical factor that can be applied with any reasonable degree of confidence to scale down the claimed impacts.

Most businesses expect that fare reductions through ADS would generate new flights that would be a mixture of wholly new trips and ones currently made by surface transport. The most common purpose of new flights that would be made with ADS fares would be business development, followed by conference/networking and training. More than 70% expect a "very significant" or "significant" impact from lower fares on:

- Allowing the purchase of tickets more suited to their business needs.
- Reducing staff time away from the business.

Between one quarter and one third of respondents expect a "very significant" impact from lower fares/additional flights on each of:

- Greater networking opportunities.
- Development of new markets.
- Improved skills through enhanced access to training.
- Greater interaction with staff/sites outside the Highlands and Islands.

The greatest impact is expected to be on networking. However, for those businesses that *actually have sites outside the Highlands and Islands* greater company interaction was seen as having the most significant impact for their business.

Around 80% expect the additional flights/lower fares from ADS to have a positive impact on each of staff productivity, turnover and operating costs. The greatest impact is expected be on productivity. Around four in ten survey respondents expect their turnover to increase by over 10% if ADS is reinstated.

Most see the current level of air fares as an issue for their business: although in most cases it is not the most important one that they face (e.g. need for improved broadband).

## 5 CURRENT PUBLIC SECTOR BUSINESS AIR TRAVEL

### 5.1 INTRODUCTION

This Chapter presents the information available for public sector travel. The main organisations known/expected to be significant users of the ADS routes were approached to supply information on the flights made by locally resident staff.

In addition we consulted a number of staff in some of the organisations to discuss issues around the type of flights they and their colleagues make, and how this might change of ADS was to be reintroduced. This was done in the form of telephone interviews.

Table 5.1 shows that a total of 25 interviews were undertaken.

TABLE 5.1: PUBLIC SECTOR CONSULTEES		
Organisation	Number of Consultees	Consultees
NHS Boards	5	NHS Highland; NHS Orkney; NHS Shetland; NHS Western Isles
CnES	5	Chief Executive; Development; Education & Children's Services; Finance and Corporate Services; Technical Services;
SIC	4	Children's Services; Community Health and Social Care Services Development; Infrastructure Services
HIE	3	Area Managers in Caithness and Sutherland, Outer Hebrides, Shetland
Scottish Natural Heritage	3	Staff based in Argyll; Orkney; Shetland
North Highland College	1	Principal
Nuclear Decommissioning Authority	1	Stakeholder Relations & Socio Economic Manager
SEPA	1	Area Manager-Stornoway
Shetland College	1	Acting Principal
Orkney College	1	Principal
<b>Total</b>	<b>25</b>	

### 5.2 NHS

#### 5.2.1 Introduction

This section presents available information from the four NHS Boards that cover the ADS eligible routes.

NHS Scotland has a negotiated rate for travel on the ADS services that are operated by flybe. This gives a c17% discount on the flybe fully flexible fares available on the airline's website. It also allows changes to flights to be made without additional charge and is also fully refundable in the event that a trip is cancelled. While this fare is available for all NHS travel staff tend to use the cheapest available fares which are below the negotiated rate.

On up to around 30% of flights patients are accompanied by an escort whose flight costs are also met by the NHS. Unless otherwise stated the figures in the following text for "patients" also include escorts.

### 5.2.2 Outer Hebrides

#### **Setting Travel Budgets**

In prior years, the *patient* travel budget was non cash limited which in effect meant that what was spent on Patient Travel, Scottish Government (SG) would give the Board that amount. Of course the Board still had to operate on the principles of best value and the most effective use of public money.

Since becoming cash limited, SG has given the Board a set annual budget for Patient Travel, which has been included in the baseline revenue resource limit, and the Board then has to manage within that. This amount was set by SG based on average spend over recent years/communication with the Board regarding activity, etc.

So the Boards are now given the budget and have to manage within that. If they overspend, they have to internally find the budget from another division to cover the shortfall. All Board revenue budgets are under a huge pressure which are monitored monthly and which are under pressure with work ongoing throughout the year to identify and achieve financial efficiency plans within them.

For *staff* travel each department has their own budget which the head of department is responsible for. The majority of budgets include a core spend on pay (salary costs of staff within the department) and some non-pay costs, which the likes of travel comes under.

As budgets are under pressure, the budgets set for travel are low and the department are expected to manage within that. Also too if the department is overspending in another area e.g. equipment purchases, they will have to reduce their spend on other items, which could often be travel, in order to bring their budget back to breakeven.

Generally, travel costs are set at a low level for departments, except for the likes of AHPs (Allied Health Professionals) who are required to travel in order to deliver patient care, but this will be internal travel.

#### **Booking Flights**

The NHSWI travel team uses the Chambers Travel online portal, which contains all the relevant information- flight times, availability, etc. All the tickets are set fares within the system-the nationally procured and negotiated “Flybe Route Deal” ticket.

**Table 5.2**, over, shows the total number of flights made by patients and escorts for the 11 months to the end of May 2016. The “bookings” shown are a mix of return and single trips but most will be the former. The period of 11 months reflects the data that NHSWI provided to us, rather than a full 12 months.

Around 8,200 bookings were made. More than 60% were on flights to Glasgow, with almost all others to Inverness. The total fare costs were slightly more than £2 million, two thirds of which were for flights to Glasgow.

**TABLE 5.2: NHS WESTERN ISLES: PATIENT AND ESCORT FLIGHTS: JULY 2015-MAY 2016**

Destination	Total Number of Bookings	Cost (£000)
Glasgow	5,022*	1,369
Inverness	2,968	636
Edinburgh	158	44
Aberdeen	43	12
Other UK	7	2
<b>Total</b>	<b>8,198</b>	<b>2,062</b>

\* Note: This figure will include some Barra-Glasgow trips

**Table 5.3** provides the same information for staff travel.

**TABLE 5.3: NHS WESTERN ISLES: STAFF FLIGHTS: JULY 2015-MAY 2016**

Destination	Total Number of Bookings	Cost (£000)
Glasgow	610*	80
Edinburgh	259	33
Inverness	157	16
Aberdeen	6	1
Sumburgh	4	1
Kirkwall	2	1
Other UK & Ireland	67	8
<b>Total</b>	<b>1,105</b>	<b>140</b>

\* Note: This figure may include some Barra-Glasgow trips

Around 1,100 bookings were made. As with patient/escort travel more than half were on flights to Glasgow, with almost all others to either Edinburgh or Inverness.

The total fare costs were £140,000. That is far below the costs for patients/escorts. This reflects the much lower number of flights made plus staff's use of cheaper fares rather than the flexible negotiated rate tickets offered by flybe.

### Financial Issues

At present if *patients* require to travel off island for care and treatment NHSWI have to fund that. However, as budgets are increasingly under pressure work is underway to look at the current travel policy and where savings can be made. This would include the level of subsistence reimbursed to patients along with introducing a really stringent escort approval policy.

NHSWI told us that they are aware some other island Boards are considering only allowing flights by exception and all other travel by sea. This will impact adversely on patients from the financial perspective as well as making the practicalities of travelling more difficult.

There has been a reduction in some *staff* travel due to the higher costs of tickets since 2011. Budgets have been particularly under pressure in recent years.



Often when budgets are overspending or the financial projections are looking poor, the Board will enforce a travel ban on non-clinical staff travel with only travel allowable by exceptional circumstances and at the approval of the CEO. This stops staff from being part of national groups, meetings, workshops as VC facilities are often poor and do not work well in these forums. Staff are missing out on training and upskilling opportunities.

### **Impacts and Benefits of Reintroducing ADS**

The patient travel budget that could be 'saved' by reinstating ADS would be reinvested into core services (acute or community based) and lead to better services provided locally for the Outer Hebrides.

For every pound of NHS money spent on the likes of admin, travel, etc., it is money taken away from frontline services and patient care. Although a certain amount of these costs are essential for the running of the Board and the delivery of care to patients, by reducing these costs and working effectively in these areas, it can divert the budget back into quality frontline services for patients with Outer Hebrides and ultimately the best use of resources available to the NHS.

#### **5.2.3 Highland and Argyll & Bute**

### **Geographical Coverage**

NHS Highland covers a large area from Caithness and Sutherland to the north, though Inverness and down to Argyll & Bute area to the south west.

Long distance travel that might involve air travel is mainly associated with Caithness General Hospital and activity in Argyll & Bute-notably Islay, Jura, Colonsay and Campbeltown. (However, the last of these is not eligible for ADS, given that Campbeltown-Glasgow is a PSO air service).

### **Setting Travel Budgets**

Scottish Government devolved the budget responsibility for the Highlands and Islands Patient Travel Scheme in recent years. The budget for patient travel is set against the notional budget that comes from Scottish Government. Broadly there is around £3 million spent annually through the Highlands and Islands Patient Travel Scheme.

### **Booking Flights**

Caithness and Sutherland travel bookings for patients and staff are undertaken in Inverness. The 'Chambers' travel booking system is used. Through this the NHS get some route deals; the Chambers *deal* has been negotiated collectively nationally and Chambers are essentially the national travel agent for the NHS in Scotland. In Argyll & Bute three different site offices undertake patient travel bookings.

On some occasions patients might book their own travel-particularly if the travel is at short notice-and then will reclaim the cost later. Staff advise patients that if they book this travel with ADS then the cost cannot later be reimbursed by the NHS.

NHS Highland's general policy on travel, particularly relevant for those living in Argyll & Bute is that they will only pay the cheapest travel option-which is usually road. However, medical needs will outweigh the cheapest option as required.

### **Number and Cost of Flights**

From Wick *patients'* key destination is Aberdeen, for particular specialities and tests/treatments not available locally at Caithness General Hospital.

There is no *staff* travel by air from Caithness. This has been actively discouraged, while we were also advised that the staff mix in Caithness means there is very little need to travel further than Inverness.

We were unable to obtain flight numbers and costs from NHS Highland, which would relate to flights from Wick to Aberdeen and Edinburgh, and the Islay-Glasgow service.

### **Financial Issues**

It was commented that perhaps the Board(s) that make most use of flights should be looking to making bookings in other ways as it was felt that the NHS was not always getting the most from the patient travel.

NHS Highland is currently reviewing patient travel policies and processes in the face of tight budgets and increasing demand to travel for specialities. It was reported that NHS Grampian is struggling with capacity in some specialities and so NHS Highland may also be looking to travel to further afield, e.g. the Golden Jubilee in Glasgow-to keep up patient flows and to ensure Waiting Time Guarantee targets are achieved.

Since the HITS budget has been devolved more attention is being paid to patterns of usage as the budget is constantly under pressure. For example, NHS Highland are currently looking to better understand the reasons for the level of travel spend-e.g. on flights to/from Islay, and the necessity of escorts in some cases.

Staff travel is relatively limited. Main travel by air is where it is an option to attend national events in the central belt. However, this is almost always undertaken by road or rail. There might occasionally be trips to London etc., where it makes sense that a first leg is by air, but these are infrequent.

#### **5.2.4 Shetland**

### **Setting Travel Budgets**

The budget for patient travel is set according to the indicative budget for HITS from Scottish Government. The travel budget for staff is based on the previous year's. If a budget holder feels this is no longer sufficient for their requirements they are required to submit a cost request during budget setting which the board will then consider.

## Booking Flights

Bookings for both staff and patients are made by the patient travel department. For staff travel the budget holder authorises the travel request form before emailing it.

For patient travel the patient or their representative contacts the department to request travel be booked. Medics determine whether an escort is necessary for the trip being made. Escorts are included for c30% of all patient trips.

## Number and Cost of Flights

**Table 5.4** sets out the number and cost of flights in the last two financial years.

<b>TABLE 5.4: NHS SHETLAND: NUMBER AND COST OF FLIGHTS</b>				
<b>Year</b>	<b>Patients/Escorts</b>		<b>Staff</b>	
	<b>Number of Bookings</b>	<b>Cost (£,000)</b>	<b>Number of Bookings</b>	<b>Cost (£,000)</b>
2014-15	5,720	2,053	680	205
2015-16	6,400	2,192	560	133

The majority of patient/escort flights are to Aberdeen. The cost of a return flight, including the volume-related discount, is around £362. That comprises a core fare of £320 and taxes and charges of £42.

Some people also travel by ferry. In 2015-16 around 1,900 trips were made that way. NHS Shetland are looking at whether more use can be made of the ferry service.

## Financial Issues

NHS Shetland have been looking closely at number and cost of flights in response to significant uplifts in expenditure, particularly for patient (and escort) travel. They are collating collecting information on flight usage by speciality in order that this can be examined in more detail.

There have been changes in services. For example, challenges in securing a local orthopaedic service, which in the past has been a visiting service from Grampian, meant that in 2015-16 patients were travelling off Shetland to receive this service.

There is national under-capacity in some services, such as orthopaedics. There are other peaks in flight usage for example following a visit of the breast screening bus, when a number of women will be called for a follow up in Aberdeen.

There are plans to be more strict in terms of the escort policy in the future due to budget constraints. NHS Shetland is working with the Red Cross on an escort service that could substitute for some of the current escort activity. NHS Shetland is working to fully ensure that escorts' travel is funded only when they are clearly required.

NHS Shetland generally try to discourage staff travel due to the cost and also the time away from the islands.

They have a budget for learning and development, which includes an allocation for travel where this is necessary. Training/development needs are graded high, medium and low priority. In practice only the high needs are able to be fulfilled, often due to the cost of travel and accommodation, and back-filling for particularly clinical staff.

Many national training and learning events are seen as difficult to attend due to costs. That is especially when they are held outwith the central belt (e.g. Perth, Stirling) which adds extra time and expense. Networking is important for staff, but in practice it is too expensive for them to take part.

NHS Shetland currently try to minimise travel by using VC for meetings. This is seen as potentially very good for one to one or small group sessions, but not so for conferences or large meetings. Further, in some cases VC is not available at where the meeting is being held.

### **Impacts and Benefits of Reintroducing ADS**

NHS Shetland told us that if ADS was available this would have a “huge” financial impact, could be used to support frontline clinical services.

The financial gain from reduced staff travel costs would be much less significant. However, there would be a beneficial increase in trips to attend national meetings and training courses. The difficulty in attending national meetings also reduces the ability to network and build effective working relationships with other Health Boards.

#### **5.2.5 Orkney**

##### **Setting Travel Budgets**

Since the Highlands and Islands Travel Scheme was created travel costs have become a Board responsibility and cash limited. Travel budgets are based on the historic number of patients that were seen when the SLAs (for patient treatment) were created, increased to account for cost inflation and the increased number of patients.

##### **Booking Flights**

Under the Highlands and Islands Travel Scheme the patient is required to pay a statutory charge of the first £10 of travelling expenses, unless in receipt certain benefits. Patients can choose to travel by air or sea, although air travel is NHS Orkney’s preferred mode of transport.

The current contract for travel is with Chambers Travel. Through this contract there is direct access to the Global Distribution Service (GDS) SABRE for air bookings. Although NHS Orkney make the bookings direct on SABRE, Chambers Travel manage the bookings, credit and ticketing of all air tickets.

All NHS Orkney patient travel flights to mainland Scotland are booked using the Loganair/Flybe negotiated route deal for fully flexible, refundable tickets.

Prior to 2011 NHS Orkney also booked staff flight on the NHS negotiated rate. However, this was discontinued due to it being more cost effective to book staff travel on tickets with at the published flybe prices. However, these are non-refundable, do not offer last seat availability and while they are changeable this incurs change fees and fare increases.

### Number and Cost of Flights

**Table 5.5** shows the number and cost of air trips made by patients and escorts in recent years. These are a mix of return and single flights-but will very largely be the former.

<b>TABLE 5.5: NHS ORKNEY: PATIENT AND ESCORT FLIGHTS</b>		
<b>Year</b>	<b>Number of Bookings</b>	<b>Cost (£000)</b>
2013-14	6,521	1,939
2014-15	6,704	2,054
2015-16	7,375	2,227

In the most recent year over 7,300 flights were taken by patients and escorts at cost of around £2.2 million. Both flight numbers and costs have risen in each of the last two years.

In 2015-16 a total of 539 bookings were made for staff travel. That figure will include some single trips and also covers ferry as well as air travel. The number of bookings has been broadly similar in each of the last three years.

NHS Orkney view patients' negotiated fare prices as expensive, although slightly cheaper than the standard flybe fully flexible tickets. However, patients are not able to take advantage of lounge access, and it was reported that some have had poor experiences waiting at the airports, particularly Aberdeen. It was felt that for the high cost associated with the flight there should be some lounge access available to improve the experiences of patients and escorts while waiting for flights.

## 5.3 OTHER PUBLIC SECTOR ORGANISATIONS

### 5.3.1 Flight and Cost Summary

**Table 5.6**, over, sets out the information for public sector organisations other than the NHS. The data include flights where an ADS route was one leg of a longer air trip-e.g. Stornoway-Glasgow-London.

The 12 organisations spent £1.2 million on flights in the last financial year. They made approaching 4,100 return trips on the ADS routes.

Clearly, some organisations are much bigger users than others. The three island Councils each made more than 900 flights at a cost of over £275,000.

**TABLE 5.6: OTHER PUBLIC SECTOR ORGANISATIONS: USE OF ADS ROUTES BY LOCALLY BASED STAFF: 2015-16**

Organisation	Number of Return Flights	Cost (£000)
CnES	1,078	277
Orkney Islands Council	922	248
Shetland Islands Council	915	321
HIE	484	151
Scottish Water	290	85
SEPA	143	39
SNH	109	34
Orkney College	95	26
Shetland College	35	10
Argyll and Bute Council	25	4
Highland Council	5	1
North Highland College	3	1
<b>Total</b>	<b>4,104</b>	<b>1,197</b>

Together they account for just over 70% of the total flights and cost shown at **Table 5.5**. The six largest users collectively account for 90% of flights and expenditure.

Across the 12 organisations the average cost per flight was £291. The figures varies from around £160 for Argyll and Bute Council travel on the Glasgow-Islay route to £350 for SIC's flights.

### 5.3.2 Most Used Routes and Fares Paid

**Table 5.7** identifies the main routes used by the organisations as a whole and the (weighted) average (mean) fare paid.

**TABLE 5.7: ROUTES WITH HIGHEST USAGE: AVERAGE RETURN FARE PAID**

Most Used Routes	Average Return Fare
<b>Shetland</b>	
Edinburgh	£371
Inverness	£308
<b>Orkney</b>	
Edinburgh	£356
Inverness	£257
<b>Stornoway</b>	
Glasgow	£300
Inverness	£249
<b>Benbecula</b>	
Glasgow	£270
Inverness	£267
<b>Wick</b>	
Aberdeen	£286
Edinburgh	£304
<b>Islay</b>	
Glasgow	£165

Inverness is in the “top 2” routes for public sector business travellers from Shetland, Orkney and the Outer Hebrides. However, in each case it has a lower level of demand than either Edinburgh or Glasgow. The organisations surveyed also make more use of the Wick service to Aberdeen than the one to Edinburgh.

The highest average fares are on the three Edinburgh routes. They are more than £350 from both Shetland and Orkney and over £300 from Wick. Fares on the Glasgow routes are lower-and noticeably so from Islay.

The average Inverness fares are broadly similar on each of the four routes. They range from c£250 from Stornoway to slightly more than £308 from Shetland.

### 5.3.3 Comparison to 2010-11

Five of the organisations were able to provide information for financial year 2010-11-i.e. the last year before ADS was no longer payable for business trips. This allows some comparison of the “before” and “after” positions.

**Table 5.8** compares the number of flights made in the two relevant years.

<b>TABLE 5.8: NUMBER OF RETURN FLIGHTS TAKEN: 2010-11 AND 2015-16</b>			
<b>Organisation</b>	<b>Number of Flights</b>		<b>Difference</b>
	<b>2010-11</b>	<b>2015-16</b>	
Shetland Islands Council	1,146	915	-231
HIE	312	484	172
Scottish Water	58	290	232
Orkney College	166	95	-71
Shetland College	101	35	-66

There is a mixed picture. There were fewer flights in 2015-16 by SIC and the two colleges. The most significant decreases in percentage terms are by the two Colleges, of over 40% (Orkney ) and 65% (Shetland).

SIC’s flight numbers are 20% lower than five years before, with around 230 fewer flights made. In contrast, the number of flights made by HIE and Scottish Water increased between the two years<sup>5</sup>.

**Table 5.9**, over, shows the change in the total cost of flights.

Despite the significant drop in the *number* of flights made by SIC and the two Colleges their *spend* on flights fell only slightly-by no more than £10,000. SIC’s 20% reduction in flights coincided with a fall of just 3% in expenditure.

<sup>5</sup> HIE told us that they expect that at least some of their increase in flights between the two years is because the number of flights in 2010-11 was depressed by a number of factors. These include volcanic ash and a severe winter, as noted at Chapter 2.

**TABLE 5.9: TOTAL COST OF FLIGHTS: 2010-11 AND 2015-16**

Organisation	Spend (£000)		Difference
	2010-11	2015-16	
Shetland Islands Council	331	321	-10
HIE	57	151	94
Scottish Water	16	85	69
Orkney College	27	26	-1
Shetland College	20	10	-10

In contrast, the spend by HIE and Scottish Water rose markedly. HIE's spend increased by more than 150%-well above the increase (55%) in the number of flights made.

Two factors are at play here. First, the change in the number of flights made, and second, changes in the average cost of flights. The latter will reflect not only general air fare inflation but also the fact that ADS was no longer available.

SIC's average fare per flight increased from £289 in 2010-11 to £350 in 2015-16, a rise of 21%. Further information on changes in fare levels is set out at **Table 5.10**.

**TABLE 5.10: SHETLAND ISLANDS COUNCIL FLIGHTS: CHANGE IN AVERAGE FARE BETWEEN 2010-11 AND 2015-16**

Destination	2010-11	2015-16	Change
Glasgow	£194	£351	81%
Edinburgh	£212	£368	74%
UK Outside Scotland	£299	£463	55%
Aberdeen	£193	£298	54%
Inverness	£189	£282	49%
Orkney	£122	£179	47%
Outside UK	£827	£512	-38%

For all bar one destination the average fares rose between the two years. The increase varied from c50% (Inverness and Orkney) to over 70% of the Edinburgh and Glasgow routes. These increases are higher than the effect of the loss of ADS alone-which would have raised fares by around 49%.

However, a key difference between the two years is the lower fares paid for flights to destinations *outside the UK* and a significant reduction in the number of these flights. That explains why the overall average fare increased by 21% between the two years but it increased at a much higher rate on almost all of the routes shown at **Table 5.10**.

Between the two years HIE's average fare rose from £182 to £312, an increase of more than 70%. **Table 5.11**, over, provides further information on the fares paid for HIE flights, based on a representative sample of the routes used by their staff.



**TABLE 5.11: SELECTED HIE ROUTES: CHANGES IN AVERAGE FARE BETWEEN 2010-11 AND 2015-16**

Route	2010-11	2015-16	Change
Kirkwall-Aberdeen	£171	£407	138%
Stornoway-Edinburgh	£207	£377	82%
Benbecula-Glasgow	£191	£321	68%
Kirkwall-Edinburgh	£233	£378	62%
Wick-Aberdeen	£188	£272	45%

The picture is quite similar to that for SIC. The increases are clearly above that caused by the removal of ADS-which would have raised fares by c49%<sup>6</sup>. The actual increases go from 45% on Wick-Aberdeen, to over 80% for Stornoway-Edinburgh and more than 100% on Kirkwall-Aberdeen.

HIE are of the view that this scale of increase could be because fares in 2010-11 were depressed because underlying demand was reduced in that year. As discussed earlier, this could be due to factors such as the recession and volcanic ash. HIE contrasted this to 2015-16 when, they believe, greater demand will have increased the average fare paid.

#### 5.3.4 Telephone Interview Findings

The local authorities generally set their travel budgets on a departmental basis, as do individual sections of other organisations (e.g. SNH). In contrast, some others have no specific travel budget. Rather, the cost is subsumed within a wider operational budget.

HIE's travel budget is set centrally. No specific budget figures are allocated to individual area offices.

Colleges that are parts of the local authority have their travel budgets set by them (i.e. OIC and SIC).

A number of consultees require **flights to be approved** by more than one other staff member and/or have developed a stricter approval process since 2011. Policies and practice include:

- Downward pressure on trip-making for environmental reasons (albeit this is only in a small number of organisations).
- Not sanctioning trips unless they include a number of meetings.
- Expectation that staff will travel using the lowest available air fare.

A number of organisations are actively looking to **minimise staff trips**. This can be for other than cost grounds-e.g. environmental. However, others do so because they view travel as unproductive time, or as eating into staff's time outside work. A couple of consultees stated that staff training is increasingly being done in Shetland rather than off-island.

<sup>6</sup> The application of ADS at 40% reduced the average fare to 0.67 of its headline level (a *reduction* of 33%). Taking the fare back to its former level required an *increase* of 100/0.68 i.e. 49%

In contrast, some developments have **increased demand for travel**. A number of organisations (notably HIE) now have staff with network-wide responsibilities based in the islands rather than in the mainland HQ. Additional trips have also been generated by specific initiatives/policy developments-e.g. *Our Islands Our Future*.

Most commonly, staff are **booked on their flights** 1-2 months in advance. This tends to be for activities whose dates are fixed-e.g. regular meetings of national fora, training courses.

Otherwise, the notice is largely less than one month. This reflects some short notice demands. It is also because staff are looking to book a number of meetings to make the time and cost of the trip worthwhile. This can mean that the itinerary-and its flights-are not finalised until about one week before the trip. Even where a booking is made is a month or so before the day of travel the cheapest fares may no longer be available.

**Overnight stays are more common than day trips.** In most cases, there is a broadly even split between the two, but in other cases the trips are mainly overnight ones. This reflects:

- A desire to ensure that staff get the maximum value out of the trip by undertaking a number of meetings; and/or
- That some flight timetables do not allow a day trip to be made.

For organisations who are not local authorities the **most common trip purposes** are internal meetings and training. For local authorities, and others' non-internal trips, the most common meeting purposes are:

- Training.
- For national fora (e.g. education).
- With Scottish Government.
- Project-related.
- With external organisations-e.g. suppliers, funding bodies.

Bodies with Inverness HQs make most of their flights to the city. These include HIE, SNH and Colleges that are part of UHI.

Otherwise, Edinburgh is clearly the main destination, followed by Glasgow. There are relatively few trips to Aberdeen. Flights outside Scotland are very rare.

A number of consultees gave the **cost of recent return flights** they had made:

- Sumburgh-Glasgow/Edinburgh: £400-£450.
- Stornoway-Edinburgh: £393.
- Stornoway-Glasgow: £296-£394.
- Kirkwall-Edinburgh: £300.
- Sumburgh-Aberdeen/Inverness: £200-£224.

In addition to air fares **trips also incur other costs**. Most consultees would expect to pay around £80 for a hotel room, with others citing £100-£110. There would also be additional subsistence costs per night-£20-£30 was quoted. Further, there can be onward travel costs to destinations which may be some distance from the airport-e.g. Perth, Stirling.

Consultees were generally positive about the **current air timetables**. That included the amount of time available at the destination, frequency and the number of routes operated. For example:

*Flight frequency can't be faulted. Much better than 10-20 years ago-gives a full day's business (CnES)*

*Timetables are the best they have ever been. Highest frequency, best network (Shetland Islands Council)*

However, a small number referred to specific issues which reduce the usefulness of the services:

- Limited frequency on Sumburgh-Glasgow.
- Lack of day trip opportunity on Stornoway-Aberdeen.
- Short working day available in Edinburgh from some Stornoway flights.

Most consultees make some use of **VC and teleconference** for meetings. They are seen as working best for internal meetings and/or ones that are short. Some noted the increased availability of VC among other organisations.

However, some consultees view VC as having drawbacks. The most commonly reported ones were:

- Not being there in person means missing out on the networking that occurs around the meeting.
- Some organisations do not have access to VC or rooms/equipment suited to teleconferencing.
- Interaction can be stilted.

Most consultees' staff make some use of **surface transport**-but only for a small number of trips. Air is the dominant mode because it offers a much faster journey time. Also, the destination airports are near the Scottish cities they serve. Apart from Aberdeen, the ferry ports (e.g. Scrabster) are distant from final destinations.

The ferry services that are used are largely the short sea crossings from Orkney, and Lerwick-Aberdeen. The main reasons given for using surface transport were quite specific:

- Convenience of Lerwick-Aberdeen sailing for meetings in Aberdeen itself.
- Some staff don't like flying.
- Relatively low frequency of Kirkwall-Inverness flights.

The well-publicised issue of Loganair **reliability and punctuality** does not seem to have caused a discernible reduction in the number of trips made.

Rather, they have led to:

- Staff having to build in extra time and costs (i.e. overnight stays) to ensure they make meetings on time.
- Replacing some air trips with surface travel.

While this is likely to be temporary, a number of consultees did not believe that air service reliability and punctuality has improved in recent months.

A clear majority of the organisations are facing **general pressure on their budgets**. This includes the amount available for travel. At least part of the fall in flight numbers since 2011 is due to financial pressures rather than the withdrawal of ADS.

For example:

*We have tightened up travel spend due to general level of FE funding (College)*

*Travel has been reduced but that's not solely due to withdrawal of ADS (CnES)*

Most consultees believed that the **2011 withdrawal of ADS** has led to fewer staff trips. The main knock-on impacts of this were seen as:

- Less attendance at conferences.
- Reduced participation in national fora.
- Missing out on the networking around meetings.
- Lower levels of training-e.g. one staff member attending rather than two or three.

The potential impact on flight-making from **reinstating ADS** is not clear cut. Broadly:

- 60% felt that flight numbers would increase; while
- 40% felt that they would not change.

Where the number of flights would *not* change this was due to:

- Increased general budgetary pressures; and/or
- A view that air fare savings would be better spent on activities other than extra flights.

Comments included:

*ADS would reduce costs but we would spend the saving on economic development. No way would travel increase (HIE)*

*Would be a welcome saving, but no additional flights because of pressure on staff time resources (SNH)*

Further, even where flights would increase some consultees said that this would not be back to pre-2011 levels.

The **main purposes of additional flights** stimulated by ADS were expected to be:

- Conferences and seminars.
- Training events.
- Increased meetings with staff based elsewhere.

*Would make a significant difference. Quite often we are allocated places at conferences and seminars. We can never take up the places due to costs, a significant part of which is airfares (CnES)*

*Extra flights-research conferences, exam assessment, courses, getting students together (College)*

*More face-to-face meetings, training events and bringing units together (SNH)*

## 5.4 SUMMARY

### 5.4.1 NHS

NHS have a 17% discount on fully flexible fares which are also fully refundable. These are used for travel by patients. They are also used by escorts who accompany them and whose travel is funded by NHS. Some 30% of patients travel with these escorts.

Flight and cost data are available for patient travel that is funded by the three island Health Boards-i.e. Orkney, Outer Hebrides and Shetland. They show, in total, around 23,000 **patient and escort** flight bookings over a 12 month period-most of which will be return flights. The total cost of these flights was around £6.7 million.

Glasgow and Inverness are the main routes used for patient/escort travel from the Outer Hebrides. Aberdeen is the main one for both Orkney and Shetland.

The number of flights made by **staff** is much less than those by patients/escorts. In the 12 month period around 2,300 staff bookings were made by the three island Boards-most of which will be return flights.

Staff travel tends to be on cheaper less/non-flexible tickets. The cost of staff travel are only available for the Outer Hebrides and Shetland. In the 12 month period it totalled around £280,000, covering c1,800 bookings.

No data were provided by NHS Highland. However, we would expect the number of trips and spend to much less than that of the island Health Boards.

Financial pressures will mean efforts to reduce the number of flights made by patients and escorts. This will be through:

- Reducing the number of escorts whose travel is funded by NHS.
- Having more patients use surface transport rather than air.

Financial pressures and the withdrawal of ADS have resulted in fewer staff flights since 2011.

The reported knock-on effects of this were:

- Staff missing out on training and upskilling opportunities.
- Reduced/no staff involvement in national groups, meetings and workshops.

If **ADS was introduced for patient travel** then the savings would be reinvested in core services. Available data suggest that a 50% headline ADS rate would generate a total saving of around £2.9 million per year across the three island Health Boards.

If **ADS was reinstated for staff travel** the financial impact would much more modest- c£130,000 per year across the Outer Hebrides and Shetland Boards. At least some of this would be used to pay for additional staff flights. These would be for participation in more national groups and staff learning/training.

#### 5.4.2 Other Public Sector Organisations

Data were collected from a sample of 12 public sector organisations. Their staff who live in ADS eligible areas make around 4,100 return flights per year on the ADS routes. Their cost is £1.2 million. The main routes used are to Edinburgh, Glasgow and Inverness.

As expected at the outset the three islands local authorities account for a large proportion of this activity. That is, around 2,900 flights and spend of £850,000. Each makes over 900 return flights per year, greater than the number of trips by NHS staff. Outside the NHS and the three local authorities, we identified only two public sector bodies that make more than 250 return flights per year (HIE and Scottish Water).

The number of flights made by SIC has fallen by 20% since ADS was withdrawn in 2011. Both Orkney and Shetland Colleges have seen a proportionately high reduction in their flight numbers. In contrast, some organisations (e.g. HIE) are now making more flights than before-although this may reflect their abnormally low number of flights in 2010-11.

Based on the (limited) data we have for “before and after” ADS, the average fare paid in 2015-16 is markedly higher than simply the increase from the withdrawal of ADS. This will reflect general fare inflation. It may also be due to changes in organisations’ mix of higher fare flexible tickets and lower cost non-flexible ones.

Most consultees believe that the 2011 withdrawal of ADS has led to fewer staff flights. The main knock-on impacts of this were seen as:

- Less attendance at conferences.
- Reduced participation in national fora.
- Missing out on the networking around meetings.
- Lower levels of training.

However, where flight numbers have fallen this seems to be only *partly* due to the withdrawal of ADS. It is also due to:

- General budgetary pressures facing the organisation.

- In some cases, a conscious effort to reduce travel for environmental reasons and/or because it is felt to be unproductive per se.

There is also increased pressure to book flights well in advance to get a relatively cheap ticket. However, this is not always possible as staff are encouraged to arrange a number of meetings for their trip-to justify the cost and time away from the office.

Across the 12 organisations the average cost per return flight is £291. Most trips are overnight rather than returning the same day. This involves additional costs c£100 for accommodation, and subsistence of £20-£30, per night.

The most common purposes of meetings are:

- Training.
- For national fora (e.g. education).
- With Scottish Government.
- Project-related.
- With external organisations-e.g. suppliers, funding bodies.

There is some use of surface transport. However, due to the additional time involved it is used only very occasionally. Surface travel by public sector bodies appears less common than among the private sector (as reported at **Chapter 5**).

A headline 50% ADS rate would generate a total saving of around £500,000 per year across the 12 organisations surveyed. Over 70% (£360,000) would accrue to the three islands local authorities. The average return air fare across the 12 organisations would fall from £291 to £166.

The potential impact on flight-making from reinstating ADS is not clear cut. Broadly:

- 60% of consultees felt that flight numbers would increase; while
- 40% felt that they would not change.

Where the number of flights would *not* change this was due to:

- Increased general budgetary pressures; and/or
- A view that air fare savings would be better spent on activities other than extra flights.

Where additional flights would be generated by ADS, their main purposes were expected to be:

- Conferences and seminars.
- Training events.
- Meetings with staff based elsewhere.

## 6 MECHANISMS FOR INCLUDING ALL BUSINESS TRAVEL WITHIN ADS

### 6.1 ADS FOR PRIVATE SECTOR BUSINESS TRAVEL

#### 6.1.1 Establishment of ADS in 2006

ADS was introduced in May 2006. The scheme was notified to the European Commission (EC) by the UK Government on behalf of Scottish Government. The type of support used was aid of a social character.

The notification of the scheme<sup>7</sup> referred to Scottish Government's rationale for introducing ADS. It was because air services to the eligible areas had high fares due to the "thinness" of passenger numbers. The document goes on to state that:

*"the high fare levels act to increase the isolation of the communities in these remote regions by creating a barrier to social and commercial activity. The aid of a social character scheme has therefore been designed to promote social inclusion of the populations of these isolated regions"*

Notwithstanding the reference to "promote social inclusion" the document later states-under a heading "necessity and justification of the measures"-that:

*"The aim of the measure is to reduce the isolation of these communities by tackling the high fare levels that create a barrier to social and commercial cohesion"*

Thus, the aim is to remove a barrier to "commercial" cohesion-not solely to address "social cohesion".

The EC stated that it "*decided not to raise any objections to the measure in question on the grounds that the aid is compatible with the Common Market*".

The wording implies that air trips for "commercial" purposes would be supported under the scheme. However, Scottish Government has since stated that "businesses and local government have never been eligible for inclusion in the Air Discount Scheme".<sup>8</sup>

#### 6.1.2 Aid of a Social Character

ADS is based on aid of a social character. It operates through the "direct operational subsidisation of air routes"<sup>9</sup> provided that the following conditions are met:

---

<sup>7</sup> European Commission Brussels, 16.V.2006 C (2006) 1855 final

<sup>8</sup> Scottish Parliamentary Question answered by Keith Brown on 30/08/2012

<sup>9</sup> Brussels, 29/06/2011 C(2011) 4488 final: State aid No SA.32888 – Germany – Exemption from air transport tax as regards flights of people domiciled on islands and other cases



1

The aid must effectively be for the benefit of final consumers. (Other documents<sup>10</sup> refer to “individual” consumers).

2

The aid must have a social character. That is, it must, in principle, only cover certain categories of passengers travelling on a route such as children, handicapped people, people with low incomes, etc. However, in the case where the route concerned links an underprivileged region, mainly islands, the aid could cover the entire population of this region.

ADS appears to have one of the widest scopes of the schemes that support air travel via aid of a social character. For example, the Corsican scheme provides fare reductions for certain age groups, students of a certain age, persons travelling as a family with minors, and disabled persons or invalids. The scheme for Réunion covers residents of certain ages who have to travel to metropolitan France for professional or personal reasons (e.g. taking up a job, escorting a sick child).

ADS is much broader than this. Indeed, the 2006 notification to the EC and its subsequent approval contain no references to specific types of trip—including **business trips**—being included in or excluded from the scheme. In the 2006 document place of residence is the explicit criterion for eligibility, rather than the types of trip that can be made.

#### 6.1.3 Changes to ADS Practice From April 2011

Transport Scotland told us that ADS was originally designed for individuals’ use: it was not intended that the scheme should be used for business travel. Thus, the “removal” of business trips from the scheme was not a change in eligibility. Rather, they told us, that from April 2011, “we improved our audit”.

The decision to do so was a result of financial pressures. Transport Scotland viewed that demand for the scheme plus air fare inflation means the cost of ADS is only ever going to increase. They decided that ADS should only support what they saw as the intended beneficiaries (i.e. non-business passengers).

Their aim was to ensure that ADS continues to be affordable to Scottish Government, while avoiding the need to reduce the intervention rate (40% at that time). As noted at **Chapter 2** the actual saving of c£1.1 million was much lower than the £2.7 million that was expected.

The end of support for business trips was clearly a significant change to ADS. However, the 2011 notification of the scheme’s extension (to 2015) made no reference to specific types of trip that the scheme will (or will not) support. This also appears to have been the case for the scheme’s most recent renewal (for 2015 to 2019).

---

<sup>10</sup> For example European Commission Brussels, 16.V.2006 C (2006) 1855 final

A Scottish Parliament debate on ADS was held on November 5 2011. The then Transport Minister (Keith Brown) stated that:

*“we have received the Commission’s informal view on business-related travel under the ADS.... the advice on “undertakings”-that is, organisations that are involved in economic activity-is absolutely clear and unequivocal: they should not profit from a scheme that was introduced under the Commission’s mechanism for aid that is of a social character. It has said...that the advice is informal at this stage...There will have to be further dialogue”.*

Transport Scotland told us the further dialogue took place in early 2012, when they were developing proposals to include third sector flights in ADS. They told us that the EC’s response was:

*“As long as aid granted to undertakings is in line with the de minimis Regulation we do not see any problem of granting it”*

Earlier in 2011 Scottish Government had also expressed their view that support under ADS:

*“is granted to individual consumers under the European Commission’s Aid of a Social Character mechanism and we believe that it is not intended to extend to business-related travel”<sup>11</sup>*

Scottish Government also set out their position in a Scottish parliamentary debate on 23 December 2010. The then Transport Minister stated that: *“we do not believe that a publicly funded scheme should be used to subsidise public and private sector travel budgets”.*

However, Scottish Government does so through a number of interventions. For example, Road Equivalent Tariff ferry fares, PSO air services and Scotrail train services. These mechanisms provide subsidised fares for all passengers-both business and non-business.

A 2014 EC Regulation<sup>12</sup> states that:

*“Aid has a social character for air and maritime passenger transport where it addresses the problem of steady connectivity for residents of remote regions by reducing certain transport ticket costs for them”*

There is no specific reference to business travel being prohibited.

---

<sup>11</sup> Scottish Parliamentary Question answered by Keith Brown on 14/06/2011

<sup>12</sup> Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty

The Regulation also notes that:

*“The eligible costs shall be the price of a return ticket from or to the remote region, including all taxes and charges invoiced by the carrier to the consumer”*

This differs from ADS which does not give a discount on the taxes and charges element.

#### 6.1.4 Inclusion of Third Sector Business Trips From July 2012

Since July 2012 ADS has been available for business flights made by residents of eligible areas who work for third sector organisations. This decision recognises what Scottish Government see as the important social functions of these organisations.

The support to these “undertakings” is via de minimus funding. There is a ceiling of €200,000 (c£170,000 at current exchange rates) for all de minimis aid provided to any one organisation over a 3-year rolling period. That is across all the organisation’s sites-not solely ones in ADS-eligible areas. The organisation has to inform Transport Scotland of any de minimus funding they receive on an ongoing basis.

As noted at **Chapter 2**, around 50 organisations are registered for ADS, covering c500 individuals workers. The organisation registers itself with the ADS team and then registers staff/volunteers as individuals. These individuals are issued with a supplementary membership card to use when booking travel undertaken on behalf of their organisation. That is clearly distinguishable from the ADS card issued to these individuals for flights for personal purposes.

Transport Scotland told us they are not aware of any other State Aid compliant means of supporting third sector business flights via ADS. De minimus was the only one considered when they drew up the proposals in 2012.

#### 6.1.5 Summary and Conclusions

- Based on its initial notification to the EC ADS appeared to support business flights. None of the subsequent notifications have indicated that business flights are excluded.
- The 2011 decision to no longer support business trips through ADS was based on financial considerations.
- Scottish Government does currently subsidise public and private sector business travel-through RET, air PSOs and subsidised train services.
- There does not appear to be a regulatory barrier to including taxes and charges within the fare that is discounted through ADS.
- The EC’s view, as reported by Transport Scotland and Ministers, is that organisations involved in economic activity (“undertakings”) should not benefit from aid of a social character.

The use of de minimus for third sector flights appears to have worked well in administrative terms. Thus, it offers a means of supporting private business travel through ADS, via a means other than aid of a social character.

This is in the light of what appears to be the EC's clearly expressed view-that aid of a social character is not permissible for the benefit of "undertakings".

The drawbacks of de minimus for private business travel would be, first, a degree of administration required by companies. That would be in the set up phase, and to monitor and report other de minimus funding on an ongoing basis.

Second, some companies would exhaust their de minimus before the three year cut off point. Thus, there would be times when they are unable to receive support through ADS.

However, this would be a conscious choice-i.e. other forms of support would be more beneficial than reduced air fares. Further, the business survey at **Chapter 4** showed average spend per business on air fares of c£2,500 (c€2,100) per year. That implies an average of c£1,000 support per year from ADS. That is very far below the €200,000 threshold over three years.

## 6.2 INDIVIDUALS TRAVELLING TO THEIR PLACE OF WORK OUTSIDE THE ELIGIBLE AREA

From 1 January 2011 all passengers departing from a German airport were subject to an air transport tax. However, the German government notified the EC of a number of specific exemptions, on the basis that the revenue foregone was aid of a social character.

Information on this and the EC's response<sup>13</sup> show that the exemptions were for:

1. Persons with their main residence on a domestic island.
2. Persons staying on a domestic island who need to take a flight for medical reasons-e.g. a medical emergency.
3. Persons carrying out operations that are part of the public policy remit on a domestic island-e.g. police, education authority officials.

The document also notes that the purpose of the tax exemptions was to help support island residents access "*a steady connectivity*" in order to allow them to "*reach the mainland in order to participate in economic life*". This could be taken that, at least, aid of a social character could be used to reduce the travel costs of those who live in the eligible area but whose place of work is elsewhere-and who have to meet the cost of the flights to their place of work.

Thus, there is scope for those whose place of work is outside the eligible area to be included within ADS with support given as aid of a social character. First, that is because they are not "undertakings". Second, because the EC's approval of other schemes refers to the ability of eligible residents to have reduced travel costs so that they can participate in economic life elsewhere.

---

<sup>13</sup> Brussels, 29/06/2011 C(2011) 4488 final: State aid No SA.32888 – Germany – Exemption from air transport tax as regards flights of people domiciled on islands and other cases

### 6.3 ADS FOR PUBLIC SECTOR BUSINESS TRAVEL

A mechanism for supporting public sector travel is simply ADS as it stands for individuals using aid of a social character.

There is a precedent for this elsewhere in the EU, in the example in Germany referred to earlier<sup>14</sup>. In that scheme aid of a social character can be used to reduce travel costs for business trips. It is not simply limited to travel by an individual for non-business purposes. The EC accepted the German government's view on this given that these trips:

*"directly serve the general interest of the residents of domestic islands"* as they are part of *"a public policy remit"*

The aid to reduce the travel costs of the public officials is effectively for the benefit of final consumers. Thus, aid of a social character can reduce the travel costs of passengers (officials) other than the final beneficiaries (i.e. island residents).

The exemption specifically refers to public sector officials based outside the islands. However, it can be argued that it could also apply to the business flights of public officials who live on the islands-assuming this is not already covered by their being residents.

Public sector bodies have a public policy remit. Thus, they directly serve the general interest of the residents of the eligible areas. Reducing the cost of flights will generate savings that can be reinvested in services and, likely, a greater number of flights. These will be to the benefit of local residents-who will thus benefit from the aid of a social character.

It might be argued that this would subsidise the travel costs of bodies who are already funded by Scottish Government. However, as noted earlier, Scottish Government provides subsidies to other travel by these public sector bodies-for water, rail and air (PSO) transport.

---

<sup>14</sup> ibid

## 7 APPRAISAL OF INCLUSION OF ALL BUSINESS TRAVEL WITHIN ADS

### 7.1 MECHANISMS

Based on the analysis at **Chapter 6** the mechanisms for including all business travel within ADS would be:

- Private sector business travel: de minimus funding.
- Individuals travelling to their place of work outside the ADS eligible areas: aid of a social character.
- Public sector and NHS patient travel: aid of a social character.

### 7.2 POTENTIAL COSTS

#### 7.2.1 ADS for Public Sector and Private Sector Business Travel

We have produced two estimates of the costs in reinstating ADS to the ex ante position for business flights-i.e. before April 2011. This, and the subsequent analysis, assumes that the reinstatement of ADS for business flights results in an increase of 29,400 single leg ADS trips: that is, equal to decrease in ADS passengers in 2011-12.

The first estimate is shown at **Table 7.1**.

<b>TABLE 7.1: COST OF ADS FOR PUBLIC SECTOR AND PRIVATE SECTOR BUSINESS FLIGHTS: ESTIMATE 1</b>	
Reduction In ADS Refund Costs Between 2010-11 and 2011-12	£1,087,421
Upated for Core Fare Inflation To 2015-16 (as per <b>Figure 2.3</b> )	£1,326,801
Plus Adjustment for Current 50% Intervention Rate	£331,700
<b>TOTAL COST TO ADS</b>	<b>£1,658,501</b>

It suggests a cost of **between £1.6 and £1.7 million**. That is based around the “saving” of £1,087,421 from the removal of business flights in 2011-12.

This figure is increased to, first, reflect air fare inflation in subsequent years; and, second, to reflect that the ADS intervention rate is now 50% rather than the previous 40%.

Our second estimate is set out at **Table 7.2**, over. Note that here “private sector” includes trips by businesses and by individuals whose place of work is outside the ADS eligible areas. The split between the three categories of passenger-and the levels of stimulation involved-are best estimates based on the information available to us.

The calculation suggests a very similar cost to the first estimate-i.e. **between £1.6 and £1.7 million**.

Separate calculations were produced for the public (split between NHS staff and other public sector workers) and private sectors. Their sub-totals were then added together to give the total figure of £1,659,334.

**TABLE 7.2: COST OF ADS FOR PUBLIC SECTOR AND PRIVATE SECTOR FLIGHTS: ESTIMATE 2**

<b>Public Sector-Non-NHS</b>		
Current Number of Return Flights-Survey Sample (as per <b>Table 5.5</b> )	4,104	
Grossed Up To Estimated Full Population (x1.33)	5,458	
Plus Stimulation from Lower Fares (x1.15)	6,277	
Total Gross Fares (Return Fare of £291-as per <b>5.4.2</b> )	£1,826,627	
<b>Cost to ADS (43% fare discount)</b>		<b>£785,449</b>
<b>NHS Staff Travel</b>		
Current Number of Return Flights (based on <b>5.2</b> )	2,395	
Plus Stimulation from Lower Fares (x1.15)	2,754	
Total Gross Fares (Return Fare of £180-based on <b>5.2</b> )	495,720	
<b>Cost to ADS (43% fare discount)</b>		<b>£213,160</b>
<b>Private Sector</b>		
Estimated Number of Current Return Flights-Based on Change in 2011-12 (as per <b>Figure 2.2</b> )	5,691	
Total Gross Fares (Return Fare of £270-as per <b>4.3.3</b> )	£1,536,570	
<b>Cost to ADS (43% fare discount)</b>		<b>£660,725</b>
<b>TOTAL COST TO ADS</b>		<b>£1,659,334</b>

The 4,104 **non-NHS public sector** flights in our sample were grossed up by 1.33 to provide an estimate (5,458) of all non-NHS flights on the ADS routes. The figure was then increased by 15% to reflect additional trips stimulated by the lower fares from ADS. That is based on quite a low elasticity (-0.35). However, it reflects many consultees' expectation that flight numbers would not return to their pre-2011 levels.

The resulting 6,277 flights were factored by the average fare (£291) paid by our sample. The figure of £1,826,627 was then factored by 43% to give the cost to ADS (£785,449). Once again, this is lower than the 50% headline ADS rate because the discount is not applied to taxes and charges.

Based on the analysis at **Chapter 5** current **NHS staff** travel is 2,395 return flights. As per the other public sector organisations these were assumed to increase by 15% due to the lower fares offered by ADS. This produces an estimate of 2,754 staff trips at an average cost of £180 per flight. Applying ADS to these flights gives a cost to ADS of £213,160.

Based on the change in the number of ADS flights between 2010-11 and 2011-12 we estimate that 5,691 **private sector** flights would be made using ADS. These are assumed to have an average return fare of £270. That is higher than the £245 figure from our online survey because, as stated at **Chapter 4**, we believe that understates the actual level paid. The resulting cost to ADS is £660,725.

### 7.2.2 ADS for NHS Patient Travel

**Chapter 5** showed that the total cost of patient flights for the three island health Boards is approximately £6.7 million. We have added 5% to this figure as an allowance for flights made by NHS Highland patients on the services from Wick and Islay.

That gives a total spend of £7 million per year on patient air fares. If ADS was applied then the cost to ADS would be £3 million.

### 7.2.3 Administration Costs

We expect there to be some extra administration costs if the ADS scheme was extended to some or all of the types of users covered above. As a guide, administration costs fell by £26,000 in 2011-12 following the exclusion of business trips from the scheme. This suggests that the increase in administration costs from the reinstatement of business travel would be slight.

### 7.2.4 Summary

**Table 7.3** brings together the various cost estimates.

<b>TABLE 7.3: SUMMARY OF COST OF ADS FOR BUSINESS FLIGHTS</b>	
<b>Group</b>	<b>Estimated Annual Cost (£,000)</b>
Private sector*	661
Public sector staff-excluding NHS	785
NHS staff	213
NHS patients	3,000
Scheme Administration	35

\*Includes trips by individuals whose place of work is outside the ADS eligible areas

Restoring ADS for only private sector business travel would incur an annual cost of approaching £700,000 (including an allowance for increased administration costs). Including public sector staff would add a further c£1 million per year, mostly from flights made by organisations other than the NHS.

The largest cost would very clearly be for NHS patients. That would be an additional £3 million.

These costs are in a context of total ADS expenditure (including administration costs) of £6.7 million in 2015-16.

## 7.3 **IMPACTS OF REINSTATEMENT OF ADS FOR BUSINESS FLIGHTS**

### 7.3.1 Private Sector

#### **Context**

The businesses using air have a strong dependence on external markets. Over half generate more than 25% of their sales from these markets.

Most businesses make some use of the ADS routes to connect with domestic or international flights. Thus, their total air fare costs are higher than simply those charged on the ADS routes.



Trip costs are further increased because most flights involve at least one overnight stay, with most businesses reporting a cost per night of £100-£120. In addition to these financial costs are *time* costs. Productive work time is lost because many of the ADS routes' arrivals and/or departures are during working hours, while dead time can also be incurred waiting for flights on routes with low frequencies.

Businesses' current flights are mostly for trips that involve conferences/networking, training or business development. Most companies use the cheapest available, non-flexible tickets. However, more than one third of them have to book some flights no more than two weeks in advance. In those cases return fares on most ADS routes are more than £300, including some at over £400.

### Impacts of 2011 ADS Withdrawal

Of those businesses able to comment on the 2011 ADS withdrawal more than 90% stated that there had been a **negative impact**. More than two thirds described this as a "significant negative" one. Those most affected were businesses with larger turnover and/or a high dependence on external markets.

Higher business costs were incurred. Most businesses reported that they had been unable to pass on the increased flight costs to their customers.

The most common **transport impacts** of the 2011 withdrawal were greater use of surface travel rather than air and, to a lesser extent, fewer business trips being made.

The knock-on **business impacts** of this were mainly reduced:

- Amount of staff training/development/CPD undertaken.
- Networking.

Another effect was greater use of VC/teleconference. However, consultees emphasised the need for face to face meetings for some types of business contact-notably business development.

Despite a dependence on-and distance from-external markets, more than 40% of the businesses use surface travel *at least as much* or *more than air* for their external business trips. The level of air fares is by far the main constraint on the number of flights that businesses make-very much more so than service reliability/punctuality or timetables.

### Potential Impacts of ADS Reinstatement

For most businesses the **transport impact** of ADS reinstatement would be that most additional flights would be wholly new trips rather than diverted from surface transport. The main effect on business activity from the additional flights would be undertaking more business development, greater attendance at conferences/networking events and more staff training.

Over 90% of businesses expect a positive impact from ADS reinstatement in terms of:

- Increased use of air instead of surface travel-reducing staff time away from the business.
- Ability to book tickets more suited to travel needs-e.g. greater use of flexible tickets.

In both cases around one third of businesses see the positive impact as being “very significant”.

Reduced fares would allow smaller businesses in particular to fly at the most business friendly times rather than be constrained to flights during the working day. This will allow business hours to be used for meetings and other productive activity. Lower fares will also allow businesses to be responsive by making short notice fares more affordable, allowing them to meet the requirements of customers and others.

In term of **business impacts** there would be, in order of significance, positive impacts on:

- Greater networking opportunities.
- Improved skills through access to training.
- Developing new markets.
- Greater interaction with own staff/sites outside the Highlands and Islands.

Between one quarter and one third of businesses stated that each of these four impacts would be “very significant”, while between 50% and 80% reported them as either “significant” or “very significant”.

Around 80% of businesses expect a positive impact on **business performance**. That is in terms of each of:

- Staff productivity.
- Turnover.
- Operating costs.

The greatest impact was expected to be on staff productivity. Approaching half of the businesses forecast an increase of more than 10%.

Around four in ten businesses expect to see their turnover increase by more than 10%, with slightly less forecasting a smaller increase. Those forecasting the biggest increases in turnover were likely to be:

- Relatively small-i.e. annual turnover below £100,000; and/or
- Heavily dependent on external markets-i.e. for more than 75% of their total sales.

Reduced fares would be a particular benefit to new start businesses. These are either pre-revenue or in the process of building up sales. Thus, operating costs (including travel) are an important consideration at that stage in their business' life.

Overall, the extent of dependence on external markets is a better indicator of impacts on businesses rather than company size or sector.

The cost savings and additional flights made if ADS was reinstated would improve staff productivity and sales. That would mainly be through:

- More staff training and CPD.
- Potential new business/business development.
- More productive meetings through increased face-to-face contact.

### **Improved Productivity Is the Most Significant Impact**

Overall, the main benefit of ADS for private businesses will be **increased productivity**. This was identified as the most significant one by the online respondents. Increased use of air rather than surface modes will allow staff to spend more time in productive activities-meeting clients and other business contacts.

It will also allow them to get back more quickly to their place of work. This is in a context where many of the eligible areas' businesses are small, with limited numbers of staff to cover for colleagues who are away.

Staff will also become productive through undertaking more training. Training/CPD was of the main activities that were reduced following the 2011 withdrawal of ADS. They are also expected to be among the main purposes of additional flights and business trips should ADS return.

### **Individuals Travelling To Their Place Of Work Outside The ADS Eligible Areas**

Reduced fares will allow individuals to more easily maintain a household in the eligible areas while earning a living elsewhere. With lower travel costs this should be possible across a wider range of occupations/salary levels.

Their wages are an additional source of income to-and thus expenditure in-the eligible areas' economies. This is particularly important in more remote and fragile parts of the Highlands and Islands where well paid employment is limited and maintaining a balanced demographic profile is challenging.

#### **7.3.2 Public Sector-Excluding NHS**

The data at **Table 7.2** suggest that public sector bodies outside the NHS could save approaching £700,000 per annum if ADS was reinstated (although there would not be a saving to the public purse as a whole). Just over half of that amount would accrue to the three islands local authorities. It is also estimated that some £136,000 of the savings would be reinvested in additional flights.

The main knock-on impacts of fewer flights following the 2011 withdrawal of ADS were:

- Less attendance at conferences.

- Reduced participation in national fora.
- Missing out on the networking around meetings.
- Lower levels of training.

As with the private sector the cost of trips is greater than simply the air fare-notably for overnight accommodation where required.

The main stated purposes of additional flights that would be stimulated by ADS were expected to be:

- Conferences and seminars.
- Training events.
- Increased meetings with staff based elsewhere.

For some organisations (or parts of them) additional trips for these purposes would have significant benefits. In particular, staff (and elected members) would be more fully aware of what is happening in their fields elsewhere in Scotland. They would also be able to have a greater influence on policy and other developments by attending more meetings in person.

There would also be greater interaction where the organisation is part of a wider one-e.g. UHI. The biggest proportionate impacts could be for smaller organisations such as Colleges which appear most sensitive to the cost of air fares.

However, many organisations are facing financial pressures and static or falling staff numbers. In these cases, much of the savings will be diverted to general activities rather than reinvested in more flights. Public sector demand for more air trips appears less elastic than in the private sector. That may, in part, be because they appear to already make a very large proportion of their trips by air rather than surface transport.

### 7.3.3 NHS Staff

The data at **Table 7.2** imply a saving of £185,000 per year if ADS was introduced for NHS staff travel. They also suggest that c£37,000 of this saving would be reinvested in additional flights.

The benefits would be similar to the ones shown for other public sector staff at **7.3.2**. In particular, additional NHS staff trips would be used to:

- Attend national level meetings. This would also have wider benefits through greater networking and building effective relationships with other Health Boards.
- Send more staff on training courses and other learning opportunities.

### 7.3.4 NHS Patients Travel

The earlier analysis suggested that savings from NHS patient travel would be £3 million per year. Almost all of this would accrue across the three islands Health Boards.

NHS Shetland were of the view that this would have a “huge” financial impact, with the savings used to support frontline clinical services. A similar view was expressed by NHSWI.

### 7.3.5 Contribution To Scotland's Economic Strategy

*Scotland's Economic Strategy* is an overarching framework for how Scottish Government aims to achieve a more productive, cohesive and fairer Scotland. It forms the strategic plan for Scottish Government policy, including how the Government will work with the wider public sector and businesses.

**Table 7.4** describes the potential contribution of reinstating ADS to delivering the Strategy.

<b>TABLE 7.4: POTENTIAL CONTRIBUTION TO SCOTLAND'S ECONOMIC STRATEGY</b>	
<b>Priority</b>	<b>Potential Contribution</b>
<b>Investment</b>	<p><i>Education, skills and health</i>-skill levels will be increased by greater attendance at training and CPD sessions-by both businesses and public sector bodies</p> <p><i>Business investment</i>-some of the savings in travel costs for the relevant public bodies will be reinvested in core services, and in private sector businesses. Reduced travel costs will support the development of identified growth sectors. Creative industries, tourism and financial services were well represented in our business survey</p>
<b>Innovation</b>	<p><i>Business innovation and entrepreneurship</i>-additional flights will include greater interaction at networking/industry events attended by academics and potential business partners. This will provide opportunities for joint working on innovative ideas that will be profitable for businesses. This is in a context where the local pool of businesses and potential partners is small</p> <p><i>Public services</i>-contacts and learning from attendance at networking events/national fora will better enable public sector staff to identify new methods of delivering public services</p>
<b>Inclusive Growth</b>	<p><i>Place and regional cohesion</i>-cheaper air access will help to ensure all parts of Scotland benefit from sustainable economic growth and contribute to it by increasing the economic interaction between ADS eligible areas and other areas. ADS will directly address the challenge of geography that the eligible areas face in terms of distance from main centres and the cost of accessing them</p>
<b>Internationalisation</b>	<p><i>Trade and investment</i>-a good proportion of businesses in the eligible areas are already selling outside Scotland, and some internationally. Cheaper air access will support the further internationalisation of companies-which is recognised as a spur to further innovation. Increased travel between company sites in the eligible areas and those elsewhere will help to fully integrate these sites within the overall company, encouraging greater inward investment over time</p> <p><i>Global outlook, influence and networks</i>-increased travel outside Scotland will give businesses an international mindset and networks</p>

### 7.3.6 Potential Impact on Highlands and Islands Air Network

Based on the “before” and “after” analysis it is estimated that c29,000 single business flights would receive ADS. Not all of these would be new air trips. Some would simply be existing business flights made at a lower fare.

We very broadly estimate that less than one quarter of the c29,000 flights would be new ones. This is in a context where 481,000 passengers flew on the ADS routes in 2015-16. Thus, the flights stimulated by ADS would represent an increase of just 1-2% in total carryings across these routes.

That is very unlikely to lead to additional capacity or frequencies on the ADS route network. However, it could help to safeguard existing frequencies on routes where passenger numbers are currently static or declining.

## 7.4 SUMMARY

The following Tables summarise the findings shown above.

TABLE 7.5: PRIVATE SECTOR BUSINESS TRAVEL	
ADS Mechanism	De minimus funding (businesses) Aid of a social character (individuals working elsewhere)
Estimated ADS Passenger Numbers (return flights)	5,691
Estimated Annual Cost (excluding admin)	£661,000
Key Impacts	
Increased productivity through: reduction in unproductive travel time, enhanced skills and knowledge, and greater adoption of innovation	
Investment of travel savings into the business	
Increased development of growth sectors	
Increased turnover and international sales, including from more face to face interaction with customers	
Increased income/population in ADS eligible areas by allowing a greater number of individuals to live there and work elsewhere	
Contribution to all four of <i>Scotland's Economic Strategy's</i> priorities of <i>Investment, Innovation, Inclusive Growth</i> and <i>Internationalisation</i>	

TABLE 7.6: PUBLIC SECTOR-EXCLUDING NHS BUSINESS TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	6,277
Estimated Annual Cost (excluding admin)	£785,000
Key Impacts	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to decision making and national policy	
Greater interaction between dispersed parts of regional organisations leading to greater cohesion and more efficient performance	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

**TABLE 7.7: NHS STAFF BUSINESS TRAVEL**

<b>ADS Mechanism</b>	Aid of a social character
<b>Estimated ADS Passenger Numbers (return flights)</b>	2,754
<b>Estimated Annual Cost (excluding admin)</b>	£213,000
<b>Key Impacts</b>	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to national policy and strengthened relationships with other Health Boards	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

**TABLE 7.8: NHS PATIENT TRAVEL**

<b>ADS Mechanism</b>	Aid of a social character
<b>Estimated ADS Passenger Numbers (return flights)</b>	23,800
<b>Estimated Annual Cost (excluding admin)</b>	£3,000,000
<b>Key Impacts</b>	
Investment of travel cost savings in core services	
Contribution to the <i>Investment</i> priority of <i>Scotland's Economic Strategy</i>	