



Department  
for Transport

# Public Service Obligations

Guidance on the Protection of Regional Air  
Connectivity



December 2023

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# 1. Introduction & Background

## Public Service Obligations (PSOs)

- 1.1 The UK Government's policy on protecting air services through the imposition of PSOs was [previously governed by European legislation](#) (Regulation (EC) 1008/2008), [which has now been retained in UK law](#). This legislation (henceforth referred to as The Regulation), as amended, sets out the broad framework under which air services can be protected using a PSO. Work is ongoing across the UK Government to amend former EU Regulations that have been retained in UK law. The Department for Transport (DfT) reserves the right to make changes to this guidance in line with any changes made to The Regulation.
- 1.2 The aim of this updated guidance is to clarify how the DfT will interpret the framework when assessing PSO applications for domestic air services and to bring in line with the [current iteration of the Green Book](#), as issued by HM Treasury (HMT). DfT retains the right to amend this guidance at any time in the future.
- 1.3 This document replaces the previous "[Guidance on the Protection of Regional Air Access to London](#)", published in December 2013, and takes account of responses to [DfT's consultation "Aviation 2050: The future of UK aviation"](#), which closed on 20 June 2019, alongside the "[Union Connectivity Review](#)" and the Government's subsequent response.
- 1.4 DfT's policy on PSOs seeks to establish a balance between protecting regional services and limiting, as far as possible, any distortionary intervention in the market or increased carbon emissions. It is intended to act as a guide for applicants on how DfT will apply The Regulation in practice, allow greater transparency within the assessment process and ensure equitable treatment for all applications.
- 1.5 It is the responsibility of regional bodies, such as local authorities and Devolved Administrations (DAs), to make a compelling case for a PSO against the criteria within this guidance. For routes wholly within England, between England and a DA, or between two DAs, the Secretary of State for Transport (SoS) will be the deciding authority. As is currently the case, where a route falls wholly within the border of a DA, the relevant DA will take responsibility for the PSO.

## Structure of the Document

- 1.6 Section 1 sets out the background to the policy, while sections 2 and 3 introduce aspects of policy that are supplementary to The Regulation, such as the voluntary early warning system for airlines. Some technical terms are defined for UK purposes under the heading “Interpretations” at Section 4.
- 1.7 Section 5 sets out the full process that will be undertaken when assessing a PSO application and should be read alongside the criteria against which the application will be assessed in Section 6. Please note that these criteria may be subject to change in future versions of this guidance, in line with regional requirements and prevailing law.

## The Need for PSOs

- 1.8 A PSO is an arrangement by which a governing body protects a minimum level of air services on a particular route that is socially and economically vital for the regions it serves. PSOs are used in cases where there are potential obstacles, such as insufficient forecast revenue, that are preventing the route from being considered by airlines as commercially viable in a free market.
- 1.9 Airlines can be given exclusive access to the route to encourage a service to restart and, where necessary, may receive a subsidy to cover operating losses and a reasonable profit. Exclusive access and any potential subsidy must be offered for open tender in the London, Edinburgh and Belfast Gazettes (the Gazettes) for at least two months and bidding must remain open to any qualifying air carrier with the right to operate a domestic commercial air service between two airports within the UK (including Gibraltar).
- 1.10 The Aviation 2050 Green Paper outlined the value of domestic air connectivity to the UK, and the importance of regional airports to local economies. It also noted the concerns of regional stakeholders about the availability of slots at major London airports, and other slot coordinated airports, and the tendency for more profitable routes to squeeze-out the domestic routes that support connectivity across the nations and regions of the UK. Routes covered by a PSO are prioritised during slot allocation under Article 9 of Regulation 95/93, which protects them from being replaced.
- 1.11 Responses to the Aviation 2050 consultation were mixed, with a number of stakeholders stating the importance of PSOs to ensuring regional air connectivity is maintained, supporting levelling up and union connectivity. However, many stakeholders outlined that overusing PSOs in the aviation market could place undue distortions on the market, including on routes from nearby alternative airports. Some stakeholder views also stated that increased regional air connectivity may contradict UK net-zero targets.
- 1.12 As an island nation, air connectivity remains a vital part of the UK’s domestic transport system and is sometimes the only viable option. However, we aim to use PSOs only where absolutely necessary, with potential routes only eligible where no viable alternatives exist (by any transport mode). As emissions from domestic

aviation are capped as part of the UK's Emissions Trading Scheme (ETS), any increase in domestic aviation emissions brought about by PSOs will be compensated through emissions reductions elsewhere within the ETS.

## Contact Details

1.13 We would encourage applicants, in the first instance, to contact the dedicated PSO mailbox at [PSO.enquiries@dft.gov.uk](mailto:PSO.enquiries@dft.gov.uk) with any initial enquires or queries relating to a potential application or questions about PSO policy in general.

## 2. General Parameters

### Minimum Service Levels

- 2.1 If a route is not able to be operated under normal market conditions, a PSO can be used to set specifications that ensure an adequate minimum level of service is maintained. A minimum service level will be agreed between the DfT and regional body in advance of a PSO being imposed, and can include specifications for, amongst other things, service frequency and aircraft capacity.
- 2.2 It is, in the first instance, the responsibility of the relevant local authority or DA to propose what these specifications should be, while respecting principles of transparency, non-discrimination and proportionality. There may be a variation in the minimum level of service when considering what is required between summer and winter seasons.
- 2.3 DfT considers that the minimum level of service is unlikely to include a level of frequency or capacity that is higher than operated under the previous commercial service on the route. Should the local authority believe the minimum service level should be higher, DfT would require strong evidence for why this is the case, including evidence that demand on the route is sufficient to support this and why the demand is not high enough to support a commercially viable air route. This includes routes whereby higher frequency is requested only for peak periods, such as in the summer.

### Pre-requisites

- 2.4 As set out in Article 16(1) of The Regulation, this guidance is only applicable to the United Kingdom of Great Britain and Northern Ireland, as well as Gibraltar, and does not include Overseas Territories or Crown Dependencies. The basic criteria for PSOs are:
  - The service must be to a "peripheral region", a "development region", or on a "thin route to any regional airport". Only one of these three requirements must be met.
  - The service must be "considered vital for the economic and social development of the region".

- The imposition of a PSO must be necessary to ensure the "adequate" provision of scheduled air services. In assessing the 'adequacy of provision', the proportionality to the economic development needs of the region, the availability of other forms of transport, airfares and conditions, and the combined effect of all carriers operating or intending to operate on the route must be taken into consideration.
- 2.5 To take account of the Government's net-zero goals, this guidance stipulates that a route must take at least 3 hours by public transport to qualify for a PSO. Therefore, the minimum requirements for a "peripheral region" are already considered to be met, negating the need for the "development region" or "thin route" definitions as pre-requisites for support. Regional bodies will instead have the opportunity to submit evidence against these definitions under the secondary criteria in section 6, which will be used to strengthen the strategic case for support towards the PSO.
  - 2.6 It is not possible to impose a PSO on a route between two airports, cities or regions where adequate services are already being operated commercially. Imposition of a PSO will therefore be considered only when an airline's withdrawal or reduction of a currently operated service would reduce the provision of service below the agreed minimum service level.
  - 2.7 A PSO may also be considered on routes that had previously operated on a commercial basis for at least 24 months and ceased to operate within the previous 24 months. In special cases, DfT may consider routes that were lost more than 24 months previously. However, this is entirely at the discretion of DfT. Local authorities will need to provide strong evidence for why the route has not been operating and why a PSO application was not made when the route was originally lost.
  - 2.8 The decision to apply for the imposition of a PSO would lead to an in-depth consideration by DfT of the eligibility of the route, the economic and strategic case for its protection, and the evidence for the preferred minimum level of service. Further details can be found in Sections 5 and 6 of this guidance.
  - 2.9 All applications for PSOs will continue to be assessed by the Secretary of State for Transport on a case-by-case basis, using The Regulation and this guidance as the framework for these decisions. The decision of the Secretary of State for Transport is final. Should the existing legislative framework change in the future, this guidance may need to be reviewed and amended accordingly.
  - 2.10 Where a route falls wholly within the border of a devolved administration (DA), the relevant DA will act as the deciding authority.

## **Tendering for PSOs**

- 2.11 Regional bodies may offer an airline the right to operate the services on a PSO route by open public tender in accordance with Article 17 of The Regulation. It will be for the regional body to run the tender and they will be responsible for all aspects of the process, including producing Invitation to Tender (ITT) documents.

- 2.12 The airline selected to operate the PSO will be given exclusive access to the route for a period of up to four years, after which the PSO will be reviewed. Once the PSO is in place, no other airline will be allowed to operate services on the route for the duration of the PSO contract, and it is the regional body's responsibility to ensure this exclusivity is maintained. In the case of PSOs operating into London, this exclusivity usually applies only to the specific London airport, rather than the London system as a whole. However, if another airline can provide evidence of its intention to operate a wholly commercial service on the route defined by the PSO, or into a competing London airport from the same origin airport, and that route meets the minimum level of service associated with the PSO, DfT reserves the right to modify the terms of the PSO or remove the PSO from the route.
- 2.13 Under Article 17(8) of The Regulation, the contract arising out of an ITT may include the payment of a subsidy to the airline to cover the operating losses on the route when accounting for the costs and revenue generated by the service, including a reasonable profit. The subsidy is expected to be paid by local sources at each end of the route, such as local authorities, DAs or local businesses.
- 2.14 DfT will consider contributing up to 50% of the total subsidy on routes into London, taking account of the funding already provided, evidence of need and DfT budgets. DfT may consider partial funding on routes between regions but will require strong evidence of the need for funding and why funding cannot reasonably be provided locally. The imposition of a PSO does not mean that an operator will automatically be entitled to receive subsidy to operate services on the route, as the exclusive operation of the route and exemption from APD may be sufficient for services to commence.
- 2.15 Alongside notification of the intention to impose a PSO on a route, the intention to tender a route for exclusive access must be published in the Gazettes. Where a region is served by more than one airport (e.g. London), the tender should advertise the option for any of these airports (rather than restricting to a single airport) to give the maximum opportunity for competing bids.
- 2.16 Documents published will include the full ITT, which DfT expects to be developed in the first instance by the regional body, with input from DfT officials where necessary. The final ITT must be agreed by all parties, including DfT, and will be advertised in the Gazettes and the relevant regional tender portal (where available).
- 2.17 As per Article 17(3) of The Regulation, the tender must be advertised for at least two months from the date published in the Gazettes to allow for bids to be developed by any interested airlines. Interested airlines are advised to read the ITT in full, as this will set out the criteria that regional bodies will use to select the preferred airline to run the route. Once an airline has been selected, the regional body will submit its application in full to DfT for approval by the Secretary of State.
- 2.18 If a subsidy is agreed, the initial period of funding for a PSO will be 24 months. However, bidding airlines will be expected to provide subsidy forecasts for the full 48-month contract. PSOs will be reviewed after 24 months to ensure that their imposition is still appropriate, and the obligations set out are being met.

2.19 If the PSO is still deemed to be necessary after the initial 24 months, the Secretary of State has discretion to approve an extension of up to an additional 24 months under the existing contract. Regardless, PSOs must be retendered after each four-year contract. The Secretary of State retains the power to remove the PSO at any point in the contract if it is deemed to be no longer necessary. For example, where a route is deemed to be commercially viable, or where a change in circumstances means that the route no longer fulfils the criteria to be designated as a PSO (e.g. operation of new High Speed Rail route reduces journey time by public transport to <3hrs).

## **Exemption from Air Passenger Duty (APD)**

2.20 As referenced in Section 29A(4) of the Finance Act 1994, all PSOs are automatically exempt from APD, and can only remain as a PSO if the agreed minimum level of service is being met. A PSO must be monitored under the terms of the contract between the local authority and the airline to ensure the minimum level of service is met. Where providers are not meeting the agreed minimum level of service on a PSO, DfT is ultimately able to modify or remove the PSO where necessary.

## **Review Periods**

2.21 All PSOs will be agreed on a potential four-year contract and airlines bidding to operate the PSO will be expected to submit forecast subsidy requirement for the full contract. DfT's funding contribution will be approved up front for the initial two-years, with the subsequent two-years' funding subject to a formal review of the service.

2.22 The airline and local authority will be expected to submit information on the load factor of the service, the total number of passengers and the overall costs vs. revenue figures at the end of each IATA slots season. DfT will use this information to determine whether the minimum service level is set at the appropriate level for that season and reserves the right to amend the minimum level of service in the following year's corresponding season.

## 3. Additional Factors

### Reservation of Slots

- 3.1 As part of the tender application, DfT expects a bidding airline to demonstrate that they have secured, or are able to secure, the required slots at both airports on the PSO route across relevant IATA slot seasons. This should include confirmation from the independent slot co-ordinator of the bidding airline's right to operate the slots, including any grandfather rights held.

### Emergency Procedure

- 3.2 Article 16(12) of The Regulation provides for the eventuality that an airline operating a PSO on an exclusive basis is forced to cease operation of the route at short notice, for example due to financial insolvency or revocation of its operating licence. Under these circumstances, an emergency procedure can be enacted to avoid extended interruption of vital services. The emergency procedure cannot, however, be applied where the interruption of services is due to the agreed contract period coming to an end, or the interruption of services follows advance warning of at least six months.
- 3.3 Where an emergency procedure is judged to be required, DfT will direct the relevant local authority or DA to select a new service provider to operate the PSO for up to seven months. The selection criteria and overall process must comply with established principles of transparency and non-discrimination, and compensation offered must comply with Article 17(8) of The Regulation:

“Such compensation may not exceed the amount required to cover the net costs incurred in discharging each public service obligation, taking account of revenue relating thereto kept by the air carrier and a reasonable profit.”

- 3.4 DfT expects that the local authority or DA will develop clear selection criteria that will allow for an objective assessment of bids. These criteria should be communicated to a reasonable number of potential air carriers, particularly those which operate in the local area or from a relevant airport. In addition, a full ITT must be launched to select an operator for the PSO under a new contract.

## 4. Interpretations

### Peripheral region

- 4.1 For the purposes of this policy, we have interpreted the term 'peripheral' to include remote or sparsely populated areas and those that are faced with significant accessibility issues arising from their peripheral geographic location or lack of adequate surface transport alternatives.
- 4.2 Article 16(3)(b) of The Regulation indicates that particular attention should be given to rail alternatives on a given route, with a travel time of less than three hours, when determining the necessity of a PSO. Where no such rail services are available, DfT considers alternative modes of public transport, such as by road or sea, to be adequate in fulfilling the agreed minimum service levels.
- 4.3 An airport shall therefore be considered as serving a "peripheral region" if the total journey time between the main urban centres served by the origin and destination airports is more than three hours by any public transport.

### Adequate Provision of Services

- 4.4 The adequate provision of air services shall be assessed with regard to:
  - The proportionality to the economic and social development needs.
  - The possibility, particularly for island regions, of having recourse to other forms of transport and the ability of such forms to meet the transport needs under consideration.
  - The air fares and conditions which can be quoted to users.
  - The combined effect of all air carriers operating or intending to operate on the route, in terms of frequency, seat capacity, take off timings, pricing, etc.
- 4.5 The level of adequacy will differ by route and will be determined on a case-by-case basis. It is the responsibility of the regional body (i.e. local authority), in consultation with local organisations and business groups, to present DfT with clear evidence of the appropriate minimum service level.

## Origin Airport

4.6 The origin airport is the smallest by passenger numbers, in the last full calendar year, of the two airports served by the proposed PSO. If one of the airports is classified as a London Airport, the origin airport is the non-London Airport, regardless of annual passenger numbers. The London airports are as follows:

- London City
- London Gatwick
- London Heathrow
- London Luton
- London Southend
- London Stansted

## 5. Application Process

- 5.1 As part of the Aviation 2050 Green Paper, DfT committed to developing a new multi-stage application process to ensure a robust and transparent assessment of all potential PSOs. Stakeholders were supportive of this measure in their responses to the consultation.
- 5.2 The new process will consist of an initial assessment of a potential PSO's eligibility under The Regulation, a subsequent assessment of the route's current viability as a wholly commercial service, and a detailed strategic and economic assessment of the PSO. This process is for PSOs under the remit of the UK Government only – DAs are able to use their own method to assess PSOs that fall wholly within their border.

### Initial Engagement

- 5.3 It is for the local authority, regional body, DA, airport or airline to identify in the first instance the need for a PSO on a route. Where an organisation feels the imposition of a PSO is justified, they should engage with DfT to put forward their evidence for the minimum service levels that they believe should be operating on the route. This must include evidence of engagement with appropriate airlines and affected organisations to determine the existing and planned services on the route under normal commercial conditions.
- 5.4 Taking all relevant factors into consideration, DfT will have the final decision on what the minimum service level should be and whether to consider the route for a PSO. Where it is determined that existing and planned services on the route do not meet the agreed minimum service level, DfT will allow consideration of that route's eligibility for a PSO.

### Assessment of Eligibility under Legislation

- 5.5 It will be for the applicant to make a compelling case for why the imposition of a PSO on a particular route is eligible under Articles 16-17 of The Regulation.
- 5.6 DfT will undertake an assessment of applications under these rules, using the interpretations as described in section 4 of this guidance. The Regulation gives some scope for discretion, particularly when assessing how vital a route is to the regions it

serves. DfT will undertake this assessment in a fair and open manner, on a case-by-case basis, using information provided by the applicant.

5.7 As a minimum, applications must first include clear evidence that the route meets **all** the following criteria to be considered for a PSO:

- No air route exists between two airports that serve the same urban areas as the origin and destination airport proposed under the PSO.
- No air route from any airport within an hour of the origin airport, to the proposed destination airport, and vice versa.
- No adequate public transport is available between urban areas served by the origin and destination airports with a journey time of less than three hours.
- The route would not run to acceptable standards if carriers were solely to consider their commercial interests.
- The PSO will secure the minimum level of service that is agreed in advance.
- The route is vital to the economic and social development of the region.

5.8 Alongside assessing against the Regulation and completing other due diligence, local authorities will now also be expected to provide evidence of how the route complies with the [Subsidy Control Act 2022](#). In particular, the potential subsidy will need to be assessed against the Subsidy Principles in Schedule 1 of the Act and will need to comply with all seven principles to be eligible.

## **Commercial Viability Assessment**

5.9 DfT will use additional data sources to conduct its own analysis of the commercial viability of the route and assess the likely level of service the route would achieve on purely commercial terms. Where a route is found to be commercially viable at the determined minimum service level, DfT would not consider imposition of a PSO to be appropriate.

## 6. Assessment Methodology

- 6.1 Decisions by the Secretary of State on PSOs are based on the strategic and economic cases. PSOs have generally showed poor value for money on Government spend under standard economic appraisal principles, due to the small quantity of direct passenger benefits compared with often high per passenger costs. However, wider strategic benefits are less readily monetised within the economic case. It is therefore important for the strategic case to set out clearly the regional and national benefits of the expected impacts of the PSO as a whole.
- 6.2 To ensure consistency in information provided by airlines and local authorities and to bring in line with the HMT Green Book, DfT has developed a number of standardised criteria against which to assess the strategic case for PSOs.
- 6.3 These criteria fall under three distinct categories: (1) Regulatory Considerations, (2) Strategic Benefits, and (3) Distortions and Sustainability. A score is assigned to each criterion using a RED, AMBER, GREEN (RAG) system, with GREEN indicating a positive reason for intervention. RAG scores will be accompanied by a short narrative when presented to Ministers, to ensure clear and consistent decision making. All criteria have equal weighting, and the strategic case will be considered as a whole, alongside the economic case.
- 6.4 It remains the responsibility of the applicant to provide evidence against these criteria. Where insufficient evidence is provided against a criterion, applications will automatically be assigned a RED score. DfT retains the right to amend, remove or add criteria where necessary, including in response to feedback received from industry on whether the criteria considered are appropriate, and are evaluated in the right way.

### Regulatory Considerations

- 6.5 The criteria that make up the regulatory considerations are categorised as such because they do not fall under either benefits or distortions but are still vital considerations in assessing a PSO application. The criteria that make up the regulatory considerations are:

- Subsidy per passenger.
- Subsidy percentage provided locally.
- Proximity of origin airport to destination.
- Proximity of relevant alternate airports.

### **Subsidy Per Passenger**

- 6.6 A key consideration in the strategic case is the extent to which public funds are being administered effectively. This criterion favours PSO proposals that require lower levels of total public subsidy per passenger, taking account of direct subsidies given by all public bodies contributing (DfT, LAs, DAs, etc), but not taking account of the APD exemption. Lower per passenger subsidies generally reflect a higher number of passengers on the route or a more cost-efficient operation, maximising any benefits of the PSO.
- 6.7 To calculate relevant thresholds for this criterion, it is reasonable to include public service routes from international comparators as a benchmark for per passenger subsidy, as there is not a sufficient number of UK PSOs to provide a useful sample size. We will use latest available data from publicly subsidised routes covering a range of countries, alongside UK PSOs, to determine the RAG thresholds, with lower per passenger subsidies getting a GREEN score. Should DfT determine in the future that there is sufficient UK-only data to calculate the threshold, we will use this in place of international data.

### **Proportion of Subsidy Funded Locally**

- 6.8 Many of the key benefits of a PSO are to the region(s) that it serves, with regional stakeholders, including from the private sector, making clear the importance of air transport links from regional airports. As part of the Aviation 2050 Green Paper, DfT made clear its expectation that funding contributions for PSOs should increasingly be provided locally, alongside contributions from DfT, to reflect the benefits they bring to the regions.
- 6.9 This is particularly important now as DfT has an increasingly limited budget for PSO subsidies and, in many cases, there may not be any central funding available to support a particular route. As a minimum, DfT expects that at least 50% of the subsidy will be provided locally by public and private organisations in the urban area served by the origin and/or destination airport, to bring in line with other PSOs.

### **Proximity to Destination**

- 6.10 This criterion is considered as part of initial tests to determine eligibility under The Regulation. However, that test is simply a pass/fail consideration for whether the route takes more than three hours by public transport. This criterion will favour routes with a greater distance between urban areas served by the origin and destination. Assessment of this criterion includes, but is not limited to, both direct and indirect rail

services and considers frequency of services. Where no rail or bus alternative exists, such as from Northern Ireland to the UK mainland, the route is automatically assigned a GREEN score.

6.11 RAG scores will be determined through a matrix that considers journey time and frequency on an equal weighting. Frequency of service is determined on number of trains per direction, per hour, between 06:00 and 21:00 on normal weekdays (not including holidays):

|                    |      | Average Journey Time |       |       |
|--------------------|------|----------------------|-------|-------|
|                    |      | Low                  | Med   | High  |
| Frequency per hour | High | RED                  | RED   | AMBER |
|                    | Med  | RED                  | AMBER | GREEN |
|                    | Low  | AMBER                | GREEN | GREEN |

### Proximity to Alternative Airport

6.12 This criterion is considered as part of initial tests to determine eligibility under The Regulation. However, that test is simply a pass/fail consideration for whether the route has any alternative services to the destination from airports less than one hour away. This assessment will favour routes with a greater distance from the origin airport to an alternative airport with a direct service to the destination airport. Assessment of this criterion includes, but is not limited to, both direct and indirect rail services, as well as considering frequency of services. Where there is no alternative airport under the thresholds below, the route is automatically assigned a GREEN score.

6.13 RAG scores will be determined through a matrix that considers journey time and frequency on an equal weighting. Frequency of service is determined on number of trains per direction, per hour, between 06:00 and 21:00 on normal weekdays (not including holidays) between the origin and alternative airports:

|                    |      | Average Journey Time |       |       |
|--------------------|------|----------------------|-------|-------|
|                    |      | Low                  | Med   | High  |
| Frequency per hour | High | RED                  | RED   | AMBER |
|                    | Med  | RED                  | AMBER | GREEN |
|                    | Low  | AMBER                | GREEN | GREEN |

### Forecast Passenger Numbers

6.14 This guidance removes the need for the “thin route” criterion to be considered as part of the pre-requisite conditions for a PSO, as it is superseded by the need for a route to be a “peripheral region” to be eligible. However, the thickness of a route is still an important consideration in the strategic case for a PSO.

6.15 While routes with a higher number of forecast passengers are likely to bring greater benefits to the region and reduce the cost of any potential subsidy, the case for a PSO is significantly reduced as the route may be close to commercial viability. Moreover, the potential for market distortion is increased, particularly when considering the potential for demand abstraction from lower carbon alternative

modes of transport. Thinner routes will therefore have a stronger case for a PSO and will be assigned a GREEN score.

## Strategic Benefits

6.16 DfT recognises that PSOs have a positive effect on both the connectivity and the economy of a region. These criteria attempt to capture, in an objective way, economic enhancements and potential improvements to domestic and long-haul connectivity.

### Strategic Fit and Development Region

6.17 This criterion aims to reflect the current economic performance of the region served by the origin airport, giving a GREEN score to regions with a lower relative GVA per capita than the UK as a whole. Regional air connectivity is a key enabler of economic growth for the regions, including through increased opportunities for local firms and attracting new businesses to the region.

6.18 Regions with a lower GVA will likely benefit more proportionally from these types of Government initiatives. In previous iterations of the UK's assisted areas map, regions with particularly low population density were also considered to be development areas. Using a five-year average, regions with a particularly low GVA when compared with the rest of the UK, or regions with a particularly low population density, would be assigned a GREEN score.

### Improved Domestic Connectivity

6.19 This criterion aims to prioritise regions with poor existing domestic connectivity, as they are likely to benefit to a greater extent from the introduction of a PSO. Connectivity by both air and public transport is considered and weighted equally to give the overall score.

6.20 In order to assess the existing domestic air connectivity from a region in the short-term, DfT will use an air connectivity indicator, [adapted from an indicator developed by IATA](#), which takes account of frequency and capacity of services from an airport, weighted by size of the airport. The indicator reflects access to the domestic network in terms of the number of destinations. It gives a greater weight to airports that serve destinations of high economic importance, indicated by higher terminal passengers, and with many onward connections. Should DfT develop its own connectivity indicator in the future, it would replace the IATA indicator.

6.21 The score will be given for both the origin airport and the nearest airport, which may be different to the alternative airport, that is less than 2 hours away – where there is no alternative airport within 2 hours, a GREEN score is assigned – and aggregated to give the final score:

|                              |        | Origin Airport Connectivity |        |       |
|------------------------------|--------|-----------------------------|--------|-------|
|                              |        | High                        | Medium | Low   |
| Nearest Airport Connectivity | High   | RED                         | RED    | AMBER |
|                              | Medium | RED                         | AMBER  | GREEN |
|                              | Low    | AMBER                       | GREEN  | GREEN |

6.22 DfT will then calculate how well connected the urban area served by the airport is by public transport. Rail stations are categorised by the number of passengers entering and exiting the station, along with passengers in transit through the station. The assumption is that stations with a higher number of passengers and interchanges have higher connectivity, and therefore the urban area has a weaker case for a PSO.

6.23 The largest rail station serving the same urban area as the origin airport is used. Routes from areas with no rail connections are automatically assigned a GREEN score:

|                        |        | Number of Entries + Exits |        |       |
|------------------------|--------|---------------------------|--------|-------|
|                        |        | High                      | Medium | Low   |
| Number of Interchanges | High   | RED                       | RED    | AMBER |
|                        | Medium | RED                       | AMBER  | GREEN |
|                        | Low    | AMBER                     | GREEN  | GREEN |

6.24 DfT recognises that routes available from airports, and the connectivity of rail stations, may be subject to significant change, and will use up-to-date data for these indicators. The final score for the air connectivity and the rail connectivity of the urban area served by the origin airport will then be aggregated to give the final score for the domestic connectivity criterion:

|                   |       | Air Connectivity |       |       |
|-------------------|-------|------------------|-------|-------|
|                   |       | Red              | Amber | Green |
| Rail Connectivity | Red   | RED              | RED   | AMBER |
|                   | Amber | RED              | AMBER | GREEN |
|                   | Green | AMBER            | GREEN | GREEN |

### Improved Long-Haul Connectivity

6.25 This criterion aims to prioritise routes into airports that will significantly improve the long-haul connectivity of the region served by the origin airport. [The IATA connectivity indicator](#) will be used to assess and rank the UK airports that offer long-haul connections. This assessment will be done on a case-by-case basis, recognising the potential for routes at airports to change. Therefore, routes whose destination airport has particularly high levels of onward long-haul connectivity will be of greater benefit to the region surrounding the origin airport and will be assigned a GREEN score.

### Distortions and Sustainability

6.26 PSOs are recognised as having potential to distort the market and should therefore only be used where necessary. We have included a number of criteria in the strategic assessment to understand better the distortions that a PSO route has when in place.

### Distortions on Alternative Airport

- 6.27 This criterion is important as some passengers may fly from an alternative airport to their destination in the absence of the PSO. By putting in place a PSO, some demand may be moved from the alternative airport to the origin airport of the PSO. There are two factors to consider in assessing the distortive effect on an alternative airport: the number of passengers and the distance between the origin and alternative airports.
- 6.28 Where there is no alternative route, this criterion will automatically be scored GREEN. The assumption is that any distortion will be greater the thinner the alternative route. As such, when considering the potential shift in demand in terms of passenger numbers, thicker alternative routes will receive a GREEN score, while particularly thin routes will be assigned a RED score.
- 6.29 The assumption is also that passengers are less likely to fly from an alternative airport that is more difficult to get to or further away and the distortions are therefore lower. This will be the same as the score given under the “proximity to destination” criterion in paragraphs 6.10-6.11 of this guidance. The scores for these two factors will then be aggregated to give the final scoring for this criterion:

|                      |        | Proximity to Destination Score |       |       |
|----------------------|--------|--------------------------------|-------|-------|
|                      |        | RED                            | AMBER | GREEN |
| Number of Passengers | Thin   | RED                            | RED   | AMBER |
|                      | Medium | RED                            | AMBER | GREEN |
|                      | Thick  | AMBER                          | GREEN | GREEN |

### Carbon Emissions vs. Previous Years

- 6.30 In recognition of the UK’s climate change commitments to meet net zero by 2050, this criterion favours proposals with lower carbon emissions on the route than during previous years. Applicants must submit the estimated carbon emissions on the route for the length of the prospective contract (four years) and the emissions for the four previous years on the route. Carbon emissions from surface access are included in the economic case, so only the direct emissions are considered in the strategic case. Applicants are also encouraged to submit evidence of specific actions being taken to reduce emissions on the route.

### Summary and Presentation

- 6.31 The strategic case will be presented on a RAG rating basis, allowing for a clear, visual presentation of the potential benefits and distortions of the PSO application. The criteria in the assessment will be presented as follows (this is a randomly assigned example and any comparison with routes between actual airports is purely coincidental):

| Criterion                        |       |
|----------------------------------|-------|
| <b>REGULATORY CONSIDERATIONS</b> |       |
| Subsidy per passenger            | GREEN |
| Proportion funded locally        | GREEN |
| Proximity to destination         | AMBER |

|                                       |       |
|---------------------------------------|-------|
| Proximity to alternative airport      | RED   |
| Forecast passenger numbers            | AMBER |
| <b>STRATEGIC BENEFITS</b>             |       |
| Strategic fit and development region  | GREEN |
| Improved domestic connectivity        | RED   |
| Improved long-haul connectivity       | AMBER |
| <b>DISTORTIONS AND SUSTAINABILITY</b> |       |
| Distortions on alternative airport    | RED   |
| Carbon emissions vs. previous years   | GREEN |

6.32 DfT encourages applicants to include additional information within their proposal, outside of the above categories, that may strengthen the strategic case presented, such as testimonials from local businesses or evidence of potential wider economic impacts. DfT will consider whether there is a case to include this as part of a separate narrative, which will summarise the results above and will be included alongside the RAG table. The final decision on whether the route in question should be operated as a PSO is for the Secretary of State for Transport.