

PROTOCOL FOR UK START-UP AID FOR AIRPORTS OF LESS THAN 3 MILLION PASSENGERS PER ANNUM

1. Introduction

Policy Background

- 1.1 The Aviation Policy Framework¹ sets out the government's policy to allow the aviation sector to continue to make a significant contribution to the economic growth of the country.
- 1.2 The Government recognises the very important role airports across the UK play in:
 - attracting new or more frequent international connections to attract new business activity to support the growth of a more balanced economy
 - reducing the need for long-distance travel to and from airports; and
 - giving air passengers greater choice.
- 1.3 The UK Government believes that airlines operate best in a competitive, commercial environment and it is for individual airlines to determine the routes that they operate. However, the UK recognises that aviation plays an important role in connecting regions and accepts that aid may be necessary to develop air services to airports where local economic conditions prove unattractive to airlines. However, any Government intervention in this market must ensure that it does not distort competition.
- 1.4 In response to this agenda, the Chief Secretary to the Treasury announced in the 2013 Spending Round that £20 million would be made available over two years to 2016 to maintain regional air access to London through a Public Service Obligation (PSO) where there was the probability that an existing air service would be lost.
- 1.5 PSOs are governed by European legislation on 'Common rules for the operation of air services in the Community' (1008/2008). The Department for Transport (DfT) has published guidance² that clarifies how Government will ordinarily expect to interpret these criteria when assessing PSO applications to protect existing regional air services to

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/153776/aviation-policy-framework.pdf

² <https://www.gov.uk/government/publications/public-service-obligation-regional-air-access-to-london>

London and how a devolved administration or local authority can access funding for supporting an airline to operate a service on the PSO route.

1.6 In the 2014 Budget, the Chancellor further increased the support for regional air connectivity to London from £10 million to £20 million per annum, and extended the fund to include start-up aid for new routes from regional airports which handle fewer than five million passengers per year, providing this meets new EC aviation State aid guidelines for airports and airlines³ (“Guidelines”).

1.7 The Guidelines note that:

“Development of new air traffic should, in principle, be based on a sound business case. However, airlines are not always prepared, without appropriate incentives, to run the risk of opening new routes from unknown and untested small airports. Therefore, under certain conditions, airlines can be granted start-up aid even after the transitional period, if this provides them with the necessary incentive to create new routes from regional airports, increases the mobility of the citizens of the Union by establishing access points for intra-Union flights and stimulates regional development.”

Purpose of a Protocol for UK provision of start-up aid

1.8 This Protocol has been prepared to provide a framework of rules and guidance that a route promoter would need to comply with in order to be considered compliant with the Guidelines, and to ensure funding can be allocated in an open and fair method.

1.9 The Protocol has been designed to ensure that any start-up aid given:

- is in line with the objectives of the Aviation Policy Framework on regional airports;
- complies with UK and European Union law, especially in respect of State aids and competition policy;
- operates on a consistent basis, ensuring transparency, non-discrimination and proportionality; and
- works with the market to provide carefully targeted, time-limited interventions which help to share the risk of route start-up from regional airports with airport operators and airlines.

1.10 The Secretary of State for Transport is responsible to the European Commission for the implementation of State aid policy in relation to transport in the UK on behalf of the UK Government.

³ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2014:099:FULL&from=EN>

1.11 This Protocol has been notified to the Commission. Upon clearance of this Protocol by the Commission, the UK Government can award aid in respect to routes from airports handling fewer than 3 million passengers per annum which commence services after [xxxxxxx], without further notification.

1.12 This Protocol does not directly apply to new routes from airports handling between 3-5 million passengers per annum due to the higher risk of market distortion. However the Commission Guidelines state that for airports of this size, aid can be compatible with the internal market only in duly substantiated exceptional cases and will need to be notified on an individual basis to the Commission. Therefore route promoters should contact DfT separately to discuss whether a route might be considered compatible.

1.13 For airports handling more than 5 million passenger per annum, state aid will not be considered compatible.

Who can bid for funds?

1.14 Funding for start-up aid can only be provided to passenger airlines. However bids for funding would need to come from a consortium made up of at least:

- airport – UK airport with less than 3 million passengers per annum;
- airline – passenger airline that will operate the route;
- where suitable, the devolved or regional government body form where the airport is located.

1.15 For the purpose of this document this grouping will be referred to as the 'route promoter', but with any payments for funding can only being made to the airline who will operate the route

Timescale for funding

1.16 To ensure an open and fair process the Department for Transport will publish a timetable for receiving bids from route promoter to provided start-up aid.

Structure of this Document

1.17 The structure of the remainder of the guidance is as follows:

- Section 2 - sets out the key principles underpinning start-up aid and their operation.

- Section 3 - outlines the rules and criteria that promoters must abide by in order to be compliant in terms of competition and State aid rules, and with national and regional policy and value for money objectives.
- Section 4 - identifies the process an interested party will need to undertake to apply for start-up aid funding and how DfT will assess schemes.
- Annex – Map highlighting airports that qualify for routes to be funded by start-up aid

2. Key Principles

The Policy and Legal Context

- 2.1 In preparing this Protocol we have sought to reflect a range of relevant policy and legal principles developed at European, national and regional level and draw them together.
- 2.2 In a European context, we have had regard to the European Commission's Transport White Paper⁴, the key aims of which can be summarised as improving transport connections between all areas of the European Union by developing new links and removing bottlenecks, in order to allow access to the European Single Market and enable it to operate more competitively and therefore efficiently. As noted in Section 1 above, in preparing this Protocol we have had particular regard to the European Commission's State aid Guidelines for airports and airlines⁵ ("Guidelines").
- 2.3 At national level, as explained in Section 1, the UK Government is committed to encouraging the growth of regional airports and to stimulating regional economies. This Protocol and the associated Appraisal Framework provide the practical delivery tools through which the Government envisages implementation of the policy will take place.

The Objectives of start-up aid

- 2.4 The objectives of start-up aid is to create net economic benefits for the region by improving the connectivity between the UK regions and their domestic and European counterparts.
- 2.5 It should work with the market to support new air services by sharing risk during the period of route start-up. As such, it will provide a mechanism that allows a promoter to bring forward the commencement of new air services that are expected to become commercially sustainable in the medium term, thereby securing the resultant economic benefits to be derived from additional connectivity.
- 2.6 Start-up aid is not intended to support services that have the potential to be commercially viable without assistance, that serve primarily outbound leisure markets, or that will not be commercially sustainable in the medium term. It is expected to be a strictly short-term measure providing limited sums for start-up assistance over a maximum period of three years. It is

⁴ http://ec.europa.eu/transport/themes/strategies/2011_white_paper_en.htm

⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2014:099:FULL&from=EN>

not intended to distort existing competition by bringing forward routes at one airport that will significantly affect the viability of existing routes from another with a shared catchment area.

2.7 Start-up aid will only be provided, therefore, where:

- a route complies with EU Guidelines on State aid, and where
- an assessment indicates that the development of new routes from airports within the region or sub-region in question will bring demonstrable economic benefits and make better use of regional airport infrastructure, and where
- if number of bids exceeds funding availability, the route provides best value for money and meets the objectives set out for strategic aims of the scheme.

Funding Applications

2.8 To ensure that start-up aid is provided in a transparent and non-discriminatory way in line with EU guidelines, access to start-up aid fund is open to all airlines who wish to operate from an airport handling fewer than 3 million passengers per annum. All processes must be compliant with the requirement for good public governance, be clearly auditable and transparent in their allocation of resources.

2.9 It will be for interested parties (airports, airlines, local authorities etc.) to consider whether a route is suitable for start-up aid. Where such interested parties decide that the route meets such criteria they will be required to submit to the DfT evidence that shows the route(s) meets the EU criteria and to undertake an economic appraisal of the benefits the route will generate.

2.10 To ensure that this is carried out on a transparent, objective and consistent basis this Protocol the DfT will set out timetable to receive bids and assess bids for funding.

2.11 All applications will be evaluated using a common process and against a range of criteria (i.e. commercial performance, economic benefit, and social and environmental impact), which are consistent with appraisal methodologies used to evaluate other transport and economic development projects in the UK.

2.12 An 'Appraisal Framework', specifically designed to meet these requirements in relation to start-up funding for new air services, has been developed by the UK Government. It provides guidance on the appraisal process and contains minimum economic benefit thresholds, weighting and scoring of the appraisal criteria. `

Payment

- 2.13 Start-up aid will be provided as a direct grant to passenger airlines whose proposals have been accepted.
- 2.14 The proposed aid to support the launch of new routes is intended to cover up to 50% of the costs of published airport charges at UK airports of fewer than 3 million passengers per annum.
- 2.15 The aid awarded under the proposed scheme will be paid from a “Regional Air Connectivity Fund”.

Budget

- 2.16 The proposed scheme will have a maximum total budget of £20million, which will be distributed annually in relation to budgetary availability each year.

Duration of the scheme and the aid

- 2.17 The implementation of the proposed scheme will only start when approval of the European Commission has been obtained.
- 2.18 The scheme will support airlines in establishing a new route for duration of up to three years.
- 2.19 [The period in which contracts for start-up aid for the opening of new destinations may be concluded is until 31 March 2016. Aid contractually agreed can still be disbursed until 31 March 2019.]

Beneficiaries

- 2.20 The beneficiaries of the aid will be airlines which satisfy certain technical criteria as described below, and which are chosen following the tendering procedure.
- 2.21 Undertakings of all sizes are eligible. The estimated number of beneficiaries of the scheme is between 11 and 50.

Performance Review and Reporting

- 2.22 All scheme promoters will be expected to review the operation of the route, and provide DfT with information on number of flights, passenger numbers and funding received to the DfT on an annual basis.

Dispute Procedures

2.23 A number of potential areas of conflict or dispute could arise, including:

- i) complaints from unsuccessful applicants;
- ii) complaints from airport operators;
- iii) complaints from other airlines.

2.24 Any disputes should be directed to the DfT which will be expected to explain, within the scope allowed by commercially confidential agreements between the Department of Transport and the applicant, why a particular route or airport received support and others did not.

2.25 While the aim is that all domestic avenues for dealing with a complaint should ideally be exhausted before an aggrieved party feels the need to seek recourse to Europe, potential complaints can be referred to the EU Commission. If the complaint is upheld, then the Government could be asked to re-claim money provided by the DfT and pay any fines imposed by the Commission.

3 Essential Start-up Aid Operating Requirements

Introduction

3.1 The European Commission published their updated guidelines regarding State aid for airports and airlines in April 2014⁶ (“the Guidelines”). The Guidelines set out in section 5.2 (Start-up aid to airlines) the criteria under which State aid can be granted to an airline for launching a new route with the aim of increasing the connectivity of a region and facilitating regional development. Aid will be considered compatible with the internal market pursuant to Article 107(3)(c) of the Treaty, if the cumulative conditions in point 79 are fulfilled as set out in points 139-153.

(a) Contribution to a well-defined objective of common interest (points 139 – 140)

Start-up aid to airlines will be considered to contribute to the achievement of an objective of common interest, if it:

- a) increases the mobility of Union citizens and the connectivity of the regions by opening new routes; or*
- b) facilitates regional development of remote regions.*

When a connection which will be operated by the new air route is already operated by a high-speed rail service or from another airport in the same catchment area under comparable conditions, in particular in terms of length of journey, it cannot be considered to contribute to a well-defined objective of common interest.

3.2 Aid is to be provided to encourage airlines to launch new routes from UK airports of fewer than 3 million passengers per annum, to create net economic benefits for the region they serve by improving connectivity between the UK regions and their domestic and European Counterparts.

3.3 There must be no duplication of existing comparable connections operated by a high-speed service or by another airport in the same catchment area under comparable condition.

(b) Need for State intervention (points 141-145)

⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2014:099:FULL&from=EN>

The conditions that smaller airports face when developing their services are often less favourable than those faced by the major airports in the Union. Also, airlines are not always prepared to run the risk of opening new routes from unknown and untested airports, and may not have appropriate incentives to do so.

On this basis, start-up aid will only be considered compatible for routes linking an airport with less than 3 million passengers per annum to another airport within the Common European Aviation Area.

Start-up aid for routes linking an airport located in a remote region to another airport (within or outside the Common European Aviation Area) will be compatible irrespective of the size of the airports concerned.

Start-up aid for routes linking an airport with more than 3 million passengers per annum and less than 5 million passengers per annum not located in remote regions can be considered compatible with the internal market only in duly substantiated exceptional cases.

Start-up aid for routes linking an airport with more than 5 million passengers per annum not located in remote regions cannot be considered compatible with the internal market.

3.4 The guidelines recognise that smaller airports (handling fewer than 3 million passengers per annum) can encounter proportionally greater obstacles than those faced by major airports (handling more than 5 million passengers per annum) when seeking to develop air services. It recognises that airlines are not always prepared to run the risk of opening new routes from smaller airports without an appropriate incentives to do so.

3.5 Therefore start-up aid can only be awarded for airports handling fewer than 3 million passengers per annum.

3.6 In defining airport size the Guidelines sets out that traffic levels at an airport should be calculated as the:

“Actual average annual passenger traffic during the two financial years preceding that in which the aid is notified or actually granted or paid in the case of non-notified aid. In the case of a newly created passenger airport, the forecasted average annual passenger traffic during the two financial years after the beginning of the operation of commercial passenger air traffic should be considered. These thresholds refer to a one-way count. This means a passenger flying for example to the airport and back would be counted twice; it applies to individual routes.”

3.7 For consistency the UK will define the financial year to be the same as the calendar year (January – December). Annex A contains a list of UK

airports that would be deemed to be compatible for start-up aid in 2014, based on the average traffic numbers at these airports in 2012 and 2013.

3.8 The Guidelines also specify that only routes that serve countries in the Common European Aviation Area (CEAA) can be a recipient of start-up aid. This area is defined in the Council Decision 2006/682/EC as:

“the Multilateral Agreement between the European Community and its Member States, the Republic of Albania, Bosnia and Herzegovina, the Republic of Bulgaria, the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Iceland, the Republic of Montenegro, the Kingdom of Norway, Romania, the Republic of Serbia and the United Nations Interim Administration Mission in Kosovo on the Establishment of a European Common Aviation Area (ECAA) (OJ L 285, 16.10.2006, p. 1).”

3.9 Due to the higher risk of distortion of competition, start-up aid for routes from airports of between 3-5 million passengers per annum will need to be notified individually. Whilst for airports handling more than 5 million passengers per annum will not be considered compatible.

(c) Appropriateness of State aid as policy instrument (points 146-147)

The Member States must demonstrate that the aid is appropriate to achieve the intended objective or resolve the problems intended to be addressed by the aid. An aid measure will not be considered compatible with the internal market if other less distortive policy instruments or aid instruments allow the same objective to be reached.

An ex ante business plan prepared by the airline should establish that the route receiving the aid has prospects of becoming profitable for the airline without public funding after 3 years. In the absence of a business plan for a route, the airlines must provide an irrevocable commitment to the airport to operate the route for a period at least equal to the period during which it received start-up aid.

3.10 To ensure that a route is commercially viable at the end of the funding period it will be necessary for an interested party to submit, alongside any funding bid, an ex-ante business plan. It should indicate that a route cannot operate to acceptable levels of profit or loss during the initial start-up period without assistance demonstrates but that at the end of the funding period the route can be operated on a commercial basis.

3.11 The ex-ante business plan should provide evidence of passenger numbers and yields and costs during both the period of funding and for the equivalent number of years after the fund ends. It should also outline, how the airline intends to market its route to ensure profitability targets are reached by the end of the funding period. Chapter 4 provided outlines in

more detail the information route promoters will need to provide as part of the ex-anti business plan.

- 3.12 Start-up aid bids should be degressive (decreasing year by year) and linked with the development of the route. For example, the amount of aid per passenger should decrease with the net increase in traffic;

(d) Existence of incentive effect (points 148-149)

Start-up aid to airlines has an incentive effect if it is likely that, in the absence of the aid, the level of economic activity of the airline at the airport concerned would not be expanded. For example the new route would not have been launched.

The new route must start only after the application for aid has been submitted to the granting authority. If the new route begins before the application for aid is submitted to the granting authority, any aid awarded in respect of that individual route will not be considered compatible with the internal market.

- 3.13 Start-up aid will only be consider for routes that would not be operated without the proposed aid. As part of the initial application stage airlines will need to justify why they would not have operated the route in question in the absence of aid, as set out in Chapter 4.

- 3.14 To ensure openness DfT will publish a list of routes submitted that meet these criteria. This will allow either other airlines or airports within the same catchment area a period of time to make representation to the Department if they are planning to operate the route commercially. The DfT will publish the following information:

- the two airports flight will operate between,
- the airline providing the service, and
- the frequency of service.

- 3.15 If another airlines announces the same route from an airport in the same catchment area before final agreement on funding is made, then the application for start-up aid will fall (this assumes the second airline's plans are well- advanced, as evidenced by, for example, its selling seats for the route). However once funding has been agreed we will honour the commitment.

(e) Proportionality of the aid amount (aid limited to the minimum necessary) (point 150)

Start-up aid may cover up to 50 % of airport charges in respect of a route for a maximum period of three years. The eligible costs are the airport charges in respect of the route.

3.16 The aim of start-up aid is to act as an incentive to develop new routes that, whilst not being profitable in the short term, will be profitable in the medium term. The amount of start-up aid that can be provided may cover up to 50% of the eligible airport charges in respect of a route for a maximum period of three years. At the end of the funding period the airline should be in a position of operate the route on a purely commercial basis.

3.17 The Guidelines define airport charges as:

“a means a price or a levy collected for the benefit of the airport and paid by the airport user (airline) for the use of facilities and services which are exclusively provided by the airport and which are related to landing, take-off, lighting and parking of aircraft and processing of passengers and freight. It may also include charges or fees paid for ground handling services and fees for centralised ground handling infrastructure.”

3.18 The UK would normally expect airports to have published airport charges on their website and for this to act as the basis for the amount of revenue eligible for aid.

*(f) Avoidance of undue negative effects on competition and trade
(points151-153)*

In order to avoid undue negative effects on competition and trade, where a connection (for example, city-pair) which will be operated by the new air route is already operated by a high-speed rail service or by another airport in the same catchment area under comparable conditions, notably in terms of length of journey, such air route will not be eligible for start-up aid.

Any public body which plans to grant start-up aid to an airline for a new route, whether or not via an airport, must make its plans public in good time and with adequate publicity to enable all interested airlines to offer their services.

Start-up aid cannot be combined with any other type of State aid granted for the operation of a route.

3.19 It is important that the Protocol protects against the distortion of competition. Airlines in the UK operate in a competitive, commercial environment and it is for individual airlines to determine the routes that

they operate. Start-up aid should therefore only be provided in appropriate circumstances and routes, which would minimise the risk of distortions to competition.

3.20 Therefore start-up aid to airlines can only be provided if the following criteria are met:

- i. air service is not already being operated between the two airports of the proposed route;
- ii. there is no high speed rail between the city pairs served by the airport; or
- iii. by another airport in the same catchment area under comparable conditions.

3.21 The Guidelines define the catchment area of an airport as:

“a geographic market boundary that is normally set at around 100 kilometres or around 60 minutes’ travelling time by car, bus, train or high-speed train; however, the catchment area of a given airport may be different and needs to take into account the specificities of each particular airport. The size and shape of the catchment area varies from airport to airport, and depends on various characteristics of the airport, including its business model, location and the destinations it serves.”

3.22 The UK will therefore consider an airport to be within the same catchment area if the journey time by car, bus, train or high-speed train between the two airports can be reasonably expected to be less than 60 minutes. Any approach by an airline which would involve moving a service from one UK airport to another serving broadly the same catchment area will be turned down.

3.23 A new service which involves switching a service from one airport in the region to another will not be eligible for start-up aid. Any new service should result in an increase in the net volume of passengers and not simply encourage traffic to relocate from one airline or company to another.

3.24 A city pairs will be regarded as being served by high speed rail if it is capable of reaching speeds of over 124mph on the routes between the two cities.

3.25 Once an offer has been made for start-up aid, it cannot be extended or converted to a Public Service Obligation.

Cumulation (points 158-159)

The guidelines set out in point's 158-159 in relation to the cumulation of State aid:

The maximum aid intensities applicable under these guidelines apply regardless of whether the aid is financed entirely from State resources or is partly financed by the Union.

Aid authorised under these guidelines may not be combined with other State Aid, de minimis aid or other forms of Union financing, if such a combination results in an aid intensity higher than that laid down in these guidelines.

The UK authorities intend to ensure that the proposed aid cannot be combined with other types of state aid for operation of the same route, and this should thereby ensure that the maximum aid intensity of 50% applicable to start-up aid schemes will not be exceeded.

- 3.26 Under the terms of this Protocol, interested parties should require all applicants for funding to make a “declaration of other aid”. The aim of this is to identify whether other sources of public funding, which might count toward start-up aid limits, have been applied for or secured.

4 Summary of the Appraisal Framework

4.1 This section outlines the structure of the proposed appraisal framework, as show in Figure 1. A more detailed document will be produced.

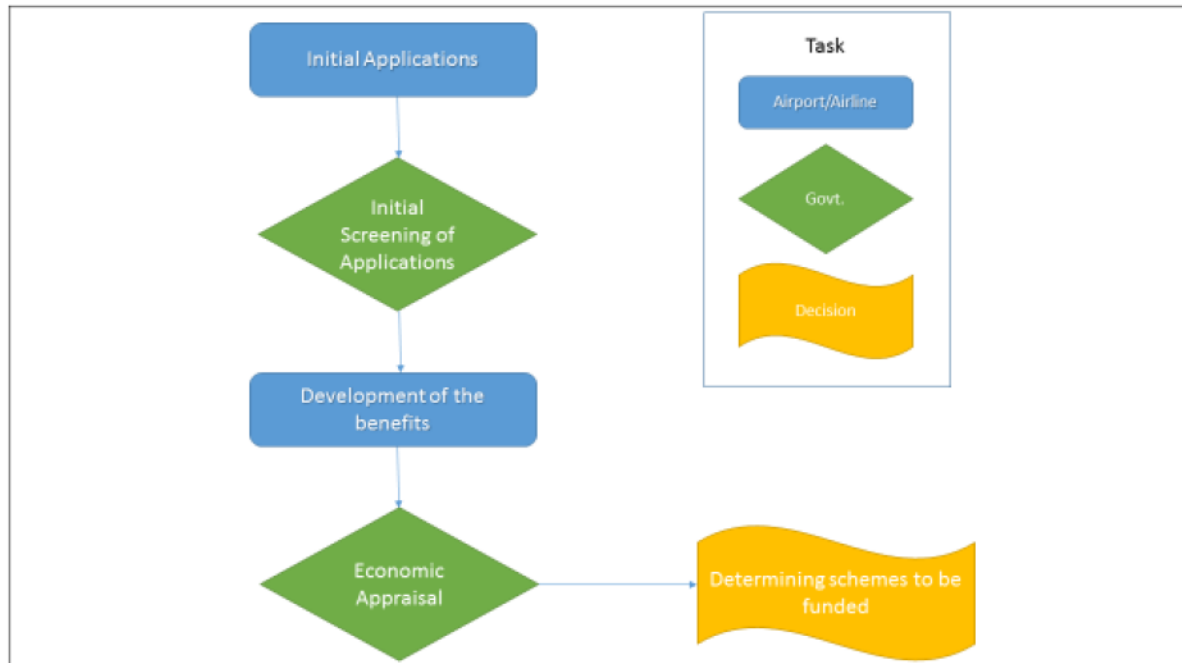


Figure 1: Components of the Appraisal Framework

4.2 The broad approach set out here follows that of public sector project appraisal in general, customised to the specific requirements of appraising individual applications for support at the level of a single air route or service. It follows the general approach to transport appraisal, as set out in DfT's Transport Appraisal Guidance.

Stage 1: Expression of interest

4.3 Initial application from the airport/airline for funding support. In order to inform the appraisal process, the information required would include:

General Information

- departure and destination airport;
- list of airports within 60 minutes journey time of both airport;
- airline;
- contact information for the airport and the airline.

Schedule Information

- proposed start date;
- summer and winter schedules (weekly or daily frequency);
- departure and arrival times;
- block time;
- slot status at both ends of the route;
- interlining arrangements with airlines at the other end of the route.

Route Data

- route forecast - passengers and/or freight in the first three years;
- passenger mix – outbound/inbound and business/leisure;
- estimated load factor by year;
- estimated average yield per passenger;
- non-variable costs;
- passenger variable costs;
- route profitability with and without funding support.

Airline Operator Details

- certificate status;
- liquidity ratio;
- actual load factor (network);
- break-even load factor (network);
- net operating surplus per million revenue passenger kilometres (network);
- existing services at the airport, in the region, at the destination airport, in the destination country;
- aircraft type and seating capacity;
- additional facilities required at the airport to handle the service, and the funding required for these additional facilities.

Funding Profile

- total airport charges for the service at the published tariff;
- actual average airport charges per departing passenger ('standard' charge) and the basis of the 'standard' charge;
- total airport charges for the service at the 'standard' charge;
- discount offered per passenger against the 'standard' charge;
- discounts offered for equivalent services in their first three years;
- estimated commercial revenue per passenger from the service;
- level of airport charges support requested from the RDF (annual totals and per departing passenger);
- support sought from, or granted by, other public agencies;
- additional marketing support offered by the airport;

- form of marketing programme proposed;
- other marketing support sought from, or granted by, other public agencies.

4.4 The application must be accompanied by a Business Plan or clear statement of how the proposed route fits with the overarching objectives of the start-up aid and related to the Local Enterprise Partnerships Strategic Economic Plan. It is also helpful if such a plan or statement sets out the actions being taken by the airport/airline to secure route viability.

Stage 2: DfT initial screening process

4.5 Applications will be subject to an initial screening process. This will include consideration of whether:

- the route or planned service meets the criteria as set out in the EU guidelines;
- the airline has an EU operating licence, and is a credible provider of the service;
- slots are available to meet the planned schedule;
- the airport is able to handle the service at the planned operating times;
- there is prima facie evidence that the service is capable of being commercially viable in the medium term (at the end of the funding period).

4.6 In reaching decisions on applications during the initial screening process, attention will be paid first and foremost to whether applications meet the EU guideline requirements. Proposed services could be rejected after the initial screening, but eligibility for funding will not be established at this stage. Routes that pass the initial screening stage would move forward to more detailed assessment.

4.7 Routes that are assessed to meet the EC Guidelines will be published in advance of moving to the next stage of work to allow either other airlines or airports within the same catchment area a period of time to make representation to the Department if they are planning to operate the route commercially. The DfT will publish the following information:

- the two airports flight will operate between,
- the airline providing the service, and
- the frequency of service.

4.8 Where the Department is presented with evidence that shows the route is likely to be offered commercially either from another airline or from a different airport in the same catchment area the route will no longer be considered compliant for start-up aid.

Stage 3: Development of the benefits

4.9 Schemes that have passed the initial screening process will be required to develop a business case for the route setting out benefits. This would include:

- **Net User Benefits** – benefits accrue to existing passengers diverted from other (indirect services) and other modes, new passengers stimulated to travel.
- **Business efficiency** – The availability of arrange and frequency of direct air services will allow businesses located in the region to reach their customers, suppliers, partners more easily, quickly and cheaply.
- **Connectivity** – New services to/from an airport that offers significant opportunities for hubbing can be valuable to businesses because they offer the potential of easier indirect links to a wide range of business destinations.
- **Tourism impact** – New air routes can support inbound tourism, which can support greater employment in the area, than would otherwise occur.
- **Direct Employment** – New employment that can be directly contributed to the starting up of the new route.
- **Social Impact** – New air services generate a number of social benefits. For example in remote regions they can provide links to health services.

Stage 4: Appraisal

4.10 The DfT will undertake an economic appraisal of bids to produce an appraisal score based on information supplied by airports/airlines to assess whether the scheme meets the criteria for funding.

4.11 It will use the information provided by the airlines in the business case and independently assess assumptions and inputs. This will then be used to derive a benefits cost ratio for the monetised benefits and costs, and a quality score for the other elements of the appraisal.

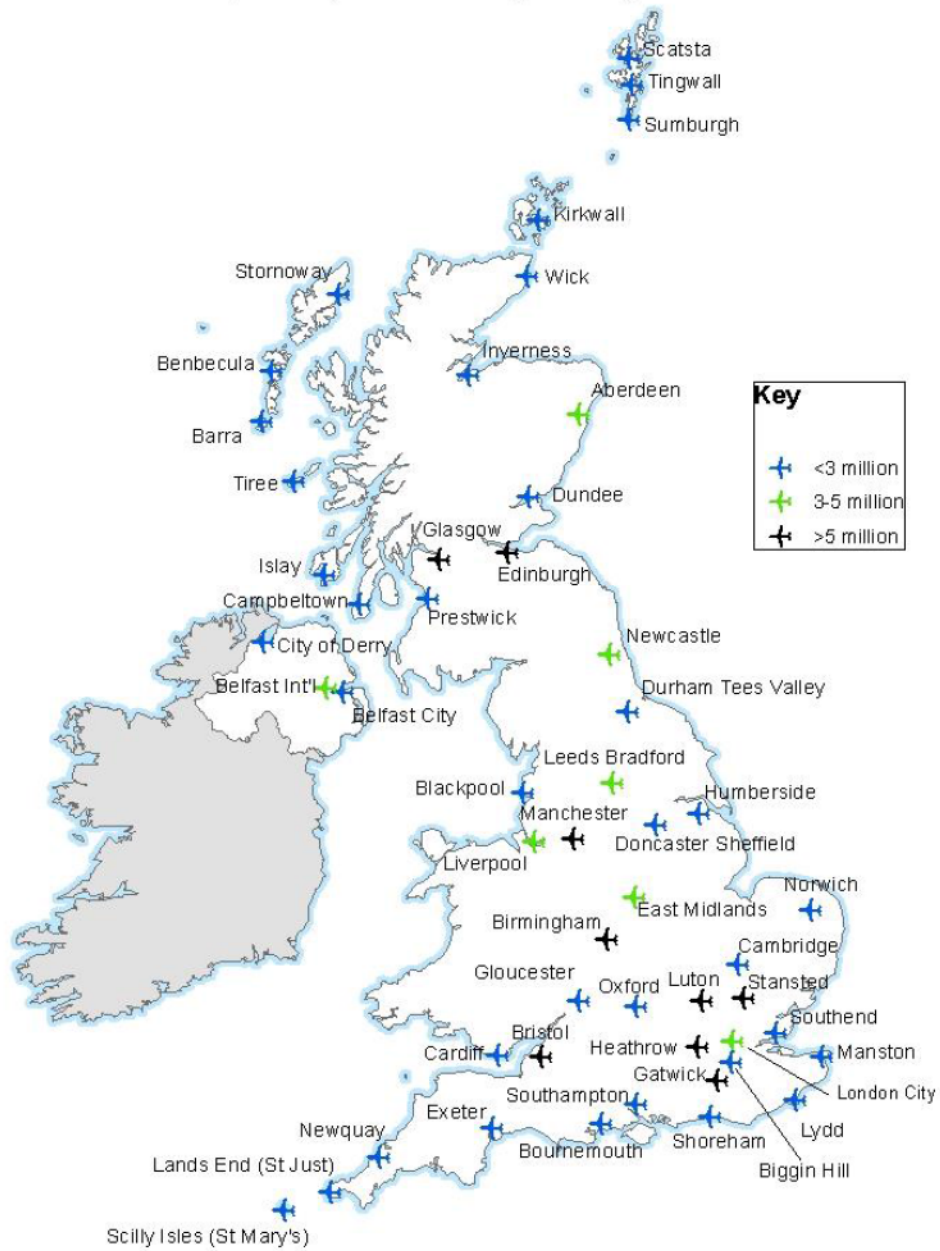
Stage 5: Determining schemes to be funded

4.12 If we receive more bids than funding is available, we will make use of the appraisal scores to rank schemes to decide which schemes receive funding. It is envisaged that bids will then be assessed using a cut-off score for the Benefits Cost Ratio (e.g. not taking into account projects that have a score lower than 1) and after said cut-off that a combination of the

BCR and the quality score will be used (in pre-announced weightings) to create a final score. This is similar to the price and quality weightings used across Government to assess tenders. Currently internal discussions are taking place to assess what the best manner of evaluation is, with the above as starting points for these discussions.

Annex

UK Airports by number of passengers in 2013



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Airport	2012	2013	Average 2013/13
NEWCASTLE	4,366,196	4,420,839	4,393,518
LIVERPOOL (JOHN LENNON)	4,463,257	4,187,493	4,325,375
EAST MIDLANDS INTERNATIONAL	4,076,178	4,334,117	4,205,148
BELFAST INTERNATIONAL	4,313,685	4,023,336	4,168,511
ABERDEEN	3,330,126	3,440,765	3,385,446
LONDON CITY	3,016,664	3,379,753	3,198,209
LEEDS BRADFORD	2,990,517	3,318,358	3,154,438
BELFAST CITY (GEORGE BEST)	2,246,202	2,541,759	2,393,981
SOUTHAMPTON	1,694,120	1,722,758	1,708,439
JERSEY	1,468,333	1,453,863	1,461,098
PRESTWICK	1,067,933	1,145,836	1,106,885
CARDIFF WALES	1,028,123	1,072,062	1,050,093
GUERNSEY	890,746	886,396	888,571
SOUTHEND	617,027	969,912	793,470
EXETER	701,743	741,465	721,604
ISLE OF MAN	697,123	739,683	718,403
DONCASTER SHEFFIELD	693,661	690,351	692,006
BOURNEMOUTH	692,545	660,272	676,409
INVERNESS	604,098	608,184	606,141
NORWICH	396,676	463,401	430,039
CITY OF DERRY (EGLINTON)	398,209	384,973	391,591
SCATSTA	304,480	298,308	301,394
BLACKPOOL	235,238	262,630	248,934
HUMBERSIDE	234,142	236,083	235,113
SUMBURGH	150,567	212,233	181,400
NEWQUAY	166,609	174,891	170,750

Airport	2012	2013	Average 2013/13
DURHAM TEES VALLEY	166,251	161,092	163,672
KIRKWALL	140,683	159,325	150,004
STORNOWAY	119,411	122,410	120,911
ISLES OF SCILLY (ST.MARYS)	97,012	89,170	93,091
ALDERNEY	64,165	62,855	63,510
DUNDEE	54,655	27,595	41,125
LANDS END (ST JUST)	33,108	46,626	39,867
BENBECULA	31,364	30,738	31,051
PENZANCE HELIPORT	61,747	-	30,874
WICK JOHN O GROATS	24,976	33,639	29,308
MANSTON (KENT INT)	8,595	40,391	24,493
ISLAY	21,609	26,085	23,847
GLOUCESTERSHIRE	15,292	14,168	14,730
ISLES OF SCILLY (TRESKO)	25,563	-	12,782
BARRA	11,415	9,410	10,413
CAMPBELTOWN	9,144	9,550	9,347
TIREE	7,545	8,560	8,053
OXFORD (KIDLINGTON)	7,223	6,847	7,035
CAMBRIDGE	2,130	9,307	5,719
LERWICK (TINGWALL)	5,041	3,784	4,413
SHOREHAM	480	732	606
LYDD	445	670	558
BIGGIN HILL	-	326	163