

Inner Thames Estuary Feasibility Studies

The Mayor of London's view

14th February 2014

1. Purpose of paper

- 1.1. In January, the Airports Commission published its scoping document for taking forward additional feasibility and impacts work for an Inner Thames Estuary option, in the period up until September 2014. The Commission will then decide whether or not to add the option to their shortlist.
- 1.2. The Airports Commission have also published a draft Appraisal Framework for Consultation. The consultation closes at the end of the month. That document sets out how the Commission plans to assess the shortlisted options and make its final recommendations.
- 1.3. This paper comprises the Mayor's response to the Inner Thames Estuary scoping document only. Its focus is upon the key issues associated with doing the work identified, and in the manner proposed. While important appraisal-related issues are referenced here (such as defining an appropriate base case, identifying a comprehensive framework of impacts, and ensuring that each option which remains on the table is assessed on a like-for-like basis), the Mayor will provide a separate response to the Commission's draft Appraisal Framework consultation.

2. Summary of the Mayor's response

- 2.1. The Mayor believes that a new airport in the Inner Thames Estuary is feasible, and that it is the only option left on the table which addresses the aviation connectivity needs of the capital in the context of the overall challenges the city faces. He is confident that there is a compelling case for it to be a *bona fide* shortlisted option, and included as part of the Commission's public consultation, which is planned for later in the year.
- 2.2. It is important that the Commission gain a proper understanding of the reasons why the Mayor not only believes that an Inner Thames Estuary is credible and deliverable, but that it is the best option remaining. The Commission must do this, and then quickly incorporate it into their formal assessment process on the same basis and to a comparable timetable to those options which have already been shortlisted.

- 2.3. The Mayor and TfL would like to support the work of the Commission to ensure that it can draw on all the evidence and understanding it needs to define and make a fair assessment of an Inner Thames Estuary option. In conducting further work, there are a wide range of issues that the Mayor expects the Commission to address. These are described below.

3. Key issues the Commission must address

- 3.1. Adopting a plan for a new hub airport in the Inner Thames Estuary would clearly represent a substantial and positive opportunity for a wide range of Government policy areas. It will also involve a number of difficult decisions. It is therefore imperative that the Commission ensure that their assessment of this solution is the subject of an appropriate and accurate assessment, and a fair comparison against those options already on the Commission's shortlist. To do this, the Mayor and TfL believe:

The Commission must make full use of existing work and be realistic in its expectations

- 3.2. A great deal of work has been undertaken by TfL and others on an Inner Thames Estuary option, much of which is directly related to the feasibility studies' terms of reference. It is recommended that the Commission make full use of this.
- 3.3. The work undertaken for the Mayor has been published in its entirety at: www.newairportforlondon.com
- 3.4. The Commission has but a matter of months to complete this work. It will not be possible to bottom out every issue; it is best to focus on what can be achieved with the time and resource available and where a definitive conclusion can be drawn. For example, understanding the impact on coastal processes will be an important aspect of an Inner Estuary option. But the detailed modelling required to definitively determine this would be challenging to complete before September. As such, it would be unrealistic to use this as a significant element of the case for or against inclusion on the shortlist. Similarly, the Commission needs to be realistic from the outset as to what level of detail can be expected in terms of identifying compensatory habitats.

The Commission must quickly focus on those Inner Thames Estuary options to be further assessed

- 3.5. In the Interim Report, the Commission assessed a hybrid of several Inner Estuary options, though the exact detail of the hybrid has not yet been made clear. It would be helpful if the Commission could set out the exact nature of the hybrid option, and the thinking behind it, at the earliest opportunity.

- 3.6. For this next phase, the Commission has indicated that alternative options will be considered – though the extent of the variations is not clear – whether small tweaks to a Grain location, or more fundamental changes. Are potential locations at Cliffe or Sheppey still in scope for instance? Given the constraints on time, budget and resource, it is imperative that the Commission clarify this and quickly narrow their focus.

The Commission must address a number of weaknesses and gaps in the proposed scope of work

- 3.7. **It is a long term plan:** A new hub airport in an Inner Thames Estuary location would be one of the largest infrastructure projects in the UK and would have significant net positive economic effects at local, regional and national levels. With public and private sector costs each in the tens of billions, any new runway or new airport has to do much more than merely provide some additional runway capacity. It must form part of an integrated and multi-objective infrastructure and spatial economic development plan that supports London and the UK's growth to 2050 and beyond. Supporting London's long term growth potential will secure the UK's economic future. The financial costs and impacts of a new airport at this location have to be firmly set in this context. An Inner Thames Estuary airport could be one of the UK's most important transport nodes for the next 100 years and more.
- 3.8. **Cost:** The Commission have identified cost to be a key challenge to an Inner Thames Estuary option. As such, it would not be tenable to determine the merits of shortlisting the option without a more robust and accepted understanding of cost, and the Commission's approach to date. This includes issues such as:
- The treatment of risk and optimism bias. The Commission's current approach, 'layering' optimism bias over risk appears excessively cautious. Also, in many ways, constructing a new airport on a Greenfield site is in many ways less risky than extending an operating airport.
 - The period over which any construction debts should be repaid. The Commission's current approach is to assume that the debt (funding airport and surface access) has to be repaid in full by 2050. Given the lifetime of the infrastructure, this is inappropriate.
 - The level of surface access infrastructure investment which is directly attributable to airport-related demand (see 3.17 and 3.18, below).
- 3.9. **Socio-economic impacts:** The Commission must do their work against a comprehensive framework of impacts. The economic assessment alone has to consider the direct, indirect, induced and catalytic impacts across a range of geographies including the local, regional, pan-regional and national. A range of positive impacts such as improvements in land values, increased demand for housing and other property development and reductions in unemployment have to be

assessed as part of the wider regenerative effects. This will also include accounting for the benefits of new investment in the Thames Gateway. Any impacts on unemployment levels would feed through to reductions in costs to Her Majesty's Treasury (HMT) expenditure on benefits, crime and health in line with Department of Communities and Local Government (CLG) research¹. Furthermore, by focusing development in an area that has substantial capacity for growth, especially housing, there is a need to cost the financial and political benefits of not building on Green Belt in other locations in London and the South East. Increasing the supply of housing is a key issue for London and the UK. London alone has an identified need to provide an additional 49,000 homes each year for the next 20 years.

- 3.10. The approach adopted in HMT's Green Book and WebTAG focuses on comparing the relative costs and the benefits of an option or options typically through Cost Benefit Analysis (CBA) or use of Net Present Values (NPV) of project cash flows. Impacts on key macro-economic indicators such as employment, Gross Domestic Product (GDP), and investment and taxation will need to be estimated from a macro-economic model, such as a Computable General Equilibrium (CGE) model or via a more straightforward approach such as Input-Output modelling. A narrow CBA approach will fail to fully capture these benefits. We would also expect significant induced and catalytic effects across the whole of the UK to be assessed (e.g. supply chain effects, improved regional air connectivity to London and onwards, development of a new airport corridor of business activity).
- 3.11. The effects of a new airport, of course, go beyond the direct increase in economic activity. There will also be a range of other positive impacts which will increase utility for residents and businesses in the UK including:
 - Social impacts which widen consumer possibilities
 - Business location impacts
 - The UK's brand and image as an international destination
 - Far fewer homes and premises exposed to potentially harmful levels of noise and air quality
- 3.12. **Airport system impacts:** The socio-economic impact study in particular presupposes closure of London City Airport. The requirement for this is not proven. The advice of National Air Traffic Services (NATS) to TfL is otherwise and the Commission's Interim Report footnote recognises the potential for designing out such interactions. Indeed, Heathrow is (marginally) closer to London City than the Isle of Grain. This issue needs to be bottomed out, otherwise the closure of London City cannot be assumed.
- 3.13. Regarding competition, the value of a partial analysis of competition impacts is limited. To be useful, any analysis would also need to consider the international competitive dynamic, i.e. the London hub vs other hubs in Europe and around the world, as well as the impact on airline competition. This would have to take into

¹ CLG – Valuing the Benefits of Regeneration (2010)

account the strength of demand and the scope for airlines to expand their capacity. To be truly meaningful, one also would need to undertake a comparable exercise for the shortlisted options.

- 3.14. **Attitudes to moving to a new airport:** The Commission is right in seeking to understand the likely attitude of airlines, airports and business at large; but talking to existing industry players will not be especially illuminating. At best, they will not have considered the issues in any detail or have much awareness of the detail of what is proposed. At worst, their response will be driven by narrow, short-term interests. The Commission should draw on international examples here. Others have delivered brand new hub airports and supporting businesses have adapted, with successful results.

The Commission must assess the Inner Thames Estuary and shortlisted options on a like-for-like basis

- 3.15. A level playing field between options is essential. Without one, there is no sound basis on which to assess an Inner Thames Estuary option. A lack of comparability in the assessment of the options risks undermining the whole process, invalidating the conclusions and potentially opening any final decision to legal challenge.
- 3.16. A new Inner Thames Estuary airport could fully meet our long term demand needs. It could be delivered and phased with future expansion in mind, and would have much greater potential than one new runway at Heathrow or Gatwick.
- 3.17. The Mayor and the promoters of the shortlisted options have taken very different approaches to determining surface access infrastructure requirements. These disparities have not been resolved by the Interim Report. If a 'do minimum' approach is being applied for Heathrow and Gatwick, with minimal regard for available capacity, background demand growth or the quality of journey experience, then an Inner Thames Estuary option should be assessed on the same basis.
- 3.18. The Commission must also acknowledge that there is a cost associated with new airport-related demand using existing and planned infrastructure. The Piccadilly line upgrade for example, has not been designed to accommodate the extra demand an expanded Heathrow would generate. A new runway at Heathrow could seriously erode the capacity and crowding benefits that this investment has set out to achieve. In a similar vein, if future airport passenger and staff demand used the rail and road networks in a different manner to today, benefits may arise from the 'release' of spare capacity.
- 3.19. A consistent approach must be taken to the Commission's stated need to analyse and cost compensatory habitats. All options that potentially impact on Natura 2000 sites should be similarly appraised.

The Commission must identify the appropriate base case and ‘do nothing’ scenarios

- 3.20. In assessing the impacts of an Inner Thames Estuary airport, it is important that the Commission identify the appropriate base case and do not overlook the true nature of ‘doing nothing’.
- 3.21. In many regards, the ‘do nothing’ scenario is not the status quo but a deterioration. For example, the future integrity of the Natura 2000 sites is at risk in light of rising sea levels. The Environment Agency has to date not been able to commit the funds to fully address this challenge, and a new airport project could help make available the funding to secure habitat provision, in line with the Thames Estuary 2100 plan.
- 3.22. Similarly, the natural life replacement of the Grain Liquefied Natural Gas (LNG) facilities and the risk posed by the deterioration of the SS Richard Montgomery are both challenges that will need to be addressed irrespective of a new airport.

The Commission must develop and assess an Inner Thames Estuary option to the same timescales as the shortlisted options

- 3.23. The currently proposed timescales for developing an Inner Thames Estuary option are different to those proposed for the development of the shortlisted options. If the Inner Thames Estuary option is added to the shortlist, it needs to be consulted upon alongside the currently shortlisted options. If it is not, this will reduce the effectiveness of the consultation phase – with implications for the credibility of the Airports Commission process. The Commission must act to set out a detailed road map for the potential inclusion of an Inner Thames Estuary option on the shortlist. This must neither jeopardise the process nor the prospects for any option.

The Commission must move rapidly to set out the framework for working with interested parties

- 3.24. A new airport in the Inner Thames Estuary must not only be judged alongside the shortlisted options, but also in light of the long-term transport, development and environmental challenges facing London. Given his wide-ranging statutory responsibilities and their relevance to airports policy, and the expertise within Transport for London (TfL) and the Greater London Authority (GLA); it is essential that the Mayor collaborates with the Commission on this next phase of work.
- 3.25. The Mayor would welcome further opportunities to engage with the Commission on each of the crucial issues set out in this document, as soon as possible. This will help ensure that the work being done by the Commission and the additional information and evidence that the Mayor and other parties are able to assemble can be optimally aligned.