1.0 EXECUTIVE SUMMARY

At the meeting of the Community Planning Group held in Islay in August there was discussion about issues relating to the commercial air service operated by Logan Air. These were summarised as

- Fares are too high
- Cost to the NHS of patients travel using the commercial air service
- Capacity of the air service

There was a request to report on public service obligations with a view to the inclusion of flights from Islay into this service. Loganair operate a commercial service between Islay and Glasgow it therefore cannot be subsidised by a national or local authority as a Public Service Obligation.

This paper includes an update on Transport Scotland’s Clyde and Hebrides ferry services tender and includes in Appendix 1 a supporting statement that has been put forward to Transport Scotland for the Campbeltown to Ardrossan ferry service as the three year pilot for this service ended this year.
2.0 RECOMMENDATIONS

2.1 The contents of this report are noted.

3.0 DETAILS

3.1 Public Service Obligations
A Public Service Obligation (PSO) is an obligation imposed on a carrier to provide a set level of service on a particular route in order to ensure that the service satisfies fixed standards of continuity, regularity, capacity and pricing.

PSOs have also been imposed on routes within Shetland, Orkney, Comhairle nan Eilean Siar and Argyll and Bute Council, all of which are subsidised by the local authorities or by Transport Scotland.

The subsidy ensures that these isolated communities have air links with a main centre. Under the terms of the European Regulation, it is necessary to seek competitive bids on an EU-wide basis to allow subsidy to be paid.

3.2 European Regulation
Regulation (EC) No 1008/2008 sets out the economic framework for air transport in the Community. Under the Regulation, provision has been made for the imposition of public service obligations PSOs for the maintenance of lifeline air services.

The Regulation provides the basis on which non-commercial but economically and socially necessary air services can be subsidised by national or local authorities after the imposition of a PSO to ensure continued operation.

In transport law of the European Union, public service obligation is an arrangement in which a governing body or other authority offers subsidies, thereby permitting the winning company to operate a specified service of public transport for a specified period of time for the given subsidy.

This is done in cases where there is not enough revenue for routes to be profitable in a free market but where there is a socially desirable advantage in this transport being available. Under current law it is not possible to impose a PSO on a route
between two regions on which air services are already being operated commercially.

The air service operated by Loganair between Islay to Glasgow is a commercial air service and it therefore cannot be subsidised by a national or local authority as a Public Service Obligation.

3.3 Transport Scotland’s tender for Clyde and Hebridean Ferry Service Contract
CalMac Ferries Ltd currently provide the Clyde and Hebrides ferry services under tendered contract with Scottish Ministers. This contract will expire in September 2016 and Transport Scotland on behalf of the Scottish Government has begun the selection process for the next CHFS contract.

Two operators, CalMac Ferries Limited and Serco Caledonian Ferries Limited, have both passed the pre-qualification stage of the process and have been invited to submit tenders for the next CHFS contract, which will run from 1st October 2016 for a duration of up to eight years. The initial invitation to tender (ITT) was issued on the 31st July 2015 with the invitation for both operators to submit a final tender scheduled for December 2015, with a view to awarding the contract in May 2016.

The Scottish Government are to provide up to £1bn of funding to support the enhancement and development of the services within the contract, in addition to fares revenue.

Updates on the tender process can viewed at the following web site:-

http://www.transportscotland.gov.uk/ferries/clyde-and-hebrides

3.4 Transport Scotland’s Campbeltown to Ardrossan Ferry Service
The three year pilot of the introduction by Transport Scotland of a ferry service between Campbeltown and Ardrossan is now complete. Appendix 1 includes a supporting statement that has been put forward to Transport Scotland for continuation of the Campbeltown to Ardrossan ferry service.

5.0 CONCLUSION

5.1 Loganair operate a commercial service between Islay and Glasgow it therefore cannot be subsidised by a national or local authority as a Public Service Obligation.

6.0 IMPLICATIONS

6.1 Policy Aligns with Outcome 2 we have infrastructure that supports sustainable growth.

6.2 Financial No implications to the Council.
<table>
<thead>
<tr>
<th>Section</th>
<th>Department</th>
<th>Implications to the Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.3</td>
<td>Legal</td>
<td>No implications to the Council.</td>
</tr>
<tr>
<td>6.4</td>
<td>HR</td>
<td>No implications to the Council.</td>
</tr>
<tr>
<td>6.5</td>
<td>Equalities</td>
<td>As per Loganair and Transport Scotland’s own policy.</td>
</tr>
<tr>
<td>6.6</td>
<td>Risk</td>
<td>Transport Scotland may not continue with Campbeltown to Ardrossan Ferry Service.</td>
</tr>
<tr>
<td>6.7</td>
<td>Customer Services</td>
<td>No implications to the Council.</td>
</tr>
</tbody>
</table>

Executive Director of Development and Infrastructure Pippa Milne

Policy Lead Councillor Alisdair MacDougall
22 October 2015

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APPENDICES

No Appendix