

ANNEX IV – 2.1d

PUBLIC SERVICE COMPENSATION FOR AIRPORTS

Highlands and Islands Airports Limited (HIAL)

Entrustment

HIAL was incorporated in Edinburgh on 4 March 1986 as a private limited company under the Companies Act 1985. On 1 April 1995, ownership of the company transferred from the UK Civil Aviation Authority to the Secretary of State for Scotland and subsequently to the Scottish Ministers.

HIAL's Board of Directors, appointed by Scottish Ministers, are responsible for determining the business strategy of the company, taking into account the Scottish Governments expressed policy to encourage economic and social development in the Highlands and Islands.

The Board meets on a six weekly cycle and operates a policy of requiring all significant matters to be referred to it for approval unless they are specifically within the delegated limits given to the Managing Director. Capital projects in excess of £1 million require both Board and Scottish Government approval.

HIAL provides a group of airports in the Highlands and Islands of Scotland at: Barra, Benbecula, Campbeltown, Inverness; Islay; Kirkwall, Stornoway, Sumburgh, Tiree and Wick. These airports support vital business, social and welfare air links to otherwise remote communities. HIAL assumed responsibility for the operation of Dundee Airport from Dundee City Council on 1 December 2007 and operates Dundee Airport Limited as a subsidiary.

The airports are licensed for public use with the exception of Barra and Campbeltown which are licensed for ordinary use.

Details of Public Funding

All airports operated by HIAL are loss-making and the company receives subsidies from the Scottish Government in accordance with Section 34 of the Civil Aviation Act 1982 and is sponsored by the Scottish Government's Transport Directorate.

With the exception of Dundee, all of the airports are in an 87 (3) (a) region. The area has economical and social disadvantages primarily due to its remoteness and low population.

Finances for the year ended 31 March 2008 totalled £29m. This was made up of revenue of £15m and capital of £14m. In 2006/07 the figure was £22m. Annual traffic is broken down as follows:

Barra	10,561
Benbecula	36,166
Campbeltown	9,615
Inverness	698,653

Islay	29,600
Kirkwall	135,289
Stornoway	128,970
Sumburgh	154,799
Tiree	7,948
Wick	22,811
Total	1,234,412

(Statistics for year ended 31 March 2008)

Both revenue and capital expenditure are very largely driven by the regulatory and security framework set by the Civil Aviation Authority and the UK Government Department for Transport.

Monitoring and Accountability

The Scottish Public Finance Manual (SPFM) provides guidance on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and Scottish Parliamentary requirements, promote value for money and high standards of propriety and secure effective accountability and good systems of internal control. As HIAL is a body sponsored by the Scottish Government, this guidance would be applicable to them.

The Scottish Government monitors closely the way in which HIAL performs its role in supporting the economic and social infrastructure of the areas served by its airports. The Scottish Government is also involved in discussing general strategy with HIAL and, through the presence of an assessor at Board meetings, is aware of the matters debated and decisions taken at Board level.

HIAL's Financial Memorandum sets out the overall financial framework to which the company is required to conform by the Scottish Ministers. And as part of its ongoing development HIAL, like other businesses, prepares a Corporate Plan. The targets of the company are set out in its annual report.

The Scottish Government does not become involved in the detail of operational discussions between HIAL and its customers. It is for HIAL itself to balance what it can do to assist companies while always bearing in mind the overall cost of operating not just one but all of its 11 airports.

HIAL is required to submit detailed monthly accounts to the Scottish Government and publishes its Annual Report and Accounts on a yearly basis and is a matter of public record.

Additional detail

The majority of the air services operating out of HIAL airports are either operated under a Public Service Obligation (PSO) or Aid of a Social Character (the Scottish Government's Air Discount Scheme) mechanisms. Both Scotland's PSOs and the Air Discount Scheme are approved by the European Commission as compatible with the Common Market recognising the importance of air services which are essential for the social cohesion and sustainability of Scotland's remotest communities."

