

Economy, Business Growth & Skills Overview & Scrutiny Committee



Date: 8 June 2018

Subject: Manchester Airport: a strategic economic asset for GM

Report of: Charlie Cornish, Group Chief Executive of MAG (Manchester Airports Group)

PURPOSE OF REPORT

This report sets out how Manchester Airport and its wider Group supports Greater Manchester's growth ambitions. The report outlines how Manchester Airport is a strategic asset for Greater Manchester (GM) and the Northern Powerhouse, and the wider economic benefits that arise from this, highlighting Manchester's performance against similar airports. It also sets out MAG's longer-term plans and investments, and how these will continue to support GM's aspirations around internationalisation and economic development.

RECOMMENDATIONS

This report is provided for information to inform and update Committee members on the role and importance of Manchester Airport as a strategic economic asset for GM, particularly given its current major investment programme.

The Committee is recommended to support MAG in its lobbying with Government around high-speed rail connectivity into the Airport (HS2 and Northern Powerhouse Rail) and Aviation Policy issues, including Air Passenger Duty (APD) and bilateral aviation agreements.

CONTACT OFFICERS

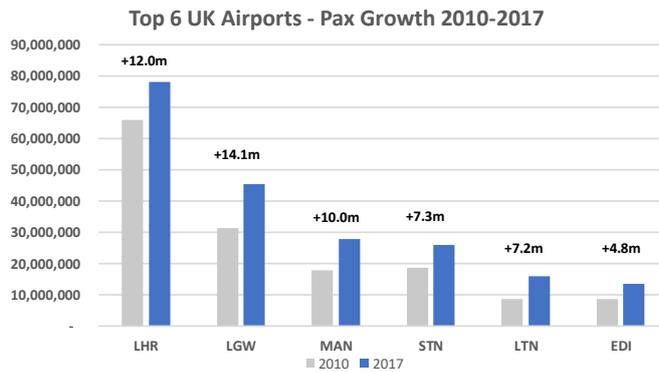
Tim Hawkins, Chief Strategy Officer, MAG

1. INTRODUCTION

- 1.1 Manchester Airport was established (as Ringway Airport) by Manchester City Council 80 years ago this year. Since then the airport has grown into the UK's third largest airport, and by far the largest and most important airport outside London. Manchester Airport now serves 28 million passengers per annum (mppa).
- 1.2 Manchester Airports Group (MAG) has acquired other UK airports to become the largest UK-owned airport group, serving a total of 59 mppa from Manchester, London Stansted and East Midlands Airports. Stansted is the UK's fourth largest airport and London's third airport serving over 26 mppa, and unlike Heathrow and Gatwick still has significant capacity to grow. East Midlands Airport is the UK's largest dedicated freight airport, located as it is four hours from the majority of UK commerce, and also serves nearly 5 mppa. In total, 70% of the UK's population (over 43 million people), live within two hours' drive of a MAG airport.
- 1.3 MAG is 64.5% owned by the 10 GM authorities, with Manchester City Council having a 35.5% shareholding and the remaining authorities a combined 29% shareholding. Dividends from MAG to the GM authorities have totalled over £280 million over the last five years. The remaining 35.5% shareholding, created to finance the further growth of the Group, is held by the investor-owned fund managers IFM Investors.

2. MANCHESTER AIRPORT: THE GATEWAY TO THE NORTH

- 2.1 Manchester Airport is the third largest airport in the UK behind Heathrow and Gatwick, and over double the size of Edinburgh Airport, the next largest airport outside London. It is the only UK airport aside from Heathrow with two runways, and unlike Heathrow it has significant capacity today to grow further over the coming decades.
- 2.2 Since 2010, the bottom of the post-recession market, Manchester Airport has seen traffic grow by 56%, from 17.8mppa to 27.8mppa. This is equivalent to 6.6% p.a., well above the UK rate of 4.3% and making Manchester one of the fastest growing major airports in Europe. As a result, Manchester Airport now has a near 10% share of the overall UK market, and is the 18th largest airport and the 6th largest transatlantic airport in Europe, despite being neither an administrative capital nor a national airline hub.



- 2.3 Much of this growth has been driven by the rapid expansion of low-cost carriers, such as Ryanair and EasyJet, growing their bases at the airport. At the same time, the airport's growth has been supported by robust long-haul development, with new services to key global destinations such as Beijing, Hong Kong, Muscat, Los Angeles, San Francisco and Boston, as well as a combined doubling of capacity to Doha, Abu Dhabi and Dubai. Manchester has added a total of 50 new routes to its network over the past five years, making it the largest UK airport for overall route growth outside of London. Statistics from ACI Europe show that Manchester Airport's connectivity in the decade between 2008 and 2017 grew by a quarter, with connectivity to hubs, supporting further onward connections, growing by 59%.
- 2.4 Manchester Airport is the Gateway to the North. It is the only UK airport outside London to support the full range of airline services (long and short haul, full-service scheduled, low-cost, charter, plus dedicated freight, providing a mixture of business and leisure products). With over 65 airlines flying to more than 200 destinations, Manchester has the most eclectic mix of airlines out of the 20 largest UK airports. This, together with its size and connectivity, means it is the only airport outside London able to provide the global reach needed to connect the North to key overseas markets.
- 2.5 Manchester offers the largest long-haul network outside of London, with over twice the number of long-haul routes compared to the next largest regional airport. Routes have also just been announced to Addis Ababa, Africa's main hub, and Mumbai, the first direct route from Manchester to India. Manchester also has the most extensive short-haul network outside of London, covering 36 countries and both business and leisure destinations.
- 2.6 Manchester's two-hour drive time catchment is over 22 million people, with little overlap with Heathrow's catchment. As such, Manchester complements the London system by providing maximum coverage of the UK, whilst giving a viable alternative to London for all flight types for passengers from across the North of England.

- 2.7 The £1 billion Transformation Programme (MAN-TP) that MAG is undertaking will support a further increase in capacity to 45 mppa by 2022. With further investment, the airport will have the potential to serve around 55 mppa, providing capacity to support long-term UK aviation growth.

3. ECONOMIC IMPACT OF MANCHESTER AIRPORT

- 3.1 Manchester Airport supports the growth of the GM economy in several ways, of which the most significant are:
- i) **International connectivity** for businesses, residents, visitors, investors and trade. And as set out above, it is the best connected airport in the UK outside London, strongly supporting GM's internationalisation agenda and also the development of the Northern Powerhouse, given the importance of world-class global connectivity to the 'prime' and 'enabling' capabilities of the North identified in the NPIER.¹
 - ii) **Ground transport hub** – Manchester Airport has also developed into a key ground transport interchange for GM and the North, being a key 24/7 node on the rail, road/motorway, Metrolink and bus/coach networks. With the development of the HS2 station, the airport will also become a key node on HS2 and Northern Powerhouse Rail. Importantly, this ground connectivity supports further airline route development by broadening and strengthening the airport's catchment, whilst also being a key transport asset for the North.
 - iii) **Major employer** – MAG is a major employer, and businesses operating across the airport employ nearly 24,000 people, with further multiplier benefits for firms across the region. MAG's investments onsite will also support significant construction employment over the coming years.
 - iv) **Strategic development area** – because of its connectivity, the airport is also an ideal area for development. With Enterprise Zone status, Airport City Manchester is one of GM's strategic development sites, with ongoing developments on course to deliver significant growth in mixed-used space and employment opportunities.

Taken together these factors mean that the airport is one of the most significant and strategic economic assets in GM. Further growth at the airport will deliver economic benefits not just for the local area but also for the whole North of England, through connectivity and economic multiplier

¹ Advanced Manufacturing, Energy, Health Innovation, Digital, Financial & Professional Services, Logistics and (Higher) Education.

effects. The section below quantifies these benefits in further detail from independent analysis carried out for MAG by York Aviation.

INDEPENDENT ECONOMIC IMPACT ASSESSMENT

- 3.2 Manchester Airport as a company and as a site is one of Greater Manchester and the North West's largest employers. The site is also the headquarters of the wider Manchester Airports Group (MAG), one of only a few major corporates with their headquarters in the city. Whilst MAG employs 5,367 people, in total there are 23,400 people directly employed on the airport site.
- 3.3 York Aviation estimates that multiplier effects from the site support further indirect & induced jobs, deliver business productivity benefits and support tourism across the North West. This gives a total impact of Manchester Airport across the North West of 71,000 jobs and £4.6billion of gross value added (GVA). With the growth of the airport, this contribution has also increased by 60% or nearly £450million over the last four years.
- 3.4 MAG's contribution to the national economy is even greater, partly because MAG operates other UK airports (London Stansted and East Midlands), but also because the multiplier effect of MAG's operations and connectivity extend nationwide, benefitting businesses across the UK as a whole. This contribution has also increased strongly, both with the acquisition of London Stansted and the expanding operations across MAG's airports. As such, York Aviation estimates that MAG delivers an overall impact to the UK economy of 244,690 jobs and £16.6billion of GVA, as detailed in the table below.

The National Economic Footprint of the MAG Airports, 2016

	Manchester		Stansted		East Midlands		MAG Total	
Economic Impact								
	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs
Direct	£1,400	23,400	£780	12,100	£280	5,850	£2,480	41,950
Indirect & Induced	£2,500	48,500	£1,450	23,300	£590	9,640	£4,580	82,340
Subtotal	£3,900	71,900	£2,230	35,400	£870	15,490	£7,060	124,290
Wider Impacts								
	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs
Business Productivity	£2,840	30,000	£2,310	17,000	£1,750	13,100	£6,900	60,100
Tourism	£1,140	22,000	£1,430	36,600	£70	1,700	£2,640	60,300
Subtotal	£3,980	52,000	£3,740	53,600	£1,820	14,800	£9,540	120,400
Total	£7,880	123,900	£5,970	89,000	£2,690	30,290	£16,540	243,190

Source: York Aviation 2017 analysis based on 2016 passenger numbers

- 3.5 As Manchester Airport and the wider Group continue to develop, adding new routes and new business areas, it has also seen employment grow strongly. MAG's total employment grew by 50% with the acquisition of London Stansted Airport in 2013 and since that time, the strong performance of the business has driven a further 28% growth in employment to 2016/17, with further growth this year. Strong growth at

Manchester has seen total employment across all businesses on the Manchester Airport site grow by 17% over the last five years, a further 3,400 new jobs for GM.

- 3.6 Manchester Airport is a key asset for the whole North of England in giving residents direct access to the whole range of international leisure destinations, but as importantly for the economy, also provides a gateway for international visitors to GM and the wider North. GM's visitor economy is a major economic driver, generating £8.1 billion p.a. of GVA, and attracting 1.38 million international visits (in 2016), a growth of 24% over the last decade. This makes Manchester the third most visited UK city by international tourists behind London and Edinburgh, with Manchester Airport being an increasingly important gateway for these visits.

Corporate Social Responsibility

- 3.7 Manchester Airport is committed to ensuring this growth in employment benefits those in its local communities, particularly those areas suffering from high levels of deprivation. The Airport Academy is an employment hub for Manchester Airport and its business partners, providing work experience and CV advice to those who need it, and offering short courses on employment skills to help people into work at the airport. In 2016/17, MAG's three Airport Academies helped to support a record 713 local people into jobs. MAG also has 32 apprentices currently training across its airports and 23 graduates going through a two-year training programme.
- 3.8 Manchester Airport has operated its Consultative Committee for 49 years to ensure its works closely with its local communities and keeps them informed about the airport's activities and development plans. The Committee hears thoughts and opinions from passengers and councillors through to airlines, local businesses and charities.
- 3.8 To support GM and its local communities, the airport operates a wide-ranging CSR programme, from making Manchester the UK's first carbon neutral airport, community funding, charitable investment, and volunteering, to supporting local art and culture, including sponsorship of The Lowry, the Hallé, and MIF, amongst others.
- 3.9 MAG has a long-standing commitment to supporting charities, groups and people that make a difference. In 2016/17, MAG spent £279,445 funding 256 local projects of all shapes and sizes. All of the projects make a difference to local communities, contributing to a better place to live and work. MAG has also set a target of 30% of our workforce volunteering by 2020. In 2016/17, 15% of MAG staff volunteered in their local communities, a total of 11,787 hours or 1,473 working days of support.
- 3.10 In December 2016, Manchester Airport was the first in the UK to be awarded Level 3+ carbon neutral status, after investing over £7.5 million

in energy efficiency, purchasing clean electricity, using food waste to generate renewable electricity, and offsetting emissions. All MAG airports are also accredited to the international environmental management standard ISO 14001. Bespoke lighting systems have been created to reduce our energy consumption, and even helped develop the international methodology now used at all airports across the world to reduce carbon emissions. Despite increasing passenger numbers, MAG's approach has meant that emissions per traffic unit has still fallen. We have reduced the carbon footprint of passengers through our airports by an average of 15% over the last ten years.

4. INTERNATIONAL CONNECTIVITY

- 4.1 A key driver of the wider economic benefits the airport delivers is international connectivity, which allows business travel, brings visitors, and supports trade. Manchester Airport's extensive route network also supports the delivery of airfreight carried in the bellyhold of passenger planes, second only to Heathrow in the UK, at 123,000 tonnes in 2017/18.
- 4.2 Recognising the importance of international connectivity to GM's internationalisation and growth agenda, the airport has worked closely for a number of years with GM stakeholders to deliver direct services to China. In 2014, Cathay Pacific launched a new service to Hong Kong, which was subsequently upgraded from four services per week to a daily service in 2017. Over 455,000 passengers have used the Manchester–Hong Kong service since its launch in 2014.

In 2016, Hainan Airlines launched a Manchester-Beijing service. Since the launch, 173,000 passengers have flown on the route. The China Dividend report was an independent assessment by Steer Davies Gleave (SDG) for the Manchester–China Forum of the economic benefits of the new Beijing route, which showed unambiguously the wider economic benefits of international connectivity. The fact that the route was previously unserved provided an opportunity to conduct a 'before' and 'after' study of the impact of a new link to a key market. The key findings were:

- higher than planned passenger numbers in the first year, with 38% more people travelling from Manchester's catchment, driving a 21% uplift in total UK–China air passenger journeys;
- Manchester is now the second largest UK air route for exports to China;
- an increasing pipeline of inward investment projects and a marked uplift in Northern Powerhouse inward investment projects;
- a 54% increase in Chinese interests in property;
- business and civic links, leading to an increasing number of senior delegation visits, which will in turn lead to new partnerships and investments;

- a contribution to the visitor economy of c.£139million annually on a net present value basis over the coming five years and the inclusion of Manchester and the wider North of England in Chinese tour operators' leisure tour programmes; and
- an increasing Chinese student population.

The SDG report concludes that these impacts will not just multiply in line with increased passenger volumes, but they will also interact with each other to deliver a long-term and sustainable set of benefits that will make a major contribution to the creation of both a prosperous Northern economy and a balanced and outward-facing UK. The flow of goods, services, and people in both directions is further enhancing the perception among Chinese officials, businesses and individuals that GM – and the wider Northern Powerhouse – is an attractive place to visit, invest in and trade with.

4.3 Building on the success of the Beijing route, further route development work is ongoing, with two key successes recently coming to fruition:

- A new direct service from Manchester to Mumbai with Jet Airways will operate four times a week from 5 November 2018. This will be the first direct flight from the North to India's economic capital, and is an early success for the Manchester–India Partnership (MIP), of which the airport has been a leading member.
- A new route between Manchester and Addis Ababa, Africa's largest hub, will be operated by Ethiopian Airways from 1 December 2018. This will provide passengers within the airport's catchment area with connectivity to 60 countries across Africa.

5. MAN-TP INVESTMENT

5.1 Whilst Manchester Airport's growth has generated huge benefits for GM, it has also seen the airport starting to reach the limits of its current infrastructure. This is resulting in operational inefficiencies and customer dissatisfaction, and means the airport is not able to make full use of its two runways. To enable further growth and to improve passenger experience, MAG has embarked on a £1billion Transformation Programme for Manchester Airport (MAN-TP). The programme of improvements will allow Manchester to help meet the UK's aviation needs in the coming decades, creating value not only for passengers and airlines, but also creating jobs and transforming the Northern Powerhouse's international connectivity.

5.2 MAN-TP is the largest construction scheme in the North of England and will see the expansion and reconfiguration of Terminal 2 to become the airport's primary terminal building, and the improvement of Terminal 3 to cater for increased demand and an expanding flight schedule. Having commenced in 2017, phase 1 is set to be completed by 2020. Staggered construction within phase 1 will see the extension and reconfiguration of

Terminal 2, forecourt works, a new outbound baggage hall, new pier construction and links, and surrounding road improvements.

- 5.3 The construction phase of the scheme will support 1,500 jobs at its peak and create over 150 locally recruited apprenticeships. MAG Connect has been established to ensure the local workforce are reached and supported into a career at Manchester Airport, regardless of background or work experience. Together with construction partners, the airport is working with public sector partners and organisations, including GM Chamber of Commerce, to ensure that the training provided through the project will deliver maximum benefits to the local economy. The airport's contractors have also committed to a number of strategic CSR targets to ensure local contracts are awarded to businesses in the regional supply chain and all roles are advertised locally.
- 5.4 Independent analysis by York Aviation has estimated that the expansion of Manchester Airport will generate more than £70billion GVA for the North West by 2050, nearly six times the £12.5billion Heathrow estimate that its third runway project would generate for the region. This analysis serves to highlight the economic significance to the region of the connectivity that the airport can provide, and the value of direct connectivity in supporting growth and rebalancing the economy.
- 5.5 Alongside MAN-TP, MAG is also investing a further £0.8billion with its international joint venture partners into Airport City Manchester. As previously presented to the Committee, this project is programmed to deliver within the GM Enterprise Zone 1.0million sq ft of office, 1.4million sq ft of logistics & industrial, and 650,000 sq ft of advanced manufacturing space plus 2,400 new hotel rooms over the coming decade, supporting an estimated 16,000 new jobs. The focus for Airport City is to leverage the international connectivity of the airport to attract into GM those international investors that otherwise would not consider the North of England or even the UK.
- 5.5 Finally, the coming proposed investments in high-speed rail connectivity, both HS2 and Northern Powerhouse Rail, can deliver transformational benefits not only for the airport but its wider catchment area. Manchester currently lags behind Heathrow and Gatwick in terms of public transport catchment areas. Investment into the North of England rail network, including the proposed HS2 station at Manchester Airport plus Northern Powerhouse Rail, would expand the airport's long-haul (~2hour) catchment across the whole North of England and much of the Midlands and, along the route of HS2, potentially right down into the South East. This reinforces Manchester's role as a key part of the solution to the UK's long-term aviation needs.

6. CONCLUSIONS

- 6.1 Manchester Airport is a major economic asset for GM and North of England, both directly through employment and through the international

connectivity it provides. Growth over the last eight years, and our vision for transformation of the airport will continue to support GM's overall internationalisation agenda.

- 6.2 As the Gateway to the North, Manchester Airport will deliver increasing numbers of direct long-haul routes to new markets and also increase the frequency of routes to existing markets. This in turn will generate further employment and returns on investment back to its GM shareholders, delivering a virtuous cycle of growth. Together with Airport City and strategic rail investments, Manchester Airport is set to be one of GM's key growth nodes over the coming decades.
 - 6.3 Given the airport's strategic role for GM, the GMCA are asked to support investment in and development of the airport. In support of this growth agenda, MAG is working with GM partners to build Government support for the strategic and economic case for improved high-speed rail connectivity to the airport (HS2 and Northern Powerhouse Rail) and Aviation Policy issues, including reform of Air Passenger Duty (APD) and further liberalisation of aviation agreements.
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