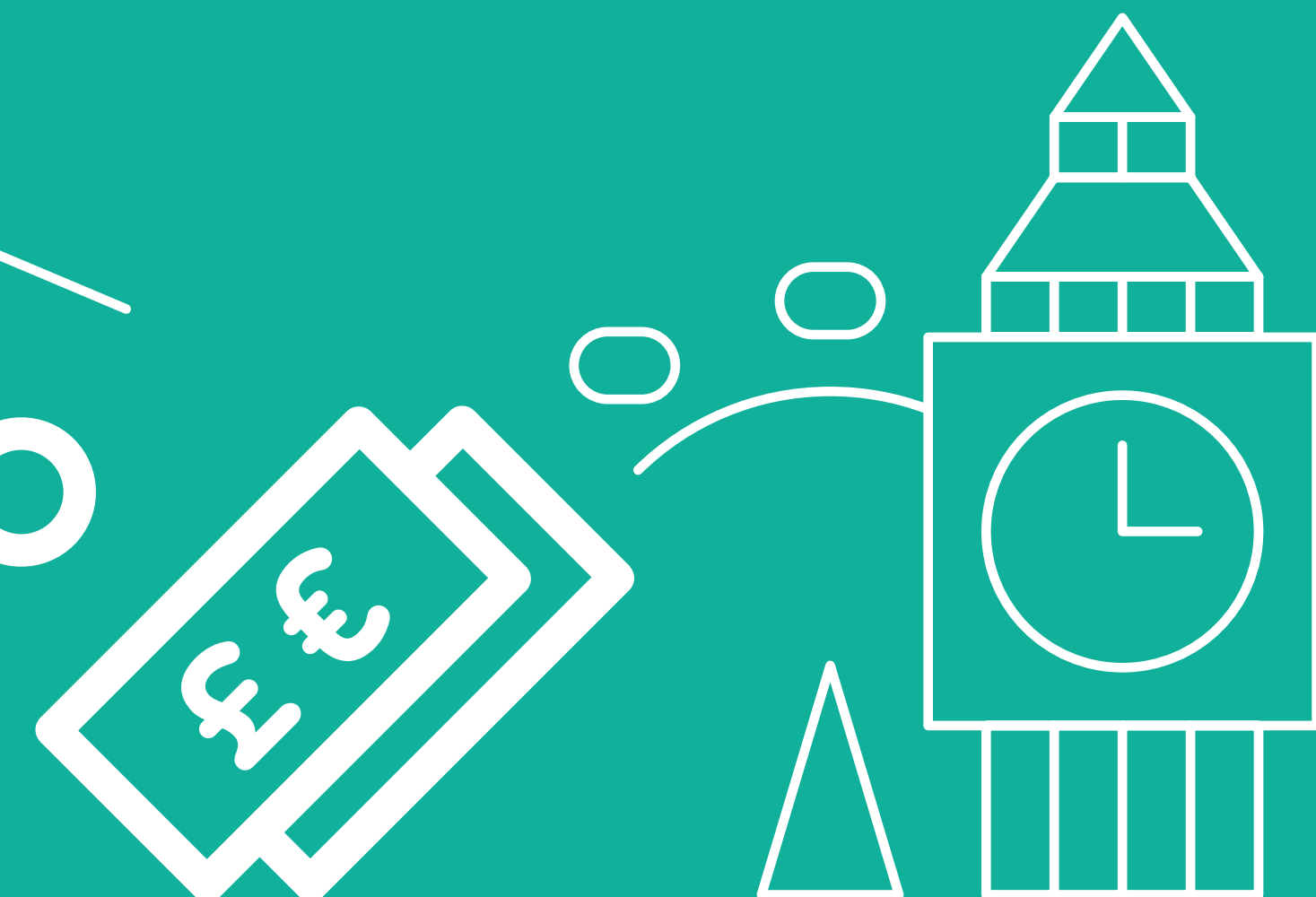
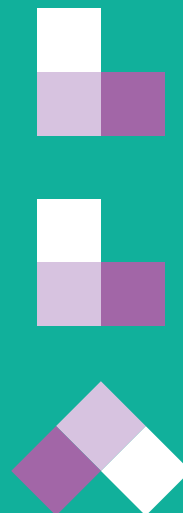


The economic impact of London Luton Airport

Oxford Economics



Contents



pg.01

Foreword

pg.02

Executive summary

pg.03

Measuring the impact of
London Luton Airport

pg.04

London Luton Airport's
impact in 2013

pg.07

The sub-regional and
local economic impact
of London Luton Airport
in 2013

pg.08

The future economic
impact of London Luton
Airport under alternative
scenarios

pg.10

London Luton Airport's
value to passengers

pg.10

London area airport
capacity

Foreword

This is the first aviation focused report published in the post-2015 election environment and one that has been conducted on a wholly independent basis by Oxford Economics. London Luton Airport Operations Limited, the airport operator, and London Luton Airport Limited, the airport owner, commissioned this report to highlight the current and future economic benefit of London Luton Airport to both the local and national economies.

We believe that this report will make a significant contribution to the development of an integrated transport policy for the United Kingdom; one in particular that reconciles the rebalancing of the UK economy with the need for sustainable development. The Oxford Economics report sits alongside the vital strategic work undertaken by Sir Howard Davies and provides our new Government with additional corroboration of the importance of aviation to the UK economy.

In commissioning the report we were mindful of the depth of the Davies Commission’s review of macro runway capacity requirements, but also of how broadening the analytical scope to micro or regional considerations could complete the roadmap of UK aviation needs.

Through this report, Oxford Economics has demonstrated how the presence of a strong regional airport can boost UK economic growth and deliver greater choice, value and service to aviation passengers.

Regional airports play a vital role in supporting aviation capacity growth in the UK. They will sustain the supply of slots for airlines and destinations for passengers throughout the period of new runway construction in London and enhance the reputation of the UK as a place to visit, invest or reside in. For its part, London Luton Airport has proven its role in meeting the aviation demands of the 21st century and this is demonstrated by the economic benefits that are created by its presence in Southern England.

It is imperative that London Luton Airport fulfils its potential to serve more passengers, deliver greater competition between carriers and achieves all of this on an environmentally sustainable basis. That is why we are proud of our airport and the contribution that it will make to the lives of business and leisure passengers alike in coming decades.

We urge all stakeholders with an interest in the future of UK aviation to take note of this report’s conclusions and the potential that exists for London Luton to serve ever greater numbers of passengers and draw overseas investors into our economy.



Nick Barton
CEO London Luton Airport



Councillor
Andrew Malcolm
Acting Chairman LLAL

In February 2015, London Luton Airport Limited (LLAL) and London Luton Airport Operations Limited (LLAOL) commissioned Oxford Economics to undertake an analysis of the nature and scale of the economic impact of London Luton Airport on the UK as a whole, and on the surrounding sub-regional and local economies.

The report sets out the results of that analysis, measuring the economic contribution of the airport in terms of jobs created, contribution to GDP and government tax receipts. We present results for the value of this impact in 2013 and forecast it out to 2030 under two scenarios for the future of the airport.^{1,2}

The report goes on to explore the value that London Luton Airport creates for its passengers by offering them low-cost and local air transport, and by relieving pressure on the air transport system elsewhere in the south east of England.

1. This report updates a previous exercise relating to 2011, undertaken by Halcrow. However, methodological differences mean the two reports are not directly comparable.

2. We use the term 'London Luton Airport' to refer to all activities and businesses which are inherent to the operation of the airport, and including both direct onsite employment and direct offsite employment within firms located in close proximity to the airport whose activities form an integral part of the activities of the airport.

To quantify the contribution of London Luton Airport to the UK and local economy, we consider a range of potential impacts in turn, following a standard analytical technique known as an economic impact assessment. This approach considers three channels of economic impact arising from the airport's operations: direct, indirect and induced impacts.

The impact through each channel is quantified using three metrics: Gross Value Added (GVA) contribution to GDP; employment, in terms of jobs sustained; and the exchequer impact, in terms of additional tax receipts accruing to the Treasury or local authorities.

Quantifying the wider 'catalytic' economic benefits that the airport offers to those who use its services involves other metrics. The benefits that proximity and low-cost air travel offer for millions of Luton passengers are quantified in terms of the equivalent cash value to those passengers each year.

- The direct impact is generated by the immediate activities of the airport itself.
- The indirect impact encapsulates the economic activity supported in the airport's UK supply chain as a result of its procurement of goods and services.
- The induced impact comprises the benefits arising as the workforce (including that in the supply chain) spends its wages generating further rounds of economic activity.

In 2013, the economic activity created by London Luton Airport contributed some £1.3 billion to UK GDP.³ For every pound London Luton Airport contributes to GDP itself, it creates another £2 elsewhere in the UK economy. In 2013 this impact comprised:

£425m

in direct impact (which is equivalent to 10% of the local Luton Borough economy);

£338m

in indirect impact within the supply chain of the airport;

£506m

in induced impact as employees of the airport and its supply chain spent their wages.

3. Hereafter referred to as 'contribution to GDP'. Prices are constant 2013 throughout the document unless otherwise stated.

For every direct job the airport supports, another 1.9 are supported elsewhere in the UK economy. The airport is estimated to have sustained 27,000 jobs in 2013, comprising:

9,400

direct jobs
(10% of all employment in Luton Borough);

7,700

indirect jobs within the supply chain of the airport;

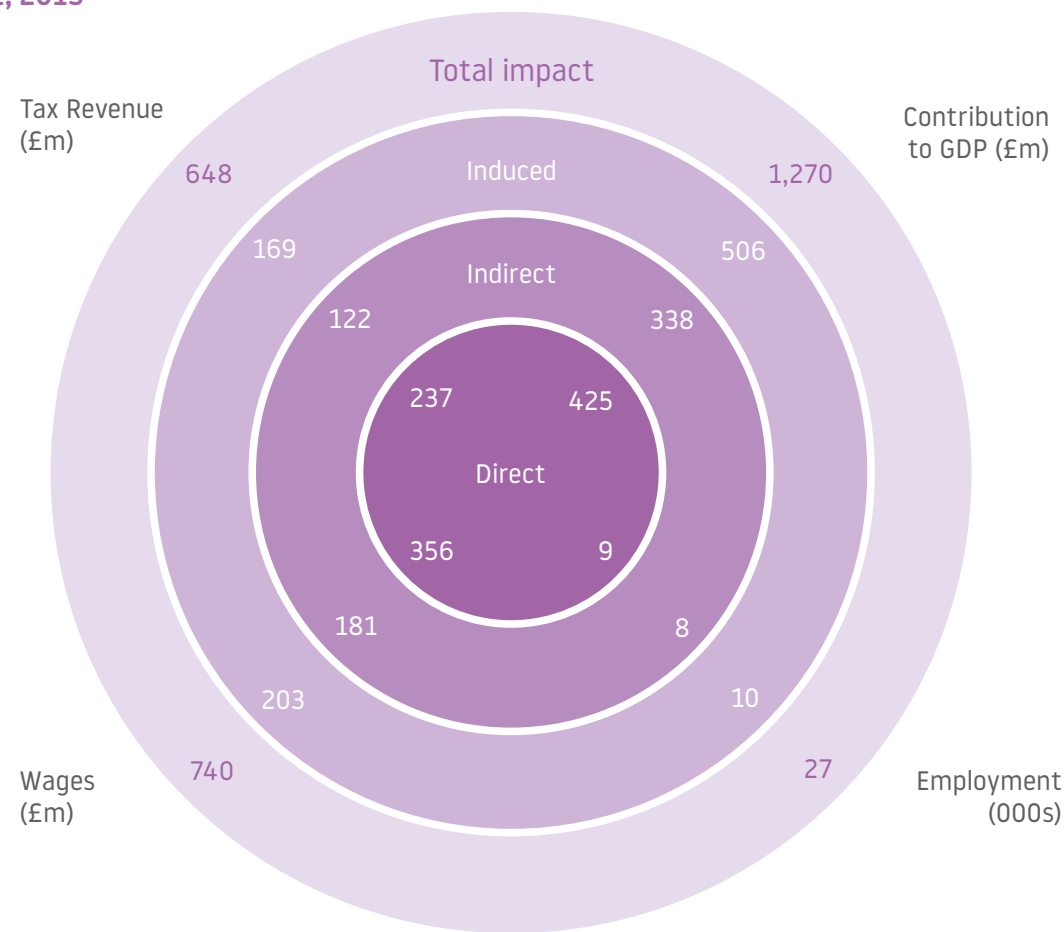
10,000

induced jobs as employees of the airport and its supply chain spent their wages.

London Luton Airport's impact in 2013 (continued)

By sustaining this level of employment, London Luton Airport contributed £740 million in gross wages in 2013, and also produced tax receipts of £648 million for the Treasury, primarily in the form of employee and employer taxes, air passenger duty and corporation tax.

Total UK economic impact of London Luton Airport, 2013

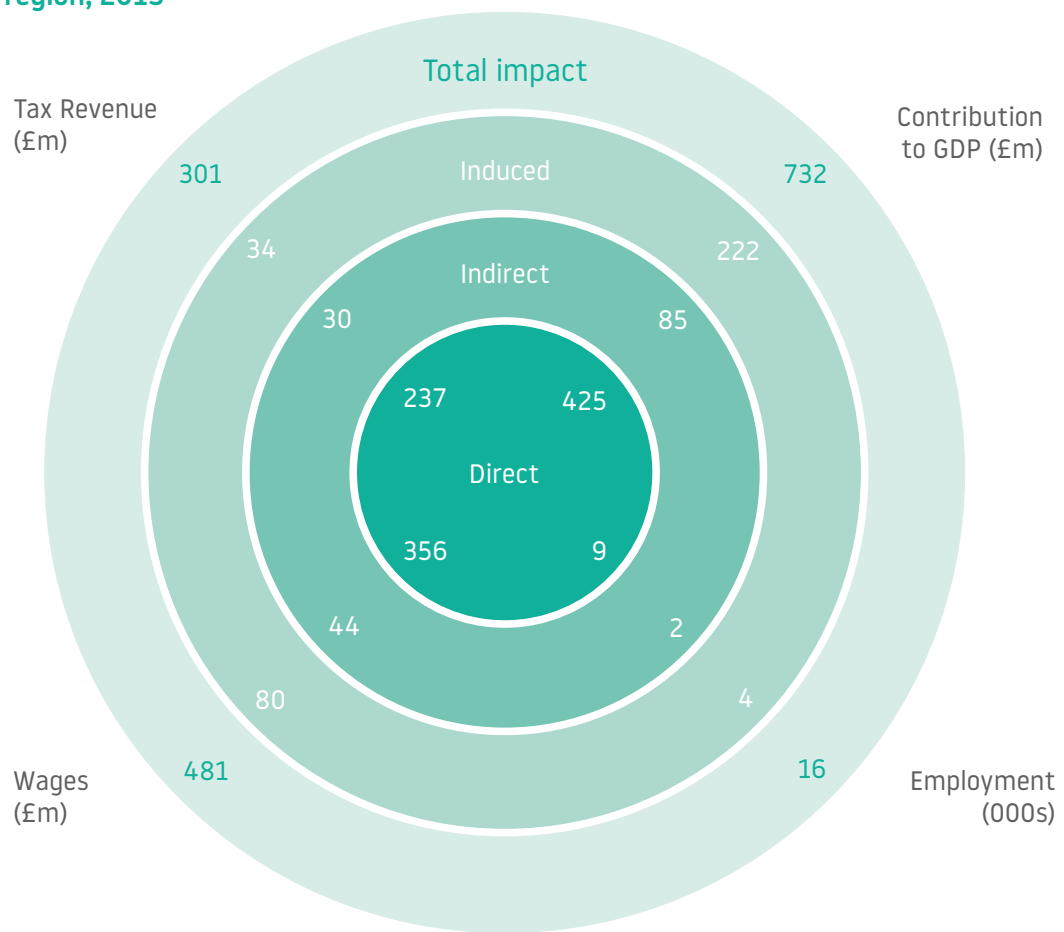


The sub-regional and local economic impact of London Luton Airport in 2013

London Luton Airport plays a pivotal role in economy of the local area and surrounding sub-regions. Within the Three Counties area, which includes Bedfordshire, Buckinghamshire and Hertfordshire, the airport supported a £732 million contribution to GDP and sustained 16,000 jobs in 2013. As would be expected, the greatest impact was felt in the immediate vicinity of the airport.

The largest sub-regional impact therefore occurs within Bedfordshire, where the airport delivered a GDP contribution of £600 million. This reflects the direct economic impact of having the airport located within its boundaries, the corresponding strength of the airport's supply chain linkages within the local area, and the fact that 50% of the direct workforce (and therefore much of the associated consumer spending) resides in Bedfordshire. Within the Borough of Luton alone, the airport supported a £533 million contribution to GDP and sustained almost 12,000 jobs.

Total economic impact of London Luton Airport within the Three Counties sub-region, 2013



The future economic impact of London Luton Airport under alternative scenarios

With substantial changes to the capacity of London Luton Airport planned, we are able to forecast how its economic impact is likely to evolve in the years to 2030.

Our baseline scenario assumes no significant infrastructure development. Yet the airport’s total GDP contribution, including multiplier impacts, is forecast to grow to £1.7 billion⁴ by 2030. Productivity growth, however, means that the total number of jobs supported by London Luton Airport (including multiplier impacts) is likely to be 500 lower in 2030 than in 2013 under this scenario.

Under our development scenario - in which a range of infrastructure developments, including improvements to roads, parking and terminal enhancements, are implemented – the economic impact of Luton would be substantially higher.

In the development scenario, we assume that infrastructure enhancement results in passenger numbers increasing from around 9.7 million in 2013 to 18 million in 2020, at which point the airport will have reached its new level of capacity. Under this scenario, the total GDP contribution of the airport would reach £2.3 billion in 2030, 41% higher than under the baseline option. The airport and its associated activities would support 37,700 jobs in total.

Within the Three Countries sub-region, the total GDP contribution of London Luton Airport is estimated to reach £1 billion in 2030 under the baseline scenario. This increases to £1.4 billion under the development scenario. Under the baseline scenario the total number of jobs supported by London Luton Airport in the Three Counties sub-regional economy in 2030 increases from 15,900 in 2013 to 16,000 in 2030. Under the development scenario employment increases to 22,600.

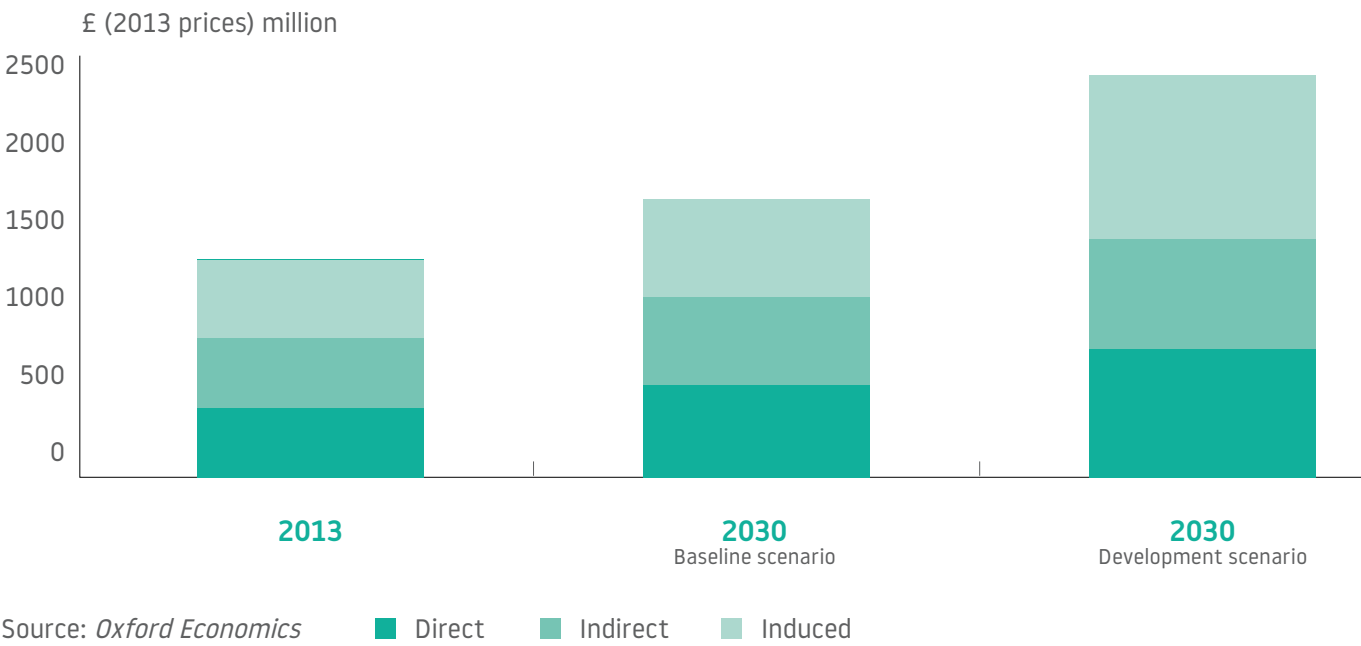
Under the development scenario, London Luton Airport may need over 1,100 additional workers in the three highest-skilled occupational groups, which include roles such as aeronautical engineers, aircraft pilots and flight engineers. At the same time, over 2,500 additional workers will be needed for lower-skilled roles such as customer advisors, baggage handlers and storage workers.

We analyse the extent to which the airport’s future demand for labour could be met by workers from Luton Borough. Our analysis suggests that while there is likely to be sufficient labour within Luton Borough to fill lower-skilled jobs, the airport will need to look further afield to recruit the people needed to fill the more specialised high-skill roles.

4. In 2013 prices

The future economic impact of London Luton Airport under alternative scenarios

Forecast total GDP contribution of London Luton Airport to the UK economy, 2013 to 2030



Key indicators under the baseline and development scenarios, 2013 and 2030

		2013	2030 Baseline scenario	2030 Development scenario
Passengers		9.7m	12.6m	18.0m
GDP	Direct	£425m	£554m	£781m
	Total	£1.3bn	£1.7bn	£2.3bn
Employment	Direct	9,400	9,300	13,100
	Total	27,200	26,700	37,000
Wages	Direct	£356m	Not calculated for future years	
	Total	£740m		
Tax revenue	Direct	£237m	Not calculated for future years	
	Total	£648m		

Ultimately London Luton Airport exists to serve its passengers, of whom there were **10.5 million in 2014 alone.**

For around 43%, or 4.5 million, of these passengers Luton was the closest airport to their origin or destination in the UK. For these passengers, flying from an alternative airport would add between 20 and 68 minutes in travel time, and further associated travel costs, for each leg of their journey. Luton also offers among the cheapest available fares for the destinations it serves, with 75% of comparable fares cheaper than average among the seven major airports considered.

Taking into account of the value of passengers' time, the surface transport costs they face, and the competitive fares offered by airlines at Luton, we estimate that the airport provided additional value for passengers of approximately £120 million in 2014 alone – an average of just over £37 per return trip.

As a result of the extra value offered by Luton more people were encouraged to take a trip than otherwise would have done. We estimate that last year over 900,000 Luton passengers took a flight who would not have flown at all had Luton not existed.

London Luton Airport will play an increasingly important role in providing much-needed capacity to the London airports system over the next 10 to 15 years, particularly if expansion plans are implemented.

In 2011 Luton accounted for 7% of passengers at London airports. But based on official DfT forecasts it is expected to contribute 17% of London passenger growth between 2011 and 2030. This demonstrates the degree to which the airport is set to become an even more crucial part of the air transport network of the UK.

For the full Oxford Economics Report please go to:
www.london-luton.co.uk/OxfordEconomics



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