

AIR DISCOUNT SCHEME – BUSINESS USER ELIGIBILITY

Report by Our Islands: Our Future

PURPOSE OF REPORT

To provide Scottish Ministers with a costed a legally compliant business case supporting the inclusion of all business travel within the Scottish Government’s Air Discount Scheme.

SUMMARY

- 1.1 The Scottish Government’s Air Discount Scheme was introduced in May 2006 with the aim of making air services affordable for remote communities in the Highlands and Islands and facilitating accessibility and social inclusion by providing a discount, now 50%, on the core air fare on certain eligible routes.
- 1.2 Eligibility for people making private or public sector business trips, where business related travel is considered any journey where there is a business component, regardless of whether there is also a leisure-related component was discontinued from April 2011.
- 1.3 The Empowering Scotland’s Island Communities Prospectus confirms the Scottish Government commitment to maintaining the Air Discount Scheme and the Minister for Transport and the Islands announced on Friday 13 February 2015 the continuation of the scheme until 31 March 2019. With regard to the reinstatement of the scheme to business use, the Prospectus also points out that the “Scottish Government notes the wishes of the Island Councils for the scheme to be extended to include certain types of business travel” and “invites the Councils to produce a costed and legally compliant business case for consideration by the Scottish government”.
- 1.4 Officers from Comhairle nan Eilean Siar, Orkney and Shetland Islands Councils, The Highland Council and Argyll and Bute Councils, HITRANS and ZetTrans, in consultation with Reference Economic Consultants have undertaken research to support such a business case. The outcomes of the research may be referred to in the full report available as a background paper, the Executive Summary of which is included as Appendix 1 to this paper.
- 1.5 The findings of the above research and the legal aspects and the potential costs associated with the reinstatement of the several elements of business user eligibility are presented in the background paper and summarised in the body of this paper.
- 1.6 It is suggested 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.
- 1.8 The estimated costs of reinstating eligibility are:

Description	Est Cost
Private sector business travel	£661k
Public sector business travel, not including that undertaken by the NHS	£785k
Business travel for NHS staff	£213k

RECOMMENDATION

- 2.1 **It is recommended that Scottish Ministers support the inclusion of all business travel within the Scottish Government’s Air Discount Scheme.**

BACKGROUND

- 4.1 The Scottish Government's Air Discount Scheme was introduced in May 2006 with the aim of making air services affordable for remote communities in the Highlands and Islands and facilitating accessibility and social inclusion by providing a discount, now 50%, on the core air fare on certain eligible routes.
- 4.2 With regard to eligibility, participants are those whose permanent/main residence is in Colonsay, Orkney, Shetland, the Western Isles, Islay, Jura, Caithness and North West Sutherland. Eligible trips are those for personal purposes plus business trips by staff/volunteers of third sector organisations.
- 4.3 Those who are not currently eligible for ADS are:
- People whose residence is not in the eligible geographic area, except students that are studying away from home and their main residence is in an eligible area
 - People travelling on Public Service Obligation (PSO) flights
 - People making private or public sector business trips (discontinued from April 2011). Business related travel is considered any journey where there is a business component, regardless of whether there is also a leisure-related component
 - People travelling on NHS-funded trips (i.e. staff, patients and escorts)
 - Anyone in the eligible geographic area who does not have a live, valid card
- 4.5 The Empowering Scotland's Island Communities Prospectus confirms the Scottish Government commitment to maintaining the Air Discount Scheme and the Minister for Transport and the Islands announced on Friday 13 February 2015 the continuation of the scheme until 31 March 2019.
- 4.6 With regard to the reinstatement of the scheme to business use, the Prospectus also points out that the "Scottish Government notes the wishes of the Island Councils for the scheme to be extended to include certain types of business travel" and "invites the Councils to produce a costed and legally compliant business case for consideration by the Scottish government".

RESEARCH AND SUMMARY OF FINDINGS

- 5.1 Officers from the Comhairle, HITRANS and HIE considered how this piece of work may be taken forward and, in consultation with colleagues from Orkney and Shetland Islands Councils and ZetTrans, it was agreed that research be undertaken to:
- Estimate the likely cost-benefit of reinstating ADS support for all business trips plus patient and escort travel
 - Identify the potential wider economic and other benefits arising from its reinstatement
 - Identify a legally compliant process by which support could be provided
- 4.8 The outcomes of the research, carried out by Reference Economic Consultants, may be referred to in the full report available as a background paper, the Executive Summary of which is included as Appendix 1 to this paper.

SUMMARY OF FINDINGS

5.1 Scheme Costs and Changes in Utilisation

5.1.1 To summarise the “before” and “after” positions, in the first year when business flights were no longer included in the ADS (2011-2012), there was:

- A fall in the cost to the Government of the ADS of £1.1m
- A decrease of 29,000 one-way passenger trips supported by the ADS
- A slight fall (£4) in the ADS passengers’ average core return fare; which implies that business travellers had been paying, on average, a core return fare some £23 (14%) higher than that paid by non-business passengers

5.1.2 However, not all of the decrease between the two years appears attributable to the exclusion of business flights. Passenger numbers and ADS costs had fallen, albeit slightly, in the year before (2010/11) business flights were no longer included in the ADS. There were also changes to the schedules on a number of routes in 2011/12.

5.1.3 The proportion of all flights on the eligible routes which are ADS-supported varied between 37% and 41% in the years to 2010/11. This figure fell to around 33% after business trips were no longer supported through the Scheme.

5.2 Private Sector Businesses

5.2.1 An online survey of private businesses was undertaken. This generated over 340 useable responses. Follow up telephone interviews were conducted with 21 respondents.

5.2.2 The survey respondents had a quite strong orientation to markets outside their islands/local area. Four in ten businesses make more than half of their sales to external markets; thus, external transport is vitally important to them. The businesses also serve markets beyond Scotland. More than half make flights to parts of the UK outside Scotland, and one in three to countries beyond the UK.

5.2.3 For businesses that use air, the average number of flights per year is slightly less than one a month. The average annual spend on ADS-supported routes is £2,500 per business. The most common purposes of flights are conferences/networking, training and business development. Most flights include an overnight stay; in addition to the cost of the flight, the average spend is £100 to £120 per night for accommodation.

5.2.4 Some 61% of businesses said that they had been affected by the 2011 withdrawal of ADS; just 5% said that there had been no impact; most of those reporting an impact described it as a significant negative one. Beyond simply increased travel costs, the withdrawal of ADS was reported as having led to:

- Fewer flights being made
- Greater use of surface travel
- Reduced staff training / CPD
- Reduced networking
- Greater use of VC / teleconferencing

5.2.5 Fare levels were identified as clearly the main constraint on the number of flights made, much more so than timetables or service punctuality and reliability. Most businesses expect that fare reductions through ADS would generate new flights that would be a mixture of wholly new trips and ones currently made by surface transport. The most common purpose of new flights that would be made with ADS fares would be business development, followed by conference/networking and training. It was suggested that the impacts from lower fares would be:

- Allowing the purchase of tickets more suited to their business needs
- Reducing staff time away from the business
- Greater networking opportunities
- Development of new markets
- Improved skills through enhanced access to training
- Greater interaction with staff / sites outwith the Highlands and Islands

5.2.6 Around 80% expect the additional flights / lower fares from ADS to have a positive impact on each of staff productivity, turnover and operating costs. Around four in ten respondents expect their turnover to increase by over 10% if ADS was reinstated.

5.2.7 The research also identifies a range of other potential benefits:

- Increased productivity, through more efficient air travel and access to training and networking opportunities
- Supporting internationalisation and also trade with parts of the UK outside Scotland. This, along with enhanced access to a range of partners, support organisations and suppliers, will support greater innovation.
- Increased investment, including by improving working between companies' Highlands and Islands sites and those elsewhere
- Support new-start businesses and increase the likelihood of their growth and survival.

5.3 NHS

5.3.1 Flight and cost data were available for patient travel that is funded by the three island health Boards, ie Western Isles, Orkney and Shetland. They show, in total, around 23,000 patient and escort flight bookings over a twelve month period – most of which will be return flights. The total cost of these flights was around £6.7m. Staff travel is much less than those by patients/escorts – in the twelve month period around 2,300 staff bookings were made by the island Boards. For Orkney and the Western Isles, the cost was £280k covering some 1,800 bookings.

5.3.2 Glasgow and Inverness were the most popular destinations for patient/escort travel from the Western Isles; Aberdeen is the main one for both Orkney and Shetland.

5.3.3 For patient/escort travel, financial pressures are being addressed by:

- Reducing the number of escorts whose travel is funded by the NHS
- Having more patients use surface transport rather than air

5.3.4 For staff travel, the knock-on effects and financial pressures were:

- Staff missing out on training and upskilling opportunities
- Reduced or even no staff involvement in national groups, meetings and workshops

5.3.5 It is suggested that if ADS was introduced for patient travel then savings could be reinvested by these Health Boards in core services. Available data suggest that a 50% discount rate would generate a total saving of around £2.9m per year across the three island Health Boards.

5.3.6 If ADS was reintroduced for NHS staff travel, the financial impact would be more modest; estimated as some £130k per year across the Western Isles and Shetland Boards. At least some of this would be used to pay for additional staff flights; most likely for participation in more national groups and staff learning / training.

5.4 Other Public Sector Organisations

5.4.1 Data was collected from a sample of twelve organisations which included what were expected to be the main public sector users. Some 25 telephone interviews were conducted with key staff members. Their staff who live in ADS-eligible areas make around 4,100 return flights per year on ADS-supported routes, primarily Edinburgh, Glasgow and Inverness, at an annual cost of some £1.2m.

5.4.2 As expected, the three islands local authorities account for a large proportion of this, utilising an average of some 2,900 flights per year at a cost of some £850k. Outside the NHS and the three island councils, only two other public sector bodies that made more than 250 return flights per year (HIE and Scottish Water).

5.4.3 Most consultees believe that the withdrawal of eligibility has led to fewer staff flights; the main knock-on impacts of this were seen as:

- Less attendance at conferences
- Reduced participation in national fora
- Missing out on the networking around meetings
- Lower level of training

5.4.4 However, where flight numbers have fallen, this seems only partly due to the withdrawal of ADS; it was also due to:

- General budgetary pressures facing the respective organisations
- In some cases, a conscious effort to reduce travel for environmental reasons and/or because it was felt to be unproductive per se.

5.4.5 There is some use of surface transport alternatives; however, due to the additional time involved, it is used only very occasionally.

5.4.6 A headline ADS rate of 50% would reduce the average return air fare from £291 to £166 and generate a total saving of around £500k per year across the twelve organisations surveyed with over 70% of this (some £360k) accruing to the three island councils.

5.4.7 The potential impact on reinstating ADS is not clear cut but broadly:

- 60% of consultees felt that flight numbers would increase, resulting in greater attendance at conferences, more staff training and more meetings with staff based elsewhere; while
- 40% felt they would not change (likely due to increased general budgetary pressures and/or the view that savings would be better spent on activities other than extra flights

5.5 Legal Aspects

5.5.1 The Scottish Government's Air Discount Scheme may be categorised as State aid. This is:

'... a European Commission (EC) term which refers to forms of public assistance, given to undertakings on a discretionary basis, which have the potential to distort competition and affect trade between Member States of the European Union.'

It is considered a form of state intervention used to promote a certain economic activity and its utilisation implies that certain economic sectors, regions or activities are treated more favourably than others. State aid therefore distorts competition because it discriminates between companies that receive assistance and others that do not. Hence, it presents a threat to the well-functioning running of the internal market.

5.5.2 The authors of the Treaty on the Functioning of the European Union (TFEU), formerly the EC Treaty, recognised this risk and set up a system which, while it is centred on the principle that State aid is incompatible with the common market, nevertheless accepts that the granting of such aid can be justified in exceptional circumstances.

5.5.3 Pursuant to Articles 107 and 108 of the TFEU and Commission Regulation (EU) No 651/2014 (the General Block Exemption Regulation), the Air Discount Scheme is exempt from the prohibition on State Aid principally as it is characterised as aid of a social character.

5.5.4 The Air Discount Scheme was introduced in 2006 and notified to the European Commission (EC) by the UK Government. The approval of the scheme referred to the UK Government's rationale for introducing ADS – air services to the affected areas having high air fares due to the “thinness” of passenger numbers. The document goes on to state:

“In the opinion of the UK authorities, the high fare levels act to increase the isolation of the communities in these remote regions by creating a barrier to social and commercial activity”

and thus the aim of the scheme was to:

“reduce the isolation of these communities by tackling the high fare levels that create a barrier to social and commercial cohesion”.

5.5.5 Compared to many other such “aid of a social character” schemes to support air services, the scope of the Scottish Government's ADS is very wide in that the 2006 notification to the EC and its subsequent approval contains no reference to specific types of trip or passenger being included in or excluded from the scheme. The UK Government's wording therefore does not rule out support for air trips for “commercial” purposes or business users.

- 5.5.6 Notwithstanding this, ADS for business users was withdrawn with effect from April 2011; the Scottish Government has since stated that “businesses and local government have never been eligible for inclusion in the Air Discount Scheme” and that it was never intended that the scheme be used for business travel.
- 5.5.7 It is suggested by the research that the decision to withdraw ADS support for business trips was as a result of financial pressures on Scottish Government and, to ensure continuing affordability, it was decided that the ADS should only support what they saw as the intended beneficiaries, ie private individuals.
- 5.5.8 In July 2012, ADS was reinstated for business flights made by residents of eligible areas who work for third sector organisations. This decision recognises what Scottish Government see as the important social functions of these organisations and, through consultation with Transport Scotland undertaken as part of this research, it was clarified that it was as a result of further dialogue between the Scottish Government and the EC in which the latter indicated that “as long as aid granted to undertakings in line with the de minimus Regulation, we do not see any problem of granting it”.
- 5.5.9 The support to these organisations (or “undertakings”) is through de minimus funding which has a ceiling of €200,000 (some £170k at current exchange rates) for all de minimus aid provided to any one organisation over a three-year rolling period. Administratively, the use of such funding has worked well and, subject to affordability, appears to offer a means of supporting private business travel through the ADS.
- 5.5.10 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.
- 5.5.11 The inclusion of public sector organisations within ADS can be reconsidered in the context that these bodies have a public policy remit and, therefore, directly serve the general interests of the residents of the eligible areas. Scottish Government already provides subsidies to other travel by these public sector organisations through ferry, air PSO and rail services and further reducing the cost of flights will undoubtedly generate savings that can and will be reinvested in services.
- 5.5.12 To summarise:
- Based on its initial notification to the EC, the Scottish Government’s ADS appeared to support business flights
 - It would appear that the 2011 decision to no longer support business trips through the ADS was based on financial considerations
 - Scottish Government subsidises public and private sector business travel through RET, air service Public Service Obligations (PSOs) and subsidised train services
 - Although Transport Scotland and Scottish Ministers have advised that representatives of the EC indicated that organisations involved in economic activity (“undertakings”) should not benefit from aid of a social character, it is conceded that “as long as aid granted is in line with the de minimis Regulation we (the EC) do not see any problem of granting it”.
 - Aid of a social character benefits final customers; although that does not necessarily mean that they will directly receive the aid – it may be given to those who work in the public interest The reinstatement of ADS for public sector business travel can be supported on the basis that savings will be reinvested in services and therefore serve the interests of the residents of the eligible areas, as will any additional flights made as a result of reduced fares

- There also seems to be scope for those whose place of work is outside the eligible area to be included within ADS. . First, that is because they are, arguably, not “undertakings”. Second the EC’s approval of other schemes refers to the ability of eligible residents to have reduced travel costs so that they can participate in economic life elsewhere
- There does not appear to be a regulatory barrier to including taxes and charges within the fare that is discounted through the ADS

5.6 Potential Cost of Reinstatement

- 5.6.1 The research suggests a method for calculating the estimated cost to Government for reinstating business user eligibility which is based on the reduction in cost to Scottish Government in 2011 when it was decided to withdraw ADS for business trips. The approach is detailed in the Research Report and the Executive Summary included as Appendix 1 to the Report and is summarised in the extracts below.

TABLE 7.5: PRIVATE SECTOR BUSINESS TRAVEL	
ADS Mechanism	De minimus funding (businesses) Aid of a social character (individuals working elsewhere)
Estimated ADS Passenger Numbers (return flights)	5,691
Estimated Annual Cost (excluding admin)	£661,000
Key Impacts	
Increased productivity through: reduction in unproductive travel time, enhanced skills and knowledge, and greater adoption of innovation	
Investment of travel savings into the business	
Increased development of growth sectors	
Increased turnover and international sales, including from more face to face interaction with customers	
Increased income/population in ADS eligible areas by allowing a greater number of individuals to live there and work elsewhere	
Contribution to all four of <i>Scotland's Economic Strategy's</i> priorities of <i>Investment, innovation, Inclusive Growth and Internationalisation</i>	

The estimated cost of reinstating eligibility for private sector business travel is £661k.

TABLE 7.6: PUBLIC SECTOR-EXCLUDING NHS BUSINESS TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	6,277
Estimated Annual Cost (excluding admin)	£785,000
Key Impacts	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to decision making and national policy	
Greater interaction between dispersed parts of regional organisations leading to greater cohesion and more efficient performance	
Contribution to the <i>Investment and Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

The estimated cost of reinstating eligibility for public sector business travel, not including that undertaken by the NHS, is £785k

TABLE 7.7: NHS STAFF BUSINESS TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	2,754
Estimated Annual Cost (excluding admin)	£213,000
Key Impacts	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to national policy and strengthened relationships with other Health Boards	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

The estimated cost of reinstating eligibility for business travel for NHS staff is **£213k**

The estimated total cost of reinstating eligibility for all business travel is therefore **£1,659k**

- 5.6.3 Furthermore, as suggested below, if ADS was available for NHS boards' patient travel, the estimated annual cost would be **£3,000k**.

TABLE 7.8: NHS PATIENT TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	23,800
Estimated Annual Cost (excluding admin)	£3,000,000
Key Impacts	
Investment of travel cost savings in core services	
Contribution to the <i>Investment</i> priority of <i>Scotland's Economic Strategy</i>	

- 5.6.6 None of the costs take account of any increase in administration costs. However, given that these costs fell by some £26k in 2011/12, it would not be unreasonable to assume that, should eligibility be reinstated, the addition administrative cost would be of the order of **£33k**.

Objective of The Research

The overall objective of the research was to explore the potential benefits, costs and feasibility of reintroducing ADS (the Air Discount Scheme) for all types of business users.

It took place at the same time as Scottish Government's consultation on reducing and ultimately abolishing Air Passenger Duty (APD). The ADS research is seen as complimentary to the APD consultation. That is because it addresses the specific issues around high business fares on some Highlands and Islands air routes.

The Air Discount Scheme

Scottish Government introduced ADS in 2006. It provides a discount (currently 50% of the core air fare) on air fares for residents of eligible areas travelling on designated intra-Scotland air routes. The discount is provided to the residents as aid of a social character. The eligible areas are currently:

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

Between 2006 and 2011 ADS provided discounted fares for residents irrespective of the purpose of their trip. Thus, fare reductions were available for business flights by those in the private, public and third sectors as long as the individual making the trip was resident in an eligible area.

Withdrawal of ADS for Business Travel

From April 2011 ADS was no longer available for business trips. Scottish Government had decided to exclude these from the scheme as a result of financial pressures. They argued that ADS had never been intended to reduce the travel cost of business flights. They also stated that businesses and local government have never been eligible for inclusion in the scheme.

Notwithstanding this, the original (2006) notification¹ of the ADS scheme to the European Commission stated that its aim is to:

“reduce the isolation of these communities by tackling the high fare levels that create a barrier to social and commercial cohesion”

The wording implies an intention that both social and commercial flights would be included in ADS.

¹ European Commission Brussels, 16.V.2006 C (2006) 1855 final

In 2011-12 ADS' total cost to Scottish Government fell by over £1.1 million compared to the preceding year, with 29,000 fewer single leg flights receiving ADS support. The cost reduction was much lower than the £2.7 million Scottish Government had expected to save from no longer supporting business flights.

In 2012 ADS was reinstated for business trips made by those working in the third sector and who are resident in an eligible area.

Scottish Government currently subsidises public and private sector business travel through a number of means. These are Road Equivalent Tariff fares on the Caledonian MacBrayne ferry network, Public Service Obligation air routes and Scotrail train services. These mechanisms provide subsidised fares for all passengers-both business and non-business.

Current Business Air Fares on the ADS Routes

The research included analysis of current fares on the ADS routes. This was for flights that, as far as possible, enable travel to be undertaken outside working hours. Across the routes *fully flexible* return fares range from £230 to over £450. If ADS was applied then these would fall to between £130 and £274.

The *cheapest* fares vary markedly, depending on how in advance they are purchased:

- On most routes booking *over a month* in advance gives access to return fares of less than £200.
- On a number of routes sub-£200 fares are available one month in advance.
- When booking around a *fortnight or less* in advance most fares are above £300, with some over £400.

If ADS was applied then the *lowest available fares* (typically those booked one month or more in advance) would range between £70 and £165.

With ADS the *lowest possible fares irrespective of how far in advance they are booked* would run from c£120 to about £275.

Findings of Research With Private Businesses

An online survey of businesses in the eligible areas was undertaken. This collected information on current flight making and how this could change if ADS was reinstated.

Over 340 usable responses were received. In addition follow-up telephone interviews were conducted with 21 of the respondents.

The businesses using air have a strong dependence on external markets. Over half generate more than 25% of their sales from these markets.

Trip costs are increased because most flights involve at least one overnight stay, with most businesses reporting a cost per night of £100-£120.

Businesses' current flights are mostly to attend conferences/networking events, for training or for business development. Most companies use the cheapest available, non-flexible tickets. However, more than one third of them have to book some flights no more than two weeks in advance, which can mean return fares of over £300 or even more than £400.

Despite a dependence on-and distance from-external markets, more than 40% of the businesses use surface travel *at least as much or more than air* for their external business trips. The level of air fares is by far the main constraint on the number of flights that businesses make. It is much greater influence than either reliability/punctuality or timetables.

Of those able to comment on the 2011 ADS withdrawal more than 90% stated it had a negative impact on their business. More than two thirds described this as a "significant negative" impact. Most businesses reported that they had been unable to pass on the increased flight costs to their customers.

The 2011 ADS withdrawal led companies to make greater use of surface transport rather than air and, to a lesser extent, to make fewer business trips. The main effects of this were to reduce the amount of staff training/development/CPD undertaken and attend fewer events that include networking opportunities. This is in a context where local pools of potential business partners are small and there are few specialist local training providers.

Businesses stated that most additional flights stimulated by reinstating ADS would be wholly new trips rather than ones diverted from surface transport. The main purposes of the additional flights would be business development, attending conferences/networking events and staff training.

The impacts from the travel cost savings and additional flights made as a result of reinstating ADS would be most positive for:

- Greater networking opportunities. Over 80% of respondents saw this potential impact as either "very significant" or "significant".
- Improved skills through access to training. Over 60% described this potential impact as either "very significant" or "significant".

Around 80% of businesses expect that the reinstatement of ADS would have a positive impact on each of staff productivity; turnover; operating costs.

The greatest impact was expected to be on staff productivity. Approaching half of the businesses forecast an increase of more than 10%. Around four in ten businesses expect to see their turnover increase by more than 10%, with slightly less forecasting a smaller rise.

Findings of Research With Public Sector Organisations

Data on the current number and costs of flights were collected from the main public organisations with a presence in the eligible areas. In addition, 25 telephone interviews were undertaken with these organisations' staff.

The main findings were:

- The three island local authorities and the NHS account for a large proportion of flights made by staff who are resident in the eligible areas.
- The main purposes of additional flights that would be stimulated by ADS would be to attend conferences and seminars, undertake staff training and meet with staff in their organisation who are based elsewhere.
- Many of the organisations are facing financial pressures and static or falling staff numbers. In these cases, much of the travel costs savings from ADS would be diverted to general activities rather than reinvested in more flights.

Mechanisms for Reinstating ADS For Business Travel

Transport Scotland told us that when they were developing proposals to reinstate third sector flights to ADS the European Commission's response was:

"As long as aid granted to undertakings is in line with the de minimis Regulation we do not see any problem of granting it"

"Undertakings" are entities engaged in an economic activity, offering goods or services on a given market. Thus, third sector business trips currently included within ADS receive the financial support as de minimus funding-not aid of a social character.

De minimus funding offers a model for including **private sector** business flights within ADS.

There is scope for **individuals whose place of work is outside an eligible area** to be included within ADS through aid of a social character. First, because they are not undertakings. Second, because the EC's decisions on other EU schemes refer to the ability of eligible residents to have reduced travel costs so that they can participate in economic life elsewhere.

A mechanism for supporting **public sector** flights (including NHS patients) is simply ADS as it stands for individuals via aid of a social character. There is a precedent for this elsewhere in schemes on which the EC has made a decision. For example, aid of a social character has been used to reduce the flight costs of public employees in Germany. This was accepted by the EC given that the trips directly serve the general interest of the residents of the eligible areas and are part of a public policy remit.

Costs of Reinstating ADS For Business Travel

Two different methods were used to estimate the cost to Scottish Government of reinstating ADS for business travel by staff who are residents of the eligible areas, including the:

- Private sector (including individuals whose place of work is outside an eligible area).
- Public sector.

They suggest a total annual cost of £1.6-£1.7 million including an allowance for increased scheme administration costs.

This is based on an assumed 29,000 single business trips being included within ADS. Most of these would be existing flights rather than new ones stimulated by the lower fares available through ADS.

The additional annual cost of including NHS patient flights within ADS is estimated at £3 million.

These estimates are in a context of total ADS expenditure (including administration costs) of £6.7 million in 2015-16.

Summary of Appraisal Findings

The following Tables provide a summary appraisal of using ADS to reduce the air fares of four specific groups of business travellers. They cover:

- The mechanism by which ADS could be applied.
- Estimated number of flights per year that would receive support through ADS.
- Estimated annual cost to the ADS scheme.

They also summarise the key impacts.

TABLE E.1: PRIVATE SECTOR BUSINESS TRAVEL	
ADS Mechanism	De minimus funding (businesses) Aid of a social character (individuals working elsewhere)
Estimated ADS Passenger Numbers (return flights)	5,691
Estimated Annual Cost (excluding admin)	£661,000
Key Impacts	
Increased productivity through: reduction in unproductive travel time, enhanced skills and knowledge and greater adoption of innovation	
Investment of travel savings into the business	
Increased development of growth sectors	
Increased turnover and international sales, including from more face to face interaction with customers	
Increased income/population in ADS eligible areas by allowing a greater number of individuals to live there and work elsewhere	
Contribution to all four of <i>Scotland's Economic Strategy's</i> priorities of <i>Investment, Innovation, Inclusive Growth</i> and <i>Internationalisation</i>	

TABLE E.2: PUBLIC SECTOR-EXCLUDING NHS BUSINESS TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	6,277
Estimated Annual Cost (excluding admin)	£785,000
Key Impacts	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to decision making and national policy	
Greater interaction between dispersed parts of regional organisations leading to greater cohesion and more efficient performance	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

TABLE E.3: NHS STAFF BUSINESS TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	2,754
Estimated Annual Cost (excluding admin)	£213,000
Key Impacts	
Investment of travel cost savings in core services	
Increased staff productivity through: greater exposure to developments in their field, higher uptake of training and learning opportunities and contact with potential sources of innovation	
Greater participation in national and other fora leading to enhanced contribution to national policy and strengthened relationships with other Health Boards	
Contribution to the <i>Investment</i> and <i>Innovation</i> priorities of <i>Scotland's Economic Strategy</i>	

TABLE E.4: NHS PATIENT TRAVEL	
ADS Mechanism	Aid of a social character
Estimated ADS Passenger Numbers (return flights)	23,800
Estimated Annual Cost (excluding admin)	£3,000,000
Key Impacts	
Investment of travel cost savings in core services	
Contribution to the <i>Investment</i> priority of <i>Scotland's Economic Strategy</i>	