



The Economic Impact
of Southampton
Airport

Report
October 2017

Southampton International
Airport Ltd

Our ref: 23160101





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Prepared by:

Steer Davies Gleave
28-32 Upper Ground
London
SE1 9PD

+44 20 7910 5000
www.steerdaviesgleave.com

Prepared for:

Southampton International Airport Ltd
Wide Lane
Southampton
SO18 2NL

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Executive Summary

Overview

Southampton International Airport Ltd has developed a Masterplan with the goal of bringing about growth in passenger numbers and an improvement in the passenger experience. This will be achieved through extension of the runway - allowing larger planes with an increased range to operate from the Airport - as well as the provision of better passenger facilities and improvements to surface access. Through implementation of the Masterplan, the Airport will be better placed to attract new carriers and increase the number of destinations served.

Through desk-based calculation of the economic impact of the airport and review of wider evidence regarding the contribution of the airport to the local and regional economy, this report demonstrates the economic impact of realising the Southampton Airport Masterplan.

Approach

Air transport moves people and goods around the globe. The connectivity that air transport provides powers economic growth regionally and nationally. For many companies, this connectivity is essential to day-to-day operations, with connections to domestic and overseas markets, facilitating the flow of trade, tourism, investment and knowledge.

The economic reach of even a relatively small airport such as Southampton is substantial. In addition to an airport's direct economic contribution, value is spread more widely through the economy as a result of businesses accessing global supply chains, direct investment, new expertise and economies of scale.

To assess the economic footprint of Southampton Airport, a standard methodology has been deployed. This measures the four core channels through which economic impacts may be generated. These are its *direct*, *indirect* and *induced* economic impacts, as well as the wider potential (known as the *catalytic* impact) for Southampton Airport to support the local, regional and national economy:

- **Direct** impacts measure the level of economic activity on the Southampton Airport campus, including the airport company itself plus a range of business partners and site tenants;
- **Indirect** impacts capture the quantity of economic activity supported in down-stream industries that supply and support the activities at the airport;
- **Induced** impacts represent the wider economic activity that takes place when employees of Southampton Airport and its supply chain spend their earnings in a wide range of sectors in the general economy; and
- **Catalytic** effects represent the potential wider economic benefits that are available to the region as a consequence of connectivity to overseas markets, suppliers and investors.

Current Economic Impact

The economic contribution of Southampton Airport in 2015 is estimated to be £161m (2015 prices).

Direct Impact

The direct, annual economic impact of Southampton Airport is in excess of £64m. This is made up of the total income received by staff and businesses as a result of operations based at Southampton Airport. Of this, 25% is direct economic impact generated by the airport

operator with the remaining 75% being generated by businesses located on site. Almost 950 individuals are employed at the airport site.

Indirect Impact

In total, the indirect economic impact of Southampton Airport is £64m per year. This takes account of the complex supply chain network serving the businesses located on the airport campus. Of the indirect output, £10m is attributable to the airport operator, with the remaining £54m resulting from activity undertaken by airport tenants and business partners. This expenditure supports more than 1,300 jobs within the supply chain.

Induced Impact

Induced impacts contribute an additional £32m, and more than 650 jobs, to the economic impact of Southampton Airport. This reflects the spending of employees of the airport operator, of businesses located on the airport campus and of companies in the Airport's supply chains in the general economy

Catalytic Impact

This captures the way in which an airport facilitates employment and economic development in the national economy. Quantification of the catalytic impact has not been carried out, but an assessment of characteristics of the regional economy has been undertaken to gauge the catalytic potential of the airport. This suggested that the Airport Masterplan would support aspirations to increase economic productivity and efficiency of the Solent LEP area.

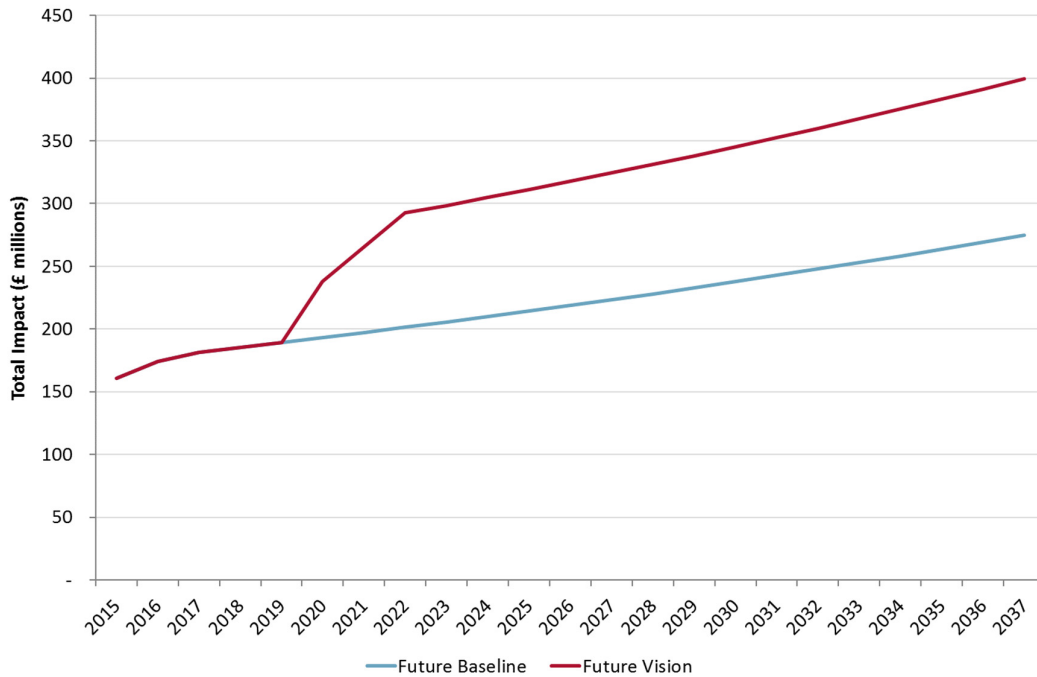
Future Projections

To measure the potential value of the implementation of the Airport Masterplan, Southampton Airport's impact on the national economy has been forecast over the next 20 years. The most important determinant of this future impact is the level of activity taking place at the airport, measured by the number of terminal passenger. The analysis was, therefore, carried out for two different passenger growth scenarios: a business as usual scenario and a Vision (Masterplan) scenario.

- **Baseline scenario (business as usual):** passenger numbers grow at a trend rate from two million to 3.3 million in 2037. Economic activity is assumed to grow proportionately with passenger throughput, while efficiency of the airport is assumed to remain static. In this scenario, the core economic impacts (direct, indirect and induced) are forecast to grow by 71% to £275m, with jobs supported rising by 300 to 3,250.
- **Vision scenario (Masterplan):** passenger traffic at Southampton Airport will grow from approximately two million in 2016 to more than five million passengers in 2037. Such an increase in activity would support higher demand among the range of businesses on the campus and beyond, delivering output and employment growth over the next twenty years. In this growth scenario, the core economic impacts would grow by almost 150% to £400m, with jobs supported rising by 1,750 to 4,700.

The graph below illustrates the trajectory of Southampton Airport's future economic impact. It is clear that the expansion of air services following the Masterplan (assumed to commence in 2019) would precipitate a step change in the contribution of the Airport to the local, regional and national economy.

The future economic impact of Southampton Airport (direct, indirect and induced)



Source: Steer Davies Gleave analysis

Conclusion

The contribution of Southampton to the UK economy includes the business activity at the airport, the activity of the supply chain and wider consumer market. This contribution amounts to more than £160m.

Assuming trend growth in passenger numbers and a programme of incremental improvements to the airport, this contribution could increase to £275m by 2037.

Alternatively, the Southampton Airport Masterplan provides the opportunity for Southampton Airport to significantly boost its contribution to the local, regional and national economy. The expansion of existing carriers and/or securing additional airlines would support flights to more destinations and therefore accrue larger economic benefits. At the local level, expansion of the resident aircraft fleet would deliver an economic boost through providing more locally-based direct jobs through the servicing of the resident aircraft fleet, and the processing of passengers using the extended flight network.

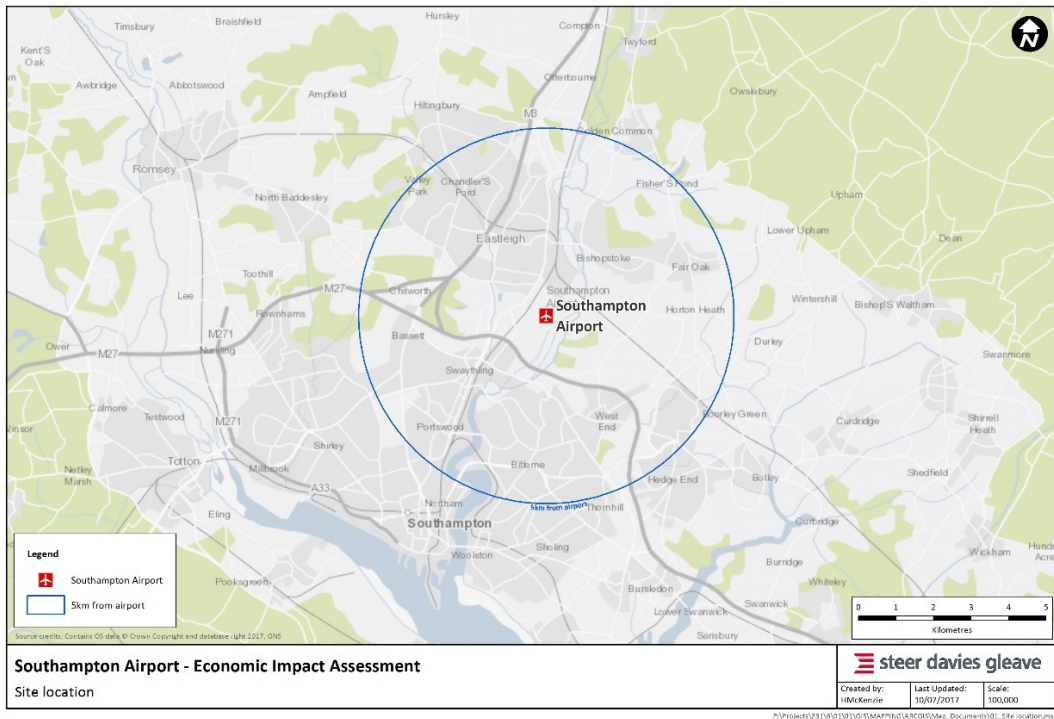
Delivering the Masterplan could increase the annual economic contribution of the airport to £400m. On a cumulative basis, therefore, it can be expected to deliver over £1.8 billion to the economy in the twenty years to 2037.

1 Introduction

Background

1.1 Southampton Airport is an important regional airport. In 2016 it served around two million passengers every year on 35,000 flights to 40 destinations across the UK and Europe¹. It is the 18th busiest airport in the UK and the 8th busiest airport in England outside of London. South of Birmingham, only the London airports and Bristol are busier. The location of the airport to the north east of Southampton city centre is shown in Figure 1.1.

Figure 1.1: Site of Southampton Airport



1.2 Through its Masterplan, Southampton International Airport Ltd is putting forward a vision for future growth and improving passenger experience. This includes better facilities, improvements to surface access and an extended runway; allowing departing planes to carry

¹ Data Source: Civil Aviation Authority (CAA) Airport statistics

more fuel and reach more distant destinations. Implementing the Masterplan will make the Airport better placed to increase the number of destinations served and attract new carriers.

1.3 Realising the Masterplan will have two impacts:

- Facilitating further economic growth of both the airport and the region it serves; and
- Improving the passenger experience.

1.4 This report focuses on the first of these impacts. It provides an assessment of the economic footprint of the airport today, in a business as usual future scenario in which the Masterplan is not implemented (“future baseline”), and in a future scenario in which the additional flights and wider range of destinations enabled by the Masterplan are delivered (“future vision”).

Approach

1.5 At the heart of this report is a desk-based calculation of the economic impact of the airport, supplemented with wider evidence regarding the contribution of the airport to the local and regional economy. This is presented from Chapter 3 onward. Interviews with key local stakeholders have also been undertaken to bring the desk-based assessment to life, and to establish the real-world mechanisms through which improvements in airport connectivity can benefit the local and regional economy. A full list of interviewees is provided in Appendix A.

Study Area

1.6 The definition of the study area is important because it affects the proportion of benefits captured by the economic impact assessment. Since many of the inputs for air transport are provided by firms that are based outside the immediate locality, too narrow a geographical focus will exclude many of the indirect and induced effects which proliferate beyond the vicinity of the airport. This includes both the economic benefits of connectivity experienced by Southampton Airport passengers and firms which supply goods and services, such as fuel and on-board catering, to the airport itself.

1.7 Analysis of employee and passenger places of residence can provide an indication of the airport’s sphere of influence. Figure 1.2 shows the location of employees’ place of residence. This is important since the earnings of individuals who work at the airport will in-turn be spent in the wider local economy. Understanding where employees live indicates the likely spread of these economic impacts.

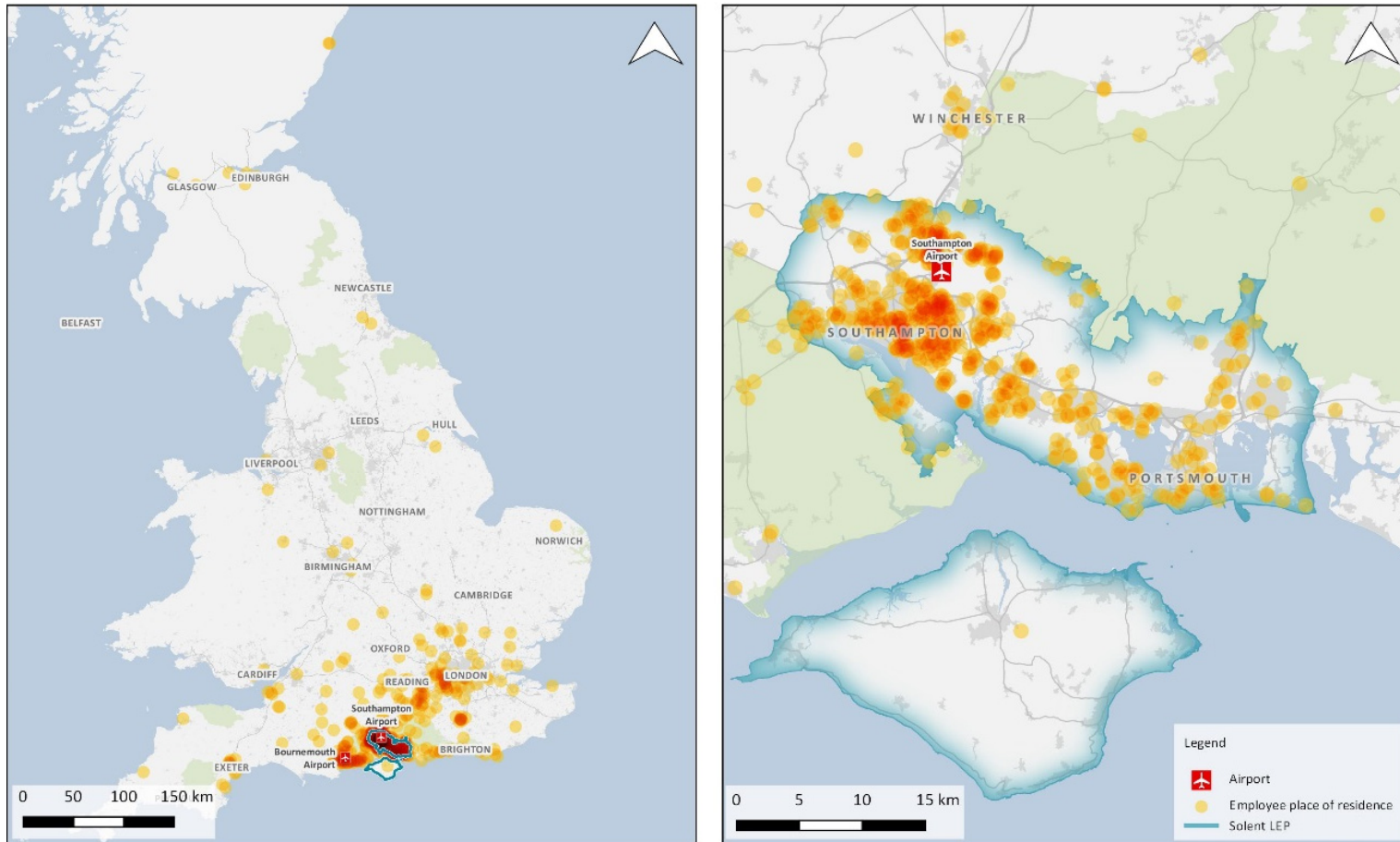
1.8 Figure 1.2 shows a strong concentration of employees in the immediate vicinity of the airport and within the Solent Local Enterprise Partnership area (Solent LEP). Outside of the LEP area there are concentrations of workers in the vicinity of other airports, particularly Bournemouth, Gatwick and Heathrow. This is most likely a result of employees working directly in airport-related industries; while their employment may change between airports, their place of residence may take longer to change, if at all. Moreover, it is also common for employees in airport-related industries to work across multiple sites.

1.9 Figure 1.3 illustrates the home location for a sample of outbound passengers. This is important because the economic benefits of air travel (particularly for those travelling in the course of business) are largely experienced where the trip itself originated. Figure 1.3 shows that outbound passengers’ place of residence is far more dispersed than airport employees but, as expected, the strongest concentration is close to Southampton Airport. Much of the dispersal is a result of connecting flights: concentrations in Manchester, Glasgow and Newcastle are the

result of direct air connections to those cities. The spread to the north east follows the line of the direct train service from the airport to London Waterloo and intermediate stations.

- 1.10 In total, 73% of employees and 56% of outbound passengers live within the boundary of the Solent LEP. Outside this area, the only remaining significant concentration of workers and employees live very close to Bournemouth airport. As a consequence, the Solent LEP boundary has been used to define the study area.
- 1.11 From a wider economy perspective this is reasonable, since LEP boundaries were intended to straddle historic administrative boundaries and represent functional economic areas. However, given the catchment area of Southampton Airport (see Chapter 2) and the significant proportion of passengers who access the airport from outside the Solent LEP, it is clear that the influence of the airport extends well beyond the study area, albeit more diffusely.

Figure 1.2: Employees' place of residence



The Economic Impact of Southampton Airport

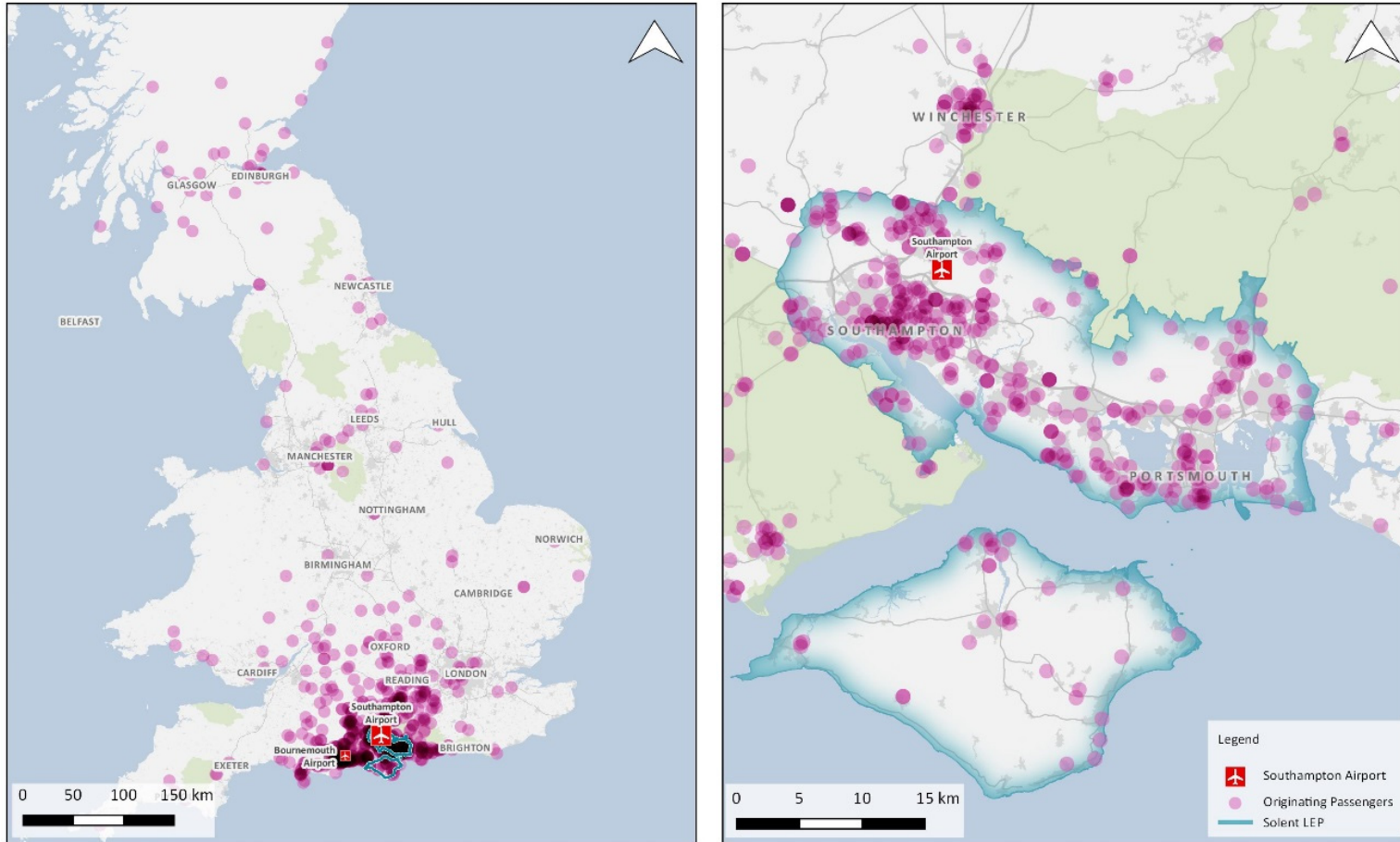
Employee place of residence



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Data Source: Southampton Airport

Figure 1.3: Outbound passengers' place of residence



The Economic Impact of Southampton Airport

Southampton Airport Originating Passengers



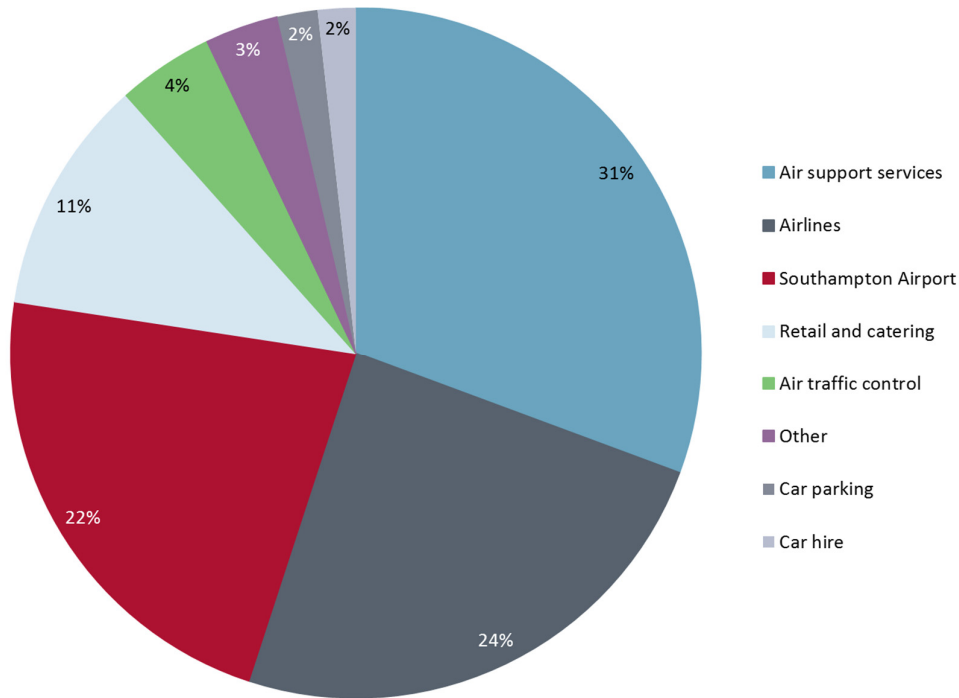
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Data Source: DKMA, Southampton Airport Passenger Demographics, May 2016

2 Context

- 2.1 Air transport moves people and goods around the globe. The connectivity that air transport provides is a key factor in increasing regional and national economic productivity and prosperity. It is essential for many companies to function, and provides critical connections to domestic and overseas markets, facilitating the flow of trade, tourism, investment and knowledge.
- 2.2 Even a relatively small airport such as Southampton Airport can have a substantial economic impact since, in addition to its direct economic contribution, additional value is spread more widely through the economy. Businesses can access global supply chains, direct investment, new expertise and achieve economies of scale through expansion to serve a wider market.
- 2.3 Almost 200 people are employed directly by Southampton Airport, with a further 750 jobs located on the airport campus. Figure 2.1 illustrates the breakdown of these jobs by broad category.

Figure 2.1: Employment by employer category at the Southampton Airport campus



Data Source: Southampton Airport

- 2.4 In addition to benefits to business and other institutions (e.g. the University of Southampton), individuals experience significant benefits from air transport since many rely on it for holidays and visiting friends and family. Recent increases in the number of travellers visiting friends and relatives reflects modern demographics (with families spread over large areas) and an increasingly globalised workforce.
- 2.5 The combination of leisure and business passengers can serve to support a higher frequency of flights and larger, more efficient aircraft. Well loaded, larger aircraft typically offer a lower cost per passenger-mile which can be reflected in lower ticket prices and higher operator margins. The improved connectivity from higher flight frequencies reduces the overall costs of air travel for both groups of passengers through removing the need for lengthy journeys to and from more distant airports, by removing the requirement to change flights, and by removing schedule delay, i.e. increasing the likelihood that a flight departs at a time convenient to the passenger.

“The airport is massively convenient and is great to have on the doorstep; it needs to be sold more to businesses to encourage them to locate in the area.” Stakeholder Consultee.

- 2.6 In order to demonstrate the role of Southampton Airport within the local and regional economy, this chapter provides a concise summary of:
- the airport catchment (which allows the economic benefits to be experienced beyond the immediate vicinity of the airport);
 - the range of air services on offer (which will affect the desirability of locations in the vicinity of the airport for businesses and households);
 - the demand for passenger flights to/from the airport (by analysing the motives for travel it is possible to understand further the role of the airport in supporting firms within the region, the burgeoning Solent tourism market, and providing leisure opportunities to local residents); and
 - stakeholder perceptions of competition from other airports.

Airport Surface Catchment

- 2.7 There are strong surface access links between the airport and the local region. The M27 and M3 connect the airport to the wider South East and South West, resulting in an extensive drive time catchment area. Approximately 2 million people live within a one-hour drive of Southampton Airport, increasing to 3.5 million within a 90-minute catchment².

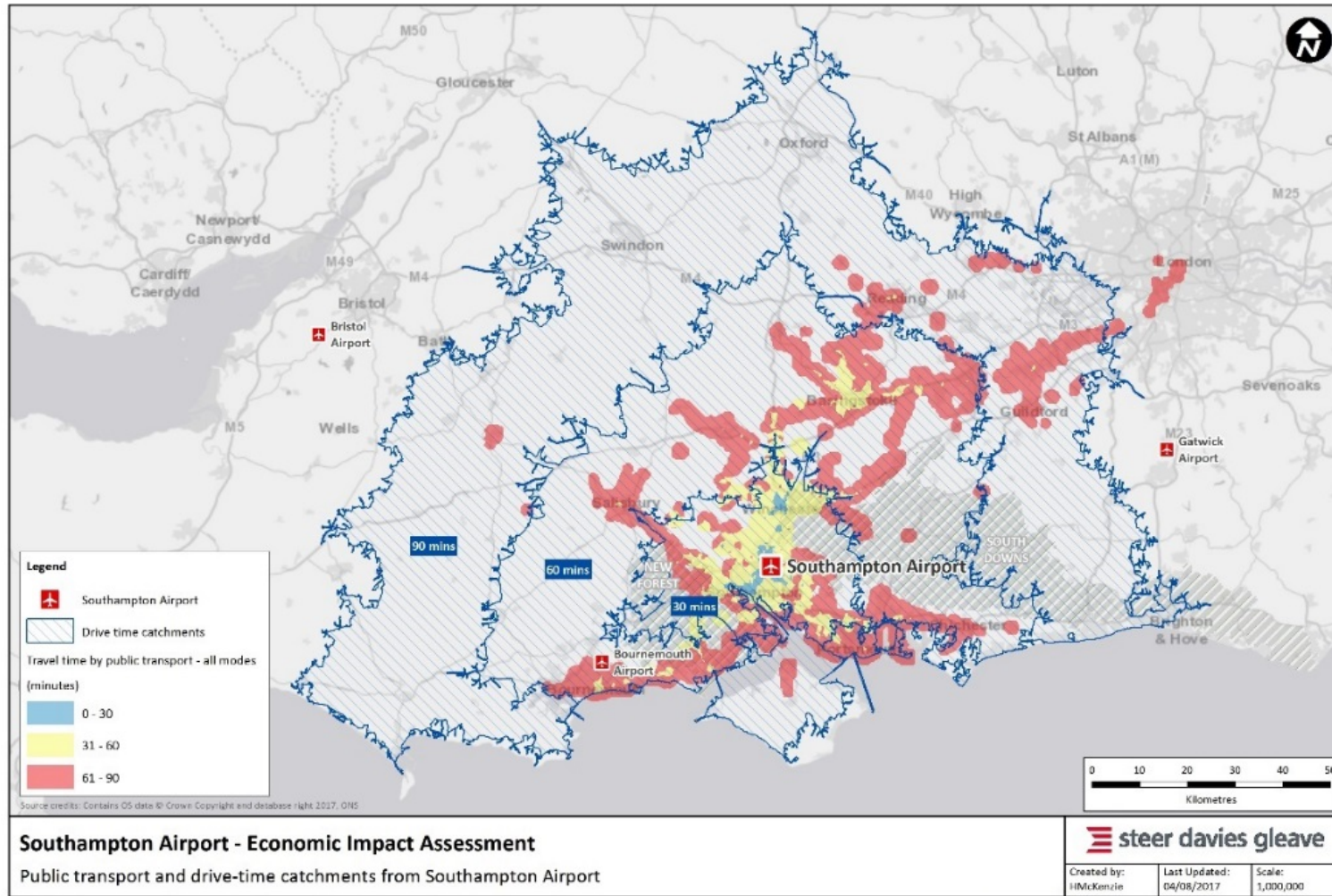
“What’s great about the airport is its strategic location on the rail network and its proximity to the motorway network.” Stakeholder Consultee.

² The drive time areas were computed using ArcGIS and the associated plugin network analyst. The catchments were produced by calculating how far a person could drive on the road network in 30, 60 and 90 minutes. This analysis was based on TomTom data from 2015, on a peak-time network at 0800 on a Tuesday morning, i.e. it represents congested conditions.

- 2.8 There are also good public transport links to the airport. Southampton Airport Parkway railway station provides regular direct links to Southampton (5 trains per hour) and London (3 trains per hour). Local and regional bus operators provide fast and efficient services to the city centre and local surrounding areas. In total, 660,000 people can access Southampton by public transport within an hour (including access and egress time to local bus stops/railway stations etc). However, aside from coastal routes, public transport connectivity to the east and west is constrained by the proximity of the South Downs and New Forest National Parks.
- 2.9 Figure 2.2 provides a comparison of the catchment areas by private car and public transport. The blue contour lines represent drive times from the airport in 30 minute increments. As expected, these extend furthest along major roads. The blue, yellow and red shading represent public transport access times. These cluster around transport nodes, such as train stations south west of London with direct services to Southampton Airport.

“From an economic development perspective, the airport’s role as a multi-modal transport interchange means that it has a strong offer. Furthermore, train links to central London are good – better than Stansted and Luton for those wanting to go to central London. However, east-west links, for example, from Fareham, Havant and Portsmouth are not good; limiting the airport’s impact on businesses and residents in this part of the LEP area.” Stakeholder Consultee

Figure 2.2: Comparison of public transport and drive time catchments (AM peak)



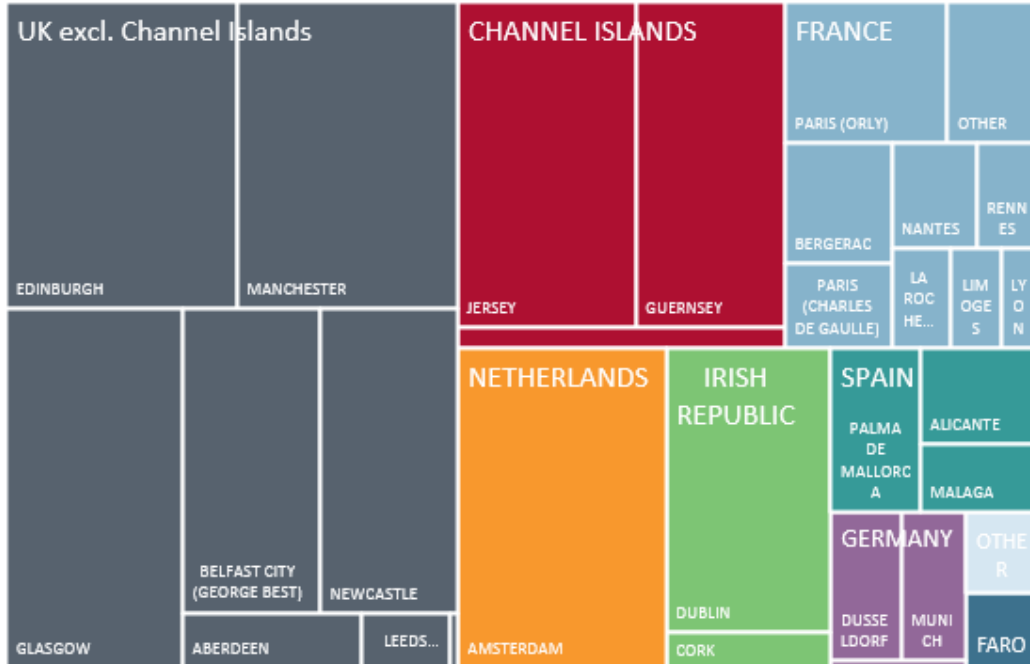
Source: Steer Davies Gleave analysis

Air Services

Destinations

2.10 Southampton Airport carried 1.95 million passengers in 2016. Figure 2.3 shows the most popular destinations by passenger numbers from Southampton Airport in 2016 (further detail is provided in Table 2.1).

Figure 2.3: Most popular destinations by passenger numbers 2016



Data Source: Civil Aviation Authority (CAA), total air passenger traffic to and from Southampton Airport, 2016

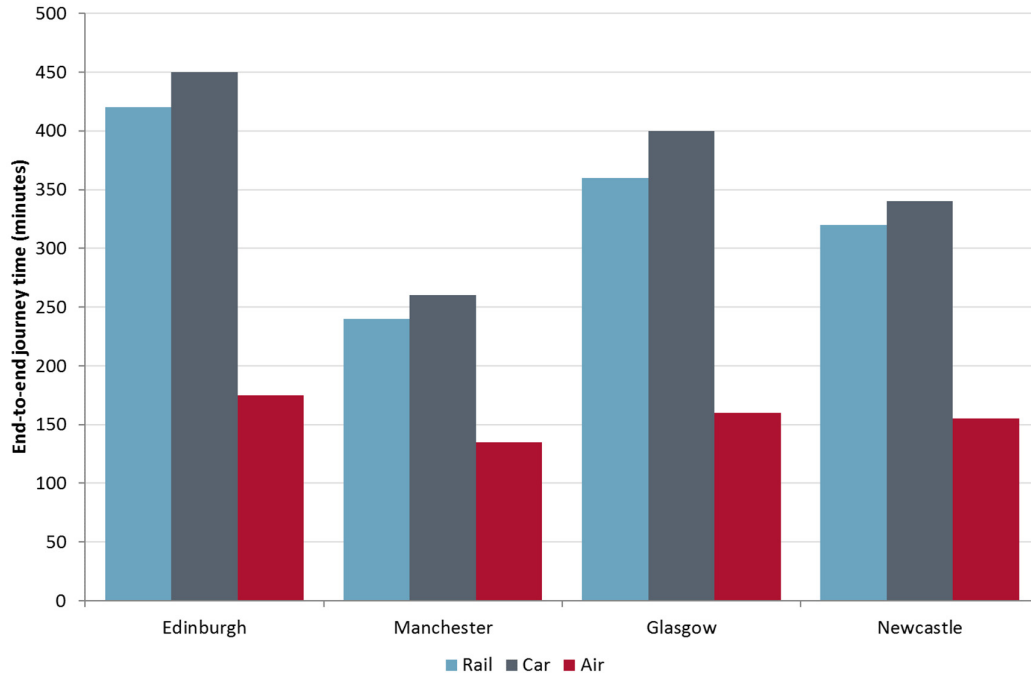
2.11 The airport currently serves three key markets, within which many important but niche routes are provided. The key markets are:

- Domestic markets not well served by other surface transport modes;
- European markets not well met by other airports (including Channel Islands); and
- The cruise market.

Domestic markets not served by other transport modes

2.12 Flying from Southampton can result in significantly reduced journey times from the South Coast to other UK destinations. For example, to travel from Southampton to Edinburgh takes 7 hours by train or slightly more by car, whereas by air it takes just 2.5 hours including transfers by private car/taxi at either end to the city centre. Further examples are summarised in Figure 2.4.

Figure 2.4: Comparison of approximate end-to-end rail, car and air journey times



Source: Steer Davies Gleave analysis

- 2.13 Local businesses also see these services as price competitive with rail. The positive contribution to business productivity was noted in our stakeholder consultation. For example, business trips to Liverpool which would require an overnight stay if undertaken by rail, could be carried out in a day by air via Manchester. Furthermore, the links to Glasgow, Manchester and Belfast were reported as vital for firms operating in maritime and defence sectors which are important employers within the Solent economy.
- 2.14 Local universities also see the domestic flight offer as a means of attracting students from the North of England; something which is seen as being increasingly important post-Brexit as the number of EU students is expected to fall.
- 2.15 Just three routes served almost a third of total passenger demand to or from Southampton Airport in 2016, two of which were UK domestic airports (Edinburgh and Manchester) and the other Amsterdam Schiphol, which provides onward connections to global destinations. The most popular route was to/from Edinburgh, for which air travel has a natural advantage over other modes due to the distance involved and consequent journey times, with Manchester very close behind. Table 2.2 illustrates the most popular routes in 2016 for journeys to and from the airport, and emphasises the strategic importance of domestic air travel to/from Southampton.

Table 2.1: Top 10 Destinations by Total Air Passenger Traffic to and from Southampton Airport by Destination Airport and Country

Destination Airport	Destination Country	Total Air Passengers Transported	Share of Total Air Passengers Transported
Edinburgh	Scotland (UK)	199,300	10%
Manchester	England (UK)	199,000	10%
Amsterdam Schiphol	The Netherlands	188,400	10%
Glasgow	Scotland (UK)	179,500	9%
Jersey	Channel Islands	163,300	8%
Guernsey	Channel Islands	137,211	7%
Dublin	Republic of Ireland	132,600	7%
Belfast City	Northern Ireland (UK)	118,500	6%
Newcastle	England (UK)	118,400	6%
Paris (Orly)	France	65,000	3%

Data Source: CAA, total international and domestic air passenger traffic to and from Southampton Airport, 2016

- 2.16 The UK domestic market has been the major passenger market for the airport over the past decade, representing a 60% share of passengers transported to and from the airport over ten years. Excluding UK domestic flights, the most popular airports served between Southampton Airport and Europe are Amsterdam Schiphol (to which 24% of passengers making international trips travelled), Dublin (17%), Paris Orly (8%) and Palma de Mallorca (5%).

European markets not well met by other UK airports

- 2.17 Destinations with direct flights from Southampton and which are served by few other UK airports include Bergerac and Limoges. Moreover, Southampton Airport serves a significant niche market offering flights to and from the Channel Islands. In 2016 more than 320,000 journeys were made to/from Jersey (163k), Guernsey (137k) and Alderney (20k). This represents more than a quarter of the domestic market (27%), and 17% of the overall market at Southampton.
- 2.18 Southampton Airport also provides global connections: although direct flights to Paris Orly have stopped recently, they have been replaced by two flights a day serving Paris Charles de Gaulle which offers better onward connectivity than Orly. Seven flights a day serve Amsterdam Schiphol. Both Schiphol and Charles de Gaulle have extensive onward networks.

Cruise market

- 2.19 Roughly three percent of Southampton Airport passengers are travelling to, or returning from, a cruise. While a relatively small market, this is an important and growing market which Southampton Airport is uniquely placed to serve.
- 2.20 Around two million cruise passengers a year passed through Southampton in 2016, a figure which has more than doubled since 2008. Cruise passengers provide a boost to the local leisure and night-time economies, for example through patronising hotels and restaurants. Non-cruise tourists also use Southampton as a base for exploring the wider south west, spreading these benefits beyond Southampton itself.

Airlines

- 2.21 These destinations are served by a number of carriers. As at September 2017, there are seven airlines operating routes (including seasonal routes) to and from Southampton Airport. Table 2.2 provides a breakdown of airlines/operators and destinations served from Southampton.

This excludes the recently announced commencement of flights by easyJet to/from Geneva (due to commence in December 2017).

Table 2.2: Direct Destinations Served by Southampton Airport by Airline (September 2017)

Airline	Operator	Destination(s) Served by Country
Aer Lingus Regional	Stobart Air	Ireland
Aurigny		Channel Islands
BMI Regional		Germany
Eastern Airways		United Kingdom, France
Flybe	Flybe	UK and the Channel Islands, France, Germany, Italy, Netherlands, Portugal, Republic of Ireland, Spain, Switzerland
	Blue Islands	Channel Islands
KLM	KLM Cityhopper	Netherlands
Volotea		Spain

Data Source: Southampton Airport flight and destination schedule, September 2017 (accessed)

- 2.22 Flybe currently serves approximately 85% of all passengers at Southampton Airport and is its key resident carrier.

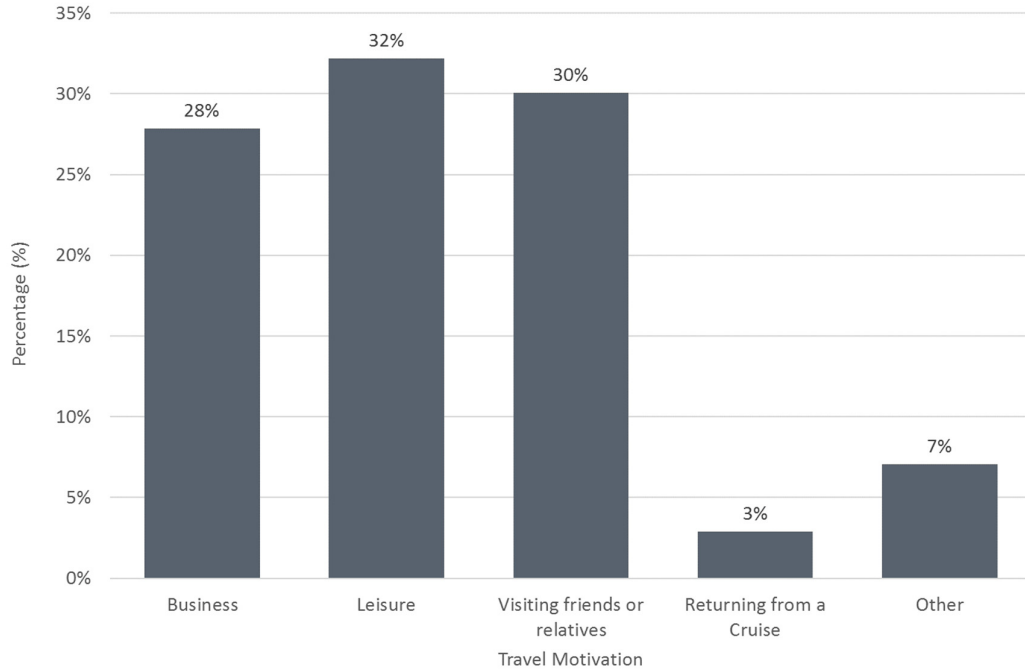
Passenger Profile

- 2.23 In order to better understand the transmission mechanisms through which improvements to airport connectivity can deliver local and regional economic impacts, it is helpful to understand more about the types of individual that use Southampton Airport and their rationale for doing so.
- 2.24 Those sectors which contribute most to national economic output employ a far greater proportion of managerial, technical and professional staff than average. In turn, evidence from the National Travel Survey (NTS) and Civil Aviation Authority (CAA) highlights the different propensity of individuals by occupation and industrial sector to travel by air³. Broadly speaking, those in managerial, technical and professional roles are likely to use air services more frequently and to travel further when they do so, both for business and for leisure.
- 2.25 In the four sectors identified by the Solent LEP as drivers of future economic growth (Marine and Maritime, Aerospace and Defence, Computer Science, and Photonics), 62% of all employees work in managerial, technical and professional roles compared to 44% across the entire economy.
- 2.26 More than 80% of all airport passengers work in managerial, professional and technical roles, 41% of whom were travelling for business. Among passengers in other occupations, around a quarter were travelling in the course of business. This suggests that the airport plays an important role in facilitating the flow of trade, investment and knowledge and, in particular, for supporting those sectors which provide a disproportionate contribution to the national economy.

³ National Travel Survey, DfT (<https://www.gov.uk/government/statistics/national-travel-survey-2016>) and Departing Passenger Survey, CAA (<http://www.caa.co.uk/Data-and-analysis/UK-aviation-market/Consumer-research/Departing-passenger-survey/Survey-reports/>)

2.27 As shown in Figure 2.5, at 28%, the proportion of business travellers from Southampton Airport is high⁴. With the exception of London City Airport (where approximately half of all passengers are travelling for business), this is broadly in line with Heathrow Airport (28%) and higher than Birmingham (17%), Bristol (16%), and London Gatwick (14%) airports⁵.

Figure 2.5: Outbound passengers’ travel motivation, 2016



Data Source: DKMA, Southampton Airport Passenger Demographics, May 2016

2.28 Through facilitating business travel, Southampton Airport supports the growth of local and regional businesses by providing connections to export markets for goods and services, attracting inward investment, supporting economies of scale and deepening labour markets.

⁴ This average across all passengers includes those who reported their occupation as “not working or retired”, “homeworker” or “student”

⁵ CAA Passenger Survey Report, 2015

3 Economic Impacts Methodology

Assessing the Economic Impact of Southampton Airport

3.1 The remainder of this report presents an assessment of the economic footprint of Southampton Airport, in terms of its *direct*, *indirect* and *induced* economic impacts, as well as the wider potential (known as the *catalytic* impact) for Southampton Airport to support the local, regional and national economy. In producing this assessment, we have used the following data sources:

- The financial statements and annual accounts of Southampton International Airport Ltd and, where possible, its on-site business partners and tenants for 2015/16 to understand expenditure, earnings and employment directly supported by the airport's activities⁶;
- A bespoke survey of businesses operating at Southampton Airport, conducted during July and August 2017 to understand business earnings, employment and expenditure on the site and in the wider economy; and
- Secondary research in the form of a literature review of comparable economic impact analysis studies at airports in the UK and Europe to inform and benchmark our analysis with comparable similar studies.

Introducing Economic Impact Analysis

3.2 We have deployed a standard methodology in assessing the economic impact of Southampton Airport, known as an Economic Impact Assessment. This measures the four core channels through which economic impacts may be generated. These are:

- **Direct** impacts, which measure the level of economic activity on the Southampton Airport campus, including the airport itself plus a range of business partners and site tenants;
- **Indirect** impacts, which capture the quantity of economic activity supported in downstream industries that supply and support the activities at the airport, as a result of expenditure on goods and services at the airport;
- **Induced** impacts, which represent the wider economic activity that takes place when employees of Southampton Airport and its supply chain spend their earnings in a wide range of sectors in the general economy; and
- **Catalytic** effects, which represent the potential wider economic benefits that are available to the region as a consequence of connectivity to overseas markets, suppliers and investors.

⁶ Where this information has not been possible, we have selected the financial accounts nearest to the 2015/16 financial year.

- 3.3 The remaining sections of this chapter explain the methods used to measure these four impacts in more detail.

Direct Impact

The direct impacts of Southampton Airport are quantified in terms of its contribution to UK economic output (GVA) and the employment it supports.

- 3.4 At the core of its contribution to the economy are the activities which take place at Southampton Airport. These can be measured by its contribution to gross value added (GVA), expressed as the sum of incomes of workers (wages) and businesses (profits) on site. This is estimated by calculating the gross profits of the airport and businesses on-site with the gross employment costs paid by those businesses⁷.
- 3.5 In the absence of direct evidence from all businesses located on the airport campus, the following five-step approach was applied:
- Calculate gross employment (by company) at the airport on a headcount basis, using anonymised data on the number of security passes distributed to employees working for organisations based at the airport campus⁸.
 - Use Companies House data to identify the sector in which each of the companies at the airport is registered.
 - Multiply average sector earnings (at 2-digit Standard Industrial Classification (SIC) level for the United Kingdom) by the number of company employees. This provides an estimate of total wage payments at the airport.
 - Generate ratios of the number of employees per company and wage expenditure per company at the Southampton Airport campus, compared to enterprise-wide employment and wage payments as registered with Companies House.
 - Use the ratios above, plus any other supporting information to apportion total earnings before interest, tax, depreciation and amortisation (EBITDA) reported at an enterprise level within Companies House data. This will provide an estimate of gross profits generated at the Southampton Airport campus.

Indirect Impact

The indirect impacts of Southampton Airport are quantified in terms of the additional contribution to UK economic output (GDP) generated through the supply chain from expenditure at the Southampton Airport site.

- 3.6 The indirect impact of Southampton Airport comprises the jobs and Gross Value Added supported by the supply chain of the airport and its on-site businesses. This is analysed using the level of expenditure on non-employment goods and services of the airport and its tenants. Expenditure by the airport company and its tenants on suppliers based at the airport campus are excluded to avoid double counting with the direct impacts.
- 3.7 Indirect impacts for the airport operator were estimated according to the following process:

⁷ Gross profits are expressed as earnings before income, tax, depreciation and amortisation (EBITDA).

⁸ For a small number of organisations based at the airport campus where no pass records were identified it has been necessary to estimate the number of employees at the airport.

- Total non-wage expenditure for Southampton International Airport Ltd was taken from the 2015 financial accounts registered with Companies House;
 - The distribution of expenditure by industrial sector (SIC 1-digit) and geography (by registered postcode) was then inferred from an internal invoice schedule detailing expenditure by the airport in 2015, and applied to the total non-wage expenditure described above; and
 - Expenditure on suppliers based at the airport campus was removed.
- 3.8 For other organisations located at the airport campus total non-wage expenditure at the airport was estimated by applying the ratio of total company-wide expenditure to company-wide employment expenditure to airport-level employment expenditure (estimated as part of the direct impacts calculation). This expenditure was allocated to different SIC 1-digit industrial sectors using the sector-wide distribution of intermediate expenditure reported in the UK National Accounts.

Induced Impact

The induced impacts of Southampton Airport are quantified in terms of the wider economic activity that takes place when employees of Southampton Airport and its supply chain spend their earnings.

- 3.9 Induced impacts represent the final channel of economic impact, through which the wages of those employed directly by the airport and its supply chain support jobs in other sectors of the economy. For example, an airline employee may spend their income on clothing, groceries, restaurants, household goods etc. which in turn generate employment in a range of sectors of the wider economy.
- 3.10 It was not within the scope of this study to generate bespoke estimates of induced impacts for Southampton Airport. Under these circumstances, a common-practice approach to assessing the induced effects of an activity or industry on the economy – known as *economic multipliers* – has been deployed. The use of multipliers is commonplace in economic impact studies.
- 3.11 There is a considerable volume of contemporary empirical evidence to assess the scale of induced impacts from aviation and airport activities on the economy. A comprehensive study undertaken by the Omega Partnership into the impact of aviation on the economy in 2009 found that the magnitude of induced impact multipliers used by various studies to assess induced impacts of aviation activities lay within a narrow range from 0.25 to 0.3 (see Table 3.1)⁹. In practice, this means that for every 100 direct and indirect jobs supported by the airport, a further 25 to 30 induced jobs are supported in the wider economy.

⁹ Omega Partnership, Study 40 – Economic Benefits in Aviation (technical report), January 2009

Table 3.1: Employment Multipliers by UK Aviation Economic Impact Assessment Study

Study	Indirect Multiplier	Induced Multiplier
SERAS	0.3	0.3
OEF (1999)	1.11	0.25
ACI (2004)	2.1	
AOA (2005)	2.1	
ATAG (2005)	1.16	0.25
OEF (2006)	0.9	0.25
ATAG (2008)	1.16	0.25

Source: Omega Partnership – Economic Benefits in Aviation (technical report), January 2009. Note that the ACI and AOA studies assessed a combined indirect and induced multiplier,

- 3.12 As Omega (2009) highlights, there is significant variation in the multipliers reported, “to some extent reflecting differences in the scope of the activities analysed and the geographical area for which impacts are captured”. The study highlights the important variations in definitions and assumptions used in comparable studies which can significantly affect the magnitude of the results. In terms of value-added, industry impacts on GVA are typically reported and tend to closely mirror employment impacts.
- 3.13 Our methodological approach takes into account a literature review of comparator studies, including that undertaken by Omega (2009), and similar studies conducted to assess the economic impact of UK and Republic of Ireland airports, including Gatwick Airport, Heathrow Airport, Dublin Airport and Cork Airport. Given the scale of Southampton Airport’s activities and its position within the South East economy, we have elected to apply an induced economic multiplier of 0.25 in this study.

Catalytic Impact

Catalytic impacts capture the wider economic potential resulting from the contribution of airport transport to trade and tourism (the demand-side impact) and the long-run contribution of growth in air transport to productivity and GDP (the supply-side impact).

- 3.14 Estimating the ‘catalytic’ or wider economic benefits linked to the domestic and international connectivity provided by airports is not straightforward. The benefits of connectivity emerge through its role in boosting competition, facilitating international trade, supporting tourism and attracting inward investment. However, quantifying them is difficult due to the range of transmission mechanisms which translate improvements in connectivity to measurable changes in economic performance. Moreover, many such effects materialise only over the long-term and are hard to disentangle from wider economic trends.
- 3.15 As a consequence, we have instead provided a qualitative narrative regarding the nature of catalytic impacts that Southampton Airport provides, and its role in supporting the growth of the local and regional economy. We have also used the World Bank’s Air Connectivity Index (ACI) to estimate the scale of improvement in connectivity between the business-as-usual (or ‘baseline’) and Masterplan (or ‘vision’) future scenarios¹⁰. The ACI captures the economic potential arising from air connectivity by measuring the amount of accessible world GDP, as a

¹⁰ *The Air Connectivity Index: Measuring Integration in the Global Air Transport Network* (World Bank, 2011) <http://documents.worldbank.org/curated/en/859151468161649899/pdf/WPS5722.pdf>

function of the availability and frequency of scheduled flights, from a given airport. The index takes into account the available number of seats to different destinations and the average travel time to those destinations.

3.16 For example, a higher number of departing seats to a particular destination would imply the destination country's GDP is more accessible which in turn facilitates a higher volume of potential trade, tourism and long-run productivity growth. On the other hand, a higher travel time to a particular destination implies the destination country's GDP is less accessible, as there is a higher cost associated with reaching the destination.

3.17 To estimate the ACI for Southampton Airport we have considered:

- The number of departing seats to each destination from Southampton Airport;
- The frequency of flights to each of these destinations¹¹;
- The travel time to each of these destinations; and
- The GDP of the countries in which these destinations are located.

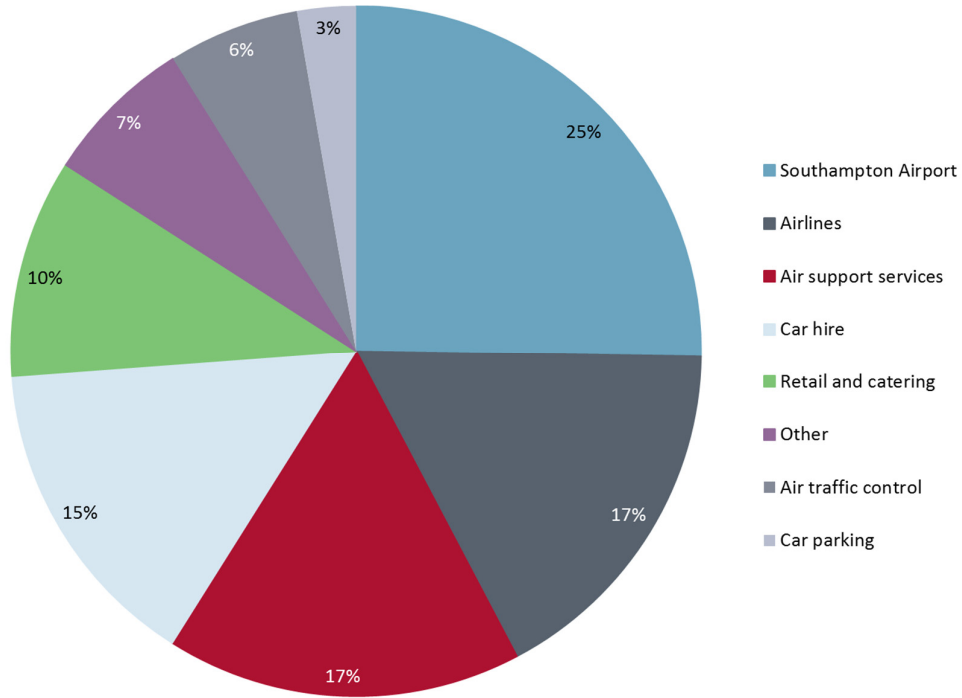
¹¹ The number of seats, frequency and travel time to each destination in 2015 is taken from OAG schedule's analyser. In the two 2037 scenarios, each of these metrics has been calculated using the forecast assumptions provided by RDC Aviation.

4 Current Economic Impact

Direct Impact

- 4.1 Southampton Airport’s own activities lie at the heart of its impact on the economy. Southampton International Airport Ltd reported turnover of £27m in 2015, earned from a range of sources including airport fees from airlines, commercial rents from catering and retail outlets, and logistics services. This turnover gave rise to more than £7m in gross profit. This figure, however, only represents a small proportion of the total contribution of Southampton Airport to the UK economy.
- 4.2 In addition to the earnings of the airport operator, the direct economic impact of Southampton Airport also includes the profits of all other businesses located at Southampton Airport and earned on-site, and the earnings of employees working on-site. We estimate that the total profits earned at the airport campus equate to more than £33m (2015 prices), with a total wage bill of £32m (2015 prices).

Figure 4.1: Direct impacts by employer category at the Southampton Airport campus



Source: Steer Davies Gleave analysis

4.3 Using the methodology described above, the direct annual economic impact of Southampton Airport is estimated to be in excess of £64m (2015 prices). This represents the total incomes received by providers of labour (staff) and capital (businesses) as a result of activity at Southampton Airport. Of this total, £16m is generated by the airport operator with the remaining £48 million coming from other businesses located on the airport site. A full breakdown by employer category is provided in Figure 4.1.

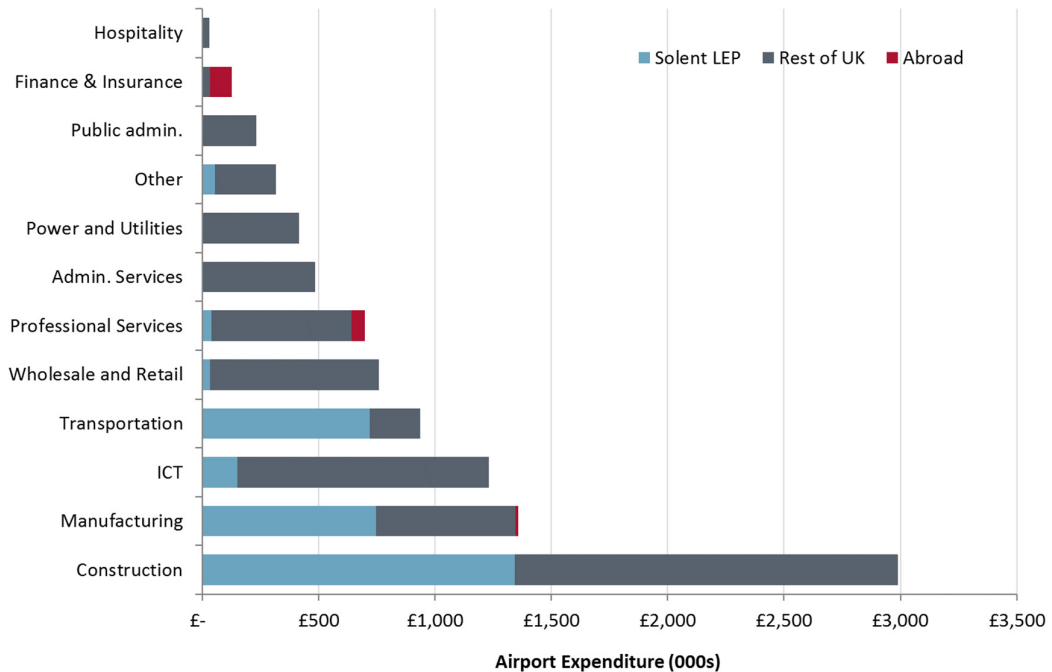
Indirect Impact

4.4 In order to produce goods and services at the airport, firms on the Southampton Airport campus purchase millions of pounds’ worth of inputs. The airport sits at the centre of a complex supply chain network stretching well beyond the airport site, the study area and rest of the country. In total, we estimate that almost £64m (2015 prices) was spent on intermediate inputs by businesses operating at Southampton Airport (the indirect economic impact) of which £10m is attributable to the activity of Southampton Airport, and the remaining £54m due to activity undertaken by airport tenants and business partners. This supports more than 1,300 jobs in the supply chain.

4.5 The geographical and sectoral breakdown of expenditure by the airport operator is illustrated in Figure 4.2. This is based upon detailed expenditure data supplied to us by Southampton Airport detailing the sums it spent with over 200 supplier businesses. Using information from the Companies House database this is then linked to the registered location and industrial classification of these supplier businesses. We have excluded any expenditure by the airport on suppliers based at the airport to avoid double counting with direct impacts.

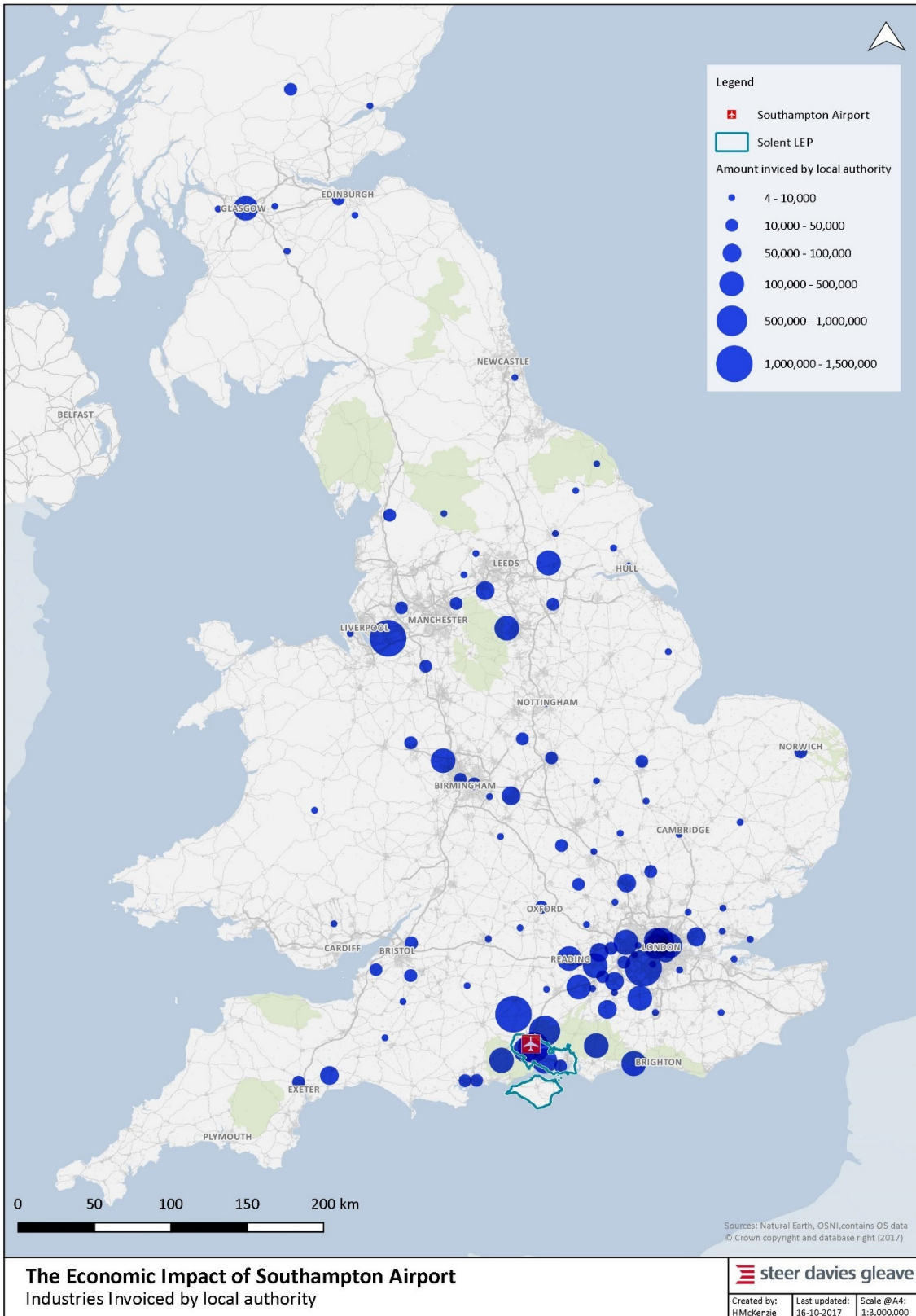
4.6 Of the total, 98% of all airport expenditure was in the UK and 32% (or £3m) was within the study area. The majority of the airport’s expenditure was on what is classified as construction and manufacturing activities, which together accounted for over 50% of total spending.

Figure 4.2: Southampton International Airport non-wage expenditure (2015 prices)



Source: Southampton Airport, Companies House, Steer Davies Gleave analysis

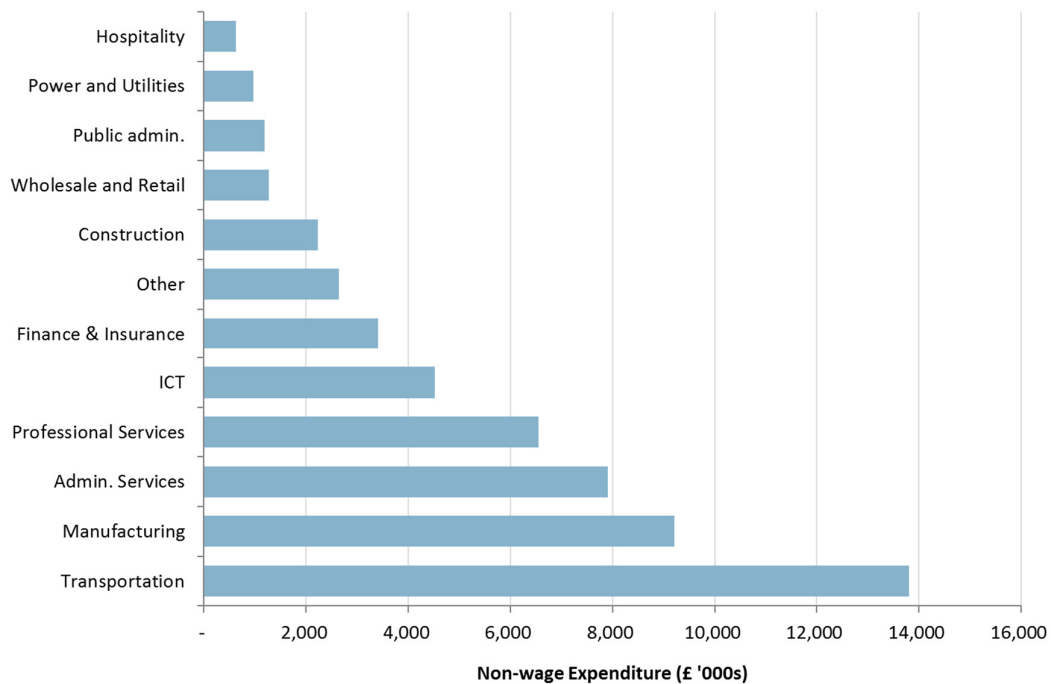
Figure 4.3: Non-wage expenditure by Southampton International Airport by location



P:/Projects/231/6/01/01/GIS/MAPPING/ARCGIS/Map_Documents/11_Invoiced Industries.qgs

- 4.7 Figure 4.3 above presents the same information at a more disaggregate level on a map of Great Britain. This highlights the geographical spread of airport expenditure, based on the registered address of companies which received payment from the airport in 2016. It shows large concentrations of expenditure close to Southampton Airport, within the study area (Solent LEP), and between Southampton and central London.
- 4.8 Figure 4.4 shows the estimated distribution of non-wage expenditure by sector for all other businesses located at the airport. This is dominated by the expenditure of Flybe and demonstrates a different distribution to that of the airport operator. For example, more than thirty percent (£3m) of expenditure by the airport operator is in construction. By contrast, and as expected, other businesses expenditure is dominated by spending within the transportation sector including aircraft leasing, servicing and maintenance.

Figure 4.4: Non-wage expenditure by other businesses at Southampton Airport (2015)



Source: Steer Davies Gleave analysis

- 4.9 With reference to Table 3.1, the relationship between direct and indirect impacts at Southampton Airport (approximately one-to-one) is within the range reported in other, previous studies.
- Induced Impact**
- 4.10 The direct and indirect activity linked to Southampton Airport support more around £128m (2015 prices) of economic activity, and support thousands of jobs. The final channel of economic impact represents the spending of wages by those employed by the airport operator, in other businesses located on the airport campus, and in their wider supply chains.
 - 4.11 The induced impact of Southampton Airport has been estimated as a simple multiplier applied to the sum of direct and indirect impacts. Induced impacts, therefore, are estimated to contribute a further £32m (2015 prices) to the current economic footprint of Southampton Airport, supporting more than 650 jobs. Since a majority of employees at the airport campus

are resident within the study area (73%), a significant proportion of induced impacts will be experienced within the immediate vicinity of Southampton Airport.

Catalytic Impact

- 4.12 Catalytic Impacts capture the way in which an intervention stimulates the business of other sectors of the economy. Air transportation facilitates development of the wider economy through a number of mechanisms.
- **Trade** – air transport provides connectivity to export markets for goods and services.
 - **Productivity** – air transport offers access to new markets enabling businesses to achieve greater economies of scale. Air access also enables companies to attract and retain high quality employees.
 - **Investment** – proximity of an international airport is a key consideration when companies choose their site location.
 - **Tourism** – availability of air travel can draw larger numbers of tourists to an area. The tourism spend supports a wide range of business sectors including hotels, restaurants, entertainment and recreation and car rentals.

Trade and productivity

- 4.13 Air transport connects businesses to a wide range of global markets, providing a significantly larger customer base for their products than would be accessible otherwise. It is particularly important for high-tech and knowledge-based sectors, and suppliers of time-sensitive goods.
- 4.14 Several industries rely on air transport to operate their ‘just-in-time’ production operations, providing greater flexibility within the supply chain and reducing costs by minimising the need to hold stocks of supplies.
- 4.15 Southampton and the wider Solent area surrounding Southampton Airport is home to businesses which are reliant upon strong air infrastructure. Effective international connectivity enables these companies to operate efficiently and productively to retain their international client and supplier base.
- 4.16 One way of demonstrating the linkage between economic activity and air connectivity is through understanding expenditure on air transport as a proportion of total costs for firms in different industrial sectors. Using information obtained from the UK National Accounts, Table 4.1 identifies those industrial sectors that make most intensive use of air transport either for passengers or freight. Companies engaged in these sectors are more likely to be influenced by proximity to an airport and the availability of air services, since changes to the level of connectivity will have a more significant impact upon their bottom line.

Table 4.1: Air intensive economic sectors in the UK (2014)

UK Rank	Economic Sector	Air transport share of total intermediate consumption	Number of jobs in Solent LEP area	Proportion of jobs in Solent LEP area
1	Postal and courier activities	7.19%	4,335	0.85%
2	Air transport	6.46%	280	0.05%
3	Warehousing and transport support	2.44%	12,840	2.51%
4	Financial service activities	2.40%	5,770	1.13%
5	Manufacture of transport equipment	1.99%	140	0.03%
6	Travel agency and tour operators	1.84%	730	0.14%
7	Accounting, bookkeeping and audit	1.81%	4,120	0.81%
8	Security and investigation activities	1.63%	2,345	0.46%
9	Mining support service activities	1.22%	20	0.00%
10	Insurance and reinsurance activities	1.21%	3,020	0.59%

Source: Steer Davies Gleave Analysis of UK National Accounts, Office for National Statistics

Investment

- 4.17 International companies looking to locate in the UK will be drawn to areas with good access to air travel. Ernst and Young's UK Attractiveness Survey 2017¹² assesses how well the UK's regions are attracting Foreign Direct Investment (FDI). The report remarks upon the fact that the more geographically peripheral regions, such as Wales, North East and South West are seeing FDI growing far more slowly than regions based around the key UK cities of London, Birmingham, Manchester and Leeds.
- 4.18 Southampton Airport is located on the border between the South West and South East regions and serves towns and cities in both. In 2016, the South West Region was home to 2.4% of all UK Foreign Direct Investment (FDI) projects. This is a significant reduction from its peak share of 5.5% in 2010. Good access to air travel will play a vital role in supporting the South West region to attract increased levels of FDI to regain the higher levels of investment that were seen in previous years. Southampton Airport is in the best position to lead this.

Tourism

- 4.19 Southampton Airport's national and international air connectivity helps to attract tourists from the UK and the rest of the world. Southampton Airport is located near the English Riviera and is the closest airport to key tourist destinations such as the Isle of Wight as well as a convenient location from which to explore the South Downs and New Forest National Parks.
- 4.20 In 2016, of the 38 million trips to the UK by international visitors, the South West received 6.6% and the South East received 13.8%. Both regions experienced growth in international visitors between 2015 and 2016. Growth in the South West was 5.2% and in South East, growth was 1.4%¹³. On average, in 2016, each international visitor to the South West spent £536 and to the South East spent £424. This spend supports businesses in sectors including catering, hospitality, retail and recreation. The international connections provided by

¹² UK Attractiveness Survey 2017, Ernst and Young, 2017

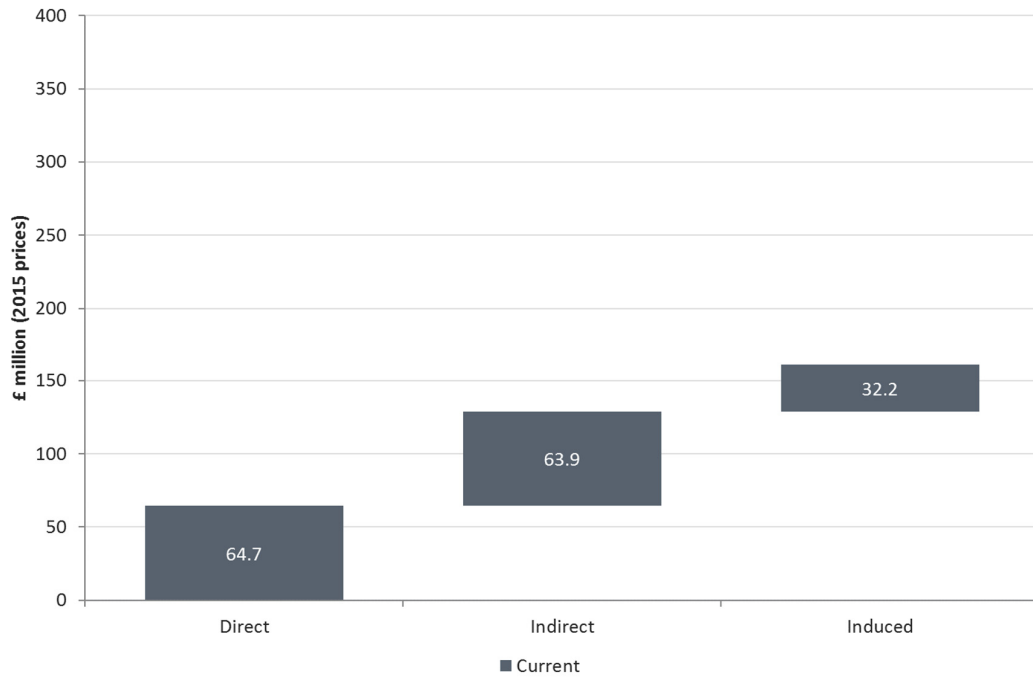
¹³ Inbound Region Data, Visit Britain, 2017

Southampton airport will help to support the upward trend in tourism in the area and growing the business sectors, which cater to visitors to the region.

Summary

4.21 Figure 4.5 summarises the contribution of direct, indirect and induced economic impacts to the total economic footprint of Southampton Airport, estimated to be £161m (2015 prices). This supports almost 3,000 jobs, including more than 900 jobs at the airport (direct), 1,300 jobs at in the supply chain and 650 jobs in the general economy.

Figure 4.5: Direct, indirect and induced impacts of Southampton Airport, 2015



Source: Steer Davies Gleave analysis

5 Future Projections

Introduction

- 5.1 This section of the study examines how Southampton Airport could affect the national economy over the next twenty years (to 2037). The most important determinant of this future impact is the level of activity taking place at the airport, in terms of the quantity of passenger journeys.
- 5.2 An important rationale for the study was to understand the potential for Southampton Airport to play a greater role in supporting the local, regional and national economy through implementation of its Masterplan. In this scenario, Southampton International Airport Ltd is putting forward a vision for future growth and improving passenger experience. This includes better facilities, improvements to surface access and an extended runway; allowing departing planes to carry more fuel and reach more distant destinations. Implementing the Masterplan will make the Airport better placed to increase the number of destinations served and attract new carriers.
- 5.3 In the Masterplan scenario, passenger traffic at Southampton Airport will grow from approximately two million in 2016 to more than five million passengers in 2037. Such an increase in activity would support higher demand among the range of businesses on the campus and beyond (and would involve new businesses investing in the Southampton Airport campus) delivering output and employment growth over the next twenty years. The Masterplan scenario is compared to a business-as-usual scenario in which passenger numbers grow at a trend rate (to 3.3 million) and maintaining the current mix of seats and destinations served.

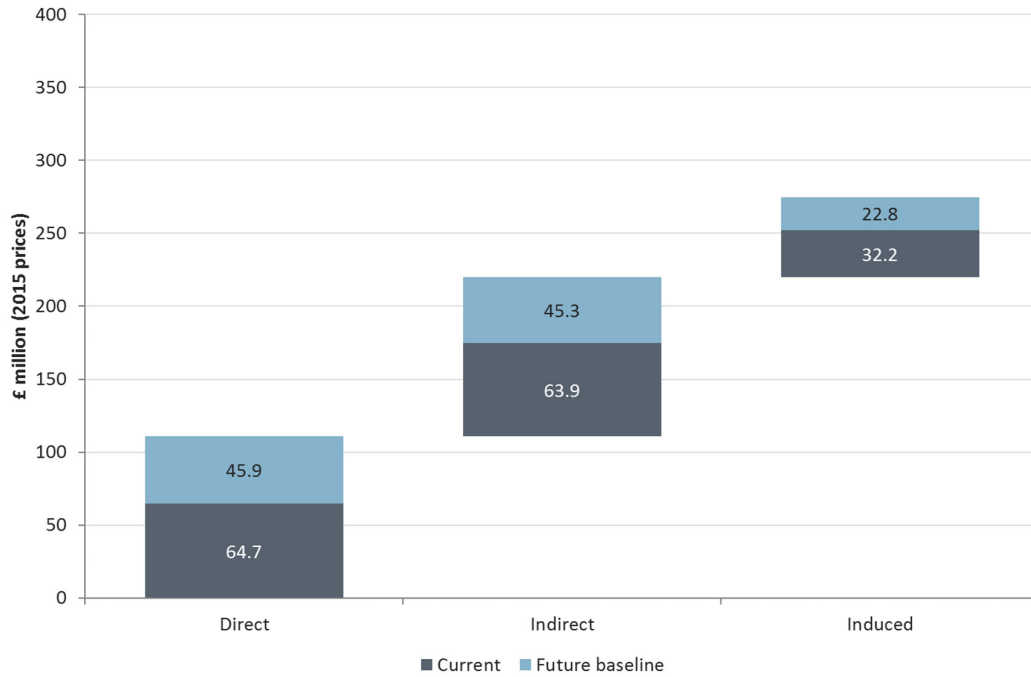
Future Scenarios

Future baseline

- 5.4 Economic activity is assumed to grow proportionately with terminal passenger throughput. For direct impacts, this assumes that there is no increase or decrease in the level of efficiency at the airport through time. For indirect and induced impacts, this implies there is no significant structural change within the UK economy over the upcoming decade i.e. purchasing and supply relationships are fixed.
- 5.5 Figure 5.1 presents the direct, indirect and induced impacts of Southampton airport in the future business-as-usual (or 'baseline') scenario. Since economic activity is assumed to grow proportionately with passenger throughput, core impacts (direct, indirect and induced) are projected to be £275m by 2037 (2015 prices), and supporting 3,250 jobs (1,000 of which are at the airport, 1,500 within the supply chain and 750 in the wider economy). This represents a 71% increase upon the level of economic output currently supported at the airport.

5.6 We estimate that by 2037, firms on the Southampton Airport campus could directly generate £110m in value-added contributions to GDP, through the earnings of businesses and employees at the airport. This higher level of output would increase Southampton Airport’s requirements from its supply chains; supporting jobs and consumption in the general economy. These broader linkages are projected to generate a further £109m of expenditure within the supply chain (indirect impact) and £55m in the wider economy (induced Impacts).

Figure 5.1: Direct, indirect and induced impacts of Southampton Airport, 2037 Baseline



Source: Steer Davies Gleave calculations

Future Vision

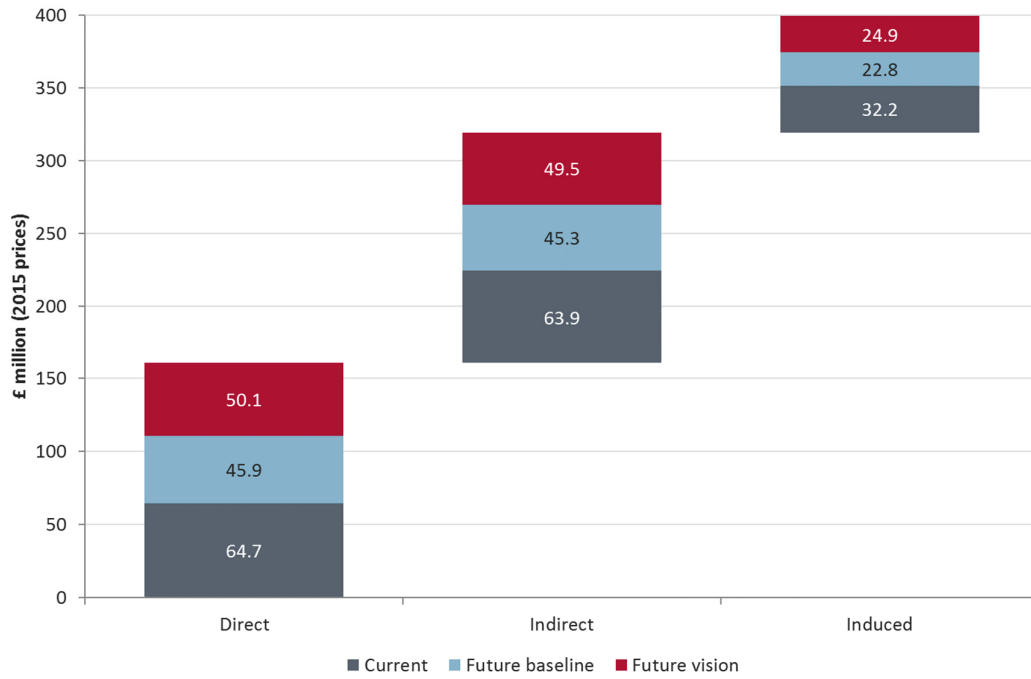
5.7 Figure 5.2 presents the same projections, but includes incremental economic impacts over-and-above the baseline or ‘business-as-usual’ scenario to capture the effect of implementing the Southampton Airport Masterplan. In this scenario, the direct contribution of businesses located at Southampton Airport is £161m (2015 prices). This higher level of output further increases Southampton Airport’s requirements from its supply chains, including £159m through the supply chain and £80m in the wider economy. In total, the economic contribution of the airport in 2037 is £400m. This, in turn, supports almost 4,750 jobs (1,500 at the airport, 2,150 within the supply chain, and 1,100 in the wider economy).

5.8 Figure 5.3 illustrates the future trajectory of Southampton Airport’s future economic impact. The expansion of air services following the Masterplan is assumed to commence in 2019, at which point the baseline and vision scenarios diverge. A full Masterplan timetable is assumed to be in operation from 2022.

5.9 Without the Masterplan, Southampton Airport’s contribution to the economy is assumed to grow in-line with trend passenger demand which is limited by the capacity and range of services on offer at the terminal and restricted range of destinations on offer. Delivering the Masterplan gives Southampton Airport the capacity it needs to meet its growth potential and,

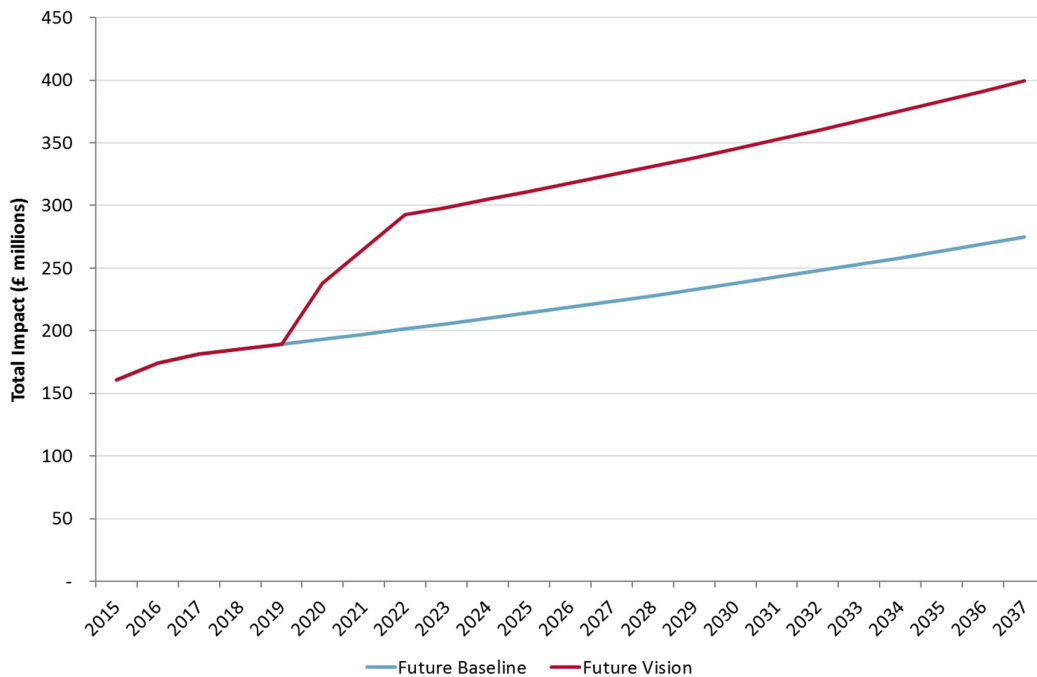
over the next twenty years, support additional cumulative output of £1.8bn (2015 prices) to the local, regional and national economy.

Figure 5.2: Direct, indirect and induced impacts of Southampton Airport, 2037 Vision



Source: Steer Davies Gleave analysis

Figure 5.3: The future economic impact of Southampton Airport (direct, indirect and induced)

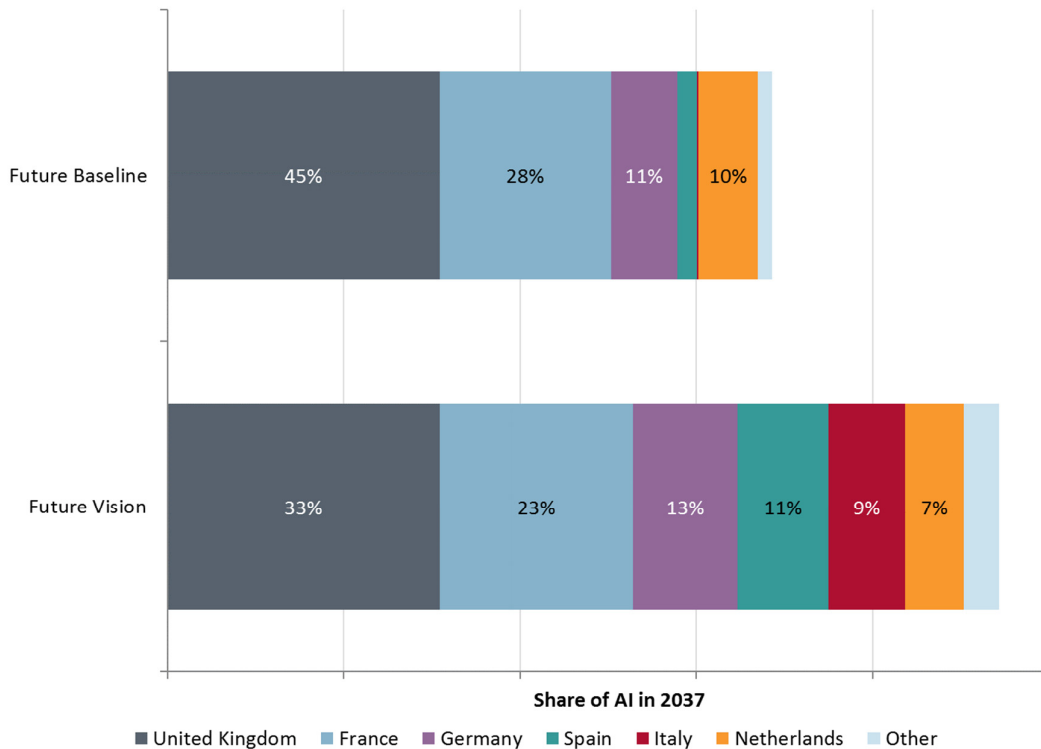


Source: Steer Davies Gleave analysis

Catalytic Impact

- 5.10 The catalytic impact of Southampton Airport is presented separately to the core impacts because, whereas direct, indirect and induced impacts are measures of the airport’s impact, catalytic impacts measure the wider economic potential of the airport to support the local, regional and national economy.
- 5.11 As discussed in Chapter 3, we have not undertaken a quantitative assessment of catalytic impacts. Instead we have calculated an Air Connectivity Index (ACI) which represents the economic opportunities available from Southampton Airport. This measures the access available from Southampton Airport to the global air transport network. It is a qualitative measure of air transport services, from the point of view of its businesses. The higher the level of connectivity the greater the level of access to the global economy.
- 5.12 Between 2015 and 2037, the ACI is projected to increase by 27%. This increase is a function of the number of countries accessible from Southampton Airport which, in the baseline scenario is limited by the flying range of aircraft flying to/from Southampton. The incremental impact of additional seats on existing routes is significantly smaller than providing that same number of additional seats to another country not currently served. In the Vision scenario, by contrast, the ACI increases by 75% which is largely driven by providing access to new destinations. Each destination country’s share of the Connectivity Index in each of the two future scenarios is shown in Figure 5.4.

Figure 5.4: Share of Air Connectivity Index in two 2037 scenarios



Source: Steer Davies Gleave analysis

- 5.13 In the future baseline scenario, a small number of countries account for a large proportion of the Air Connectivity Index (in particular the UK and France). This represents a broad continuation of current service patterns. In the future vision scenario, however, more destinations are accessible from Southampton Airport. As a consequence of the increases in number of destinations served, the Air Connectivity Index is spread between a larger number of countries. Although a small number of countries still dominate the Air Connectivity Index in the future vision scenario, the proportion is lower and some countries such as Italy and Spain significantly increase their reach (and hence the likelihood of facilitating the flow of trade, tourism, investment and knowledge to and from these countries).

Conclusion

- 5.14 Southampton Airport currently contributes more than £160m (2015 prices) to the UK economy, and supports almost 3,000 jobs through activity at the airport, its supply chain, and in the wider consumer market. A significant proportion of these benefits are enjoyed by households and business located within the Solent Local Enterprise Area.
- 5.15 By 2037, Southampton Airport could increase its contribution to £275m (2015 prices) through a programme of incremental improvements to the airport which will accommodate additional passengers, but which will largely serve the same or similar destinations over a restricted radius. In doing so, the airport will support a further 300 jobs in the UK economy.
- 5.16 Alternatively, the Southampton Airport Masterplan provides the opportunity for Southampton Airport to significantly boost its contribution to the local, regional and regional economy. The expansion of existing carriers and/or securing an additional major airline would support flights to more destinations and therefore accrue larger economic benefits for the region. At the local level, expansion of the resident aircraft fleet would deliver an economic boost through providing more locally-based direct jobs through the servicing of the resident aircraft fleet, and the processing of passengers using the extended flight network.
- 5.17 Delivering the Masterplan could increase the annual economic contribution of the airport to £400m (2015 prices), and support a further 1,750 jobs. On a cumulative basis, therefore, it can be expected to deliver over £1.8 billion to the economy in the twenty years to 2037.



A List of consultees

Table A.1: List of consultees

Contact	Organisation	Position
David Fletcher	Hampshire County Council	Economic Development Director
Andrew Bateman	Hampshire County Council	Tourism Manager
Keith House	Eastleigh Borough Council	Leader
Nick Tustian	Eastleigh Borough Council	Chief Executive
Royston Smith	Southampton, Itchen	MP
Anne-Marie Mountifield	Solent Local Enterprise Partnership	Chief Executive
Maureen Frost	Hampshire Chamber of Commerce	Chief Executive
Godfrey Olson	Airport Consultative Committee	Chair
David Airey	Airport Consultative Committee	Deputy Chair
Caroline Nokes	Romsey and Southampton North	MP
Graham Baldwin	Solent University	Vice Chancellor
Peter Birkett	Southampton University Science Park	Chief Executive
Hazel Warwick	Business South	Account Director

CONTROL INFORMATION

Prepared by	Prepared for
Steer Davies Gleave 28-32 Upper Ground London SE1 9PD +44 20 7910 5000 www.steerdaviesgleave.com	Southampton International Airport Ltd Wide Lane Southampton SO18 2NL
SDG project/proposal number	Client contract/project number
23160101	Click here to enter text.
Author/originator	Reviewer/approver
Jake Cartmell	Neil Chadwick
Other contributors	
Daniel Burke, Scott Dickinson, Catriona Lacy, Ed Robinson, Mark Scott, Andy Sweeting	
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