

Report to Partnership Board 28 June 2016

RESEARCH AND STRATEGY DELIVERY

Inverness City-Region Deal - Air Access

Purpose of Report

To provide Members with an update on HITRANS involvement in the Inverness City-Region Deal (for which Heads of terms were signed on 22nd March 2016) with regard to improving regional air access.

Background

Agreement on the Inverness and Highland City-Region Deal was reached between the Scottish Government, United Kingdom Government and The Highland Council with the Heads of Terms being signed on 22 March, 2016 in Inverness (please see link <http://bit.ly/28IXGqT>).

The Inverness and Highland City - Region Deal sets out a transformative change for the Region. Central to this will be a significant funding package which invests up to £315m into the regional economy. As part of this funding package, the Scottish Government will commit up to £135m. The United Kingdom Government will commit up to £53m. The Highland Council along with regional partners will commit up to £127m. Collectively, this funding package will be provided over a 10 year period subject to detailed business cases, statutory processes and implementation plans.

The City-Region Deal involves a large number of funded projects and commitments across a range of areas including transport, health, digital connectivity, skills and employability. For each commitment a lead organisation has been identified with HITRANS leading on the delivery of the the commitment which relates to Inverness Air Access;

Commitment from Heads of Terms - ***Both Governments recognise the importance of effective regional air access to the Highland economy and will work with the Highland Council to consider mechanisms for promoting improved regional access.***

A copy of the proposed governance structure for the programme identified in the City-Region Heads of terms is contained in Appendix B

Next Steps

An initial meeting of the Programme Board took place on 10th June 2016 for which HITRANS officers prepared a proposed draft modus operandi for a stakeholder working group (see Appendix A) which will seek to address the above commitment that relates to improving regional air access.

HITRANS officers will continue to work with colleagues in The Highland Council to finalise the Project Initiation Document for this commitment within the City-Region Deal.

It is hoped that an initial meeting of the stakeholder group will take place in Autumn 2016.

Recommendation

Members are invited to note the report

Risk	Impact	Comment
RTS Delivery	√	This work supports RTS Strategic priority enhance intra-regional connectivity between island and peripheral communities and regional centres and national gateways.
Policy	√	This work supports development of the Aviation policies set out in the RTS
Financial	-	
Equality	√	Air Access helps improve the connectivity of individuals in some of the most rural parts of the Highlands and Islands

Report by: Neil MacRae
Designation: Partnership Manager
Date: 20th June 2016.

Working Paper

Inverness City-Region Air Access Working Group

This is a short paper setting out the proposed modus operandi of a new stakeholder group focussed on Inverness City-Region Air Access.

Membership and Meeting Frequency

The intended membership of the group would be Transport Scotland, UK Government Department for Transport, HITRANS, HIAL, HIE, SCDI and The Highland Council.

It is proposed that the Working Group will meet twice per annum in Inverness Airport. Additional meetings would be held as and when required including the use of video/telephone conferencing.

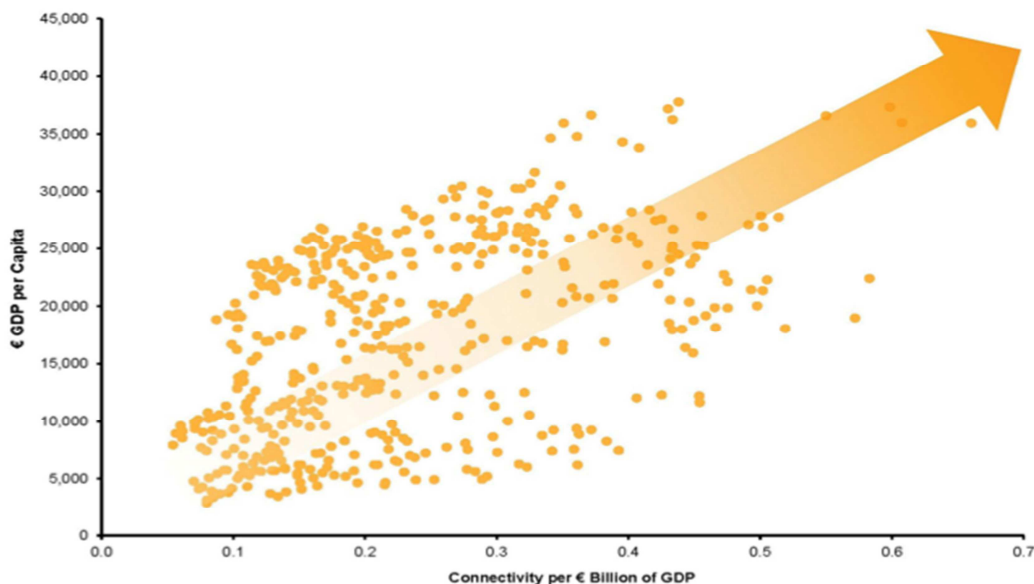
Purpose of Working Group

The starting point for this group is the Inverness City Deal¹ with the following commitment.

Inverness Air Access - Commitment – *“Both Governments recognise the importance of effective regional air access to the Highland economy and will work with the Highland Council to consider mechanisms for promoting improved regional access.”*

This commitment is underpinned by strong evidence of the link between GDP and Connectivity.

Figure 1: Air Connectivity versus GDP: Europe 2000-12



Source: InterVISTAS Analysis Based on Diio Mi Schedule Data and World Bank, World Development Indicators.

¹ <https://www.gov.uk/government/news/uk-city-deal-invests-315-million-in-inverness-and-the-highlands>

The Group should consider the following as Mechanisms for Promoting Improved Regional Access.

1. Appreciate that **connectivity is not just a function of direct destination links with the region but is also a function of capacity, frequency and onward connections at destination airports**. Links with hubs such as Heathrow, Gatwick, Amsterdam, Dublin, Manchester and Birmingham are particularly valued for the Highland Region). The 2014 National Connectivity Taskforce Report² highlighted many of the issues relating to improving UK regional connectivity and this was recognised in the Independent Airports Commission recommendations³ on new runway capacity in the English south east.
2. **Reduce entry barriers for new routes**, which may include using Route Development Funds, which permit start-up costs and risks to be supported for first 2/3 years. However other softer support aspects can also be addressed by the Group. Assistance in kind can be provided by the wider airport stakeholders to provide products, goods, or services that otherwise might have to be paid for, and can be significant and influential for the target airline.
3. **Partner with airlines and airports on route development AND existing route sustenance**. It would be prudent for the region having a response package for routes that are threatened, an approach anticipated by the DfT⁴ requesting airlines to provide an early warning system for route termination on key routes.
4. **Stimulate demand through effective brand development and the effective dissemination of travel information** – For instance Inbound tourism has been very important in sustaining the outbound flights so useful to Highland business and regional development. A significant number of tourists in the Highlands and Islands arrive by air and many studies have highlighted how airborne visitors have a much higher spend per head than terrestrial arrivals. Indeed although overseas tourists represent only 16% of Scottish arrivals they deliver 35% of the tourist spend.
5. **Ensure State Aid rules are fully understood, are aligned with Highland interests, and are complied with**. As an example areas eligible for operating aid' means an outermost region referred to in Article 349 of the Treaty or a sparsely populated area such as NUTS 2 regions with less than 8 inhabitants per km² or NUTS 3 regions with less than 12.5 inhabitants per km². Highland NUTS 3 Region has approximately 8.89 per km², and there may be other more appropriate criteria to apply in transport terms to the region such as areas recognised as 'development' or special assisted areas under EU or UK definitions or 'peripheral' areas – namely those that are not categorised as remote, but which are some significant travel time from the national capital or the heart of the EU single market. The current APD dispensation and the Air Discount Scheme are two such interventions recognising the region's special transport challenges.
6. **Ensure aviation facilities are fit to purpose** and travellers have a positive transit experience.
7. **More conscious partnering with air linked economies**. Examples of trade and municipal exchange visits and delegations and explicit joint MOUs such as updating the historic City Twinning approach may have a role to play in strengthening economic and social links between regions, thereby further underpinning the air route and better exploiting its impact opportunities. The air operator should see the logic helping facilitate such exchanges. Airports

² <http://www.nationalconnectivitytaskforce.co.uk/>

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/440316/airports-commission-final-report.pdf

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266383/pso-policy-guidance.pdf

at each end of the route are also becoming more adept at developing joint propositions to air operators.

8. **Work to ensure that any connectivity benefit is spread more widely across the region beyond the immediate vicinity of the airports.** The current plan for a rail station at Inverness Airport, the recent upgrading of the JetBus service to the airport and the installation of real time timetable information at the airport are all examples of helpful collaboratively funded stakeholder interventions.
9. **Airfreight, Inclusive Travel and Air Charters, General Aviation (including seaplanes) and Business Aviation** should not be overlooked, as they can provide links with non-scheduled destinations and deliver high net worth business travellers, inward investors, visitors, and other niche tourists to the area. The potential of a new airport at Skye and intended airlink with the central belt can also be on the working agenda of this stakeholder group.
10. **Work to ensure that the direct, indirect, induced and catalytic benefits of aviation are optimised** by better understanding the economic benefit transmission mechanisms that are at work (for example airport related employment clusters or business parks are a particularly visible way that aviation and economic activity exhibit their close synergy).
11. **Facilitate negotiations with potential funders and airline decision makers using empowered representatives⁵ and persuasive data and stakeholder commitments at their fingertips.** This can be aided by pre-discussed scenarios and intervention limits pre-agreed and understood by the region's representative. Simplify the airlines' engagement with the area with ideally one point of contact who can access an impressive group of stakeholders when required.
12. **Assemble or commission appropriate research** to justify any resources being directed to these efforts.
13. The current **UK Regional Air Connectivity Fund** provides an EU approved model that the region could potentially build upon in providing collaboratively supported route start-up packages. A recent US study⁶ raises some interesting insights into a possible rationale for state support of air routes in secondary airports. This paragraph captures some key points from their approach.

"If a feedback effect caused by a positive relation between the number of passengers and the level of service at smaller airports exists, it offers the potential for welfare-enhancing subsidies. Subsidizing smaller airports might increase the welfare of their potential passengers, net of the subsidy, while also reducing congestion at hub airports. Adding to the importance of reducing hub congestion is the difficulty of gaining permits for adding or lengthening runways in large urban areas. Smaller airports, in contrast, are usually uncongested or nearly so. Waits for take-off and landing are typically non-existent or brief."

It seems that the UK (or the Highland region itself) could usefully attempt to apply this type of methodology in the European context.

⁵ In line with way that French regional syndicates were reported to work by one airline operating in Scotland and France

⁶ A welfare analysis of subsidies for airports - JATM - Benjamin I. Miller

Appendix B

City-Region Deal Local Governance Arrangements

