

REGIONAL AIR SERVICES

Report by Our Islands: Our Future

PURPOSE OF REPORT To seek the Scottish Ministers' agreement to undertake a review of regional air services serving the Highlands and Islands.

SUMMARY

- 1.1 Responding to a request at the meeting of the Islands Area Ministerial Working Group held in June 2015 for a wide-ranging review of regional air services, the Minister for Transport and Islands asked instead that a Scoping Paper be prepared.
- 1.2 It was subsequently agreed with Transport Scotland that the remit of the scoping exercise include the collation of clear and accurate performance and other data relating to the establishment of a baseline position for intra-Scotland air services, assets and infrastructure; an analysis of the affordability of services for passengers, Scottish Government and local authorities; the collation of evidence on the reliability and punctuality of the region's air services; and a consideration of current associated assets and infrastructure and any limitations.
- 1.3 It was also agreed that the outcomes should include improved collaboration between Transport Scotland, Regional Transport Partnerships and local authorities with inhabited islands served by the air services, including the establishment of a process that fully accounts for islands-specific views.
- 1.4 The scoping work was led by the three island councils in collaboration with HITRANS and ZetTrans and in consultation with The Highland Council, Argyll and Bute Council, Transport Scotland, Highlands and Islands Airports Ltd and current air service operators. The full scoping paper has now been published by HITRANS and is available as a background paper. A summary of the findings, conclusions and recommendations is included in the body of the Report.
- 1.5 This scoping exercise builds upon previous research and available information, and proposes a more detailed and comprehensive review of Scotland's scheduled internal Air Services.
 - A review of the costs and affordability of air services for both the passenger and local and national governments similar to that undertaken in the Scottish Ferries Plan
 - A review of the reliability and punctuality of all scheduled internal Scottish air services with the publication of an annual report on the performance of these services
 - Establish a Working Group to address these short term priorities of affordability and reliability of the air services
 - A consideration of the reinstatement of business user eligibility in the Air Discount Scheme (concurrent report)
 - A review of current and potential aircraft types to serve the network and possible adaptations to supporting infrastructure including airfields and terminals, and staffing
 - The development of a longer term coordinated and structured approach to engagement, consultation and participation across the islands authorities, Transport Scotland and other key stakeholders
 - Development of an Intra-Scottish aviation strategy as part of the commitment to update the National Transport Strategy

RECOMMENDATION

- 2.1 **It is recommended that Scottish Ministers agree to undertaking of a review of regional air services for the Highlands and Islands, the proposed remit of which is set out in the body of the Report**

BACKGROUND

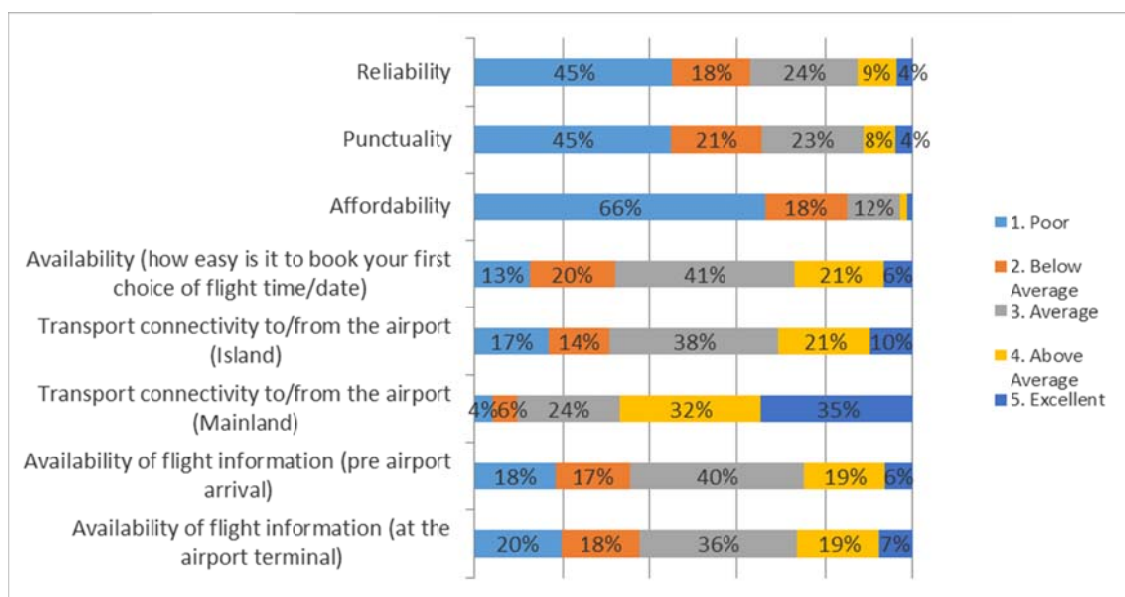
- 4.1 The Scottish Government's Empowering Scotland's Islands Communities prospectus, published in June 2014 gave a number of commitments associated with the maintaining and improvement of air services between the islands and the Scottish mainland:
- 4.2 Recognising these commitments, a report by the Our Islands: Our Future campaign to the meeting of the Islands Area Ministerial Working Group held in Kirkwall on 2 June 2015 asked that Ministers agree to:
- “Undertake a review of air services from mainland airports to the Western Isles, Orkney and Shetland, the objective of which would be to identify and appraise options associated with addressing widespread and growing concerns within the island communities relating to high and increasing air fares (despite the availability of the Air Discount Scheme), the lack of meaningful competition on these routes resulting in their monopolisation by a single operator, and the continuing reliance of that operator on a very small range of ageing and outdated aircraft”.*
- 4.3 Not minded to accede to the request for a review, the Minister for Transport and Islands instead asked that a Scoping Paper be prepared, the remit of which was subsequently agreed to involve the collation of clear and accurate performance and other data relating to the following specific areas:
- The establishment of a baseline position for intra-Scotland air services, assets and infrastructure
 - The affordability of services for passengers
 - The affordability of services for Scottish Government and local authorities
 - The collation of evidence on the reliability and punctuality of the region's air services
 - A consideration of current and potential aircraft deployed on island to mainland routes and the associated airfield infrastructure and staffing; including an identification of emerging technologies and applications associated with air services and air traffic management
- 4.4 It was also agreed that the outcomes should include improved collaboration between Transport Scotland, Regional Transport Partnerships and local authorities with inhabited islands served by the air services, including the establishment of a process that fully accounts for islands-specific views
- 4.5 It was determined that the scoping work considering these issues should be led by the three island councils in collaboration with HITRANS and ZetTrans and in consultation with The Highland Council, Argyll and Bute Council, Transport Scotland, Highlands and Islands Airports Ltd and current air service operators.
- 4.6 The full scoping paper has now been published by HITRANS and is available as a background paper. A summary of the findings, conclusions and recommendations is included in the following sections.
- 4.7 In developing the scoping paper, the Scottish Council for Development and Industry (SCDI) undertook the Islands Air Connectivity Survey on behalf of HITRANS and ZetTrans. The survey received over 1,400 responses and provided evidence of many of the problems encountered by island communities. The survey suggests that the three main areas of concern relate to affordability, reliability and punctuality and the relevant results are cited in the relevant sections below.

BASELINING

- 5.1 Various aspects of the intra-Scotland air service route structure and timetables have been the subject of several previous reviews and it is suggested that these be updated with trends identified and likely developments highlighted and interpreted.
- 5.2 A review of relevant local authority, Scottish and UK Government and EU roles and policies and an acknowledgement of the role of air-freight, the oil sector and other non-scheduled aviation activity is also required. In addition, a review of pertinent aviation industry, tourist and local economic trends would be helpful in providing fuller context.
- 5.3 The NHS is a major user of intra-Scottish air services and it would be essential that consultation and engagement with the area boards and the wider service be undertaken to ascertain the key issues facing the sector in its use and dependence on air services.
- 5.4 It is suggested that the next steps to be undertaken as part of the proposed Review include:
 - A baselining overview including an outline of route structure and timetable with trends including a review of relevant Council, Scottish, UK and EU roles and policies (currently and implications of post Brexit) and acknowledgement of role of airfreight, the oil sector (eg rotary activity & Scatsta), and other non-scheduled aviation activity.
 - An audit of current airfields and their challenges.
 - A consideration of issues highlighted by key stakeholders during a study consultation exercise.
 - A review of aviation industry, tourist and local economic trends.
 - An evaluation of services and infrastructure against measures of connectivity – eg reachability and accessibility.

COSTS AND AFFORDABILITY

- 6.1 A number of specific interventions are implemented by the Scottish Government and local authorities in attempts to make air fares more affordable. These include the establishment of the Air Discount Scheme by the Scottish Government in 2006 and the provision of regional and inter-island air services through Public Service Obligations (PSOs) by the Government and local authorities respectively.
- 6.2 As its sole shareholder, the Scottish Government also supports Highlands and Islands Airports Ltd (HIAL) and has recently invested some 3in two new Viking Twin Otter Series 400 aircraft for use by the operator on regional PSO air services for Campbeltown, Barra and Tiree.
- 6.3 This support, directly and indirectly to air passengers, comes at significant cost to the public purse and, despite its availability, air fares remain high and indeed bordering on the unaffordable for the general travelling public. The SCDI survey found that some 84% of respondents indicated that affordability was rated as “poor” or “below average“.



6.4 Analyses of the availability and level of fares through the Air Discount Scheme and regional and inter-island PSO air services are provided in the Scoping Exercise and it is suggested that the next steps to be undertaken as part of the proposed Review be:

- A review of the affordability of internal Scottish air services for passengers through an analysis of the range of fares on each route to establish the current situation and, where possible, a benchmarking with comparisons
- A consideration of the merits of extending Air Discount Scheme for certain types of business travel.
- The seeking of recommendations potentially relating to PSO fare specifications, detailed operation of ADS scheme, operator yield management policies and appropriate incentives for both travellers and operators.

6.5 With regard to those funding bodies, it is suggested that it would be useful to bring together all known public costs connected with aviation in the Highlands and Islands. Alongside this are the costs that key public sector bodies and departments incur on intra-Scottish flights and travel. It is suggested that the next steps to be undertaken as part of the proposed Review include:

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

PUNCTUALITY AND RELIABILITY

- 7.1 Punctuality refers to the difference between the flight's scheduled departure/arrival and the actual time, whereas reliability refers to whether the flight was operated, delayed or cancelled. As part of the scoping exercise, relevant data was provided by Loganair and HIAL and analyses of the data are included in the Scoping Paper.
- 7.2 Loganair, as the key operator of air services in the Highlands and Islands, recognised that punctuality and reliability of their services had reduced to unacceptable levels during the second half of 2015 and in early 2016 announced "initiatives to ensure punctuality and customer service are fully returned to the levels our customers have rightly come to expect over many years". The programme of projects and initiatives was termed Project Optima.
- 7.3 Anecdotally, the punctuality and reliability of air services provided by Loganair have improved since the development and delivery of Project Optima and it is suggested that the next steps to be undertaken as part of the proposed Review, in collaboration with all operators and HIAL, include:
- A review of the following data for each airline and route
 - Reliability
 - Punctuality
 - User Survey
 - Operators' Rectification and Quality Assurance (QA) Plans
 - Interlining and onward travel
 - Ticketing and marketing
 - Publication of an annual report with recommendations for a Regional air service QA monitoring and intervention mechanisms (eg a Working Group that takes this role under its wing)
 - Recommendations and conclusions considering five, ten and thirty year time horizons. This would allow short term, medium term and long term issues to be aired and considered. Operators tend to work to a five year horizon whilst it is the responsibility of government to consider longer term, systemic and strategic view on matters.

ASSETS, INFRASTRUCTURE AND FUTURE-PROOFING

- 8.1 There is a range of emerging technologies and equipment that could dramatically change costs and services in the next thirty years. Relevant areas include changes to air traffic practices and navigation aids, less expensive runway lighting systems and next generation smaller aircraft.
- 8.2 Future proofing should also consider human resources in terms of recruitment, training and retention (which is often a particular challenge on the islands) and options with regard to state involvement in the funding of infrastructure and assets. There should be a specific consideration to capturing, as part of any review process, the growing challenges associated with sustaining lifeline airfield operations arising from competing budget pressures/savings challenges; ageing/declining populations in relation to fire cover especially; and increasing levels of audit processes/standards for licensed airfields which are essential but increasingly challenging for small authority's to respond to.
- 8.3 Looking to the future should include consideration of business development efforts to broaden the income base of smaller airports, and thereby reduce their burden on the public purse, and potentially facilitating the development of aviation and non-aviation employment clusters at the region's airfields.

8.4 It is suggested that the next steps to be undertaken as part of the proposed Review, in collaboration with HIAL and other relevant stakeholders, include:

- A review of relevant emergent technologies and trends (eg Remote Tower, Global Navigation Satellite Systems (GNSS), Airfield Lighting and Markings, Airport Collaborative Decision Making (ACDM) initiatives, Greening Aviation, Threat to or reformulation of AvGas, Single Engine Turbines, Rotary, Regional and LCC airlines, Current and potential Scottish air operators, New runway in UK south East, Scottish short and long haul route developments and opportunities.
- A consideration of multi-modal transport developments, requisite staffing, training and skills and security.
- Capture and seek to address the specific and growing challenges associated with sustaining lifeline airfield operations arising from competing budget pressures/savings challenges; ageing/declining populations in relation to fire cover especially; and increasing levels of audit processes/standards for licensed airfields which are essential but increasingly challenging for small authority's to respond.
- A review of current and possible aircraft types to serve the network now, and in the future, and possible adaptations to supporting infrastructure / airfields / terminals / access roads and services to accommodate them
- A consideration of the best ways to secure capital investments for the modernisation of airports and aircraft.
- The development of a Route and Business Development Strategy including non-scheduled aeronautical activity such as air cargo, Air Charter and Inclusive Travel flights, General Aviation, Business Aviation, Flight Training, aero-engineering and aerial work (remote sensing, reconnaissance, emergency response etc.)
- The identification of opportunities to optimise airports as business and employment clusters / facilitators and potential to increase non-scheduled revenue to reduce burden on public purse.

GOVERNANCE, CONSULTATION AND ENGAGEMENT

9.1 The Island Area Ministerial Working Group agreed in June 2015 with general premise of the development of “of revised governance, consultation and engagement arrangements for transport services (ferry, air and other) to facilitate more effective and efficient working relationships between Transport Scotland, the Islands Councils, the Regional Transport Partnerships (HITRANS and ZetTrans), service operators and other key stakeholders; including the establishment of an Islands Transport Forum”.

9.2 The inaugural meeting of the Forum was held in January 2016 and, in the case of ferry services, the new Clyde and Hebrides Ferry Services (CHFS) contract makes provision for high levels of engagement and consultation with key stakeholders at tactical and operational levels.

9.3 Arising from the current mix of commercial and regional and inter-island PSO air services across the Highlands and Islands, there is currently no such arrangements for air services in the region.

9.4 Similarly, following a significant development and consultation process, Scottish Ministers published its Scottish Ferries Plan 2013-2022 which set out strategic guidance for the provision of ferry services in Scotland over the period. There is no such strategic plan for air services and little mention is made in the recently refreshed National Transport Strategy of the importance of regional and inter-island air services to the socio and economic wellbeing of the nation, the region and its individual communities.

9.5 It is therefore proposed that the next steps to be undertaken as part of the proposed Review include:

- A review of existing governance arrangements and the role of Transport Scotland, Regional Transport Partnerships and local authorities in the development and oversight of strategic policies and engagement/consultation processes, the aim of which would be to improve regional and local democratic involvement in the delivery of air services
- The consideration of the development of a national Air Services Plan and of the inclusion of specific provision in the future review of the National Transport Strategy

CONCLUSIONS AND PROPOSED ACTION PLAN

10.1 This Scoping exercise builds upon previous research and available information, and proposes a more detailed and comprehensive review of Scotland's scheduled internal Air Services. Part of this preparatory work has been to review recent data and relevant reports so as to establish the scale of particular issues and also identify any gaps in knowledge could usefully be addressed.

10.2 The Scoping Paper proposes a comprehensive review of aviation policy and delivery to, from and within the Highlands and Islands. The following key elements of an associated action plan are proposed:

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