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ECONOMIC AND SOCIAL BENEFITS OF PROPOSED AIR SERVICES AT SKYE AIRPORT

EXECUTIVE SUMMARY

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HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Executive Summary

Introduction

1. This report presents the findings from the Highlands and Islands Enterprise (HIE) commissioned study into the economic and social benefits of proposed air services at Skye Airport. The review was undertaken between September 2015 and January 2016, and has drawn on the views of 179 businesses and organisations in response to an online survey, alongside 20 detailed business interviews and 15 consultations with stakeholders and community groups. Case studies comparators have also been reviewed.

2. The review builds on the 2013 *Skye Air Services Feasibility Study*[1] which assessed the demand and economic benefits of re-introducing an air service, and concluded that doing so would benefit the island and adjacent region. It also recommended further work was undertaken to more fully inform the business case for a service and to enable investment decisions to be made.

3. This review is part of this 'further work', alongside other reports relating to technical aspects and infrastructure and facility requirements. It focuses on identifying the benefits to businesses and the wider community that an air service could bring, beyond the standard journey time savings and tourism indicators quantified in the 2013 study. The air service last operated between 1972 and 1988.

The Skye Catchment Area

4. The Skye air service catchment area for the purposes of this review covers the Isle of Skye, Lochalsh, and the adjoining areas of Wester Ross including Torridon, Kishorn and Lochcarron. With a resident population of 14,500 in 2014, this is a dispersed population, with its largest centre, Portree, some 217 miles from Glasgow.

5. The area is remote and there are long journey times to the Central Belt. Around 43% of the population lives in what are designated 'fragile areas', areas characterised by population loss, low incomes, limited employment opportunities, poor infrastructure and remoteness. Even with free-flowing traffic, Portree is at least 4 hours 15 minutes from Glasgow by car, and journey times are routinely over 5 hours. From more remote parts of Skye, they can exceed 6 hours, allowing for traffic and weather/road conditions.

6. There are also long journey times by public transport from the catchment area to the Central Belt. Travel by bus from Broadford is 5 hours 35 minutes to Glasgow, rising to 6 hours 15 minutes from Portree. The journey times are such that day trips are unfeasible, allowing less than an hour in Glasgow when arriving on the earliest service, before needing to return. Day trips to Edinburgh by public transport cannot be undertaken. The result is the need for overnight stays and extended trip duration when travelling to and from the Central Belt, or making onward connections.

7. The population of the catchment area increased strongly between 2001 and 2011, faster than the Highland region and Scotland averages, although growth has since levelled off. The increase however has been amongst those of retirement age, with population loss

[1] http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/skye-air-services-feasibility-study.html

amongst those aged 25-44, a key age group for sustaining jobs and services, and for starting families.

8. The business base has grown in the last five years, close to the Scotland average, although it remains small. There are 1,150 VAT/PAYE registered businesses, almost all micro and small businesses. There is also a large cohort self-employed, 15% of all those in work. Professional, technical and scientific businesses are growing fastest in number, albeit from a low base. The Agriculture, forestry and fishing, Accommodation and food services and Construction sectors account for more than half of all businesses.

9. Despite population and business growth, employment has not increased. There were fewer in employment in 2014 than in 2009, where Highland and Scotland bases have returned to pre-2009 levels. Tourism is a very significant employer, with more than one in five directly employed in accommodation and food services. The public sector (education and health) still employs more, at one in four, reflecting a continued reliance on public sector employment. Some sectors are growing strongly, including the Creative industries (30% growth in the last five years), and Tourism, at twice the regional rate of growth.

The Business Perspective

Business Profile

10. Almost 200 businesses and organisations participated in the research, More than half were in the Tourism sector (56%) and a further 22% in Creative industries. Of the remainder, there was good representation across sectors and business size. The majority of organisations were from within the study catchment area (92%), with a small number from outwith.

11. For over half of all businesses, the majority of customers are from outwith Scotland, reflecting the strong representation of the Tourism sector and demonstrating the UK and international reach of the area. Eight in 10 non-tourism businesses also have customers outside Scotland. Competition in local markets is relatively modest.

12. Location is a strong positive factor for businesses. Many are location-dependent, including those not in the Tourism sector, notably the Food and drink sector where reliant on local raw materials. For non-tourism businesses, location is important for quality of life and work-life benefits. There is also a prestige, ‘Skye the brand’ factor.

13. Location, however, is also the largest *constraining* factor for business. The area is remote and inaccessible, which creates barriers for businesses, particularly in terms of networking and reaching customers and markets. It also negatively impacts on customers and professional advisors coming to the area, placing the requirement on businesses in the Skye catchment area to travel to them.

Role of Transport

14. Transport is important for businesses, with frequent movement of goods and supplies to and from the area. This is most significant for the Accommodation and food services (Tourism), Retail, and Food and drink sectors. Transport is also important for the movement of staff and customers, particularly tourists. Businesses report that international tourists typically travel to Skye from Glasgow, Edinburgh or Inverness Airports and that many make the onward journey by (hire) car, as well as by public transport.

15. In all, some 85% of businesses currently travel to the Central Belt. More than 40% do so monthly or more frequently, and 84% by car most of the time.

16. Businesses rate the convenience of road travel to the Central Belt as poor (a result of the long journey times) but generally affordable (in terms of fuel costs). Other modes of transport (ferry, train, bus) are also considered inconvenient, and infrequently used for business trips to the Central Belt. It is travel times and road driving conditions (including driver stress from long journey times, tourist users and winter weather) that are cited as the biggest challenges. The need for overnight stays and extended trip duration when travelling to, from or via the Central Belt further lengthen journey times.

17. The current transport links constrain businesses in a variety of ways, which has knock on impacts for productivity and business investment. Eight in 10 report negative impacts on business costs and the ability to get customers to Skye, and nearly three in four say the current transport affects their level of sales. Networking and customer or client attraction and retention are affected for seven or more out of 10.

18. As outlined in the 2013 study, the proposed air service is a twice-daily, 19 seat service operating between Glasgow and Skye Monday to Friday and once daily on weekends, with a fare in the region of £100 single. Almost half of businesses (46%) state they would use the air service at least once a month for outbound travel (and 44% inbound). This is a higher percentage than currently makes the journey to/from the Central Belt (around 40% each way), representing a good uplift on the present number of journeys. Almost three in four (74%) would use the service outbound or inbound at least quarterly.

19. One in four business journeys to the Central Belt currently involve air connections at either Glasgow or Edinburgh, so as well as travel to the Central Belt itself, an air service would also facilitate faster and easier onward travel. Some businesses stated they would use the service daily and others once a week for onward connections to London.

20. Businesses anticipate a wide range of benefits should the air service be introduced. More than nine in 10 (94%) envisage positive effects in terms of access to markets, customers and clients. Almost as many (88%) anticipate better business opportunities and seven in 10 positive effects on networking. This increased client contact is expected to raise business turnover (for 82%). Nearly six in 10 (59%) expect the air service to make them more attractive to employees.

21. The benefits are expected to occur as businesses are able to do things differently, with new ways of working and efficiencies as a result of hugely reduced travel times. The proportion of business expecting future growth increases from 69% to 82% with the introduction of air service.

Case Study Lessons

22. There are insights and lessons that can be drawn from comparator rural airports. Donegal (Ireland), Wick John O'Groats and Newquay were considered in the study, along with the six west of Scotland airports (Stornoway, Islay, Benbecula, Barra, Tiree and Campbeltown).

23. Donegal is a 4 hour 30 minutes drive to the country's major population and employment centre of Dublin, close to the journey time from Skye to the Central Belt, and the area is similarly sparsely populated. There is an important role for tourism, with strong seasonality of demand, and Gaelic and Creative industries are viewed as important economic assets.

There is an effort to attract more value added sectors to Donegal to increase average wage levels and diversify the economy.

24. **Donegal Airport** has two scheduled services, twice daily outbound return to Dublin (24,000 passengers annually) and single rotation 3-4 days a week to Glasgow (9,500 passengers). These are higher than the 14,500 expected for Skye. However, it is clear Donegal airport helps generate inward investment and support the broad economic base and companies of scale. It also helps attract those higher skilled working elsewhere, and importantly generates additional, short break visitors.

25. **Wick John O'Groats Airport** is a similar distance to the Central Belt as from Skye. It has two scheduled services, Aberdeen and Edinburgh, with 24,000 passengers per year across the two. These connect with onward flights, including London. Despite competition from Inverness, Wick captures over one third of all passengers from the core catchment area and 65% of inbound passengers are business users.

26. The case study showed that Wick John O'Groats airport helps to support the local economy, especially the energy sector. Business travel accounts for 60% of passengers and the airport plays a key role in connecting the area to the rest of UK.

27. **Newquay Airport** has a larger scale of passenger services than that envisaged for Skye (some 220,000 passengers in 2014) and has 10 scheduled services (though only 3 year round, including London). The area has a similar economic composition to Skye, including the significance of tourism and a high-end Food and drink sector. Like Skye, it also has the challenge of seasonality.

28. Newquay airport helps the tourism sector realise its potential and supports Cornwall's largest companies and key sectors to grow and exploit other local assets. It has also contributed to population retention.

29. Three of the **west coast of Scotland** comparators have more passengers than forecast for Skye (Stornoway, Islay and Benbecula) and three have fewer (Barra, Tiree and Campbeltown). Inbound leisure traffic is significant on comparator Glasgow routes, where it can account for more than one third of all passengers. Business trips are also important on most of the routes, and in some cases account for more than 30% of all passengers.

30. As in the three main case studies, connecting traffic is significant, including trips to and from elsewhere in the UK and overseas. The majority of connecting passengers are leisure ones (connections are important to inbound leisure traffic, including overseas) however, they still account for more than half of business traffic in some cases (e.g. outbound business trips from Islay).

31. On most routes there are more inbound than outbound business trips, reflecting that all bar Stornoway have a smaller business base than the catchment area for a Skye airport. Air services play an important role in bringing in suppliers with skills that are lacking in the local economy. The use of flights by those in public services, oil and gas and the medical professions are common to all.

32. Overall the case study analysis shows the potential benefits of a direct air service from Skye which is likely to have a reasonable proportion of business and/or inbound leisure traffic and to cater for connecting traffic, some of which is to/from outside the UK. It will help allow

residents to live in the local area while working elsewhere and to facilitate public sector travel and the import of skills that are not well represented locally.

Wider Economic and Social Benefits

33. The introduction of an air service has the potential to bring a range of economic benefits to the catchment area. These would support key sectors and contribute to the four 'I's of Scotland's Economic Strategy[2] (Internationalisation, Investment, Innovation and Inclusive Growth). Considerable social benefits are also anticipated.

Key Sectors

34. **Tourism** in the Skye catchment area is a large and significant sector as an employer and draw for visitors. An air service has the potential to grow markets including short-breaks and to increase accessibility for overseas visitors, lengthening time spent in Skye. This can help extend the season. Whilst the overall increase in visitors may be low in percentage terms (given the small size of aircraft and the large number of existing visitors), there is likely to be an increase in 'cash rich time poor' visitors with higher spend per head.

35. **Creative industries** is a growing sector in Skye. An air service has the potential to increase client contact and levels of new collaborative activity, helping to develop new market opportunities and engender investor confidence. Some sub-sectors such as the niche film sector are air intensive. There are also links between Creative industries and inbound leisure/ tourism.

36. **Food and drink** is also an important sector for Skye, including seafood and whisky. An air service is likely to increase customer contact and generate new sales, leading to new investment and increased ability to operate at scale. There is the potential to further develop the Skye brand linked to food provenance.

37. The **Financial and business** sector base is growing and an air service can increase access to new clients and markets for new and existing businesses and facilitate in-area living and working elsewhere (as per case studies).

38. There are other smaller but significant sectors that also have the potential to benefit from the air service. These are: **Education** where there is a growing conference and residency-based education offer at Sabhal Mòr Ostaig University of the Highlands and Islands and where an air service can improve inbound connecting (e.g. delegates) and outbound travel (networking, meetings); **Life sciences** a small sector currently, but with the potential for anchor/cluster, including links to the new Skye Hospital; and **Energy**, another small sector, but with the potential for an air service to help increase the marketability of the Kishorn Port proposition, although other factors are also at play here.

[2] http://www.gov.scot/Topics/Economy/EconomicStrategy

Contribution to Scotland's Economic Strategy

39. An air service would help contribute to greater levels of **internationalisation** through improving business access to markets and overseas customers via the Central Belt, and ability to more easily build international contacts and relationships. There is also likely to be new **investment**, a result of increased business confidence, new sales underpinning investment decisions, and the role of the air service in attracting investors.

40. Higher levels of business **innovation** are also likely, as the air service to the Central Belt supports increased competitiveness through greater access to skills, services, new investment (via new sales) and collaboration. **Inclusive growth** may also be supported via increased economic activity, more sustained employment and greater staff retention.

Social and Community Benefits

41. In terms of social benefits, there is the potential for improved patient access to secondary and tertiary **health care**; also for wider staff training opportunities and improved staff retention and recruitment. The use of an air service by patients and medical professionals is likely, notwithstanding that some patient/staff travel will continue to be to Raigmore hospital Inverness, rather than the Central Belt.

42. There will also be benefits for public transport users, where the air service provides an alternative form of transport for non-car drivers. There will be positive **impacts on fragile areas and communities more generally**, a result of: increased time at home/in the community (less business travel/ time away); reduced isolation (real and perceived); population attraction/retention, particularly of those of working age linked to better employment prospects; access to wider range of leisure/culture facilities in the Central Belt; and maintaining family links.

43. Community organisations in the Skye catchment area typically have a very local focus, but do perceive advantages of an air service, many of them mentioned above. Groups see a role for the air service in helping retain and attract young people (outmigration of young people continues from Skye) and for visiting family, friends and relatives (inbound and outbound). It can also help support local arts/community groups with increased inbound access (visitors and national organisations). There would also be more outbound access to the Central Belt for organisations as well as more inbound visitors bringing benefits for all in (and beyond) the catchment area.

44. Skye is one of the most populous parts of Scotland which is more than two hours from an airport (the closest airport is Inverness 2 hours 10 minutes from Portree), and over four hours drive time to the Central Belt. An air service would contribute to **regional cohesion** by making Skye more equitable with other areas in the region (including the comparator west coast locations) which are a greater distance from, but have quicker access to the Central Belt.

Implications for the Business Case

45. It was beyond the scope of this study to fully re-run the 2013 economic impact assessment and Benefit Cost Ratio. However, the evidence from this review does not undermine the assumptions made in the 2013 study. Rather, the assumptions can be seen as conservative in light of the current study evidence, particularly around levels of passenger-related spend and business use of the service.

46. The 2013 study monetised journey time savings. The evidence from this review is that there are major business constraints from the current travel options, not confined to pure journey time savings, notably from the need for overnight stays and extended trip duration. Removing some of the travel constraints through an air service can bring considerable economic benefits associated with increased business activity and investment.

47. The current review provides a greater understanding of the full range of economic (and social) benefits (over and above the pure journey time savings) that may arise by addressing current travel constraints. Although there is no established methodology for quantifying these benefits, it may be expected that GVA impacts would be significant.

Concluding Remark

48. The introduction of an air service would bring significant economic and social benefits to the Skye catchment area. The evidence from this review supports the 2013 study findings, in confirming demand for a twice daily air service to Glasgow. The air service would allow more business to be undertaken by firms in the catchment area, and allow greater levels of inbound travel, including by tourists and investors. Some inbound business visitors will be providing specialist services/ skills that are in short supply within the study area's economy. There would be ancillary social and community benefits and a more sustainable population. The review provides greater understanding of the economic and social impacts, and these are likely to generate significant levels of GVA.

49. The air service would not be the only requirement for maximising economic growth and increasing the sustainability of the area. The lack of affordable housing is a barrier to retaining working age people, and digital connectivity remains an important issue. However, an air service would reduce the long journey times to the Central Belt experienced by businesses and residents and help to address what are considerable travel constraints. This in turn would help to develop the economy of Skye and its environs, underpinning some of the encouraging signs of growth evident in recent years.

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