

**THE HIGHLAND COUNCIL**  
**PLANNING, ENVIRONMENT & DEVELOPMENT COMMITTEE**  
**20 MAY 2009**

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| Agenda Item |  |
| Report No   |  |

**FUTURE OF RURAL ROAD FUEL SUPPLY IN THE HIGHLANDS AND ISLANDS**

**Report by Director of Planning and Development**

**SUMMARY:**

This report informs Members of the outcome of a comprehensive study undertaken by Experian Catalist on behalf of the Council, Highlands and Islands Enterprise and HITRANS into the future of rural road fuel supplies in the Highlands and Islands.

**1. Background**

- 1.1 At the meeting of the Planning Environment and Development Committee held on 14 November 2007 it was agreed to undertake a research study into the conditions facing rural fuel stations. The resulting research would be used to inform a review of public sector support available to help retain a sustainable and accessible network of fuel supply throughout the Highland area.
- 1.2 Highlands and Islands Enterprise and HITRANS were invited to participate in this study and following a competitive tendering process Experian Catalist were appointed to carry out this study in April 2008.
- 1.3 Part One of their report, which examined the current situation, has been completed and is attached as Appendix 1 to this report. The second stage of the work assessed future scenarios, including likely reduction in fuel retail site numbers, the impacts of such changes, and possible solutions for road fuel provision in remote and sparsely populated areas is attached as Appendix 2.

**2 Part One Report**

- 2.1 The study begins by looking at the characteristics of the study area. As Members are aware, much of the area is rural and sparsely populated and this has an important bearing on some of the supply and demand factors that influence the market for road fuel. Residents of the Highlands and Islands are more likely to own a car (the 2001 Census results indicated that 75% of Highland households owned one or more cars) and to travel greater distances in it than the Scottish average. This results in the average resident in the area having higher average fuel consumption than the average for residents in other areas. Section 1.4 of the report looks at the impacts of rurality on fuel economics in detail, with average drive times significantly higher in the Highlands and Islands than elsewhere in Scotland.

- 2.2 The consultants went on to look at the impact of fuel costs on businesses. Highlands and Islands businesses are likely to be more affected by higher fuel costs, they are located further from markets than urban competitors so any changes in the supply of fuel can severely impact upon their profitability. Furthermore, the costs of supplying fuel to rural locations can also have implications for Highland businesses, for example, greater distances to travel for fuel distributors means higher fuel costs for businesses located in these areas.
- 2.3 Section 1.5 examines the economics behind fuel demand and explains why fuel stations close. Lower volumes of fuel sold mean that rural filling stations have to charge a higher price in order to cover their fixed costs. In section 1.6 the fuel price is broken down into eight component costs. The research shows that site operators need to find their operating costs from a very low site retail margin. Also in this section, the study looks at the average retail margins for fuel across the Highlands and Islands. It concludes that there is no evidence to believe that supermarkets are selling fuel at a loss. Rather, because of the volumes that they buy they are able to obtain better wholesale prices than other fuel station operators.
- 2.4 In Section 2 the study looks in detail at the current fuel network throughout the Highlands and Islands. This highlights the fact that in the main, outwith the major centres of population, the Highlands and Islands have a large number of small, low volume sites with a very low average volume. The implications for the cost of fuel from this are stark with fixed costs being supported by a much smaller volume of sales. Figure 2.2 highlights this; Inverness has an annual average volume of 3.238 million litres which compares favourably with the rest of Scotland. Rural and Island areas such as Skye and Wester Ross have lower average volumes, 0.597 million litres, and need to charge a higher price per litre to cover their fixed costs. Average site volumes, illustrated in figure 2.3, show that in the Highlands and Islands there is a mix of fuel stations, some highly efficient, with high average volumes and other, smaller sites with low volumes and therefore higher fuel prices.
- 2.5 The research shows that the majority of the population of the Highlands and Islands have reasonable access to fuel with 92% living within 15 minutes of a petrol station. The average drive time is under ten minutes however, for some in remote rural areas (8% of the population) there is a travel time of around one hour. As more facilities close this drive time has increased.
- 2.6 In general non-fuel retailing is vital to ensuring forecourt viability. The study shows that in the Highlands and Islands shop sales are significantly smaller than in other areas. This in turn impacts upon their viability; lower volumes have an impact upon how much revenue is generated and therefore affects a site's viability.
- 2.7 The study moves on to consider, in section 2.4, site profitability. They calculated a sites gross margin (retail price minus cost of product delivered) to indicate its profitability before operating costs are deducted. This revealed that there was a significant number of sites throughout the Highlands and Islands that were making less than £25,000 per annum before operating costs were deducted, raising serious question marks about their sustainability.

2.8 Fuel distribution is considered in section 2.6 with a detailed examination of all the distribution channels supplying the fuel network in the Highlands and Islands.

2.9 Section three of the report details the range of consultations Experian undertook as part of the study. A number of key issues were highlighted as a result of this:

- Forecourt operators were concerned about profitability, maintenance investment and regulation relating to the Renewable Transport Fuel Obligation (RTFO).
- Rural site operators do not see the provision of shops as providing a solution to the problem of overall site profitability
- Distribution is undertaken mainly by businesses whose main activity is in the distribution of home heating, commercial and industrial fuel supply and their business is not dependant on retail road fuels. If there is a risk to their profitability from this part of their business, then there is a likelihood that at least one of them would withdraw from that market.
- A call was made for some sort of intervention to ensure reasonable access to fuel right across the Highlands and in particular, to isolated communities.
- The importance of Tourism to the Highland economy was emphasised with a need to highlight the location of fuel retailing on main routes. While some consultees felt that high fuel costs had made an impact upon their businesses particularly apparent during the 2008 Grangemouth refinery dispute.
- The introduction of Bio-Gasoline as a result of the RTFO could have severe implications for the supply of fuel to the Highlands and Islands. This fuel is highly reactive to water and would result in it having to be transported to the area by road tanker. Storage at filling stations would also present problems particularly in facilities that have older tanks that may already be contaminated with water.
- There was recognition of the importance that local fuel supplies have for local communities and their viability, as well as the potentially devastating effect closure could have on these communities, for example in increased drive times.

### **3 Part Two Report**

3.1 As a result of the findings of the first stage of this report, Experian were asked to look at certain elements of their findings in further detail. These were to:

- investigate the predicted rate of closure of fuel stations in the Highlands and Islands
- use a number of case studies, based in Skye and Wester Ross, Orkney and Inverness and East Highland, to get a better understanding of consumer behaviour
- suggest possible interventions such as the establishment of unmanned or mobile filling stations as well as the adequacy of existing interventions such as the Rural Petrol Stations Grant Scheme (RPSGS)

3.2 The results of this study are currently in draft form and are attached as Appendix 2 to this report. A representative from Experian Catalist will be in attendance at the Committee and will bring Members up to date with the findings of the report. The comments of Members at Committee will be forwarded to the consultants for inclusion in the final report.

#### **4. RECOMMENDATION**

4.1 Members are asked:

- a) to note the findings of this report;
- b) to consider and comment on the results of the study outlines in Appendix 2, and
- c) to agree that the Council along with its partners Highlands and Islands Enterprise and HITRANS continue to work to ensure that the Highlands retains an extensive network of fuel stations.

Signature:

Designation: Director of Planning and Development

Date: 11 May 2009

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Background papers: