

## **Airports Commission discussion paper 6: Utilisation of the UK's existing airport capacity**

### **Introduction**

1. This response is presented by the South Yorkshire Passenger Transport Executive (SYLTE) on behalf of the SCR Combined Authority (SCR CA), which is responsible for strategic leadership for economic growth and transport in SCR.
2. The SCR CA welcomes the Commission's discussion paper on regional airport issues following publication of the Interim Report. This response comments on the individual chapter headings and where appropriate directly responds to the questions raised by the Commission.
3. Aviation connectivity is important to SCR, which is home to Robin Hood Airport Doncaster Sheffield (RHADS) and is located within the catchments of airports including Manchester, Leeds Bradford and Nottingham East Midlands.
4. Connectivity to international gateways is important to SCR. As well as enhancing connections to RHADS, SCR is currently working with Leeds and Manchester to develop enhanced multi-modal TransPennine links, including enhanced access to these key northern airports. Manchester Airport offers the widest range of international destinations in the north.
5. The SCR Growth Plan sets out our ambition to improve SCR's external connectivity, nationally and internationally, by air, road and rail. Inter region connectivity is essential to ensure that SCR benefits from access to key markets and the range of services offered by UK regional airports. There are a number of planned schemes, including electrification of the Midland Mainline, East Coast Mainline enhancements the Northern Hub and managed motorways that will enhance SCR connectivity. We have made the case for the acceleration of HS2 to further enhance inter regional connectivity.
6. RHADS is located to the south east of the Doncaster urban area and is one of the main aviation gateways to the Yorkshire region. The airport is in open countryside and is not constrained by population or environmental issues and has the potential for significant growth given the right market conditions.
7. In July government approved the SCR Growth Plan which identified RHADS as one of seven growth priorities for the region (Appendix A). In particular the SCR and private sector partners have established a multi-mode logistics hub focused around the airport including development of a Strategic Road/Rail Freight Terminal (the iPort) adjacent to the airport, the M18 and the East Coast mainline.

8. RHADS has a population of 6million with a 1 hour drive time including the major centres of Sheffield, Leeds, Nottingham and Hull.
9. Rapid access to international markets is an important component of the SCR Strategic Economic Plan, which seeks to deliver 70,000 new jobs in the region and attract 6000 new businesses.

## **Chapter 1 Domestic connectivity to London airports**

10. Given the good East Coast rail connections and competitive fares it is unlikely that air travel solely to access London's economy would generate a high demand. It is therefore more important to consider the range of destinations of long haul flights from a London\SE hub and particular the role of airline alliances which enable seamless ticketing and baggage handling.
11. In this respect only Heathrow can be considered as offering appropriate connectivity in terms of a range of long haul destinations, the other SE airports offering either limited destinations or business models that are not aimed at 'hubbing' (eg low cost tend not to offer through ticketing). The emergences of European (and Middle East) hubs, with high levels of regional UK connectivity, offer an attractive alternative to Heathrow and therefore competition for Yorkshire region users.
12. In response to the Commissions question on the future trend for domestic connectivity to London, the SCR see's this trend stabilising or declining due to increased competition from European hubs and rail and the capacity constraints at LHR. It is noted that the financial pressures of slot trading at LHR makes it difficult for new entrants into the market with a focus on legacy airlines and long haul destinations.
13. The Paper notes the changing purpose and route patterns within the UK, particularly the decline of business and rise of leisure trips This market is dominated by the LCC operators offering point to point services and can be considered as having reached market maturity as most viable routes have been operating for over 10 years now. It is expected that market demand will change marginally, perhaps focused on bespoke niche markets (eg new entrants to eastern European countries as labour markets are liberalised).
14. We would agree with the comment (paragraph 1.40) that the benefits of long haul services are significant. Long haul operators will carefully consider the market demand for such a service and it is considered that catchment area, local economic data sets and competition will be the prime factors in determining a new regional long haul service. It is most likely that major airlines would consider establishing at one of the major regional airports (e.g. Manchester) as a low risk strategy in the first instance. Opportunities for small regional airports are therefore more limited but could be considered where social, demographic and economic conditions within a catchment area may make such routes viable.
15. For RHADS, expanding the catchment area and growing the local market are the key drivers to stimulating demand for new air services. Improving local surface access is currently being achieved by the construction of the FARRRS project which will directly link the airport to the M18 and increase the population within 1 hour

travel from 6 to 9 million. The £56m FARRRS project is being funded by the private sector and Regional Growth Fund. Secondly there is an aspiration to provide a rail link to the airport from the existing Doncaster – Lincoln line. The capital cost of this scheme is being considered as part of the Sheffield City Region Investment Fund, but will require revenue subsidy for initial support for an hourly train service. The SCR will be responding to DfT consultation on the Northern franchise and will be seeking inclusion of an hourly Doncaster–RHADS–Lincoln service in the base specification.

16. The second key objective for SCR is expansion of existing local demand by inward investment. Doncaster Council's planning policies support new housing and economic development adjacent to the airport and this has been reflected in designation of an Enterprise Zone adjacent to the airport.
17. The SCR economy has a Gross Value Added output of £28.2bn per year<sup>1</sup> and contains around 55,000 businesses across a wide range of sectors including advance manufacturing and logistic services. The Local Growth Plan sets out how the local economy will grow and this in turn will stimulate demand for improved connectivity as an increase in business activity and wealth translates into a demand for more travel. It is anticipated that regional growth across all aviation sectors (business, leisure, vfr) will be in the region of 3-4% per annum.
18. The Paper and the Commissions Interim Report does not fully discuss the imbalance between London and regional economies which by its very nature has led to the emergence of different market conditions and hence different operating models. It is recognised that there is a significant gap between London and the northern economies (reflected in the Chancellors speech on creating a 'northern powerhouse') Whilst Paper 6 compares regional and London aviation trends, any national aviation strategy that emerges cannot utilise the same one size fits all blanket approach given the different markets between London and the regions.

## **Chapter 2 Airport business models**

19. The Commission highlights the propensity for larger airports to retain\ grow passenger numbers given the high percentage of fixed operational costs and high degree of market competition due to overlapping catchment areas. The Paper does not consider other issues which may influence individual trends. Three issues could be considered for debate as follows

### **Airport ownership**

20. Firstly the paper does not identify individual airport ownership and if this may impact upon competition. Different airport owners apply different business models and may be in a position to grow the market through cross subsidy or more aggressive business models. A recent example is Stobart's entrance into the market at Southend. Other owners (perhaps those within the public sector) may adopt a more cautious approach. Airport owners focus on different aspects of the market which has resulted in specific airports focusing on either LCC, charter or business markets. Due to consolidation airports may have overlapping catchment areas which will compete for the same market share. Airline operators will wish to avoid abstraction or competition which reduces seat occupancy rates and will focus on

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<sup>1</sup> Sheffield City Region Independent Economic Review, 2013

maximising demand from their existing operation \ crew bases. It is therefore considered that there are significant barriers for smaller airports to establish new routes unless there are unidentified gaps in the market for more bespoke niche services.

21. Further analysis is required of individual trends for each airport by market segmentation, competition and abstraction.

#### **Regional data sets \ trends**

22. Secondly no regional economic, social and demographic information is provided within the Paper. The overall factor that impacts upon the demand for travel is the state of the economy within the catchment area of a particular airport. It is clear that local economic trends vary between regions and in particular that London and the larger city regions are those that are most likely to recover from the recession most quickly. Airlines will consider catchment area and economic \ demographic conditions when choosing to establish routes. It would be useful to plot GVA\GDP against propensity to fly for each region to determine such trends. It is noted that the propensity to fly is 2.45 trips per person in the South East but only 1.47 for Yorkshire and Humber (CAA 2010). This may suggest a mature market in the South East compared to a more liberal emerging market within the regions with more opportunities for sustained growth. Stimulating and improving regional economies would safeguard local airports.
23. Further analysis is also required of business sectors for each airport \ region. For instance is there a greater demand for financial services sector to fly than say the agricultural sector?

#### **Business diversification**

24. Consideration needs to be given to the role that airports can give to support regional economies. Using RHADS as an example the airport owners Peel have been in a position to develop a number of land uses around the airport including non-airside maintenance, logistics and training facilities. The Sheffield City Region Strategic Economic Plan has identified RHADS as a growth hub and this has included designation as a Local Enterprise Zone. Growing the local economy will stimulate market demand which will enable the local airport to become more viable and offer a greater range of flights.
25. It is therefore considered that Government should support regional airports as a tool to aid regional economic regeneration, rather than a more simplistic view focused on supporting, maintaining or enhancing aviation transport movements. Whilst this may be outside of the remit of the Commission, greater emphasis and support needs to be given to local regions to grow their own economies. The recent Local Growth Fund announcement is a welcome way forward in achieving this objective.
26. It is noted that there is considerable leakage of demand from individual locations to airports outside their immediate catchment. This reflects the fact that users do not have the option of flying locally and quite often have to undertake lengthy surface access journeys to other airports given the limited flight opportunities. This places a burden on the national transport network. Further investigation is required of the impact of leakage and impact upon national networks.

27. Regional airports offer an attractive alternative to larger airports in terms of customer satisfaction by offering a more bespoke service such as faster check in \ boarding times. The limited flight alternatives does not offer the opportunity for customers to choose particular airports based on customer satisfaction, but rather the reverse that customers are forced to utilise airports which may have a poor satisfaction rating. Consideration should be given as to how quality \ satisfaction can become more important rather than relying upon airline business plans purely dictated by route profitability.

### **Chapter 3 Enhancing connectivity, options for government**

28. SCR welcomes clarity on the new EC guidelines on state aid and the establishment of a Regional Air Connectivity Fund for smaller airports which may offer financial opportunities for new routes to regional airports.
29. It is considered that APD still imposes an undue constraint to airlines and regional small airports, despite the abolition of the highest bands, which may favour larger airports serving long haul routes. Further consideration needs to be given to reform of APD. In particular consideration should be given to introduction of a holiday payment for new routes. It is noted that Spain does not charge APD for the first year to allow new routes to be established. This is cost neutral. APD for children should be abolished. This would give a welcome boost to family holidays and the charter airlines. Seasonal APD should be introduced to reflect the low winter demand when routes may not be viable without subsidy from summer routes. Regional APD should be introduced to reflect capacity constraints and or customer satisfaction ratings. This would favour airports which can accommodate route utilising spare capacity and who offer a better customer experience.
30. SCR welcomes the opportunities that can be brought about by targeted international tourism. The recent success of the Tour de France grand depart in Yorkshire highlights the value of tourism to regional economies. A key aspiration of SCR is to expand visitor numbers, taking advantage of its major tourist attractions such as the Peak District.

#### **Surface access improvements**

31. Access to Manchester Airport remains important to SCR. The airport is currently served by two trains an hour from Sheffield and highway links suffer from congestion, particularly at peak times. SCR is working with neighbouring city regions and Government to develop North and South TransPennine multi modal connectivity proposals through the 'One North' project. These enhancements will be key to improving the surface access to Manchester Airport and Leeds Bradford from SCR.
32. SCR has been working proactively with Doncaster MBC and the airport to deliver a range of access improvements identified within the Airport Surface Action Strategy (ASAS) for RHADS. See attached plan. This includes delivery of the A638 quality bus corridor linking the airport to the town centre, the currently under construction Finningley And Rossington Regeneration Route Scheme, linking the airport to the M18, the A6182 Doncaster Southern Gateway and the M18 junction 2-3 widening scheme. In total these four projects are improving local bus and local \ national road connections at a total cost of £123m funded from a mix of DfT major scheme

funding, Regional Growth Fund, Growing Places Fund, European funding and the private sector.

33. Delivering a rail service to RHADS is the final aspiration of the ASAS to ensure full multi-mode access to the airport. A feasibility study and outline business case has identified the preferred infrastructure and service frequency which can be considered for funding through private sector and the SCR Local Growth Plan Investment Fund. Planning approval has been granted for a station on the Lincoln line. However the traditional business case approach using transport cost benefit analysis has identified the need for revenue subsidy in the initial years due to uncertainties over development assumptions and aviation passenger demand forecasting. SCR is seeking inclusion of an hourly Doncaster-RHADS-Lincoln service in the base specification for the upcoming Northern franchise renewal (or future East Midlands Trains franchise) but is concerned that the complex approval process to establish a new rail service is inhibiting this initiative.
34. In the longer term partners will consider developing a dedicated rail spur to directly connect the airport terminal with the Lincoln line and also offers the opportunity for a direct connection to the East Coast Mainline at Bawtry. This will further expand rail connectivity and increase the airports catchment area with London King Cross being only 1 hour 20 minutes from the airport.
35. Consideration needs to be given as to how rail access to local airports can be implemented on a more pragmatic basis given the modest costs of less than £30m to deliver a new rail station and spur to serve RHADS. SCR is therefore seeking support from the Commission to recognise the role of ASAS and airport masterplans in the rail franchising process and Network Rail Business Plans. This will give comfort to SCR and its partners to strengthen the business case for presentation to Network Rail, franchise operators and the rail industry as a whole. Consideration should be given to how Network Rail prioritises investment and if it would be appropriate to introduce a strategic objective for Network Rail to promote air-rail access over and above other corporate objectives.
36. For chapters 4, 5 and 6 which relate to airports serving London, SCR has no comments, other than to note that the London airports operate in a constrained environment along with capacity restrictions which can impact upon operational performance. RHADS and other regional airports have no or limited constraints with lower environmental impacts and a rebalancing of flights across a network of airports could help to improve operational reliability.

### **Summary and SCR recommendations to the Commission**

37. Sheffield City Region Combined Authority supports the Commissions Paper on regional airports.
38. We believe that support for regional airports is critical to achieve wider UK objectives on economic regeneration and that greater recognition should be given to supporting regional economies around local airports to stimulate market demand. This will give greater confidence to the aviation industry to instigate new routes as local economies become stronger, stimulating market demand.

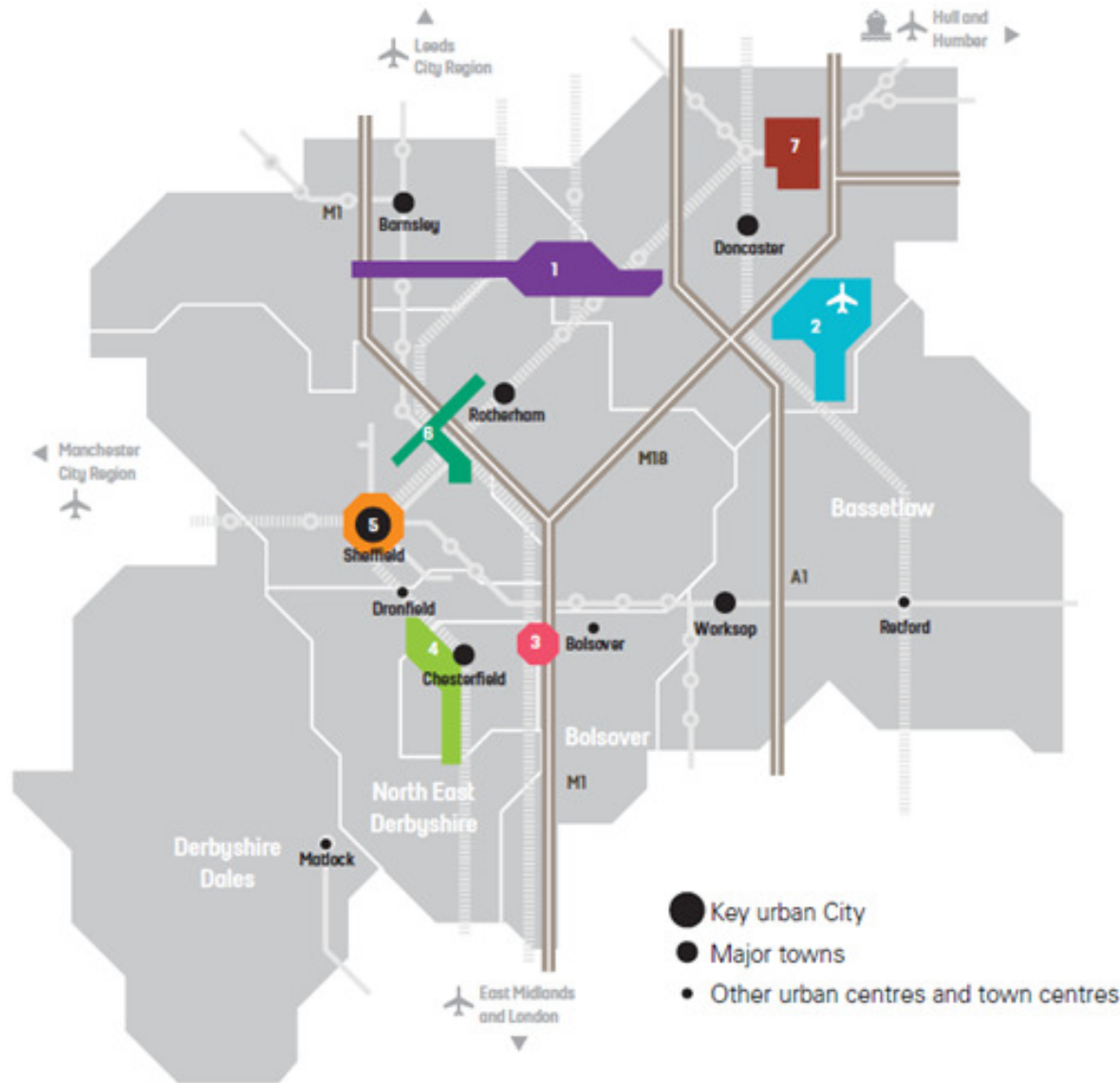
39. The Commission should acknowledge that individual airports have developed bespoke business models to reflect local markets and it is not appropriate to apply aviation trends across all regional airports on an equal basis. Different airports have different needs and therefore there is no one prescriptive solution that can be applied to all airports.
40. We welcome clarification of state aid and establishment of the Regional Air Connectivity fund for smaller airports.
41. SCR wishes that a whole scale reform of APD is undertaken as this imposes a disproportionate financial burden to small airports and a barrier to new start-up airlines.
42. The Commission should acknowledge local partnership working at individual airports, which in Doncaster's case has delivered a range of infrastructure projects and inter dependant developments that centre on airports due to agglomeration benefits.
43. The Commission needs to provide more explicit guidance on the role of air-rail services and identify specific rail projects that can be delivered (and funded from local sources) but require more support from the rail industry. In Doncaster's case this includes the provision of a rail service to RHADS (via Doncaster–Lincoln).
44. There is a need to ensure that any recommendations from the Commission's work are cross referenced into other wider Government strategies, particularly those relating to regional economic development, transport strategy and the National Infrastructure Plan.

23 July 2014

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## SCR Growth Priorities



- 1 Dearne Valley and Junction 36 - A major, mixed use, employment growth cluster, linking a number of development sites (including a number of EZ sites). The area has a number of low carbon businesses and an overall Eco-Vision vision – all of which align to support a low carbon vision for this area.
- 2 Robin Hood Airport Doncaster Sheffield corridor – This and surrounding areas to be recognised as a catalyst for business development, inward investment and job creation with regard to logistics, engineering and associated aviation activities.
- 3 Markham Vale - A key part of the advanced manufacturing hub in collaboration with the D2N2 LEP
- 4 The A61 Corridor represents a strategic growth opportunity, linking a number of major mixed-use development sites with significant regeneration and job creating potential.
- 5 Sheffield City Centre - acting as the largest hub for Knowledge, Creative and Digital Industries, Leisure, Higher Education, Culture and Financial and Professional Services sectors to be a key engine for growth in the City Region.
- 6 The Sheffield Rotherham Don Valley Corridor represents largest cluster of modern manufacturing in the SCR and also includes a major retail centre, first class sporting facilities and popular cultural attractions.
- 7 DN7 Initiative - This mixed-use growth corridor will include a cluster of green businesses (including research and development opportunities) and hi-tech companies with new direct access to ports and the motorway network using low carbon technologies which will contribute to UK power needs and become one of the most advanced energy parks in the SCR with impact across the wider northern economy.