

Argyll Air Services PSO Consultation

1.0 EXECUTIVE SUMMARY

1.1 This report presents the findings of the Argyll Air Services PSO Review. Derek Halden Consultancy (DHC) was commissioned by Argyll and Bute Council in June 2018 to undertake the review. This review has incorporated desk-based research and extensive consultation with island communities, businesses, key stakeholders and users of the Argyll Air Service routes.

1.2 The Argyll Air Services Public Service Obligation (PSO) is a contract awarded by Argyll and Bute Council for the provision of an air service linking Oban, Colonsay, Coll and Tiree. The incumbent operator, Hebridean Airways, also offer an additional route to Islay as a commercial operation out with the Council PSO contract.

1.3 The review includes Colonsay, Coll, Tiree and Oban but *excludes* Islay, as the current air service linking Oban and Islay is a commercial operation and not part of the PSO contract.

1.4 The review and extensive public consultation was timed to allow the results to be used as part of the Argyll Air Services procurement tender exercise to shape the air services going forward. The tender exercise will offer interested air operators the opportunity to develop their own proposals with particular attention to the results of the public consultation.

1.5 The review was designed to identify the impact the Argyll Air Services have on the communities served, including the economy, business activity, service provision and community cohesion. The review also sought to identify the quantifiable benefits of the air services, including savings to the public sector in the provision of services to the island communities.

1.6 The review sought to gather views of residents, businesses, visitors, public sector organisations and potential service operators in order to provide a comprehensive review of the current service use, identification of wider economic and social benefits of the service and potential options for the future development of the service.

1.7 The review included a postal and online survey of residents on Colonsay, Coll and Tiree, plus direct contact with as many businesses on these islands and in Oban as was feasible. Public drop-in sessions were held on Colonsay, Coll, Tiree and Oban

to allow residents and business to discuss the air services directly with the review team.

1.8 The review identified demand for a flight/ferry pattern which allows access/egress to each island every day of the week. There was also demand for Friday / Sunday flights allowing weekend travel and to enable high school pupils to maximise their time at home.

1.9 Unused capacity on the Argyll Air Services was identified, with seat occupancy on the Argyll Air Services considerably lower than on other Scottish subsidised PSO air services and commercial air services. The review identified that improved marketing to maximise seat occupancy could generate significant additional income to the operator of the services.

1.10 The review identified that awareness of the flights, particularly by mainland businesses and visitors to the area is relatively low. Improving awareness of the flights and developing a specific tourist offering were identified as an opportunity to increase seat utilisation on the flights.

1.11 The review concluded that the Argyll Air Services are relied upon by island residents and visitors, however, all groups recognise the scheduling changes are required to ensure the service provides a service pattern which meets as many needs as possible while remaining financially sustainable.

1.12 It is recommended that members of the Argyll Islands Strategy Group note:

- The commitment of Argyll and Bute Council to ensure the views of residents, businesses and visitors influence the continued development of Argyll Air Services.
- The growth in reliance on the Argyll Air Services by island residents and businesses since the introduction of the service in 2008.
- The savings accrued by the public sector through use of the Argyll Air Services to deliver essential services to the islands.
- The opportunities to grow the use of Argyll Air Services, with a commensurate reduction in per passenger subsidy.
- The recognised need to amend the service schedule to ensure it serves island needs and remains financially sustainable.

Argyll Air Services PSO Review

2.0 INTRODUCTION

2.1. This report presents the findings of the Argyll Air Services PSO Review. Derek Halden Consultancy (DHC) was commissioned by Argyll and Bute Council in June 2018 to undertake the review. This review has incorporated desk-based research and extensive consultation with island communities, businesses, key stakeholders and users of the Argyll Air Service routes.

2.2. The purpose of the extensive public consultation is to use the results as part of the procurement tender exercise to shape the air services going forward. The tender exercise will offer interested air operators the opportunity to develop their own proposals with particular attention to the results of the public consultation.

2.3. The review was designed to identify the impact the Argyll Air Services have on the communities served, including the economy, business activity, service provision and community cohesion. The review also sought to identify the quantifiable benefits of the air services, including savings to the public sector in the provision of services to the island communities.

2.4. The Argyll Air Services Public Service Obligation (PSO) is a contract awarded by Argyll and Bute Council for the provision of an air service linking Oban, Colonsay, Coll and Tiree. The incumbent operator, Hebridean Airways, also offer an additional route to Islay as a commercial operation out with the Council PSO contract.

2.5. The review includes Colonsay, Coll, Tiree and Oban but *excludes* Islay, as the current air service linking Oban and Islay is a commercial operation and not part of the PSO contract.

3.0 RECOMMENDATIONS

3.1. It is recommended that members of the Argyll Islands Strategy Group note:

- The commitment of Argyll and Bute Council to ensure the views of residents, businesses and visitors influence the continued development of Argyll Air Services.
- The growth in reliance on the Argyll Air Services by island residents and businesses since the introduction of the service in 2008.
- The savings accrued by the public sector through use of the Argyll Air Services to deliver essential services to the islands.

- The opportunities to grow the use of Argyll Air Services, with a commensurate reduction in per passenger subsidy.
- The recognised need to amend the service schedule to ensure it serves island needs and remains financially sustainable.

4.0 DETAIL

4.1. To gather views on the air services and identify options to develop the service, a postal survey was sent to all households in Colonsay, Coll and Tiree, with an online version also made available. A survey of Argyll Air Service passengers was undertaken in August and September, plus direct contact with as many businesses on these islands and in Oban as was feasible. A total of 204 residents postal and online surveys were received when the consultation period closed at the end of September. Public drop-in sessions were held on Colonsay (7th August), Coll (15th August), Tiree (16th August) and Oban (28th August) to allow residents and business to discuss the air services directly with the review team.

4.2. The resident and business engagement identified demand for a combined flight/ferry pattern which allows access/egress to each island every day of the week. There was also demand for Friday / Sunday flights allowing weekend travel and to enable high school pupils to maximise their time at home.

4.3. Engagement with public sector organisations including NHS, Council, CMAL, National Agencies and Emergency Services, identified savings in staff time accrued by the use of the air services valued at least £60,000 per annum. Additionally, the ability to close Glencruitten Hostel, serving island based Oban High School pupils, at weekends due to pupils returning home for the weekend is estimated to save the Council at least £55,000 per annum. This saving could be increased if pupils were able to return home Friday – Sunday (2 nights) every weekend throughout the year, including the winter months which are currently Saturday – Sunday (1 night) due to limited daylight hours.

4.4. While detailed analysis of savings and benefits to businesses, including increased productivity, reduced travelling time and reduced costs was not possible, it is estimated that these are at least of the same value as the savings accrued by the public sector.

4.5. A review of passenger data identified significant unused capacity on the Argyll Air Services, with around 40% of seats used, compared to the Scottish Government PSO services (currently operated by Loganair) at around 60% and an average occupancy of 80% on commercial flights elsewhere in the UK.

4.6. Argyll Air Services currently has a high per passenger subsidy for a PSO air service, at £220, compared to the Scottish Government West Coast Islands PSO (operated by Loganair) at a subsidy per passenger of around £125. Increasing seat occupancy by an average of by one seat on all flights would increase revenue by approximately £55,000 per year. Increasing seat utilisation would reduce the per passenger subsidy to between £125 (at 60% utilisation) and £75 (at 80% utilisation). The contract for Argyll Air Services is structured that the Council's funding is fixed

and any revenue changes due to seat occupancy are borne by the operator, therefore it is in the operator's interest to maximise seat occupancy on the flights.

Seat Occupancy	Increase in Revenue (current fares)	Comments
40%	-	Current Argyll Air Services PSO seat occupancy
60%	£110,000	Scottish National PSO seat occupancy
80%	£220,000	Average commercial flight seat occupancy

4.7. The review identified that awareness of the flights, particularly by mainland businesses and visitors to the area is relatively low. Increasing awareness of the flights and developing a specific tourist offering were identified as an opportunity to increase seat utilisation on the flights. Improved marketing and incentivising the operator to maximise seat occupancy could generate significant additional income to reduce the high per-passenger subsidy.

4.8. The review concluded that the Argyll Air Services are relied upon by island residents and visitors, however, all groups recognise the scheduling changes are required to ensure the service provides a service pattern which meets as many needs as possible while remaining financially sustainable.

5.0 CONCLUSION

5.1. This report presents the findings of the Argyll Air Services PSO Review commissioned by Argyll and Bute Council from Derek Halden Consultancy (DHC). This review has incorporated desk-based research and extensive consultation with island communities, businesses, key stakeholders and users of the Argyll Air Service routes.

5.2. The review identified the impact the Argyll Air Services have on the communities served, including the economy, business activity, service provision and community cohesion. The review also identified the quantifiable benefits of the air services, including savings to the public sector in the provision of services to the island communities.

5.3. Argyll Air Services creates savings to the public sector in excess of £60,000 per annum, plus an additional £55,000 to Argyll & Bute Council in being able to close the Glencruitten Hotel at weekends when all island pupils are at home. It was estimated savings and benefits to businesses were at least of the same value as the public sector savings.

5.4. The review identified that passenger loadings on Argyll Air Services are lower than on the Scottish Government West Coast PSO Air Services or commercial air passenger services. Increasing passenger loadings could increase revenues, thereby reducing the financial support required from the Council to provide the air services.

5.5. The Argyll Air Services are relied upon by island residents and visitors, however, all groups recognise the scheduling changes are required to ensure the service provides a service pattern which meets as many needs as possible while remaining financially sustainable.

5.6. The results of the extensive public consultation will be used as part of the procurement tender exercise to shape the air services going forward. The tender exercise will offer interested air operators the opportunity to develop their own proposals with particular attention to the results of the public consultation.

6.0 IMPLICATIONS

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| 6.1. Policy | Provision of Argyll Air Services support the Council's SOA outcomes 2: We have infrastructure that supports sustainable growth and 5: People live active, healthier and independent lives. |
| 6.2. Financial | The continued pressure on Council budgets makes it necessary to identify opportunities to reduce the cost to the Council of providing the Argyll Air Services. |
| 6.3. Legal | Support from Legal Services is required to support the retendering of the contract for the provision of the air services. |
| 6.4. HR | None. |
| 6.5. Equalities | Argyll Air Services support equality of access to opportunities for residents and businesses on the islands of Colonsay, Coll and Tiree. |
| 6.6. Risk | There is a reputational risk to the Council if Argyll Air Services do not provide the services required by residents, businesses and visitors. |
| 6.7. Customer Services | None. |

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APPENDICES

Appendix 1 – Review of Argyll and Bute Public Service Obligation Air Services