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An Expanded Air Services Network For the Highlands and Islands

A Report for HITRANS by A&TC

February 2003

Executive Summary

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- A. In 2001, the network of scheduled air services linking the ten airports of the Highlands and Islands to the Scottish Mainland cost approximately £22.4 million to operate 'empty', before allowing for the marginal costs of carrying the current level of 383,000 passengers a year.
- B. It is estimated that the net passenger revenues on these routes, having deducted the same marginal costs, was of the order of £24 million, suggesting that the routes overall were marginally profitable for the airlines. Certain routes are calculated to be significantly profitable, while many of the smaller routes incur operating losses.
- C. At the same time, there is a general consensus that fare levels on these routes are very high compared to other domestic routes and that they are holding back the economic and social development of Scotland's peripheral regions. Growth of air traffic in the Highlands and Islands has been stagnating for many years while traffic to and from lowland Scotland has continued to grow apace.
- D. Fare levels are high because the average costs of operating scheduled services in this region are high, for two main reasons. Firstly, the low density of demand requires the use of small aircraft in order to provide the frequency of service needed – and the cost per seat-mile of a 30-seat turboprop is significantly higher than that of a 150-seat jet. Secondly, the average annual hourly utilisation of aircraft in this region is severely compromised by the current opening hours of many of the regional airports, caused in part by the high cost of staffing them to CAA standards.
- E. This study seeks to determine the cost to society of breaking this vicious spiral and converting it into a virtuous spiral of economic growth and improving levels of social inclusion.
- F. The method chosen was to study the cost of arbitrarily reducing the average fare paid by around one third, and providing improved schedules and frequencies to meet minimum standards of service and access for each peripheral community.
- G. Reducing the average fare by 33% was estimated to increase demand on the existing routes by an average of 29%. This extra demand helps to justify additional frequencies on some routes, and occasionally new direct routes.
- H. The new operating pattern selected – and assuming that all Highland and Island routes were to be operated by one airline, or by a co-operative of airlines – is a combination of: improved schedules (offering longer times at the destinations, and reducing the number of overnight stays required); extra frequencies (giving passengers a wider range of possible itineraries); new airports (with operations to Oban and Skye – Broadford); and new routes, such as Stornoway – Aberdeen and Benbecula – Inverness.

- I. One of the significant features of the new network is the proposed creation of a single wave, early afternoon hub at Inverness Airport, which would enable all parts of the Highlands and Islands to have rapid daily access to all parts of Scotland.
- J. The impact of these new schedules is to grow demand by a further 44%, suggesting a revised number of passengers using these routes in 2001 of around 709,000, an overall increase in the base year of some 85%.
- K. The cost of operating this network 'empty' rises from £24.5 million to around £43.9 million each year, an increase of some 79%.
- L. The estimated net passenger income, with all passengers paying a third less, is calculated at some £29 million for the year 2001. However, with passenger growth forecast to rise by 2.5% a year between 2001 and 2005 (the earliest that such a proposal could realistically be introduced), and 3.5% a year thereafter, this would result in annual net revenues of £32 million by 2005, £35.5 million by 2008 and – theoretically – a break-even £43.6 million by 2014.
- M. However, the load factors needed to obtain a revenue of £43.6 million are simply unachievable without a great deal of inconvenience to intending passengers, and large levels of turnaway on peak flights and routes.
- N. On a continuing basis, the routes ought to be able to operate at an average annual load factor of around 65%, which would generate some £35 million a year.
- O. This would suggest that, once the routes had been running for some years, the average annual loss would be of the order of £9-10 million, with possibly greater amounts in the initial years of 2005-2007 as loads built up.
- P. Although this £9-10 million would need to be provided from the transport budget of the Scottish Executive in the form of revenue support, there would be some Government savings elsewhere. The current PSO expenditure of around £1 million supporting the routes to Barra, Campbeltown and Tiree would cover a proportion of the £9 million. Secondly, there would be an annual increase of £4.5 million revenue for HIAL, from which it would be expected to show an increased profit of around £1.5 million which could be taken as a reduction in the Scottish Executive subsidy. Thirdly, around 20% of passengers on the network have their fares paid for by the Health Service and other bodies. Reducing these Government fares by some 33% will lead to a reduction in cost of at least £1.5 million each year, while a further £1 million could be saved by reducing drastically the number of overnight stays occasioned by the current schedules.
- Q. This total of around £5 million a year saving elsewhere in Scottish Executive budgets effectively halves the cost of the proposed network, and takes no account of the expected benefits to the economic and social lives of these communities.
- A. Additional capital infrastructure costs such as new or lengthened runways or improved air traffic control equipment have not been costed as part of this study.