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Aithisg Oifigeil

Transport Committee

Comataidh na Còmhdhail

Wednesday 24 June 2026

Session 7

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TRANSPORT COMMITTEE
2nd Meeting 2026, Session 7

CONVENER

*Willie Rennie (Fife North East) (LD)

DEPUTY CONVENER

*Lloyd Melville (Angus South) (SNP)

COMMITTEE MEMBERS

*Iris Duane (Glasgow) (Green)
*Zen Ghani (Glasgow Cathcart and Pollok) (SNP)
*Donald MacKinnon (Na h-Eileanan an Iar) (Lab)
*Graham Simpson (Central Scot and Lothians West) (Reform)
*Collette Stevenson (East Kilbride) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Gordon Jamieson (NHS Western Isles)
Martin Joyce (Comhairle nan Eilean Siar)
Paul Kelsall (Highlands and Islands Airports Limited)
Ronnie Matheson (Loganair)
Liam McArthur (Orkney Islands) (LD)
Gillian McCannon (NHS Western Isles)
Simon McNamara (Loganair)
Maggie Sandison (Shetland Islands Council)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Transport Committee

Wednesday 24 June 2026

[The Convener opened the meeting at 09:32]

Regional Air Travel

The Convener (Willie Rennie): Good morning, and welcome to the second meeting of the Transport Committee. We have received no apologies for this morning's meeting.

Our first agenda item is an evidence session on the impact of the proposed schedule changes to flights to and from the northern isles and the Western Isles. We will hear from two witness panels this morning. The first panel is: Martin Joyce, chief executive, Comhairle nan Eilean Siar; Paul Kelsall, chief executive officer, Highlands and Islands Airports Limited; Gillian McCannon, board chair, NHS Western Isles; Gordon Jamieson, chief executive, NHS Western Isles; and Maggie Sandison, chief executive, Shetland Islands Council.

Paul Kelsall is joining us in person—we can see him here—and the other witnesses are joining us virtually this morning. I ask members and witnesses to keep their questions and answers as tight as possible. We have roughly an hour for this evidence session, but we are keen to get as much out of it as possible. I will start with Donald MacKinnon.

Donald MacKinnon (Na h-Eileanan an Iar) (Lab): I thank the witnesses for joining us today. First, what engagement did Loganair have with your organisations before and after the decision to reduce Inverness flights, and in particular, was there any discussion on the remaining timetable?

Paul Kelsall (Highlands and Islands Airports Limited): We started talking to Loganair in February—that was when we had an initial meeting—and there were various meetings between our relevant commercial teams in the time that we had until we went back with our discounted offer at the beginning of May. After that, we received another letter from Loganair and recommenced conversations, and we are still in that process.

Donald MacKinnon: What about NHS Western Isles?

Gordon Jamieson (NHS Western Isles): We did not have any prior communication regarding the changes.

Donald MacKinnon: Thanks for that, Gordon. If you had been engaged in discussions, would you have made any representations on the suitability of the remaining timetable? Could you perhaps talk a little bit about some of the impact in that area?

Gordon Jamieson: Yes, we would certainly have made representations, simply because we are uniquely dependent on that air connectivity to deliver safe and effective healthcare, and patients and the public travelling to access healthcare are equally dependent on it. We would have made fairly strong representations regarding the risks and the multiple impacts, particularly the impact on patients, their families and their escorts.

Donald MacKinnon: Is the removal of the morning flights rather than the afternoon ones a concern?

Gordon Jamieson: The removal of the morning flights is a significant concern, because 90 per cent of the patients who travel to and from the Western Isles to access health services use them, as doing that enables them to get to their appointment and have their diagnostics, treatment and so on, and then get back the same day. The removal of the morning flight completely takes that possibility out of the equation, as it means that they leave later in the day and will have to stay at least one night, which causes significant disruption to their work, their families, their childcare and many other things.

Also, we used the morning flight to bring in the large number of visiting consultants and specialists who come to the Western Isles to deliver an excellent range of healthcare. The removal of the morning flights has had a significant impact on that, as it is simply not possible to hold some of the out-patient clinics, theatre sessions and so on, given that those consultants have commitments in their host health board. However, they work well with us to try to mitigate the impact.

Donald MacKinnon: Martin Joyce, do you have any input from the perspective of Comhairle nan Eilean Siar?

Martin Joyce (Comhairle nan Eilean Siar): My experience is similar to Mr Jamieson's. The first that we heard of the reduction was when we received a letter from Loganair—prior to that, there was absolutely no indication that any cuts to the service were planned.

We are extremely concerned about the reduction in those Inverness-based air services, given the essential role that they play in enabling access not only to healthcare and specialist treatments, as Gordon Jamieson has articulated, but to education, employment and family support. The reduction in those flights has caused a significant loss of resilience in the community.

The Convener: Mr Kelsall, did you not feel any obligation to consult locally?

Paul Kelsall: The purpose of HIAL is to provide airport infrastructure and to support air services. We do not control air services; that is the responsibility of the airlines. What we do, though, is undertake commercial discussions and negotiations that we have to keep confidential during the period in which they are ongoing. We need to keep those discussions within the realms of the two parties that are negotiating the commercial discounts.

The Convener: Did you discuss with Loganair its engagement with the community?

Paul Kelsall: No.

The Convener: But you are a public body. Surely you have obligations to the communities as well?

Paul Kelsall: We have obligations to the communities. We are very aware of the importance of these flights, because our people also live in the communities that they serve. However, as I say, we take part in various commercial conversations, and, until those conversations are complete and positions are agreed, we have to keep them confidential.

The Convener: Would you have made representations to Loganair about its obligations to the communities in relation to all the issues that we have just heard about? Did you explain those issues to the company?

Paul Kelsall: As I understand it, Loganair is fully aware of the importance of the flights, as we are.

The Convener: Did you raise the specific issue of the dramatic impact that the cuts would have?

Paul Kelsall: I do not recall that being raised in any of the conversations.

The Convener: Okay. On reflection, if this were to happen again, would you insist on there being a public consultation and an engagement session in which all the threats that the changes would pose to the community could be raised? Would you change the approach in future?

Paul Kelsall: As I said, we need to keep those commercial conversations confidential. At the risk of repeating myself, HIAL provides the infrastructure to support air services, but we do not control them. That is the responsibility of the airlines. What they do with their schedules will be down to them.

The Convener: Okay. I will bring in Collette Stevenson.

Collette Stevenson (East Kilbride) (SNP): I want to touch on the issue from the national health service's point of view. What assessments, if any, have been made of the wider costs to the NHS in light of the announcement? I put that question to Gordon Jamieson.

Gordon Jamieson: When we get notified of changes, we immediately start an impact assessment on the impact on patients, so we have quantified all that. We are estimating the financial impact just now, and we think that the cost might be in the region of £100,000, in addition to patient travel costs, although we are still working to try to mitigate that impact. The bigger risk is that we might need to employ locum medical staff to replace the staff that would have come from Inverness but no longer can. The current estimates are that the cost of employing locums could be significant—up to £1 million.

Collette Stevenson: How challenging is it to employ locums? We hear about the struggles that you have in island communities.

Gordon Jamieson: It is an ongoing challenge, but there are several locums who work for us. The people who are associated with providing services to the communities do everything that they possibly can to work around the challenges. We also have some independent locums who we may well bring in. However, the cost will be significant. The changes affect about 7,500 procedures, which is about 28 per cent of our total activity, so they are having a significant impact.

Collette Stevenson: That is interesting—thanks very much. I have no further questions just now.

The Convener: Mr Jamieson, you mentioned a cost of £1 million. What period does that cover?

Gordon Jamieson: That is our estimate for a period of more than a year.

The Convener: In the future, once you have formed new ways of working, will you need those services at all? If this is a temporary change, will you return to transferring the consultants on those flights? You surely cannot keep chopping and changing.

Gordon Jamieson: That is a live issue for us, convener, because this is not the only change; there have been several changes throughout 2025 and 2026. It almost feels like each time we embark on a significant piece of work to mitigate the impact of changes on patients, and each time we get that settled in—which involves losing and regaining some activity—something like this then happens. That means that we almost need to start all over again to recalibrate the system so that, with regard to healthcare, we can respond effectively to the decisions that have been placed in front of us.

Graham Simpson (Central Scotland and Lothians West) (Reform): I want to follow up on that line of questioning, Mr Jamieson. Will you

explain to us why the changes are costing you an extra £100,000 and why you will need to spend up to £1 million on locums?

Gordon Jamieson: The £100,000 figure is because patients would normally have gone over to the mainland and come back on the same day, which meant incurring just the travel costs. Because of our demographics, quite a lot of the patients are elderly and frail and so need an escort—of course, they are going to the mainland because they are unwell or looking for diagnostics. Therefore, the additional £100,000 is to do with the support that the Highlands and Islands patient travel scheme provides for overnight and extended stays.

The £1 million estimate is a reflection of when Highland consultants will not be able to work around the changes and come for two days instead of one day. Some of them will be able to work around them, but some will not, so we will go to the open market for locums through agencies to fill all the further gaps in service provision that we possibly can. There is not, as such, a going rate for locums; the costs vary considerably depending on the specialties that they work in. Therefore, the £1 million figure is an estimate of what the maximum cost to us could be.

09:45

Graham Simpson: In essence, all those extra costs are because people cannot get there and back in a day—is that correct?

Gordon Jamieson: That is correct.

Graham Simpson: If a patient has to go to the mainland, you are duty bound to pay for them to stay on the mainland if they cannot get back on the same day—is that right?

Gordon Jamieson: Yes. The Highlands and Islands patient travel scheme provides support for them for that journey and for costs incurred, including mileage, travel by ferry or aircraft and subsistence. Those costs have been met for a very significant period to support patients and their escorts.

Graham Simpson: I presume that not all the patients have escorts, but some will.

Gordon Jamieson: An increasing number of people are requesting escorts because of the unique demographic here in the Western Isles with people who are in their later years, including over-75s and over-85s. If someone is frail or infirm, it is clearly quite a daunting journey to go to the mainland, go through the airports and the city, go into hospital, have healthcare and come all the way back again.

The Convener: I am going to bring in Lloyd Melville, but please make sure to bring in Maggie Sandison from Shetland, because she has not had an opportunity to speak yet.

Lloyd Melville (Angus South) (SNP): Good morning. I want to continue with the NHS for now, then I will turn to Shetland Islands Council.

I have a letter here from the Royal National Institute of Blind People, which makes it very clear that the reduction of these flights could reduce the clinical capacity of the visiting hospital eye service by more than one third. Do you agree with that assessment?

Gordon Jamieson: Yes. Ophthalmology is one of our high-risk areas.

Lloyd Melville: You talk about your unique demographic challenges. Is there more than average demand for the visiting hospital eye service in the Western Isles than there is elsewhere?

Gordon Jamieson: I would say yes, because island healthcare is quite different from urban and even rural healthcare. We have had an excellent relationship with the visiting consultants over decades, who have a special and unique commitment to the islands, and we are dependent on a number of specialist services. A full range of services is provided here, but there is, of course, a limit to the degree of specialism that can be provided and should be provided in an island healthcare system. We are heavily dependent on those individuals.

Lloyd Melville: We touched on your cost modelling. Have you done any projections of the impact on patient outcomes in ophthalmology?

Gordon Jamieson: We do that as part of our impact assessment, then we look at the procedures that will be affected, which are theatre, out-patients and endoscopy. There could be longer waits for people, and I there could be an impact on outcomes if we were not able to mitigate the waiting times. The waiting times for the Western Isles population for the services that are delivered here are very good, but there could be an impact on outcomes.

There is a risk, which is small and difficult to quantify, that some members of the population will opt not to go for the alternative arrangements—that is, some people will just not come forward for treatment, so there could be an impact on outcomes as well as the general service.

The Convener: Gillian McCannon wants to come in on this question.

Gillian McCannon (NHS Western Isles): Thank you for raising the issue, Mr Melville. I will give some context. As you know, we have an

elderly population. The most common major reason for surgery is cataracts. To give a flavour of the period when the morning flight would be reduced, ophthalmology would lose 289 theatre clinics and 2,835 out-patient clinics. The risk is, as the RNIB has identified, that patients will not be able to travel. If the service is removed and goes back to Highland because of the transport system, it will be difficult for people who are visually impaired to attend. There will be an increased risk that people could go blind, which would mean that outcomes would be severely restricted for those people.

On outpatient appointments and travel, of 866 return journeys in a period from 2025, 332 people required an escort. Although we are talking about service provision, there is a wider contextual narrative, which is about the impact on the families who support the individuals who are going away—perhaps for day care. If that service is removed, people will not be able to go for a day. It is about time away for the escort, time away from family and also perhaps workforce issues in terms of lost salary or earnings. If you compound the implications, not just for ophthalmology but all the one-stop clinics, patient outcomes will be severely restricted.

Lloyd Melville: Thanks for that. It is particularly worrying that you have had no engagement with the airline about those issues.

Mr McKinnon made a point about engagement. I want to bring in the Shetland Islands Council and ask what engagement you have had with Loganair.

Maggie Sandison (Shetland Islands Council): There was no engagement until after the announcement that flights were going to be cut. We feel quite strongly about the fact that, under the Civil Contingencies Act 2004, transport providers are category 2 responders, and no decisions that impact on the resilience and emergency preparedness of Shetland should have been made without appropriate consultation with the resilience structures. Wider engagement with the Shetland emergency planning forum would have been our expectation, but that was not what we experienced.

Lloyd Melville: Can you outline more of your assessment of the impact?

Maggie Sandison: Yes. In effect, this change cuts off Shetland and Orkney and our access to the Highlands and Islands. A lifeline service has been removed, and it is having an impact on business and commercial activity in Shetland. Although the nature of how our public services are delivered means that the change does not have the impact on our NHS services, the ability to train people for our emergency services is being affected. It also affects some of the structures that Shetland Islands Council delivers jointly with Orkney, such as the valuation joint board; meetings cannot happen in the way that they were planned, so people either have to fly to Aberdeen in order to fly to Orkney or the meetings have to be online. We are seeing an immediate impact, but we are also seeing an associated impact, which is the pressure on an already pressured ferry service—our NorthLink service, which is now really the only link to Orkney during the week. There is already excess demand for that service, and people are seeing increased pressure across NorthLink services.

Lloyd Melville: Thank you. Again, it is very troubling to hear that there was no engagement.

Zen Ghani (Glasgow Cathcart and Pollok) (SNP): I also want to pick up on the wider economic and social impact of the cancellations. Could Maggie Sandison and Martin Joyce comment on that?

Maggie Sandison: On social interaction, Shetland and Orkney are neighbours, and we have families with connections across Orkney and Shetland. It affects our sports teams and our education services, for example. We cluster most public services with our island colleagues, as specialists, and that connection has now been lost. We also have businesses that operate between Shetland and Orkney, and their ability to do business across the two islands is being hampered by the decision.

Martin Joyce: Many residents in the Western Isles do not have easy access or proximity to Stornoway airport. For example, travel from Barra could be a five or six hour journey and require two ferries for that interisland connectivity.

There is already pressure on those residents who require to use the flights, whether it is for healthcare, business, education or employment purposes, or for the reasons that Maggie Sandison set out. There are other barriers to accessing that connectivity. I do not wish to open the conversation up to the wider ferries discussion, but I am sure that the committee is well aware that, in recent months, there has been significant disruption to the ferries in interisland and mainland connectivity. Those are additional hurdles that all residents of the Western Isles face, for whatever reason, when they are accessing essential services. It is important that the scale of the impact is not underestimated in relation to the lifeline services that those types of air connectivity support and the consequences for the wider community in totality.

The Convener: Martin, do you have any examples of where there have been impacts on cultural and sporting events that happen in your

communities over the summer, as a result of the temporary change?

Martin Joyce: Yes. The ferries—I am sorry to mention them again—impact on the connectivity between, say, South Uist and Barra, where there is a lot of engagement with football teams, which suffers as a consequence. Equally, a number of trips abroad—planned by music students, bands, pipe bands and things like that—require that connectivity. Some of those are directly sponsored by the comhairle and some are sponsored through partners here in the island. They are impacted significantly by the inability to travel because of the reduction in those services.

Accessing Stornoway airport can be a challenge in itself for some people in the community, given that it is at the top end of the island chain. People travel in excess of 150 miles, potentially using two ferries, in order to get there. All that creates uncertainty and additional challenge and cost because, then, there is potential for staying extra nights, and that affects all the people who support those types of activities.

Donald MacKinnon: Martin Joyce, there is a large amount of renewables development on the horizon or already taking place in Lewis. Is there a concern that the changes in the flights from Inverness could impact on companies that are based around in Inverness, such as the ones that are involved in the Scottish and Southern Electricity Networks converter station project in Stornoway? I am aware of the projects in Shetland, too. Would Maggie Sandison like to come back in on the impacts that the changes will have on commercial and business travel?

Martin Joyce: That is a key point. We need to ensure that any increase in aviation activity linked to those major infrastructure projects, such as SSEN's own transport requirements, can deliver potential public benefit rather than simply facilitate private charter operations. Before any such arrangements are made, there should be a clear assessment of whether that demand could instead underpin enhanced scheduled services, including the reinstatement of the Inverness connectivity. Using public-sector or regulated-sector expenditure to strengthen open, accessible routes would provide far greater community value than closed-door charter movement would, and could increase the opportunities for alternative operators to enter the market, which would improve resilience and competition in the Highlands and Islands network. That is a key point, which should be explored further.

It is not only SSEN; there are other operators from which we are anticipating somewhere in the region of £7 billion of capital investment coming to the islands in the next five or seven years. That will trigger a demand for significant connectivity enhancements, either flight or ferry, for freight and the transport of goods, people and materials.

10:00

Maggie Sandison: The changes will definitely have an impact on business and commercial activity. Essentially, Orkney and Shetland will have no weekday connection through flights. That will have an impact on contractors and technical personnel being able to travel to Shetland and to Orkney from Shetland, so I am very clear that the situation is causing a business impact for us. We are also seeing cancellations from tourists—some of our businesses have described travellers cancelling their trip to Shetland because of the decision to cancel the connection—so we are clear that this is having an economic impact on Shetland. It is incurring additional costs for businesses, with additional overnight travel costs, accommodation costs and subsistence costs for staff who are having to be away for longer than would be anticipated just because travel has been significantly disrupted.

Zen Ghani: I am quite disappointed to hear the impact that the change is going to have on tourist numbers across the islands this year, especially given that it is right in the middle of summer, which is a peak season for local businesses on the islands. I am keen for you to expand on whether any businesses have outlined if any jobs will be at risk or whether there will be any other impact in relation to the long-term viability of them remaining open as local businesses.

Maggie Sandison: At this stage, I would not be able to say whether it is having an impact on the viability of businesses, but we are aware that people are experiencing cancellations. Shetland is at high demand for visitors, but our travel arrangements are constrained. Our travel is operating under strain already in relation to getting on the ferry or on the flight. As an illustrative fare check, if you were needing to fly tomorrow or next week between Shetland and Orkney through Aberdeen, it would cost £867. Having to add in that leg to go through Aberdeen makes travel uneconomic and I can understand why people are considering not coming to Shetland if that is the route that they have to take.

Martin Joyce: The evidence that we have just now is largely anecdotal, given that the impacts have really yet to be felt. However, certainly some of the feedback that we are getting is that it will have a significant impact on business and people's ability to access their network in terms of that regular travel which they would normally undertake off island. That evidence will start to come through. Again, it took a little bit of time for some of that evidence to manifest itself when we

started experiencing some of the issues with the ferries. We expect that, once the impact is starting to be felt by businesses, we will be able to capture more specifically what that looks like in terms of hard numbers or hard data. However, anecdotally, concerns have already been raised by a range of organisations about the reduction of such connectivity.

The change also restricts the comhairle's ability to access some of the specialist expertise that it requires. In the same way that the NHS brings consultants over, we are often required to bring specialist expertise and consultants over to support some of our activity as a local authority. Again, I suspect that that will impose additional costs on us in terms of our ability to do that and to deliver the services that we have to deliver as an organisation.

Iris Duane (Glasgow) (Green): Thank you so much for joining us today. I, too, share the concern about how the issue is impacting our island communities and our Highlands and Islands communities.

I have a question for Martin Joyce and Maggie Sandison first. There have been a number of suggestions that the routes could be designated as public service obligations—PSOs. Would that be a positive step in the right direction in this case?

Martin Joyce: Yes, I believe so. I think that providing that certainty would be one of the key things around the implementation of that option. I think that that is what people are looking for—they are looking for stability and certainty in the system.

I think that people accept that there is a premium to be paid here. When Loganair visited our transport committee last week, comparisons were made between the cost of flying from Stornoway to Glasgow and the cost of flying from Glasgow to Boston during the world cup, and the prices were broadly similar. Part of it is about Loganair's strategic choices, which are linked to the long-standing public support that it has received, of course. However, I absolutely think that a PSO would provide a degree of certainty that we would all welcome on the islands.

Maggie Sandison: We do not believe that lifeline services should be reliant on a wholly commercial arrangement. We would certainly welcome consideration of a PSO structure or equivalent arrangement, because we have a concern that we are relying on commercial solutions for lifeline links.

Iris Duane: That is fair enough, and thank you for expanding on that. The million pound question, which I put to both Maggie Sandison and Martin Joyce, is: do you believe that enough public funding is available to facilitate that approach, or would further support be required?

Maggie Sandison: We understand that public finances are strained, but we would not be able to find a solution without additional funding to enable it. We know that it is not easy and we understand that, to maintain lifeline links, we might need to accept a change in the regularity of services. However, the cutting of services, such as the weekday services, is just not acceptable. Even an interim solution whereby the reinstatement of some flights was supported through a PSO would be better than having no flights, which is the position that we find ourselves in.

Martin Joyce: The comhairle's position is that lifeline air services cannot be left to short-term negotiations or to the commercial framing of any single operator such as Loganair. We require a stable, nationally-led framework that will ensure both the sustainability of the routes and value for money for the public purse. A balanced, evidence-based approach that protects essential services and connectivity and ensures that public funding is deployed both responsibly and transparently is essential across all the routes that serve all the island locations.

The Convener: Okay. Paul, you heard all of that. Why is that not happening?

Paul Kelsall: At the risk of repeating myself, I note that HIAL provides the infrastructure. We have nothing to do with the PSO process, which is completely outwith our control. The only input that we may have to it would be to discuss opening times et cetera—the airport operational requirements of any PSO tenderer.

The Convener: However, there have been reports that the support that Loganair was looking for was of the order of £1.3 million, and you offered £580,000. You are involved in some commercial discussions in terms of public subsidy. Why are you not looking at all the options? Why is that not within your gift?

Paul Kelsall: The commercial negotiations that we have been through were very much about providing support and giving the discounts, as we do with all the other airline partners. However, any discounts that we offer need to be affordable and sustainable for HIAL, and we work within a finite budget to achieve that.

The Convener: Given that a PSO is under consideration, have you not discussed with the Scottish Government and the other agencies whether, rather than your providing the support in the way that has been outlined—the £580,000—an alternative method could be used?

Paul Kelsall: We have not. As I said, we have no influence over what is a PSO and what is not.

The Convener: It seems that you are working in a silo. Why did you not pick up the phone to the Scottish Government and say, "Look, we're having this problem. Loganair is threatening to pull out. We're offering considerable public subsidy through a publicly-owned company. Surely we should be looking at alternative methods"? Why are you working in a silo?

Paul Kelsall: Again, for fear of repeating myself—

The Convener: No—I understand what you are saying.

Paul Kelsall: We provide the airport services—whether or not a route is a PSO, we still provide that. However, commercial discounts, and commercial negotiations, take place regularly with all other airline partners. We are very much aware of the importance of these flights and the connectivity between the Highlands and Islands, because it affects our people as well. What we cannot do is enter into what would, in effect, be state aid negotiations with a PSO—

The Convener: Yes, but surely you would pick up the phone to the Government minister and say, "We've got a problem here."

Paul Kelsall: I do not have that direct route to the Government minister—I have the sponsor unit.

The Convener: You do not have a direct route to the Government minister? This involves a considerable amount of public funding. Surely you should have that direct route. I would suspect that the minister might be interested—

Paul Kelsall: Not through the commercial negotiations that take place. Those are within our gift, in our business. We discuss commercial negotiations, we offer discounts on those and they are negotiated on that basis. There is a timeline for that.

The Convener: I am sorry to give you a difficult time, but I find that astonishing. You are handling considerable sums of public money. Surely, without breaking any commercial confidences, there is a route directly to Government officials, if not the minister, to say, "We have a problem here and we think you should open up a discussion about an alternative route because of the sums of money involved." Surely that must be a consideration, not just on this route but on all the other routes for which you are responsible.

Paul Kelsall: Yes, we have those conversations with the sponsor unit and that gets fed through.

The Convener: Did that happen in this case?

Paul Kelsall: I am not sure whether it happened in this case.

The Convener: Surely you would know—you are in charge.

Paul Kelsall: Yes. The point is that we are still going through those conversations with Loganair regarding the level of discount that we can offer.

The Convener: So, there is a possibility that this might not happen.

Paul Kelsall: I could not answer that with regard to the suspension of the service. We are currently going through a commercial negotiation process. Once that has been finalised, that is the point at which decisions will be made. Again, that is what we have to do, but any commercial negotiations and offerings that we make through discounts have to be affordable to HIAL.

The Convener: Perhaps I can turn it round the other way. Has the Government minister phoned you?

Paul Kelsall: No.

The Convener: Are you surprised?

Paul Kelsall: Not at this stage, no. As I said, we are still going through those commercial negotiations with Loganair.

Graham Simpson: Mr Kelsall, who is it you report to in Government?

Paul Kelsall: We report to Transport Scotland through the aviation, maritime, freight and canals directorate.

Graham Simpson: Which official specifically would you normally report to?

Paul Kelsall: Sorry—can you repeat that?

Graham Simpson: Is there a particular official that you would normally report to? Who is your boss?

Paul Kelsall: My boss is the chair of the HIAL board.

Graham Simpson: But if you were to pick up the phone to Transport Scotland, which you ultimately report to in Government, who is it that you contact?

Paul Kelsall: I would contact the head of aviation services.

Graham Simpson: Who is that?

Paul Kelsall: That is Stuart Strachan.

Graham Simpson: Have you spoken to Stuart Strachan about this particular situation?

Paul Kelsall: Yes, Stuart is aware of it.

Graham Simpson: You have spoken to Stuart Strachan. What was the nature of that conversation?

Paul Kelsall: The nature of the conversation was that we are in commercial negotiations with Loganair regarding these routes; as yet, we have not finalised those negotiations, and we are working within the realms of our framework agreement to negotiate them.

Graham Simpson: Did you pick up the phone or email Stuart Strachan and say, "Look—we've got an issue here. Loganair is planning to withdraw some routes and it's giving us a bit of a problem." Was that the nature of it?

Paul Kelsall: The nature of the conversation would be that we are entering into commercial negotiations to look at discounts that we can offer Loganair to maintain the viability of these routes.

Graham Simpson: Right. So, what feedback have you had from Stuart Strachan or from Transport Scotland?

Paul Kelsall: Nothing as yet, because we are still in the commercial negotiations phase. We have not made any final decisions.

Graham Simpson: So there was no reaction when you informed Transport Scotland about this. It basically said, "We'll leave it to you."

Paul Kelsall: That is the nature of the business that we do. At that stage, when we are in commercial negotiations on discounts to pricing, we have a level of autonomy.

10:15

Graham Simpson: I must say that I find it a bit astonishing that Transport Scotland appears to be taking a bit of a hands-off approach to this. That is not your fault. That is just my reading of the situation.

You told us that you are in commercial negotiations. What are you actually negotiating?

Paul Kelsall: We are working through Loganair to establish the level of discount that we can offer. Obviously, we cannot subsidise it, because that would become an issue under state aid rules. As with all our airline partners, we have commercial negotiations on discounts on certain airport charges and fees.

Graham Simpson: In essence, those are discounts for Loganair to use the airports for particular flights.

Paul Kelsall: Yes.

Graham Simpson: Can you tell us what the current charges are? I presume that that is a matter of public record.

Paul Kelsall: I do not have the figures to hand, but I can send them to the convener and the committee.

Graham Simpson: Yes, that would be useful.

Martin Joyce: On the suspension of services, as I mentioned, Loganair attended the council's transport committee meeting last week, when it indicated that the services will be withdrawn, as anticipated, and that the aircrew and aircraft will be redeployed to provide other charter services for a time but that, if the funding or the discounts are available to Loganair, as HIAL has intimated, the services could be reinstated from October this year. Therefore, we are looking at an inevitable reduction in the service, at least on a temporary basis until October, at which point, if an agreement can be reached, the services might be reinstated.

That is the information that Loganair gave us about what is happening. It has had to make a commitment to the aircrew and with regard to the use of the aircraft for that period while the services are withdrawn.

Graham Simpson: Did Loganair say where the aircrew and aircraft would be redeployed?

Martin Joyce: I understand that they are perhaps going to be doing some oil-related activity or charter activity. Again, Loganair shrouded a lot of its responses in commercial confidentiality, so it was not very specific about how the aircraft and aircrew were going to be deployed but simply said that it could not allow them to be stationary in Inverness airport, where they are based. It had an opportunity to redeploy them during this period, because of the insufficient funding to maintain the routes that it is planning to withdraw.

Gordon Jamieson: I have a quick comment on the wider impact that was talked about earlier. We are starting to see quite a significant impact on recruitment here. We want people to work, live and stay in the Western Isles. We do flexible working, but we are already starting to see people who are considering employment with us being offered jobs and then not taking them up. There is a much wider impact in addition to the point that Martin Joyce covered, which is that we are very dependent on specialist engineers and technicians for the maintenance and so on of healthcare equipment. We are finding it increasingly difficult just to get those specialists here, so the downtime for equipment is starting to increase. I apologise—I should have brought up that point earlier.

Graham Simpson: Thanks for that, Gordon.

I want to go back to the public service obligations, and this question is for both councils. If these routes were declared as PSO routes, who would you expect to pick up the tab?

Maggie Sandison: I would expect that to be picked up by the Scottish Government. Councils are obviously already having to make choices about delivering our statutory services, because

our grant does not address the scale of the rising costs that we face, so local government expects that the money to meet the costs of additional duties and responsibilities will come from the Scottish Government.

Graham Simpson: I do not know, but I guess that Martin Joyce will probably say the same. Would you say the same, Martin?

Martin Joyce: Yes, I agree with my colleague.

Graham Simpson: I thought that you might. Have there been any discussions with the Government on the matter?

Martin Joyce: No, we have not had any direct discussions at this stage.

Graham Simpson: Why not?

Martin Joyce: It is framed in the context of and part of the discussions that we have been having in relation to wider connectivity issues. Recently, we and Shetland Islands Council were at the Scottish Affairs Committee down in Westminster looking at connectivity in its widest sense: we talked about connectivity being about flights, ferries, fixed links and digital connectivity and about what is required to sustain our island communities. We have ongoing discussions with some of our elected officials—our MPs and MSPs—around some of the really live issues that affect the sustainability and the wider viability of the islands.

We are open to having any of those discussions to see what role we can play and what support we can bring to bear in all that, but there is real pressure on our finances and how we are funded. We have a diminishing population, and our funding over the past 10 or 12 years has been significantly cut in comparison to many other local authorities across Scotland. The pressures continue, for example around the provision of health and social care across the area, which affects us and NHS Western Isles. There is very little wiggle room in our overall budget position to support some of those activities.

As Maggie Sandison outlined, we would expect the Scottish Government to play a part in that, because we think that the answer is not in individual, one-off negotiations around specific lines of connectivity but in the whole picture nationally on wider connectivity—aviation and ferry connectivity need to work together to provide the best possible level of service to each of those remote island communities.

Graham Simpson: I get that, and I am sure that the committee understands it. However, both councils today have described those particular flights as lifeline flights, so there surely is a responsibility on both of you to have contacted, maybe, Paul Kelsall's mate in Transport Scotland, Stuart Strachan, to say, "Look, we have an issue here. Would the Government consider PSOs on these routes?" The councils surely have some kind of responsibility here.

Martin Joyce: There has been engagement. The councillor who leads on the issue—the chair of the transport committee in the council—is in regular contact with colleagues in the Scottish Government and elsewhere around some of those issues. Engagement is happening. However, it is happening perhaps more informally, and we would welcome a more formal discussion and work that considers the matter in totality—a more holistic approach to connectivity across all the affected communities. We would absolutely welcome and play a part in that.

Graham Simpson: Okay. I have taken a bit of time, convener, so thanks for your indulgence.

The Convener: I call Collette Stevenson.

Collette Stevenson: From what we have heard so far, although costs are at the heart of the issue, we are also talking about people's lives. The impact on the economy and health and the social and cultural impacts are significant. We talk about ferries, rail and bus, but should we also say that these flights are essential to the island dwellers and all the other people who are involved? I am happy for whoever to come in on that.

The Convener: Do you want to pick somebody, Colette?

Collette Stevenson: I will pick Maggie Sandison first, thanks.

Maggie Sandison: The Scottish Government absolutely has a role in relation to the national response to transport. We see that with other services, such as rail services. The council does not have all the information. A commercial operator can share so much information, but we do not have full details of the basis or conditions of HIAL's support and we do not have the levers to enable more support, whereas we believe that Scottish ministers and the Scottish Government have the capacity to facilitate the conversation and help us to find solutions.

I am not saying that we do not want to be part of that conversation, but this is about the Government governing for the whole of Scotland and not forgetting the importance of islands. The links that we are discussing are our transport links, just as rail services are transport links on the mainland. I therefore believe that the solution is through collective action. The council has a role in that, but we do not have all the levers and we certainly do not have the finances to solve the problem that we have found.

This is not just about the links between Shetland, Orkney and Inverness. This is about our lifeline air services, and a bigger policy consideration is needed that looks beyond just the reduction of a few flights that we are seeing at the moment. A significant impact is being felt because of those, but it actually highlights how fragile our connections are and the need for real consideration of lifeline services as part of the work that the Government does to support services to islands, which contribute a lot to the Scottish economy.

Martin Joyce: I completely agree with everything that Maggie Sandison has just said. There is absolutely a role for all parties to come together to find joint solutions, but this is a national issue, and national leadership is required to resolve it.

If I may touch on a previous point about political engagement, I have just been reminded that the chair of our transport committee and the leader of the council raised this very issue with the Cabinet Secretary for Economy, Tourism and Transport, Mr Flynn, when he visited the Uists quite recently, so there has been engagement at that level with the Scottish Government.

I return to the point that we are definitely part of the solution but we cannot drive what the solution needs to be. We need all the parties to come together in a whole-system approach to resolve the issue for all the fragile communities.

Donald MacKinnon: I want to go back to the discussion about HIAL, because some of the lines of communication between it and the Scottish Government are quite concerning. Maybe we can delve into that in more detail, but first I want to pick up on the point about charges.

Mr Kelsall, will you explain how HIAL's landing charges compare with industry standards and the charges of other airports around the country, including comparable regional airports? What is the main driver of your charges? Are there ways in which they could be reduced, beyond what we have talked about and the commercial discussions that you have outlined?

Paul Kelsall: Our charges are made up of landing charges, passenger charges and navigation charges. We do not have the same scale as, for example, Glasgow or Edinburgh airports, given the traffic and footfall that they have going through. Some of our airports have only two or four flights a day. However, if we compare our charges on a like-for-like basis, they are on a par with those of the airport on the Isle of Man, for example.

We are very aware of the need to control our costs. We are making every effort that we can make to increase our revenue and reduce our cost base, as any business does, especially against the backdrop of the financial challenges in the Scottish Government, and we are trying to work through that as we move into the future.

A key point to highlight is that, for a PSO route, we have to charge the advertised and published rates because, otherwise, there would be a potential subsidy control issue. As I said, we have negotiations with airline partners, and what falls out of those negotiations are the levels of discount to particular partners.

10:30

Lloyd Melville: I want to come back in on the back of Collette Stevenson's question and the points that Maggie Sandison and Martin Joyce made around the need for a wider discussion about Highlands and Islands connectivity. I would probably agree that that is needed.

There certainly seem to be countries, particularly in Europe, that do this far, far better than we do, and we need only to look north to the Faroe Islands to see an example of that. When it comes to future engagement with the Government and the private sector, should there be a role for international comparators and looking at the different models that different countries have in place for island connectivity, given that they seem to do it better and have better outcomes than we do?

I am happy for either Maggie or Martin to pick that one up.

Martin Joyce: That was actually part of the conversation with Loganair last week. Loganair indicated that there are a number of countries—Sweden, I think, was one example that it gave—whereby there is cross-subsidy across their aviation industry to support and underpin some of these less economically advantageous routes. The Government works with the private operators to ensure that a de minimis level of funding goes into some of these lifeline services.

Where you have the scale and the mass of visits through the main airports, which for us would be Glasgow and Edinburgh airports, there is a cross-subsidy element by the Government to support some of those wider provisions of transport connectivity, whereas what we seem to have is a series of reactive route-by-route decisions, where connectivity has been eroded over a number of years through reduced frequencies, poor timetables, loss of same-day return opportunities, and increases in fares, for example. Although some support comes through the air discount scheme, for example, again, the opportunities are fairly limited in terms of people's ability to access that.

As I have said previously, a whole-system approach to looking at the issue nationally would be the way to try and resolve it, rather than stumbling on from one crisis to the next as these issues unfold—recognising, of course, that we are dealing with a single commercial operator at this point in time and there is no competition within that market.

The Convener: Gillian would like to come in on this point as well.

Gillian McCannon: I am very conscious of the timeframe now but I will just give a few summations from an NHS point of view, if that would help. Part of my strategic role as chair of the NHS board is about looking at the services we provide and whether they are equitable and fair to the population that we serve.

We should not underestimate the impact of the removal of the service, even for a short time, in terms of the following. First, there is the financial impact. We have given an overview estimate of what the additional costs may be but the costs could be well above what we have projected. For me, one of the greatest risks is around patient safety and patient outcomes. As one of your colleagues commented earlier, at the end of the day, this is about people, and we have to make sure that we can provide the service for them.

I know—anecdotally, I have to say—that there are people who will not go for treatment and will not go for out-patient appointments because of how long they will be away, and that is a real risk for those people. That relates to the Scottish Government's goal to improve population health, which the health board has a strategic alignment to.

There are issues around service sustainability and collaborative working which need to be factored in. We have very good relationships with NHS Highland, and any diminution of those will cause major issues for us as a sustainable service.

Finally, as someone who lives on the island—I have lived on the islands nearly all my life—the issue is about depopulation. As Gordon Jamieson mentioned earlier, the recruitment and retention of staff is very complicated. The issue, for us, is about people being allowed to live and enjoy living in an island situation with are least some equitable service provision, with regard to the services that we provide locally and those that are provided collaboratively with our mainland colleagues.

I would make a plea for recognition that although the change has been made for only a short period of time, the fact that there has been no negotiation regarding the impact is really quite disconcerting for me as a board chair. Thank you for giving me the opportunity to make those points at the end of the session.

The Convener: I am going to give the final word to Shetland, which is as it should be. Maggie Sandison, would you like to come in?

Maggie Sandison: Thank you. I would want our experience to be seen as part of a wider pattern of a cycle of erosion and decline in our air services. Ever since Covid, really, we have seen a reduction in the frequency and usefulness of all of our timetables. We have seen fares increase, which causes the service to become less attractive and less practical. People travel less because they cannot afford to travel and the routes work less well for individuals, so then the usage drops. That drop in usage is then used as a reason for further reductions in the delivery of the service, so we see this as being a pattern of managed decline—although, at this moment, it feels unmanaged.

When we look back and see that cycle being repeated again and again, it feels to us that our islands are being treated as though we are not contributing to Scotland, that we are not part of Scotland, and that those lifeline links are not being valued by other people. Our concern is, if we accept this, what happens next? People will be able to do it again and again and our services will continue to decline.

The Convener: I thank all the panellists for being so helpful in relation to understanding the issues this morning, and I thank you for joining us. I suspend the meeting so that we can prepare for the second panel.

10:36

Meeting suspended.

10:40

On resuming—

The Convener: Welcome back. We move to our second panel. From Loganair, we have Ronnie Matheson, who is the chief commercial officer, and Simon McNamara, who is the head of corporate and government affairs. We are also joined by my friend Liam McArthur, who represents the Orkney Islands and who will ask questions at the end.

I invite Ronnie Matheson to make a short opening statement.

Ronnie Matheson (Loganair): Thank you for the opportunity to address the committee. We are grateful to be here and want to be as open and as helpful as we possibly can. I will explain what has happened with our routes out of Inverness and why we have taken those decisions. I will then set out how we engaged with affected communities and elected representatives, after which I will say

something about what we have done to support our affected passengers.

From 20 July, Loganair is reducing services on the Inverness to Stornoway route to one flight per weekday, and it is stopping its weekday service from Inverness to Shetland and Orkney, which will operate at weekends only. That is a temporary reduction, and the routes are back on sale from October. However, the restart is dependent on bridging funding being found, which I will explain in a moment.

It is important to say up front that we are not stepping back from those communities. Every other Loganair route across the Highlands and Islands continues to operate as planned, including the Aberdeen, Glasgow and Edinburgh services.

I will explain why we have taken the decision. It is not a decision that we wanted to make, and it has not been made lightly. Everyone at Loganair who has been involved in getting to this point knows how much is at stake for the people who use the service, and we are grateful for the opportunity to set out some of the reasons to the committee, as there is an important point of principle.

Loganair is a private company, and these routes have been loss making for a sustained period. We have absorbed the losses without public subsidy, because we understand that the routes matter to the community that they serve.

However, the position has deteriorated sharply in the past 12 months. Aviation fuel prices have increased significantly, and, particularly for routes such as these in the short-haul sector—with high take-off and landing counts on smaller aircraft—fuel is a significant part of the cost base.

Maintenance costs have also risen significantly, and airport charges at HIAL airports are structurally higher per passenger than at any other United Kingdom airport. All that is combined with a softening of demand, which is being felt across the industry as aviation goes through one of its most difficult periods in recent memory, and we are not immune to that. With four UK airlines entering administration in the past nine months, we have a responsibility to protect the wider network on which hundreds of thousands of people across Scotland depend. That responsibility weighed heavily on us in reaching this decision.

I also want to be crystal clear about one thing that sometimes gets lost in the debate. The Inverness to Stornoway and Inverness–Kirkwall–Sumburgh routes carry no public subsidy whatsoever. They are not public service obligation routes, and they have no protected status or direct Government support of any kind.

The air discount scheme helps passengers with the cost of fares, and we support it, but it does not contribute to route operating costs. By contrast, the ferry network receives sustained public investment as a matter of course and is treated as essential infrastructure. The same principle—that lifeline connections require public backing when they cannot survive commercially—has simply not been applied to aviation in Scotland.

We have not suddenly arrived at this point. We began formal discussions with HIAL's commercial team and Transport Scotland in December 2025. Those conversations have been genuine and we remain fully committed to them. What has been offered so far does not bridge the gap, but our position is clear: if the right funding arrangement can be agreed, we are ready to restore and run the full timetable from October 2026.

10:45

When we knew that we had to act, we made a deliberate decision to engage directly with elected representatives and key partners before the public announcement. We briefed the MPs and MSPs who represent Orkney, Shetland and the Western Isles, the Cabinet Secretary for Economy, Tourism and Transport, the affected local councils and the NHS, and we have since held follow-up meetings with several of those stakeholders. We felt that we owed it to the affected communities to directly explain our position rather than leave elected representatives to find out through the media.

We have worked hard to mitigate the disruption and impact on passengers. Every customer with a booking on an affected service has been contacted directly and offered a full refund or the option to rebook on to an alternative service. NHS patients who are travelling for medical appointments are a particular priority, and we are working closely with NHS boards to ensure that patients with confirmed appointments are individually supported.

What we are facing on those routes is not a Loganair problem in isolation; it is a symptom of a structural gap in policy. There is no long-term framework in the UK for protecting air services that communities depend on but that cannot survive on commercial revenues alone. Several European countries have addressed that issue through strategies and long-term public commitments to regional connectivity, but the UK and Scotland lack a comparable framework. Without such a framework, what has happened here will happen again—on these routes or on others.

We are ready to be part of solving that problem. In the immediate term, we are asking for a Government-backed funding solution that will allow the routes to continue in full from October. In

the longer term, we would welcome the committee's support in pressing the Scottish Government to develop a proper strategic framework for lifeline air connectivity that gives communities, airlines and airports the certainty that they need.

I am happy to take questions.

The Convener: Thank you, Mr Matheson. I will pick up on two of your remarks before I hand over to Mr MacKinnon. You said that you are not stepping back and that NHS patients are your priority, but both those statements are wrong, are they not? You are stepping back—at the very least, you are not providing the service over the summer—and NHS patients are not a priority; they are being deprioritised.

Ronnie Matheson: As I said in my statement, we gave as much notice as we possibly could. We have been left in a position in which we are unable to fulfil flights. We have alternative routes available, but I appreciate that those do not suit everybody. We are working as closely as we can with people in the affected organisations to try to mitigate much of the pain and difficulty that they will face.

The Convener: Those two statements are still incorrect.

Ronnie Matheson: We are stepping back from loss-making routes. We still have alternative routes available out of Stornoway, Orkney and—

The Convener: At an extraordinary cost—you could fly to America and back twice for the same amount. It is just astonishing.

Ronnie Matheson: As I outlined, there are ever-increasing costs, and lower demand for those routes are driving up the cost of flying them. Airport and fuel charges are expensive, and maintenance costs have increased as well. Regional aviation is in a low-demand, thin-end-of-the-wedge network, and the pricing that you mentioned unfortunately reflects the cost base and challenges that regional aviation faces.

The Convener: Would you like to reflect on those two remarks about not stepping back and NHS patients being the priority? Those were particularly striking remarks.

Ronnie Matheson: Again, as I have outlined, the routes have been loss making for a long period. We could have stepped back from those routes many years ago, but we carried on making losses on them. However, it has got to the point at which it is completely unsustainable for us to continue flying those routes. As I said, although we are stepping back from those routes, we are not stepping back from Orkney, Shetland and Stornoway as a whole.

Donald MacKinnon: I will pick up the point about price. I checked the price of a return flight tomorrow from Stornoway to Inverness—from 20 July, there will no longer be the option to make that journey as a same-day return—and the cost was £403 without the air discount scheme.

Will you explain the high price of tickets on that route, and will you advise whether Loganair understands why many islanders view the current pricing structure as a contributing factor in making the route unattractive? The high price of tickets is not unique to that route—it is the case across the network—and it is ultimately undermining the viability of the service.

Ronnie Matheson: I go back to my earlier point about costs. There is an ever-increasing cost base. I have mentioned maintenance costs in particular, and the cost of aviation fuel has risen significantly. The Inverness to Stornoway route operates in a particularly thin-demand environment: in some cases, only 20 per cent of our seats may be filled on a flight. We have to cover, or attempt to cover, the cost of operating that aircraft. There are aircraft and crew costs to be covered on that route, as on all routes. When demand is thin, prices must attempt to cover, or at least contribute to, the cost of operating the service. That is what drives the cost.

I completely appreciate your point. Simon McNamara and I were in Stornoway last week, and I listened to the feedback from the transport committee up there. I completely understand the views and comparisons around the costs of longer-haul flying, but it is a simple economic fact that we need to cover costs. We have a very thin demand on these particular routes, and that drives the pricing.

Donald MacKinnon: On the point about demand, do you appreciate that there is a relationship between the price that you are charging for tickets and how many seats you will fill?

Ronnie Matheson: Absolutely.

Donald MacKinnon: Are you confident that you have the balance right?

Ronnie Matheson: There is room for improvement but, to be clear, that will not drop prices down to the level of low-cost carrier flights from Glasgow to London, for example. The market size drives the pricing structure for particular flights. Demand is the key consideration here. We are talking about seriously thin markets, and that is driving the price point.

Donald MacKinnon: You are accepting that there could be room for improvement. If you have not got it right at the moment, why is that the case?

Ronnie Matheson: I am definitely not saying that we have not got it right; I am saying that we could potentially make some changes to pricing. However, to manage the expectation here, it is not about dropping or drastically reducing prices. We still have a very high cost base on these particular routes that we must cover.

On your point about demand and price, let us roll back around nine years, when Flybe was still operating and competition was introduced across the islands. That did not change demand levels in the islands. In fact, both Loganair and Flybe ended up losing a considerable amount of money, because pricing was slashed and there was no increase in demand. There are balances to be made, for sure, but, to manage expectations, I would say that it is not a matter of cutting or slashing prices.

Donald MacKinnon: I remember that time, and I remember how cheap flights were. I think that there was a wide understanding that that was not a sustainable position.

Ronnie Matheson: Yes—absolutely.

Donald MacKinnon: We should all consider the important point that introducing competition on these routes—

Ronnie Matheson: It is not the answer.

Donald MacKinnon: It is not viable. That is why we probably need other solutions.

You talked a bit about cost base and said that only 20 per cent of seats were filled on some services. What consideration have you given to using alternative aircraft? Is that a factor in the costs of running the service? Some quite large aircraft are operating on that service.

Ronnie Matheson: There is a mix of aircraft in the Loganair fleet. We continually consider various fleet options in the marketplace. A smaller ATR aircraft operates the route from Inverness. It has around 46 seats. The Embraer jet operating out of Glasgow has around 49 seats. There are aircraft operating from Edinburgh and Aberdeen with around 72 seats.

Where possible, we try to match the fleet to demand. However, to go back to the earlier point about cost base and planning for crewing, we deploy an aircraft in each of those bases and try to use the one that best fits demand across all the routes that it operates, not just those into the islands.

Donald MacKinnon: What about smaller aircraft—Twin Otter aircraft, for example?

Ronnie Matheson: We have Twin Otter aircraft in Glasgow. Two of them are owned by the Scottish Government and they operate the PSO routes. Smaller aircraft are scarce at the moment, so we cannot readily go out, pick them up and introduce them into our fleet. We also must be careful that we do not bring any more costs, driven by complexity, into the business. We have chosen ATR aircraft as our main aircraft along with our E-jets so we continue to focus on building the network on those.

Donald MacKinnon: I could go on, but I will stop there.

The Convener: How much does the air discount scheme affect price? Do you think that you can get away with higher prices because you have a discount scheme that makes it affordable for a large proportion of your customers?

Ronnie Matheson: Absolutely not. The pricing that we put into the marketplace reflects the level that we need to cover our costs. The customer receives a 50 per cent discount but, at the end of the day, we have to recover the remaining 50 per cent from the Scottish Government. That all comes back into our financial performance for that route. As I said in my opening statement, there is no additional benefit to us from that in offsetting operational costs; it is purely a passenger convenience.

Lloyd Melville: Before I turn to my main thrust of questioning, I will pick up a point about fuel costs that you made in your opening statement. Will you outline the scale of the fuel costs to the committee?

Ronnie Matheson: At their peak, aviation fuel costs almost doubled. We have seen significant increases in the futures market. We have a hedging programme but not everything is hedged—no one would be 100 per cent hedged—so we are still exposed to the volatility of spot pricing for a portion of our fuel.

Lloyd Melville: I can see on page 3 of your accounts, on fuel and carbon price risk, that you enter into forward contracts to try to mitigate the price of fuel.

Ronnie Matheson: Yes, that is hedging.

Lloyd Melville: The scale of the mitigation means that it cannot all be covered.

Ronnie Matheson: Correct.

Lloyd Melville: Has that limited your exposure?

Ronnie Matheson: Absolutely. It certainly has. Before the conflict broke out in the middle east at the end of February, we had around 50 per cent of our fuel hedged for the year ahead. We managed to take on a little bit more hedging just as the conflict broke out, but the price soon rose significantly, to the point at which hedging would

be a disadvantage for us. Although hedging has helped, it has not left us fully covered.

Lloyd Melville: What will the aircraft that would have been used for the weekday flights that you are cutting do instead?

Ronnie Matheson: That was raised in the earlier meeting. We have an aircraft in Inverness that operates the Inverness to Stornoway and Inverness to Kirkwall and Sumburgh services. We have made the decision to remove those flights from 20 July, as we outlined. We have a crew, the aircraft and the engineering compliment based in Inverness, all of which attract fixed overheads that we carry. As a business, we have to plan what we will do with that aircraft. We cannot have it sat on the ground doing nothing from 20 July. We have to utilise it elsewhere in the network. We have crew that we have to fly and costs that we have to cover, so it is imperative that the aircraft is utilised, as it is for any other airline.

11:00

Lloyd Melville: So what will it be doing? Where will it be going?

Ronnie Matheson: As I outlined earlier—and we spoke about it last week—it will be flying a charter programme from Aberdeen. Again, as I outlined, we have to use that aircraft and its use has no bearing or impact on the loss-making position of these routes. It is more that we have to use that aircraft so that we are not spending money on an aircraft and crew that are sat on the ground.

Lloyd Melville: Is your position that your new charter is far more profitable for you than the previous routes were?

Ronnie Matheson: I am not going to go into the commercial details of—

Lloyd Melville: I do not need to know numbers. I am looking for a yes or no answer—is it more profitable?

Ronnie Matheson: It is more profitable than leaving the aircraft on the ground. That is the key point. We have various options around utilising other aircraft and other crew bases. However, we have made this decision because we have not received the funding that we require for that particular route. The decision has been made to take that aircraft out of those routes. We could have looked at other aircraft and other bases to operate the charter from. However, that gap is now there. We are going to use that crew and that aircraft. It has absolutely nothing to do with the profitability and financial performance of Stornoway, Kirkwall and Sumburgh services from Inverness.

Lloyd Melville: Looking at the wider context, your multiyear contract for transporting energy workers was announced on 30 April; on 1 June, you launched a new route to Paris; and on 20 June, you launched a new flight to Bordeaux. If I were an islander seeing lifeline services being reduced in that context—at the same time as you are expanding your services overseas and announcing that you now have a contract for energy workers—I would be pretty angry. Do you understand why island communities feel so strongly about this issue, when you have reported rather large profits in your most recent accounts?

Ronnie Matheson: I will come back to the profit piece in a second. On the context of the Jersey routes going to Paris and Bordeaux, we stepped into Jersey in November last year, following the liquidation of the Blue Islands airline in Jersey, which is one of the regional airlines that has collapsed under financial pressures. We launched those routes earlier this year and started selling tickets for travel to Paris at the end of May, and to Bordeaux on 19 June. I can see how the removal of services to Stornoway, Inverness, Kirkwall and Sumburgh is being linked to the base opening in Jersey and the new route launch in Jersey, but they are completely separate scenarios that are playing out. We launched the base in Jersey in November, as I said, and the routes have been pre-planned since then. It is a new market for us and we have stepped in to launch those particular routes. Again, that is completely decoupled from the decision around the flights from Inverness to Stornoway, Kirkwall and Sumburgh. I completely accept why people in the islands are looking at the fact that we have taken those services out and then launched a route in Jersey, but I want to be clear to the committee that those are two separate events that are completely decoupled from each other.

I will make a point on profitability and re-emphasise the fragility of the sector. Earlier, Maggie Sandison spoke about the financial viability of private services. It is in everybody's interest that Loganair remains financially profitable and sustainable. Yes, profits are being made, but I emphasise that we operate at a margin of less than 4 per cent. On a turnover of around £250 million-plus, a 4 per cent profit is marginal and really thin. It does not take many shocks for us to erode that 4 per cent and then find ourselves in a negative financial position all of a sudden. I emphasise the fragility of the regional aviation sector: four UK airlines disappearing in the past nine months really highlights that point.

The Convener: We get that—we understand how fragile the sector is, given the volatility of fuel costs, passenger behaviour in the post-Covid period and so on. However, we are focusing on the

short term and the decisions that you have taken at short notice. We are questioning them because we are worried about what could come next. Surely, the situation is the other way around from the way in which you have presented it, by which I mean that you saw a charter opportunity and took this service out on a temporary basis. Otherwise, why would you put it back up in October?

Ronnie Matheson: No, that is not the case. Again, I appreciate the optics of the situation, but that is definitely not the case.

As I said, we have been in discussions on these particular routes—Inverness to Stornoway and Inverness to Kirkwall and Sumburgh—since the tail end of last year. In fact, over the past few years, we have been in discussion with HIAL on various support packages for the Inverness to Stornoway route, because, as I outlined, it is a loss-making service for us.

However, on your point around the charter service, again, I do not want to go into all the details but we have had the charter service in the pipeline for a number of months.

The Convener: When were you offered the opportunity to run that service?

Ronnie Matheson: Again, I will not go into the finer details—

The Convener: You have given us some details, though.

Ronnie Matheson: It was around the start of the year. As I say, we have had a number of different—

The Convener: So, the charter opportunity was not sought when it was announced that you were suspending the service. It was well before that.

Ronnie Matheson: Exactly.

The Convener: I am sorry to be particular about this, but it is important to ensure that the island communities can have confidence in the position. That means that the order of events was not as you set it out in the chronology that you gave us, which was that you suspended the service and then looked for another opportunity. The other opportunity was already there.

Ronnie Matheson: Yes, absolutely.

The Convener: Okay. So, is there a possibility that you could have actually suspended the charter operation in order to continue the service? Was that ever a possibility?

Ronnie Matheson: I do not think that that was ever a question: the charter service was happening regardless. Again, I just want to emphasise the point that, although, optically, the two look like they are linked, they are completely decoupled. We would have to operate that charter service from Aberdeen using the new aircraft that we have just got into the fleet, depending on crew rostering, fleet availability, maintenance requirements and so on—a number of jigsaw pieces need to fall into place in order for a service to be operated. In this case, we had other options for the operation of that service. However, we have now taken the decision to come out of those routes, as I have already outlined. That has created a gap in that particular aircraft's flying time and in the crew resource, as well. As I said, that represents an overhead. We do not want to have crew and aircraft sitting on the ground, so we have chosen to use them on that particular service.

The Convener: Okay. I will bring in Zen Ghani.

Zen Ghani: What consultation did you undertake with the island communities prior to making a decision to cancel the flights?

Ronnie Matheson: As I outlined, we wrote to the communities that would be impacted, but that was admittedly after the decision had been made. Again, I reiterate that this is a private company, and, in commercial discussions with HIAL, we have outlined what could possibly happen if we could not reach the funding level that was required. As I outlined, we did not get to those numbers, so we took the decision to cancel the flights.

We have undertaken as much stakeholder engagement as possible since the announcement was made public, and we did so before that time, too. We engaged with the NHS teams in all affected areas as soon as we wrote to MSPs and MPs. That was the extent of the engagement.

Zen Ghani: So, you are essentially saying that you made a decision and then told the community, rather than speaking to the community first, understanding what their views were, and maybe running an awareness-raising campaign to increase the use of those services before making a decision to cancel flights. To go back to what was mentioned earlier, that was a prioritisation of profit rather than of maintaining the links that those communities consider vital.

Ronnie Matheson: I will let Simon McNamara take that one.

Simon McNamara (Loganair): I will let Ronnie have a break from speaking.

On that point—and hopefully we will move on to a point of policy soon—let us cut straight to the chase. We are losing £1.3 million on this route—that number is out there. We are a commercial company. We have to make decisions to maintain the financial viability of the business, and we have made those decisions. As soon as that commercial decision was made, we went out and consulted the MSPs of the affected regions, the MPs of the

affected regions—although I know that that is not relevant here—Orkney Islands Council, Shetland Islands Council, Western Isles Council, Highlands and Islands Transport Partnership, ZetTrans, and Transport Scotland. It is very unusual for a commercial company—or, I would hasten to add, for any airline in the UK—to do that, because they are commercial entities. However, we felt that the right thing to do was to go and talk to those entities. We have since been out and about, talking and explaining.

The fundamental issue here is that the UK has a very bad policy framework on supporting and understanding how regional aviation works. That was touched on earlier. It is very different to any other country in Europe. I have had the privilege of working in regional aviation for almost 30 years, and I have seen how other countries do it. It is very different. Instead of getting bogged down in issues of why some fares are higher than others we should look at that policy framework, which is the problem that needs to be solved here.

Zen Ghani: You mentioned earlier that the route has not been very profitable for quite some time. What steps have you taken over the years to try to increase the number of passengers on the route?

Ronnie Matheson: As I said, we have been in discussions with HIAL over the years around looking at commercial discounts on the route, which we could then build into our fare structures moving forward. It is important to point out that, although there are fares for flights tomorrow quoted at £600 or £700, there are fares on the marketplace for flights well in advance that are around £130 or £140. Part of the revenue management process that we go through is to try to offer lower fares to the market for people who can book earlier. At the later end of the market, the fares are higher. We have added those fare structures in.

We have also added in more capacity over the years and have supported the Inverness to Stornoway route to drive lower fares into the marketplace and to drive passenger demand. However, as I outlined earlier, the demand variables on these routes are very thin. You do not get a stimulation of demand like you would in larger metropolitan areas such as Glasgow or London by adding capacity on to flights.

There are balances to be struck, but it goes without saying that there have been efforts to drive demand where we possibly can.

Zen Ghani: Would it not have been beneficial to tell communities that the route was at risk prior to making a decision, so that they could potentially start using the service more to try to save it before you cancelled it?

Ronnie Matheson: As Simon McNamara outlined, from a business point of view, for a private company, it is not normal to go out to consult the market. Again, we did not take the decision lightly. However, after a number of years of operating these flights, we have seen sustained load factors—as I say, less than 40 per cent of seats on the flights are being sold. There have been opportunities for people to use the services, but we have just not seen that come through.

Simon McNamara: On that point, the engagement that we have had is part of that. We were out in the Western Isles last week, so we are engaging now. On the point about whether we should have done it before, that is very difficult to do as a commercial entity.

We are trying to be as transparent as we can and we are sharing quite a lot of commercial data and engaging at forums such as this, which we could easily say that we will not do; although we have made the decision, it shows that we genuinely care about those routes. Loganair has been doing this for 60 years, so we do not take the matter lightly. We knew that the decision would have serious consequences for communities, which is why we are engaging, discussing and trying to find a solution.

There are some issues here, one of which is the short-term funding gap. The number is out there: it is £1.3 million. It is somewhat ironic that, in the week when we announced our decision, Transport Scotland announced £850 million for the northern isles ferry contract and £85 million a year for routes to Shetland and Orkney, with a big public relations campaign, yet here we are, talking about a £1.3 million funding gap for some routes. There is a mismatch in how those things are approached from a Government and policy point of view, and we should look to correct that in the medium and long term.

11:15

Lloyd Melville: I completely appreciate that engagement of that type prior to a decision is not a normal thing for a commercial company to do, but I agree with the point that Mr Ghani made about the fact that it would have given the communities more time to look at those services—indeed, I put it to you that those are not normal routes but lifeline services for those communities.

You talked about a funding model. You would surely agree that advising and engaging with HIAL and the Government earlier, prior to the decision being made, would have given them more time to work with you on a solution.

Simon McNamara: We have been engaging; we first talked about having those conversations with HIAL at the tail end of last year. Those

conversations were and have been going on for many months with both the Scottish Government and HIAL as a Government-owned entity to see whether that gap could be closed. We would not want to not play out that debate in public because the last thing that we want to do is to undermine people's confidence in routes. What would it do to consumer confidence if the media were to expose discussions on routes, by saying, "This route is at risk"? We know from other markets that, ironically, that reduces bookings, because people think, "I'll not trust that because there's a big debate going on."

Lloyd Melville: The other thing that undermines consumer confidence is finding out about a decision after it has already been made. In particular, I was deeply troubled by what we heard from the NHS representatives, which was that they discovered in writing that the decision had been made. The convener has spoken about your contention that NHS patients would be the priority, but if that really were the case, my expectation would be that you would at least properly engage with the affected NHS boards before you reached a decision that could impact on patient outcomes. Do you accept that?

Simon McNamara: There was an internal discussion about when to start engaging and telling people about a decision that had not yet been taken. Although I accept that we did not do so beforehand, we have gone out of our way since the decision was made to try to engage and meet with the NHS face to face, which we have done—we were in Stornoway last week to do so.

I completely accept your point that we could have done so earlier, but we have done it since as best as we can to explain to those people why we arrived at that decision and to make it really clear that we believe that the solution to the issue does not rest with Loganair but with the Scottish Government and HIAL providing that bridge financing. We have been trying to explain to stakeholders that there is a responsibility between us and the Scottish Government to fix the issue.

Lloyd Melville: Thank you for your indulgence, convener. Mr McNamara, you have just said that you accept that you could have done more earlier to engage particularly with the NHS and affected communities. Will your approach be different for future changes? Will you engage, explain the scale of the problem that you have and ask how you could make the situation work?

Simon McNamara: I will come back to that. We absolutely want to fix a short-term problem on some routes out of Inverness, but we also absolutely have to fix a wider policy problem in Scotland and the UK so that this situation does not happen again.

That is a really important point that we must not miss. The impacts on communities are huge, but we must not lose sight of the fact that, in the long term, as Ronnie Matheson mentioned in his statement, this could happen again—although not at the moment, I hasten to add: I make it really clear on the record that there is no risk to any other Highlands and Islands routes. However, in the future, this could happen again on a route that becomes marginal, because the industry goes through cycles and shocks.

The reality is that we do not have a strategy in the United Kingdom and Scotland for regional connectivity by air, which is a massive gap for this country. That applies in Scotland and at Westminster. In comparison, Norway has a 12-year forward-looking strategy for connectivity by air. It has a huge network of routes that are supported by the Government one way or another and by a commercial operator. Those work in harmony, side by side. Norway has a Government department that stands up and proudly says that it is there to connect communities by air because it recognises how important that is, and it has a commercial partner that it works with to deliver that.

In this country, we should be having a debate about how we get to a place where the UK and Scotland are in a much better forward-looking position, just like the situation in Sweden, the Azores, the Greek islands, Iceland and Greenland—but not here.

Graham Simpson: I am just writing down all those countries—

The Convener: We are not going to them. [*Laughter.*]

Graham Simpson: We will not. It feels like there should be a committee visit.

I promise Simon McNamara that I will come back to the policy discussion, because it is important, but first, I will deal with the short term and the figures. You said that these routes out of Inverness lose £1.3 million. Over what period of time is that?

Ronnie Matheson: That is over a year.

Graham Simpson: In order to solve that, are you looking for £1.3 million?

Ronnie Matheson: Yes, that is it. Just to be clear, that would not turn a profit for Loganair; it would allow us to cover the costs and continue to operate those flights. We are not looking to benefit from this; we are looking to cover our costs for operating those routes. That highlights our commitment to the communities.

Graham Simpson: How could that £1.3 million be made up? Could it be a combination of direct

money from the Government, reduced landing fees through HIAL and that kind of thing?

Ronnie Matheson: Yes, exactly. It could be discounts through HIAL. As Paul Kelsall outlined earlier, we have been discussing that with him and his team. There could also be further Scottish Government funding, which we need to consider, and it is what we are appealing for in coming to the committee. At the moment, the discussions are with HIAL; we are trying to understand what it can do.

Graham Simpson: I must say that there is no use in appealing to the committee for money—we have not got any. I am sorry.

Ronnie Matheson: I meant to say "support"—I am sorry.

Graham Simpson: I was thinking of flying to Shetland later this year and, looking at the prices, I have barely got the money for that. [*Interruption*.] I can confirm to Ms Stevenson that they are very expensive.

Loganair thinks that this money should come from the Government—because HIAL is part of the Government.

Ronnie Matheson: Yes.

Graham Simpson: I presume that you have had discussions with the Government.

Ronnie Matheson: We have spoken to HIAL and Transport Scotland, and we are trying to get in front of the cabinet secretary at some point during July, so the matter has been raised.

Simon McNamara: We absolutely have raised the matter with Transport Scotland, and we have been in discussions with the cabinet secretary. We are fixing a date to meet to discuss this with him.

Graham Simpson: So you have had discussions with the cabinet secretary.

Simon McNamara: We have not had verbal discussions, but we have exchanged communications with his office, and he has come back to us and offered some dates to meet.

Graham Simpson: Ultimately, if the Government does not come up with this money, what happens?

Ronnie Matheson: As we have outlined, the routes would be completely unsustainable and we would have to take them off sale from October onwards.

Graham Simpson: They would just cease to exist.

Ronnie Matheson: Yes.

Graham Simpson: At what point do you need to make that decision?

Ronnie Matheson: As soon as we possibly can. However, we are aware that there will be a long tail of discussions. For clarity—so that we can let everyone know—ideally, we would want to resolve the issue in the August to September period, which would allow the routes to continue from October. As I said in my opening statement, tickets on those routes are on sale at the moment. We remain optimistic that some kind of solution will be found and that we will be able to continue to operate the routes as planned.

Graham Simpson: It is over to you, Mr McNamara. You mentioned the Norway model, but you reeled off a load of other countries that are doing forward planning, joined-up thinking and so on. What other models are out there that we might want to look at?

Simon McNamara: If I was in your shoes, I would look at all those countries. I would start with Norway, because it is a shining example of how Government and private operators can work together on routes that are not financially viable. It is a fact that some routes are not financially viable. Members will all remember that, when this business was liberalised back in the mid-1990s—when the likes of EasyJet, Ryanair and others came into existence—a provision was put in law that recognised that, in a liberalised market, some routes would be unviable and commercial operators would not fly them. That is what is called the PSO framework.

In the PSO framework, all sorts of mechanisms can be used to support such routes. Those mechanisms include direct subsidies to the carrier, tax alleviations or alleviations with regard to the emissions trading scheme, which the Scottish Government is consulting on but has not yet implemented. That is a significant cost for us, on top of fuel. We currently have to pay under that scheme, even though Loganair's emissions amount to 0.3 per cent of UK aviation emissions, which is tiny. That is not having a measurable environmental impact. Island flights could be exempted from that; a consultation on that is ongoing. There are tools in the PSO framework to support non-viable routes.

Consideration should be given to how the system works best in other countries and what best practice Scotland could take from that and put into a strategy that seeks to protect into the future routes that the commercial market cannot service.

Graham Simpson: There is a big ongoing debate about how we run buses. This is a similar situation in that, for the islands, ferries and aircraft are a bit like buses on the mainland—they are a form of public transport. I know that you are a private operator, but there are private bus companies out there, which often withdraw routes,

with the result that the public sector sometimes has to step in. It is a similar situation, is it not?

Simon McNamara: It is. There are many routes that can be operated commercially, and those should be left to market forces, because that generally gives better outcomes for consumers with regard to choice, but it is clear that there are markets that do not work commercially.

I see that Liam McArthur from Orkney is here. One of the best examples is the interisland service that operates in Orkney, which is a supported service between the islands. It is a perfect example of what is, in effect, a bus route. That route could never be commercially sustainable, but there is a mechanism in place that enables that route to be operated for the benefit of islanders. I think that there will always be such routes.

That is a good way of looking at the situation. As with buses, there are unsustainable routes that need some sort of support, alongside a big commercial network that will not need any support at all. We are absolutely not looking for that.

Graham Simpson: Do you think that it is the responsibility of the Scottish Government or the UK Government, or both, to provide such support?

Simon McNamara: I think that it is the responsibility of both Governments. Another unfortunate symptom of the position in the UK is that Westminster has a system of support for regional aviation and Scotland has its own process, and, to be honest, the two are not very well connected. Westminster is conducting a review of regional connectivity—it is looking at the PSO framework—but that is not very well connected with the Scottish discussions. In fact, we made some of the introductions. I think that a much more joined-up approach could be taken by the UK and Scottish Governments.

However, the answer to your question is that I think that it is a responsibility of both Governments.

The Convener: I would like to pick up on that. Who did you make introductions to?

Simon McNamara: We connected the debate at Westminster. The Department for Transport is undertaking a review of regional connectivity. We brought some of the Scottish stakeholders into that debate.

11:30

The Convener: Who do you mean by stakeholders?

Simon McNamara: The HITRANS group and other bodies like that. We made those introductions and we connected them up, because we are aware—because we operate in all jurisdictions—that there is a debate at Westminster and a debate in Scotland, and the Scottish stakeholders were not being readily engaged by the Westminster Government.

The Convener: Thank you for providing that service. However, I am puzzled as to why those connections were not already there.

Simon McNamara: That is another interesting, albeit wider, debate. Across many things, as we know, the UK is very south-east centric and there is a big focus on what happens south of the border and on southern issues. We make that point strongly at Westminster. For example, last year, Sumburgh was cut off for four days because of a power connectivity outage, but that was not really making the news down there. Imagine if Heathrow had a very significant outage—as, in fact, it did. Think of the headlines and of ministers getting very exercised. It is important to stress to the Westminster Government—as the Scottish Government can do—the importance of the network up here, including the island routes. It does not always feature on the radar in the south-east.

The Convener: Okay. Sorry, Mr Simpson.

Graham Simpson: No—it was an excellent point.

I have one more thing to ask. Right at the start, Ronnie Matheson spoke about the cost of fuel, which is just a fact. However, I know that Loganair is looking at having more fuel-efficient aircraft—you have been doing so for some time—which will make things cheaper. You are also looking at alternative fuels such as hydrogen and at running electric aircraft. Will you tell us a little bit about that?

Ronnie Matheson: As a regional airline, we have a long-term strategy on sustainability that looks particularly at new-technology aircraft that we think have the potential to bring a more sustainable solution. However, interestingly, they also have the potential to lower the operating cost, because those next-generation aircraft are not reliant on aviation fuel and are easier to maintain. That is a big part of our strategy.

We engage with the electric, hybrid electric and hydrogen industries. Earlier this year, we collaborated with a company called Beta Technologies to bring forward an all-electric aircraft, which made its way up to Orkney from Glasgow in proof of concept. We are keen for that technology to be rolled out across Scotland in the future, and we want to be at the forefront of that because, as I said, it brings sustainability benefits but also operating-cost benefits, which, in the debate that we are having here, is also really important.

Collette Stevenson: In the evidence that we have received so far, one letter that you provided to Shetland said that you have been operating at a loss on that route for five years. I am not telling you how to run your business by any means, but, from a due diligence and financial officer point of view, given my accountancy background, alarm bells would be ringing after three years of recurring loss. My question to you is, why now? Why was there no previous engagement with stakeholders such as the Government, the NHS and the local authorities?

Ronnie Matheson: As I outlined, over the past 12 to 18 months, in particular, there have been significant cost increases. It is not just about fuel; the cost of maintenance and aircraft parts continues to be a significant problem for all airlines, not just for us. However, those increases amplify losses on the routes. As I also outlined, we have been in discussion with HIAL over a number of years on various structures and commercial agreements that allow us to continue operating those routes at a loss that could be absorbed, or at almost a break-even point. However, now, with those additional costs and the cost challenges that we face at the moment, the situation has got to the point at which it is completely financially unsustainable for us to continue flying those routes.

As you said, we could have made the decision to cut those routes out years ago, but they were making smaller losses then, and we know that Loganair plays an important role in the communities that it serves. As Simon McNamara outlined, next year is our 65th anniversary. Scottish island flying is a core part of our DNA and we did not make the decision lightly, but it has become unsustainable to carry on with the losses.

Collette Stevenson: If I were an islander, I would be concerned about the other routes that are making a loss. Are any others making a loss? If so, for how long have they been making a loss? Has it been five years? If this happens in the future to other island routes, will there be a notification rather than a consultation?

Ronnie Matheson: As Simon McNamara outlined, as things stand, we are not concerned about any other routes in the Highlands and Islands. We are using this forum as an opportunity to highlight the impact of our taking out flying from the affected communities and to explain what that does to them.

We do not want to be in the position of working out how to tell communities that we are removing flights. We want to kick off the debate now and ensure that a longer-term structure is in place so that, if routes fall into making marginal losses or greater losses, we are in a position to do something about it using a mechanism of some sort.

Collette Stevenson: Just quickly—are no other island routes making a loss right now?

Ronnie Matheson: As it stands, no routes are making significant losses that give us cause for concern.

Iris Duane: Thank you for bringing this to our attention. We are all concerned about the loss of routes and the financial viability of services. However, as has been mentioned a number of times, Loganair runs multiple services. Was there no opportunity for cross subsidy from the more profitable routes to those that are not so financially viable?

Ronnie Matheson: As I mentioned, the business works within a very small profit margin. We have had a number of shocks to the system, including on fuel and maintenance. National insurance contributions were another significant cost hike to the business.

We can only take a route so far, but if it gets into a significant loss making position we have to take action on the affected route. That is the outcome for the affected routes.

Iris Duane: I want to dig further into something that Collette Stevenson asked about. I understand that, from your point of view, you have to take action, and you said that no other routes are at risk, but the communities that are affected by the cutbacks previously thought that their routes were safe. If no other routes are at risk, but there is also no change to the framework, will you consider how consultation with local communities could work in future? For example, we have heard about the detrimental effect that the changes will have on health services, which were given less notice than they could have been.

Ronnie Matheson: Our number 1 priority is trying to get the framework in place so that we do not reach that position. Simon McNamara and I do not want to have to go to local communities and tell them that we have to take their lifeline flights away. None of us wants that.

All of our focus is on, first, how we fix the short-term problem and, second, the long and medium-term solutions so that we do not have to cut more flights. I do not want to start building plans in that way; I want to focus on how to get the issue resolved so that we can sustain services for island communities.

The Convener: Liam McArthur, who is not a member of the committee, joins us today. I will give him an opportunity to ask some questions.

Liam McArthur (Orkney Islands) (LD): Convener, I thank you and the committee for

prioritising this issue. That this is the first evidence session of this parliamentary session will be of some reassurance to my constituents and those who are similarly affected in the Western Isles and in Shetland. I also put on record my thanks to Loganair, with which I have engaged regularly and consistently over my time as an MSP.

In that context, I will perhaps start with the cuts to services from Inverness. I understand the commercial sensitivities, but during my discussions with Loganair—which have taken place pretty consistently every two or three months—there has been no intimation, notwithstanding that the Inverness route has traditionally been less well used than routes from Aberdeen, Edinburgh and so on, and despite the discussions that have taken place with HIAL and Transport Scotland, that this was a potential outcome should those discussions not go in the way that it wished. Mr Matheson, do you not recognise that, as a stakeholder, that is difficult?

More significantly, in light of what we heard from the health boards, I push back very strongly on what you said about mitigating the impact on patients. I accept that the decision on whether to operate the route ultimately needs to be taken by Loganair, but at that point, a discussion with the health boards would have indicated how you intended to mitigate this.

Given that there will be a service reduction, how will you limit the impact on patients—particularly at a time when the national treatment centre for orthopaedics and ophthalmology is being established in Inverness and the number of patients using it, along with consultants travelling to the islands, is likely to increase? Why did that discussion not take place ahead of the decision?

Ronnie Matheson: As I said, we have been in discussion with HIAL in the background about the various options. To be completely honest, we did not think that we would get to the point of taking such action. We felt that we would be able to come to some arrangement with HIAL that would allow us to continue to operate the routes. We have a number of monthly or weekly commercially sensitive discussions with various airports about the performance of individual routes. We would not talk publicly about our discussions with HIAL in the build-up to such a decision. We did not think that we would reach a position in which we would have to take such action—we thought that we would get somewhere.

Liam McArthur: Even now that the decision has been taken, you will be retaining some level of service solely at weekends for Orkney and Shetland. Let us not lose sight of the fact that the decision has removed any air connectivity between Orkney and Shetland during the week. There is a weekend service to those islands, and there is an afternoon service to the Western Isles. As I understand it—Donald MacKinnon knows this far better than I do—had that rotation taken place in the morning, the impact on patients seeking to travel to Inverness for treatment would have been significantly reduced, including a reduction in the need for overnight accommodation, rather than with the afternoon slot that you have retained.

That point would have emerged from the discussions with the health boards. Even after the decision was taken to remove the service or cut it right back, there were still discussions that would have helped and been valuable to mitigate the impact on patients, but they simply did not take place.

Ronnie Matheson: As I outlined earlier, the decision was not taken lightly given the impact that it would have. However, from our point of view as a business, we need to plan, schedule and look at aircraft utilisation, crew utilisation and so on. We have to do a number of things internally as a business that are also taken into account.

I completely appreciate the impact that the decision has had on local communities. As I said, we have received letters from those communities and have engaged with them, so we absolutely understand its impact. However, we have to first prioritise what we do within the business to make our plans work.

Liam McArthur: I hope that the short-term discussions with HIAL allow the service to be brought back in October. There might be a UK element to this, but the situation exposes the need for the Scottish Government to lead a strategic review of delivery of Highlands and Islands services as a matter of urgency. I think that there is cross-party support for that, and we have written to the transport secretary in that regard.

In the meantime, and reflecting on potential sensitivities in other areas, we heard earlier from Maggie Sandison from Shetland Islands Council, who talked about a gradual erosion of the service, which is affecting confidence. Services to Edinburgh on the Orkney and Shetland routes were merged at the start of this year. Even now, the timetabling changes make a day return to Edinburgh much less convenient than was previously the case. We are seeing changes to profitable routes that very much run the risk of leading to a drop-off in usage of those routes and, therefore, problems further down the line.

Mr Matheson, you say that ADS is simply a passenger convenience rather than a subsidy. I accept that ADS goes to passengers and not directly to the airline. However, but for ADS, those passenger numbers would be even lower. In the face of fares that can often reach £600 and, as I

know to my cost, £700 for a return, that ADS bill has climbed significantly. Loganair is taking decisions at the moment around pricing. There has been no evidence of an environment having been created in which incentives for more passenger usage have been in any way effective. I simply cannot understand, and nor can my constituents, why that is the case.

Ronnie Matheson: Service changes and, as you described it, erosions in service reflect the market environment in which we are operating as a business. We continually have to optimise the schedule that we offer, the rotations that the aircraft operate, where we are basing the aircraft and our crew, and what maintenance cycles aircraft need to go on. We need to make a number of changes in the schedule to make all of that fit together, which, unfortunately, means some changes to some routes.

The other point is cost. If we anticipate low demand for flights well into the future, we have to decide whether it is financially viable for us to operate particular services. I am talking about individual flights rather than overall routes. As a business, we have to optimise continually to remain financially sustainable in all of our operations. That is reflected in changes to schedules and to the product in the marketplace. Again, it circles back to the need for some kind of longer-term support package to alleviate some of the cost challenges that we have, which then allows more opportunity for your constituents to determine where we should be flying and at what times.

Liam McArthur: I do not disagree with the point about the strategic review, which the Scottish Government, with HITRANS, ZetTrans and other stakeholders, needs to lead as a matter of urgency; nor do I dissent from the view that it is in nobody's interest for Loganair not to be financially viable. We have seen what has happened to Eastern Airways, Flybe and others. What I am saying is that I am seeing no evidence of the combining of routes, in the way that happened with Orkney and Shetland, elsewhere in the UK—routes that I understand have not been terribly profitable either. There is a disconnect in the treatment of Orkney and Shetland routes compared with some routes elsewhere in the country.

Ronnie Matheson: That is fair. As the chief commercial officer, I am constantly looking at the network as a whole. My team and I are constantly looking at flights, whether from Edinburgh to Southampton or Aberdeen to Manchester, in addition to our operations to the Highlands and Islands. In fact, if there are opportunities to combine high-frequency routes flying south, we will look at that as well. That does happen. Obviously, we are aware that there is more of an impact if we make those changes on Highlands and Islands routes. We try not to but, unfortunately, there are occasions when we have to make changes to the flying programme.

Liam McArthur: I circle back to the issue of the impact on patients. I very much agree with the convener that it is difficult to square the statement on the prioritisation of patients with what has happened. I do not know what conversations have taken place with each of the three island health boards, but I would strongly urge a renewed engagement with them, even over the summer, on how mitigations can take place.

For an orthopaedic patient in Orkney, it is no comfort knowing that there is still a route via Aberdeen, with land transport to Inverness. Those discussions need to happen as a matter of urgency, so that we can see what can be salvaged from the decision that has been taken.

Ronnie Matheson: To answer that point, we have regular communication with each of the NHS boards. We have monthly meetings lined up with them, but we can also have ad hoc discussions as and when required. As I said, we engaged directly with each of those teams when we made the announcement as well as before it went public. As Simon McNamara mentioned, we had discussions with NHS Western Isles last week. We have open lines of communication with the board.

The Convener: I have three things to say in conclusion. First, I think that you have heard today that we are not happy with the consultation that has taken place, and we hope that you take that point away.

Secondly, I think that there is probably unanimity on the issue of strategy, and I am sure that the committee will explore that further.

Finally, you have heard the message from the Western Isles and other areas about the fact that a different timetable on the Stornoway route would make things easier for them. There is clearly a commercial demand there, if that is what they are saying about when they want the service to operate. Could you please go away and look again at the timetable for the remaining flights to Stornoway, at least in the short term? We understand that a longer-term discussion needs to be had, but there is clearly a demand that would make life easier for the NHS and its patients. If you could look at that as well, we would really appreciate it.

Ronnie Matheson: Understood. I am happy to do that.

The Convener: Thank you again both for coming. We have given you a bit of a hard time, but it is because the issue really matters. We appreciate your time this morning.

11:51

Meeting continued in private until 12:13.

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