

Report to Partnership Meeting 23 June 2017

RESEARCH AND STRATEGY DELIVERY

Air Discount Scheme:

Appraisal of Extending Student & Business Eligibility

Purpose of Report

To introduce the summary and conclusions of a draft report commissioned by HITRANS, appraising the extension of student eligibility within the Air Discount Scheme, which was undertaken by Reference Economic Consultants.

Background

The Air Discount Scheme (ADS) reduces the cost of air travel for those whose permanent/main residence is in an eligible area of the Highlands and Islands. It provides a discount of 50% on the core air fare (i.e. the total fare excluding airport charges and government taxes). The support is classed as aid of a social character.

The eligible areas are:

- Caithness and North West Sutherland.
- Colonsay.
- Islay.
- Jura.
- Orkney.
- Outer Hebrides.
- Shetland.

The following are not eligible for ADS:

- Individuals whose permanent/main residence is not in an eligible area.
- Trips made on Public Service Obligation flights.
- Business trips-apart from those made by employees/volunteers of registered third sector organisations which are funded via De Minimus.
- NHS funded trips.

The Air Discount Scheme reduces the cost of air travel for those living in eligible geographical areas of the Highlands & Islands. It does this by providing a discount of 50% on the core air fare (i.e. excluding airport charges) on non-PSO air routes.

ADS was introduced in 2006. In April 2011 Scottish Government restricted its eligibility with ADS only applying to non-business trips. Flights made as part of an individual's work for the private, public or third sectors were no longer be eligible for ADS.

This was relaxed somewhat in July 2012 when ADS was reinstated for business trips made by those working in the third sector. Further, in April 2015 the level of discount was raised from 40% to its current level of 50%.

Appraisal of Inclusion of All Business Travel

In 2016, HITRANS, ZetTrans, Comhairle nan Eilean Siar, Orkney and Shetland Islands Councils, The Highland Council and Argyll and Bute Councils commissioned research to explore the potential benefits, costs and feasibility of reintroducing ADS for all types of business users.

The report concluded that grant aid can be provided to business users subject to it being consistent with the *de minimus* Regulation. It should be noted that it may not be possible for some larger businesses in the region, particularly those being part of a national or even international group, to access a revised ADS as they may already be in receipt of *de minimus* funding and therefore exceed the threshold of €200k over a three year rolling period.

In addition, the reinstatement of ADS for public sector business travel can be supported on the basis that aid of a social character benefits final customers and that resultant savings by these public sector bodies will be reinvested in services and therefore serve the interests of the residents of the eligible areas. Also, there does not appear to be a regulatory barrier to including taxes and charges within the fare that is discounted through the ADS.

The estimated costs of reinstating eligibility are:

| Sector | Estimated Cost |
|---|-----------------------|
| Private sector business travel | £661,000 |
| Public sector business travel, not including that undertaken by the NHS | £785,000 |
| Business travel for NHS staff | £213,000 |

The report was tabled at the Islands Transport Forum (September 29th 2016) by Comhairle nan Eilean Siar on behalf of the partners with the recommendation that Scottish Ministers support the inclusion of all business travel within the Scottish Government's Air Discount Scheme.

The next Islands Transport Forum is scheduled for 21st June 2017.

Appraisal of Extending Student Eligibility

Earlier this year, HITRANS commissioned Reference Economic Consultants to undertake an appraisal of extending student eligibility within the Air Discount Scheme.

The objective of the research was to assess the feasibility, benefits, and cost to Scottish Government of extending ADS to individuals studying in the eligible area but whose main residence-at the time of being offered a place-is elsewhere.

The research was to:

- Cover all HE and FE establishments within the ADS eligible areas.
- Set out how extending ADS could be done in a State Aid compliant way.

ADS is available for students who are studying away from home but have their main residence in an eligible area. For example, a student from Shetland who is studying at University of Edinburgh.

To register for ADS these students have to provide, first, a copy of their student card. Second, they must give information on the expected length of their studies.

However, Transport Scotland confirmed that there is no specific definition of what constitutes studying-i.e. length of course.

The students also have to provide proof of residence; confirming that the address they are applying for (i.e. in an eligible area) is their main/permanent residence. That requires two official documents from different sources which include their address and are dated within the last six months. Documents from third parties where the only purpose of the document is to state residency are not admissible.

Transport Scotland stated that that very few people have applied for ADS as students living away from home.

A copy of the Summary and Conclusions from the report are attached as an appendix to this report.

| TABLE 2.4: NUMBER OF NON-LOCAL STUDENTS: ACADEMIC YEAR 2016-17 | |
|--|---------------------------|
| Institution | Number of Students |
| Orkney College | 33 |
| Heriot Watt University-International Centre for Island Technology (Orkney) | 26 |
| Lewis Castle College (Lewis and Uist) | 23 |
| North Atlantic Fisheries College (Shetland) | 14 |
| North Highland College (Caithness) | 11 |
| Shetland College | 4* |
| Argyll College (Islay) | 0 |
| Total | 111 |

*Does not include FE students

As the extract from the report outlines the number of non-local students in 2016-17 studying within institutions in the area was 111. Based on this Reference Economic Consultants have estimated that the annual cost to Scottish Government of extending eligibility would be around £28,000 based on. 266 return flights x £105.

According to Transport Scotland the total cost of ADS to Scottish Government was £8.473 million in financial year 2016-17. Thus, the suggested extension of ADS would increase the cost to Scottish Government by less than one half of one percent.

If the number of flights per student was 50% greater than assumed, or the number of students increased by 50%, then the cost to Scottish Government would rise by around £14,000 per year (to £42,000).

The report highlights a number of benefits arising from students having reduced air fares including an increased number of students at institutions in the eligible areas, helping to realise the impacts of planned investments in student accommodation. An increased number of students will:

- Provide additional income to the institutions.
- Support the provision of courses, some of which will also be undertaken by local residents.
- Increase spending in local shops, restaurants, etc.

Recommendation

Members are invited to approve the summary and conclusions of report into the appraisal of extending student eligibility within the Air Discount Scheme.

RISK REGISTER

RTS Delivery

Impact - Positive

Comment – This work supports RTS Strategic priority enhance intra-regional connectivity between island and peripheral communities and regional centres and national gateways

Policy

Impact - Positive

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

Financial

Impact – Positive

Budget line and value – An allowance was been made in the 2015/16 and 2016/17 Business Plan for completing this workstream.

Equality

Impact –neutral

Comment – The Air Discount Scheme helps improve the connectivity of individuals in some of the most remote parts of the Highlands and Islands

Report by: Neil MacRae
Designation: Partnership Manager
Date: 13th June 2017.

3 SUMMARY AND CONCLUSIONS

3.1 SUMMARY OF FINDINGS

There are slightly more than 100 students studying at educational institutions in the eligible areas but who are not originally residents of those areas.

Slightly more than half are studying in Orkney, with most of the rest in either the Outer Hebrides or Shetland. There are no students within Argyll and Bute.

Available information suggests that:

- The vast majority are residents of the EEA and very largely either residents of Scotland or other EU countries outside the UK.
- There is a broadly even split between undergraduates and postgraduates.

Air fares to/from the eligible areas are high. Our analysis shows that the fully flexible return fares are between £394 and £472. The non-flexible fares range between £174 and £328, depending on how far in advance the booking is made. However, in some cases no non-flexible fares are available if booking near to the day of travel.

Application of ADS would reduce fare levels by between c40%-45% depending on the type of ticket being used.

Despite current fare levels some students use air to travel to/from the eligible areas. This reflects:

- The long distances/journey times involved.
- For some, a need to connect with onward flights at mainland Scotland airports.

The students' courses typically run for:

- A full 12 months per year for Masters and PhDs.
- At least 30 weeks per year for undergraduates (somewhat less for NAFC students).

Consultees reported that students typically travel home or to other destinations three times per year. These trips generally coincide with holiday times-i.e. Christmas, Easter and then the summer. Thus, many students appear to be resident in the eligible area for unbroken blocks of 10 weeks at a time.

Therefore, these students are different from temporary workers in the eligible areas (e.g. on construction projects) who work, say, four weeks on and four weeks off and are likely to travel back to their home when they not working.

It is also likely that most of the students spend more of the year living in the eligible area than do local residents who are studying at institutions elsewhere (e.g. a Shetland resident studying in Edinburgh). The latter are eligible for ADS while the former are currently not.

Consultees told us that:

- Students have raised the issue of the non-availability of ADS. Their exclusion from ADS is seen as unfair as well as leading them to incur high travel costs.
- The students are very much part of the communities in which they are studying.
- Travel costs constrain the number of students their institution can attract.
- This constraint is in a context where they are looking to grow the number of students from elsewhere and are making investments in support of this-a.g. student accommodation.
- ADS as presently constituted only acts to encourage local residents to study elsewhere by reducing their travel costs.
- Students from outside the local area are an important element for sustaining and developing new postgraduate courses. There is increasing competition for these students on both a UK and international basis.
- The local economy benefits from the spend of students during the year.
- Some of the students will continue to live in the area after they complete their course. This increases the availability of graduate level skills in the local labour market. There is evidence from Orkney of students going on to set up own businesses and employing others.

Some of these points are recognised in Scottish Government's *Scotland's Economic Strategy*. It notes that "Scotland's universities...help develop a significant proportion of the talent that flows in and out of Scotland" and "Scotland benefits from the many international students who choose to study in Scotland".

Highlands and Islands Enterprise's 2016-2019 Operating Plan includes the objective of "growing an international student cohort in the region" as part of a wider effort in "encouraging the growth of the universities sector".

There are examples elsewhere in the EU of aid of a social character being used to reduce air fares for specific groups. These include people with what are termed "limited resources"-which would include students.

As it stands, ADS in the Highlands and Islands is residence based. However, in the case of air services to Corsica the EC approved aid of a social character to reduce the air fares of non-residents, including students. That is, based on individual circumstances rather than place of residence.

3.2 THE EXTENSION OF ADS ELIGIBILITY

3.2.1 Basis

It is reasonable to consider the students as (temporary) "residents" of the eligible areas. That is because of the length of time they spend living there each year; and because their residency is not punctuated by frequent trips back to a place of residence elsewhere.

Further, as students these individuals have "limited resources". This makes them a justifiable case for receiving aid of a social character. That is unlike those from elsewhere who are working temporarily in an eligible area in full time waged employment.

Proof of students' eligibility could be based on the existing one for students, as described at Chapter 2. That is, providing:

- A copy of their student card.
- Information on the expected length of their studies.
- Two official documents from different sources which include their address. That would include a letter from the institution confirming their place on the course and, for example, a letter from their landlord, or the GP they have registered with.

3.2.2 Potential Cost to Scottish Government

The potential cost of extending ADS to these students has been estimated as follows:

1)

111 eligible students per year (as per Table 2.4).

2)

Assume that 80% of these students would make some flights each year. The other 20% would not do so because surface transport is more convenient for their trip destination and/or cheaper than flying.

3)

The students would each make three return flights per year based on data from our consultations. This gives a total of 266 return flights per year.

4)

Average ADS payment per return flight would be £105.

Our previous report⁴ showed an average of £80 ADS payment per return flight in financial year 2015-16.

At that time the ADS discount on the core air fare was 40% rather than the current 50%. Adjusting the £80 figure to reflect this increases the ADS payment to £100 per return flight. Finally, we applied an assumed 5% increase in the core fare between 2015-16 and the present day.

⁴ *Appraisal of Inclusion of All Business Travel Within the Air Discount Scheme* (September 2016)

5)

Thus, the estimated annual cost to Scottish Government would be around £28,000-i.e. 266 return flights x £105.

According to Transport Scotland the total cost of ADS to Scottish Government was more than £8 million in financial year 2016-17. Thus, the suggested extension of ADS would increase the cost to Scottish Government by less than one half of one percent.

If the number of flights per student was 50% greater than assumed, or the number of students increased by 50%, then the cost to Scottish Government would rise by around £14,000 per year (to £42,000).

2.3 Potential Benefits

There is a benefit to the students from having reduced air fare costs. Some of this will accrue to students who are from outwith Scotland but that largely reflects that ADS is available to EEA nationals.

The other potential benefits are, first, an increased number of students at institutions in the eligible areas, helping to realise the impacts of planned investments in student accommodation. An increased number of students will:

- Provide additional income to the institutions.
- Support the provision of courses, some of which will also be undertaken by local residents.
- Increase spending in local shops, restaurants, etc.

Second, some of the students will continue to live in the area after they complete their course. This will increase the availability of graduate level skills in the local labour market and potentially increase new business formation.

Thus, the extension of ADS has the potential to support Scottish Government and Highlands and Islands Enterprise's objectives for further developing the HE sector and increasing the number of international students in Scotland.