



Falkland Islands Government

Treasury, Stanley Falkland Islands FIQQ 1ZZ

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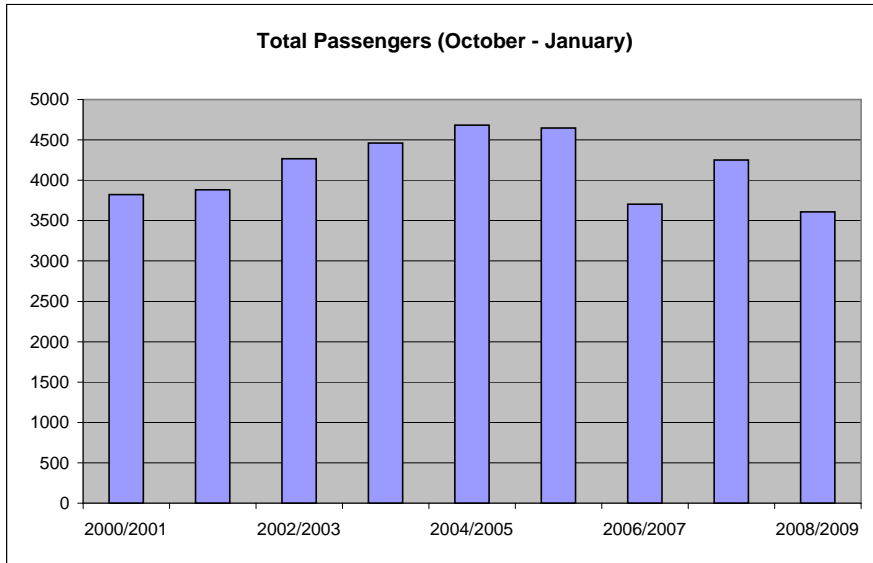
The Internal Audit section has reviewed the Report on the FIGAS Recovery Action Plan at the request of the GM FIGAS.

The first element of our work was to verify the underlying data and check the assumptions made regarding capitalisation of equipment. We are happy that the flying hours, fisheries hours, passenger numbers, income and expenditure figures are correctly stated. The movement of certain expenditure items from revenue to capital also appears reasonable. As pointed out by the Treasury this would lead to an increased depreciation charge which is not reflected in the expenditure figures, but given the size of the items in question this would have minimal impact on the overall figures. We also agree that 2006/2007 is a more suitable comparator year than 2007/2008 given the distortion in passenger numbers.

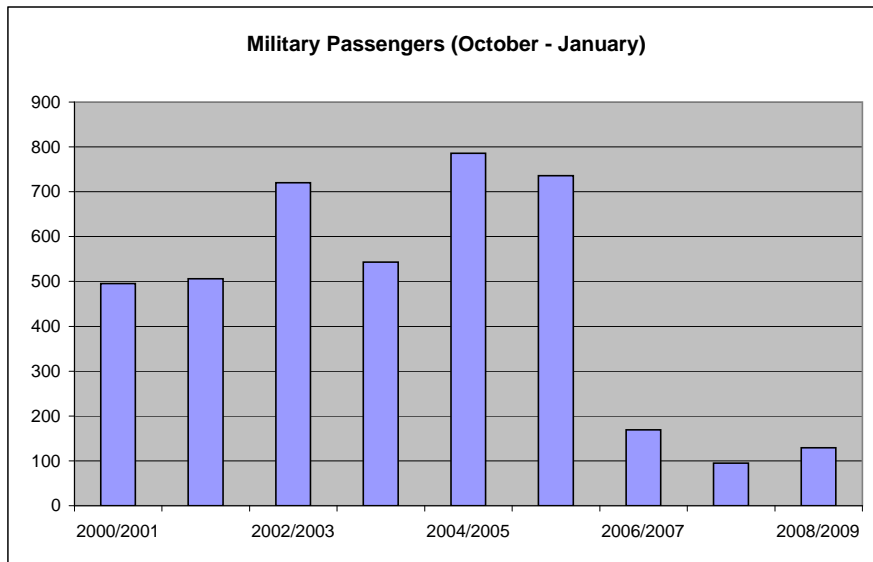
As for the conclusions drawn, we would endorse the GM's opinion that 4 months is too short a period to base firm conclusions on as the risk of distortion through seasonal variances and "one offs" is too great. However, the trend does appear to be one of increased revenue and controlled expenditure which appears promising.

Rob Granger
Chief Internal Auditor

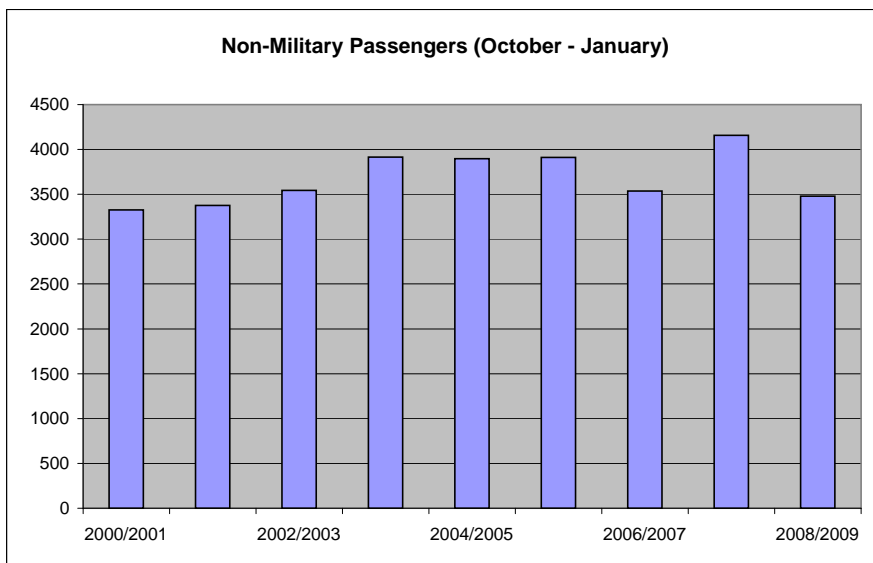
Total Passengers	
2000/2001	3822
2001/2002	3881
2002/2003	4265
2003/2004	4459
2004/2005	4684
2005/2006	4647
2006/2007	3705
2007/2008	4252
2008/2009	3608



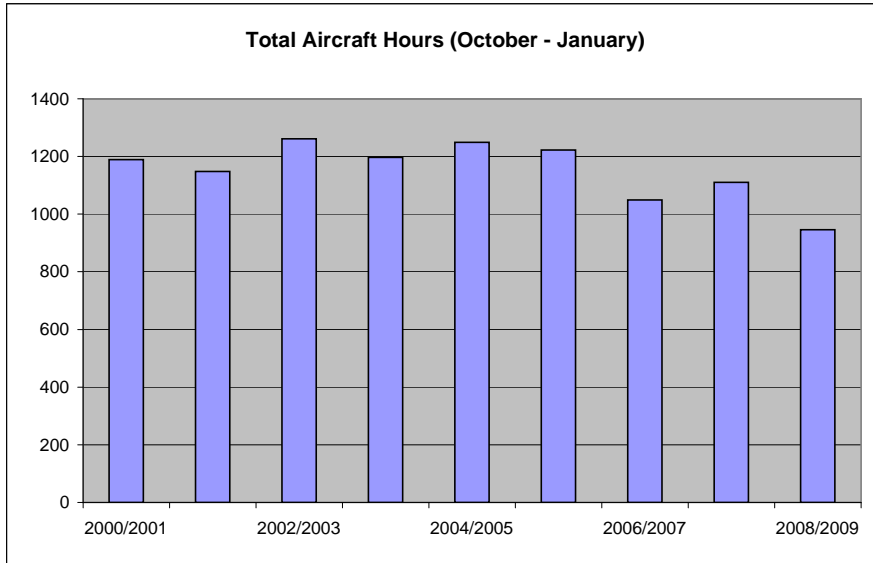
Military Passengers	
2000/2001	495
2001/2002	506
2002/2003	720
2003/2004	543
2004/2005	786
2005/2006	736
2006/2007	169
2007/2008	95
2008/2009	129



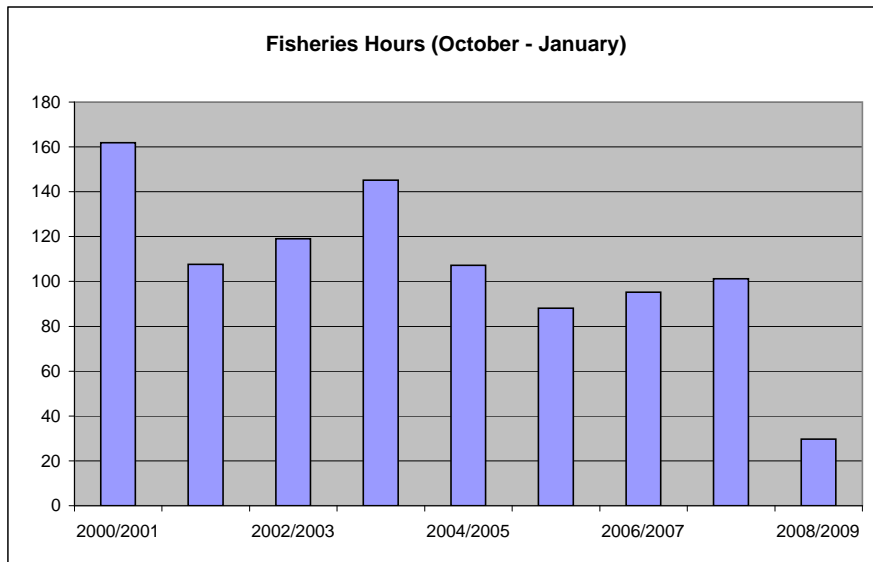
Non-Military Passengers	
2000/2001	3327
2001/2002	3375
2002/2003	3545
2003/2004	3916
2004/2005	3898
2005/2006	3911
2006/2007	3536
2007/2008	4157
2008/2009	3479



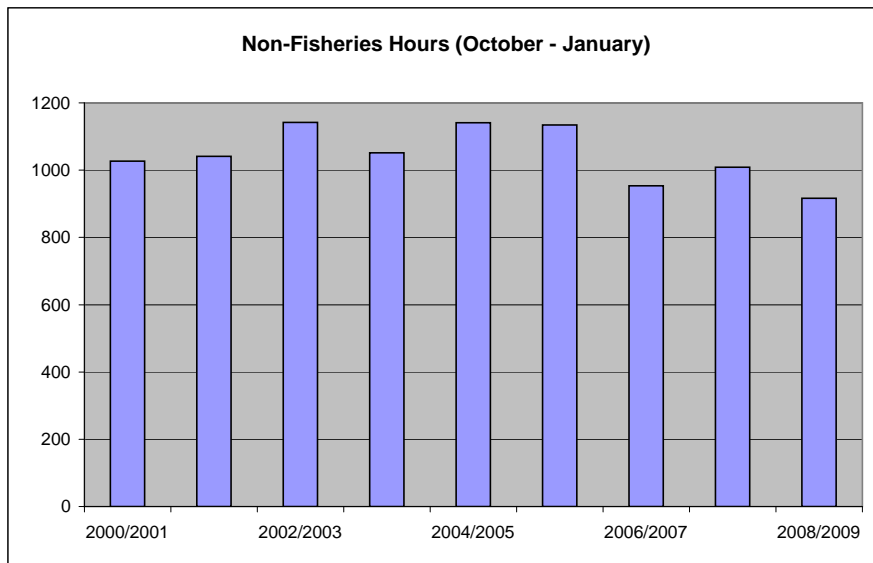
Aircraft Hours	
2000/2001	1188.69
2001/2002	1148.48
2002/2003	1261.23
2003/2004	1196.38
2004/2005	1248.68
2005/2006	1222.38
2006/2007	1048.68
2007/2008	1110.01
2008/2009	946.44



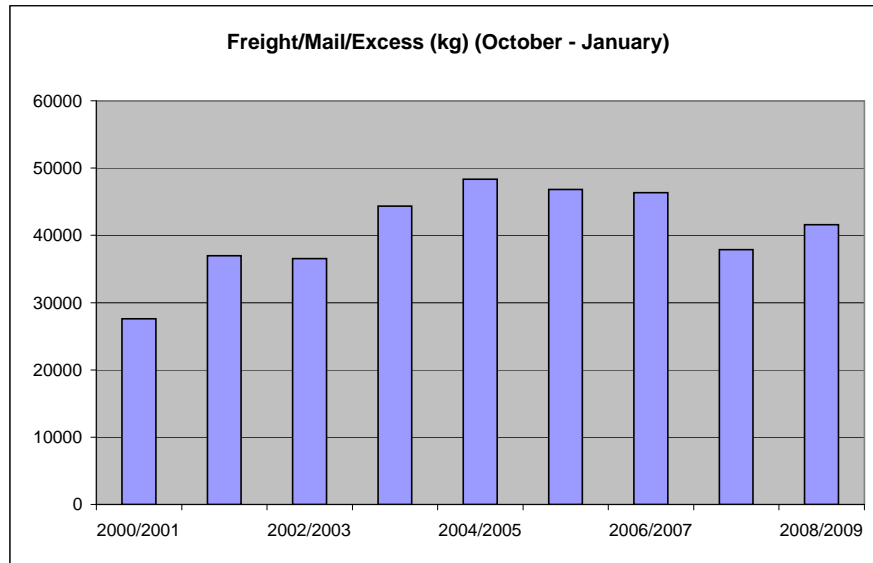
Fisheries Hours	
2000/2001	161.85
2001/2002	107.65
2002/2003	119.05
2003/2004	145.20
2004/2005	107.25
2005/2006	88.05
2006/2007	95.25
2007/2008	101.20
2008/2009	29.70



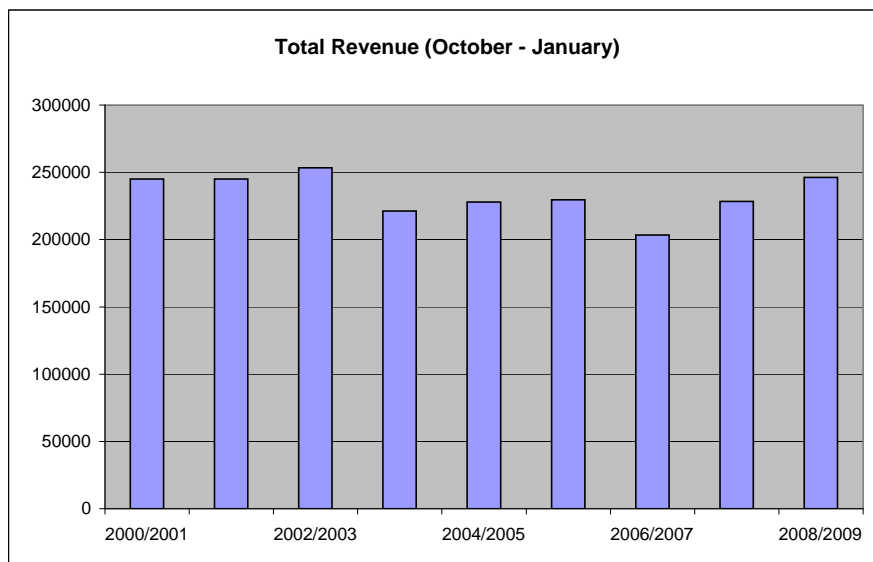
Non-Fisheries Hours	
2000/2001	1026.84
2001/2002	1040.83
2002/2003	1142.18
2003/2004	1051.18
2004/2005	1141.43
2005/2006	1134.33
2006/2007	953.43
2007/2008	1008.81
2008/2009	916.74



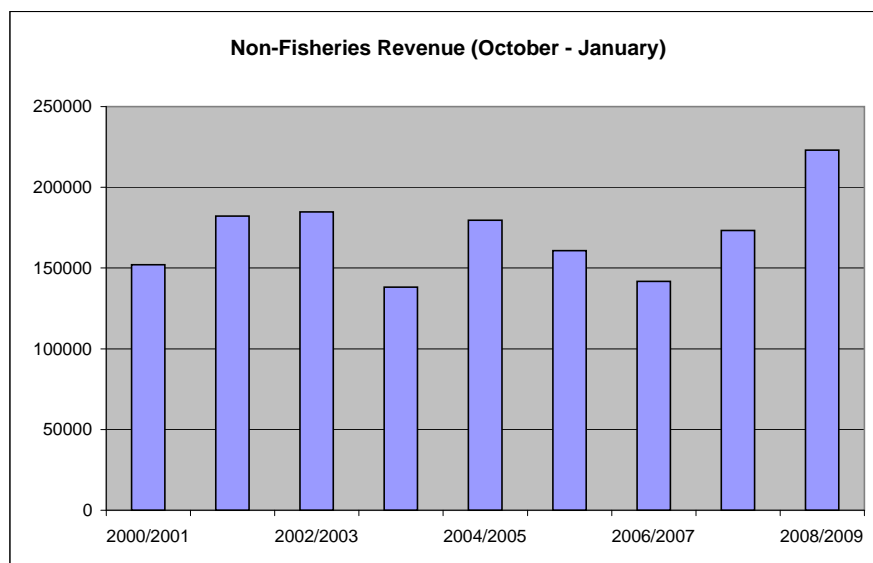
Freight/Mail/Excess (kg)	
2000/2001	27583
2001/2002	36955
2002/2003	36520
2003/2004	44366
2004/2005	48358
2005/2006	46819
2006/2007	46364
2007/2008	37874
2008/2009	41563



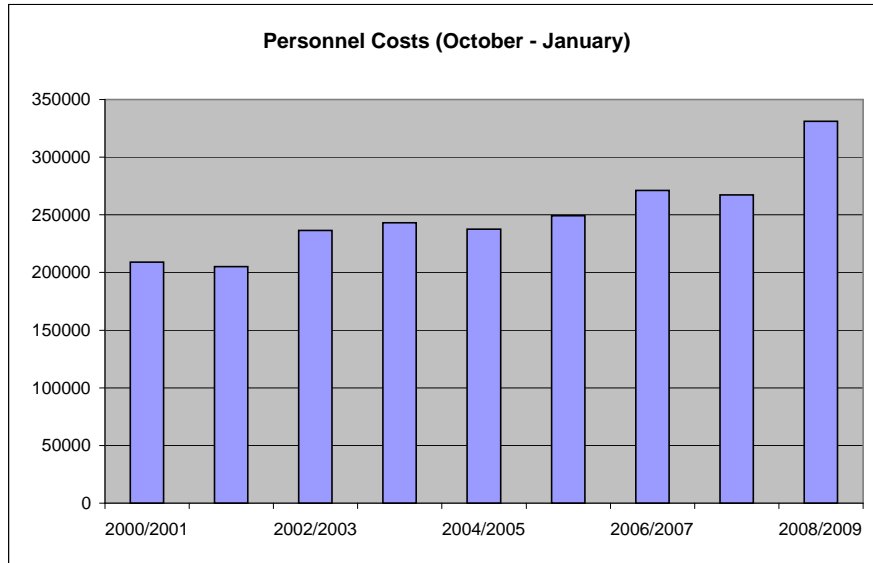
Total Revenue	
2000/2001	£245,023.90
2001/2002	£245,107.41
2002/2003	£253,480.21
2003/2004	£221,249.27
2004/2005	£227,893.50
2005/2006	£229,588.05
2006/2007	£203,453.03
2007/2008	£228,375.78
2008/2009	£246,238.02



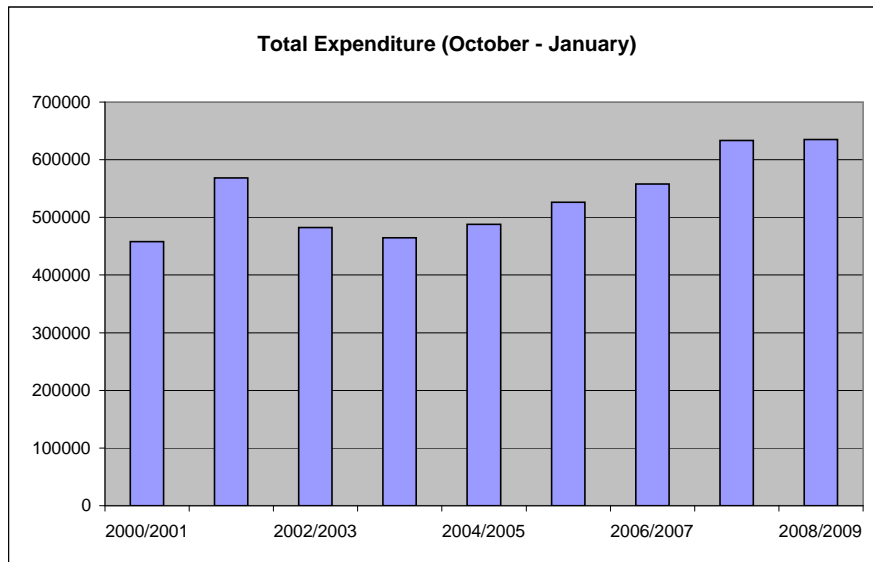
Non-Fish Revenue	
2000/2001	£152,106.50
2001/2002	£182,190.74
2002/2003	£184,830.21
2003/2004	£138,124.27
2004/2005	£179,601.83
2005/2006	£160,879.72
2006/2007	£141,686.36
2007/2008	£173,250.78
2008/2009	£223,063.02



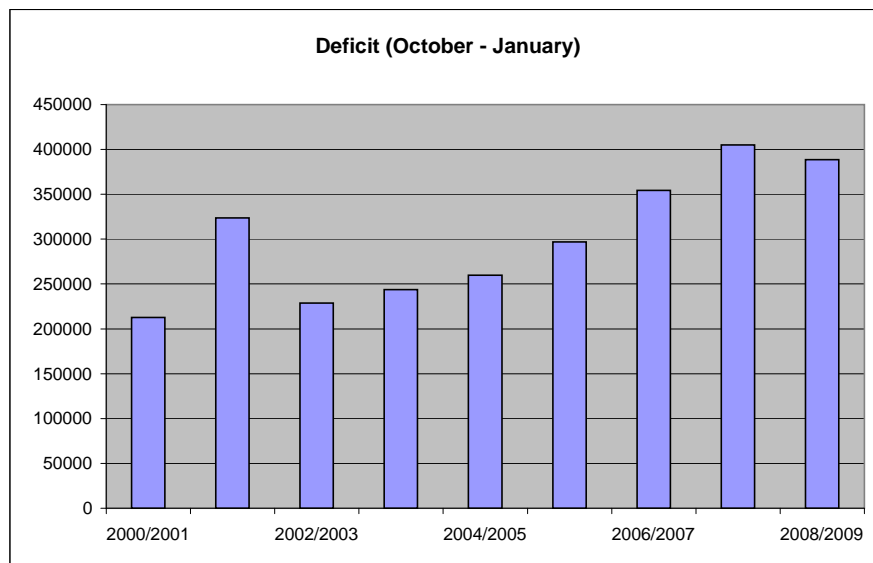
Personnel Costs	
2000/2001	£209,080.53
2001/2002	£205,074.30
2002/2003	£236,529.83
2003/2004	£243,194.49
2004/2005	£237,578.67
2005/2006	£249,306.97
2006/2007	£271,096.45
2007/2008	£267,160.37
2008/2009	£331,091.58



Expenditure	
2000/2001	£457,750.90
2001/2002	£568,674.82
2002/2003	£482,170.62
2003/2004	£464,839.03
2004/2005	£487,760.28
2005/2006	£526,512.67
2006/2007	£557,752.86
2007/2008	£633,308.96
2008/2009	£634,891.93



Deficit	
2000/2001	£212,727.00
2001/2002	£323,567.41
2002/2003	£228,690.41
2003/2004	£243,589.76
2004/2005	£259,866.78
2005/2006	£296,924.62
2006/2007	£354,299.83
2007/2008	£404,933.18
2008/2009	£388,653.91





The Falkland Islands Government

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Interim Report on FIGAS Recovery Action Plan (October - January)

1. Introduction

In July 2008, the Executive Council approved a set of 15 initiatives which together comprise the FIGAS Recovery Action Plan. Since that time 13 of the 15 initiatives have been progressively introduced. The 2 initiatives yet to be introduced are:

1. Rationalisation of air freight rates to meet the Executive Council requirement that “*Freight rates on FIGAS must not be cheaper than by sea.*”
FIGAS is liaising with the Post Office and other related parties to develop a combined paper for ExCo consideration in the future.
The target date for the introduction of any new freight rates is 1 July 09.
2. Winter Shuttle operations
Morning and Midday Shuttles including 2 allocated non-flying days (Wednesday and Saturday are the planned non-flying days).
The Winter Shuttle service will commence in April 2009.

The foundation of the FIGAS Recovery Action Plan is the concept of spreading of available resources throughout the day in order to release aircraft and pilot resources for use on higher yielding commercial operations (such as Scenic Air Tours and private Charter flights). This was achieved with the cessation of the old Air Taxi operation and the introduction of the Shuttle model in October 2008.

The Shuttle model has now been in operation for 4 months, and has been the subject of intense discussion in many sectors of the community. Unfortunately, there has been a great deal of misinformation distributed by individuals opposed to the changes, and this has naturally raised concerns that the Shuttle may not be working as intended.

In order to establish the efficacy or otherwise of the FIGAS Recovery Action Plan, Councillors have requested an interim report to review the operational and financial performance since the Shuttle model was introduced in October 2008. This report will compare the performance from October to January with the performance over a similar period under the previous “Air Taxi” operating model.

It must be emphasised at the outset that a 4 month period is too short to accurately assess the long-term effectiveness of the FIGAS Recovery Action Plan, and that seasonal variations, one-off expenses, etc do not necessarily allow exact comparisons to be made with any particular year.

For example, up until 2005/2006 FIGAS carried a significant number of military tourism passengers via the MOD warrant scheme. In 2006/2007, FIGAS was

excluded from this scheme which resulted in MOD passenger numbers reducing by 567 (77.04%) over the period (October to January) when compared to the previous year. FIGAS remains excluded from the MOD warrant scheme.

2007/2008 was also an “abnormal” year due to the large increase in passenger numbers as a result of the 25th Anniversary of the Falklands conflict. Passenger numbers increased by 547 (14.76%) over the period (October to January) when compared to the previous year.

Obviously, these large changes in passenger numbers preclude direct comparisons with data from the current year due to the differing economies of scale associated with moving larger numbers of passengers.

More meaningful comparisons can be made using data from the last “normal” year which was 2006/2007 (the first year without the MOD warrant passengers) and this analysis is presented in the following pages.

(For completeness, the full data range from 2000/2001- 2008/2009 is included in Appendix 1.)

2. All Operations

2006/2007				2008/2009			
Month	Pax	Flight Hours	Total Revenue	Month	Pax	Flight Hours	Total Revenue
October	612	232.20	£39,105.70	October	718	216.37	£29,291.28
November	863	256.54	£44,299.68	November	839	231.95	£73,429.23
December	1044	276.66	£40,732.10	December	941	227.22	£66,044.11
January	1186	283.28	£79,315.55	January	1110	270.90	£77,473.40
	3705	1,048.68	£203,453.03		3608	946.44	£246,238.02

Table 1: All Operations

From Table 1:

- Passenger numbers have decreased by 97 (- **2.62%**)
- Flight hours have reduced by 102 hours (- **9.75%**)
- Total revenue has increased by £42,785 (+ **21.03%**)

It should be noted that although the newly introduced Concordia Bay ferry service has transported 1279 passengers over the period (October to January) there has been relatively little impact on FIGAS passenger numbers. This indicates that the cross sound ferry is largely serving a different market, and that the two transport operations should continue to complement each other in the future.

3. Non-Fisheries Operations

One of the initiatives in the FIGAS Recovery Action Plan was to charge appropriately for services provided to other government departments; in particular the Fisheries department.

As a result of the increased on-charge rate for aerial surveillance flights, the Fisheries department elected to reduce the requirement for surveillance flights in order to remain within the total allocated budget of £230,000.

Thus, while the total revenue from Fisheries surveillance flights will remain as budgeted, there has been a significant reduction in planned flight hours, and a major change to the distribution of the flights throughout the year.

In 2008/2009, 77% of the surveillance flights will be conducted in the last four months of the financial year (March to June). This will have a significant effect on the distribution of revenue when compared to 2006/2007. Consequently, both “Flight Hours” and “Revenue” from Fisheries surveillance flights must be removed from the data to allow a valid comparison of non-Fisheries related operations from October to January.

(Obviously, the £230,000 revenue from Fisheries operations will be included when reviewing performance over the full financial year.)

2006/2007 (Excluding Fisheries)				2008/2009 (Excluding Fisheries)			
Month	Pax	Flight Hours	Revenue	Month	Pax	Flight Hours	Revenue
October	612	198.45	£17,230.70	October	718	206.72	£23,966.28
November	863	231.89	£44,299.68	November	839	226.55	£64,729.23
December	1044	253.96	£23,857.10	December	941	222.47	£61,169.11
January	1186	269.13	£56,298.88	January	1110	261.00	£73,198.40
	3705	953.43	£141,686.36		3608	916.74	£223,063.02

Table 2: Non-Fisheries Operations

From Table 2:

- Passenger numbers have decreased by 97 (- **2.62%**)
- Flight hours (excluding Fisheries) have reduced by 37 hours (- **3.85%**)
- Revenue (excluding Fisheries) has increased by £81,377 (+ **57.43%**)

It should be noted that while the reduction in flight hours is pleasing, the improvement in efficiency is less than what might have been achieved if FIGAS had been concentrating exclusively on minimising operating costs over the summer season.

During the summer season (October – March) FIGAS is also attempting to “grow the business” by establishing the evening Shuttle service as a viable option for the travelling public. It is for this reason that the late flights sometimes operate with what may seem to be a less than economic passenger load. The Round-Robin flight promotion was introduced to utilise any spare capacity and generate awareness of the evening shuttle flights in order to develop this market.

4. Expenditure

Expenditure has increased substantially, although this is not through any failure of the Shuttle model. Indeed, direct operating costs have reduced from what they would otherwise have been due to the reduction in non-Fisheries flight hours.

As planned, the Shuttle model has released existing aircraft/pilot resources to be used on higher yielding commercial operations. In addition, all of the flying has been accomplished with one less pilot than in 2006/2007 (which has reduced the overall impact of increased personnel costs in the maintenance section, as discussed below).

As identified in the report on Maintenance staff salaries, there has been a dramatic increase in Personnel* costs due to the reliance on short term contract Licensed Aircraft Engineers and Aircraft Mechanics. This has been required due to FIGAS' inability to recruit and retain Maintenance staff, which is in turn due to salary levels that are below the industry standard. Action has been taken to invest in training and address remuneration in order to achieve a full complement of permanent Maintenance staff by July 2010. Personnel costs will remain inflated until then.

* "Personnel" costs represent the total of the Salary and Wages votes (Wages and Salaries, OPC, RPC, Contract Allowances) and the Specialist/Consultancy Services vote.

2006/2007			2008/2009		
Month	Personnel Costs	Total Expenditure	Month	Personnel Costs	Total Expenditure
October	£58,883.01	£104,605.57	October	£87,684.66	£206,408.60
November	£63,588.98	£161,650.57	November	£85,423.99	£144,066.45
December	£81,186.85	£120,713.09	December	£91,965.56	£128,885.30
January	£67,437.61	£170,783.63	January	£66,017.37	£155,531.58
	£271,096.45	£557,752.86		£331,091.58	£634,891.93

Table 3: Expenditure Increase

From Table 3:

- Total Expenditure has increased by £77,139 (+ **13.83%**)
- Personnel costs have increased by £59,995 (+ **22.13%**)
- Non-Personnel expenditure has increased by £17,144 (+ **5.98%**)

The increase in non-Personnel related expenditure can be attributed to the following:

- Major inspections completed in the first half of the year have required significantly more extensive replacement/overhaul of parts than for major

inspections in previous years. This is a natural consequence associated with the aging of the Islander aircraft fleet.

- Aviation Fuel has increased from a low of 73p per litre (March 2007) to the current high of £1.16 per litre (+ **58.90%**)
- Aviation spares and associated freight costs have increased dramatically. A list of price increases for Islander spare parts is provided in Appendix 3.
- In Service Training costs (previously in the Training Centre budget) are now included in the FIGAS expenditure budget.

Since July 2006 RPI has also increased from 123.160 to 141.080 (+ **14.55%**) resulting in an associated increase in general expenses.

It must be noted again that a “snapshot” analysis of revenue and expenditure over such a short period does not allow an accurate projection for calculating performance over the full financial year, and that linear increases should not be assumed.

Indeed, both revenue and expenditure are highly seasonal, with expenditure being higher in the first six months of the financial year, and revenue being higher in the last six months.

Consequently, monthly expenditure is predicted to reduce over the second half of 2008/2009. This is due to:

- 75% of the major maintenance checks on the aircraft fleet having been completed in the first half of the financial year.
- A reduction in operating costs with the commencement of the Winter Shuttle due to the 2 allocated non-flying days during the last three months of the year.

Revenue is predicted to increase over the second half of 2008/2009. This is due to:

- 85% of Fisheries operations being conducted in the last six months of the year.
- Retrospective charging for account holders delaying payments so that two thirds of the income from the tourist season is received in the last six months of the year.

(A bar chart comparing financial performance between 2006/2007 (uplifted for RPI) and 2008/2009 is attached in Appendix 2.)

5. Conclusion

The ultimate aim of the FIGAS Recovery Action Plan is to reduce the public subsidy to £500,000 by 2014/2015.

In accordance with the proposed Islands Plan (2009), the aim for 2008/2009 is to achieve a public subsidy of less than £1,100,000.

This may or may not be achievable due to a predicted reduction in estimated revenue resulting from:

- The delay in gaining final approval for the FIGAS Recovery Action Plan which resulted in:
 - The deadline for advertising Scenic Flights in cruise ship shore excursion itineraries being missed.
 - An interim agreement being made regarding airfares for large groups (in order to provide some certainty for the tourism industry) which effectively restricted income from potential Air Charter operations.
- Resistance to the concept of private Air Charters from one of the two major locally-based travel agencies.
- The current economic climate leading to increased costs and reduced passenger numbers.

Whilst it is estimated that total revenue for 2008/2009 will be approximately £200,000 greater than in 2006/2007, the degree to which the public subsidy is reduced will be dependent on the degree to which the increase in total expenditure can be limited. It must be noted, however, that in the current economic climate, any reduction in the public subsidy will mean that FIGAS has performed significantly better than in 2006/2007. If this can be achieved, FIGAS will be one of the few air services in the world able to accomplish this.

The FIGAS Recovery Action Plan is most definitely succeeding at the goals of increasing revenue and releasing spare resources. The full benefits of the new operating model will become even more apparent in 2009/2010 as commercial revenue increases with further development of the Scenic Flying and private Air Charter markets.

It cannot be stressed enough that the foundation of the FIGAS Recovery Action Plan is the spreading of available resources throughout the day via the Shuttle model. Any move to abandon this cornerstone philosophy will result in failure of the FIGAS Recovery Action Plan and increasing public subsidies in future years.

(See Appendix 4)

Shaun Minto
GM FIGAS
25 February 2009

Appendix 1 – Financial and Performance Data (October - January)

See Attached Spread Sheet Data and Graphs (4 pages)

Appendix 2 – Financial Data Uplifted for RPI (October - January)

In order to assist in making a direct comparison between 2006/2007 and 2008/2009, the financial data for 2006/2007 has been uplifted in accordance with the RPI data provided by Treasury.

The information summarised in Table 4 shows that revenue per passenger and revenue per flight hour have increased over the period (October to January).

Although Expenditure has increased, the overall result is that there has been a reduction in the deficit per passenger and deficit per flight hour.

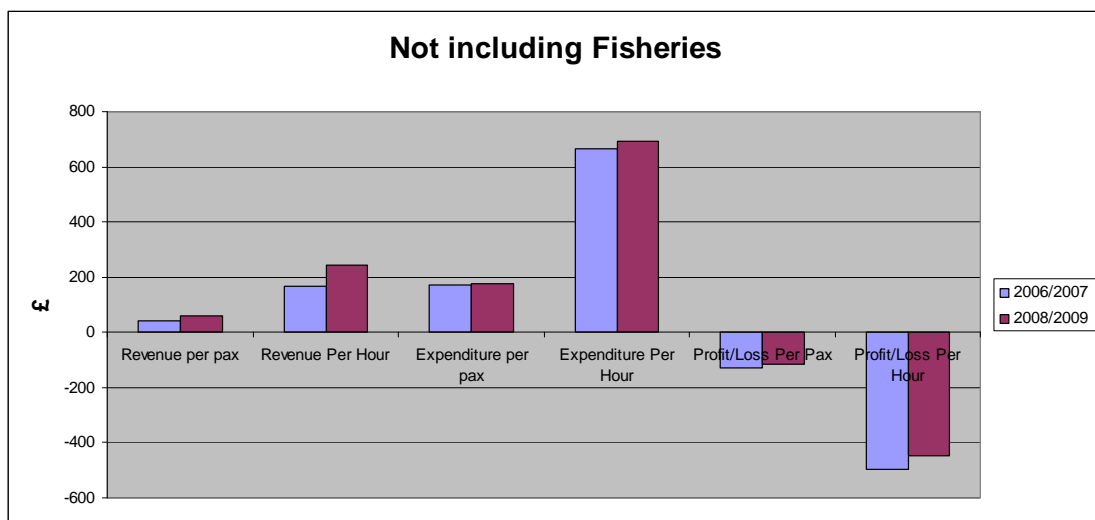


Table 4: Financial Comparisons (Uplifted for RPI)

Appendix 3 – Sample Price Increases in Islander Aircraft Spare Parts

Description	Date	Price	Date	Price	% Increase
Hinge	Aug-06	£81.73	Aug-08	£124.78	53%
Lever Control	Oct-06	£316.89	Nov-06	£499.00	57%
De-Ice Boot -Tailplane	Oct-06	£841.67	Aug-08	£1,035.49	23%
Bolt	Nov-06	£153.90	Feb-07	£202.73	32%
Flex Hose - Tailplane	Nov-06	£103.00	Jul-08	£170.00	65%
Lever Assy Drive	Nov-06	£288.00	Nov-08	£361.00	25%
Rod	Jan-07	£715.00	May-07	£949.88	33%
Sprocket	Jan-07	£137.16	Sep-08	£194.31	42%
Cable Assy - Rear	Feb-07	£85.00	Apr-07	£120.00	41%
Engine Strut - Diagonal	Apr-07	£642.28	Sep-08	£1,042.95	62%
Altimeter	Jun-07	£385.00	Feb-08	£499.95	30%
Nose Rib	Jun-07	£1,379.91	May-08	£1,922.66	39%
Cable (Autopilot)	Jul-07	£125.01	Apr-08	£416.77	233%
Leading Edge Rib	Jul-07	£1,380.00	May-08	£1,922.00	39%
Engine Strut - Lower	Jul-07	£232.00	Jun-08	£347.00	50%
Eye End	Jul-07	£167.16	Sep-08	£297.40	78%
Skin	Aug-07	£148.50	Sep-08	£286.08	93%
Cable (Autopilot)	Oct-07	£192.06	Apr-08	£414.57	116%
Baffle	Nov-07	£465.00	Sep-08	£925.68	99%
Nose Rib	Nov-07	£1,379.91	Dec-08	£1,922.66	39%

Appendix 4 – The Farming Analogy

Imagine 2 identical farms:

- Farm A: “All Day Station”
- Farm B: “Half Day Station”

Same size, same pasture, same stock quality, same production levels, same revenue.

Farm A, (“All Day Station”) has enough work for 2 permanent employees who work a full day (both mornings and afternoons) and utilises 2 Land Rover vehicles to conduct this work.

Farm B, (“Half Day Station”) has exactly the same amount of work to do but elects to complete all the work in the morning, so that everyone can finish work as early as possible. Consequently, this farm utilises 4 permanent employees and 4 Land Rover vehicles to achieve the same amount of work, in half the time.

Obviously Farm A costs less to run than Farm B; therefore (given that both farms earn the same revenue) “All Day Station” might make a profit of £100,000, whereas “Half Day Station” might only make a profit of £50,000. (No problem here - provided both owners are happy with their respective profits.)

However, if the farming economy collapses and income from both farms reduces by £100,000, Farm A will now break even, while Farm B will suffer a £50,000 loss.

Obviously Farm B could no longer afford to operate on the old “half-day” model. To reduce operating costs Farm B would have to adopt a similar operating model to Farm A, thereby minimising the use of resources and spreading the work throughout the full day, which would in turn release the spare/excess resources.

Farm B would then have a second choice: whether to dispose of the spare resources (to reduce operating costs), or whether to retain the spare resources and attempt to earn additional revenue (to grow the business).

I.e. Farm B could elect to reduce staff numbers, sell 2 Land Rovers (and break even like Farm A) or, alternatively, retain the 2 employees and the 2 Land Rovers, and put up a new sign at the farm gate (where the tourist bus passes every day), advertising:

LAND ROVER EXCURSIONS Farm Tours – Only £50 per person

By electing to grow the business, Farm B now has potential to make a profit during the economic downturn, whereas Farm A can still only break even.

NOTE: FIGAS has addressed a similar dilemma by introducing the shuttle model, which spreads the movement of passengers throughout the full day, in order to release pilot and aircraft resources for use on higher yielding commercial operations such as private Air Charters and Scenic Flight Tours.