

EXECUTIVE COUNCIL

RESTRICTED

Title of Report: FIGAS Passenger Fares for 2009/2010 and Beyond –
Supplementary
Paper No: 128/09
Date: 24 June 2009
Report of: GM FIGAS

1.0 Purpose

To address issues raised by the Executive Council with respect to Exco paper 53/09 – “FIGAS Passenger Fares for 2009/2010 and Beyond”

2.0 Recommendations

- (a) That effective 1 July 2010, the capped “resident” fare on the FIGAS Shuttle is increased by 10% to £55.00 per one-way journey. (An increase of £5.00)
- (b) That in order to provide advanced notice of changes in FIGAS Shuttle fares and charges, the Budget Select Committee shall consider and announce ALL Shuttle fares and charges (in accordance with section 5.2) in May of each year, with any new rates being effective on 1 July of the following year.
- (c) That the penalty fee on the FIGAS Shuttle service be increased to £20.00 for changes and cancellations to flight bookings made after 08:00 a.m. on the day prior to flight, in accordance with the operating guidelines specified in section 5.3.
- (d) That FIGAS invests in developing new Flight Bookings/Reservations software which is able to cope with differential pricing and advanced bookings requirements so that application of differential pricing systems can be introduced on 1 July 2010.
- (e) That effective 1 July 2010, a differential pricing system is introduced whereby the standard capped resident fare (henceforth known as the Outer Islands capped fare) is available for journeys to/from the outer islands, with a higher resident cap being applied to to/from destinations on East and West Falkland (the Mainland capped fare). GMT has

recommended that the differential between the Outer Islands capped fare and the Mainland capped fare be initially set at £5.00.

- (f) That FIGAS proceeds with the current business plan of progressing to a Hub system between East and West Falkland in order to encourage the use of the road network when the road system permits. This will enable the introduction of differential pricing between “Hub Aerodromes” and “Non-Hub Aerodromes” at some stage in the future (but not before 1 July 2011).
- (g) That transitional arrangements made with the tourism industry regarding pricing of commercial Air Charter services for the 2009/2010 season remain in place, and that the ability of FIGAS to adjust pricing (below the maximum approved commercial charter rate) to assist in the development of commercial income streams remains outside the scope of recommendation (b) above.

3.0 Summary of Financial Implications

If the Executive Council elects to increase the standard capped resident fare by 10% with the increase effective 1 July 2010 (in accordance with recommendation (a) of this supplementary paper):

	2009/10	2010/11	Full Year
	£	£	£
<u>Operating Budget - Revenue</u>	Nil	Nil	Nil
(Nil impact as already allowed in budget.)			

If the Executive Council elects to increase the standard capped resident fare by 10% with the increase effective 1 July 2009 (in accordance with the original recommendation of paper 53/09):

	2009/10	2010/11	Full Year
	£	£	£
<u>Operating Budget - Revenue</u>	14,000	14,000	14,000
(Increased income)			

If recommendation (d) is accepted in order to facilitate the introduction of differential pricing on 1 July 2010:

	2009/10	2010/11 onward
	£	£
<u>Operating Budget</u>	5,000	Nil
(Estimated one off development cost)		

4.0 Background

Exco paper 53/09 – “FIGAS Passenger Fares for 2009/2010 and Beyond” was considered by the Executive council on 18 March 2009.

Five of the nine recommendations in the paper were approved.

One recommendation was referred to the Budget Select Committee:

(b) That effective 1 July 2009, the standard rates on the Shuttle service are increased by RPI plus 10% to:

- *Boarding Charge – £15.00 (An increase of £2.40)*
- *Rate per NM – £0.85 (An increase of £0.14)*

On this basis, the tourism industry was advised that fares for 2009/2010 would be advised after the Budget Select Committee released the decision following the final meeting on 26 May 2008.

The Budget Select Committee decided to raise “tourist FIGAS rates” by only 10%, and also advised that this increase would not become effective until 1 July 2010.

Although the use of the word “tourist” raises a variety of additional possibilities, this statement effectively closes recommendation (b), in that standard rates on the Shuttle service will not be increased for 2009/2010.

Members also had concerns regarding three other recommendations in the paper and requested further information:

(a) That effective 1 July 2009, the capped “resident” fare is increased by 10% to £55.00 per one-way journey. (An increase of £5.00)

(c) That in future, the General Manager FIGAS in conjunction with the Financial Secretary sets Shuttle fares on an annual basis, following the announcement of the December RPI data, so that rates for the following season are available for the Tourism industry in January.

(h) That the cancellation fee for the FIGAS Shuttle is increased to £25.00, but only applied in cases where the cancellation is made less than 2 days before the date of travel.

(I.e. The fee is only applicable if the cancellation is made on the day before or the same day as the booked flight.)

Members also expressed an interest in receiving information on a further issue:

- Differential pricing between outer islands and mainland flights

5.0 Issues Outstanding from Exco paper 53/09

5.1 Setting the Capped Resident Fare for 2009/2010

From the FIGAS business model perspective, there are still valid arguments for raising the capped resident fare by £5.00 to £55.00, as per the original recommendation (a), which include:

- The capped resident fare is still significantly below the RPI adjusted 1993 fare.
(See Exco paper 53/09 – Table 2)
- Small regular adjustments to the capped resident fare will avoid having to make massive corrections at irregular intervals in the future.

However, given that the Budget Select Committee has already decided that the standard Shuttle rates will not be increased for 2009/2010, it would be extremely difficult for the Executive Council to justify any increase in the capped resident fare to the Falkland Islands community.

Consequently, the recommendation to increase the capped resident fare to £55.00 is offered again for consideration by the Executive Council, but with an effective date of 1 July 2010, in order to match the previously announced increase in the standard shuttle fares.

5.2 Setting Shuttle Fares and Charges for Future Seasons

The Budget Select Committee has already announced that the Shuttle fares will increase by 10% effective 1 July 2010; therefore the standard fares for the Shuttle have already been set for 2010/2011:

(On advice from Treasury, the rates have been rounded to the nearest 10p and full 1£)

- Boarding Charge – £14.00 (An increase of £1.40)
- Rate per NM – £0.80 (An increase of £0.09)

Given that the precedent for setting standard shuttle fares one full year in advance of the effective date has been set, it is logical to proceed on this basis in future years.

The Budget Select Committee should announce the standard Shuttle fares in May of each year, with the rate being effective on 1 July of the following year. This will provide approximately 16 months notice of any change in the standard Shuttle fares prior to the beginning of the tourism season in October.

This process should apply to all Fares and Charges for passengers on the FIGAS Shuttle:

- Boarding charge
- Rate per NM
- Excess baggage charge
- Cancellation fee

- Capped resident fares
 - “Mainland” capped fare
 - “Outer Islands” capped fare

5.3 Cancellation Fee

The original recommendation (h) to raise the cancellation fee to £25.00 was based on the premise that standard Shuttle fares would be increased for 2009/2010. Given that Shuttle fares are to remain at 2008/2009 rates, this proposed fee increase has been reduced to £20.00 for the 2009/2010 year.

Concerns that the cancellation fee would be applied inappropriately in the event of a disruption due to weather could be addressed by the introduction of the following set of operating guidelines:

- a) It is acknowledged that all flights on the FIGAS Shuttle service are prepared on the day prior to the flight.
- b) All flight bookings are considered to be finalised at 08:00 a.m. on the day prior to flight.
- c) Flight bookings changed or cancelled prior to this time will not incur a penalty fee.
- d) Flight bookings changed or cancelled after this time will incur a penalty fee of £20.00.
- e) Where bookings involving multiple sectors on the same day (i.e. day return flights) are changed or cancelled, only one penalty fee shall apply.
- f) Where bookings involving multiple sectors on successive days (i.e. overnight return flights) are changed or cancelled, only one penalty fee shall apply.
- g) Where flight bookings are changed or cancelled as a result of disruption due to adverse weather conditions or unserviceable aircraft, no penalty fees will apply.

5.4 Differential Pricing

As per the FIGAS Internal Review document released for public consultation on 12 May 2008, one of the medium term aims of the FIGAS Recovery Action Plan is to progress to a hub aerodrome system on East and West Falkland.

However implementation of this proposal was delayed until such time as the roads on West Falkland were considered to be up to an acceptable standard for driving to hub aerodromes in all reasonably expected weather conditions.

Despite the request that all reference to the future hub model be removed from the 2009 Islands Plan, the progression to a hub system of operation on East and West Falkland remains very much of the FIGAS business plan.

One of the planned means of encouraging the transition to the hub system is by making the capped resident fare only available between the hub aerodromes, with standard Shuttle fares applying to all other routes on East and West Falkland.

This would mean that travellers on East and West Falkland would initially have a choice to drive to and from the hub aerodromes and travel at the capped resident fare, or travel from non-hub aerodromes and pay the significantly higher standard Shuttle fare.

The current thinking is that only Stanley, MPA, Port Howard (Purvis) and Fox Bay would be assigned hub aerodrome status, although there is some suggestion that a single centrally based aerodrome on West Falkland would be more appropriate in the long term.

Considerable work remains to be done in determining how best to introduce a Hub Aerodrome system.

GMT has advised that the previously established link to the quality of the road network on West Falkland is no longer considered to be a practical condition for determining when to progress to a Hub system.

Unfortunately this means that the link that was established in the minds of public in 2008 (between road quality and the introduction of a hub system) must be broken before any attempt can be made to progress towards a differential pricing system for hub aerodromes.

However GMT has identified that differential pricing between the Mainland Islands (East and West Falkland) and the Outer Islands would be a more politically acceptable first step in the process of introducing differential pricing.

Given that the Executive Council/Budget Select Committee has already announced that Shuttle fares will not increase until 1 July 2010, which in turn has made the prospect of increasing the standard capped fare for any Falkland Islands resident somewhat unlikely, there is little scope for introducing differential resident fares until 1 July 2010, at which time the desired differential could easily be introduced, provided the Executive Council nominates a different capped fare for Mainland and Outer Islands in conjunction with recommendation (a) of this paper.

Additionally, the current software used by FIGAS to process Flight Bookings is outdated and cannot cope with differential application of the capped resident fare at present. Also, the current software was not designed to cope with advanced notice of increased fare schedules. (This is hardly surprising since fares had not changed for seven years prior to the introduction of the current booking system in 2000.)

Therefore, under the current system, despite knowing that the 2009/2010 fare schedules have increased, any advanced bookings for the following season cannot be correctly processed until the new fares are entered into the database on 1 July 2010.

Consequently, FIGAS must invest in developing a new Flight Bookings/Reservations system that can cope with the recently introduced initiative of announcing fare increases a full year in advance, and with the proposed introduction of differential

airfares, and must ensure that this system is operational by the proposed commencement date of 1 July 2010.

The cost of such software development is initially estimated at £5000.

5.5 Commercial Operations

A key initiative of the FIGAS Recovery Action Plan was the establishment of a 2-tier operating model.

The first tier comprises of the core FIGAS Shuttle service, which is provided at a heavily subsidised cost in order to meet the essential transport requirements of the Falkland Islands community.

Second tier operations are the premium commercial services, such as private Air Charter operations (including the LAN connection) and Scenic Air Tours. It is these commercial services that will provide the additional revenue required in order to meet the 2009 Islands Plan goal of reducing the public subsidy.

Since the commercial Air Charter service was introduced, FIGAS has been working with the tourism industry to assist in the gradual transition towards commercial operations where appropriate. This has involved interim agreements to provide some commercial services at less than the approved commercial rate, in order to encourage the use of these services. These discounted rates have been adjusted/offered on a season by season basis, aiming to progress to the full commercial rate over a number of years.

Unfortunately, the use of the word “tourist” in the statement contained in the 2009/10 Operating Budget Highlights (*“Increase in tourist FIGAS rates of 10% from 1 July 2010”*) has implied that FIGAS makes a distinction between tourists and other classes of passenger. This is not correct. The only distinction FIGAS makes is whether a passenger qualifies for the capped resident fare.

(To attempt to distinguish between tourists and other classes of passenger would open up a Pandora’s Box of issues regarding the definition of “tourist”: Should there be a distinction between domestic tourism and international tourism; are scientists, historians, journalists, photographers and film-makers considered to be tourists; is anyone who books through an agent considered to be a tourist?)

The “tourist” statement could be further interpreted to mean that transitional arrangements already in place to develop commercial services such Combo Charters, the LAN connection* and Scenic Air Tours have now been superseded by another Exco-approved change to the pricing structure.

While it is entirely appropriate for the Executive Council to set fares and charges for the government-subsidised Shuttle service, the development of commercial income streams (which includes the ability to adjust pricing plans as negotiated) must be allowed to continue unimpeded in order to achieve the aims of the FIGAS Recovery Action Plan.

Therefore, it is recommended that the Executive council confirm that pricing arrangements for second tier commercial services remain outside the scope of the Budget Select Committee's decision to raise "tourist FIGAS rates" by 10% from 1 July 2010.

** The Executive Council is reminded that the following initiatives were specifically approved on 24 July 2008 as part of the FIGAS Recovery Action Plan:*

- *(h) Cessation of the heavily subsidised summer LAN "Air Taxi" Connection"*
- *(i) Introduction of LAN "Air Charter" connection on a commercial basis.)*

6.0 Financial Implications

Currently FIGAS is required to estimate revenue and attempt to predict whether a proposed fare increase will be approved prior to submitting budget proposals for the next financial year.

The proposal to have the Budget Select Committee set Shuttle fares one year in advance would enable FIGAS to more accurately set revenue estimates and predict the effect on the public subsidy during each annual budget round.

The approved 2009/2010 budget estimates for commercial revenue are based on existing pricing agreements for Combo Charters, LAN Connection Charters, Full Charters and Scenic Flights. These arrangements must remain in place if budgeted revenue targets are to be met.

The increased penalty fee for cancellations and changes after 08:00 a.m. on the day prior to flight is unlikely to have a significant effect on revenue. The increased fee is aimed more at altering the current behaviour of leaving changes and cancellation to the last minute.

The eventual transition to a hub aerodrome system between East and West Falkland will result in a substantial improvement in efficiency for the subsidised Shuttle service which will assist in reducing the public subsidy in accordance with 2009 Islands Plan.

7.0 Legal Implications

None

8.0 Human Resources Implications

None