



## Report to Partnership Meeting 23 August 2013

### RESEARCH AND STRATEGY DELIVERY

#### Skye Air Service Feasibility Study

#### PURPOSE OF REPORT

The purpose of this report is to update members on the recent work to progress the recommended next steps outlined in the Skye Air Services Feasibility Study. This Study was jointly commissioned by HITRANS, The Highland Council and HIE to establish the case for reintroducing scheduled flights to Ashaig Airport on Skye.

#### Background

HITRANS, The Highland Council and HIE jointly commissioned consultants ARUP and RDC Aviation to undertake a feasibility study to help establish the case for reintroducing scheduled flights to Ashaig Airport on Skye.

The Study estimated current unconstrained demand for air services from Skye to Glasgow/Edinburgh to be of the order of 21,500 passengers per annum. It also evaluated four options for creating the necessary infrastructure to re-establish air services at Ashaig Airport with the capital investment required, ranging from £2.3m to £15.3 million.

The Study developed a range of Benefit Cost Ratio (BCR) scenarios tested for Option A which represented the lowest cost airport option based on the existing runway length. This assumed Air services using Twin Otter 300 series operating a twice-daily (12 return trips per week) service and a single aircraft dedicated to the route. Other options have significantly greater airport costs but did not provide additional passenger or tourism benefits.

The table below indicates the base, lower and upper bound estimates of costs and benefits used, expressed as a Net Present Value (NPV) using a 3.5% discount rate to 2012 prices with a 30 year evaluation period

Costs	NPV (Discount rate of 3.5% to 2012 over 30 years)		
	Base	Lower	Upper
Airport CAPEX	(£2.5m)	(£2.3m)	(£2.8m)
Airport OPEX and Maintenance	(£11.2m)	(£10.3m)	(£12.4m)
Airline subsidies (PSO/ADS Costs)	(£3.7m)	(£1.4m)	(£7.6m)
Airport Revenue (Landing charges etc.)	£3.1m	£3.1m	£3.1m
Total	(£14.3m)	(£10.9m)	(£19.7m)

Benefits	NPV (Discount rate of 3.5% to 2012 over 30 years)		
	Base	Lower	Upper
Time savings benefits	£11.5m	£9.8m	£13.3m
Tourism benefits	£2.1m	£1.8m	£2.5m
Total	£13.6m	£11.6m	£15.8m

CAPEX costs are based on the minimum capital investment Option A as outlined in Section 3.4 with a cost range of £2.3-£2.8m spread over two years. Operational & Maintenance costs are based on those derived in Section 3.5 of the main report.

Airline subsidies are based on the range of estimates included in Section 4.3 for Twin Otter series 300 services to Glasgow and cover requirements to support airline operating costs including airport charges.

Airport revenues are taken at £150k per annum from landing charges and other aeronautical and non-aeronautical revenues as discussed in the same section of the report, and increased each year in proportion to the forecast traffic growth.

Tourism benefits, also derived in Section 4.3, are based on the estimate of stimulated visitor spend which is additional for Scotland as a whole. This is only a proportion of the stimulated visitor spend within Skye as discussed in the economic appraisal section of the report.

Based on the inputs tabulated above, the BCR using the BASE assumptions is estimated to be 0.95. A variety of scenarios has also been assessed with those tested falling within a range of 0.75 to 1.13

This analysis is based on dedicated use of a Twin Otter 300 series operating 12 return trips to Glasgow. Higher leasing costs of a new Twin Otter 400 series might increase the airline subsidy required by approximately £200,000 per annum and result in a BCR of around 0.76, if all other assumptions remain the same as the Base Case. However, this assumes that the aircraft is dedicated to the Skye-Glasgow service. If the 400 series aircraft were to be shared with other services, the lease rates would be spread over a greater number of services and the BCR for this route improved.

### Recommended Next Steps

The Study recommended a number of next steps that would be required to help establish the case scheduled air services from Skye.

These included the formation of a joint working group to; establish the feasibility of a PSO service to Skye; establish the benefits that GNSS approach procedures may bring at Ashaig; seek technical advice from airlines, fire authorities and CAA to gain greater certainty on the infrastructure and facilities needed to gain an operating licence for the airfield; and influenced by the outcome of these key actions, further refine the detailed business case to determine the specific capital and revenue costs, and the full economic and social growth and benefits that would be realised to a stage that would enable decisions on investments to be made.

Since the publication of the study, representatives of HITRANS, The Highland Council and Highlands and Islands Enterprise have agreed to form a joint working group and commit further

funding towards the development of a more detailed business case. In addition, Highland and Islands Airports Ltd (HIAL) have agreed to provide the joint working group with advice on technical issues.

A first meeting of the Working Group is scheduled to take place in advance of the Partnership Meeting with a view to establishing any necessary further work required to develop the business case. HITRANS officials have agreed to take a lead on addressing the technical issues identified in the Feasibility Study and an allocation of £10,000 from the 2013/14 Research and Development Budget has made to advance this work.

**Recommendation**

1. The Board is asked to note the report and approve the allocation of £10,000 from the 2013/14 Research and Development budget towards further work needed to refine aspects of the business case for reintroducing scheduled air services to Skye in collaboration with Working Group members, The Highland Council and HIE.

<b>Risk</b>	<b>impact</b>	<b>Comment</b>
RTS delivery	√	This work supports RTS Strategic priority S11a to reintroduce scheduled air services between Skye and the Central Belt
Policy	√	This work supports development of the Aviation policies set out in the RTS
Financial	-	£10,000 from the 2013/14 Research and Development Budget
Equality	-	

**Report by:** Neil MacRae  
**Designation:** Partnership Manager  
**Date:** 09<sup>th</sup> August 2013