



## Appendix 1

# **PROSPEROUS COMMUNITIES, PRODUCTIVE PLACES**

How a deeper relationship with anchor businesses can drive place prosperity and business productivity

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# Appendix 1: Airports as Economic Anchors

## Introduction

As has been touched upon throughout this report, airports are a special example of economic anchors. They fit into definitions of Local Anchors such as being a 'source of economic activity attracting others in the region' and 'Major territorial institution...essential immobile and unlikely to move'. Their reach is international, which means they are perfectly situated to be outward looking while at the same time local and place based. Thus, the example of airports as anchors is one which encapsulates the earlier stated formula of the success of Local Industrial Strategy; 'Local Industrial Strategy = Business Productivity + Place Prosperity'.

At the same time, for the immense potential of prosperity and economic growth that airports possess, there needs to be a deep level of cooperation between regional communities, local government and the airports. For communities and local government, the focus should be on the best ways to harness the benefits of airports as 'strategic economic hubs' in having wide reaching regional impact. For airports, the focus needs to be on ensuring that their growth takes into consideration the needs of the place they are anchored in, while raising the prosperity standards of surrounding areas at the same time.

There are multiple ways in which this strategic relationship can unfold to the benefit of both sides, and airports such as Gatwick already have in place several bodies that aim to include community groups in the discussion about its operation. The Gatwick Airport Consultative Committee (GATCOM)<sup>1</sup> is one example, which brings together representatives from various interest groups concerned with the environment, aviation industry, and business as well as local government to consult on the operation and development of the airport.

## Importance of Airports for Regional Economies

Airports are key contributors to the growth and wellbeing of the regional economy. Over the years many of the airports have evolved to the point of offering passengers a multitude of services and goods to experience while at the airport. They attract big businesses in the retail and food industry, in addition to existing aviation industry related employment. It is possible to break down the impact of an airport for a particular regional economy based on a number of factors. These include, but are not limited to, direct and indirect employment, tax revenue generated for national economy, how localised and skilled its supply chain is, how effective its corporate social responsibility is for the local community, and its commitment to reducing adverse effects on the local environment.

Overall, airports can have a huge impact on the national and regional economy, and this can be further quantified by addressing an airports direct, indirect and induced economic impacts<sup>2</sup>. Oxford Economics did this in their

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<sup>1</sup> Gatwick Airport Consultative Committee website

<sup>2</sup> The Economic Impact of Gatwick Airport

report on Gatwick Airport's Economic Impact, where in terms of direct impact, the Gatwick site generated £1.6 billion in Gross ValueAdded contribution, of which £599 million was from Gatwick Airport Limited itself. Indirect impact on the economy comes from the other businesses at the Gatwick site buying and selling through an intricate network of supply chains that can extend from local, regional, national to international levels. Oxford Economics report shows that 'over £2.8 billion was spent on intermediate inputs by businesses operating at Gatwick Airport' . While in terms of induced impact, in 2016 'the Gatwick Diamond area saw a £220 million GDP contribution, and 3,800 jobs supported through the wagefinanced consumption of Gatwick Airport workers, and those of its supplier firms located in the area'.

In other regards, airports as anchors are vital to the regional economy based on their Corporate Social Responsibility commitments and what this means to the local communities. For example, MAG's most recent CSR report tells of how 90 community outreach events were held across its three airports, including Manchester and Stansted, in the year 2016/17<sup>3</sup>. Heathrow's sustainability plan 'Heathrow 2.0'<sup>4</sup> states how 455 new apprenticeships have been pledged through the Heathrow Academy, 94.5% of flights made by newer and cleaner aircrafts, and how Heathrow is partner to the Supply Chain Sustainability School, which encourages more participation from SME's.

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3 MAG CSR Report 2017

4 Heathrow 2.0 Sustainability Plan 2017

Comparison	Heathrow
Employment (Direct) (2017)	76,000
Terminal Passengers (2018) <sup>5</sup>	78,014,000
Passenger Per Employee	1026.5
Air Transport Movement (2017) <sup>6</sup>	476,186
Area Size of Airport <sup>7</sup>	1215Ha
% Travelling by Public Transport (Tram, Rail, Bus/ Coach, Tube, Taxi) in 2016 <sup>8</sup>	71%
Local Supply Chain Commitment	<ul style="list-style-type: none"> <li>• Pledged to remove hurdles for smaller local supplier</li> <li>• One of their principles for people in their Supply Chain Principles is to work with Skills Taskforce and their supply chain to provide skilled jobs and careers for local people</li> </ul>
Corporate Social Responsibility	<ul style="list-style-type: none"> <li>• Launched Heathrow 2.0 CSR plan in 2017 focusing on four different elements; A Great Place to Work, A Great Place to Live, A Thriving Sustainable Economy, A World Worth Travelling</li> <li>• They have reduced emissions by 37% since 1990, which exceeded the airports targets of 34% by 2020.</li> </ul>
Local Employment and Apprenticeships	<ul style="list-style-type: none"> <li>• Heathrow has pledged to double apprenticeships to 10,000 and engage in programmes to hone employability skills within schools.</li> <li>• Create 180,000 jobs aimed at unemployed within the local communities Heathrow is situated in.</li> </ul>

5 CAA

6 CAA

7 City Lines

8 HMG

9 Gatwick

10 Stansted Airport

11 Gatwick Airport

12 Ibid.

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Gatwick	Manchester	Stansted
30,000	22,000	11,920
45,603,000	27,773,000	25,958,000
1520.10	1262.4091	2177.6846
283,437	196,530	172,622
615Ha	552Ha	713Ha
58%	44%	62%
<ul style="list-style-type: none"> <li>In 2017, Gatwick Airport Limited spent £132.8 million on local and regional suppliers to actively support local business involvement in their supply chain<sup>9</sup></li> <li>GAL is sponsors of Gatwick Diamond Meet The Buyers Event.</li> </ul>	<ul style="list-style-type: none"> <li>Host annual 'Meet the Buyer' network events for local businesses to engage in supply chain</li> <li>One of their Strategic Objectives for their CSR is to Reduce Supply Chain Emissions</li> </ul>	<ul style="list-style-type: none"> <li>They are committed to reducing environmental impact of their supply chain and therefore have partnered with Ecodesk to map their supply chain's environmental footprint</li> </ul>
<ul style="list-style-type: none"> <li>CSR Strategy titled 'Decade of Change'.</li> <li>In 2016 review they found that 55% of Gatwick employees come from local areas, and £139 million spent with local suppliers.</li> <li>43 community events were sponsored by GAL with 168 local causes being funded.</li> </ul>	<ul style="list-style-type: none"> <li>Manchester Airport Group manage CSR strategy for Manchester Airport and Stansted Airport. The strategy has four different components that focus on Business, Environment, Community and Colleagues</li> <li>Manchester Airports contribution to the regional economy amounts to £1.2 billion in economic activity.</li> </ul>	<ul style="list-style-type: none"> <li>Stansted released their own CSR summary report<sup>10</sup>.</li> <li>Achievements in these domains include 30% of the leadership of Stansted Airport Limited being women, 6598 young people's education being supported, and 2,343 job seekers attending three airport job fairs.</li> </ul>
<ul style="list-style-type: none"> <li>Gatwick will provide £3.75 million to help create 2,500 new apprenticeships and will work with Crawley Borough Council and its partners to ensure that residents of Crawley are able to access these apprenticeship opportunities.<sup>11</sup></li> </ul>	<ul style="list-style-type: none"> <li>MAG has an early talent identification programme to help nurture and retain the best talent, through apprenticeships and graduate schemes. The last few years has seen them take on 23 graduates and they currently (2016/17) have 32 apprentices.<sup>12</sup></li> </ul>	<ul style="list-style-type: none"> <li>Stansted is partnering with the Job Centre in Tottenham to raise the profile of the airport.</li> <li>In February 2017 London Stansted and Harlow College announced a joint commitment to develop a Technical and Professional Skills College at the airport<sup>13</sup>. It will be Uttlesford's first College and opened in 2018.</li> </ul>

Comparison	Heathrow
Ownership	<ul style="list-style-type: none"> <li>Heathrow Airport Holdings Limited (formerly BAA) owns and runs London Heathrow Airport, Britain's aviation hub. Heathrow Airport Holdings Limited is in turn owned by FGP Topco Limited, a consortium owned and led by the infrastructure specialist Ferrovial S.A. (25.00%), Qatar Investment Authority (20.00%), Caisse de dépôt et placement du Québec (CDPQ) (12.62%), GIC (11.20%), Alinda Capital Partners of the United States (11.18%), China Investment Corporation (10.00%) and Universities Superannuation Scheme (USS) (10.00%).<sup>14</sup></li> </ul>
Pay out of Dividends to Shareholders	<ul style="list-style-type: none"> <li>In the year ending 31 December 2017, Heathrow paid £1,104 million in dividends to its parent company – Heathrow Finance plc. Of the total amount, £525 million was paid out in dividends to ultimate shareholders</li> </ul>

14 Heathrow Airport  
 15 Gatwick Airport  
 16 Vinci  
 17 Manchester Airport Group

Gatwick	Manchester	Stansted
<ul style="list-style-type: none"> <li>Gatwick Airport Limited (Gatwick) is the company licensed to operate Gatwick Airport by the Civil Aviation Authority. Gatwick is owned and managed by Global Infrastructure Partners (GIP) and a consortium of its coinvestors.<sup>15</sup> Additionally, Gatwick Airport Limited is a subsidiary of Ivy Holdco Limited. On 27/12/2018 Vinci Airports bought a 50.01% controlling stake in Gatwick Airport Limited for £2.9 billion. The remaining 49.99% will continue to be held and managed by Global Infrastructure Partners.<sup>16</sup></li> </ul>	<ul style="list-style-type: none"> <li>Manchester Airport Group is a holding company that is owned by the ten metropolitan borough councils of Greater Manchester including Manchester City Council (35.5%), the Boroughs (collectively have 29%) of Bolton, Bury, Oldham, Rochdale, City of Salford, Stockport, Tameside, Trafford and Wigan. Additionally, the Australian investment fund IFM Investors have a 35.5% stake in the company.<sup>17</sup></li> </ul>	<ul style="list-style-type: none"> <li>Stansted Airport Limited (STAL) is owned by the Manchester Airport Group, who also own Manchester Airport and East Midlands Airport. Before it was owned by BAA. Therefore, the shareholders and owners are the same as Manchester Airport.</li> </ul>
<ul style="list-style-type: none"> <li>According to Gatwick's end of year financial report, equity dividend payout to shareholders amounted to £643 million throughout the year ending 31 March 2018.</li> </ul>	<ul style="list-style-type: none"> <li>According to the Annual Financial Report of year ending 31 March 2018, overall dividend payout was £149.2 million. Manchester City Council, who owns 35.5% stake in MAG, was paid £52,966,000. The nine other Greater Manchester Councils who each have a 3.22% stake in MAG were paid £1,393,229.60 each. IFM Investors who also have 35.5% stake received £52,966,000.</li> </ul>	<ul style="list-style-type: none"> <li>The Annual Financial Report released by the Manchester Airport Group covers dividend pay outs for stakeholders off all the airports including Stansted. Thus, the dividend pay outs are the same as Manchester Airport.</li> </ul>

## Dividends

MAG as a holding company in charge of Stansted, Manchester, and East Midlands Airport's is one of the very few such companies, alongside Luton Airport, which is owned by Luton Borough Council, in the UK that has elements of public ownership. Local government institutions having a stake in the Local Economic Anchor creates a more direct relationship between the two and ties the two together in a much closer manner. It takes commitments said to one another to a more contractual basis, which is not a bad thing. It means each has a vested interest in the success of the other. The case of MAG exemplifies this; as the three airports continue to increase in revenue, the councils in Manchester receive a bigger dividend per annum. Equally, for this success to continue, councils have a responsibility to use this money to invest in growth and opportunities for the local community and continue to attract investment in the area. Additionally, there is scope for creativity for the councils to figure out how they do this. Salford City Council state that as stakeholders in MAG the dividends that they receive are not earmarked for particular purposes.

This can be applied to the context of Gatwick and West Sussex. Gatwick airport are already extremely engaged with the local community, from holding open consulting sessions on the operations of the airport to wider engagement events, efforts have been made to demonstrate its deep commitment to the local community. However, the advantage of Gatwick adopting the same approach as MAG in respect to giving West Sussex a place as a stakeholder would add to the already strong bond between the two. It would allow the local community to feel a much more direct benefit of having Gatwick within the community. At the same time, it would give the community, through West Sussex Council, a sense of control over how growth will pan out in their area, especially if like Salford, dividends are not earmarked beforehand.

Overall, the role of public ownership, to whatever degree, helps to redress asymmetrical aspects of the relationship between local economic anchors and places. In many instances the relationship between the two seems to be framed around how an anchor can bring benefit to a community, and what it can do for the growth of the community. Yet, if that very same community has a stake in the success of the anchor, then there appears to be a sense of responsibility for the local communities to ensure the success of the anchor for their own benefit. In this way the relationship enters more of a level playing field.

Admittedly, how this will pan out is not going to be as straightforward. Especially for an anchor that has already embedded itself in a particular place for a long time and has established the terms of its relationship with that place, it appears hard to see how they would restructure their ownership model to incorporate this, for the simple fact that someone will have to compromise. Yet, this approach can very plausibly be incorporated into the initial stages when an anchor is wanting to establish itself in a particular area. The local authority can condition the anchors arrival on a set percent of dividends being reserved for them.

The second option can more readily be applied to existing anchors and would be based on high levels of goodwill and trust. Instead of a contractual framework setting out the terms of dividend payment to the local authority, it would rather be the case of the anchor making a pledge to invest a certain percentage of dividends within the local area. This is already in line with what anchors like Gatwick are doing and would simply further entrench their commitment to their places. For this reason, perhaps this option could be more applicable to established anchors. Going forward, what this amounts to is two options each with their own merit. The first option establishes a symmetrical relationship between place and anchor and establishes a contractual reason for the wellbeing of each other. While the second is based on the existing trust between the two and aims at deepening it with a direct financial pledge from the anchor to the place.



## Investment Plans

### Heathrow

Heathrow Airport have a Strategic Capital Business Plan . The plan lays out Heathrow's vision for investment by focusing on three phases; the short term, medium term and long term. The period covered by the plan originally focused on the period from 2014 to 2018 but after a 2016, the CAA extended it by one year. The structure of the plan and its objectives within each of the phases lays out the step by step method that Heathrow has taken to its development.

The projects within the short term are based on Passenger Experience, Airport Resilience, Asset Management, and Transforming Customer Service in addition to many others. All of the projects associated with this phase have been aimed at ensuring passengers have a seamlessly straightforward, convenient and pleasant experience at Heathrow, with such things as the installation of electric vehicle charging points being incorporated within the Airport Resilience framework.

Within the medium term, there has been a focus on managing traffic forecasts and how to handle an increase in passenger traffic in the upcoming year and beyond. Additionally, Heathrow's plan for sustainable growth is outlined as a mediumterm programme. It has been structured around the needs and interests of four main stakeholder groups and entails:

1. A Great Place to Work is about helping employees develop and grow into their potential
2. A Great Place to Live is about collaboration with the neighbours of Heathrow to ensure that the airport plays its role in being conscientious to the needs of local communities
3. A Thriving Sustainable Economy puts Heathrow at the forefront of job creation and opportunities for business, including wider opportunities for SME's, to deliver a stronger future for the UK
4. A World Worth Travelling is all about working with Heathrow's industry and regulator to deliver fair and sustainable air travel.

Heathrow's longterm plans regarding further development and investment are primarily directed towards expansion, the airport's role within wider cargo operation, planning policy, and finally airspace. The airport held a series of 40 consultations that looked into the physical dimensions needed for the functioning of an expanded Heathrow as well as the design principles for the required airspace. Heathrow view this as an opportunity for the public to be involved at an early stage in forming a masterplan for a way to go forward. The airports role within cargo operations develop on the back of its 2015 cargo strategy that sets ambitious objectives to be Europe's leading airport for cargo by 2030.

Planning policy focuses on the important National Policy Strategy, which follows the Government's endorsement of the Airport Commissions recommendation to give Heathrow the opportunity to open a third runway, outlines the decisionmaking framework for the expansion of Heathrow. The NPS acknowledges the potential for adverse effects of expansion that can occur for local communities and lays out the Government's expectations of Heathrow regarding its compensation plans and its responsibilities to the regional communities. It also outlines the airports commitments to community compensation packages, one such being an agreement to pay 125% of market value plus taxes and moving costs for all owner-occupied houses within the compulsory acquisition zones. This statement largely reflects an attitude which looks to compensate for any expansion with financial compensation and economic benefits. However, the 'invisible' costs of expansion need to be considered. This includes the effects of expansion on community cohesion and 'social capital'. It also includes the effects of air pollution or noise pollution. Finally, Heathrow is working with partners on projects such as the Future Airspace Strategy to ensure

that it can handle an increase of airspace demand in the coming years as well as in unforeseen crisis events. Ultimately the hope is that with an increase in efficiency in this area, the passenger experience will be a lot smoother and more pleasant.

### Gatwick

Gatwick have published a Capital Investment Programme that sets out plans to invest £1.11 billion over the next 5 years to 2023, and already in the year 2018/19 £266 million has been allocated for different projects. The report addresses three different elements, Key Drivers for Investment, laying out the Capital Investment Programme and its key elements, and giving a Major Development Projects overview.

Within key drivers for investment, Gatwick identify environmental concerns, service quality, cost efficiencies, capacity, and asset stewardship & reliance amongst many others. Environment, Health & Safety, and Security concerns has allowed the airport to identify the need to provide safety, security and comfort to their passengers. For this reason, the airport has planned to invest in mechanisms to comply with requirements set by the CAA, Department for Transport, and the Environment Agency. One area where this is already happening is the Common Travel Area Solution project that provides apparatuses to enforce UK Border Force regulations on CTA passengers since 2015.

Investment decisions guided by cost deduction have manifested as upgrades to passenger selfservice bag drop units, which can help the airlines reduce costs by minimising the number of hosting staff. Additionally, there are plans being drawn up for automated boarding gates to reduce to number of staff at the gates.

The Corporate Investment Programme of 2018 details significant amounts of investment in Asset Stewardship to the tune of £369.8 million over the next five years. This includes investments in projects such as Main Runway Resurfacing, Airfield Data Network Replacement, and the IT End of Serviceable Life Programme. Following this is £44 million being invested in Operational Resilience that entails investment in projects relating to Flood Mitigations, and Power Resilience.

Core Projects within the remit of Capacity and Service include significant investment in Check in Automation, Gatwick Roads, Railway Station Contribution, and Internal Refurbishment, which all contribute to the total cost of £390 million of investments in this domain. Core Commercial Projects such as Hotel Redevelopment, Digital Media, and Short Stay Car Park work in the South Terminal as well as many more projects have £156 million ear marked for them over the next 5 years. While Development Projects that deal with Hangar Facilities, Business System Transformation and Renewals are having £119.1 million being put aside.

Out of all of the projects, the biggest are those that have been highlighted by Gatwick as Major Development Projects, of which those that start or will commence in the year 2018/19 include the Railway Station Contribution, and Common User Ground Handler Equipment.

Gatwick have a set plan for their growth and development that has been guided by careful and conscientious investment which considers the needs for passengers and the thriving nexus of businesses active within the airport's campus. Importantly, it considers the need and benefits of renovation and utilising existing facilities in light of the government's decision to go ahead with a third runway at Heathrow.

### Manchester

Manchester Airport have a plan called the Manchester Airport Transformation Programme which is a £1 billion investment plan that 'represents the most significant programme of investment ever made in Manchester Airport and will see the campus developed to provide a world class operation, with significant

enhancements to current facilities and major improvements to the customer experience'. The aim of this is to make Manchester Airport one of the top 10 airports in Europe, as well as the gateway into the Northern Powerhouse. Through the transformation of the Airport site with projects in this programme, it is hoped that the airport can expand on its role as a job creator and economic provider for the Greater Manchester region and beyond.

The Transformation Programme is based around major investment in the extension and redevelopment of existing facilities and maximising the potential and full use of terminal area. This is in line with a fundamental belief of the airport; that of containing growth and development to within the campus space. Other key features of the Programme include introduction of selfservice check in, 50 new food outlets, direct linkages between Terminal 2 and 3 with the majority of Terminal 1 being demolished to allow central terminal area to be redeveloped, and the potential introduction of a US preclearance facility within the campus. Importantly, all this transformation will happen through a phased approach.

The airports Land Use Plan is also closely linked with the Transformation Programme. The Land Use Plan identifies a number of key factors such as land and facilities that are needed for supporting the operations of an airport capable of serving 45 million passengers per annum. Moreover, it is one fourth of the overall Sustainable Development Plan (SDP) that the airport put out in 2016.

The aim of the SDP is to set out the longterm opportunities for development and innovation that can lead to growth of the airport and its wider contribution to and role within the Northern Powerhouse. Outside of Land Use and the Transformation Programme, the SDP looks at Economy, Environment, Community, and Surface Area. This holistic approach of the plan, and its fourpronged approach encompassing not only investment but other elements, allows for it to be easily understood and digested reflecting on the airports desire to be as inclusive as possible when discussing growth and development.

Another differing aspect of the Transformation Programme from the investment plans of airports in the South East is its different focus and goals. It has not been vying for Government approval of a new runway, instead focus has been toward establishing Manchester Airport as a central regional anchor within the increasingly prosperous Northern Powerhouse and ensuring there is enough capacity to handle increasing investment within the wider region.

## Stansted

MAG have announced the investment of £600 million over the next five years into the renewal of Stansted Airport in order to meet increasing demands on the airport and to enhance the overall passenger experience. At the heart of this transformation is a new arrivals terminal, which opens in 2020 and is set to cost £130 million. Additionally, plans are being drawn up for upgrades to the existing terminals, a new check in area, and brand new baggage delivery and security system.

This follows on from Stansted's own Sustainable Development Plan, which was published in 2015. It outlines the airport's vision for sustainable growth utilising the full potential of its single runway capacity. As well as Land Use and Capacity, the Plan lays out Stansted's role in unlocking economic growth in the region, improving transport links, increasing and delivering employment opportunities for local communities, as well as managing the impacts of transformation and expansion for the local communities. Similar to Manchester Airport's SDP, Stansted take a holistic approach in laying out their investment plans. The structure of the plan remains the same as Manchester's SDP, with the consultation phase heavily involving public input. This allowed for local communities to see how investment in and growth of the airport can have direct positive impact on their lives.

In keeping with MAG's approach, Stansted aim to utilise existing land and building space, and the fact that the current site has capability to handle

doubling of its capacity is something that sets it apart from other airports of South East, which are all near full to capacity without further development. Therefore, according to the Plan, Stansted is in a position to handle growth to 35 million passengers a year by utilising existing facilities through redevelopment. The benefits mean a reduction in noise pollution and environmental degradation.

Additionally, Stansted believe that a focus on maximising existing facilities will have follow on benefits for local economic growth and employment. Redevelopment in parts of the single runway could potentially create £4.6 billion in GVA as well as creating 10,000 onsite jobs.



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