

PLYMOUTH CITY AIRPORT – ECONOMIC STUDY INTO AIR SERVICES FOR PLYMOUTH

**Executive Summary
to
Plymouth City Council
and
Plymouth Chamber of Commerce and Industry**

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August 2011

EXECUTIVE SUMMARY

The Context to the Study

1. The key aims of this report are threefold.
 - Firstly, to review the context and recent history of Plymouth City Airport (PCA), assess its operational constraints and estimate the market for its services.
 - Secondly, to establish the importance of PCA to the local economy including inward investment and economic implications for the future.
 - Thirdly, to establish the aviation options available for the continuation of airport activities on the current site as well as possible cessation of operations and assess the financial implications including risks of each option to Plymouth City Council (PCC).
2. PCA's loss of the Heathrow connection in 1997 signalled the beginning of a decline in the strategic importance of the airport for the Plymouth economy. This decline has recently accelerated with the loss of the LGW connection in early 2011.
3. With the introduction of regional air services by Air Southwest (ASW) in the 2000's, PCA's passenger traffic upheld at around 100,000 passengers/year, peaking at 125,000 in 2009. However, this fell in 2010 to just under 100,000 passengers and, with the withdrawal of the Gatwick service and the general decline in demand, the forecast outturn for 2011 is likely to be a maximum 50,000 passengers.
4. These passenger numbers need to be placed in the context of how PCA has performed relative to the other South West airports (Bristol, Exeter and Newquay). In 1995, PCA accounted for just over 5% of all passengers handled in SW airports. In the period 1995 to 2010, passenger numbers through SW airports more than trebled. At PCA numbers remained static so, by 2010, PCA only accounted for 1.4% of traffic. With the loss of the Gatwick route, PCA's share will fall to well under 1% of SW traffic in 2011.
5. The short runway at PCA severely restricts aircraft types to short runway capable 19–50 seater turboprops and this has prevented PCA participating in the low cost and holiday charter market that has developed in the past 20 years and/or attracting other airlines needing a longer runway. Of the 19–50 seater short runway capable turboprops that can operate into/out of PCA only two are still in production with no new models in development. Whatever decisions are taken now the long term future for PCA as a commercial airport would appear to be very limited.

The Economic Importance of PCA

6. The economic importance of PCA has also declined and currently represents a very small element of connectivity to/from Plymouth. Business travellers have adapted to the loss of the Heathrow service and are now adapting to the loss of the Gatwick service. There are no signs that the inability of PCA in the last 10 years to meet local demand for air travel has resulted in a diminution of travel to/from Plymouth and/or has had a knock-on impact to the local economy. Our research confirms that companies have adapted to the declining role of PCA and the actual usage of PCA by local companies is now very low.

7. We estimate that there was a latent demand for some 350,000 trips at PCA in 2010 and some 250,000 of these trips from PCA were effectively diverted to other regional airports and other modes.
8. Whilst there is an understandable aspiration amongst the business sector in Plymouth to retain services at PCA, there is also an acknowledgment that the use of PCA by the vast majority of local companies had been minimal in recent years. There is the perception of PCA being more important to the City in general than to specific companies in particular.
9. There is no evidence that the declining importance of PCA has detrimentally effected inward investment. For the recent inward investor firms, the investment decision in all cases was made on the basis of the attractiveness of the asset/business being acquired. The existence of PCA and its air services were not factors in the decision. We cannot identify any evidence that the closure of PCA would have a significant impact upon future inward investment decisions.
10. To address the question of the importance of PCA to the local economy, we contacted 25 prominent companies operating in Plymouth and asked them about their use of and reliance on PCA and its air services. These firms included the City's largest employers and those with the greatest use of/need for regional, European short haul and international long haul travel.
11. The main conclusion of our enquiries to companies is that at its present level of operation Plymouth City Airport and its air services are no longer of material importance to the companies operating in and around the City.
12. The number of jobs on the airport a few months ago was estimated to be some 120, but this is falling as ASW (following its 2010 takeover by Eastern Airlines) relocates activities to its base at Humberside Airport and we believe that the total on airport employment is now probably closer to 100 (mid 2011).
13. At present levels of usage, the time saving and journey cost benefit to business travellers of using PCA (compared with alternatives e.g. Exeter Airport) is estimated to be some £1.3 million/year. Using PCA's busiest year (2009) as the air traffic baseline this benefit was worth some £3.3 million/year. Including the estimated additional access costs incurred by leisure travellers raises these benefits to £1.7 million/year (2011 traffic base) increasing to £4.3 million/year with the 2009 traffic base line. However, this needs to be placed in the context of a 2008 GVA level of £4.2 billion for Plymouth.

Connectivity

14. Over half the businesses contacted articulated a need for good connectivity with London, with the preference being for rail connectivity and improved train services. For Plymouth businesses, the Plymouth to London early morning services were reported to be satisfactory but there was great dissatisfaction with the London to Plymouth early morning services used by visiting business partners and colleagues from London offices.

15. For European and international connectivity, London Heathrow is the preferred airport with some use of Bristol. Exeter has very few European business destinations hence its limited use for European travel by the responding businesses. But Exeter does have a good range of UK destinations and existing PCA users indicated they would transfer to Exeter if/when PCA closes.
16. Given the range of alternatives for London, European, international and UK regional connectivity, the loss of the already severely diminished PCA air services is not expected to reduce Plymouth businesses' overall competitiveness to any significant extent. The availability of other regional airports and other modes of travel will continue to provide adequate alternatives in the event of a cessation of services at PCA.

PCA Options

17. Following detailed discussions, 5 options for the future of PCA were assessed in terms of future financial risk.
18. The **continuation of PCA in its present mode** (Option 1) of offering scheduled services with 50 seater aircraft is expected to require subsidy of at least £1 million/year. The downside risk is of further reductions in air services to fewer cost covering routes coupled with the difficulties in identifying an airport operator willing to assume complete financial risk for PCA and the evident problems of attracting new airlines. The upside risk is the long term potential development of Northolt¹ boosting PCA usage by at least 40,000 passengers/year and reducing the annual operating loss. Overall the financial risk exposure of Option 1 to PCC/new operator is assessed to be high.
19. A **licensed airport for 19 seater scheduled service aircraft** (Option 2) could be operational cost covering. Cost coverage will depend on the retention of the military at PCA. The downside risks include the difficulty in identifying an airport operator willing to assume complete financial risk for PCA, the evident problems of attracting new airlines to provide routes over a sustained period and an inability to generate the passenger revenues envisaged. The upside risk is the long term potential development of Northolt boosting PCA usage. Overall the financial risk exposure of Option 2 to PCC/new operator is assessed to be medium/high.
20. An **unlicensed airfield with no scheduled services** (Option 3) could be cost covering and may show a modest surplus but would be largely dependent upon continuing military activity. There are no significant downside risks. The upside risk is the development of Northolt attracting an airline to establish a Plymouth – Northolt service encouraging PCA to upgrade in future to Option 2. Overall the financial risk exposure of Option 3 to PCC/new operator is assessed to be low.
21. **Mothballing the airport** (Option 4) is expected to cost £150,000/250,000/year - but will obviously generate no revenues² to offset these costs. Overall the financial risk exposure of Option 4 to PCC is assessed to be low/medium.

¹ There is currently a considerable amount of public and private sector activity seeking to resurrect Northolt Aerodrome as a potential destination for UK domestic flights – see report for further details.

² There is a possibility that the military helicopter (FOST) operation could be maintained during a mothballing period generating reasonable income streams for 3/5 years, though this would involve increased costs.

22. **Closure of PCA** (Option 5) is expected to cost £50,000/£100,000 initially and some £20,000/year until the site is transferred into new use. Overall the financial risk exposure of Option 5 is assessed to be very low.
23. In reviewing these options, there are three non-operational concerns that could overwhelm any financial considerations from purely an operating perspective. The first of these concerns relates to the value of the existing lease of the site. It is evident that the current leaseholders have assumed an asset value for the PCA lease in their company accounts. Without taking a view on this matter, we have not included any costs of lease transfer in the operating costs and revenues summarised above.
24. The financial viability from solely the perspective of cost recovery of Options 2 and 3 outlined above depends crucially on any the lease transfer costs of PCA's airport operating lease being low (in the very low £'000s). It is clear from the nature of the airfield/airport operations envisaged under Options 2 and 3 (and the indicative financial viability) that neither option could bear the cost of lease transfer if this is high (£ millions).
25. The second of these concerns is rental arrangements and charges relating to the PCC owned Derriford site and we have assumed that the current rental arrangements for the site would remain unaltered and given the current turnover formula have assumed that a new operator would not be required to pay a rental in the foreseeable future.
26. The third of these concerns is Rateable Value and business rates levied on PCA. At present, the rates levied are just under £170,000/year. Advice from the Valuation Officer is that reduced operations at PCA will not lead to any reduction in Rateable Value and rates levied in the absence of demolition of redundant buildings. We have not considered building reconfiguration to reduce Rateable Value but business rates at existing levels are not affordable within Option 2 and barely affordable within Option 3³.
27. Furthermore, it will be noted that the continued presence of the military (FOST) has been assumed in all the operating options (1, 2 and 3) and could even be retained with option 4. We are not able to comment on the robustness of these assumption, but we have included the impact of the loss of this business in our consideration of the risks associated with each option as the FOST income represents a high proportion of Options 2 and 3 income streams.
28. We have attributed no opportunity cost to the PCA site at Derriford given that it is currently scheduled for airport use in the Northern Corridor Area and in the Plymouth Local Economic Strategy 2006-21. That said, the site clearly has significant development value if permission is granted for non-aviation use and has the potential to enhance the mid to long term growth rates of economic development in the Corridor.

³ We have assumed much lower rates appropriate to the operational level of each option.

Conclusions

29. If there is a political/business consensus to retain airport operations, it could be possible to operate a very limited scheduled passenger airport or a general aviation airfield that could be broadly cost covering, though the likelihood of commercial profitability is low to non-existent. However, as stated above in paragraph 23, any one of three non-operational concerns could overwhelm the financial considerations from purely an operating perspective.
30. A number of parties have expressed interest in taking over the operation of PCA, but we cannot vouch for the robustness of any of these approaches and they all involve a reduced level of activity compared with recent operations at PCA⁴.
31. However, the retention of any financial risk by PCC in any of these options is difficult to justify and the willingness of prospective new airport operators to assume total financial risk at any level of airport operations needs to be robustly tested and validated.
32. We have concluded that in the absence of any meaningful positive economic contribution to the City of Plymouth, we are unable to identify an economic rationale for PCC to underwrite the commercial risks involved in maintaining any scale of airport operations at PCA.

⁴ At the time of completing this report, PCC will be receiving the results of a marketing testing exercise.

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1 INTRODUCTION

The Study

- 1.1 Berkeley Hanover Consulting (BHC) was appointed by Plymouth City Council (PCC) and the Plymouth Chamber of Commerce and Industry (PCCI) in April 2011 to undertake an economic study of the current and potential future role of Plymouth City airport (PCA) in the context of the economy of Plymouth. Mott MacDonald (MM) provided technical support to the study.
- 1.2 It should be stressed that the remit of this study does not encompass a review of the performance of Sutton Harbour Holdings' (SHH) past and current management of either PCA or Air Southwest (ASW). Prior to the study, SHH sold ASW to Eastern Airlines and during the study SHH announced that PCA would cease operations from end 2011. PCC has appointed Grant Thornton to address matters of due diligence in relationship to the terms of the leasehold agreement held by SHH/PCA with PCC.
- 1.3 The aims of this report are threefold. Firstly, to review the context and recent history of Plymouth City Airport (PCA), assess its operational constraints and estimate the market for its services. Secondly, to establish the importance of PCA to the local economy including inward investment. Thirdly, to establish the aviation options available for the continuation of airport activities on the current site and assess the financial implications including risks of each option.

The Context

- 1.4 Claims abound that the presence of small regional airports providing regional, national and (limited) international air services can be influential both (i) in aiding local firm retention and further expansion and (ii) in attracting new inward investment into a local economy. As a result, some local authorities provide funding for the continued presence of such aviation services, believing that such expenditure is a cost-effective means to support of economic activity.
- 1.5 The assessment of the direct employment impact of airports is a relatively simple exercise. On airport employment data is easy to acquire. The calculation of off airport related employment is a little more difficult to compile, but does not present great difficulties. It falls into three categories – direct off airport, indirect employment (companies in the supply chain to the direct on and off airport employers) and induced employment (the income multiplier effect of all direct and indirect employment). Indeed, this exercise has been undertaken a number of times in the past for Plymouth airport and the results are rarely contentious.
- 1.6 However, the two claims in 1.4 above are less easy to quantify. Indeed, there are examples that such claims are exaggerated and that connectivity to peripheral regions can on occasions be addressed in a more cost-effective manner.
- 1.7 Furthermore, the future of PCA has to be placed within overall transport connectivity to/from Plymouth that includes Exeter airport (and to a lesser extent Newquay airport) as well as rail and road connections to the rest of the country, particularly the South East.

The Challenge

- 1.8 The termination of a number of services in recent years culminating in ASW's closure of its service to Gatwick is clear evidence of the continuing difficulties of operators to sustain financially viable services to/from Plymouth airport. As stated, the scale of potential job losses on airport and associated with off airport activities can provide a clear picture of the direct consequences of the termination of airport operations. However, in order to address the complete picture of the economic consequences of airport closure or any diminution in services, it is essential to address three questions as follows:

- How important are local air services at PCA to local companies?
- How important are local air services at PCA to inward investment?
- How important are local air services at PCA to tourism?

Given the current economy of Plymouth, it is likely that tourism is not a crucial concern, but whether the impacts on existing companies and the possible knock-on impacts to inward investment are substantive issues is less evident and requires clarification in the context of the future role of the PCA site.

- 1.9 The benefits of local air services can be influential both in aiding firm retention and further expansion and in attracting new inward investment into a local economy. As a result, the provision of an airport providing both the quality and quantity of air routes domestically and internationally may have important attracted employment implications in a local economy. Whilst it is almost impossible to quantify without extensive research, it is important to note this impact. We have carried out a consultation exercise with key business organisations in Plymouth to provide evidence as to this impact.
- 1.10 It is necessary to attain a clear and independent view of these mid to long term catalytic impacts in 'with' and 'without' Plymouth airport scenarios and evaluate these impacts alongside the likely levels of funding intervention that will be required to maintain the 'with' airport scenarios. These levels of funding (or lesser levels) should be viewed as potential resources that can also address future economic issues in alternative ways. In effect, there maybe better more cost-effective policies to maintaining and expanding local economic activity than investing funds in the airport. Alternatively, any review may indicate the maintenance of Plymouth airport is crucial to ensuring the economic prosperity of the local area and sub-region.

The Report

- 1.11 Chapter 2 of this report provides background to the relationship between the economy of Plymouth, PCA and airline operators. Chapter 3 outlines the constraints that PCA works under – particularly in terms of runway length. Chapter 4 reviews markets and route potential. In Chapter 5, we address how important PCA is to the local economy and the current use of the airport. In Chapter 6, we place local air services in the context of overall connectivity. Chapter 7 briefly provides a local planning agenda perspective in the context of the opportunity cost of the Derriford site of the airport. Chapter 8 assesses the financial implications and risks for PCC (and another airport operator) of options for PCA. Our conclusions are presented in Chapter 9.

- 1.12 Appendix A presents a list of all the organisations contacted during the course of the research. Appendix B provides extracts from a debate in the House of Lords.
- 1.13 During the study, we have received a high degree of co-operation from members of both the public and private sectors in Plymouth. Whilst it is evident that our Client is PCC/PCCI, we would emphasise that the views expressed in this report are entirely the responsibility of BHC.

2 CONTEXTUAL BACKGROUND

Airport, Airlines and the Local Economy

- 2.1 Airports generate on-airport and off-site jobs via a number of economic mechanisms and this is detailed below. However unless there is sufficient passenger demand, airlines will not be attracted to an airport. In effect, there needs to be a critical mass of passenger demand to fly to/from an airport to ensure that airline services can be financially viable. Furthermore, dependency on only one or two routes to provide that critical mass will always expose an airport to financial sustainability risk as have been seen in several airports that have been dependent on low cost carriers.
- 2.2 The critical mass of demand is partially a function of the economy within reasonable drive time of the airport and the presence of alternative transport modes including airports within the same region. Clearly demand to use PCA is affected by the presence of other regional airports – particularly Exeter and to a lesser extent Newquay. Also demand in the past to use air routes to/from SE England have been affected by rail and road connections.
- 2.3 A number of research studies have addressed whether a failure fully to meet future demand for air travel would have serious economic consequences upon local and regional economies. It is asserted that this ‘damage’ could manifest itself in a number of ways such as loss of jobs; decreased inward investment; diminution of a region’s economic status; reduction in the efficiency of a region’s businesses; decline in profits of local companies etc.
- 2.4 The 2006 study¹ by York Aviation on behalf of PCC addressed options for the future of Plymouth City Airport (PCA) and highlighted that air service accessibility is one of the key drivers of city growth, impacting on:
- attracting new high-tech and creative industries;
 - attracting new short break/high spending tourists;
 - improving productivity of local companies through reduced journey times.

However, their projection of significant airport-related employment generation was based upon a dramatic expected growth in passenger demand. Unfortunately this did not happen. Indeed, a brief analysis of regional passenger movements shows that PCA has lost market share.

- 2.5 Table 2.1 over the page demonstrates the declining importance of PCA over the last 15 years². In a period that has experienced total growth in the South West of just over 300% between 1995 and 2010, PCA has shown a 12% growth. Exeter’s growth slightly exceeded the regional growth trend. This is further exemplified by the market shares analysis shown in Table 2.2. In 1995, Plymouth accounted for 1 in 20 passengers flying

¹ Plymouth City Airport Study, York Aviation Limited, April 2006

² The analysis in this chapter differs from the more detailed analysis in Chapter 4 inasmuch that the passenger data here relates to all terminal passengers, whilst in Chapter 4 it relates to scheduled passengers. Thus it excludes holiday charter passengers that constitute sizeable flows at Bristol and Exeter.

to/from SW airports. By 2010 this had fallen to 1 in 70. With the loss of the LGW service in early 2011, this had fallen further to 1 in 90.

Table 2.1 Terminal Air Passengers 1995-2011 ('000)

	1995	2000	2005	2009	2010	1 st Q 2010	1 st Q 2011
Bristol	1,428	2,122	5,200	5,600	5,720	1,121	1,067
Exeter	180	328	838	787	736	119	115
Newquay	na	60*	337	346	281	31	37
Plymouth	86	112	109	115	96	28	13
SW Airports	1,694	2,622	6,484	6,848	6,833	1,299	1,232

Source: CAA

Table 2.2 Terminal Air Passengers 1995-2011 (%)

	1995	2000	2005	2009	2010	1 st Q 2010	1 st Q 2011
Bristol	84.3	80.9	80.2	81.8	83.7	86.3	86.6
Exeter	10.6	12.5	12.9	11.5	10.8	9.2	9.3
Newquay	na	2.3	5.2	5.1	4.1	2.4	3.0
Plymouth	5.1	4.3	1.7	1.7	1.4	2.2	1.1

Source: CAA

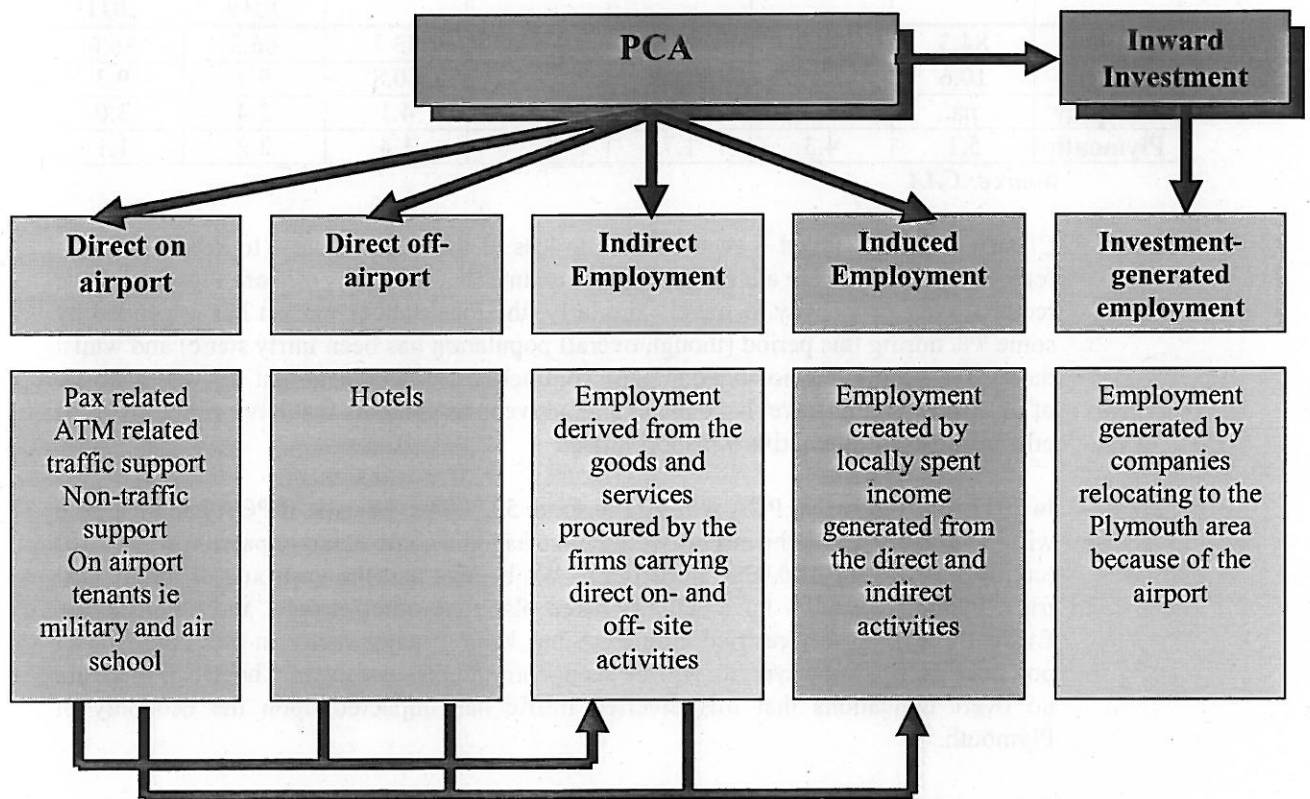
- 2.6 Clearly, PCA has failed – even before the loss of the LGW route – to keep pace with regional growth. There are no grounds to assume that travellers to/from Plymouth have reduced their propensity to travel. Similarly, the local labour market has expanded by some 7% during this period (though overall population has been fairly static) and whilst there have been a few notable company contractions, it is evident that the vast majority of those seeking air travel have made alternative arrangements that have either involved other airports or alternative transport modes.
- 2.7 In 2011, it is likely that PCA will handle some 50,000 passengers. If PCA had kept pace with regional demand, the airport would have handled some 350,000 passengers in 2010 (compared with the 100,000 in practice). We believe that the vast bulk of these ‘lost’ trips – some 250,000 – have actually taken place via other airports and other modes. Evidently, the runway restriction at PCA has been a major factor in this diversion of potential traffic. However, as will be seen from the discussions in Chapter 5, there are no overt indications that this diverted traffic has impacted upon the economy of Plymouth.

PCA and Employment Impact

- 2.8 An airport is usually a significant local employer and the number and the type of the jobs it generates can be of importance to the local economy. Total airport employment can be disaggregated into 4 main components – (i) direct on-site and off-site, (ii) indirect, (iii) induced and (iv) catalytic employment (additional jobs created if companies are investing in the area because of the proximity to

the airport). The table and diagram below provide descriptions of the types of jobs created by an airport.

Impact Category	Definition
Direct On and Off Airport	Employment and income wholly or largely related to the operation of airports and generated within the airport operational area
Indirect	Employment and income generated in the chain of suppliers of goods and services to the direct activities
Induced	Employment and income generated by the spending of incomes earned in the direct and indirect activities
Catalytic	Employment and income generated by the attraction, retention or expansion of economic activity as a result of connectivity by airports



- 2.9 Numerous studies have shown that regional airports can facilitate economic growth at local and regional levels but may also provide opportunities for the exploitation of a wider range of economic activities. The measurement of direct, indirect and induced employment is a relatively straightforward exercise involving surveying of the relevant companies and assumptions about the induced impacts based upon empirical research.

- 2.10 This wider economic role of airports is known as the catalytic impact, arising from the effect that air service accessibility can have on the region served by the airport. The mechanisms through which catalytic impact would operate in Plymouth relate largely to enhancing business efficiency and productivity by providing improved international connectivity
- 2.11 The York Aviation report concluded that the employment impact of the airport in 2005 totalled some 320 jobs as shown in the table below. The terminal passenger numbers in 2005 were some 108,000.

Table 2.3 Employment Impact of PCA in 2005

Category	FTE's ³
Direct on and off airport (actual)	222
Indirect	51
Induced	47
Total	320

Source York Consulting

York Aviation forecasted that passenger numbers would grow to some 370,000⁴ by 2010 without a runway extension and 480,000 by 2015. York Aviation made their forecasts of employment impact in 2015 on the basis of these traffic forecasts and the forecasts are shown below

Table 2.4 Employment Impact of PCA in 2015

Category	FTE's
Direct on and off airport	720
Indirect	170
Induced	150
Total	1,030

Source York Consulting

We have not undertaken a on site survey of current employment at PCA, but using the same methodology applied by York in their estimates and some employment data assembled during our own survey, we believe that on airport employment has fallen to about 100/110. Based on the 2005 indirect and induced ratios, this would suggest that the current employment impact of PCA is in the region of 140/150 employees. These jobs would be at risk with any diminution of airport activities – though naturally do not necessarily reflect potential job losses to local residents. Furthermore, there remain major possibilities that the Derriford site could be used for alternative commercial uses that in turn would create employment. This is discussed in Chapter 7.

³ Full-time equivalent.

⁴ This passenger forecast by York indicates that some 270,000 trips have been 'lost' – a similar level to the estimate described in paragraph 2.7.

The Economy of Plymouth and PCA

- 2.12 Plymouth's Local Economic Strategy (LES) was published in October 2006 and covers the period 2006 – 2021 and beyond. The LES is highly ambitious and includes such targets as the creation of 42,000 net new jobs by 2026; raising Gross Value Added (GVA) to the national average per capita by 2016; together with a range of employment participation, business growth, knowledge economy, skills and learning goals that would assist in achieving these ambitions.
- 2.13 A revised list of critical success factors for achieving this growth has been formulated by PCC and in economic terms concentrate on lifting GVA per head from 79% of UK average (in 2004) to 100% by 2016, increasing economic activity rates, enhancing skill levels and creating jobs, particularly in knowledge based activities.
- 2.14 In this context, we have particularly addressed linkages that have some functionality between PCA and the local economy as follows:
- *Overall Labour Market Impact:* What is the current employment impact of PCA and how will change as a result of changing traffic flows. Furthermore, is this impact of economic significance to the Plymouth economy?
 - *Foreign direct investment:* It is generally accepted that air connections and air travel facilitate inward investment and that future restrictions could inhibit inward investment and that this would damage the productive potential of Plymouth. If this did have a detrimental effect on the quality of Plymouth's capital stock and labour skills then it might reduce the future productive potential of Plymouth. However, this would also make it a supply side issue (see below).
 - *Tourism:* The South West is a long-established national and regional tourism destination. The region suffers from peripherality that can only be partially ameliorated by air connections to/from the South West. The tourism sector is one of the major economic sectors in the South West – but it is not particularly concentrated in Plymouth.
 - *Supply-side improvements:* Research by BHC and others has shown a relationship between transport infrastructure – including airport expansion – and the productive potential of a national and regional economy. This could be particularly relevant to domestic business travel to/from Plymouth. The distances between Plymouth and (i) London and the South East and (ii) other parts of GB such as Scotland necessitate the need for efficient transport linkages. Without direct airport connectivity will the economy of Plymouth suffer?

Connectivity and Peripherality

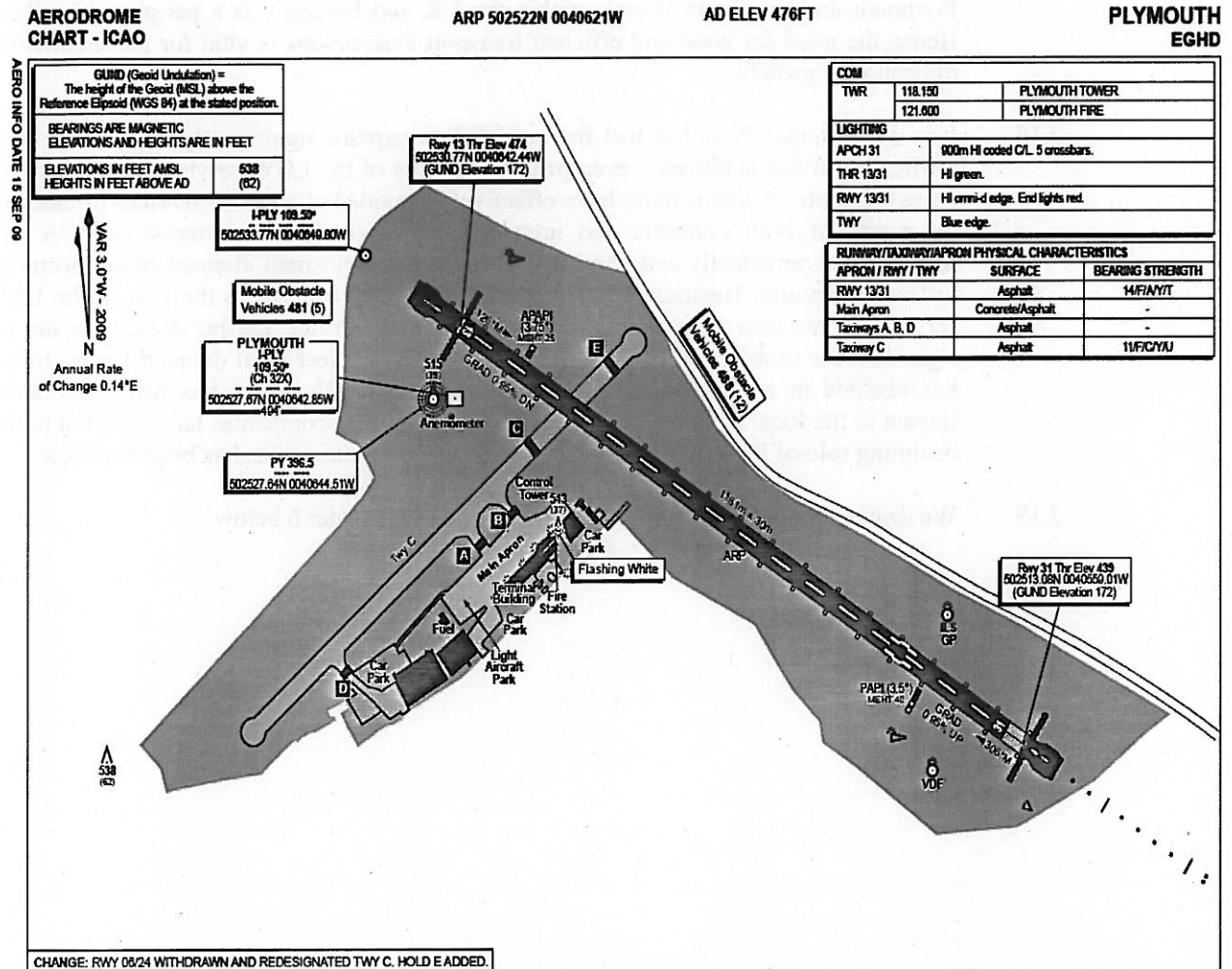
- 2.15 The Council does not directly control any of the transport networks that connect the city to the rest of the country – these are either owned or managed by other organisations or private companies. It is evident that many local stakeholders view PCA as an important part of a package of transport modes/networks that enable Plymouth to interface with rest of the UK and beyond. It is also evident that the relative importance of PCA has declined in terms of a means of travel in real terms, whilst remaining in some eyes symbolically important.

- 2.16 In 2000/2001, as part of the South West Aviation Study for the Department of Transport, BHC undertook fieldwork and case studies of local businesses addressing the loss of the LHR connection. At that time, many local businesses were understandably very concerned about this loss in connectivity. Since then, the PCA 'offer' has deteriorated further.
- 2.17 There are no doubts that connectivity for a city such as Plymouth is vitally important. Plymouth and the South West – within the UK and Europe – is a peripheral locality. Hence the need for good and efficient transport connections is vital for the facilitation of economic growth.
- 2.18 It is evident that PCA has had the potential to capture significantly higher levels of traffic than it has achieved – even prior to the loss of the LGW service. It appears that other elements of connectivity have effectively provided alternative services to meeting the needs of both domestic and international travel. The importance of PCA has diminished dramatically and currently represents a very small element of connectivity to/from Plymouth. Business travellers have previously adapted to the loss of the LHR service and are now adapting to the loss of the LGW service. Furthermore, there are no signs that the inability of PCA in the last 10 years to meet local demand for air travel has resulted in a diminution of travel to/from Plymouth and/or has had a knock-on impact to the local economy. Our research confirms that companies have adapted to the declining role of PCA and recent use of PCA by local companies has been very low.
- 2.19 We discuss connectivity further in this report – see Chapter 6 below.

3 PCA CONSTRAINTS

Airport Capability – current

- 3.1 The chart below is the current Aeronautical Information Publication (AIP) produced by the Civil Aviation Authority (CAA) for Plymouth City Airport (PCA, airport code PLH).



- 3.2 PCA operates with a single runway and is fully compliant with CAA (CAP 168 - Licensing of Aerodromes) requirements. It has a public licence enabling it to accept aircraft of a size in accordance with its Rescue and Fire Fighting Services (RFFS) category level 5.
- 3.3 The runway direction is WNW to ESE, or 13/31 in aviation terms. Although it would ideally be aligned WSW/ENE to face the prevailing winds, this is not a constraint for larger aircraft such as those that currently operate scheduled services. However, some light aircraft will now occasionally have difficulty in landing or taking off if there is a strong crosswind that is outside their operating limits.

- 3.4 PCA has a runway code of 2C – this indicates that it has a maximum Take-Off Distance Available (TODA) of less than 1,200 metres. The full length of the surfaced asphalt runway at Plymouth is 1,161 metres, with a width of 30 metres. By comparison, Newquay has runway dimensions of 2,745 by 87 metres (runway code 4E), and Exeter has 2,073 by 46 metres (also code 4E). The runway at PCA is short by comparison with most UK regional airports. It is the main constraint affecting aircraft operations at the airport. It restricts the airport to those aircraft types that are able to operate from such restricted runways, which limits it to predominantly small to medium size turbo-prop aircraft (up to 50 seats). As a general rule, an airport needs to have a runway in excess of 1,800 metres if it is to offer full range capability to aircraft such as the Boeing 737 or the Airbus A320 families, providing Europe-wide destinations; and 3,000 metres for wide-bodied aircraft.
- 3.5 Various studies have been undertaken to determine if the PCA runway could be lengthened at reasonable cost, but to date all such proposals have proved prohibitively expensive. Extending the runway would involve extending the boundaries of the airport and buying up local commercial and residential property.
- 3.6 The runway gradient at PCA is not significant, with a 0.95% slope towards the South East. The runway width, 30 metres, is adequate for those types of aircraft capable of operating to or from PCA within its runway length restrictions. Runway strength also needs to be considered. The Pavement Classification Number (or PCN) of the runway at PCA is relatively low at 14, but is sufficient for the current aircraft types. Each aircraft type will have a specific PCN requirement, but airport operators are permitted to accept a limited number of movements by aircraft with a PCN requirement in excess of an airport's stated capability.
- 3.7 The approach and runway lighting at PCA is adequate for all night requirements, including instrument approaches to Runway 31. The airport is open for business between 06:30 and 22:30 local time all year-round.
- 3.8 Air Traffic Control provision (ATC) meets the requirements of the specified licensed operations at PCA, including its published Instrument Approach procedures. PCA has a Category 1 Instrument Landing System (ILS) to enable suitably equipped aircraft to land to the North West in poor weather and periods of reduced visibility.
- 3.9 The final requirement before a CAA Licence can be issued is the provision of a suitable category of Rescue and Fire Fighting Services (RFFS). PCA is currently licensed at RFFS Category 5, which enables the airport to handle the 50-seat aircraft currently used for scheduled services. Discussions with the CAA confirm that the present fire station, appliances and training standards are all fit-for-purpose and that no further improvements, other than some cosmetic adjustments, are required to maintain the current category level.
- 3.10 Reductions in cost could potentially be achieved by reducing the Category if the largest regular scheduled service aircraft is reduced in size, or the hours of coverage at a given category were altered, or a joint venture could be established with the local fire service for quieter parts of the day.

Airport Capability – potential problems

- 3.11 The CAA has licensed the current runway as meeting all its technical and safety requirements in terms of declared operational distances for the runway as published in the AIP above. Over time – due to changes in international regulation, new aircraft introduction and related developments – requirements change and are sometimes made more demanding. The consequence can be that historically accepted distances or clearances that do not now meet with current CAA standards can – based on a case by case ‘safety case’ agreed with the airport operator – be allowed to continue, as safety ‘derogations’.
- 3.12 There is some concern that, if the operator of PCA were to change, the CAA might wish to terminate any current derogations, and start with a clean sheet of paper for the new operator. The most important of these is the CAA’s relatively recent requirement for the lengthening of the Runway End Safety Area (RESA) from 90 metres to 240 metres. If applied rigorously by the CAA, it would reduce the TORA and LDA for aircraft by such a significant amount that the airport would become completely unavailable to scheduled airlines with any aircraft more demanding than the 19-seat Twin Otter (as operated to and from the Scilly Isles).
- 3.13 Historically, the CAA has not always used such changes in ownership to insist on full compliance – it did not do so when Sutton Harbour Holdings became the new operator – but the risk of such actions cannot be completely dismissed. It should be noted that many of the major UK airports have ‘grandfather derogations’ – the position at PCA is far from unique.
- 3.14 Similarly, the safety regulatory responsibilities of the CAA are slowly being taken over by the European Aviation Safety Agency (EASA) and it is possible that the new regulators might take a different approach to regulations than the CAA. Currently, this is not seen as a major risk, as the general consensus is that the CAA has to date been more cautious than the majority of other European nations’ safety regimes.
- 3.15 There are also potential restrictions resulting from actions by the operator. The grant of a CAA Licence is dependent upon the provision of adequate RFFS and ATC cover. If these are reduced, the CAA will limit the size of aircraft engaged in commercial passenger operations (scheduled and charter). The options available and their operational implications are outlined in Chapter 6 below.

Airport Capability – potential enhancements

- 3.16 There are some potential improvements that could make PCA more attractive to aircraft operators in the future. The most promising relates to the use of the newly-available European Geostationary Navigation Overlay System (EGNOS) to provide enhanced positional awareness for aircraft crews, to within one metre, both horizontally and vertically. It provides a significant increase in accuracy compared to the GPS approach procedures currently available to private aircraft operators at some UK airfields (although not yet approved by the CAA for airline use), and will enable all suitably-equipped aircraft to make approaches to airports with approved and published procedures to any runway in significantly poorer weather/reduced visibility conditions, without the need for installing and maintaining expensive ILS installations.

- 3.17 A French airport began using EGNOS in May 2011, and the CAA has already approved enhanced GPS operations at a number of UK General Aviation airfields. The further improvements offered by EGNOS are substantial. With successful operation in France, and with EASA continuing to take over the safety functions of the CAA, it is probable that British airports will be licensed to operate with EGNOS within the next five years. The new system will cost almost nothing to install at airports, as it relies on aircraft-based equipment communicating with satellites. The only cost is in obtaining an approved and published procedure from the CAA. It should reduce the current cost of air traffic control/navigational equipment and lead to a significantly increased reliability for aircraft operations in times of poor visibility.

Aircraft Capability - current

- 3.18 All general aviation aircraft (normally small piston-engined or turbo-prop aircraft) are able to operate to their maximum capability, as are all helicopters. Aero club and pilot training organisations will be able to continue their operations, even if the airport should choose to become unlicensed. A number of air taxi and business aircraft will be able to operate to their maximum payload and range, but some will be restricted from delivering their full capability by the short runway, and certain larger models will not be able to access PCA at all.
- 3.19 Only a small number of turbo-prop aircraft are able to operate to their maximum payload and range from PCA. These include the 19-seat Twin Otter 300, Dornier 228 and Beechcraft 1900. The Dash 8-300, at 50 seats, is the largest aircraft that can operate from PCA, but is unable to carry a full load of passengers much further than Glasgow (375miles)⁵. The 50-seat ATR 42 also suffers range limitations when operated from PCA. Even some of the smaller turbo-props in use in the United Kingdom, such as the 34-seat Saab 340B of Loganair, the 29-seat Jetstream 41 of Eastern and its smaller 18-seat variant the Jetstream 31 need longer runways than at PCA to operate with worthwhile payloads and sector lengths. The 50-seat Saab 2000 of Eastern and the 78-seat Dash 8-400⁶ of Flybe cannot operate from PCA.
- 3.20 Once licensed, the CAA permits scheduled services, but the physical size of the aircraft is limited by the agreed RFFS category. For example: RFFS 1 would permit aircraft up to an overall length of 9 metres; RFFS 2 permits up to 12 metres, such as the 9-seat Islander; and RFFS 3 permits up to 18 metres and a maximum cabin fuselage width of 3 metres, permitting the Twin Otter (with 19 seats) as operated between Lands End and the Isles of Scilly. PCA is currently licensed as RFFS 5, enabling it to accept aircraft up to 28 metres in length, and with a maximum fuselage width of 4 metres.
- 3.21 The Dash 8-300 aircraft, as operated by Air Southwest, has a length of 24.57 metres, requiring an RFFS 5 category, while the slightly smaller ATR 42 (but still with 50 seats) has a length of 22.67 metres, requiring only an RFFS category 4 standard.
- 3.22 In addition, each airport is allowed to handle aircraft of the next Category above that for which it is licensed, providing that there are no more than 700 such movements in the busiest three months of the year – this equates to around 27 departures a week, or four departures a day.

⁵ The full range of this aircraft is over 800 miles (see <http://www.airliners.net/aircraft-data/stats.main?id=121>)

⁶ A heavier, longer and faster version of the Dash 8

Aircraft Capability – potential problems

- 3.23 Not only are there few aircraft that can currently operate from PCA with a full payload for a reasonable distance, but only two of these – the recently re-launched Viking Twin Otter 400, and the ATR 42 – remain in production. All other small turbo-prop aircraft have not been manufactured for at least ten years, and as time goes by, they will have to be retired. None of the world's aircraft manufacturers are yet seeking to market a 30-50 seat turbo-prop aircraft suitable for runways such as at PCA, despite a significant worldwide demand for such an aircraft.

Aircraft Capability – potential developments

- 3.24 Throughout much of the rest of the world, the Cessna Caravan and Grand Caravan single engined aircraft operate scheduled services with up to 14 seats at much lower cost than the 19-seat Twin Otter.
- 3.25 However, the CAA has not approved single engined aircraft for the operation of charter or scheduled services except in visual flying conditions – ie not allowed to fly in cloud or at night. Globally, the aircraft have proved that they are at least as safe as twin-engined piston aircraft (which are approved), but the CAA has yet to accept this evidence. Meanwhile the aircraft are approved by EASA and operate regularly between Brest and the Iles de Finisterre, less than 150 miles distant from PCA. The aircraft is also flown in the UK in visual flight rules by Loch Lomond Seaplanes from a base on the Clyde in the heart of Glasgow to destinations such as Oban and Tobermory.
- 3.26 It is considered to be only a matter of time before either the CAA, or its replacement EASA, allow the operation of the aircraft in 'single-engined instrument meteorological conditions' (SE-IMC).
- 3.27 No other technological improvements in aircraft are foreseen that might enable PCA to become more competitive and offer a wider range of operations.

Current Ownership

- 3.28 The airport is operated by PCA Ltd on a 150 year leasehold agreement from PCC. PCA Ltd is 100% owned by Sutton Harbour Holdings (SHH). According to company accounts, the airport has been operating at a loss over the last 3 years as is shown in Table 3.1 over the page. In 2010, the operating loss was offset by 'other operating income' that had resulted from *'the completion of the sales of the first two tranches of residential land'*⁷.

⁷ Page 2, PCA Limited Company Accounts for year ended 31 March 2010

Table 3.1 PCA Limited Financial Data 2008-2010

	2008	2009	2010
Turnover	£2,344,000	£3,315,000	£3,234,000
Cost of Sales	£3,261,000	£4,096,000	£3,972,000
Gross (Loss)	(£917,000)	(£781,000)	(£738,000)
Other Operating Income	£17,000	£16,000	£5,895,000
Profit (loss) for financial year	(529,000)	(£765,000)	£4,791,000

Source: PCA Limited Company Accounts

The accounts also note that ‘further tranches of the land have been agreed to be sold to the developer during the next three years, subject to usual conditions, for an aggregate amount of not less than £5.6 million’.

- 3.29 We note that a dividend of £1.1 million was paid in FY 2010.
- 3.30 As noted in Chapter 1, SHH has announced that PCA Limited would cease operating the airport at the end of this year having exercised the so-called Armageddon clause in the leasehold agreement at the end of 2010.
- 3.31 Until 2010, SHH also owned Air Southwest (ASW) – the only scheduled airline to operate continuously from PCA in recent years. The airline was sold to Eastern Airlines, who subsequently closed the ‘thickest’ route (the LGW service) in February 2011. An examination of the company accounts for the period 2008 to 2010 (prior to the sale) is shown in Table 3.2 below.

Table 3.2 Air Southwest Limited Financial Data 2008-2010

	2008	2009	2010
Turnover	£19,934,000	£21,804,000	£21,619,000
Cost of Sales	£17,472,000	£21,102,000	£24,179,000
Gross Profit (loss)	£2,262,000	£702,000	(£2,506,000)
Profit (loss) for financial year	£902,000	(£223,000)	(£3,495,000)

Source: Air Southwest Limited Company Accounts

Clearly, ASW incurred significant losses in FY2010 and the accounts noted that SHH had considerable doubts about the ongoing financial viability of the business and that a buyer was being sought.

- 3.32 We note that a dividend of £757,000 was paid in the FY 2009
- 3.33 As mentioned in Chapter 1, PCC has engaged Grant Thornton to review the financial and legal compliance by PCA Limited in relationship to the leasehold agreement. The concern of our (BHC) study is solely whether there would be a financial cost to be borne by PCC and/or a future operator of the airport in the event a decision was made to continue aviation operations and that PCA Limited would no longer be the airport operator.

- 3.34 Indeed, during the course of our research, third parties have approached us indicating interest in managing PCA and this is addressed in Chapter 8. However, leasehold ownership issues will remain a major consideration in assessing whether PCC should keep the Derriford site operating as an airport.

4 THE MARKET FOR PCA

Airlines

- 4.1 Historically, only one scheduled airline at a time⁸ has operated scheduled services from Plymouth in recent years – initially Brymon Airways, which was acquired by British Airways, before transferring the operation to ASW, now owned by Eastern Airways. As reported in Chapter 3, the main operating constraint at PCA is the short runway and this in turn severely restricts the size and type of aircraft that can operate into (and out of) the airport.
- 4.2 Apart from ASW, with its 50-seat Dash 8-300 aircraft ideally suited to the Plymouth runway, the only British airlines with suitable aircraft are:
- Aurigny Air Services – Guernsey – 16-seat Trislander (piston-engined)
 - Blue Islands – Alderney – 16-seat Trislander, 46-seat ATR 42, 29-seat Jetstream 41
 - Eastern Airways – Humberside – 18-seat Jetstream 31, 29-seat Jetstream 41
 - Loganair – Glasgow – 18-seat Twin Otter, 34-seat Saab 340B
 - Manx2 – Isle of Man – leases in a variety of 19-seat aircraft – Dornier 228, Let 410, Jetstream 31
 - Scotairways – Dundee, Cambridge – 31-seat Dornier 328
 - Skybus – Lands End – 19-seat Twin Otter
- In Ireland:
- Aer Arann – Dublin – 50-seat ATR 42
- In Northern France:
- Airlinair – Paris – 48-seat ATR 42
 - Chalais – Caen – 19-seat Beechcraft
 - Regional – Nantes – 30-seat Brasilia (but may require greater runway length)
- 4.3 With the deregulation of European aviation any airline based anywhere in the European Union/European Economic Area may operate domestic scheduled services within the UK.
- 4.4 But, on a more realistic note, most of the aircraft listed above are approaching the end of their useful lives, with only the ATR 42 and Twin Otter still in production. There are no plans for manufacturers to develop (small) planes in the future that would be capable of landing at PCA given its current runway restrictions.
- 4.5 The highly limited range of commercial aircraft that can land at PCA inevitably impact upon the potential profitability of routes from PCA.

⁸ Air Wales did briefly operate services from Plymouth in 2005.

Passenger Market Potential⁹

Scheduled Services – general

- 4.6 Table 4.1 below shows how scheduled passenger markets have changed between 1997 and 2010 at the four leading airports in SW England (all data are from the CAA).

Table 4.1 Scheduled Passengers by Airport - 1997 and 2010

Airport	1997	2010	Annual Average Growth Rate (%)
Plymouth	101,114	96,498	-0.4
Newquay	60,000	281,967	12.6
Exeter	98,000	498,079	13.3
Bristol	709,451	4,822,327	15.9
SW airports excl. PCA	867,451	5,602,373	15.4
Plymouth share (%)	10.4	1.7	not applicable

Source: CAA Table 2.2; data estimated for Newquay 1997

- 4.7 Growth has been substantial at all South West England airports since 1997, with the exception of Plymouth. Plymouth has stagnated whilst other airports have grown more than six-fold. In 1997, Plymouth had a 10.4% share of all SW England scheduled passengers – by 2010 this had reduced to around 1.7%, and will be even less in 2011.
- 4.8 It is certain that PCA's runway/aircraft restriction has been the determining factor in Plymouth's underperformance compared with other regional airports. The growth at the three other South West airports has been primarily in low cost scheduled services operated by cost efficient short haul jet aircraft (eg Boeing 737).
- 4.9 In 1997, PCA handled more scheduled passengers than Exeter (though with charter passenger Exeter handled some 200,000 passengers). As a city, Plymouth is over twice as large as Exeter and had PCA acquired the runway capability to handle low cost carriers 10/15 years ago, we believe there is no reason why it should not have been PCA that became the larger airport rather than Exeter. Indeed, our analysis in Chapter 2 indicates that by 2010 some 250,000 passengers have been effectively diverted from what would have been their first choice airport – PCA – to other airports and transport modes.

Scheduled Services – South East England

- 4.10 Historically, PCA has relied very heavily on the route to London for the bulk of its scheduled service passengers, revenue and profits. In 1996, the last full year of operation to Heathrow, the CAA undertook a passenger survey of the Plymouth and Newquay service and showed demand to be as shown in Table 4.2 below.

⁹ This analysis differs from the overall passenger analysis in Chapter 2 as it excludes holiday charter passengers from SW airports for the reasons explained later in the text.

Table 4.2 Analysis of LHR Operations

Origin Airport	Origin or Destination	Total Passengers	UK Business	UK Leisure	Foreign Business	Foreign Leisure
Plymouth	SE England	7,525	4,742	2,068	469	246
Plymouth	Interline	51,609	14,297	17,954	12,777	6,580
Plymouth	Total	59,134	19,039	20,022	13,246	6,826
Newquay	SE England	12,794	5,962	4,628	1,983	221
Newquay	Interline	35,291	12,938	6,812	9,880	5,660
Newquay	Total	48,085	18,900	11,440	11,863	5,881
Total	SE England	20,319	10,704	6,696	2,452	467
Total	Interline	86,899	27,235	24,766	22,657	12,240
Total	Total	107,218	37,939	31,462	25,109	12,707
PCA%	SE England	37.0%	44.3%	30.9%	19.1%	52.7%
PCA%	Interline	59.4%	52.5%	72.5%	56.4%	53.8%
PCA%	Total	55.2%	50.2%	63.6%	52.8%	53.7%

Source: CAA survey 1996

- 4.11 It will be noted that passengers from Plymouth comprised 55% of total passengers on the route and that 87% of those were making airline connections at Heathrow, compared to 73% of the Newquay passengers. Business travel accounted for 55% of total Plymouth travel; whilst foreign business travellers were some 41% of total business travellers.
- 4.12 With a service of up to four flights a day from Heathrow and approximately 130,000 seats a year, the airline was recording a year-round passenger load factor of around 82%. Between 1996 and 2007, passenger air traffic at all UK airports grew by some 80% from 135 mppa (million passengers per annum) to 243 mppa, before easing back to 213 mppa in 2010. Whilst much has changed in the pattern of UK aviation since 1996, the historical evidence suggests that the demand for Heathrow from Plymouth alone would now be at least 90-100,000 passengers a year (and probably more), and capable of filling a Dash 8-300 on its own, without any assistance from Newquay.
- 4.13 However, since the slots at Heathrow were transferred and the slots at the replacement airport – Gatwick – have now been sold, we believe there is absolutely no chance of them being retrieved by any subsequent operator because the purchase cost of new slots would be prohibitive and could not be borne by a relatively thin route.
- 4.14 Initially (in the immediate post 1997 period) Gatwick Airport was able to offer the Plymouth market a wide range of onward connecting services, particularly to Europe and North America; but these opportunities have contracted sharply as the long-haul carriers have subsequently transferred to Heathrow, and most of the short-haul services were replaced by low-cost carriers that do not facilitate direct interlining.

- 4.15 A review has been made of possible operations to alternative airports such as Luton, Stansted, London City and Southend, but – because of Plymouth’s significant requirement for interline connections – none of these would be able to approach the levels of traffic seen for Gatwick, let alone Heathrow. An analysis has been made of the destinations of the 7,525 terminating passengers in 1996 – only some 15% were travelling beyond the City of Westminster into Central London, Essex and Kent. Detailed figures are not available for the ASW operation to London City in 2010, but the service was terminated after a few months indicating that it did not perform as expected.
- 4.16 Because of the considerably longer runway at Newquay, there have been additional low-cost services to and from London – to Stansted by Ryanair and to Gatwick by BA – but these are currently terminated due to the prevailing economic climate and attendant decline in demand. These services catered mainly for visiting friends and relatives (VFR) and the tourist market to Cornwall. Apart from diverting passengers from the ASW operation from Newquay (along with the Flybe flights) they do not appear to have affected demand for PCA.
- 4.17 There is currently a considerable amount of public and private sector activity seeking to resurrect Northolt Aerodrome as a potential destination for UK domestic flights offering, (initially) a 20-30 minute taxi journey to Heathrow and a 35 minute underground journey to the West End of London. This could become a feasible operation within about 3 or 4 years, with the prospect of a direct rail link to Heathrow within about six years, offering a 15 minute transit. A decision on the future of Northolt is expected within the near future. If the Northolt project does develop (particularly with rail connection to Heathrow) it would offer local businesses (and other international travellers) access to Heathrow, which is the preferred gateway for international business travel (see Chapter 5 below).
- 4.18 Thus, we believe that a developed Northolt would be a considerably more attractive London airport than Gatwick being (a) on the London Underground system – Central Line – and 35 mins from the West End for London destination travellers and (b) as little as 15 mins from Heathrow for international travellers. With the dramatic changes to the pattern of aviation in the UK since 1996 it is not possible to extrapolate passenger numbers from the 1996 CAA survey results discussed above but it is expected that a Northolt service would attract more patronage than did the service to London Gatwick ie well above 30,000 – 40,000 passengers/year.
- 4.19 Access to a hub airport is clearly a core issue for addressing the future of PCA and further consideration is given later in this chapter.

Scheduled Services – Other

- 4.20 Although the CAA publishes data for passengers on domestic and international scheduled services by route, it has difficulty in differentiating between airports on a multi-sector route, such as the many flights that call at both Plymouth and Newquay. As a result, the total scheduled throughput for PCA of 98,918 passengers (as reported by PCA to the CAA) does not tally with the 150,021 obtained by adding up the total reported for each route – the positive imbalance of 51,000 at PCA compares with a negative imbalance of around 46,000 for Newquay and 4,000 for Exeter.

4.21 With an estimated 42,000 flying between Plymouth and Gatwick in 2008, it is calculated that a further 57,000 will have flown on the nine other scheduled routes to and from Plymouth. Table 4.3 below provides best estimates for passengers flying to or from Newquay and Plymouth for the peak year of 2008 by route. The data are shown alongside those for Exeter, which has by far the broadest range of services of the three airports, and this gives a guide as to the destinations most likely to be sought by passengers to and from Plymouth.

Table 4.3 Estimated Scheduled Passengers by Route - 2008

ROUTE	EXETER	NEWQUAY+ PLYMOUTH	PLYMOUTH Estimated	NEWQUAY Estimated
GATWICK - BA	0	45,981	0	45,981
GATWICK - ASW	0	78,000	42,000	36,000
STANSTED	0	126,840	0	126,840
SE ENGLAND	0	250,821	42,000	208,821
INVERNESS	5,824	0	0	0
ABERDEEN	17,623	0	0	0
EDINBURGH	68,043	17,862	0	17,862
GLASGOW	39,424	18,812	9,000	9,812
BELFAST CITY	30,196	2,615	0	2,615
ISLE OF MAN	0	1,200	0	1,200
NEWCASTLE	48,216	13,408	3,000	10,408
LEEDS BRADFORD	22,703	6,447	3,000	3,447
MANCHESTER	52,470	75,857	20,000	55,857
NORWICH	10,876	0	0	0
BIRMINGHAM	0	6,829	0	6,829
CARDIFF				
WALES	0	1,060	0	1,060
BRISTOL	0	28,379	1,000	27,379
ISLES OF SCILLY	4,154	16,690	0	16,690
JERSEY	34,317	14,947	11,000	3,947
GUERNSEY	26,621	0	4,000	-4,000
OTHER DOMESTIC	360,467	204,106	51,000	153,106
DUBLIN	26,225	13,935	4,000	9,935
CORK	0	4,861	2,000	2,861
PARIS - CDG	48,353	0	0	0
AMSTERDAM	34,066	0	0	0
NW EUROPE	108,644	18,796	6,000	12,796
TOTAL	469,111	473,723	99,000	374,723

Note: Data exclude scheduled flights to Southern Europe, and all charter flights

- 4.22 Data for scheduled routes from Exeter and Newquay to points in Southern and Central Europe have been excluded, as well as charter flights, as these are of little relevance for PCA.
- 4.23 Using Exeter as a guide, the most important potential markets from PCA are estimated to be: Edinburgh (68,000 at Exeter); Manchester (52,000); Newcastle (48,000); Paris (48,000); and Glasgow (39,000).
- 4.24 Many of the passengers from Newquay and Exeter travel on low-cost operations with larger jet aircraft not feasible from Plymouth but with the right-size pressurised, turbo-prop aircraft, twice-daily non-stop services from Plymouth ought to be able to attract some 35% of the traffic currently using Exeter. This would suggest that a twice-daily service to Edinburgh could attract some 24,000 passengers a year, or 19 passengers per flight; by comparison a similar service to Glasgow could attract around 11 per flight. Smaller routes could be served by a once-daily flight, or combined either with Newquay, or another point. This would suggest that an airline with suitable 20-30 seat aircraft would be able to develop a worthwhile set of routes serving the Plymouth market, albeit at higher fares than available elsewhere.
- 4.25 As ASW only has the one size of aircraft (50 seats) it has found it difficult to operate many of the smaller markets non-stop – and the addition of stops at Newquay or Bristol to increase loads on some flights make the services less attractive to the Plymouth market.
- 4.26 Currently (June 2011) weekday services from Plymouth are operated as follows:
- 06:30 to Bristol, Leeds Bradford, and Aberdeen
 - 08:00 to Manchester (flight originates/terminates at Newquay)
 - 11:25 to Cork or Dublin (flight originates/terminates at Newquay)
 - 12:05 to Jersey and Guernsey (flight originates/terminates at Newquay)
 - 15:20 to Newquay and Glasgow, (returning from Glasgow via Plymouth to Newquay)

This is a reduction on the number of services operated from Plymouth in 2008.

Business Aviation

- 4.27 In 2008, before the onset of the current economic recession, PCA handled some 649 business aviation and air taxi flights; whilst Exeter handled 3,097, as reported to the CAA by the airports. (Newquay reported only 3 such movements during the same year). By 2010, both airports had experienced significant declines in these markets, by around 30-50%, but a re-bounce is expected once the economy recovers. This is a fast-growing market in comparison with scheduled services. The runway length at Plymouth is capable of accepting all popular turbo-prop aircraft used as air taxi or executive aircraft, but the range of executive jets that can access the airport will be restricted to the smaller aircraft types. The new breed of VLJs (Very Light Jets) such as the Embraer Phenom can fly up to 1,800 miles from a 1,100 metre runway, but many others will require the longer runways of Newquay or Exeter, with passengers travelling on to Plymouth by

limousine. This would continue to be a shortcoming of PCA given the obvious desire to welcome the overseas inward investor.

Other operations

- 4.28 The total number of reported movements at Plymouth Airport since 1994 is shown in Table 4.4 below.

Table 4.4 All Flights at Plymouth Airport 1994 - 2010

YEAR	1994	1996	1998	2000	2002	2004	2006	2008	2010
BY AIR TRANSPORT OPERATORS:									
SCHED/CHTR FLIGHTS	5,453	6,201	7,377	7,079	4,738	6,190	4,661	6,223	6,984
BUSINESS AVIATION	0	0	0	0	320	267	361	649	235
SUB-TOTAL	5,453	6,201	7,377	7,079	5,058	6,457	5,022	6,872	7,219
POSITIONING	498	554	612	507	78	205	168	218	194
LOCAL	6	2	6	219	436	352	201	171	95
OTHER	95	302	383	433	275	305	51	30	14
SUB-TOTAL	599	858	1,001	1,159	789	862	420	419	303
BY OTHER OPERATORS:									
TEST + TRAINING	241	272	198	88	56	84	137	154	119
AERO CLUB	10,286	8,734	9,867	8,798	9,211	8,131	5,652	5,850	4,578
PRIVATE	2,596	2,816	2,580	2,103	1,439	1,788	2,578	2,918	2,852
OFFICIAL	22	18	14	23	14	17	8	47	24
MILITARY	7,202	10,692	13,441	13,548	12,748	11,798	11,655	3,391	3,400
SUB-TOTAL	20,347	22,532	26,100	24,560	23,468	21,818	20,030	12,360	10,973
TOTAL	26,399	29,591	34,478	32,798	29,315	29,137	25,472	19,651	18,495

The figure of 18,495 total movements in 2010 is some 47% less than recorded at peak in 1998. However, the major decline has been as a result in the steep fall in aeroclub and military flights (see below).

- 4.29 Until the end of 2010, scheduled services had been fairly constant, at around 6,000 flights a year, but the current assessment for 2011 is closer to 3,000 following the sale of ASW to Eastern Airways and the termination of the London route.
- 4.30 Air taxi and business aviation movements were not recorded separately until 2001, and there has been little overall growth since that first year – though there was a spike in 2008.
- 4.31 Positioning, local and ‘other’ flights are generally operated by air transport operators such as ASW, and have been separated out – currently at less than one movement a day, they are down compared to some three movements a day in 2000.

- 4.32 The 'other operations' break down into two main categories – military and official; and private flying.
- 4.33 Military movements at Plymouth Airport were very substantial between 1996 and 2006, averaging some 13,000 movements a year, predominantly by military helicopters. This has now been reduced drastically to some 3,000 a year and there is a possibility that these operations may now cease altogether with a possible move to Newquay.
- 4.34 'Private' flying represents the considerable number of private aircraft to and from the airport, some by resident aircraft, but predominantly by visiting aircraft. This has remained fairly stable throughout the period, in line with the slow rates of growth seen elsewhere in the country.
- 4.35 The split between 'aero club' and 'test and training' can be somewhat arbitrary as airport operators are inconsistent in splitting movements by local based operators into these two categories. Combined, Plymouth has seen an almost continuous decline from 10,500 movements in 1994 to around 4,700 in 2010.
- 4.36 Figures for Newquay were not reported before 2004, and the number of flights by other operators is reported as being negligible, totalling 1,671 in 2004 and just 24 in 2010.
- 4.37 For comparison, the total number of reported movements at Exeter Airport since 1994 is shown in Table 4.5 below.

Table 4.5 All Flights at Exeter Airport 1994 - 2010

YEAR	1994	1996	1998	2000	2002	2004	2006	2008	2010
BY AIR TRANSPORT OPERATORS:									
SCHED/CHTR FLIGHTS	8,382	6,088	6,843	7,362	5,283	8,251	15,252	15,066	12,330
BUSINESS AVIATION	1,816	1,782	1,765	1,820	2,302	2,148	2,693	3,097	2,150
SUB-TOTAL	10,198	7,870	8,608	9,182	7,585	10,399	17,945	18,163	14,480
POSITIONING	2,448	2,450	2,618	3,081	2,275	3,104	1,572	1,433	1,117
LOCAL	373	1,149	880	706	778	696	502	405	370
OTHER	715	628	886	746	733	779	848	579	505
SUB-TOTAL	3,536	4,227	4,384	4,533	3,786	4,579	2,922	2,417	1,992
BY OTHER OPERATORS:									
TEST + TRAINING	25,044	21,927	23,509	24,150	23,300	29,721	25,351	18,903	12,938
AERO CLUB	155	59	37	9	8	8	2	0	0
PRIVATE	6,795	6,365	7,606	7,075	6,225	5,196	5,248	4,179	3,918
OFFICIAL	39	28	10	9	8	25	9	0	10
MILITARY	5,978	1,432	1,749	1,333	632	581	528	472	402
SUB-TOTAL	38,011	29,811	32,911	32,576	30,173	35,531	31,138	23,554	17,268
TOTAL	51,745	41,908	45,903	46,291	41,544	50,509	52,005	44,134	33,740

The figure of 33,740 total movements in 2010 is some 35% less than recorded in 1998, though this disguises large falls in 'test and training' and increases in schedules/charter flights.

- 4.38 Military and official flights at Exeter have always been negligible, while private aircraft have reduced substantially in recent years.
- 4.39 There is no aero club at Exeter, but the most dramatic difference relates to the continuing decline of pilot training at Exeter, down almost 60% from its peak in 2004, whereas it is a negligible feature at Plymouth. There is a strong suspicion that the current management at Exeter has been trying to price out private flying – and particularly pilot training – in favour of the further development of scheduled and charter flights: the cost of fuel for light aircraft is amongst the highest in the UK, whereas Plymouth is believed to levy average industry charges.
- 4.40 There is believed to be scope for Plymouth to position itself as the major training airport in the South West and to attract additional aero clubs.

Is there any possibility that flights from Plymouth could in future access a hubbing airport in the South East?

- 4.41 Research by BHC in 2000 as part of the South West Aviation Study (and the later research for this report) clearly indicated the importance that local companies had placed upon Brymon flights to/from LHR and the bitter commercial disappointment when this service was transferred to LGW by BA. The overwhelming cause of this disappointment was the loss of hubbing opportunities at LHR. The relatively poor hubbing services at LGW and the poor surface transport connections between LGW and LHR effectively meant that most international travellers from/to Plymouth would revert to surface access to/from LHR.
- 4.42 Current central government aviation policy is to make the best use of current runway capacity in the South East and the Coalition Government has emphatically ruled out a new (3rd) runway at LHR. We have been unable to ascertain in the event of a change of government at the next election, whether a governing Labour Party would revert to its previous policy of support for the 3rd runway subject to certain environmental conditions being fully met. For the purposes of this study, we have assumed that a 3rd runway at LHR will not be built and the likelihood of access into LHR is non-existent for a small regional service. Indeed, even if a 3rd runway is built the earliest that this would open could be 2025/2030.
- 4.43 Furthermore, the possibility of regaining access to LGW must be deemed non-existent both in terms of slot availability and, more relevantly, commercial viability. Furthermore, access to LGW does not provide significant hubbing opportunities as the recent trends of flag carriers moving services to LHR and the continued growth of the low cost carriers militates against this.
- 4.44 We are aware that there could be some possibility of access from Plymouth to small airports in the South East such as Southend. However, this would not provide access to international hubbing opportunities.

- 4.45 However, as stated earlier in this chapter we are aware of discussions taking place on the development of Northolt airport being developed for commercial services over and above the current limitation of 7,000 business charter movements. In Appendix B, we provide an extract from Hansard 23rd April 2011. Lord Astor of Hever, the Parliamentary Under-Secretary of State, Ministry of Defence, stated: *"There are no plans currently to increase the capacity for short-haul commercial flights but, as with all MoD assets, alternative uses and other sources of income generation are kept under review"*.
- 4.46 Paul Maynard¹⁰ in a recent paper titled "UK Aviation Industry on the Precipice" addresses a series of issues including runway constraints in the SE, LHR's hubbing status and the role of regional airports. Of particular interest to this research is his statements on 'an alternative infrastructure plan' that suggest *"serious consideration has to be given to other solutions regardless of how out of the box they may be. Feasibility studies of the much mooted idea of a new airport in the Thames Estuary should be undertaken, as should an exploration of the possibility of utilising RAF Northolt as an extension of Heathrow. RAF Northolt constitutes an already built third runway potentially, within shuttling distance of the main Heathrow terminal"*.
- 4.47 Since the Hansard report, we are aware that discussions have taken place that fall within Lord Astor's statement. Hypothetically, it would not be surprising if the Government encouraged the use of a commercialised Northolt for regional services – particularly in the earlier years of operation when the opportunity cost of slots would be low and hence affordable for thin route regional operators. Northolt would require links to the Central tube line to ensure a speedy link into central London. In addition, the nature of a shuttle between Northolt and LHR would need resolution, but in distance terms this is considerably less than LGW to LHR.
- 4.48 If the project were given the go-ahead by central government in the next 3/6 months, it would be possible for Northolt to be open for regional flights by 2015/16. The availability of a surface shuttle between Northolt and LHR is more difficult to predict. Certainly, the whole process is subject to planning risk, as it is not clear the planning process that the government would follow in order to gain planning permission. The attitude of the local planning authority remains to be established.
- 4.49 Clearly, services to Northolt are not as attractive as services direct to LHR. However, we would suggest that they are clearly better than services to LGW (or any other SE airport) both in terms of connections to hubbing opportunities and accessibility to central London.
- 4.50 The central issue is whether the Government gives the green light to the development, as we understand that there is considerable commercial interest in the project. At the time of writing, we are unable establish the probability of a go ahead.

¹⁰ Mr Maynard is MP for Blackpool North and Cleveleys and Member of Transport Select Committee.

5 HOW IMPORTANT IS PLYMOUTH CITY AIRPORT TO THE LOCAL ECONOMY?

Introduction

- 5.1 To address this question we approached 25 prominent companies operating in Plymouth and asked them about their use of and reliance on Plymouth City Airport (and its air services). We also met a representative of the Plymouth Manufacturers Group and participated in meetings with PCCI stakeholders and the Plymouth Growth Board. In addition, meetings and discussions took place with a number of other organisations. Appendix A provides lists of the organisations contacted during the research. In total over 35 meetings and discussions took place.
- 5.2 A list of companies was compiled from suggestions proposed by the PCCI, the City Council's inward investment team (PCC) and the Devon and Cornwall Business Council (DCBC). In selecting companies for us to approach we asked the PCCI, PCC and DCBC to suggest businesses with a clear need to travel nationally and internationally because they are trading/exporting out of the region e.g. to other parts of the UK and/or to Europe and overseas and/or are foreign owned. We asked also for the names of recent inward investors in Plymouth (to enquire the role of PCA in the inward investment decision making process).
- 5.3 The 25 firms selected are clearly a very small proportion of the total number of businesses in Plymouth but our list of firms includes the City's largest employers, and the selection criteria ensured we talked to those firms with the greatest use of/need for regional, European and international travel. We believe that the companies interviewed account for at least 60% of private sector employment and almost certainly would be generating at least this percentage in trips out of Plymouth – probably substantially more.
- 5.4 The 25 firms approached are listed in Appendix A. Of these one proved to be uncontactable and one declined to be interviewed but did answer a key question in its email declining direct participation. The 25 firms included four hotels.
- 5.5 A number of companies understandably requested anonymity and we have, therefore, anonymised our reporting of all company responses to our enquiries.

How important is Plymouth City Airport to company operations?

- 5.6 Of the 23 companies that fully responded to this question, only one stated that the existing air services available at PCA were of major importance to its operations. This company operates widely across the UK regions and is intent on growing its UK regional business. For this company the services to Glasgow, Manchester and Leeds are very useful and visits to these areas are easy and convenient to undertake from PCA.
- 5.7 Two other companies also use PCA regularly for their UK regional air services and used PCA for a total of some 1,050 business trips in the last 12 months (June 2010 – May 2011) representing some 90 trips/month¹¹.

¹¹ This 12 month total included 175 trips to London (Gatwick).

- 5.8 These three companies expect to use Exeter for their UK regional air travel if/when PCA ceases to offer scheduled air services.
- 5.9 Two of the 4 hotels included in the survey indicated that 2/5% of their business is travellers arriving from/going to PCA (the lower figure applies to a city centre hotel and the higher figure to a hotel in Derriford close to the airport). The other 2 hotels contacted were not aware of any PCA related business.
- 5.10 Of the other 16 firms responding to this question, 3 indicated “little” importance of PCA, with 13 indicating that PCA had no importance for their business.
- 5.11 Of the total of responding businesses (23) 15 firms responded that PCA had no importance for their business with a further 3 indicating “little” importance ie 18 firms (nearly 80%) responded little or no importance when asked about PCA.
- 5.12 These results are summarised in Table 5.1 below. These results include the inward investors discussed below but exclude the 4 hotels discussed in the text above.

Table 5.1 How important is PCA to company operations

	Very important	Substantial users	Little importance	No importance
Number of firms	1	2	3	13

Source: Consultants' enquiries to businesses

How important was Plymouth City Airport to inward investment decisions?

- 5.13 Within the 24 firms responding to our enquiries, there were 5 recent inward investors (two London based commercial property investors, one hotel acquisition, one high technology manufacturer and a business services company). All of these 5 inward investments were acquisitions of existing assets/businesses.
- 5.14 None of these companies indicated that the existence of PCA and its services had been a factor in the decision to proceed with the inward investment acquisition.
- 5.15 For the two commercial property acquisitions the key factor was the overall attractiveness of the assets available, but for one of the recent acquisitions the relatively poor accessibility to Plymouth/long journey time is continuing to be seen as a difficulty in generating prospective tenant interest in the location (to the extent that the asset manager is considering chartering aircraft to bring prospective tenants on promotional visits). The other London based company also referred to the relative inaccessibility of Plymouth and to the short time available in Plymouth when visiting during a day trip.
- 5.16 For the hotel acquisition, it was the general attractiveness of the asset available.
- 5.17 For the manufacturing company acquisition the key factors were “*the strength of the company's technology and people's knowledge*” and for the business services company the key factors were “*the quality of the expertise available and the good value of the staff expertise in Plymouth*”.

User benefits of using Plymouth City Airport

- 5.18 At present (Spring 2011), the annualised passenger traffic using services from PCA is 48,500 journeys/year¹². It is estimated by ASW that around 1/3 of their passengers are on business trips with the balance being leisure travel (including visiting friends and relations). On this basis around 16,000 journeys/year are estimated to be business travel.
- 5.19 In the event that air services cease at Plymouth¹³, present air travellers will have to reroute their journeys eg by flying from Exeter or by transferring to other modes typically rail or car. At the margin a few people may decide not to travel because the time and other costs of the journey are now greater than the benefits expected. But for the great majority of PCA users, they will continue to make the journey but from other airports or by other modes.
- 5.20 For these new alternative routeings, we have adopted an additional journey time of one hour/journey, representing the typical journey time from Plymouth to Exeter Airport. For business travellers we have taken a value of time of £65/hour¹⁴.
- 5.21 With 16,000 business journeys suffering an additional one hour time penalty valued at £65, the total additional time cost to business travellers is estimated to be just over £1 million/year.
- 5.22 The usage of PCA peaked in 2009 with over 124,000 journeys in that year. In 2009 the time saving benefit to business travellers (compared with a no PCA scenario) was around £2.6 million (using the method, additional journey time and time values as above).
- 5.23 Depending upon the baseline adopted for the assessment of additional travel costs (eg the current level of air travel ex PCA or a higher level taken from an earlier time when Gatwick was being served) the estimated additional travel time costs of air services ceasing at PCA range £1 million – £2.6 million/year.
- 5.24 In addition to the time costs for business travellers there may be also additional travel costs for those travellers diverting to Exeter Airport and, possibly to those diverting to other modes. For simplicity we assume all business travellers divert to Exeter Airport with additional journey distances of 45 miles for each journey. At a typical private car operating cost of 40p/mile (many travellers will use taxi/private hire at substantially higher cost), the 16,000 business journeys will incur additional surface access costs of some £290,000/year, increasing to £740,000/year with the 2009 PCA air traffic baseline. Of course, it is possible that the cost of an air flight from Exeter may differ

¹² Source ASW, 2-way flow

¹³ These changes have already been imposed on travellers who used the PCA – London Gatwick air service, since February 2011

¹⁴ CAA Survey data Exeter Airport 2008 Incomes of Business Travellers, 3 years increase @5%/year, overheads of 70% of salary in addition. There will also be additional time costs for leisure travellers but we are concentrating on the impacts on businesses so whilst acknowledging there will be similar inconvenience to leisure travellers we have not attempted to estimate leisure travellers' disbenefits. Given that Government policy values leisure time at a relatively low level (about 1/10th the value we have adopted for business travel), the disbenefits to leisure travellers will be around 1/5th of the disbenefits to business travellers estimated in the text ie £200,000 – £500,000/year.

from a flight to a similar destination from PCA. We have not allowed for this in the calculation and this could go either way.

5.25 Leisure travellers diverting to Exeter Airport will incur similar additional costs as business travellers but their additional costs/traveller will be reduced to the extent that these additional access costs are shared across 2, 3, 4 family/group members. For this exercise we have assumed an average family/group size of 1.5 persons. On this basis the additional access costs incurred by the presently undertaken 32,500 non-business journeys/year are estimated to be some £390,000/year¹⁵. This will increase to £1 million/year with the 2009 PCA air traffic baseline.

5.26 These estimates are summarised in Table 5.2 below.

Table 5.2 Estimated user benefits of using PCA (£ million/year)

Benefit item	Spring 2011 air traffic base	2009 air traffic base
Airport access time (business)	1.00	2.60
Airport access cost (business)	0.29	0.74
Subtotal business	1.29	3.34
Airport access cost (leisure)	0.39	1.00
Total	1.68	4.34

Source: Consultants' estimates, see text

Such a scale of potential user benefits foregone needs to be put into the context of a Plymouth Gross Value Added figure of £4.2 billion for 2008.

Direct employment and other activities at PCA

5.27 At the time of writing (May/June 2011) the employment generating activities at Plymouth City Airport were as shown in Table 5.3 below.

Table 5.3 PCA employment

Activity/business	Employment
Terminal and apron services (inc café)	50
ASW	20
Plymouth Flying School	6 FT + 4 PT
Flag Officer Sea Training	40
Total FTE employment (2 PT = 1 FT)	118

Source: Airport businesses

¹⁵ 45 mile additional access journey at 40p/mile average cost

- 5.28 The ASW employment is falling as Eastern Airways relocates local administrative activities to its base at Humberside Airport.
- 5.29 In addition to airport related activity there is also a small professional services firm operating in office space in the main terminal building. But as this firm is not engaged in airport or air services activity its employment is not included in Table 5.3 above.
- 5.30 The Plymouth Flying School and Flag Officer Sea Training employments are airport related but these activities are likely to relocate if PCA ceases to be an airfield. Such relocation is likely to lead to a loss of these jobs to Plymouth. Indeed, there are indications that the latter is already reviewing the possibility of relocating to Newquay.

Concluding Observations on the Importance of PCA for the Plymouth economy

- 5.31 At its present level of operation, Plymouth City Airport and its air services are no longer of material importance to the companies operating in and around the City. Those company respondents with long local experience referred back to the time in the 1980s and 1990s when the airport was owned/managed by Brymon Airways and services were operated into London Heathrow airport. At that time, air travel via hubbing at LHR into Europe (and internationally) was convenient and encompassed a full range of worldwide destinations.
- 5.32 The acquisition of Brymon by British Airways in the late 1990s and the transfer of Plymouth services to London Gatwick reduced the range of international destinations of interest to the business community dramatically and the international connectiveness dimension of PCA considerably declined at that time. The cessation of the London Gatwick service in January 2011 was the final act in a process started over 10 years earlier.
- 5.33 Of the 23 businesses asked about the importance of PCA to their company operations 18 firms (nearly 80%) responded that it currently is of little or no importance.
- 5.34 These views were confirmed in the meetings with PCCI and PMG¹⁶. Whilst there clearly was a desire to maintain PCA amongst members of both these organisations, there also was also an acknowledgment that the use of PCA by the vast majority of their members had been minimal in recent years. Interestingly, there was clearly a perception of the importance of PCA being more important to the City in general than to members' own companies in particular.
- 5.35 For the recent inward investor firms, the investment decision in all cases was made on the basis of the attractiveness of the asset/business being acquired. The existence (or future non-existence) of PCA and its air services were not factors in the decision.
- 5.36 At present levels of usage the time saving and journey cost benefit to business travellers of using PCA (compared with eg Exeter Airport) is estimated to be some £1.3 million/year. Using PCA's busiest year (2009) as the air traffic baseline this benefit was worth some £3.34 million/year. Including the estimated additional access costs incurred by leisure travellers raises these benefits to £1.68 million/year (2011 traffic base)

¹⁶ Members of PMG employ 12/13,000 staff

increasing to £4.34 million/year with the 2009 traffic base line. However, as stated above, this needs to be placed in the context of a 2008 GVA level of £4.2 billion for Plymouth.

- 5.37 The number of jobs on the airport is estimated to be some 120 FTE, but this has very recently fallen as ASW relocates activities to its base at Humberside Airport and we believe that the total on airport employment is now probably closer to 100 FTEs.

6 CONNECTIVITY

Introduction

- 6.1 In Chapter 5 above, we reported the results of our survey of firms contacted to enquire upon their usage and dependency of Plymouth City Airport¹⁷.
- 6.2 In addition to asking firms (see Appendix A) about their reliance upon PCA, we also asked about their need for London services as a destination, their need for UK regional connectivity, their need for European and international connectivity and the extent to which Exeter and Bristol airports met their needs for UK, European and international connectivity¹⁸.
- 6.3 In the context of this study, connectivity relates to the ability of Plymouth businesses to meet with customers and business partners rather than the transportation of freight and goods, which is, of course, also important but not relevant to the remit for this particular exercise.
- 6.4 As mentioned in Chapter 5, a number of companies requested anonymity and we have, therefore, anonymised our reporting of company responses to our enquiries.
- 6.5 Following the discussion below of the results of the survey of firms, we address the implications for air, rail and road to respond to businesses' needs for connectivity.

Businesses' need for access to London as a destination/Use of the PCA – London Gatwick service when it was operating

- 6.6 Of the 19 responding businesses 10 indicated accessibility to London as a destination as being of "vital" or "major" importance to their operations. Of these 2 are London based commercial property investors, 4 are Plymouth businesses very reliant on London based customers, one is a firm active in a London-centred business market and the remaining 3 have London based operations and/or interact with London-based service firms.
- 6.7 Of these 10 businesses indicating access to London as vital or of major importance to their business, 2 were regular users of the PCA – London Gatwick service when it was operating. Generally, London trips are (and were) done by train especially using the two early morning trains (05.53 and 06.55) both of which are 3 hour services. Of these 10 businesses reporting access to London as vital or of major importance to their businesses, 8 did not use the PCA – London Gatwick service on a regular basis, indicating that this service was not attractive to many of the regular travellers to London destinations.

¹⁷ 25 firms were contacted with 23 full responses.

¹⁸ The 4 hotels were not included in this part of the survey and the 2 London-based commercial property inward investors were not asked the need for UK regional and international connectivity or the Exeter and Bristol airport questions.

- 6.8 The other 9 firms indicated less need to access London as a destination. A number of these are branch plants of foreign owned businesses operating as subsidiaries to head offices located elsewhere (eg in Germany, Japan, US). Of these businesses, 3 were regular users of the PCA – Gatwick services but 2 of these 3 were accessing UK head offices/regular customers located close to Gatwick ie not London destinations.
- 6.9 In summary, therefore, over half of the firms responding to our enquiries indicated connectivity to London as being very important for their businesses with the early morning rail services being the preferred mode of travel.

Need for UK regional connectivity

- 6.10 Of the 17¹⁹ responding businesses, 3 indicated the need for connectivity with all or most UK regions, as their businesses are largely the UK market and are marketed to and managed from the Plymouth location. For these 3 businesses air accessibility is of major importance particularly to the Northern business conurbations and Scotland.
- 6.11 Two other businesses are selling countrywide and have addressed UK regional connectivity by having their direct sales teams dispersed across the UK.
- 6.12 Six businesses have very strong links with other plants and company offices at other locations for which good connectivity is required to these locations. Three of these locations are in the South East and travel is by car and rail, one is in South Yorkshire with travel by rail, one is in the North West with travel by air (is PCA, could be Exeter if PCA closes to scheduled flights) and one is in Scotland with travel by air (is PCA/Exeter depending flight timings, will be Exeter if PCA closes to scheduled flights).
- 6.13 The remaining 6 responding businesses indicated little need for UK regional connectivity generally but had in other responses been more specific in their requirements for connectivity (eg London and/or international).

Need for European and international connectivity

- 6.14 Of the 17 responding businesses 14 indicated the need for connectivity with Europe and internationally (eg US, Far East, Japan).
- 6.15 London Heathrow was reported as the most used airport (for European as well as international air travel) with Bristol being used for its European destinations and for its services to Amsterdam Schiphol airport for interconnection to international destinations.
- 6.16 To access London Heathrow firms reported a mix of car and rail, with hire car being popular as a hire car can be turned in at Heathrow thus avoiding the inconvenience and cost of parking.

¹⁹ The 2 London-based commercial property inward investors were not asked this and the following question.

Summary of needs for connectivity

- 6.17 Table 6.1 below summarises the results of our enquiries to firms about their needs for connectivity.

Table 6.1 Businesses' responses to needs for connectivity

Question asked:	No of businesses	Vital/major	Some/little
Need for connectivity with London	19	10	9
Need for UK regional connectivity	17	11 ²⁰	6
Need for European/int'l connectivity	17	14	3

Source: Consultants' enquiries to businesses

Use of Exeter Airport

- 6.18 Of the 17 responding businesses, 4 reported regular use of air services from Exeter Airport mainly for UK regional travel, 7 reported some or little use and 6 reported no use of Exeter's air services.
- 6.19 Exeter Airport has very few European business destinations hence its little use for European travel by the responding businesses.
- 6.20 The announcement of the impending closure of PCA was made during the course of our enquiries to businesses. Those businesses – contacted after the closure announcement – that are presently users of PCA indicated that they would use Exeter's UK regional air services when the PCA/ASW services ceased to be available. The two major users of PCA referred to in Chapter 5 above are included in this group.

Use of Bristol Airport

- 6.21 Of the 17 responding businesses 9 reported regular use of air services from Bristol Airport mainly for European travel and for access to international air services at Schiphol Airport, 6 reported some or little use and 2 businesses reported no use of Bristol's air services.

Summary of use of Exeter and Bristol airports

- 6.22 Table 6.2 over the page summarises our enquiries to firms about their use of Exeter and Bristol airports and their air services.

²⁰ Includes the 2 businesses with dispersed sales teams and the 6 businesses with single location connectivity requirements

Table 6.2 Businesses' responses to use of Exeter and Bristol airports

Use of:	No of businesses	Regular use	Some/little use	No use
Exeter airport/services	17	4	7	6
Bristol airport/services	17	9	6	2

Source: Consultants' enquiries to businesses

Implications for air, rail and road services

Air services

- 6.23 Businesses recognise that the aviation sector today is very different from that in the 1980s and 90s when Brymon was running regular services into London Heathrow. Given Heathrow's dominance for business travel (European and international) the transfer of the Plymouth – London service to Gatwick diminished PCA's attraction for business travellers, namely, the ability to interline onto European and international services (and vice versa for incoming foreign visitors).
- 6.24 A small number of responding businesses called for a return of a Plymouth – London air service but for London destinations rail travel was the overwhelming preference (discussed further below).
- 6.25 For European and international air travel businesses use predominantly London Heathrow with access by car and rail.
- 6.26 Respondents were generally well disposed to Exeter Airport but it has few scheduled air services to European business destinations hence its low use by Plymouth businesses at present. If/when these develop, Plymouth businesses will undoubtedly use them. At present Exeter does not meet the needs of Plymouth businesses for this reason.
- 6.27 Exeter Airport offers a similar range of UK regional destinations as PCA and if/when PCA closes, Plymouth businesses are expected to transfer to services from Exeter. Given the relatively small additional traffic volumes Plymouth will add (50,000 added to Exeter's 330,000 to its top ten UK, Channel Island and Irish destinations) the additional Plymouth traffic should be easily accommodated within the existing facilities and services. For UK regional air travel Exeter is expected to meet the needs of Plymouth businesses if/when PCA closes.
- 6.28 Respondents were also well disposed to Bristol Airport with there being moderate use of Bristol by Plymouth businesses for European air services including international interlining through Schiphol Airport. Bristol has offered services to North America in the past and these have been used by Plymouth businesses. But the continuing dominance of London Heathrow for European and international travel indicates that Bristol is some way off meeting the needs of Plymouth businesses even for short haul European business destinations. Plymouth businesses generally prefer to travel to Heathrow rather than use the (typically indirect) option from Bristol.

- 6.29 Regarding actual routes, in a 2009 survey, the members of PMG were asked to 'score' routes in terms of importance and a potential route to LHR scored very highly (8.1 on a scale of 1 to 10 with 10 representing utmost importance and 1 being of no importance at all). This compared with scores of 5.4 and 5.3 for Gatwick and London City respectively. The next three highest scoring routes were Manchester (3.4), Leeds/Bradford (3.2) and Glasgow (3.2).
- 6.30 It is apparent that access to a hubbing airport remains a key aspiration of many local companies. This was the situation in 2000 when BHC undertook a more extensive survey and many companies complained about the switch of services by BA from LHR to LGW. Alternatives such as Exeter to Schiphol or Paris CDG are also viewed desirable in the absence of a route from PCA. Clearly many local companies access LHR by car.

Rail services

- 6.31 Businesses were generally satisfied with the early morning Plymouth to London services noting that the 05.53 and the 06.55 services are both just over 3 hours arriving at Paddington at 9am and 10am respectively.
- 6.32 But in the London to Plymouth direction, the early morning services are significantly slower with the 7.06 taking 3 hours 40 minutes and involving a change to a local 2 car train (usually very crowded) at Exeter for the last third of the journey, and the 7.30 direct service taking 3 hours 47 minutes.
- 6.33 In discussions about rail connectivity with London, a number of businesses mentioned the unsatisfactory early morning London to Plymouth service and the poor impression presented to visiting clients and business partners. Either visitors took the early train but suffered a very poor quality service from Exeter to Plymouth or they took the slightly later train but did not arrive until nearly 11.30. These poor quality services were reported to be a deterrent to London-based visitors and to lead to more business meetings taking place in London rather than Plymouth.
- 6.34 The short day available for business meetings in Plymouth was mentioned particularly by one of the recent commercial property inward investors.
- 6.35 Good access to Plymouth from London early in the morning (eg around 7am) with a fast train (3 hours) is deemed to be a basic requirement for the City's overall connectivity, particularly in the absence of a convenient air service to/from the South East.
- 6.36 Where air and rail compete side by side, a rail journey time of 3 hours is generally the threshold for significant modal switching from rail to air (and vice versa where rail journey times are being reduced). Plymouth is just at this point with its fastest rail services (3/day in each direction) and increasing the number of these fast services would provide rail connectivity at a level at which air would not be competitive even if offered.

Road services

- 6.37 None of the businesses reported any particular deficiencies in the road connections with Exeter, Bristol or London Heathrow airport. As mentioned earlier, for Heathrow airport many business users use hire cars, which avoid the cost and inconvenience of car parking at the airport.
- 6.38 Few businesses presently use air services from Exeter Airport. This will change if PCA closes and PCA users transfer to Exeter's UK regional air services. It is expected that most business travellers will travel to Exeter Airport by car and park at the airport.
- 6.39 With no direct public transport link between Plymouth and Exeter Airport, the only alternative to private car is taxi. This costs around £70 in each direction. Clearly it would be desirable to have a bus/coach service between Plymouth centre and Exeter Airport, but the airport related traffic volumes are expected to be low and insufficient to support a regular public transport link (the total transferring air traffic is expected to be not more than 50,000 passengers/year²¹ and many of these will use private car and taxi).
- 6.40 However, there will be existing Plymouth residents using Exeter Airport and the addition of ex-PCA travellers may be the impetus needed for a private bus/coach operator to initiate a Plymouth – Exeter Airport coach service.

Conclusions

- 6.41 Over half the businesses interviewed articulated a need for good connectivity with London, with the preference being for rail connectivity and improved train services.
- 6.42 For Plymouth businesses, the Plymouth to London early morning services were reported to be satisfactory but there was great dissatisfaction with the London to Plymouth early morning services used by visiting business partners and colleagues from London offices.
- 6.43 For European and international connectivity, London Heathrow is the preferred airport with some use of Bristol. Exeter has very few European business destinations hence its limited use for European travel by the responding businesses.
- 6.44 But Exeter does have a good range of UK destinations and existing PCA users indicated they would transfer to Exeter if/when PCA closes.
- 6.45 Given the range of alternatives for London, European, international and UK regional connectivity, the loss of the already severely diminished PCA air services is not expected to reduce Plymouth businesses' overall connectivity to any significant extent.

²¹ Based on February – May 2011 passenger volumes at PCA, two way flow

7 THE OPPORTUNITY COST OF USING THE DERRIFORD SITE

- 7.1 The Plymouth Local Economic Strategy 2006-2021 and Beyond identifies a small number of important key locational centres that are effectively the growth nodes for the City. Second only to the City centre for economic growth potential is the Derriford that is part of the Northern Corridor Area. The strategy states that that the “presence of the College of St Mark and St John, the Peninsula Medical School, Derriford Hospital, Plymouth Airport, the International Business Park and the Tamar Science Park have transformed this area into a particularly high quality business and services hub with obvious potential for further growth and development”.
- 7.2 The use of the Derriford site for aviation largely sterilizes the bulk of the site for alternative commercial and residential uses. SHH/PCA Limited sold some 22 acres of ‘surplus’ land on the site in 2009 for mixed-use development to include the development of 375 houses, 32,000ft² of office space and a 60-bed residential care home. The sales price appears to equate to some £500,000 per acre. Clearly, the rest of the site has a significant commercial value if planning permission was granted for non-aviation uses.
- 7.3 There is little evidence that the growth of economic activity in the Northern Corridor has been dependent on PCA air services²². The availability of the PCA site for alternative commercial and residential uses would facilitate the speedier attainment of growth targets in the area and for the City as a whole. The mothballing or closure of the airport would lead to a loss of jobs in the region of 100 on and off the airport. Indeed, job losses would appear inevitable even with the continuation of the airport at a reduced scale. But not all of these jobs would be lost to local residents, as some are likely to relocate locally eg FOST would almost certainly be transferred to Newquay.
- 7.4 We have reviewed the Derriford and Seaton Area Masterplan and discussed the need for employment growth both specifically in the local area as well city wide with officers of PCC. We particularly note that Strategic Objective 2 on Delivering Jobs and Services states:

“To support Derriford’s role in securing the city’s long term economic and social well-being through the development of strategically important employment sites for health, industry and offices, as well as further education services, by:

- 1. Making provision for at least 6,000 new jobs over the plan period, re-enforcing Derriford’s strategic employment role as part of the bi-polar concept identified in Plymouth’s Local Economic Strategy 2006-21 (2006).*
- 2. Ensuring that the growth of jobs and services at Derriford’ is delivered in a way that is complimentary to the growth of the City Centre.*
- 3. Making provision for a diverse mix of commercial and service uses, as well as supporting residential, community, commercial, service and retail uses – so as to promote community well being, social interaction, environmental enhancement and the delivery of sustainable linked communities”.*

²² With the possible exception of local hotels.

- 7.5 It is evident that there are a number of key development sites with spare capacity to deliver significant tranches of economic development, including the Plymouth International Medical & Technology Park, the Tamar Science Park and Glacis Park.
- 7.6 Clearly, it is critical in planning terms that there remains a transparent strategic planning policy process to address the future role of the PCA site to meet Core Strategy objectives. We would expect in normal circumstances that dealing with these strategic issues would be via a planning application. Indeed, the site has significant development value if planning permission is granted for non-aviation use and has the potential to enhance the mid to long term growth rates of economic development in the Corridor.
- 7.7 It is important to stress that the availability of the PCA site for uses other than aviation is neither pressing nor essential to the attainment of the targets contained within Strategic Objective 2. As a result, the potential use of the existing site for alternative economic uses has not been factored into the findings of this study.
- 7.8 However, it should be noted that the Derriford site has significant future commercial potential being located at a strategic location and the opportunity cost of neutralising the site for low-scale aviation activities will clearly increase over time.

8 PCA OPTIONS

Introduction

- 8.1 In Chapters 5 and 6 above, we have considered the present importance of PCA to the local economy and concluded that, at its present level of operations, PCA and its air services are no longer of material importance to companies operating in and around the city. There is, therefore, no wider economic impact argument for public sector financial support and options for the future of PCA should be assessed on their own financial merits including the nature and scale of financial risk to be underwritten by PCC.
- 8.2 In every assessment there is the possibility that the estimated results will not materialise because of risks, uncertainties and biases contained in every assessment. The delivery of any of the options contains multiple risks that need to be identified, assessed and controlled. Furthermore, there is a demonstrated, systematic, tendency for project appraisers to be over-optimistic²³ about key project parameters, such as capital and operating costs, the duration of the works and delivery of benefits. It is not within the remit of this project to undertake a full risk assessment of each option. However, we have taken account of 2 key areas of risk for PCC. Firstly, we have assessed each operating and non-operating option for PCA in terms of the likelihood of our estimated financial outturn being robust. Secondly, we have also assessed each option in terms of the scale of financial risk to PCC (and/or a potential operator).
- 8.3 In the brief for the study, one of the options included for consideration was PCA with scheduled air services to (i) London Gatwick and/or London City Airport, (ii) another UK airport offering a wide range of services to overseas destinations, (iii) other UK regional airports, and (iv) overseas destinations. In our initial discussions with the Client group, this was referred to as the “connected airport” ie with good scheduled connections in the UK and overseas.
- 8.4 During the early weeks of the study, the financial troubles besetting PCA Limited were becoming increasingly apparent. With the demise of the London City service in May 2010 and the London Gatwick service in January 2011 culminating in Sutton Harbour Holdings’ announcement on 28th April 2011 of its intended closure of the airport in December 2011, the possibility of resurrecting PCA as the connected airport envisaged in the study brief moved completely out of reach as a practical option for consideration.
- 8.5 We have, therefore, concentrated upon the financial implications of two operating options that have a realistic possibility of implementation. In addition, we have considered options to mothball and to close the airport.
- 8.6 In reviewing these options, there are three (potential) non-operational concerns that may swamp any financial considerations from purely an operating perspective.

²³ The Green Book: Appraisal and Evaluation in Central Government, Treasury Guidance, London, TSO, 2003, Annex 4.

- 8.7 The first of these concerns is the value of the existing lease of the site. It is evident that SHH has assumed an asset value for the PCA site in their company accounts. Without taking a view on this matter, we would stress that it is important to appreciate that any costs associated with a transfer of management responsibilities for PCA have not been factored into the operating costs and revenues discussed below.
- 8.8 However, in the following discussion of the financial risks of each option, we have considered the impact of (a) low cost of transfer (i.e. in the very low £'000) or (b) high cost of transfer (in the £ millions). These are referred to as 'low costs of transfer' and 'high costs of transfer' respectively in the text.
- 8.9 The second of these concerns is rental arrangements and charges relating to the PCC owned Derriford site and we have assumed that the current rental arrangements for the site would remain unaltered and given the current turnover formula have assumed that a new operator would not be required to pay a rental in the foreseeable future.
- 8.10 The third of these concerns is Rateable Value and business rates levied on PCA. At present, the rates levied are £167,000/year. We understand that both the 2005 and 2010 RVs are under appeal and that there is a possibility that the 2010 assessment maybe reduced.
- 8.11 Recent advice from the Valuation Officer is that reduced operations at PCA will not lead to any reduction in Rateable Value and rates levied in the absence of demolition of redundant buildings. We have not considered building reconfiguration to reduce Rateable Value but business rates at anywhere near existing levels are not affordable within Option 2 and barely affordable within Option 3²⁴. We would expect the VO to take an inflexible attitude to our general enquiry at the present time given that they are reviewing the 2005 and 2010 levels.
- 8.12 Furthermore, it will be noted that the continued presence of the military (FOST) has been assumed in all the operating options below. We are not able to comment on the robustness of this assumption, but we have included the impact of the loss of this business in our consideration of the risks associated with each option and this would represent a high proportion of all income streams.

The Options

- 8.13 It is considered that Plymouth City Council has five practical options when considering the future of PCA:
- (i) Maintaining the airport as now, at Rescue and Fire Fighting Services (RFFS) 5, with the capability to handle 50-seat Dash 8-300 aircraft;
 - (ii) Reducing the RFFS Category from 5 to 3, enabling it to accommodate scheduled service aircraft of up to 19 seats;
 - (iii) Becoming an unlicensed airfield – not licensed to handle scheduled service aircraft;
 - (iv) Mothballing the airport for some years until a final decision can be made; and

²⁴ We have assumed much lower rates appropriate to the operational level of each option in the analysis below.

(v) Closure of the airport

8.14 Table 8.1 over the page summarises the types and sizes of aircraft that could be accommodated in each of the operating airport options 1 - 3:

Table 8.1 Types of service and sizes of aircraft permitted under Options 1 – 3

Option CAA Licence		Option 1 RFFS 5	Option 2 RFFS 3	Option 3 Unlicensed
Aircraft type and operation	Aircraft length (m)	(28 metres)	(18 metres)	Na
SCHEDULED SERVICES:				
50-seat Dash 8-300	25.7	YES	NO	NO
50-seat ATR-42	22.7	YES	combined maximum of 700 movements per three month period	NO
37-seat Dash 8-200	22.6	YES		NO
34-seat Saab 340B	19.7	YES		NO
33-seat Dornier 328	21.0	YES		NO
30-seat Brasilia	20.0	YES		NO
29-seat Jetstream 41	19.3	YES		NO
19-seat Beechcraft 1900	17.6	YES	YES	NO
19-seat Twin Otter	15.1	YES	YES	NO
19-seat Dornier 228	15.0	YES	YES	NO
19-seat Let 410	14.4	YES	YES	NO
19-seat Jetstream 31	14.4	YES	YES	NO
9-seat Islander	10.9	YES	YES	NO
CHARTER FLIGHTS:				
All the above aircraft with				
- 10 or more passengers		YES	YES	NO
- up to 9 passengers		YES	YES	YES
BUSINESS AVN/ AIR TAXI		YES	YES	YES
FLIGHT TRAINING		YES	YES	YES
AERO CLUB		YES	YES	YES
PRIVATE FLIGHTS		YES	YES	YES
MILITARY		YES	YES	YES

Source: CAA licensing documentation

Option 1 – 28 metre aircraft as at present

- 8.15 The main implication of this option is the commitment to providing a continuing subsidy to PCA to cover its expected level of losses into the future.
- 8.16 The published accounts for Plymouth City Airport Limited show the total turnover, cost of sales and gross loss for the years ending 31st March 2009 and 2010. The key figures are reproduced in Table 8.2 below.

Table 8.2 PCA profit (loss) 2008/09 and 2009/10 (£'000)

Year	2008/09	2009/10	Fuel estimated	All other Estimated
Turnover	3,315	3,324	1,434	1,800
Cost of sales	4,096	3,972	1,100	2,872
Gross profit (loss)	(781)	(738)	334	(1,072)

Source: Plymouth City Airport Limited accounts 2009/10

- 8.17 The expectation is for greater losses for 2010/11 and the current year (Sutton Harbour Holdings has mentioned in press releases a probable loss of £1 million for the current year).
- 8.18 It is possible that an alternative airport operator could make some economies in operating costs and attract additional business (both scheduled airlines and private companies) – however it would need to trim costs by around 10% and increase revenue by the same amount in order to just break even.
- 8.19 Whilst detailed cost and revenue headings have not been made available to us for PCA (though as previously mentioned PCC has appointed Grant Thornton to review this data), it is suspected that both headings include substantial sums for the acquisition and sale of aircraft fuel, which suggests that the percentage shortfall on all other aspects of the airport's operation may be substantial. A very broad estimate has been made of the purchase cost of fuel and its revenues in Table 8.2 above that suggests that the remaining aspects of the operation lost more than £1 million in 2009/10.
- 8.20 The recent irrecoverable loss of one of the main supports for the airport – the service to Gatwick – and the subsequent retrenchment by Eastern Airways has made the objective of profit on the current level of operations impossible to achieve.
- 8.21 The loss of the Gatwick service in January 2011 followed the loss of services to London City and Newcastle in 2010. With the loss of revenue from these three routes (amounting to around half the passenger traffic through PCA) and reductions of traffic on some of the other routes, expected losses into the future are likely to be at least £1 million/year.
- 8.22 We do not believe that another operator could operate PCA at its 2010 level of traffic and make acceptable profit margins.

Risks of Option 1 – downside

- 8.23 A further decline is likely to occur in airline services as the operator cuts loss-making routes leading to lower passenger usage and lower airport income. The lower income may lead to a need for higher subsidy depending upon the ability to cut costs in response to lower income. ***Expected likelihood: high***
- 8.24 The loss of FOST income of about £250,000/year (including estimated fuel profits) will add this amount to the annual subsidy required given that the FOST income estimate is rent and fuel sale profits with little cost element to be saved when the activity ceases. ***Expected likelihood: low***
- 8.25 Given the scale of annual subsidy required, the impact of a low cost of lease transfer will be relatively insignificant and could be able to be accommodated within the overall financing requirement.
- 8.26 The impact of high costs of lease transfer will add significantly to the financing required.

Risks of Option 1 – upside

- 8.27 The possible development of Northolt airport with services opening in 2015/16 may encourage an airline operator to introduce a Plymouth – Northolt service boosting PCA usage by at least 40,000 passengers/year²⁵. Whilst this volume of additional traffic alone is very unlikely to eliminate PCA's annual operating loss, it could enable it to be reduced to below £1 million/year. ***Expected likelihood: low/medium***

Risk assessment

- 8.28 If the lease transfer cost is high this will add considerably to the financing requirement.
- 8.29 ***Overall, the financial risk of Option 1 to PCC and/or new operator is high***

Option 3 – Operating as an unlicensed airfield

- 8.30 The reason that this option is considered before Option 2 in the text is that the financial assessment methodology adopted has been to estimate the revenues an unlicensed airfield will generate (Option 3) and - for the RFFS Category 3 option (Option 2: scheduled services with smaller aircraft) - then add in the additional revenues generated by the scheduled services and the incremental operating costs in meeting RFFS Category 3 requirements.
- 8.31 If PCA was to be operated as an unlicensed airfield it would be able to continue to accept all its current operations apart from any scheduled service aircraft or any charter aircraft carrying ten or more passengers. It would still be able to accept small business jets, air taxis and other movements as required by the business community in and around Plymouth.

²⁵ See Chapter 4 for the discussion of the possible impact of Northolt on PCA.

- 8.32 Table 8.3 over the page shows an estimate of the revenues that the airfield operator might expect to receive from the remaining operations, based on movements in 2008 and 2010, and forecast for 2012, and of the approximate revenues it receives per arrival (most airport charges are levied on arriving aircraft only).

Table 8.3 PCA revenue estimate for unlicensed operation 2012

Revenue	Arrivals 2008	Arrivals 2010	Arrivals 2012	Revenue/ arrival (£)	Annual Revenues (£)
Air transport	2,821	3,413	0	0	0
Air taxi, business Aviation	325	118	300	300	90,000
Aero club, training	3,002	2,349	2,500	10	25,000
Private	1,459	1,426	1,500	15	22,500
Military	1,696	1,700	1,500	120	180,000
Miscellaneous	524	242	300	50	15,000
Sub total aviation	9,827	9,248	6,100	54.51	332,500
Fuel profits					170,000
Hangarage					125,000
Rents, car parking					50,000
Total estimated Revenue					677,500

Source: Consultants' estimates

- 8.33 In addition to the direct military revenue of some £180,000/year shown in Table 8.3 above, there are also estimated fuel profits of around £70,000 included under the Fuel profits heading in the table. In total the military revenue contribution is reported as around £250,000/year or around 37% of the total.
- 8.34 Active marketing could be expected to increase the level of aero club and training flights by attracting a proportion of the 50 light aircraft based regularly at Exeter Airport and earning movement, hangarage and fuel sales from them. It is estimated that attracting 15 of these aircraft would increase total annual revenues by some £118,500, comprising 3,000 extra arrivals per year at £12.50, hangar rentals of £3,000 per aircraft and an additional fuel profit of some £36,000. Whilst such additional revenue is entirely feasible, it is not included in the central case presented here.

- 8.35 Meanwhile costs would be reduced substantially, with no necessity to offer any RFFS cover apart from providing very basic equipment, nor any need for significant levels of air traffic control advice. The majority of small general aviation airfields around the country are able to operate at far less cost than Plymouth Airport as presently configured.
- 8.36 The indicative costs of operating PCA as an unlicensed airfield are estimated to be as set out in Table 8.4 below. These figures are based on the actual operating costs of an RFFS Category 2 airfield in Scotland and a cost reduction exercise undertaken in 2010.

Table 8.4 Indicative unlicensed airfield operating costs (£/year 2011 prices)

Cost group	Indicative cost/year (£)
Staffing (inc social charges) 4 staff	200,000
Premises (inc rates and insurance)	100,000
Supplies and bought in services	100,000
Transport (on & off airfield)	25,000
Total	425,000

Source: Consultants' estimates

- 8.37 On the basis that PCA – as an unlicensed airfield – can be operated for approximately £425,000/year, it could produce a surplus, particularly if additional general aviation can be attracted as suggested above. However, its ability to cover costs will be heavily dependent on the continued operation of the military activity. If this activity ceases or reduces in scale PCA would just about cover costs until replacement revenues are generated (e.g. from additional aero club and training activities).

Risks of Option 3 – downside

- 8.38 The loss of FOST income of £250,000/year would subtract this amount from the operating surplus given that the FOST income estimate is rent and fuel sale profits with little cost element to be saved when the activity ceases. **Expected likelihood: low**
- 8.39 The CAA will not restore derogations if/when airfield might wish to upgrade to scheduled services. **Expected likelihood: medium**
- 8.40 The impact of low costs of lease transfer will be significant but could be accommodated within the overall financing required.
- 8.41 The impact of high costs of lease transfer will add very significantly to the financing requirement.

Risks of Option 3 – upside

- 8.42 The development of Northolt airport in 2015/16 could attract an airline operator to seek to introduce a Plymouth – Northolt service encouraging PCA to upgrade to scheduled services. ***Expected likelihood: low/medium***

Risk assessment

- 8.43 If the lease transfer cost is high this will add very considerably to the financing requirement.
- 8.44 ***Overall, the financial risk of Option 3 to PCC and/or new operator is low.***

Option 2 – Operating as a licensed airport for smaller aircraft

- 8.45 In this option, it is assumed that the airport remains licensed by the CAA as now, but that the level of RFFS cover is reduced from 5 to 3, saving significant staff (and possibly capital costs) and reducing the cost of air traffic control.
- 8.46 All the revenues obtained in Option 3 above would be retained (including the continuation of the military revenue) and, in addition, revenues from scheduled service flights would be earned. RFFS Category 3 will allow scheduled and charter aircraft up to 19-seat (18 metres length) to be operated, with some operation of aircraft up to RFFS 4 (see Table 8.1 above).
- 8.47 A 19-seat aircraft operating four times a day from Plymouth, with an average load of some 12 passengers a time, would generate 2,500 movements and 30,000 passengers a year. If an income of £10/passenger could be achieved²⁶ (including profit on fuel sales), the additional income would be some £300,000/year. This would provide a total income of some £980,000/year (including the revenue from the unlicensed activities outlined above).
- 8.48 In addition to the airport operating costs estimated for an unlicensed airfield (see Option 3 above) the incremental costs of providing the additional RFFS and flight information service required plus the cost of operating the existing passenger terminal to handle two flights in the morning and early evening are expected to be around £450,000/year²⁷.
- 8.49 With estimated additional airport operating costs of £450,000 in addition to the £425,000 required to run an unlicensed airport the total estimated operating costs of Option 2 would be £880,000, implying a modest surplus of £100,000/year. If an additional double daily service can be attracted the additional revenue is expected to raise the annual surplus to £250,000. The possibility of this is low.

²⁶ This figure is based on the overall average operating income at UK airports 2008/09 of £15/passenger (excluding transits) adjusted down to £10/passenger to reflect PCA circumstances. The figure for Exeter in 2008/09 was £24/passenger. Source: Airports Statistics 2008/09, The Centre for the Study of Regulated Industries, University of Bath).

²⁷ Based on 10 FTE plus overheads at £45,000/year each (inc social charges).

- 8.50 The military activity remains important to this option with three daily scheduled passenger services required to offset the loss of revenue if the military revenue is lost.

Risks of Option 2 – downside

- 8.51 It may be difficult to secure an airport operator on acceptable financial terms to PCC without the need to underwrite an element of risk. ***Expected likelihood: medium/high***
- 8.52 It will be difficult to attract airlines to provide the services envisaged. ***Expected likelihood: medium***
- 8.53 It may be difficult to generate the passenger revenues envisaged. ***Expected likelihood: medium***
- 8.54 The loss of FOST income of £250,000/year will subtract this amount from the operating surplus given that the FOST income estimate is rent and fuel sale profits with little cost element to be saved when the activity ceases. ***Expected likelihood: low***
- 8.55 The impact of low costs of lease transfer will be significant but could be accommodated within the overall financing required.
- 8.56 The impact of high costs of lease transfer will add very significantly to the financing required.

Risks of Option 2 – upside

- 8.57 The development of Northolt airport in 2015/16 may attract an airline operator to introduce a Plymouth – Northolt service boosting PCA usage by at least 40,000 passengers/year²⁸. This volume of additional traffic could provide sufficient revenue to maintain Option 2 in reasonable financial surplus. ***Expected likelihood: low/medium***

Risk assessment

- 8.58 If the lease transfer cost is high this would add very considerably to the financing requirement.
- 8.59 ***Overall, the financial risk of Option 2 to PCC and/or new operator is medium/high due to the combination of downside risks.***

²⁸ See Chapter 4 for the discussion of the likely impact of Northolt on PCA.

Option 4 – Mothballing

- 8.60 A further option available to PCC is to mothball the airport for a short period – say three to four years – whilst a detailed assessment is made of whether or not future traffic volumes might be sufficient to justify a recommencement of operations. The possibility of frequent regular services to Northolt Airport could be a sufficient justification for re-opening in say 2015/16.
- 8.61 However, whilst it will be clear that revenues will be zero²⁹ in the interim period, it is also clear that there would be the on-going costs in keeping the airport mothballed – structures will certainly need to be kept in good repair and certain security and other staff will need to be employed. The expectation is that it would cost some £150-250,000/year to keep the facility in a reasonable state of repair and available to be reopened at a later date.
- 8.62 A further problem is that, if the airport is subsequently re-opened, the significant other activities (such as military flights and pilot training facilities) will have found alternative locations in the interim and may not return and as a result the potential future revenues from these sources is less likely to be generated.

Risks of Option 4 – downside

- 8.63 The CAA will not restore derogations if/when airport reopens. ***Expected likelihood: medium***
- 8.64 The impact of low cost of lease transfer will be significant for this option and would add to the above costs.
- 8.65 The impact of high costs of lease transfer will add very significantly to the financing requirement to mothball the airport.

Risks of Option 4 – upside

- 8.66 The development of Northolt airport in 2015/16 may attract an airline operator to seek to introduce a Plymouth – Northolt service encouraging PCA to reopen as Option 2. ***Expected likelihood: low/medium***

Risk assessment

- 8.67 If the lease transfer cost is high this would add very considerably to the financing requirement.
- 8.68 ***Overall, the financial risk of mothballing to PCC is low/medium***

²⁹ There is a possibility that the FOST operation could be maintained during a mothballing period generating reasonable income streams for 3/5 years.

Option 5 – Closure

- 8.69 In the closure option, the airport will cease all aviation activity and the site will be made available for other commercial uses as soon as possible.
- 8.70 Existing tenants on the site will need reasonable notice to find other facilities to relocate to and the airport will need to be decommissioned and secured against vandalism and for public safety. Decommissioning and securing against vandalism is likely to cost £50,000 – £100,000. Continuing security provision is expected to be provided on a visiting patrol basis at, say, £20,000/year until transferred to new use.
- 8.71 The opportunity cost of the site continuing to operate as an airport as opposed to being developed for alternative commercial uses has been discussed above in Chapter 7.

Risks of Option 5

- 8.72 There are no airport operating/financial risks associated with Option 5, though there remain costs to PCC until a developer is found. These costs may be minimal in the event that the current leaseholder is part of a development team. However, closure of the airport will lead to considerable mid to long-term financial gain to PCC as site is developed for alternative commercial uses.
- 8.73 ***Overall, the financial risk of closure to PCC is very low in the short term.***

Airport management issues

- 8.74 Whilst we have held discussions with PCA Limited/SHH about the history of PCA and past performance, we have not discussed with them whether they have any desire to operate Option 2 or 3. We are aware that in order to continue to operate Option 1, they have stated that they would not only require an operating subsidy but also a significant contribution to capital investment that arises from certain CAA requirements³⁰.
- 8.75 As these matters are inherently part of current discussions between them and PCC resulting from their announcement to cease operations at PCA at the end of 2011, we desist from commenting upon past financial performance at PCA Limited (and ASW). However, we have made it clear above that any attempt to broadly maintain the current level of scheduled passenger operations at PCA would require third party financial support in order to break even. Whilst, we certainly believe that an element of cost saving by a new operator could be achieved, the overall result would still be a loss making airport with little or no chance of profitability in the short to medium term. The one possibility of a major boost to demand and usage would be the high risk strategy of anticipating that Northolt would provide a mid to long-term solution.

³⁰ This CAA requirement has not been verified by this study.

- 8.76 As stated in Chapter 3, we have received approaches from a number of parties that have expressed varying degrees of interest in considering taking over the operation of PCA. We cannot vouch for the robustness of any of these approaches. However, it is evident that none of the prospective bidders are interested in Option 1. The possibility of Option 2 is of interest to at least 2 parties..
- 8.77 We are also aware of an interested party – the *in situ* flying school – that would be interested in Option 3. In addition, the identification of a prospective airport manager would not be difficult and the appointment of a handful of experienced staff plus establishment of a management company by PCC would be a relatively simple task
- 8.78 All these approaches appear to assume that the future management company would not be burdened with any significant cost of lease transfer, current business rate levels and not be charged a rent.

Conclusions

- 8.79 ***Option 3***, an unlicensed airfield with no scheduled services, could be cost covering and show a modest surplus of £250,000/year but is dependent upon continuing military activity. Without military activity, Option 3 is expected to barely cover costs. ***The financial risk exposure to PCC and/or new operator of this option is low.***
- 8.80 ***Option 2***, a licensed airport for 19 seater scheduled service aircraft is expected to generate around £300,000/year from scheduled services and to cost an additional £450,000/year to provide the CAA required levels of RFFS and flying information. Thus this option could also be cost covering with the continuation of military activity. Without military activity this option is expected to produce a deficit of £150,000/year. However, whilst we believe that there is demand for the provision of 2/3 thin routes, there remains a high degree of uncertainty as to whether these routes would necessarily be financially attractive in the long-term to airlines. Furthermore, we are sceptical that any new airport operator would be willing to accept the total financial risk of underwriting the airport operations. ***The financial risk exposure to PCC and/or new operator of this option is medium/high.***
- 8.81 ***Option 4***, mothballing, is expected to cost £150,000 – 250,000/year but will generate no revenues to offset these costs. ***The financial risk exposure to PCC of this option is low/medium.***
- 8.82 ***Option 5***, closure, is expected to cost £50,000 – 100,000 initially and some £20,000/year until transferred into new use. ***The financial risk exposure to PCC of this option is very low in the short term.***
- 8.83 ***Option 1***, continuing PCA operations as at present, is expected to require subsidy of at least £1 million/year. SHH state that there would be a requirement for capital investment. ***The financial risk exposure to PCC and/or new operator of this option is high.***
- 8.84 The options considered for PCA are summarised in Table 8.5 over the page.

Table 8.5 Summary of Options and their financial implications

Option	Description	Financial implications	Risk Analysis	
			Downside	Upside
1	50 seater aircraft RFFS 5 as at present	At least £1 million/year subsidy – commercially unviable	<i>Operational:</i> air services reduced to fewer cost covering routes	<i>Operational:</i> Northolt services may revitalise PCA <i>Financial:</i> Reduced subsidy
2	19 seater aircraft RFFS 3 with limited 50 seater aircraft RFFS 4	With military, cost covering, without military deficit £150,000/year - unlikely to generate acceptable commercial returns	<i>Operational:</i> securing airport operator uncertain, attracting airlines to offer/provide services for sustained period uncertain <i>Financial:</i> Loss of military income, payments by airlines less than anticipated	<i>Operational:</i> Northolt services add critical mass to other regional routes <i>Financial:</i> PCA achieves financial stability
3	Unlicensed airport, no scheduled services, up to 9 seater charter	With military in surplus, without military barely cost covering	<i>Regulatory:</i> CAA may not restore derogations if airport upgrades <i>Financial:</i> loss of military income	<i>Operational:</i> Northolt services may allow operator to upgrade PCA to Option 2.
4	Mothballing	£150,000 - £250,000/year maintenance and security	<i>Regulatory:</i> CAA may not restore derogations if/when airport re-opens	<i>Operational:</i> Northolt services revitalise PCA to re-open as Option 2
5	Closure	£50,000 - £100,000 initially plus £20,000/year security	Low level costs until site disposal or agreement with developer	Use of site for other commercial uses generating significant gain for PCC

Source: Report text

- 8.85 The financial viability of Options 2 and 3 outlined above depends crucially on the lease transfer costs of PCA's airport operating lease being low (as defined in 8.8 above) and much reduced business rates. It is clear from the nature of the airfield/airport operations envisaged under Options 2 and 3 (and the indicative financial viability) that neither option could bear the cost of lease transfer if this is high (as defined in 8.8) or current level of business rates.
- 8.86 If there was a consensus to retain the airport, it could be possible to operate a very limited scheduled airport or a general aviation airport that is broadly cost covering based on the risks and assumptions detailed above. However, we have doubts whether either option would be commercially attractive to potential operators without some form of risk sharing with PCC. A number of parties have expressed interest in taking over the operation of PCA, but we cannot vouch for the robustness of any of these approaches and they all involve a reduced level of activity³¹.

³¹ At the time of completing this report, PCC will be receiving the results of a marketing testing exercise.

9 CONCLUSIONS

- 9.1 The loss of the Heathrow connection in 1997 signalled the beginning of a slow decline in the strategic importance of the airport for the Plymouth economy. This decline has recently accelerated with the loss of the LGW connection in early 2011. When the Plymouth-Heathrow air service was operating during the 1990s, 87% of passengers using the service were interlining at Heathrow to onward destinations in UK, Europe and overseas indicating the importance of access to an international hubbing airport from PCA...
- 9.2 The economic relevance of PCA has also declined and the airport currently represents a very small element of connectivity to/from Plymouth. Business travelers, having previously adapted to the loss of the Heathrow service, are now adapting to the loss of the Gatwick service. Furthermore, there are no signs that the inability of PCA to meet local needs for air travel has resulted in a diminution of travel to/from Plymouth and/or has had a knock-on impact to the local economy. Our research confirms that companies have adapted to the declining role of PCA and the actual usage of PCA in recent years by most local companies has been very low and, in many instances, practically non-existent.
- 9.3 Whilst there is an understandable aspiration amongst the business sector in Plymouth to retain services at PCA, there is also an acknowledgment that the use of PCA by the vast majority of local companies has been minimal in recent years. Interestingly, there is clearly a perception of the importance of PCA being more important to the City in general than to specific companies in particular. There is no evidence that the declining importance of PCA has detrimentally effected inward investment.
- 9.4 At its present level of operation, PCA and its air services are no longer of material importance to the vast majority of companies operating in and around the City. The availability of other regional airports and other modes of travel will continue to provide adequate alternatives even in the event of a cessation of services at PCA.
- 9.5 On airport employment at PCA is estimated to be fewer than 120 but this is declining as Eastern Airlines/ASW relocates activities to Eastern's base at Humberside Airport.
- 9.6 At the present level of operations, time saving to business travellers and access cost savings to all users are estimated to be some £1.7 million/year.
- 9.7 The short runway at PCA severely restricts aircraft types to short runway capable 19–50 seater turboprops and this has prevented PCA participating in the low cost and holiday charter markets that have developed in varying degrees over the past 20 years and/or attracting other airlines needing a longer runway.
- 9.8 In 1995, the South West airports (Bristol, Exeter, Plymouth and Newquay) handled 1.7 million passengers with PCA handling 86,000 of these (5% share). In 2010 the SW airports handled 6.8 million passengers with PCA handling 96,000 of these (1.4% share). With the loss of the Gatwick service, the PCA market share has dipped to 1%.

- 9.9 Of the 19–50 seater short runway capable turboprops that can operate into/out of PCA only two are still in production with no new models in development. Whatever decisions are taken now, the long term future for PCA, as a commercial airport would appear to be very limited.
- 9.10 The provision of better rail connections to/from London is viewed by many as a higher connectivity priority than the continuing availability of a ‘diminished’ PCA.
- 9.11 Runway constraints rule out any realistic likelihood of a commercial renaissance for the airport with existing aircraft technology and there are no aircraft technical developments that will enable PCA to handle larger passenger aircraft (ie above 50 seats) in the foreseeable future.
- 9.12 Table 9.1 below summarises the assessment of each option analysed in the report.

Table 9.1 PCA Options

Option	Description	Financial implications	Financial Risk and Exposure for PPC	Financial Risk to Airport Operator
1	Status quo: scheduled services with 50 seater aircraft (RFFS5)	At least £1 million/year subsidy – commercially unviable	High	
2	Highly limited scheduled services (2/3) largely with 19 seater aircraft (RFFS 3) with a few 50 seater aircraft (RFFS 4)	With military presence, modest surplus, without military deficit £150,000/year – unlikely to generate acceptable commercial returns	Medium/High	
3	General aviation unlicensed airport: no scheduled services, up to 9 seater charter	With military presence in surplus, without military barely cost covering	Low	
4	Mothballing	£150,000/£250,000 pa maintenance and security	Low/Medium	<i>Not applicable</i>
5	Closure	£50,000/£100,000 initially plus £20,000 pa security	Very Low	<i>Not applicable</i>

- 9.13 If there is a political/business consensus to retain the airport operations, it could be possible to operate a very limited scheduled airport or a general aviation airfield that could be broadly cost covering, though the likelihood of commercial profitability is very low to non-existent. A number of parties have expressed interest in taking over the operation of PCA, but we cannot vouch for the robustness of any of these approaches and they all involve a reduced level of activity compared with recent operations at PCA³².

³² *ibid*

- 9.14 However, the retention of any financial risk by PCC in any of these options is difficult to justify and the willingness of prospective new airport operators to assume total financial risk at any level of airport operations needs to be robustly tested and validated
- 9.15 We have concluded that in the absence of any meaningful positive economic contribution to the City of Plymouth, we are unable to identify an economic rationale for the PCC to underwrite the commercial risks involved in maintaining any scale of airport operations at PCA.

APPENDIX A: ORGANISATIONS AND COMPANIES CONTACTED

- (1) *List of firms contacted to enquire reliance on PCA, need for national and international connectivity and use of other regional airports.*

Name of organisation	Reasons for inclusion
Aberdeen Asset Management	Inward investor (Derrys Cross shopping centre)
Babcock International Group	Largest employer
Barden Corporation	US owner, exporter
Becton, Dickinson	US owner, exporter
Bombardier Transportation	Canadian owner, Swedish link, exporter
British Land	Inward investor (Drake Circus shopping centre)
Centrica	Inward investor (Langage Power Station)
Cooperative Group	Large employer
Future Inn	Hotel (close to PCA)
Goodrich Corporation	Inward investor, US owner
Holiday Inn	Hotel (City Centre)
Intelenet Global Services	Inward investor, Indian owner
Jurys Inn	Hotel (City Centre)
Kawasaki Precision Engineering	Japanese owner, exporter
Latimer Trend & Company	Exporter, London business
Legacy Hotels	Inward investor
Plessey Semiconductors	Exporter, recent management buyout
Princess Yachts International	Exporter, large employer
Rittal CSM	German owner, exporter
Toshiba Carrier UK	Japanese/US owner, exporter
Twofour Group	Exporter, London business
University of Plymouth	R&D and enterprise activities
Vi Spring	Exporter
Wrigley UK	US owner, exporter
Wyndeham Group	Exporter, London business

- (2) *List of other organisations contacted to research Plymouth economy, peripherality, connectivity, the sale of PCA and economic relevance of PCA.*

Name of organisation
Capital Aviation
Devon and Cornwall Business Council
Exeter Airport
Great Western Railways
Eastern Airlines Limited
Flag Officer Sea Training (FOST)
Plymouth City Airport Limited
Plymouth Chamber of Commerce and Industry
Plymouth City Council
Plymouth Manufacturers' Group
Sutton Harbour Holdings Limited
Tamar Science Park
Several organisations and individuals who wished to remain anonymous

APPENDIC B: EXTRACT FROM HANSARD RE RAF NORTHOLT: COMMERCIAL FLIGHTS³³

Question

26 Apr 2011 3.15 pm

Asked By Lord Spicer

To ask Her Majesty's Government whether they plan to increase the capacity for short-haul commercial flights at RAF Northolt.

The Parliamentary Under-Secretary of State, Ministry of Defence (Lord Astor of Hever): My Lords, first, I am sure that the whole House will wish to join me in offering sincere condolences to the families and friends of Colour Sergeant Alan Cameron from the 1st Battalion Scots Guards and Captain Lisa Head from 321 Explosive Ordnance Disposal Squadron, 11 EOD Regiment Royal Logistics Corps, who both died as a result of injuries sustained on operations in Afghanistan. My thoughts are also with the wounded and I pay tribute to the courage and fortitude with which they face their rehabilitation.

We are able to generate income from the existing surplus capacity at RAF Northolt providing that this is consistent with Ministry of Defence business and operational requirements. There are no plans currently to increase the capacity for short-haul commercial flights but, as with all MoD assets, alternative uses and other sources of income generation are kept under review.

Lord Spicer: I am sure that the whole House will wish to be associated with my noble friend's remarks about the two heroes and their families. As for his Answer, it was much more favourable and positive than I expected. Pushing my luck a little, perhaps I may ask whether he envisages that there will be, or could be, a lengthening of the runway at Northolt?

Lord Astor of Hever: My Lords, I am sorry to disappoint my noble friend, but we have no plans to extend the runway. Any proposals for development of RAF Northolt would need to be considered on their individual merits, taking into account defence requirements as well as economic and environmental considerations and the impact on the local community.

Lord Tunnicliffe: My Lords, I should like to associate these Benches with the Minister's condolences to the families and friends of Colour Sergeant Alan Cameron and Captain Lisa Head, both of whom died as a result of injuries sustained in Afghanistan. I should also like to associate these Benches with the Minister's thoughts and tributes regarding the wounded.

The exchange that we have just heard might lead one to the view that Northolt is being seen as, shall we say, a stealth third runway for Heathrow. That would not be an uncontroversial idea. Can the Minister assure me that before any decision is taken to significantly increase commercial traffic there will be a full impact analysis of the effect on surface transport and aircraft noise as well as of any other environmental effects?

Lord Astor of Hever: My Lords, the impact on the local population needs to be considered before any changes are made, and I do not underestimate their concern about the adverse impact of any potential increase in the number of civil movements above the 7,000 per year limit.

³³ Underlining by BHC for emphasis

Commitments have been made previously to consult prior to any increase above the current ceiling, and I am happy to repeat the commitment to consult appropriately now.

Baroness Kramer: My Lords, first, on behalf of these Benches I join in the tributes to those who have fallen and to the wounded. On the Question, does the Minister agree that where high-speed rail networks have been developed domestically in countries across the globe, domestic air travel has shrunk or even collapsed? Therefore, there has to be another and better route to a future for Northolt. The focus should be on high-speed rail, not expanding domestic aviation.

Lord Astor of Hever: My Lords, I agree with my noble friend. A national high-speed rail network would provide an attractive alternative to domestic aviation in both its initial and subsequent phases and would therefore reduce the pressure on Heathrow. Around 7 per cent of Heathrow passengers travel on domestic routes which could be served by high-speed rail, and 8 per cent are short-haul passengers.

Lord Clinton-Davis: I speak as the president of the British Airline Pilots Association. Although the restricted use of Northolt is worthy of consideration, the extended use of Heathrow is vital. Is it not clear that the longer the Government prevaricate over this issue, the more the benefits will accrue to French and German aviation at the expense of their British counterparts?

Lord Astor of Hever: My Lords, I pay tribute to the noble Lord as a very distinguished president of BALPA. Heathrow currently operates at around 99 per cent capacity, and we cannot let it grow out of control, but the Government are committed to developing a new policy framework for the whole of UK aviation which supports economic growth and addresses aviation's environmental impact. We want to see a successful and competitive aviation industry that supports economic growth and addresses the environmental impacts. Aviation should be able to grow, but to do so it must play its part in delivering our environmental goals and protecting the quality of life of local communities.

Lord Glenarthur: My Lords, what is the total number of military and civilian air traffic movements at Northolt in any one year, and are there any air traffic control constraints due to the closeness of Heathrow and the overall impact of its terminal marshalling area-TMA?

Lord Astor of Hever: My Lords, on my noble friend's first question, I do not have those figures with me but will write to him. As for proximity to Heathrow, both military and civil flights are subject to very strict air traffic control procedures.

Lord Desai: My Lords, the noble Lord has talked about an aviation strategy but in an earlier answer he made it clear that high-speed rail also has an important role to play. As there are also objections to high-speed rail on environmental grounds, do the Government have a co-ordinated transport policy which puts aviation together with rail and road transport?

Lord Astor of Hever: My Lords, that would all be covered in the Department for Transport's new aviation policy framework, which would look right the way across the board.

Baroness McIntosh of Hudnall: My Lords, since it appears to have fallen to the noble Lord to answer questions on aviation, which I do not think is his normal brief, would he be kind enough to convey to his colleagues in the Department for Transport that, as welcome as the Government's current position on airport expansion is, for communities where there are airports it is none the less extremely difficult to live with continuing uncertainty? Every time a decision is taken and the question is then raised of whether it might be overturned, it creates a new kind of blight in each of those communities. Perhaps he would convey that to his colleagues.

Lord Astor of Haver: My Lords, I am answering this Question because RAF Northolt is primarily a defence institution. However, I will of course pass on the noble Baroness's point to the Department for Transport.