

Review of Heathrow Employment Impact Study by Parsons Brinckerhoff (PB) and Berkeley Hanover Consulting (BHC)

Summary

The report uses a number of questionable assumptions and a flawed method so can not be considered to show the true local economic impacts of the relocation of Heathrow.

- The study's survey is based on self selection and received responses from just 17 firms in Slough and 24 firms in Ealing. These very small sample sizes do not allow Borough level analysis and would be not be admissible at a Public Inquiry. In fact the survey shows that as 99.69% of local firms did not respond so it is very difficult to conclude that the local business community see an "economic cataclysm" awaiting them.
- Rather than explaining how a range of factors interact in a local economy over time the study assumes nothing else happens except the relocation of the airport. This is an unreal assumption.
- All other sources of job creation in West London that would occur simultaneously (trend growth, major sites) are conveniently ignored so the report is unable to illustrate what the net effects would be.
- The entire sectors identified as 'at risk' (IT and pharmaceuticals) while concentrated in London and the South East are actually spread across these regions and across England suggesting that only a much smaller proportion could potentially be "at risk".
- The use of foreign ownership as a proxy for catalytic jobs at risk is shown to be entirely flawed given that similar and higher levels of foreign ownership are evident across the whole of London and the South East (e.g. Ealing is the same as Greenwich and Bexley, and Slough similar to Dartford).
- Significantly the report is fatally weakened by failing to show any evidence of these types of negative economic impacts occurring at any new city airport anywhere in the world.
- Despite TfL sharing all the Mayoral submissions and 28 supporting technical notes with the Consultants they failed to verify many incorrect assertions they make about the Mayor's work in their report.
- A much more likely scenario is that whatever direct, indirect and induced jobs are lost at Heathrow they will be more than compensated by new jobs created at the redeveloped Heathrow site (68,000 jobs), Old Oak Common (up to 90,000 jobs) and other West London locations; and any catalytic jobs loss would be between 1% and 5% (700-3,500 jobs) which is between 2% and 10% of the new jobs that London creates every year.

PB/BHC aim to show the extent of jobs (with a focus on 'catalytic' jobs which they concede are "Very difficult" to estimate) that would be at risk or lost under a range of airport scenarios, including closure of Heathrow across three Local Authorities and their constituent wards. Central to the approach is to estimate the number of jobs that are dependent on Heathrow and the use of foreign ownership¹ of firms as proxy for catalytic jobs that might be mobile: the report assumed 100% of jobs would be at risk.

The method adopted is to use Heathrow's 2008/2010 data on direct (on- and off-site), indirect and induced jobs (114,000) and then on the basis of a survey and other evidence develop a multiplier for "catalytic jobs" (i.e. employment and income generated by the attraction, retention, or expansion of economic activity as a result of the connectivity facilitated by airports especially IT and pharmaceuticals) using foreign ownership as a proxy. A bottom up approach is used with the only actual primary research being an online survey of 113 firms and interviews with 29 companies². Estimates are then made for off airport (+10%), indirect and induced jobs (+14%) and catalytic jobs across the three Boroughs³ and their wards.

The evidence for airport dependency is based on an online survey of just 113 firms conducted during August 2013 which is in no way statistically robust. Rather than using any sampling method this has involved self selection with firms being able to complete the online survey which was promoted through various organisations. What this means is the survey is therefore disproportionately weighted towards firms who wanted to report a specific impact. Also online surveys are able to be completed multiple times by the same respondent unless a unique identity is used.

Overall less than one third of one percent of firms in the three LAs (0.31%) responded to the online survey. This means that 99.69% of local firms chose not to respond. Only 2% of Hounslow's Chamber of Commerce's members responded. This very low level of business response seems to sit in direct contradiction of the report's conclusion that relocating Heathrow would result in an "economic cataclysm".

	Number of Businesses Responding	Total Number of Firms	%
Ealing	24	13,976	0.17%
Hounslow	48	10,308	0.47%
Slough	17	4,824	0.35%
Total	89	29,108	0.31%
Outside Area	24	-	

A sample size of less than 30 does not allow inference to be drawn so borough-level analysis cannot actually be completed for either Ealing or Slough. These sampling errors

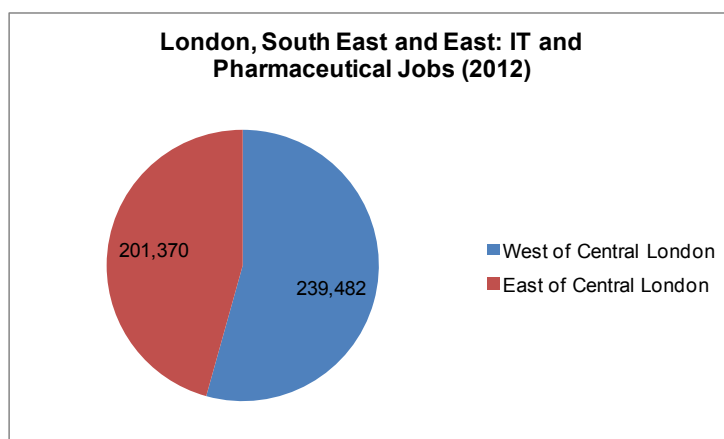
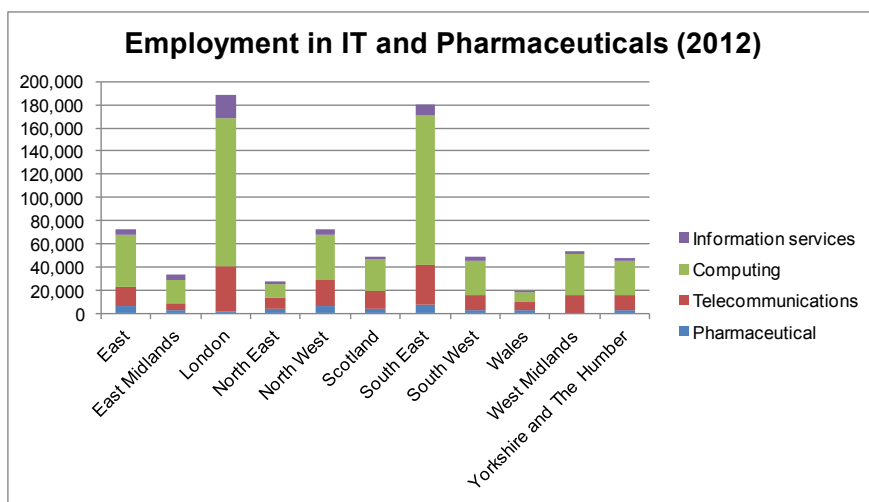
¹ Of course foreign ownership is not directly correlated with propensity to relocate overseas.

² PB and BHC admit this was a biased sample (para 4.4.4).

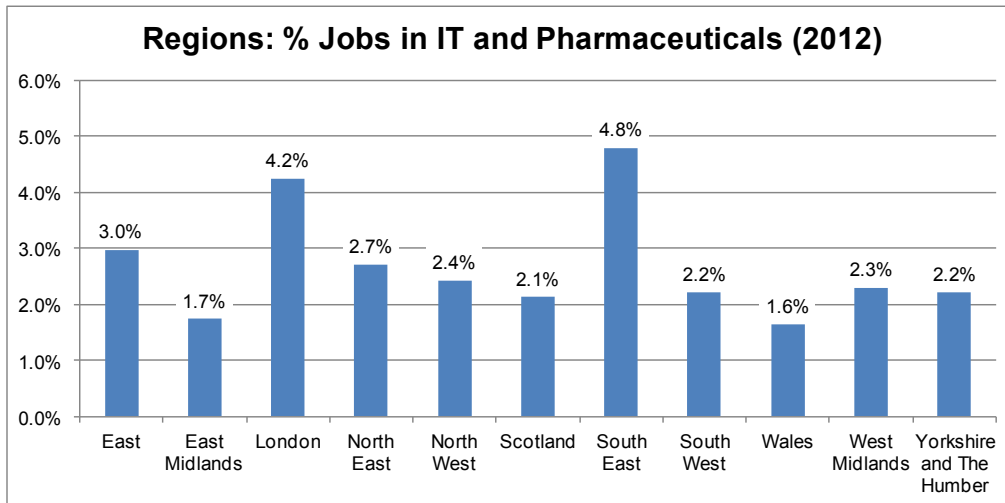
³ These are noted as being subjective (para 5.5.1)

have been compounded by questionnaire design mistakes including the banding of dependency (e.g. 1-25% as a category)⁴.

The catalytic sectors identified as at risk, while concentrated in London and the South East, are actually spread across these regions and more generally across England showing that actual dependency on Heathrow is much more variable. There are more than 792,000 jobs in the IT and pharmaceuticals sectors in England and 55% of these jobs are outside London and the South East, accounting for 1.6% to 3% of total employment in each region. More than 201,000 of jobs in these industries in the Greater South East are actually east of central London (46% of the total). With this geographic spread of sectors the report fails to show why the entire sector would be at risk in West London. Given the problems with the survey approach in the report it is only possible to conclude that close proximity to Heathrow can only be important for the small number of firms contacted during the research.

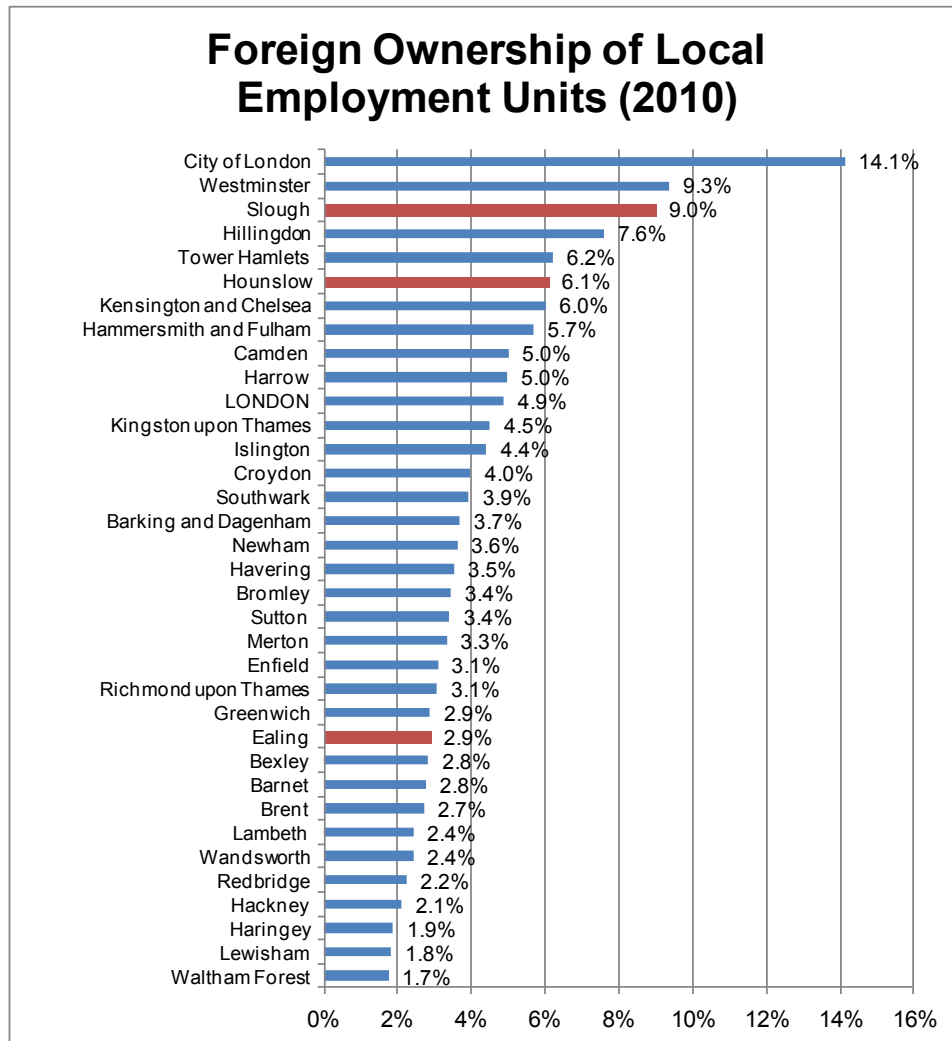


⁴ The Consultants have not included details of either questionnaire or a list of the 113 and 29 respondents citing anonymity.



Foreign ownership is not simply related to access to Heathrow and foreign ownership cannot be inferred to mean that a firm would relocate. The report proposes that the higher levels of foreign ownership in the three Boroughs is a direct result of proximity to Heathrow and employment in these foreign owned firms is used as the basis for estimating catalytic jobs. But the comparative data shows that the picture is more complicated and there is little evidence that foreign ownership *per se* can be used to estimate the catalytic jobs that are actually dependent enough on Heathrow to move if the airport relocated.

- Foreign ownership in Ealing is actually low compared to other London boroughs: it is 23rd out of London boroughs and the same as Greenwich and Bexley in East London.
- While both Slough and Hounslow are higher than the London average, so are 8 other London boroughs. The highest levels are in central London, and the high points broadly follow an east-west axis across the Capital.
- On a South East basis foreign ownership in Slough (9%) is not that much different from Dartford (7.4%) or Milton Keynes (7.1%) which are in completely different locations away from Heathrow.



No evidence is presented of this hypothetical impact happening at any other city in the world⁵. The report assumes that there is a direct reverse effect on catalytic jobs (i.e. if the airport relocates all catalytic jobs will disappear) despite their lock-in with other location factors such as labour supply (housing, schools) which is a much bigger cost for firms than flights. In contrast the evidence that does exist (e.g. Munich, Hong Kong, Denver, Oslo) completely contradicts this hypothesis with an expanded airport supporting the continued growth of the city plus effective re-use occurring on the old airport site. Why is Mexico City currently planning exactly the same approach? Indeed there are many aviation experts who view the risk of not closing the current airport in a city as a huge risk to the commercial and operational viability of any new airport and securing the wider growth effects.

The analysis is entirely static rather than a dynamic modelling of how local economies actually operate over time and all other sources of job creation that would occur simultaneously are ignored. The report is entirely silent on the other sources of growth that will come forward in London over the period when around 35,000 jobs are

⁵ At Stapleton Airport (Denver) workers used to be able to walk to work but they now travel 30mins to work showing that in actual fact workers will adapt to change. The expanded airport now contributes more than \$26 billion annually to the city's economy and the planned residential redevelopment component on the old airport will be complete in 5 years time. The new more efficient airport has increased airlines profitability.

forecast to be created each year. Specifically a commercial led redevelopment of Heathrow can create 68,000 jobs and there will be up to 40,000 new jobs at Old Oak Common before 2032 and a further 50,000 jobs thereafter giving 158,000 in total from just these two West London sites. This amounts to 44,000 more than the total number of direct, indirect and induced jobs currently supported by Heathrow.

The direct, indirect, induced jobs (30,673) are then summed with the estimated catalytic (mid-estimate 39,199) to give 69,800 jobs at risk across the three local authorities.

In reality only probably only 1%-5% of the catalytic jobs would be at risk of relocating given the 45 minute journey time to a new hub airport to the east of London and the importance of the local supply of skilled labour (giving more plausible totals of 700 to 3,500 jobs at risk).

And of the other jobs at risk (30,673) there would be 40,000 new jobs at Old Oak Common by 2032 and a further 50,000 after 2032 together with 68,000 new jobs in a commercially led redevelopment of Heathrow

Overall the report provides no robust evidence that an ‘economic cataclysm’ is likely to occur under any scenario.

Other Points

- Employment at Heathrow is based on surveys that are now 5 years old (which were completed or commissioned by Heathrow). Notably the report is silent on the fact that many of the jobs at Heathrow pay only 60% of the average Hillingdon wage.
- Section 3.8.3 to 3.8.11 is very muddled. The Cushman ECM bundles together all forms of connectivity so it is difficult to isolate air connectivity and, in any case, not all firms (see Munich) would be badly affected by an increased journey time to a better airport. The US data is based on a country where air connectivity is often the only real travel option. The examples are based on historic investment patterns and do not seem to explain how the HQ of Astra Zeneca can possibly flourish in Cambridge, why Google is building its HQ at Kings Cross and how the pharmaceutical industry is actually spread across the Greater South East. It is the future locational attributes that are key.
- All the analysis Section 4.3.7 is unsupported by any statistically robust evidence.
- Section 2.5 – despite meeting the consultants and supplying them with all the Mayoral submissions and supporting documents they have failed entirely to grasp that the reasons for the Mayor’s work which was to answer the specific Davies Commission question: “impact of your proposals on other airports”. The consultants made no attempt to contact TfL to verify their incorrect assertions about the Mayor’s work in this section.
- The other point that is conveniently avoided is that as a four runway hub airport would be unconstrained, it is reasonable to expect the catalytic impacts to exceed those at Heathrow thereby offering sustained net positive long term growth for London, the SE and the UK.
- The analysis also fails to model a range of indicators over time. While the airport relocation would have some local effects that require careful mitigation, there would be a

17 year lead-in time for planning and these effects can't actually be considered unless wider trends (population, migration etc.) are factored into the analysis.

- The report discusses the 'potential of companies to relocate outside of UK' but no evidence is given of this effect. There is no discussion of the complex range of factors which govern a company's location decision.
- The total number of catalytic jobs is not founded in evidence: 'it is our view that Heathrow has been fundamental in attracting 100-200k jobs'. No statement as to how this figure has been calculated.
- The report states that '270-330k jobs are at risk on a wider regional basis'. This is derived from 'very likely to be larger than [the number of] direct and indirect [jobs]'. Clearly only a proportion of catalytic jobs are at risk but the report is unable to quantify that.
- The link between LHR closure and catalytic job losses is justified by firms citing 'an essential condition for proximity to Heathrow'. Proximity means journey time, not distance. A new hub can replicate current levels of proximity for many. This issue is not considered.
- Gatwick R2 scenario is presented as favourable for Heathrow. It assumes 'connectivity at LHR would improve as a result of the relocation of certain carriers'. Not clear how / why this outcome has been assumed. Shows a lack of understanding of how airports work.

For more information on the Mayor of London's plans for a new airport for London please contact either Guy Lavis guylavis@tfl.gov.uk on 020 3054 7142 or Andy Brown andy.j.brown@tfl.gov.uk on 020 7918 3708