

Response to *Beyond the Horizon, The Future of UK Aviation*

12 October 2017

On behalf of Stobart Aviation and London Southend Airport

Background to London Southend Airport

London Southend Airport is owned and operated by Stobart Aviation, a division of Stobart Group. Stobart Group is the UK's leading and best-known infrastructure and support service businesses operating in the biomass energy, aviation and railway maintenance sectors and has investments in a national property and logistics portfolio. London Southend Airport was acquired by Stobart Group in December 2008.

Stobart Group has transformed London Southend Airport with investment in new infrastructure exceeding £160M including: a new passenger terminal, rail station, control tower and runway extension. Today the airport serves over 1 million passengers/year and connects over 30 short-haul destinations to London, with flights operated by airline partners including easyJet and Flybe (operated by Stobart Air).

London Southend Airport has been ranked 'London's best airport' by Which? over five consecutive years including 2017. It has also been voted by The Airport Operators Association, "Best UK Airport under 3 million passengers/year" in both 2015 and 2016.

Response to the consultation

Our response to the consultation is in two parts:

- Responses to several specific questions raised in the Beyond the Horizon paper
- A separate evidence paper [pages 4-14] prepared by Optimal Economics on the role London Southend Airport can play in UK aviation

1. Responses to specific questions (the referencing in Annex A is retained)

- a. Q4. Of the six Policy Challenges, we would regard safety and security as essential. Much the same is true of access to markets and given the preponderance of short-haul flying to UK airlines and airports, it is imperative that access to EU markets remains as is post-Brexit. Sustainable growth to meet demand is not something we would regard as a matter for debate, although the key issue is a working definition of sustainable. This is particularly the case when trade-offs between, for example, noise and carbon emissions, or economic and environmental sustainability, must be made. Keeping pace with technology and developing skills is something we regard as an absolute requirement as an enabler and indeed Stobart is developing its own Aviation Skills Hub to achieve just that. The key point we would make is that soft skills in an airport context are at least equally valuable and as important as hard/technical skills. For example, in the context of airport security, the focus of our Aviation Skills Hub will balance compliance

development with customer service skills. Our prioritisation, therefore, sits with meeting consumer expectation and competitiveness, with the latter the key to the former. It is our view, furthermore, that the absolute key to airport competitiveness is capacity. There can be no doubt that airports in the South East of the UK in particular have not generally met consumer expectations. Addressing that issue requires more airport and airspace capacity, and better use in the short term of the capacity which does exist.

- b. Q5. This appears to be a restatement of the points raised in Q4 and we have nothing to add to our comments above.

- c. Q6. As a private sector, entrepreneurial business, Stobart agrees with the Strategy Principles. In particular, it agrees with the centrality of customers, whether consumers or businesses, to the aviation strategy agenda. London Southend Airport is one of the UK's best airports in terms of customer experience, because it was designed and is operated to serve its customers' needs. It has been ranked 'Best London Airport 2017' by Which? for the fifth year in a row. It was also voted 'Best UK Airport (under 3 million capacity)' in 2016 for a second time by the Airport Operator's Association. It currently serves more than one million passengers a year with a potential for up to 10 million. More than 30 domestic and European routes already operate. New routes with Flybe to Manchester, Glasgow, Dublin, and with easyJet to Malta, launch on October 29th. Powdair will also start a route to Sion from December 4th. The owners, Stobart Group have invested more than £160m invested since 2008. The super-fast terminal at the airport enables passengers to get from plane to train or train to plane in less than 15 minutes. London Southend Airport is now one of the fastest ways to access central London by air, with a dedicated train station 100 paces from the terminal and rail access to Stratford in 45 mins / London Liverpool Street in 52 mins.

- d. Q7. Our particular interest is in Government as enabler, a point first raised in Q6. In our view, there are three important ways in which Government can act as an enabler:

First, through the taxation system. The obvious example is APD. Operations by airlines at smaller and/or newer airports, such as London Southend, are inevitably perceived by the airlines as risky. The reason for this is the absence of hard evidence, particularly with regard to passenger demand, which pushes through to yield. Whilst these airports often offer valuable capacity, the risk associated with the utilisation of that capacity is raised to an unacceptable level by APD. This is especially true on domestic flying, where APD applies to both sectors. Government could act as an enabler of available capacity by removing APD from smaller airports, for instance those under 3mppa. It could offset the lost tax (relatively small though it would be) by increasing APD on larger airports. This would have two beneficial effects. It would drive regional and local economies and enable the utilisation of existing runway capacity, such as the 10mppa capacity available at London Southend.

The second way is by changing the planning system to minimise its impact on smaller and regional airports. Applying for planning consent is a time consuming, management-diverting and extremely expensive activity. Those impacts are disproportionate to the financial circumstances of many smaller airports. Whilst (nominally) beneficial arrangements exist for large schemes, these are in reality few and far between. A streamlined planning process for smaller airport schemes would in practice deliver far greater benefit to the industry and thereby to UK plc.

The third way is by supporting connecting infrastructure. In the case of London Southend Airport, development of a much improved rail connection, ideally non-stop from the airport to at least Stratford, would accelerate the utilisation of the 10mppa capacity the airport offers. The same is true of an upgraded A127 road link to the M25. Stobart Group has contributed to this process, constructing its own rail station at risk, as well, of course, as redeveloping the airport itself. Maximising the use of that asset to local, regional and national benefit requires Government support through the development of a high quality surface access network

- e. Q8. In our view this is a particularly material question. It must be the case that utilisation of existing airport (i.e. runway) capacity should be encouraged in the short term, not least because the construction of new runway capacity, especially in the South East, is at least improbable in the next decade although underlying demand for already overstretched capacity is more than likely to remain resilient. Over the past 20 years, demand for air travel through London's airports has grown at a compound annual growth rate of 5%. With sustained forecast population growth, it is difficult to see how that long term trend will change. However, the belief that demand will simply re-distribute to the North where more capacity exists, is hard to accept. Demand is, essentially, local, which is why catchment analysis is so important for airports. If Government policy is to prioritise consumer needs and support sustainable growth, then it is paradoxical to expect consumers to make long journeys to fly, especially journeys which entail significant surface transport mileage, often by car. That being so, the utilisation of London Southend's 10mppa runway capacity becomes even more relevant, particularly in the almost certain 10 year period between this consultation and the provision of more runway capacity in the London system.



Beyond the Horizon London Southend Airport

October 2017



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1 Introduction and Brief

1.1 Beyond the Horizon

- 1.1.1 The Department of Transport has issued a document “Beyond the Horizon” which calls for consultation responses on the future of aviation in the UK. It is envisaged that this will feed into development of a strategy which will set out the long-term direction for aviation policy making to 2050 and beyond.
- 1.1.2 At the request of London Southend Airport (LSA), Optimal Economics has prepared this report which examines the economic impact of the expansion of the airport to 10 million passengers per annum.
- 1.1.3 Over the last few years passenger numbers at LSA have grown from a few tens of thousands to around 1 million per year. The airport’s owners, Stobart Group, have plans to grow the airport to 2.5 million passengers per year within the next three years. This expansion will create substantial socio-economic benefits for the Southend area, the Thames Gateway South Essex sub-region and the wider economy.
- 1.1.4 However, LSA envisages a much greater expansion to 10 million passengers by 2030. As detailed in this report, expansion of the airport to this scale would create economic impacts and benefits which would support the achievement of strategic goals and priorities identified in the Beyond the Horizon document. It is, in LSA’s view, vital that a future UK aviation strategy recognises the benefits which would flow from expansion of airports such as LSA and, so far as possible, supports such expansion.
- 1.1.5 The Beyond the Horizon document identifies six main strategic objectives for the future of UK aviation. Within these are many sub-objectives and issues. This report sets out evidence that the expansion of LSA to 10 million passengers would create impacts and benefits which would support the achievement of those objectives.
- 1.1.6 The expansion of LSA would:
- Increase the scope for competition in the aviation sector.
 - Increase the contribution that aviation makes to the growth of the UK economy.
 - Make best use of existing capacity so supporting sustainable growth.
- 1.1.7 These impacts are discussed in detail below.

1.2 Report Structure

- 1.2.1 The structure of this report is as follows:
- Section 2 explains how the expansion of LSA would contribute to economic growth and the success of a globally connected UK.
 - Section 3 assesses the impact on competition and the sustainable expansion of aviation in the UK through use of existing capacity.
 - Section 4 sets out the key conclusions of the report.

2 The Expansion of LSA and Economic Growth

2.1 Introduction

- 2.1.1 LSA is located in the Thames Gateway South Essex area. Thames Gateway South Essex (TGSE) stretches along the north bank of the Thames, running to the eastern fringe of London. As part of the Thames Gateway, it is an established national priority area for growth and, in the words of the former leader of the Thames Estuary 2050 Growth Commission, Lord Heseltine, is “crucial to UK competitiveness”.
- 2.1.2 The government issued a consultation document calling for ideas for the way forward for the Thames Gateway in July 2016 and a response to the ideas put forward is expected later in 2017. The consultation document noted that in the 2016 Budget it was stated that the Growth Commission would “develop an ambitious vision and delivery plan for North Kent, South Essex and East London up to 2050. This will focus on supporting the development of high productivity clusters.” One of the key questions which was highlighted in the consultation document concerned means of improving regional connectivity.
- 2.1.3 The Economic Plan for Essex produced by Essex County Council identifies LSA as a key element of the county’s international connectivity which is of key importance in boosting economic productivity. The plan further identifies the A127 corridor linking London to Southend as a growth location. Southend Borough Council and Essex County Council have developed a joint “A127 Corridor for Growth” economic plan to identify, plan and coordinate investment decisions and manage the asset.
- 2.1.4 The London Southend Airport and Environs Joint Area Action Plan (JAAP 2014) has been prepared by Rochford DC and Southend BC, it establishes planning policies up to 2031 and beyond. The plan refers to the aim of the Aviation Policy Framework (2013) to see best use of existing airports capacity and its support for the growth of regional airports. In the plan LSA is recognised as a key driver of growth, playing an important role in improving the competitive strength of the area as a business location and tourism destination.
- 2.1.5 The vision for the Airport and its environs in the JAAP is “An area that realises its potential as a driver for the sub-regional economy, providing significant employment opportunities and ensuring a good quality of life for its residents and workers”. JAAP also involves the creation of two new business parks near the airport which are intended to open up opportunities for investment in the area and act as a catalyst for the regeneration of the Aviation Way Industrial Estate. In particular, the Saxon business park is estimated to be able to provide approximately 5,500 new jobs while the Nestuda business park should provide around 500 new jobs.
- 2.1.6 In the London Plan Review the Thames Gateway Essex Corridor, running from London to Southend, is identified as a strategic priority for infrastructure investment.
- 2.1.7 The expansion of LSA to 10 million passengers would provide a major boost to this national and regional growth priority area both through the creation of a large amount of airport related employment and, even more significantly, by greatly enhancing the locational competitiveness of and capacity for growth in the area.

2.2 The Impact of Expansion – Airport Related Employment

- 2.2.1 The impact of expansion of LSA on airport related employment has been calculated using data on employment at other UK airports handling around 10 million passengers each year. Account has also been taken of trends in productivity growth in the airport sector based on employment and passenger number trends at other airports.

2.2.2 Table 2.1 provides information on employment and passenger numbers at three comparable airports.

Table 2.1 Passengers and Employment at Selected UK Airports

Airport	Year	Passengers (million per year)	Employment	Passengers/Employee
Bristol	2015	6.781	3,000	2,270
Edinburgh	2015	11.1	6,282	1,767
Birmingham	2014/15	10.0	8,050	1,242
Average				1,757

2.2.3 If we apply the average figure shown to a projected passenger level of 10 million, the calculation implies 5,700 employees in jobs directly related to the operation of the airport and air services. It should, however, be recognised that the number of employees per passenger at UK airports has tended to fall over time due to increased efficiency and the automation of many processes. It is unclear whether future gains in productivity will match those of the recent past but it would be reasonable to assume some productivity growth given that the target of 10 million passengers would not be met for some time.

2.2.4 Annual levels of productivity can vary substantially from year to year. Very sharp increases in passenger numbers tend to be associated with rapid increases in productivity simply because staffing levels cannot be increased in proportion over a short period. A slowing of (or fall in) passenger growth tends to be associated with slow productivity growth because airport businesses hold on to staff and may even be “catching up” with unfilled vacancies.

2.2.5 Based on trends at UK airports we consider that an annual productivity growth (i.e. growth in the number of passengers per worker) of 2% is a reasonable assumption. If it takes ten years for LSA to reach 10 million the directly airport related employment would be 4,800.

2.2.6 In addition to direct airport related employment, the existence of the airport creates jobs through:

- Indirect employment: employment in firms which are in the supply chain of the businesses at the airport.
- Induced employment: employment supported by the expenditure of people employed directly and indirectly by the airport.

2.2.7 These indirect and induced impacts have been calculated using employment multipliers which estimate the ratio of indirect and induced jobs to directly created jobs. The multipliers used are based on evidence from studies of and use of regional multipliers in the UK, including impact studies of airports. Multipliers vary according to the geographical extent of the area analysed and are higher the wider the geographical area (as more supplier businesses are included). For the TGSE area we conclude that the appropriate employment multiplier for operational employment (including indirect and induced effects) for the study region is 1.3.

2.2.8 It follows that at 10 million passengers per annum (in ten years time) LSA would support 6,240 jobs in the TGSE area. This is an increase of 5,200 on the current estimated economic impact.

- 2.2.9 Associated with employment is income. This includes the earnings of employees and profits and surpluses of the organisations which employ them. This income is measured as Gross Value Added (GVA) and can be estimated using published government data on GVA per worker. In the TGSE area GVA per person employed is approximately £60,000 and on that basis, we estimate that at 10 million passengers LSA would create £375 million of annual income in the TGSE area (at 2017 prices).
- 2.2.10 These impacts would help secure the objectives of the Economic Plan for Essex and the JAAP as discussed above.

2.3 The Impact of Expansion – Wider Economic Effects

- 2.3.1 The economic impacts of LSA expansion in terms of airport related employment as detailed above are clearly very substantial and would support the job creation targets of local and regional economic strategies. However, the wider potential impacts on economic growth are of national significance.
- 2.3.2 The economic significance of development of the Thames Gateway, of which TGSE is a key part, was noted above. The economic system of London and the South East is heavily weighted to the west and north. This creates problems of over-development and congestion while also under-using the assets of the eastern areas. The weighting of economic development is supported by the location of the main London airports.
- 2.3.3 While much has been achieved in the Thames Gateway, the government's call for fresh ideas is a recognition that a further impetus to development is required. The expansion of LSA to 10 million passengers could provide part of that impetus.
- 2.3.4 The role of aviation as a facilitator of and catalyst for economic growth is widely recognised and was noted in the final report of the Airports Commission.
- 2.3.5 The main mechanisms of wider economic impact are as follows:
- Access to air services is an important factor in encouraging business investment, including from overseas (inward investment), in the UK and in specific localities.
 - Access to air services supports business growth and increased productivity by enhancing access to markets and the interchange of people, skills and knowledge.
 - Access to air services facilitates trade in goods (especially high value goods) and services.
 - Air services support tourism. Air is the predominant mode of transport for international tourists to the UK.
- 2.3.6 At its present level of operation (around 1 million passengers) LSA does create some benefits through the above mechanisms but an expansion to 10 million passengers per year would be transformational in terms of impact. This would result from a substantial expansion of the route network and an increase in both the number and proportion of business passengers.
- 2.3.7 At present LSA serves 32 destinations in 12 countries over a year but not all of these are year-round and most do not involve daily flights. Only 3 destinations have more than one flight per day. While this is no serious impediment to development of holiday travel, it is of limited use for business. Typically, a route needs to offer two flights per day to be suitable for most business users. This limited route offer is reflected in the low level of business traffic at the airport; only 8% of passengers flying through LSA are travelling on business. This compares with around 14% at Gatwick and Stansted and 13% at Luton.
- 2.3.8 We may form a view of the type of route network which we could expect at a 10 million passenger airport by examining the route networks at other airports with that number of passengers.

2.3.9 Table 2.2 shows the number of countries and destinations served from airports which have 7 million to 10 million passengers. Also included is London City Airport for reasons discussed below.

Table 2.1 Passengers and Employment at Selected UK Airports

Airport	Passengers (million pa)	Destinations Served	Countries Served
Bristol	6.8	111	30
Edinburgh	11.1	122	33
Birmingham	10.0	152	43
Glasgow	9.7	111	40
London City	3.7	48	15

2.3.10 In making comparisons with other airports there are considerations which must be borne in mind. LSA has a short runway which would rule out long haul flights: Glasgow, Edinburgh and Birmingham all have several regular flights to North America and the Middle East.

2.3.11 London City is of interest because although it has 4 times the number of passengers as compared to LSA it serves only 11 more destinations. What it does have in comparison with LSA is a high frequency of services (several per day) to major business centres; this is reflected in the fact that it has the highest proportion of business users of all UK airports (53%).

2.3.12 A LSA handling 10 million passengers would be serving UK and European centres and alongside holiday traffic could offer a frequent service to major European cities. It might, indeed, develop as an alternative to London City given the ease of connections to London Liverpool Street.

2.3.13 The growth in the number of destinations served by LSA could be expected to have a particularly beneficial effect on sub-regional growth. A recently published study using US data¹ found that an increase in the number of destinations served with non-stop flights from an airport has a strong impact on the level of employment, number of business establishments, and average wage in the airport's region.

2.3.14 We would also expect business use of the airport to increase its share of passengers and would consider growth to 14% to be a conservative estimate; as an alternative to London City the proportion could be even higher.

2.3.15 With a 14% business passenger share and 10 million passengers, LSA would have 1.4 million business users; more than the entire current volume of passengers.

2.3.16 Evidence shows that access to air transport is an important consideration in foreign direct investment decisions. LSA is an important asset for the TGSE area and the proposed expansion would enable an additional 1.4 million business passengers to travel through the airport, the majority of whom (say 60%) would, based on recent passenger survey data, be expected to have an origin or destination in the TGSE area or Essex.

2.3.17 While it is not possible to quantify all the economic impacts of the development in terms of increased inward investment, such an improvement in sub-regional connectivity would

¹ V Bilokach Are Airports Engines of Economic Development? Urban Studies March 2015

greatly enhance the locational competitiveness of the area, the efficiency of locally based businesses and the ability to attract investment.

- 2.3.18 Several studies have found that expansion of air passenger traffic has a positive impact on economic growth and productivity. A study undertaken by Oxford Economic Forecasting in 2006² found that air services help to improve the competitiveness of almost all aspects of companies' operations, including sales, logistics and inventory management, production and customer support. Moreover, by expanding the market in which firms operate, air services also act as a spur to innovation, increased sales and profits, and improved efficiency.
- 2.3.19 The OEF report set out calculations of impact which indicate that every additional business air passenger travelling will result in an increase of annual national income (GDP) after 10 years of approximately £1,000 (in 2016 prices).
- 2.3.20 A report produced by Oxera³ in 2009 set out various calculations of the wider impact of alternative policies (and thus passenger numbers) on the UK economy. These calculations implied that every additional passenger (of all types) would eventually create an impact on GVA of over £700 per annum through impacts on trade, investment and transport efficiency.
- 2.3.21 The growth in passengers at LSA is likely to involve, to at least some degree, traffic which would otherwise use other London airports. However, given the constraints on the London airports system and the uncertain timescale for a new runway in the South East, the degree of traffic displacement may be limited. The expansion of LSA will increase air traffic from the South East and the TGSE area.
- 2.3.22 Even if only 66% of the expanded air traffic from the TGSE area represented net growth, the figures derived from the OEF study would imply that this growth would create (over time) an increase in TGSE GVA of £500 million. Were the figures implied by the Oxera work to be adopted along with the other assumptions used above, the wider impact would be even greater at around £2.5 billion at the TGSE/Essex level.
- 2.3.23 The TGSE Growth Partnership has identified the aim of adding, through its development, £2.9 billion to the UK economy. The calculations set out above indicate that development of LSA to 10 million passengers would be likely to generate a large part of that targeted increase.
- 2.3.24 Finally, we would expect an expansion of LSA to increase its role as a port of entry for tourists. At present the airport's services are heavily focussed on the outward tourism market. With a much more developed route network there would be a rebalancing in this regard. For example, around 16% of passengers through Stansted are in-bound tourists. If this level was reached in a 10 million passenger LSA we would have 1.6 million tourist arrivals. Tourists arriving by air in the UK spend on average £700 during their trip.⁴ An additional 1.6 million tourists would add £1.1 billion of spending in the UK.

² Oxford Economics (2006) The Economic Contribution of the Aviation Industry in the UK

³ Oxera (2009) What is the contribution of aviation to the UK economy Airline Operators Association

⁴ VisitBritain (2017) Britain's Visitor Economy Facts (www.visitbritain.org/visitor-economy-facts)

3 Impacts on Competition and Sustainable Expansion

3.1 Competition

3.1.1 The call for evidence document states that competition in air services will help consumers to secure the best value and service quality in aviation services. The Airports Commission’s Appraisal Framework (April 2013) also identified the impact of airport development on competition as a key strategic issue.

3.1.2 The expansion of LSA to 10 million passengers would significantly increase competition in the aviation sector in London and the South East. With, as suggested above, a route network serving 50 – 100 destinations LSA would increase the choices available to travellers wishing to make journeys to and from Europe and UK destinations.

3.1.3 The viability of LSA as a competitor in the London market may be illustrated by an analysis contained in the Stobart Group Annual Report for 2017. In that document the centre to centre journey time for a trip from Amsterdam to London was as shown in Table 3.1.

Table 3.1 Journey Times Amsterdam to Central London

Airport	Journey Time
LSA	99 minutes
Heathrow	105 minutes
Gatwick	121 minutes
Luton	125 minutes
Stansted	113 minutes
London City	70 minutes

3.1.4 Only City offered a faster journey time than LSA. This timetable comparison is based on Amsterdam as that is presently the destination in continental Europe with the most frequent services from LSA. However, the analysis implies that services from other near-European destinations through LSA would offer a similar door to door time advantage. LSA would thus offer an attractive alternative for business passengers in particular and increase competition in that sector.

3.1.5 Expansion of LSA will also lead to an increase in the number of services to other parts of the UK, improving services and reducing costs for travel between UK regions and London and the South East.

3.2 Making Use of Capacity and Sustainable Expansion

3.2.1 The call for evidence document refers to the importance of making best use of existing capacity. While the government set out its preference for additional capacity in the South East to be provided through the Northwest Runway at Heathrow, the document also notes that the Airports Commission stated in its final report that a new runway will not open for at least 10 years. Even this time frame is uncertain, it is accepted that the continued growth of the UK’s domestic and international connectivity over the period before any new runway opens is vital.

3.2.2 The document supports the Airports Commission’s recommendation that there is a requirement for more intensive use of existing airport capacity and is minded to be supportive of all airports who wish to make best use of their existing runways including those in the South East.

- 3.2.3 If the third runway at Heathrow is not open by 2029, the London airports system will be capacity constrained such that all demand will not be met. Making best use of the runway at LSA will enable 9 million more passengers to travel each year than would otherwise be the case. Even with the proposed expansion of LSA, there would still be an excess of demand for travel through the London airports system,
- 3.2.4 LSA has the potential to make a very substantial contribution to meeting demand and growing UK connectivity.

4 Conclusions

- 4.1.1 LSA aims to expand its operations to a level of 10 million passengers over the next decade. This will be achieved through private investment but it is important that the forward strategy for aviation in the UK is supportive of development such as that proposed for LSA.
- 4.1.2 The expansion of LSA would create substantial economic benefits and support national policy objectives identified in the Beyond the Horizon Call for Evidence.
- 4.1.3 The principal benefits resulting from expansion of LSA would be:
- Creation of an additional 5,200 airport related jobs in the Thames Gateway South Essex area increasing the airport's total impact to 6,240 jobs with associated annual income of £375 million.
 - A major impact on the national policy priority to develop the Thames Gateway with creation of wider economic benefits of up to £2.5 billion (equal to over half the TGSE target for economic growth).
 - An increase in competition in air services with specific benefits to business travellers in the London area.
 - The addition of capacity for 9 million passengers per year to a capacity constrained system using an existing resource.
 - An increase in in-bound tourism to the UK creating £1.1 billion of annual tourist spending.