

**Report to Partnership Board 15 April 2016**

**RESEARCH AND STRATEGY DELIVERY**

**Air Discount Scheme – Business Use Research.**

**Purpose of Report**

To provide Members with an update on recently commissioned research into the Air Discount Scheme as identified in the 2015/2016 Business Plan. The research will explore the potential benefits, costs and feasibility of reintroducing ADS for all types of business users.

**Background**

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. ADS was to now only apply to non-business trips. Flights made as part of an individual's work for the private, public or third sectors would 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%.

HITRANS and its partners now wish to commission research to explore the potential benefits, costs and feasibility of reintroducing ADS for all types of business users.

**Scope and Commissioning of Research.**

Following the development of an initial proposal by HITRANS Officers, it was agreed to invite the consultants undertaking the HITRANS Regional Transport Strategy Update with a view to awarding the work as an extension to this original commission.

A proposal was subsequently received from Reference Economic Consultants which HITRANS accepted and an inception meeting took place on 17<sup>th</sup> March with representatives of HITRANS, Orkney Islands Council, The Highland Council, Comhairle nan Eilean Siar, Argyll and Bute Council and ZetTrans in attendance.

The agreed proposal will include a number of elements summarised below.

- Meeting with Transport Scotland to understand;
  - Trend in the number of ADS-related flights before and after the two changes in business flight eligibility in 2011 and 2012.
  - Trends in ADS funding before and after these two changes.
  - Rationale for, and views on the impacts of, withdrawal of ADS for business use.

- The way in which ADS for third sector business flights has been funded and the supporting rationale for this.
- Possible means of funding increased ADS eligibility for business use and the scope of this (e.g. inclusion of public sector flights).
- Online Survey of Private Sector Businesses
  - An online survey of private sector businesses based in the eligible areas will be undertaken. This will be promoted to all private sector businesses.
  - The online survey will collect data on businesses' current use of the relevant air services, including frequency, trip purposes (meeting customers, attending conference, etc.) and an estimate of their total annual spend on flights. The survey will capture information about changes in use of air services by businesses since 2011 and wider business impacts from the change in policy.
- Follow-Up Telephone Interviews
  - The online questionnaire will also be supported by a series of more in depth telephone interviews.
- Airline Consultations
  - The research will also include consultation with the relevant airlines - Loganair and Eastern Airways
- Online Fares Analysis
  - It is essential that the study reviews the actual fares that are being charged so research will be undertaken on the fares that are available online for each of the relevant routes and how these fares vary as a result of multiple factors including; how far in advance they are booked; their flexibility and impact of trip duration
- Funding Mechanisms
  - The study will also review any other schemes in the EU that offer reduced fares to business users, including the means by which they are funded and eligibility criteria.

## Outputs

Further to this research, a draft report will be produced that covers;

- Trends before and after the changes to ADS. That will include monthly carryings on the relevant routes, number of ADS bookings and Scottish Government funding.
- Analysis of fares-based on online analysis and fare levels reported by businesses.
- Potential economic benefits of the reinstatement of ADS for business flights.
- Estimates of the increase in passenger numbers on the relevant routes that could be generated by fare reductions for business users. These will be based on the results of the online survey and experience of the impacts of fare changes on the ADS routes and other similar ones.
- Based on the above, the estimated the cost to Scottish Government of reinstatement of ADS.
- Appraisal of options for a legally compliant funding mechanism and sources from which the cost could be met.

## Budget

A budget of £10,000 including expenses has been set for this project. However, at the recent inception meeting it was requested by partner Councils that the use of ADS by public sector bodies also be quantified to help understand the role this plays in supporting these air services. Officers will consider extending the commission based on the updated proposal.

### Recommendation

Members are invited to note the report and support the extension of the study to consider use by the public sector of air services where ADS applies subject to further discussion with the consultant undertaking the research.

<b>Risk</b>	<b>Impact</b>	<b>Comment</b>
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	-	A budget of £5,000 was originally identified in 15/16 Business Plan and allowance has been made in the 2016/17 Business Plan for the workstream.
Equality	√	The Air Discount Scheme helps improve the connectivity of individuals in some of the most rural parts of the Highlands and Islands

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