

## **Report to Partnership Meeting of 20 April 2018**

### **RESEARCH AND STRATEGY DELIVERY**

#### **Skye Air Service Short Life Working Group - Delivery of Air Services at a Minimum Cost**

##### **Purpose of Report**

Having considered the most feasible option identified in the Skye Air Service Feasibility Strategic Business Case the local project promoters now seek further engagement with Transport Scotland and Highlands and Islands Airports to develop the most proportionate way to take the project forward. In doing so we recognise that the funding environment is constrained and that while the positive business case of the project has been captured it will still require public support to enable these benefits to be unlocked. It is proposed to establish a short life working group to develop how an Air Service linking Skye with Glasgow or Edinburgh could be established on a trial basis with the minimum capital investment. The focus of the Group would be to determine the feasibility of an option without in any way prejudging funding and delivery of that option.

##### **Background**

The most recent update of the Skye Air Service Feasibility work has focussed on establishing the strategic business case for the project and capturing the benefits of the project against cost. This has focussed on the most positive recommendations from earlier work with the preferred option being for a minimum capital investment to enable operation by a 19-seat aircraft (preferred option being a Twin Otter) into the existing airstrip which requires a short take-off and landing capability to service the 771 m x 23m paved runway.

Traffic Forecasts suggest the unconstrained passenger demand is greatest for a service to Glasgow and this is estimated at 23,800. A 12 x weekly Twin Otter service would have a theoretical capacity of 23,750 but sensitivity modelling of a realistic load factor has reduced the estimate for base demand at 15,100 passengers per annum.

##### **Study Presentation of Costs**

###### Operating Expenditure

The airport operating costs have been calculated assuming similar requirements to Barra Airport. Staff numbers are based on 10 staff. Covering the following functions:

- 3 FTE airport management staff
- 5 FTE firefighting staff
- 2 FTE security staff

Barra airport operates with 9 FTE staff.

Annual Airport operating costs are estimated to be £480-580k for the fully operational Skye Airport in the model set out by Arup consultants for the project promoters.

The Airline operating costs (with modest profit margin assumed) are estimated to represent a deficit funding requirement of £400k per annum if a PSO was applied to the route. If inclusion of the route in Air Discount Scheme was the favoured operational model for this service rather than PSO it is estimated that the airline cost would reduce to £210k per annum.

Total operating costs for the Airport and Air Service are presented in the table below:

Total Annual Airport Operating Costs	PSO Route Subsidy	Route Support if ADS	Total Annual Operating Costs - PSO	Total Annual Operating Costs - ADS
£480-580k	£400k	£210k	<b>£880-980k</b>	<b>£690-£790k</b>

### Capital Expenditure

The study and benefit cost ratio was calculated based on a full capital investment required to see a service reintroduced to Ashaig Airstrip including investment in several items of permanent infrastructure. These include the construction of:

1. 720 sqm permanent terminal building (approximately twice the size of Barra Airport Terminal)
2. 2,000 sqm of new apron
3. Upgraded airfield ground lighting
4. 100 space car park
5. One new Cat 3a Rescue and Fire Fighting Services vehicle with garaging facility, storage and basic non-residential staff facilities
6. £20-30k for upgrades to each of the existing runway lighting systems and instruments and equipment
7. A small allowance for boundary fence upgrade.

### **Development Strategy**

The Arup work for the project promoters set out a development strategy for establishing a permanent upgrade to the infrastructure and facilities at the Skye (Ashaig) Aerodrome that would allow it to achieve full licensed status and CAA approval in terms of Instrument Flight Procedures. This strategy concluded that a 2-year programme is likely to be the shortest timescale that could be reasonably achieved to gain licences and approvals, construct new facilities, set up an aerodrome operating team, sign agreements with airline operators and commence scheduled air services.

The project promoters are acutely aware of the constrained public sector financial environment and the importance of cost and benefit certainty in deciding priorities for new investment. It is important that the work to date has demonstrated that the investment in an air service and associated facilities at Ashaig Aerodrome in Skye offers a strong benefit to cost ratio (1.87 to 2.21 depending on Capex and O&M) for a full and long term Development Strategy for the project. However, recognising budgetary pressures there are opportunities to remove some fixed costs that would enable the project to be delivered as a trial that would test market demand for the service. The use of modular buildings and redundant equipment from other airports could reduce costs and support a trial approach without representing significant wasted expenditure. For example, the Capital Expenditure items listed as 1 – 7 above could be replaced as follows:

1. 200 sqm modular building to be used as a terminal building.
2. New / upgrade apron to the minimum required standard.
3. Installation of portable airfield lighting
4. 30 space car park
5. Retain one end of life HIAL Rescue and Fire Fighting Services vehicle with modular garaging facility, storage and basic non-residential staff facilities
6. £20-30k for upgrades to each of the existing runway lighting systems and instruments and equipment
7. A small allowance for boundary fence upgrade.

The savings on items 1, 2, 3, 4 and 5 would offer significant capital cost savings and need not be considered a wasteful stop gap. The modular buildings could be reused elsewhere later if replaced with permanent facilities in the future and the fire fighting vehicle life extension means a redundant asset is retained at the cost of a loss in depreciation value.

Airport staff numbers should at a maximum mirror Barra at 9 FTE staff with management functions potentially being through HIAL (service level agreement or by handing responsibility over to HIAL). This assumes a similar approach to security clearance at Glasgow Airport as for the Barra service. Discussions with Loganair have indicated savings that could be made in terms of security personnel and there is scope for innovation in sharing fire and rescue staff with Scottish Fire and Rescue.

The air service operating cost is likely to be an area where cost savings are difficult. However, discussions with Loganair indicate there could be airline interest in operating a service and Twin Otter aircraft are more readily available on the international lease market than has been the case at any time in the recent past. The fastest route to delivery for a short-term pilot project would be through a combination of Air Discount Scheme support combined with de-minimis aid for the remaining operating deficit.

Project promoters would now seek Ministerial support to develop the most viable option to re-introduce the Skye to Glasgow air service with the partnership group extended to include Transport Scotland and Highlands and Islands Airports to form a short life working group to take this forward in future stages. This extended partnership group should engage airlines, particularly Loganair, to develop the operational feasibility and ensure the solution is fully State Aid compliant in terms of infrastructure and air service operation. The cost of any design work associated with the Short Life Working Group would be met by HITRANS, HIE and Highland Council who have each allocated budget for this work.

## **RISK REGISTER**

### RTS Delivery

Impact - Positive

Comment – This work supports RTS Strategic priority S11a to reintroduce scheduled air services between Skye and the Central Belt

### Policy

Impact – Positive

Comment - This work supports development of the Aviation policies set out in the RTS

### Financial

Impact – Positive

Budget line and value – This item and any associated costs will be supported through the Northern Periphery and Arctic Programme Area SPARA 2020 project.

### Equality

Impact – Neutral

## **Recommendation**

1. Members are asked to note the report.

**Report by:** Ranald Robertson  
**Designation:** Partnership Director  
**Date:** 9<sup>th</sup> April 2018

**Background papers:** Appendix A – Short Term Working Group Terms of Reference

## **Appendix A - Skye Air Services Short Life Working Group Terms of Reference**

### **1. Group Purpose**

- 1.1 To identify and implement the necessary investment required to support the establishment of a pilot scheduled air service between Skye Airport and the Central Belt.
- 1.2 To ensure that all necessary technical, operational and licensing requirements for establishing scheduled air services from Skye airport are addressed and advanced with a view to achieving this proportionately with the pilot nature of the air service establishment.
- 1.3 To establish the CAPEX and OPEX required to support any pilot and consider opportunities for funding.

### **2. Group Composition**

The Group will have representation from the following:

- The Highland Council
- HITRANS
- Highlands and Islands Enterprise
- HIAL
- Transport Scotland
- Loganair

The Group may also consider co-opting additional members as identified and agreed by the Group

### **3. Quorum**

The members of the Skye Airport Working Group need to be present for the meeting to make decisions or recommendations.

### **4. Decision-making**

Decision-making will be by consensus.

### **5. Frequency & Venue**

- 5.1 Approximately, every 8 weeks, with 2 hours being the estimated length of meeting.
- 5.2 Meetings may be more or less frequent as determined by the work plan.
- 5.3 Meeting dates to be agreed for a 12 month period.

### **6. Work between Meetings**

Work to be allocated at meetings to Skye Airport Working Group members.

### **7. Communication**

- 7.1 Notes from meetings to be distributed to all Group members prior to dissemination for approval.
- 7.2 Working Group Members may be required to submit periodic reports to relevant Boards, Committees and Management Teams of the organisations represented.
- 7.3 Public Relations activity to be agreed by Group and action by nominated organisations with distribution to all group members prior to wider circulation.

## **8. Potential Confidentiality of Certain Discussions**

Whilst there is a need for openness and transparency with discussions at meetings; there may be occasions where members would be asked to maintain a degree of confidentiality in certain subject areas. This may include commercially sensitive matters, issues relating to Finance or individuals, plus situations where an approach to press / public awareness is agreed.