

THE HIGHLAND COUNCIL

27 June 2002

Agenda Item	
Report No	

SKYE BRIDGE – ECONOMIC IMPACT STUDY

Report by Director of Planning & Development

SUMMARY

Outlines the background leading to the commissioning of this report from Napier University, reviews the findings which point to the present Bridge tolls regime as suppressing the economy of Skye, and presents the case for early reduction in the level of charges incurred by users.

1. Introduction

- 1.1 The Skye Bridge was built under a PFI agreement financed through the Bank of America. It opened to traffic in October 1995 and operates as a toll crossing under a concession granted from the Scottish Executive to Skye Bridge Ltd. The tolls were based on the tariff for the ferry which previously served the crossing and are the highest in the UK. A discount ticket arrangement for local users was introduced in 1998.
- 1.2 The Highland Council has consistently sought to persuade Government that the tolls regime is unfair and has supported moves towards a toll free bridge as quickly as possible. At the Policy Committee meeting on 11 October 2001, it was agreed to refocus efforts away from legal challenge in favour of the economic arguments. A further report to the Committee on 5 December 2001 noted that the last research commissioned by the Council dated back to 1996. It was agreed to sponsor further investigation of the cost and associated impacts of toll revenues on the local economy, and the level of additional growth that might be generated by the removal of tolls.
- 1.3 The contract was awarded to Professor Ronald McQuaid and Malcolm Greig based at the Employment Research Institute and Transport Research Institute, Napier University. Their work has reviewed all of the previous research, interviewed a range of local businesses and policy actors, and provided up to date economic modelling of the impact of alternative tolling arrangements. A copy of the completed study has been placed in the Members' Lounge for reference purposes.

2. Findings

- 2.1 Over 666,000 vehicles crossed the Skye Bridge in 2001, a slight reduction on the figure for the previous year, but not unexpected with the downturn of tourism in the wake of foot and mouth disease. Overall bridge traffic has increased by 8% since opening. Toll income was slightly less than £3.8m. during 2000.

2.2 The study concludes that although the Skye Bridge has been of benefit, for example through reduced waiting and crossing times for traffic, the high toll prices have considerably reduced the positive impacts on the local economy. There is considerable local resentment of the tolls, with businesses reporting that tourists, particularly short stay visitors and coach parties, have been deterred from crossing the bridge.

2.3 Removal or reduction of tolls would bring likely gains from savings to existing users, increased tourism, increased business efficiency and more business start-ups. The study uses well-founded values for a number of parameters and multipliers required to calculate the residual income and employment effects. The following table summarises these projected benefits for each toll option considered.

2.4 **TOLL REDUCTION / REMOVAL : ESTIMATED INCOME / EMPLOYMENT GAINS**

Source	Reduce Toll to £1		Forth Bridge Toll		Remove Toll	
	Income	Jobs	Income	Jobs	Income	Jobs
Existing Tourists	76	6.3	86	7.2	90	7.7
Local Residents	301	6.5	478	10.3	598	12.8
Local Businesses	323	6.9	385	8.2	426	9.1
External Businesses	812	17.4	856	20.2	1027	22.0
Additional Tourists	1650	136.8	1874	155.4	2037	169.0
Addit. Business start-ups	126	9.0	168	12.0	168	12.0
Extra business efficiency	252	18.0	294	21.0	322	23.0
TOTALS	3540	200.9	4140	234.3	4668	255.6

* all income shown in £ thousands, and employment as full time equivalent jobs.

2.5 Three toll scenarios are explored in the study. Reductions in toll charges are worth considering because they offer potentially substantial savings to users whilst not undermining the principle of PPP (PFI) schemes which are vital to a number of ongoing and proposed investment programmes across the Highland area. The principle of reduction has already been accepted by Government with the introduction of discount tickets.

2.6 In the first scenario, tolls are reduced to a flat charge of £1 each way for cars, with charges for other vehicles scaled from this figure. The second scenario considers the comparative charges applied to other major road crossings in Scotland. These include the all-vehicle round trip tariff of 60p for the Erskine Bridge and the higher scaled tolls on the Forth Road Bridge which equate to 40p each way for cars rising to £1 for HGV's. As the above table shows, toll reductions of these magnitudes have the potential to increase income entering the island's economy by £3.5m. and £4.1m respectively. An estimated 201 and 234 new jobs would be generated by increased economic activity, representing approximately 5% growth in local employment. These figures compare with the numbers of registered unemployed persons in Skye & Lochalsh which stood at 281 (June 2001) and 407 (December 2001).

2.7 Complete abolition of tolls is the third option tested. This would remove the anomaly of charging which is not replicated elsewhere in the Highlands where bridge crossings replaced ferries such as at Ballachulish, Kessock or Kylesku, nor in more recently

completed causeways eg. in the Western Isles. The total benefits indicated are £4.67m. in additional income and a corresponding increase of 256 full-time equivalent jobs distributed across the area. This represents growth of 6.3% in the current workforce, with the associated benefits of reducing local unemployment, increased labour participation rates and inward investment/migration. Potential down-effects of removing tolls might include a tendency to convert longer-stay visitors into day-trippers, displacement of tourist activity and employment from adjacent areas eg. Wester Ross, and possible reductions in business associated with the Armadale and Kylerhea ferries into Sleat.

3. Analysis

- 3.1 The Napier study provides sturdy evidence that the economy of Skye is being significantly depressed as a direct consequence of the Government's apparent unwillingness to reconsider an unfair toll regime. The value of those tolls amounted to a little over £3.7m last year. As a direct result the potential benefits of the bridge have been reduced, the Skye economy was the poorer by some £4.67m of income and 256 jobs foregone. This disparity is particularly harsh in the context of a remote rural community where economic indicators such as income levels, cost of living, seasonality of employment and the ratio of long term out of work are already among the worst in Scotland.
- 3.2 The consultants report of finding 'considerable local resentment', including the insightful remark that "the tolls are a tax on peripherality". The impacts are also felt by business, both on and off the island, as well as by the 285,000 or so 'tourist' vehicles drawn annually to Skye only to be confronted by Britain's biggest toll. That the present arrangements are so widely perceived to represent bad value for money is a matter of concern which could tarnish the Government's commitment to the private finance initiative as a key to achieving better public services.
- 3.3 Working towards abolition of the Skye Bridge tolls remains a clear Council policy commitment. The research commissioned flags up the disparity between current tariffs and what would be seen as a fairer toll by the majority of users (at £1 per car in each direction), or indeed the much lower charges levied on Scotland's premier road bridge links spanning the Forth and the Clyde (at 40p and 30p respectively). It is a matter for Members' consideration and judgment where such pricing might reasonably be fixed, but it involves trade-off between expenditures met by general taxation from the Exchequer and those imposed as specific consumer charges.
- 3.4 At the present time, the discounted ticket facility for local people appears to be costing Government about £1m. per annum (a little over 20% of total bridge revenue). The Napier report does not include specific estimates of the changed financial situation in the event of adoption of the reduced toll tariffs put forward. Direct comparison is not straightforward, particularly as the predicted growth in the local economy that would follow reduced charges would also increase the flow of vehicles over the bridge and therefore raise total income. Figures of £1m and £400k are however broadly consistent with the detailed formulations set out in the study. This level of toll income would effectively reverse the present situation whereby bridge users are contributing almost 80% of total revenue. Under a £1 toll, that would fall to 21%, and for the Forth

Bridge toll to 8.5%.

- 3.5 The foregoing analysis is quite separate from arguments which might be made for the Government to remove all tolls and effectively buy-out the present concession. Such is the paucity of published information, the consultants are unable to throw light on the economic case for such a course of action (pp.42-43). However, they do narrow down the likely buy-out cost as in the order of £23m. (based on debt) plus any profit margin for Skye Bridge Ltd.
- 3.6 Whilst not specifically part of their remit, the consultants observe that a significant proportion of total Bridge traffic (7% or almost 40,000 vehicles per annum) is bound for the ferry at Uig. Although there are alternative ferry routings for various parts of the Western Isles, the Uig-Lochmaddy connection is particularly important to the communities of North and South Uist. Whilst the analysis states that the tourism elements are likely to be fairly robust, there is concern about other businesses and particularly those in the fish and shellfish sector. The companies involved are reliant on exports and face stiff competition which could affect their survival. This may be an issue in which the Council can find common cause with a neighbouring authority and build alliance within the Highlands and Islands Convention.
- 3.7 The Skye Bridge tolls raise fundamental issues of economic efficiency, geographical disadvantage and social equity. There is now strong evidence that the economic benefits associated with the construction of the fixed link onto Skye are not being realised because of the excessive level of toll charges which continue to be imposed on users. The Napier team's work demonstrates that those tolls are penalising the economy of remote and fragile places in Skye and beyond. The present situation is not consistent with the broad sweep of enlightened Government policy towards communities in peripheral areas which aims to fully unlock their potential. The Council needs to re-engage in that debate and press for substantial reduction in the scheme of bridge tolls.

4. RECOMMENDATION

Members are invited to :

- (a) commend the report on the economic impact of the Skye Bridge tolls prepared by Napier University and to endorse the analysis and broad conclusions reached therein.
- (b) agree to bring the report and its implications to the attention of the First Minister, to Members of both Parliaments and strategic partners in order to press the case for early review of the current tolls regime.

Signature:

Designation: Director of Planning & Development

Date: 17 June 2002

Ref: THC270602SKBR

Background Papers

1. Reports to the Policy Committee, 11 October & 5 December 2001
2. An Assessment of the Economic Impact of the Skye Bridge Tolls : Employment Research Institute & Transport Research Institute, Napier University, May 2002