

Shetland Islands Council

REPORT

To: Special Infrastructure Committee

21 January 2009

From: Head of Transport Infrastructure Services Department

INTER ISLAND AIR SERVICE – SPECIFICATION, TIMETABLE AND FARE STRUCTURE FOR THE CONTRACT 1 AUGUST 2009 TO 31 MARCH 2013

1. Introduction

- 1.1. The current contract for the provision of inter island air services has been in place since 1 August 2006 and expires on 31 July 2009.
- 1.2. This report seeks the approval of the Infrastructure Committee for the specification, timetables and fare structure for the provision of inter island air services to be included in the next contract which will run from 1 August 2009 until 31 March 2013.
- 1.3. Finally, the report seeks the Committee's approval to issue tender documents in accordance with Articles 16(9) and 16(10) of Council Regulation (EC) No 1008/2008 relating to the procurement of Air Services which, amongst other things, specifies that tender documents must be issued at least 6 months before a new contract is scheduled to commence.
- 1.4. In effect this means that documents must be ready to be issued by 1 February 2009.

2. Links to Council Priorities

- 2.1. The Council's Corporate Plan states "Shetland's communities are scattered and have a diverse set of needs. To best address those, we must have sustainable road, sea and air transport systems, both internal and external, that ensure everyone is able to access the places, services and opportunities they need."
- 2.2. The Shetland Transport Strategy supports the continued operation of inter island air services using Tingwall Airport as the hub for operations (detail contained in sections 6.42 to 6.53 of the strategy).

3. Background

3.1. Shetland Islands Council subsidises the provision of air services to Fair Isle, Foula, Papa Stour and Skerries under the application of a Public Service Obligation (PSO).

- 3.2. A re-evaluation of the reasoning for the PSO has confirmed that it is still the case that internal air services to the islands cannot function as a commercial operation with affordable fares due to the low numbers of passengers carried. A copy of the PSO justification presented to the European Commission is attached as Appendix 1.
- 3.3. The PSO justification document is currently under consideration by the European Commission and it is anticipated that the Commission will agree that the Council can continue to offer the service to a single operator with an operating subsidy under the terms of a PSO.
- 3.4. The remainder of this report sets out the proposed specification, timetable and fare structure for the services and seeks the Committee's approval to include this in the tender documents to be issued at the end of January/ early February this year.

4. Consultation – Issues Raised

- 4.1. In April 2008 the Air Services Working Group took a trip to all of the islands with internal air services to seek their views on what should be taken into account in the specification for the next internal air service contract.
- 4.2. The recurring issue that seems most important to address is the constraint on capacity predominantly during the summer months when tourist activity is at its highest. It is felt that in Fair Isle in particular and to a lesser but still significant extent in Foula, this is constraining tourist activity and it makes short notice travel difficult (e.g. health appointments) for islanders because aircraft are fully booked quite some time in advance.
- 4.3. The other issue that appears to dominate is that the islands would like a contractual obligation to fly at the earliest opportunity after a cancelled flight and that should include Saturdays and Sundays if that is the next available weather window. The main reason for this is that in the past there have been times where a weather window occurs on a Saturday or Sunday and the weather can deteriorate again before the next conventional working day. This is felt to be particularly important in giving tourists confidence that there is a low risk of being "stranded" and therefore unable to make onward connections. It is also important in giving island residents a better degree of reliability in accessing the mainland for important appointments or onward travel needs.
- 4.4. The times when this would happen is inherently difficult to predict due to the nature of our weather in Shetland but looking at records it is likely to be infrequent. There would be a need to open the airport if the requirement fell on a Sunday during the summer timetable or a Saturday/ Sunday in the winter timetable. This would incur cost to the service in overtime payments and other related costs (eg. fuel etc).
- 4.5. On the issue of fares the views of the island communities varied slightly. Fair Isle felt that in general the fare charges are affordable to residents and do not constrain visitors in their choice to travel to the islands.
- 4.6. On Foula it was felt that lower fares would benefit island residents but it was acknowledged that in a time of growing constraints it would be difficult to justify a lowering of fares.

- 4.7. On Out Skerries it was felt that lower fares would benefit island residents and their families but again the issue of growing constraints was recognised.
- 4.8. Fair Isle and Foula communities both felt that there were significant problems with travellers booking travel but not actually making the trip. It was suggested that some means of ensuring flights were paid for in advance and no refunds given for "no shows" would be a means of tackling this problem.
- 4.9. Foula and Skerries both requested whether additional flights can be provided in the timetable (Foula request an additional return trip on Fridays and Skerries two additional return trips on Tuesdays).
- 4.10. An additional return trip to Foula on a Friday is not possible due to constraints of the current timetable in that it is not possible to fit in an extra scheduled flight.
- 4.11. On Skerries, additional flights on a Tuesday, although acknowledged as community aspirations, are very difficult to support on socio-economic grounds bearing in mind Skerries already has a ferry service that is significantly superior to that servicing Fair Isle and Foula. Although additional flights are currently provided (they were introduced on a temporary basis to offset a large number of banked flights), it is not consistent with the PSO and appraisal suggests that there is weak economic case for continuing the practice bearing in mind the good ferry service the island also has.
- 4.12. At their last meeting of the Air Services Member Officer Working Group Members asked me to consider the matters of freight and baggage allowance in the context of the next contract.
- 4.13. Having researched matters it is my view that the Council should not specify these matters in the contract because they are not contained within the terms of the PSO that the Council is undertaking to subsidise. The principal reason is that these are matters best managed by the operator such that the use of the aircraft is optimised to ensure the terms of the PSO are met, i.e. passengers are assured a reliable and affordable air service between the islands and mainland Shetland.
- 4.14. In summary, the issues the next contract needs to address are:
 - Increased capacity on the most constrained services through effective use of available aircraft.
 - Ability to provide cancelled flights at the next available opportunity if that falls on a weekend (varies for different islands and summer/ winter timetable).
 - Ability to decrease the number of "no shows" (and therefore release capacity) through system of ensuring flights that are booked and paid for in advance and limited refunds.
 - The development of a system of online booking and paying.

5. Specification, Timetable and Fare Structure

- 5.1. Appendix 2 contains the draft specification, Appendix 3 contains the draft timetable and Appendix 4 contains the draft fare table for the air services contract to run from 1 August 2009 until 31 March 2013.
- 5.2. As Members can see, the basic timetable is the same as is currently in operation but the flights that had been temporarily provided to Skerries have been removed.
- 5.3. The changes to the previous specification relate to: -
 - The use of the second aircraft at times of high demand to provide increased capacity.
 - The formalisation of a system of banking cancelled flights (due to weather or no bookings) and using those flights to best meet the needs of the communities.
 - The development of an online booking and paying system.
 - A means of ensuring that "no shows" are charged in appropriate circumstances as a means of discouraging indiscriminate booking.
 - Under this contract the contractor has been asked to submit 2 bids. One based on using the Council's aircraft for the provision of the services and one based on providing their own aircraft.
- 5.4. The Air Services Member Officer Working Group asked officers to consider the mechanisms for charging for freight and specifying baggage allowances. Research suggests that to specify these matters in a contract would be difficult in that the operator must be able to control these variables to ensure the effective operation of services.

6. Financial Implications

- 6.1. The Revenue Estimates for the internal air service have been prepared on the basis that the new contract will cost no more than in 2008/09.
- 6.2. Although the draft specification contains some enhancements to the current services, these are achieved through more efficient and effective use of the current resources.
- 6.3. This tender process has been aligned with the timing of the Orkney Islands Council's internal air services tender and it is hoped that this should present a more attractive opportunity to the industry with benefits in terms of cost to the Council.

7. Policy and Delegated Authority

7.1. Infrastructure Committee has delegated authority to act on all matters within its remit, under section 12.0 of the Council's Scheme of Delegations, and for which overall objectives have been approved by the Council, in addition to appropriate budget provision. However, delegated authority excludes the setting of charges, as stated in paragraph 8.2 of the Council's Scheme of Delegation, therefore a decision of the Council is required.

7.2. Shetland's Transport Strategy is a statutory document and the Council, as required under the Transport (Scotland) Act 2005, must perform its functions which relate to or which affect, or are affected by transport consistently with the transport strategy.

8. Recommendations

- 8.1. I recommend that Infrastructure Committee: -
 - 8.1.1. Approves the proposed internal air services specification, and timetables contained in Appendices 2 & 3 respectively.
 - 8.1.2. Approves that tender documents based on the specification, timetables and fare structure can be issued in accordance with Articles 16(9) and 16(10) of Council Regulation (EC) No 1008/2008 relating to the procurement of Air Services.
- 8.2. I recommend that the Infrastructure Committee recommends to the Council that it: -
 - 8.2.1. Approves the fares structure contained in Appendix 4.

Report Number: TR-06-09-F

Appendix 1

LIFELINE AIR SERVICES: Shetland's Outer Isles

RE-ASSESSMENT OF PSO ADEQUACY

PUBLIC SERVICE OBLIGATIONS - REGULATION (EC) No 1008/2008

BACKGROUND

Under the provisions of the Highlands and Islands Air Services (Scotland) Act 1980, and also section 63 of the Transport Act 1985, subsidy is made available to meet deficits incurred in providing economically and socially necessary air services in the Highlands and Islands of Scotland which cannot be provided on a commercial basis. Shetland Islands Council (SIC) proposes to continue to make subsidy available under the Transport Act 1985 to meet the deficits incurred and to ensure the continued provision of scheduled air services between Lerwick (Tingwall Airport) & Sumburgh Airport and the Islands of Fair Isle (population 69), Foula (population 32), Papa Stour (population 24) and Skerries (population 76)¹. The routes are commercially non-viable. A map showing the air routes is attached at **Annex A**.

ARTICLE 16(3) REGULATION (EC) 1008/2008 – NECESSITY AND ADEQUACY OF THE SERVICES

The Services

The present scheduled air services operate reliable links with Tingwall Airport on Shetland Mainland on a regular basis as follows:

- Fair Isle Two return trips on Monday, Wednesday and Friday all year round and one return trip on Saturday to Tingwall and Sumburgh from May to early October;
- Foula Two return trips on Wednesday and one return trip on Monday and Friday all year round, and an additional return trip on Friday from February to October;
- Papa Stour Two return trips on Tuesday all year round;
- Out Skerries Two return trips on Thursday and one return trip on Monday and Wednesday all year round.

A detailed timetable can be found at http://www.shetland.gov.uk/transport/air/ .

Tingwall airport is owned and operated by Shetland Islands Council. The island airstrips are owned and operated by local Airstrip Trusts with grant funding from the Council. The licensed airstrip at Fair Isle is owned and operated by the National Trust for Scotland.

¹ 2001 Census

In 2007, the number of passenger journeys was 1943 on the Fair Isle Service, 1324 on the Foula Service, 355 on the Papa Stour Service and 1087 on the Skerries Service – a total of 4709.

Directflight Limited currently provides the inter-island air services. Flights operate to Foula, Fair Isle, Skerries and Papa Stour. Directflight began operation of the service on 1st August 2006. The inter-island air service, under contract to Shetland Islands Council, is provided by two eight-seater Islander aircraft.

(a) Proportionality between the PSOs and the economic development needs of the region

The Economy of the Islands

The maintenance of scheduled air services between the Shetland Mainland and the outlying islands of Fair Isle, Foula, Papa Stour and Skerries are essential to counter the peripherality of these islands. The Shetland archipelago is half way between Scotland and Norway, and these Outer Isles are as much as 25 miles from the Shetland Mainland. They have a fragile economic base and access to services and opportunities that can not be provided in these small communities is essential to their survival.

Ferry services run to each of these islands, but do not provide the frequency, reliability (particularly during winter months) or the speed to enable the level of access required to sustain viable economic and social communities.

The islands have fragile economies, based on service industries, tourism and agriculture. The Skerries community is also highly dependent on employment through the fish factory, and the Fair Isle community is working alongside the Fair Isle Bird Observatory Trust to seek funding to build a new Bird Observatory, of international repute, able to maintain and increase the number of visitors to the island. The Foula community have recently established a Ranger Scheme, which is highly dependent on visitors being able to readily access the island. This increased reliance on tourism means the air services are vital to enable trade to access these islands.

Health Care Services and Other Specialist Users

Shetland is served by one local government unit, Shetland Islands Council. It is also served by NHS Shetland. Both of these organisations would find it very difficult to service the area without the provision of the lifeline air services. For example, none of the islands are served by a GP: the air services enable GPs to make day trips to the islands, providing them with regular surgeries. It is essential and of vital importance to Shetland's Outer Islands that, in the absence of fast, alternative links to Shetland Mainland, regular and reliable air services are provided for both islanders and visiting professionals.

Specialist professionals, such as teachers and support staff are able to visit the primary schools in each of the islands, and to the junior secondary school in Skerries. Other services provided by the local authority rely on the air services, for example building inspectors and community care services. Companies that provide utilities services such as electricity, water and telephone to the islands also rely on the air services to react quickly to breakdowns in the distribution system which can

occur at any time but especially in the poorer weather. Island residents also make use of the air services for business, recreation and to access specialist health care, opticians and other services that cannot be provided on these small islands.

(b) Other Forms of Transport

Ferries operate between each of the islands and ports on Shetland Mainland. The services are operated by Shetland Islands Council, except the Foula Service, which is operated by Atlantic Ferries. All of these services are highly weather dependent and can be delayed for considerable periods in winter months. The air service becomes the only method of travel during the winter for a number of the islands.

The frequency and duration of the ferry service is as follows:

Fair Isle	Three return services a week (May to September), one return service a week (October to April); 160 minutes.
Foula	Three return services a week (May to September), two return service a week (October to April); 135 minutes.
Papa Stour	Eight return services a week; 40 minutes.
Skerries	Eleven return services a week. 90 minutes (Vidlin), 150 minutes (Lerwick).

The core users of these services are freight providers for the islands and tourists. The adult ferry fare to each of the four islands is $\pounds 3$ single².

(c) Air Fares and Conditions for Users

There is no prospect of the routes becoming commercially viable and subsidies are required to ensure the continuation of the lifeline air links with Shetland Mainland.

The price of a single adult ticket will not exceed £33.00 for Foula, £33.00 for Fair Isle, £28.00 for Out Skerries and £28.00 for Papa Stour. A maximum adult return fare for journeys originating on any of the islands will be applicable as follows: Foula and Fair Isle £38.00, Skerries and Papa Stour £26.00

(d) Other Air Carriers

The inter-island air services in Shetland are at present operated by one dedicated carrier, Directflight, which provides the only flights between Shetland Mainland and the islands of Fair Isle, Foula, Papa Stour and Skerries.

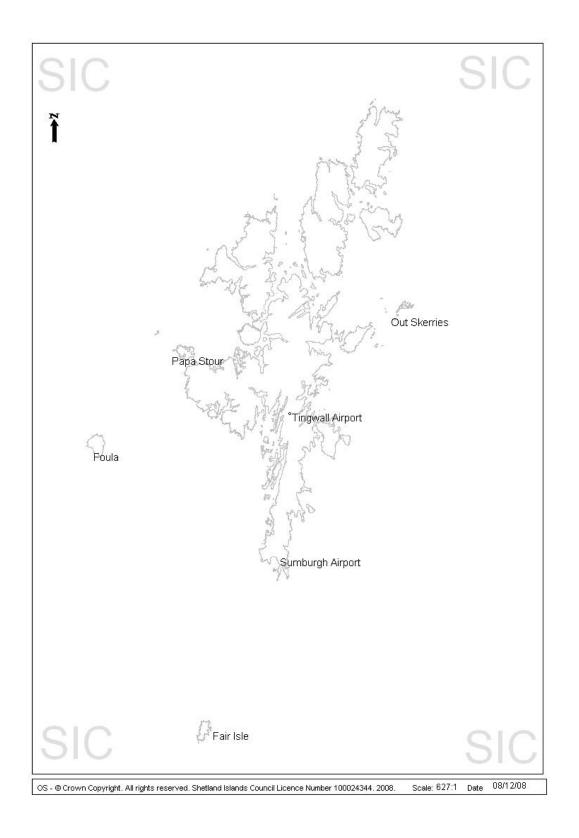
In accordance with Article 16(9) of Regulation (EC) 1008/2008, it is intended to limit access to the route to only one air carrier for a period of up to three years and eight months commencing 1 August 2009.

² 2008-09 prices.

Conclusion

Without subsidy the air services to Fair Isle, Foula, Papa Stour and Skerries will be withdrawn as the routes are loss making. The four routes will be secured through public sector support. Under the EC Regulation 1008/2008 on common rules, a PSO may be imposed on a route serving a peripheral region in order to protect a service that would not otherwise be offered on a purely commercial basis. It is, therefore, essential that the routes between Shetland Mainland and Fair Isle, Foula, Papa Stour and Skerries should be the subject of the imposition of four PSOs.

Shetland Islands Council January 2009



PROVISION OF INTER-ISLAND AIR SERVICE BETWEEN SHETLAND MAINLAND/FOULA/FAIR ISLE/SKERRIES /PAPA STOUR

SPECIFICATION

GENERAL INFORMATION

The maintenance of a scheduled air service between Shetland Mainland/Foula/Fair Isle/Out Skerries/Papa Stour – the Designated Service – is essential to counter the islands' peripherality, fragile economic base and continuing depopulation. There is no rapid alternative means of transport to the Shetland Mainland and for access to services or onward connections with the Scottish Mainland and the air service allows fast and reliable access. The Designated Service, currently operated by the air carrier Directflight Ltd, is essential for the maintenance and improvement of the economic and social fabric of the area, and is used by business, central and local government, and for access to essential services which cannot be provided locally such as health. In recognition of the importance of this service, it is proposed to make subsidy available by Shetland Island Council to meet the deficit incurred by the operator in providing the Designated Service. However, as part of their tender, potential operators should submit proposals on how they will minimise and, if possible, reduce the amount of subsidy paid in respect of the service over the lifetime of the Contract.

OPERATIONAL REQUIREMENTS

The operator will be required to offer a minimum service of

- Fair Isle Two return trips on Monday, Wednesday and Friday all year round and one return trip on Saturday to Tingwall and Sumburgh from May to early October;
- Foula Two return trips on Wednesday and one return trip on Monday and Friday all year round, and an additional return trip on Friday from February to October;
- Papa Stour Two return trips on Tuesday all year round;
- Out Skerries Two return trips on Thursday and one return trip on Monday and Wednesday all year round.

(The services provided on a bookings only basis)

Total passenger numbers across all routes for each of the last 6 financial years (i.e. 1 April to 31 March) are: -

2002/03	4931
2003/04	5480
2004/05	4937

2005/06	5263
2006/07	4476
2007/08	5167

AIRCRAFT

The Council has two Britten Norman Islander aircraft. Under this contract the contractor has been asked to submit two bids. One based on using the Council's aircraft for the provision of the services and one based on providing their own aircraft.

Both bids should comply with the following requirements.

The capacity of the aircraft used should be not less than eight seats on each route although, depending on operational conditions, numbers may be reduced on the Skerries and Papa Stour routes if and when required.

At times on any of the routes when the number of bookings exceeds the capacity of a single 8 seat aircraft then the operator should deploy a second aircraft (subject to availability) to provide up to a maximum of an additional 8 seats (giving 16 seats in total) on the timetabled service affected.

SAFETY REGULATIONS

The aircraft used in the provision of the Designated Service and its operation must comply with the Civil Aviation Authority's (CAA) regulatory regime.

AIR CREW

The flight crew used in the operation of the Designated Service must be fully trained and licensed on the type of aircraft employed and should have the appropriate level of experience in the environment and weather conditions to be encountered.

CANCELLED FLIGHTS

If a flight on which passengers are booked to travel is cancelled due to weather or technical problems then the operator will provide that flight at the next available opportunity. If the next available opportunity falls on a day when the operator is not carrying out any scheduled services to any of the islands (e.g. a Saturday or Sunday in the winter timetable period or a Sunday in the summer timetable period) then the operator shall, in agreement with Shetland Islands Council, arrange to provide a flight if the bookings have not been cancelled.

BANKED FLIGHTS

If a scheduled flight has no bookings that flight will be held in a bank of flights which can be drawn upon to provide ad hoc services to islands as long as they are provided within normal operating hours on normal working days. The accounting period for this practice will be from 1 April to 31 March the following year. The account will not go into deficit and any surplus remaining on 31 March will be deleted and the account will begin again from nil on 1 April.

ONLINE BOOKING SYSTEM

Within six months of the contract commencement the operator shall develop and implement a system that enables passengers to book and pay for travel online.

During this same period the operator will develop for consideration by Shetland Islands Council a means of ensuring the incidence of "no shows" is minimised to ensure that each aircraft is operating at optimum capacity.

FORM OF CONTRACT

Operators are required to submit proposals on the estimated cost of providing the Designated Service for the duration of the Contract based on the differences between the estimated net cost of operation of the Designated Service and the revenue they expect to collect, providing an analysis of annual income and costs for the one year period after 1 April 2009 in accordance with the Conditions of Contract (and the Schedule thereto) enclosed.

In respect of the fares the operator may charge on the Designated Service, the attached fare table provides the detail of the fare structure to be implemented at the commencement of the contract and until 31 March 2010.

Thereafter, the maximum fare on the route may be increased once every year with the prior written consent of Shetland Islands Council in line with the United Kingdom's Retail Price Index (all items) or any successor index to this.

The new maximum fare on the route must be notified to the Civil Aviation Authority and to the European Commission which may publish it in the *Official Journal of the European Union*.

CONTRACT

The successful tenderer shall, on the tender being accepted, be bound by the Conditions of Contract attached.

PERIOD OF SUPPLY AND COMMENCEMENT

The agreement will operate from 1 August 2009 to 31 March 2013 inclusive.
This Specification (consisting of this and the three preceding pages) is :dated this......day of......2009
and signed by.....
as a duly authorised agent for and on behalf of:Company Name....
Company Address.....

Summer Timetable

Fair Isle

		Monday		Wed	Wednesday		Friday	
Tingwall	d	0900	1600	1000	1500	0900	1500	1055
Fair Isle	а	0925	1625	1025	1525	0925	1525	1120
Fair Isle	d	0935	1635	1035	1535	0935	1535	1425
Tingwall	а	1000	1700	1100	1600	1000	1600	1450

Skerries

		Monday	Wednesday	Thu	rsday
Tingwall	d	1330	1330	0900	1600
Out Skerries	а	1350	1350	0920	1620
Out Skerries	d	1400	1400	0930	1630
Tingwall	а	1420	1420	0950	1650

Foula

		Monday	onday Tuesday Wednesday Friday		Wednesday		day
Tingwall	d	1015	1015	0900	1620	1015	1620
Foula	а	1030	1030	0915	1635	1030	1635
Foula	d	1040	1040	0925	1645	1040	1645
Tingwall	а	1055	1055	0940	1700	1055	1700

Papa Stour

		Т	Tuesday			
Tingwall	d	0900	1600			
Papa Stour	а	0910	1610			
Papa Stour	d	0920	1620			
Tingwall	а	0930	1630			

Winter Flight Timetable

Fair Isle

		Monday		Wednesday		Friday	
Tingwall	d	0900	1445	1000	1445	0900	1340
Fair Isle	а	0925	1510	1025	1510	0925	1405
Fair Isle	d	0935	1520	1035	1520	0935	1415
Tingwall	а	1000	1545	1100	1545	1000	1440

Skerries

		Monday	Wednesday	Thursday		
Tingwall	d	1330	1330	0900	1455	
Out Skerries	а	1350	1350	0920	1510	
Out Skerries	d	1400	1400	0930	1520	
Tingwall	а	1420	1420	0950	1540	

Foula

		Monday	Tuesday	Wednesday	Friday	
Tingwall	d	1015	1015	0900	1015	1455
Foula	а	1030	1030	0915	1030	1510
Foula	d	1040	1040	0925	1040	1520
Tingwall	а	1055	1055	0940	1055	1535

Papa Stour

		Tues	day
Tingwall	d	0900	1500
Papa Stour	а	0910	1510
Papa Stour	d	0920	1520
Tingwall	а	0930	1530

Appendix 4

Proposed Fare Table to be Included in Air Service Tender

			One W	ay	Return
Between Lerwick and Economy	Fair Isle Adult Youth (12-24) Child (2-11)		33.00 22.50 15.00		60.00 44.50 30.00
Resident Return	Adult Child (2-11)*		N/A N/A		38.00 24.00
Senior Citizen adult 60		15.00		30.00	21.00
Between Lerwick and Economy	Adult Youth (12-24)		33.00 20.00		53.00 40.00
Resident Return	Child (2-11) Adult Child (2-11)*		13.50 N/A N/A		26.50 38.50 21.50
Senior Citizen adult 60	• •	13.50	N/A	26.50	21.50
Between Lerwick and Economy	Papa Stour Adult Youth (12-24) Child (2-11)		27.50 14.00 9.50		37.50 28.00 18.50
Resident Return	Adult Child (2-11)*		N/A N/A		25.50 15.00
Senior Citizen adult 60		9.50		18.50	10.00
Between Lerwick and Economy	Adult Youth (12-24) Child (2-11)		26.50 15.50 10.50		41.50 31.00 21.00
Resident Return	Adult Child (2-11)*	40 50	N/A N/A		25.50 16.50
Senior Citizen adult 60		10.50		21.00	
Between Out Skerries Economy Resident Return	and Whalsay Adult Youth (12-24) Child (2-11) Adult		11.00 8.50 5.50 N/A		22.50 17.00 11.00 18.00
	Child (2-11)*	5.50	N/A N/A	11.00	9.00
Senior Citizen adult 60		5.50		11.00	
Between Sumburgh an Economy	nd Fair Isles Adult Youth (12-24) Child (2-11)		32.00 22.50 15.00		59.50 44.50 30.00
Resident Return	Adult Child (2-11)*		N/A N/A		38.50 24.00
Senior Citizen adult 60	• •	15.00		30.00	