

The Mayor of London's response to the Airports Commission consultation on shortlisted options

Wider Economy

Supplementary Note 02

February 2015

Key findings

- All three of the Commission's shortlisted options, when assessed over a 60 year period would have a positive impact on UK Gross Domestic Product (GDP). Between the three shortlisted options, economic benefits would be greatest when expanding Heathrow.
- There are a number of limitations and uncertainties inherent in the Commission's assessment process meaning the potential economic benefits of each shortlisted scheme cannot yet be fully understood.
- Despite the Commission's commitment to better consider the effect of airport expansion on freight, its benefits do not appear to have been fully considered and is absent from the assessment of wider benefits.

Key recommendations for further work

- A decision should be taken as to a *most probable* air travel demand scenario so the *most likely* economic benefits can be understood.
- The use of any assumptions within the Spatial Computable General Equilibrium (S-CGE) model should be more clearly set out, and any limitations should be fully and openly recognised – as should the effect these may have on the overall scale of economic benefits realised.
- The issue of freight should be revisited, ensuring that it is fully considered as part of the overall impacts of airport expansion.

A: Key observations

1. **The reported benefits are assessed over a 60 year period.**
 - 1.1. The Commission's work includes some useful research and analysis. One important point to note is that the reported total GDP benefits are expected to be realised across a 60 year period (from scheme opening) and thus take account of wider economic impacts associated with a fully operational airport.
 - 1.2. Such an approach is welcome – though it is inconsistent with the Commission's assessment of other impacts – notably additional surface access demand – which does not look beyond 2030.
2. **The scale of economic benefit and net-employment benefits that could be realised from each shortlisted option is uncertain and dependent on future air travel scenarios**
 - 2.1. The scale of economic benefit for each shortlisted option is highly dependent upon which air travel demand scenario is assessed. Without any clarity from the Commission as to what the most probable air travel demand scenario may be, it is not possible at this stage to understand fully the economic benefit that is most likely to be realised from each of the shortlisted options.
 - 2.2. For example, when considering expansion at Heathrow, GDP benefits range from £101bn ('relative decline of Europe') - £214bn ('global growth') and Gatwick £42bn ('global fragmentation') to £127bn ('low cost is king'). The difference between scenarios is substantial and when considered in the round, could impact upon any balancing exercise undertaken by the Commission in reaching their recommendation.
 - 2.3. The same applies for net additional employment benefit that may be supported by airport development. It is also noted that the assessment of net employment benefit (which includes catalytic jobs) is only provided for 'assessment of need' scenario. Whilst the report makes clear that this is done 'for brevity', it is subsequently unclear what the full range of net-employment benefits of each shortlisted option may be.
3. **Freight – an important feature of airport expansion appears absent from the overall assessment of economic impacts**
 - 3.1. Despite a commitment within the Appraisal Framework to better consider the effect of freight the impact of freight appears to have been overlooked.
 - 3.2. For example, freight is not explicitly used as an input to the CGE modelling, though is considered in passing as an *output*. This effectively seems to suggest that the impacts of freight are a "transmitted benefit" which – like any other sector of the economy –

simply flow on from the benefits accruing to aircraft passengers. Such an approach is not consistent with the original intention expressed in the framework that the Commission “*will consider and develop a framework to better consider the impacts on the air freight industry*” and consequently the assessment does not identify the full potential benefits from freight.

- 3.3. Furthermore, freight also appears to be excluded from the analysis of wider benefits. The approach taken appears at odds with current WebTAG guidance which states that freight should be included in welfare assessments. Whilst a discussion of freight does occur within the context of the *Wider Impacts*, it is expressed in terms of a GDP contribution rather than in welfare terms.
- 3.4. Consequently, there are significant oversights given the importance of air freight for aviation but also for the wider economy. This value of the latter is quantified – in the context of new airport capacity – in the new report “*Implications for the Air Freight Sector of Different Airport Capacity Options*” prepared for the Freight Transport Association and TfL, which has been published alongside this consultation response. The report is available for download at www.newairportforlondon.com
4. **There are a number of other limitations and omissions in the Commission’s assessment meaning that the potential economic benefits can not be fully understood.**
 - 4.1. There are a number of other concerns about the methodology and assumptions used within the assessment which require further clarification or explanation in order to provide confidence that they represent an appropriate basis for calculating the overall economic benefit of each shortlisted option. Without additional clarification or acknowledgement of potential limitations, there is a degree of uncertainty about the robustness of the S-CGE outputs and the assessment of wider benefits.
 - 4.2. For example, the assessment refers to ‘**shadow costs**’ when measuring benefits. The vast majority of scheme benefits fall under this category - for example £128 billion worth of benefits from Gatwick expansion under the global growth scenario are classed as ‘shadow costs’. However, there is no clarity as to what such shadow costs represent. Whilst a number of effects are cited, no precise typology is provided, so precisely what shadow costs incorporate or what the relative salience of each of these factors within the S-CGE outputs remains ambiguous.
 - 4.3. Another concern is the potential for double counting in relation to the assessment of wider benefits. The assessment of wider impacts is not undertaken within the context of the standard economic welfare framework and instead uses the S-CGE model to also include issues such as tourism, trade and foreign direct investment (FDI). It is important to note that the original WebTAG guidance on assessing the impact of wider benefits took great care to avoid issues of double counting. It is less certain that the conceptual approach taken by the Commission does so.

5. An inconsistent approach is taken in assessing the costs and benefits of each shortlisted option as part of the Commission's Assessment.

- 5.1. The Appraisal Framework refers to the need to undertake a Value for Money Assessment under the Economic Case, consistent with the process followed by Government. However, upon examination, the presentation of these results appears incomplete.
- 5.2. For example the *Business Case and Sustainability Assessments* for all three shortlisted schemes include only a partially completed matrix of benefits, without a formal consideration of matching costs in each case. The benefits (e.g. Transport Economic Efficiency) have been presented under a Carbon Traded scenario whilst costs (e.g. noise) are presented for a carbon capped scheme. Whilst an explanation is provided for why wider economic benefits have not been assessed under a carbon capped forecast, no such reason is provided for not assessing 'costs' under a carbon traded scenario. The current business case therefore does not present a cost-benefit ratio consistent with DfT Value for Money stipulations¹.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255126/value-for-money-external.pdf

B: Does the Commission’s assessment constitute a robust approach?

To be robust, the option appraisal must entail a complete assessment. It must also be consistent across all the options, with the Commission’s previous analysis, with best practice in the appraisal of large infrastructure projects – including principles of HM Treasury Green Book – as well being aligned with the Commission’s own Appraisal Framework. The table below sets out a summary of the extent to which the Commission’s assessment meets these requirements.

Table 1: Does the Airports Commission’s assessment constitute a robust approach

Criteria	Met?	Comments/examples
Approach to Assessment		
Aligned with Airports Commission Appraisal Framework?	Partial	<p>Whilst the assessment addresses a number of the additional work areas identified in the Commission’s Appraisal Framework, there are a number of limitations which mean intended outcomes have not been fully met.</p> <p>This is particularly the case in relation to the Commission’s consideration of freight.</p>
<p>Consistent approach to assessment:</p> <ul style="list-style-type: none"> • Between options? • With previously considered options? • With best practice/Green Book? 	Partial	<p>Consistent assessment undertaken for all shortlisted options but approach is inconsistent with recognised best practice and requirements set out in WebTAG guidance.</p> <p>The use of the S-CGE model in assessing wider economic impacts of the three shortlisted options is not comparable to the assessment undertaken by the Commission in relation to alternative options and it is therefore not possible to provide a direct comparison.</p> <p>It is important to note that the S-CGE output for all shortlisted options has identified a greater scale of economic benefit than earlier assessments. It could be reasonably expected that a similar modelling approach, applied to the 4-runway hub airport options, would, in a corresponding fashion, identify an even greater level of economic benefit.</p>
Assessment complete (evidence gaps addressed, suitable geographic/temporal scope)?	No	<p>A number of gaps or uncertainties have been identified in the assessment which will require further work or clarification.</p> <p>This is required if the economic benefits associated with each shortlisted option are to be considered credible.</p>

Assumptions		
When multiple scenario or assumption sets used, has the most appropriate been identified – or worst case scenario tested?	No	Economic benefits presented as a range for different air demand forecasts without a most probable scenario identified. This creates significant uncertainty as to the scale of economic benefit that may actually be realised.
Analysis: impacts and conclusions		
Risks fully stated and impact reflected in conclusions?	No	The limitations of certain assumptions used in S-CGE / welfare analysis are not identified and subsequent risks to stated economic benefits are not recognised.
Understanding of net/cumulative impacts?	Partial	<p>Wider benefits are presented on a net basis, however economic and employment impacts of each shortlisted option are not sufficiently disaggregated spatially, therefore the cumulative impact of expansion cannot be fully understood. Whilst it is concluded that significant economic benefits from each option are likely to be realised in London and the southeast and other parts of the UK, there is no further clarity about the specific areas of concentrated benefits (or dis-benefits).</p> <p>For example, it is uncertain from the assessment if any “dis-agglomeration” impacts have been estimated for particular areas in the London and southeast area (for examples areas hosting other existing airports or other major economic drivers) or other parts of the UK which may be negatively impacted overall.</p>