

# **EXECUTIVE COUNCIL**

## **CONFIDENTIAL**

**Title of Report:** Proposed Restructured FIGAS Flight Policy

**Paper No:** 35/13

**Date:** 24 April 2013

**Report of:** Director of Central Services/General Manager, FIGAS

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### **1.0 Purpose**

- 1.1 To seek honourable members approval of the proposed restructured FIGAS flight policy

### **2.0 Recommendations**

- 2.1 It is recommended that Executive Council approve the proposed restructured FIGAS flight policy.
- 2.2 It is recommended that the restructured FIGAS flight policy comes into effect from 01 July 2013.
- 2.3 It is recommended that Executive Council approve concessionary freight rates option 4, which is to remove concessionary freight rates from those existing beneficiaries and offer it only to the outer islands.

### **3.0 Summary of Financial Implications**

- 3.1 None

### **4.0 Background**

- 4.1 On 1 July 2010 FIG released the new revised flight programme, detailed in Executive Council paper 149/10, for the Falkland Islands Government Air Service.
- 4.2 The revised flight programme was the result of a period of Island wide consultation by the FIGAS Strategic Review Board and designed with a view to improving overall customer service and flexibility.

4.3 In regard to the 2010 revised flight programme only the areas of contention and disquiet are described (Appendix A).

#### 4.4 **Contributing Issues**

4.5 Since 01 July 2010 the FIGAS business plan implemented two agreed Service Level Objectives (SLO's) that directly impact on the revised flight programme and need to be considered when making further changes:

- SLO1 – Reduction of deficit to £900,000 by 2015/16
- SLO4 - Achieve an annual increase in the passenger hour load factor of 0.2 per year on local flights and 0.6 on tourist flights.

### **5.0 Service Level - 01 Reduction of Deficit**

5.1 The reduction of deficit is a considerable challenge especially when operating within such a limited customer base.

5.2 A prime tool for improving revenue streams is via regular passenger and freight charge increases. This is often viewed as unpopular, but in reality, a necessary evil. FIGAS passenger fares are generally perceived as high but when compared with similar operators, both in the UK and the Overseas Territories, we find that we sit in the mid to high end of the fare scale, but are certainly not the highest.

5.3 Increased passenger traffic will always have a positive impact on revenue and, consequently, the overall deficit. FIGAS management are actively seeking innovative solutions in this regard. By working closely with local land owners and tourist agents we aim to increase opportunities for transporting visiting cruise ship passengers to prime wildlife locations on East Falkland.

5.4 Additionally, FIGAS and the Director of Central Services are preparing to carry a fleet review during the second half of 2013. Terms of reference are yet to be developed but it is envisaged that specific emphasis will be placed on appropriateness of current fleet, fleet size and the merits of replacing old aircraft with new.

5.5 Moreover, FIGAS continue searching for efficiencies across the department to further reduce direct operating costs.

5.6 The 2010 agreed baggage allowance policy is another valuable tool for freeing up additional space for freight and excess baggage.

5.7 Presently, there is a pervasive feeling among Camp Residents, that shearers are disadvantaged by the current 14Kgs baggage allowance as they usually travel with 25Kgs or more. Ultimately, shearing contractors pass this cost directly on to the farmers and therein lays the issue. In this case, shearers are required to pay for the additional 11Kgs excess baggage charge (£1.20 per

kilogram in 2012/2013) generates revenue of £13.20 per contractor/per sector which is, of course, passed on to the farmer. FIGAS Check-in is usually sympathetic and allows shearers to 'pool' their baggage to minimise any excess baggage payments thereby reducing the cost passed on to the farming community.

- 5.8 However, it must be recognised that any approved increase in personal baggage allowances will have a small but negative affect on the excess baggage revenue stream. It is estimated that the revenue loss could be between £800 and £1600 per shearing season. Any loss compromises FIGAS' ability to reduce the deficit.

## **6.0 Service Level- 04 Increase Passenger Hour Load Factor Annually**

- 6.1 Achieving an annual increase in the passenger hour load factor will also become increasingly difficult if the requirement to fly with lower passenger numbers is enforced. It is recommended that this objective is either removed from the business plan or only used as a monitoring tool.

## **7.0 Proposed Restructured FIGAS Flight Policy**

- 7.1 The new proposed restructured FIGAS flight policy is more encompassing than previous issues (Appendix A – 2010 Flight Policy) and attempts to add clarity and flexibility especially to operations during the winter season when load factors are notoriously low. The document also includes information on passenger fares, baggage allowances, mail and freight, commercial carter operations, round robin flights and the change/cancellation charge.
- 7.2 The flight programme for both winter and summer seasons is as follows:
- Up to two early morning flights with a fixed departure time of 08:30 covering flights to all destinations
  - Up to two flights following on with variable departure times at or earlier than 12:00 mid-day, subject to customer demands and covering flights to all destinations
  - One afternoon flight to follow on with a variable departure time, subject to customer demand and will cover flights to all destinations
  - Additionally, during the summer season only, there will be, subject to demand a late afternoon follow on flight
  - The winter season flight programme begins on 01 May and ends 31 August each year (four months). This is a five day per week operation with Wednesday and Saturday being non-flying days
  - During the winter season, should Tuesday and Friday be lost to adverse weather FIGAS agree to carry the cancelled flights over to the non-flying day(s)

- The revised summer season flight programme begins on 01 September and ends 30 April each year (eight months). This is a seven day week operation
- During the summer season flights will operate on Monday, Tuesday, Thursday and Friday regardless of load limit. Remaining days will be subject to normal planning to ensure economical loads
- FIGAS will honour all return flight bookings, especially where a return flight is jeopardised by the cancellation of fellow passengers which, under normal circumstances, renders the flight uneconomical to operate.

### 7.3 **Passenger Fares**

7.4 Standard fares for 2012/2013 increased by 10% effective from 01 July 2012.

- Capped Resident Fares (East/West Falkland's) increased from £61 to £67
- Capped Resident Fares (Outer Islands) remains at £55

7.4 For 2013/2014 approval has been granted for Capped Resident Fares (East/West Falkland's) and Capped Resident Fares (Outer Islands) to remain at 2012/2013 levels but all other rates and tariffs increase by 10% commensurate with RPI.

### 7.5 **Baggage Allowances**

- Baggage allowance for the capped resident fare remains at 14 kilograms per person
- Baggage allowance for the standard fare remains at 20 kilograms per person
- Excess baggage is charged at £1.40 per kilogram from 01 July 2013.

### 7.6 **Mail and Freight**

- Mail and freight will be carried when space permits
- When MV Concordia Bay is scheduled for its annual dry docking FIGAS will endeavour to prioritise mail and freight to Camp destinations
- Special mail and freight visits may be requested and will be incorporated into flights through normal scheduling processes

- Requested dates cannot be guaranteed

## 7.7 Commercial Charter Operations

- FIGAS aircraft are available for commercial charter at £1,210 per flying hour or part thereof. From 01 July 2013 the approved commercial charter rate increases to £1,330 per flying hour or part thereof.

## 7.8 Round Robin Flights

- “Round Robin” flights are available year round as a “seat filler” and are split into two price bands
- This is a round-trip seat originating in Stanley
- East – West mainland only “Round Robin” £50.00
- East – West including the outer islands “Round Robin” £75.00
- Dates are mutually agreeable between FIGAS and passenger

## 7.9 Change/Cancellation Charge

- It is acknowledged that all FIGAS flights are prepared on the day prior to the flight
- All passenger bookings are considered to be finalised at 10:00 on the day prior to the flight
- Passenger bookings changed or cancelled prior to this time **will not** incur a penalty fee
- Passenger bookings changed or cancelled after this time **will** incur a penalty fee of £25.00 for each adult passenger
- “No Show” passengers will incur a penalty fee of £25.00 for each adult passenger
- A late booking fee of £25.00 will be applied if a new flight booking is made after 10:00 on the day before the flight
- Where bookings involving multiple sectors on the same day (i.e. day return flights) are changed or cancelled, only one penalty fee shall apply
- Where bookings involving multiple sectors on successive days (i.e. overnight return flights) are changed or cancelled, only one penalty fee shall apply

- Where bookings are changed or cancelled as a result of disruption due to adverse weather conditions, unserviceable aircraft or any other operation decision by FIGAS, no penalty fees will apply
- Cancellation/Change/Late Booking fee does not apply to “Round Robin” flights
- **EXCO have agreed to these operating guidelines with the exception that the charge will not be applied “in circumstances beyond the control of the passenger”**

## 8.0 Concessionary Freight Rates

### 8.1 Background

8.2 In late 1992 the FIGAS General Manager, Mr Vernon Steen, submitted a paper to the Standing Finance Committee (SFC) regarding the introduction of concessionary freight rates for deliberation (SFC paper 23/92). According to a memorandum from the SFC Secretary dated 30<sup>th</sup> December 1992, the committee agreed to a concessionary rate of 30p per kilo for fresh produce only from 1<sup>st</sup> January 1993. This rate would only apply when pre-booked on a scheduled flight with sufficient space and subject to the following conditions;

- To qualify the supplier is required to satisfy FIGAS that the throughput of airfreight would be a minimum of 500 kilos per annum;
- Consignments to have a minimum limit of 40 kilos of fresh produce per flight; potatoes and turnips are not accepted for the reduced rate.

8.3 An earlier memorandum dated 07<sup>th</sup> December 1992 from the FIGAS General Manager to the FIG Financial Secretary states that the concessionary rate was set up to assist persons in camp who grew vegetables for the Stanley market to compete on an equal footing with that produced in Stanley. This was obviously extended at some point to allow other businesses such as Saddle Computers (now Saddle Direct) and Warrah Design etc. Unfortunately, there doesn't seem to be any correspondence covering the extension.

8.4 On 4<sup>th</sup> February 1993 SFC further agreed that eggs should also be classified as fresh produce and therefore qualifies for the concessionary rate.

8.5 On 16<sup>th</sup> January 1997 FIDC requested that Warrah Design be granted the concessionary rate for a ‘one-off’ shipment of 250 kilos of yarn from Fox Bay to Stanley. This was granted by the Financial Secretary, Mr Derek Howatt, on 17<sup>th</sup> January 1997. The letter also alludes to an earlier ‘one-off’ concession for 600 kilos of freight that was granted in 1994. Executive Council met on 20<sup>th</sup> February 1997 and, after studying a FIDC Half Year

report (47/97-GM/FIDC), agreed that the Falkland Mill (Warrah design) should also receive the concessionary rate.

8.6 In April 2002 the FIGAS General Manager, Mr Fraser Wallace advertised, via the Penguin News, an 'assisted freight rate for businesses operating in the Camp (Camp to Stanley only). The following businesses have taken advantage of this initiative;

- Warrah Design (approved 2002)
- DHF Falklands (approved 2002)
- Albermarle Station (approved 2002)
- Shallow Harbour Farm (approved 2002)
- Saddle Computers now Saddle Direct (approved 2002)
- Saunders Island Farm (approved 2002)
- West Falkland Co-op (approved 2010)

8.7 Later in 2010, FIGAS received a request from Port Howard Store looking for a similar concession. This was not granted as no firm policy guidance could be determined. Since this we have received requests from Pebble Island Lodge and Sea Lion Island for similar concessions.

8.8 Historically, it appears that all decisions relating to the grant of concessionary freight rates and the respective recipients were made by the Financial Secretary.

8.9 However, it must be recognised that each time concessionary freight rates are granted to local businesses FIGAS loses some ground in reducing the overall operating deficit.

8.10 Moreover, consideration should also be given to the subsidy of air freight to thriving tourist destinations. Tourism to the outlying Islands has not reduced significantly over the past years despite an increase in prices. Would reducing air freight to concessionary rates automatically be passed on to the end user? Or would the reduction be used to increase individual profit margins at FIG's expense. Tourism lodges are, at the end of the day, businesses that are profit driven.

8.11 **Option 1:** Do nothing. Maintain the status quo in regard to those businesses already benefiting from concessionary freight rates but enforce the original purpose of the concession which was to encourage Camp residents to diversify their business by growing and selling vegetables (or other produce) for the Stanley market on an equal footing with that produced in Stanley. This could be regarded as support for the recently introduced Import Substitution Programme.

8.12 **Option 2:** Open concessionary freight rates to all legitimate Camp businesses for freight to and from Stanley. This could be construed as working within the boundaries of the Rural Development Strategy and in support of the Import Substitution Programme.

8.13 **Option 3:** Abolish concessionary freight rates across the board. No favouritism shown to businesses either based in Stanley or Camp. Air transportation of freight should be seen as a premium service and therefore attracts premium rates. This could possibly drive more freight on to the MV Concordia Bay.

8.14 **Option 4:** Remove concessionary freight rates from those existing beneficiaries and offer it only to the outer islands. Mainland West and East Islands businesses have access to the all-weather tracks/roads network and regular cross Sound ferry service which facilitates easier access to the Stanley market. Currently, the outer Islands are disadvantaged and are reliant on air transport for regular freight deliveries.

## **9.0 Transport Advisory Committee Feedback**

9.1 The proposed restructured FIGAS flight policy was presented to TAC members at the November 2012 meeting. On the whole the paper was agreed as fit-for-purpose subject to Executive Council approval.

9.2 In regard to Concessionary Freight Rates TAC members felt that option 4 was the preferred way forward.

## **10.0 Financial Implications**

10.1 None, as rates and tariffs are already approved for 2013/2014

10.2 Concessionary Freight Rates – data collected from 2012 (January to December) showed carriage of 1,862 kilograms of freight at the appropriate concessionary rates. Revenue realised of £801.47. Potentially, if concessionary freight rates did not exist, the revenue collected would have been £1,428.30. Actual loss of revenue £626.83 or 43.89%.

10.3 Total freight carried during the same period was 60,931 kilograms, therefore concessionary freight accounts for 3.06% of freight carried.

Year	Freight (Kilograms)	Revenue (Concessionary Rates)	Potential Revenue	Loss
2012	1,862	£801.47	£1428.30	£626.83

## **11.0 Legal Implications**

11.1 None

## **12.0 Human Resource Implications**

12.1 A tandem review of staff rates of pay and allowances will take place in the near future to ensure that these are appropriately aligned with any approved change to the policy.



## Appendix A

### Approved Flight Policy from 01 July 2010

- The reduced flight programme in the winter season continues with no fly days on Wednesdays and Saturdays. However, under amended policy, if flying is cancelled on either of the days prior to the no fly days then FIGAS will provide a flight service on the no fly days.
- The winter season flight programme is amended with the changes being based upon retaining the current operating model of shuttles and charters but bringing forward flight departure times. The flight programme is changed to comprise of:
  - (i) Up to two early morning flights with a fixed departure time of 8.30am covering flights to all destinations.
  - (ii) Up to two flights following on with variable departure times at or earlier than 12.00 mid-day, subject to customer demands. These flights will cover all destinations.
  - (iii) One afternoon flight to follow on with a variable departure time at or earlier than 15.30pm, subject to customer demand and available daylight hours. This flight will cover East to West destinations. (Section 6.3.1)
  - (iv) Should be noted in relation to an exemption requirement from the regulator)
- Summer flight programme amendments to come into effect from 1st October 2010:
- The summer season flight programme is amended with the changes being based upon retaining the current operating model of shuttles and charters but bringing forward flight departure times. The flight programme is changed to comprise of:
  - (i) Up to two early morning flights with a fixed departure time of 8.30am covering flights to all destinations.
  - (ii) Up to two flights following on with variable departure times at or earlier than 12.00 mid-day, subject to customer demands. This will cover flights to all destinations.
  - (iii) One afternoon flight to follow on with a variable departure time at or earlier than 15.30pm, subject to customer demand. This will cover East to West destinations.
  - (iv) A follow on late afternoon flight on Fridays, subject to demand.

- The following general policy changes are also recommended. These are to be introduced from 1st July 2010.
- Passenger Fares
  - (i) FIGAS should continue with current fare prices and should continue to differentiate on fares for the community and tourists. Further a review of the entitlement to FIG subsidised fares and allowances should be undertaken with a view to restricting the numbers of people that qualify. It is anticipated that this should only cover residents on the electoral role, PRP, work permit holders and FIG (including Governor and staff).
  - (ii) For information only, as already announced in the budget, the standard fares will increase by approximately 10% from 1st July 2010 and the capped resident fare will increase from £50 to £55 with the exception of residents on outer islands where the capped resident fare remains at £50.
  - (iii) The ticketing documentation should be changed to show only the departure and destination aerodromes with details of how the fare structure is calculated being removed from the ticket. This will avoid confusion in cases where it is more economic for flights to operate on non-standard routings.
- Baggage Allowance
  - (i) With a view to freeing up more capacity for the carrying of freight. Baggage allowance will also be differentiated between customers qualifying for the capped resident fare and those not.
  - (ii) Accordingly, customers travelling on the capped resident fare will be allowed 14 kilos of baggage. Customers paying the full standard fares will be allowed 20 kilos of baggage.
- Late Booking Fee
  - (i) With a view to avoiding frequent late changes and as an extension of the current flight change/cancellation policy a late booking fee of £20 will be applied if new flight bookings are made after 10.00am on the day before the flight.