July 2021

‘Airport Towns’ in the South

The impacts of the pandemic on airport-related local economies – and potential responses

Discussion Paper for Catalyst South

SQW

Contents

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1. Introduction

Context and purpose

1.1 Commissioned by Catalyst South[1], the purpose of this Discussion Paper is two-fold: **to consider the emerging economic effects of the pandemic on the local economies close to major airports in the south; and – as a basis for discussion – to set out some possible responses.**

1.2 Covid-19 has had (and is having) a huge impact on airports – and on the aviation sector – as international travel has been severely curtailed for well over a year. The data presented below – sourced from the Civil Aviation Authority – provide one indication of the scale of the effect[2]. On some measures, London Heathrow has been more resilient than other airports (reflecting both its scale and its distinctive role) – but all have been affected badly.

Table 1-1: Change in aviation activity across Airports

	Air transport movements: flights in March 2021	% change since March 2020	Terminal passengers in March 2021	% change since March 2020
London Gatwick	487	-96.8%	35,417	-97.9%
London Heathrow	9,548	-65.6%	541,669	-82.6%
London Luton	1,236	-79.0%	102,107	-82.7%
London Stansted	1,522	-83.8%	44,774	-94.9%
London Southend	n/a	n/a	n/a	n/a
Southampton International	114	-90.3%	2,968	-87.7%
All UK airports identified by CAA	27,945	-75.4%	1,042,891	-89.3%

Source: CAA Airport Statistics for March 2021 (provisional); data sourced by SELEP

1.3 **Our concern here, however, is less the effects on the airports than the local economies that host them across (or close to) the geography of Catalyst South**. In all cases, the relevant airport is a major employer, particularly when auxiliary activities (linked for example to retail and catering) are included. In most cases, consistent with their international gateway functions, the local economies have also been shaped by businesses that are major airport users (e.g. major professional services businesses). These too have been (and are being) affected by the pandemic.

[1] Catalyst South is a grouping of six local enterprise partnerships in the south of England: Coast to Capital LEP, EM3 LEP, Hertfordshire LEP, Solent LEP, South East LEP (SELEP); and Thames Valley Berkshire LEP

[2] Note that Flybe collapsed shortly before the pandemic. This has had major implications for Southampton International Airport. The majority of flights ceased from early March 2020, ahead of the first lockdown. There have therefore effectively been two economic shocks for the local area.

Proxy definitions of 'Airport Towns'

1.4 There are six major airports in or close to Catalyst South[3]. As set out above, those airports are: *London Gatwick; London Heathrow; London Luton; London Stansted; London Southend;* and *Southampton International Airport*.

1.5 For local economic effects to be measured, spatial definitions need to be used. Many airports are physically on or close to administrative boundaries, but for measurement purposes, we need 'whole' local authority districts as the principal building blocks.

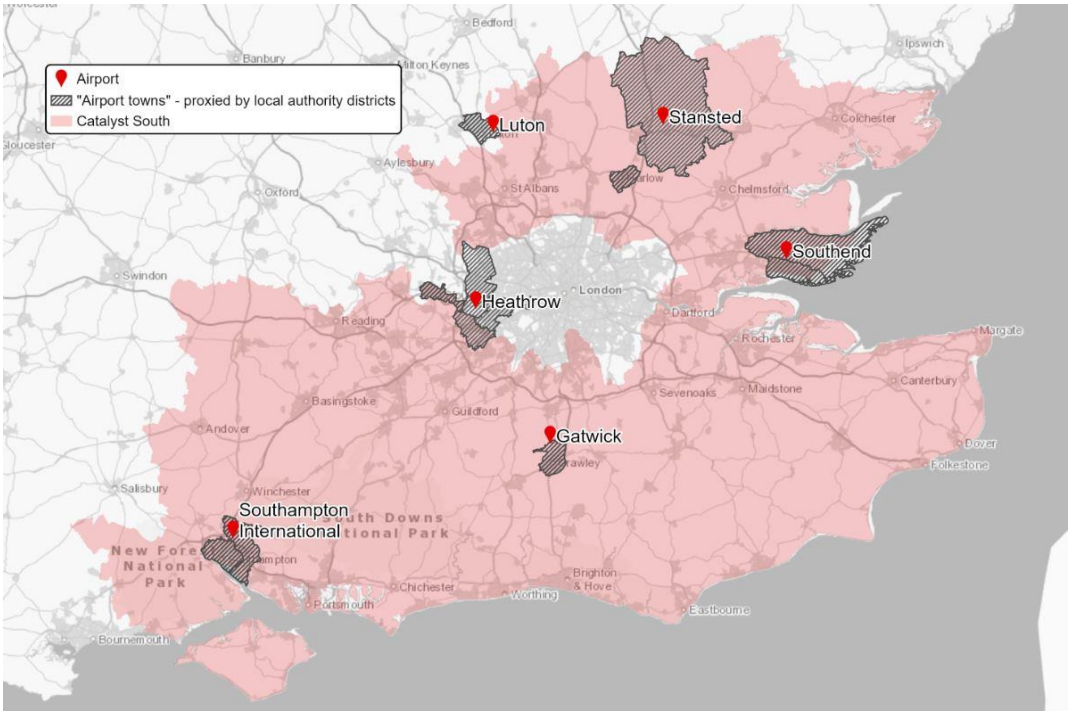
1.6 Following various discussions within Catalyst South, a proxy definition of the six 'Airport Towns' was developed. This is summarised below and then mapped in Figure 1-1. In practice, some of these definitions relate to towns (e.g. Crawley (adjacent to Gatwick Airport) and Luton), while others are broader economic areas (e.g. the area around Heathrow and Stansted airports). It should be noted that this definition is a rudimentary one – and many effects will be observed in other adjacent districts and beyond. In addition, the definition has no status or significance beyond the first-cut analysis which is presented here. Its purpose, simply, is to allow for that analysis and to 'shine a light' on the local economies which are closest to the major airports.

Table 1-2: Airports – and proxy definitions for 'Airport Towns' across Catalyst South

Airport	Local Authority Districts used to provide a proxy definition of 'Airport Towns' (or local impact areas)
London Gatwick Airport	Crawley
London Heathrow Airport	Slough, Hounslow, Hillingdon, Spelthorne
London Luton Airport	Luton
London Southend Airport	Southend-on-Sea, Rochford
London Stansted Airport	Harlow, Uttlesford
Southampton International Airport	Southampton, Eastleigh

[3] There are other airports within the geography of Catalyst South which will also have been affected by the pandemic. For example, Farnborough Airport in north Hampshire is important for business travel and it is locally significant. However the six airports listed here have been the focus for this analysis.

Figure 1-1: Airports – and 'Airport Towns' across (or close to) the geography of Catalyst South



Source: Produced by SQW 2021. Licence 100030994

1.7 In combination, these six 'Airport Towns' encompass a significant part of the economy of the south. **Together, the 'Airport Towns' account for a population of just under 2 million people and 1.1 million jobs.** Within this:

- Heathrow 'Airport Town' accounts for almost half of all jobs (and a similar, but slightly lower, proportion of the population)
- Districts outside of Catalyst South (two London Boroughs plus Luton) account for 43% of all employment.

Structure of this Report

1.8 The report which follows is divided into five further chapters:

- **Chapter 2** explores airport-related employment, and it considers the importance of the aviation sector for the economy of 'Airport Towns'
- **Chapter 3** presents an overall model which depicts how pressures on the aviation sector linked to Covid-19 are affecting nearby local economies
- **Chapter 4** summarises evidence on the scale and nature of immediate effects
- **Chapter 5** examines evidence relating to wider effects linked to local labour and commercial property markets
- **Chapter 6** considers prospects for aviation, airports and 'Airport Towns' and – as a basis for discussion – it sets out elements of a possible response.

2. Local significance of airports and the aviation sector

2.1 Since March 2020, the pandemic has affected every local economy in the UK. The extent of the effect has varied depending very largely on the sectoral and occupational make-up. Typically, areas with sizeable hospitality and/or retail sectors have been hit harder than those with, for example, a high incidence of professional service or R&D-related employment. For 'Airport Towns', the economic shock has taken a particular form. At root, this reflects the local significance of airports and the aviation sector – and the wider supply chains linked to both.

Employment linked to airports

2.2 Employment linked to airports is difficult to measure through standard approaches. However various published studies have investigated the economic footprint associated with particular airports (see Annex A). It is important to note that these studies have been undertaken at different times for different purposes using different methodologies. In providing some form of 'baseline', all of the studies precede the pandemic and some precede other major developments. For example, the study of Southampton International Airport pre-dates the collapse of Flybe in early March 2020 (which occurred before the first lockdown).

2.3 Nevertheless, from a review of available literature, the table below summarises the **direct jobs** linked to each of the airports. It confirms that Heathrow was substantially larger as an employment hub than the other airports. Gatwick was the second biggest. On this metric, Luton and Stansted were broadly similar in scale and both were larger than either Southend or Southampton.

Table 2-1: The Airports' direct employment footprint (direct employment may refer to jobs at the airport or in close proximity to the airport and directly reliant on it)

Airport	Direct employment effect	Year	Source
London Gatwick	24,100 direct on-airport jobs, including 2,600 Gatwick Airport Ltd jobs	2019	Oxera[4]
London Heathrow	88,900 direct on- and off-airport jobs, of which 76,000 at the airport itself	2019	Oxford Economics[5]
London Luton	9,900 direct on- and off-airport jobs	2017	Oxford Economics[6]
London Stansted	11,000 direct on-airport jobs and 330 direct off-airport jobs	2015	MAG London Stansted Airport[7]
London Southend	1,536 direct jobs, including 270 London Southend Airport Company Ltd jobs	2020 (Feb)	Esken[8]

[4] *Economic impact of Gatwick Airport*, Oxera, April 2021, for Gatwick Airport Ltd.
[5] *The economic impact of reduced activity at Heathrow*, Oxford Economics, September 2020, for the Heathrow Community Engagement Board.
[6] *The Economic Impact of London Luton Airport*, Oxford Economics, June 2019, for London Luton Airport Ltd.
[7] *Stansted Airport Environmental Statement – Volume 1 (Chapter 11 Socio-Economic Impacts)*, MAG London Stansted Airport, February 2018.
[8] *Airports and their communities: Collaboration is key*, Esken, 2021.

Airport	Direct employment effect	Year	Source
Southampton International Airport[9]	950 direct on-airport jobs, including 200 Southampton International Airport Ltd jobs	2015	Steer Davies Gleave[10]

Source: SQW, 2021.

2.4 Airports also support the local, regional and national economy through **indirect[11] and induced[12] employment**. The table below summarises indirect and induced employment estimates for five of the airports. While the figures should again be treated with considerable caution, they are indicative of the scale of wider economic impacts. These 'multiplier' effects mean that for every job at the airport, more jobs are supported elsewhere in the economy[13].

Table 2-2: The Airports' indirect and/or induced employment footprint (indirect and induced effects refer to activity generated through supply chain and consumer spending effects respectively)

Airport	Indirect/induced employment effect	Year	Source
London Gatwick	45,900 indirect jobs across the UK 11,000 indirect jobs in the 'Gatwick Diamond'	2019	Oxera[14]
London Heathrow	36,700 indirect jobs and 8,100 induced jobs across the study area (Ealing, Hillingdon, Hounslow, Slough, South Bucks, and Spelthorne)	2019	Oxford Economics[15]
London Luton	8,600 indirect jobs and 9,000 induced jobs across the UK 2,200 indirect and 3,500 induced jobs in the surrounding subregions (Beds, Bucks and Herts) 300 indirect and 600 induced jobs in Luton UA	2017	Oxford Economics[16]
London Stansted	9,000 indirect or induced jobs across the study area (East of England and London)	2015	MAG London Stansted Airport[17]
London Southend	N/A		

[9] The collapse of Flybe meant that the number of jobs at Southampton International Airport was lower than the estimate for 2015 at the start of the pandemic
[10] *The Economic Impact of Southampton Airport*, Steer Davies Gleave, October 2017, for Southampton International Airport Ltd.
[11] Indirect employment impacts occur through jobs supported by the supply chain of the airport and its on-site businesses.
[12] Induced employment impacts capture jobs supported through consumer spending – when those employed by the airport, by other on-site businesses or by their supply chains spend their earnings in the wider economy.
[13] Note that estimates of the airports' multipliers vary between the studies, reflecting differences in methodologies, geographic areas and local economic conditions.
[14] *Economic impact of Gatwick Airport*, Oxera, April 2021, for Gatwick Airport Ltd.
[15] *The economic impact of reduced activity at Heathrow*, Oxford Economics, September 2020, for the Heathrow Community Engagement Board.
[16] *The Economic Impact of London Luton Airport*, Oxford Economics, June 2019, for London Luton Airport Ltd.
[17] *Stansted Airport Environmental Statement – Volume 1 (Chapter 11 Socio-Economic Impacts)*, MAG London Stansted Airport, February 2018.

Airport	Indirect/induced employment effect	Year	Source
Southampton International Airport[18]	1,300 indirect jobs and 350 induced jobs across the UK	2015	Steer Davies Gleave[19]

Source: SQW, 2021.

2.5 **Wider economic benefits** linked to airports are also relevant[20]. These are much more difficult to quantify, but they are important in relation to the economy of Catalyst South. They relate to the purpose of the airports as a key economic infrastructure. They reflect gateway functions for international tourism and business travel, the value of connectivity in determining investment decisions, and a range of labour market and wider agglomeration effects.

Aviation sector – employment

2.6 Our focus, however, is the local economies closest to the airports. From this perspective, it is helpful to consider the local expression of the aviation sector – which overlaps with, but is different from, 'activity at airports'. Across all six 'Airport Towns', the aviation sector was a major local employer before the pandemic. In 2019, it accounted for 110,000 jobs in total and generated an overall location quotient of 4.4 (see Table 2-3).

Table 2-3: Aviation and support activities sector employment with corresponding location quotients relative to England, 2019

Area	Employment		Location quotient
'Airport Towns', close to:			
Gatwick	21,000	(19%)	8.91
Heathrow	66,250	(60%)	5.69
Luton	7,000	(6%)	3.10
Southampton	6,000	(5%)	1.34
Southend	1,475	(1%)	0.68
Stansted	7,500	(7%)	3.55
'Airport Towns' combined	*110,000*	*(100%)*	*4.40*
Wider area			
Catalyst South	112,000		0.94
South East, East and London	280,000		0.92
England	660,000		1.00

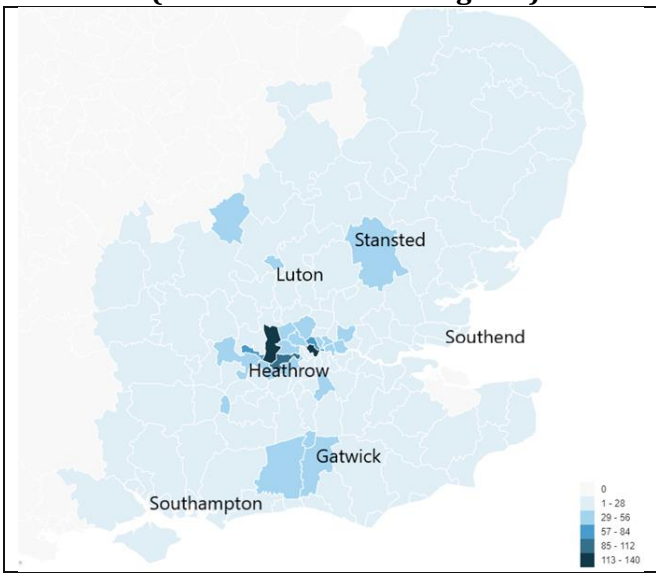
Source: Business Register and Employment Survey, 2021.
Aviation and support activities defined in terms of the following SIC codes: 33.16, 30.3, 51, 52.

[18] The collapse of Flybe meant that the number of jobs at Southampton International Airport was lower than the estimate for 2015 at the start of the pandemic
[19] *The Economic Impact of Southampton Airport*, Steer Davies Gleave, October 2017, for Southampton International Airport Ltd.
[20] It is important to note that these benefits are frequently seen beyond the boundaries of the proxy definitions; Windsor and Maidenhead, for example, is close to Heathrow Airport. It hosts major tourist attractions and sees many international visitors which link to the Airport's international gateway function. However it is outside the definitions used here.

Aviation sector – businesses

2.7 A similar pattern is evident from a review of business data[21]. Overall, 2,613 aviation businesses were identified across the three Government Office Regions that define the Greater South East. Some 12% of all companies were within Heathrow 'Airport Town' as defined here. Gatwick had the second highest concentration: there were 53 aviation businesses in Crawley, but the number rises to 187 if nearby districts are also included. The number of aviation businesses within, or close to, the other local areas was lower.

Figure 2-1: Distribution of aviation businesses across London, East of England and South East (Government Office Regions)



Gatwick	• 53 in Crawley[22]
Heathrow	• 337 (81 in Slough; 112 in Hillingdon; 102 in Hounslow; 42 in Spelthorne)
Luton	• 29 in Luton
Southampton	• 16 (3 in Southampton; 13 in Eastleigh)
Southend	• 23 (16 in Southend; 7 in Rochford)
Stansted	• 33 (30 in Uttlesford 30; 3 in Harlow)

Source: Data and map sourced by Hertfordshire LEP from Beauhurst
Note that SIC codes included here are: 51101 – Scheduled Passenger Air Transport; 51102 – Non-scheduled PAT; 51210 – Freight Air Transport; 52102 – Operation of Warehousing and Storage Facilities for Air Transport activities; 52230 – Service Activities incidental to Air Transportation; 52242 – Cargo Handling for Air Transport Activities

Conclusion

2.8 From the available evidence, it is apparent that the six local economies might be divided into three distinct groups:

- in both absolute and relative terms, **the local economies linked to London Heathrow and London Gatwick have the highest incidence of aviation and related activities**; both are international hub airports (albeit there is a hierarchy between them) and both might be regarded as 'aviation clusters' (with head office and research functions linked to the airlines and their major suppliers)
- for **London Luton and London Stansted, the numbers are smaller but still very important locally**
- the local economies close to **Southampton International Airport and London Southend Airport are less dependent on aviation and related sectors in relative**

[21] Note that the definition of the 'aviation sector' used here is slightly different from the one used in relation to 'employment'.
[22] In addition to aviation businesses in Crawley, there are: 36 in Mid Sussex; 43 in Horsham; 28 in Croydon; and 27 in Tandridge.

terms; in part this reflects the nature of the airports, but it also points to two more diversified city (or larger town) economies in which the airport is one part of the mix.

3. Understanding the economic shock

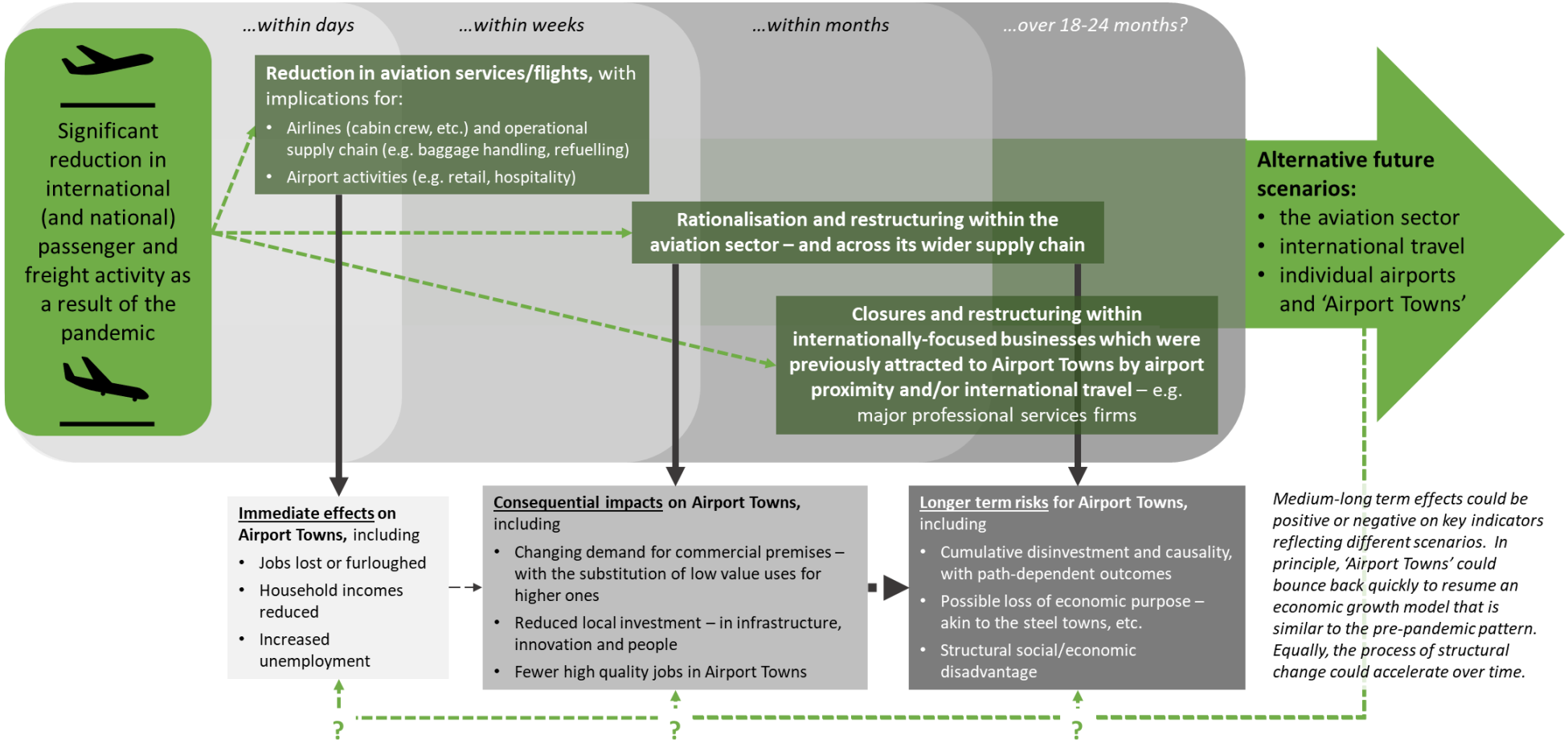
3.1 Against this backdrop, and following various discussions within Catalyst South – including with those observing first-hand the unfolding effects of the pandemic – an overall model was developed. Presented in Figure 3-1, this sets out, effectively, a series of hypotheses. It points to 'waves' of effects associated with the pandemic which have either been observed locally, or which appear to be unfolding currently, or which are anticipated in due course. These include:

- immediate effects, linked to the **cessation/disruption of airport activity** in part as a result of changing restrictions in relation to international travel and wider requirements to 'stay at home'
- the consequences for local areas of **the loss of capacity (through rationalisation and restructuring)** within the aviation sector
- the possible **implications of the changing functions of 'Airport Towns'** if their 'international gateway' functions start to diminish.

3.2 In relation to these processes, some effects are now in the past; some are on-going; and some are anticipated. Equally, some might prove to be temporary whilst others could be more enduring. Three overarching comments need to be made in seeking to explore them:

- First, for many national datasets, 'the latest' data still predate the pandemic and hence there is little robust evidence. This means that we need to rely on administrative datasets alongside qualitative and 'real time' experiences and data.
- Second, even when data are available, we need to recognise that these will shed light on overall outcomes in local economies. In other words, if some local businesses (perhaps unrelated to aviation) are recruiting locally, the full effects of the aviation-related economic shock will be dampened in the headline data. Indeed, it might be the case that some local economies are starting to 'bounce back' despite on-going pressures on the aviation sector and its local importance.
- Third, there is an important – but complicated – temporal dimension to all of this. Some effects may take years to be realised, but over this period, the future of aviation could take a number of different routes. Post-pandemic, it is possible that the aviation sector may recover fully and quickly – in which case some of the short term effects on 'Airport Towns' could, in principle, be reversed. But it is equally possible – particularly given environmental concerns and national commitments to Net Zero (and in aviation to Jet Zero (which is discussed later)), and long term trends towards automation – that the pandemic has precipitated even more profound changes which have yet to be fully realised. In sum, it is important to recognise that there is a range of scenarios for the medium-long term future of aviation and this in turn will have a dynamic relationship to the character and evolution of the local economies in which much of the sector is vested.

Figure 3-1: Understanding the economic shock in 'Airport Towns'



Source: SQW

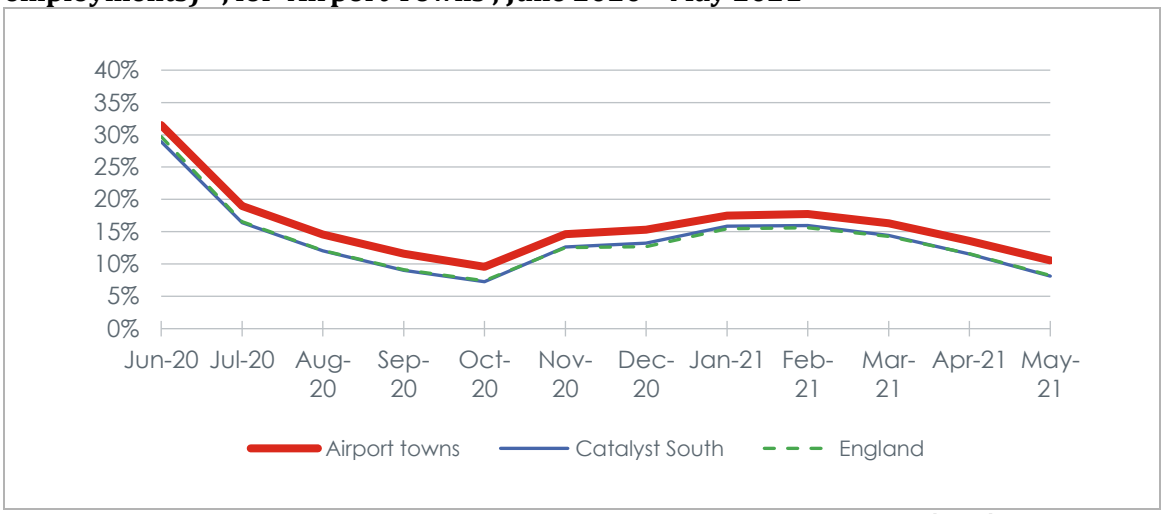
4. Immediate effects

4.1 This chapter examines key indicators which provide some insight into the nature and scale of the economic shock that has been (and is being) experienced in local economies close to the major airports.

Incidence of furlough through the Coronavirus Job Retention Scheme

4.2 Shortly after the start of the pandemic, government introduced the Coronavirus Job Retention Scheme (CJRS). Initially running for three months, CJRS aimed to prevent mass redundancies as it allowed employees to be kept on the payroll whilst businesses temporarily ceased or reduced trading. In practice, CJRS has been extended several times and the scheme is now expected to end in September 2021. This means (in all probability) that it has cushioned the effects of the pandemic, particularly in relation to business closures and job losses.

Figure 4-1: Furlough take-up rate (employments on furlough as % of total eligible employments)[23], for 'Airport Towns', June 2020 – May 2021



Source: HMRC, Annual Population Survey, 2021.
Airport towns: Crawley, Slough, Hounslow, Hillingdon, Spelthorne, Luton, Southend, Rochford, Harlow, Uttlesford, Southampton, Eastleigh.

4.3 Figure 4-1 above shows the incidence of furlough across the 'Airport Towns', Catalyst South and England. It is notable that the patterns across England and Catalyst South are almost identical. The pattern across the 'Airport Towns' mirrors the national picture, albeit it is consistently 2-3 percentage points higher: peaking at about 32% (of total eligible employments) during the early months of the scheme and then declining during early autumn 2020 to around 10% before rising again during the second wave to about 18% and then declining subsequently. **This suggests that more business activities were affected by the**

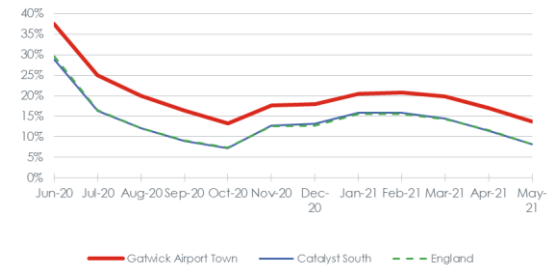
[23] Total employments on furlough and total eligible employments in individual LADs were added to obtain the 'Catalyst South', 'Airport Towns combined' and individual 'Airport Town' figures. May 2021 figures are provisional.

pandemic in 'Airport Towns' than elsewhere – and that proportionately more employments were furloughed as a result.

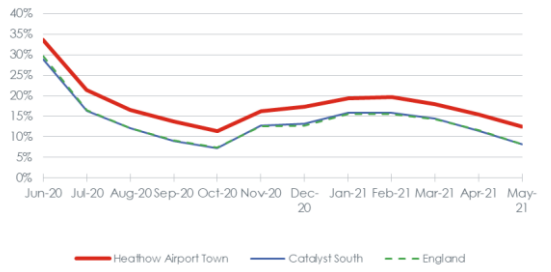
4.4 At the level of individual local economies, there are some differences, as shown in Figure 4-2 below. The local areas with the highest absolute and relative incidence of aviation-related employment – Gatwick and Heathrow – have consistently seen an incidence of furlough well above the regional and national averages; indeed, in June 2020, some 38% of eligible employments were furloughed in Gatwick 'Airport Town' (Crawley), about 8-9 percentage points higher than across Catalyst South and England. The high incidence of furlough in Crawley has continued and it has been recognised in recent national analyses[24].

Figure 4-2: Furlough take-up rate (employments on furlough as % of total eligible employments), for individual 'Airport Towns', June 2020 – May 2021

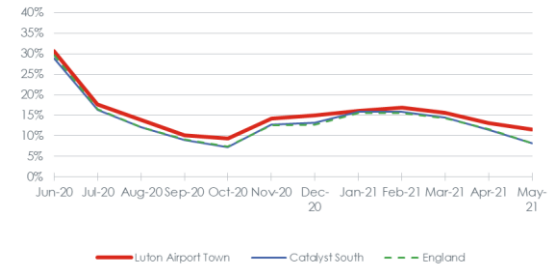
1: Gatwick 'Airport Town' (Crawley)



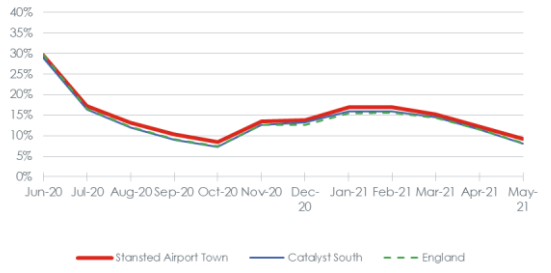
2: Heathrow 'Airport Town' (Hillingdon, Hounslow, Slough, Spelthorne)



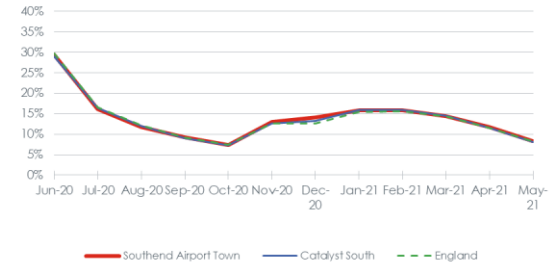
3: Luton 'Airport Town' (Luton)



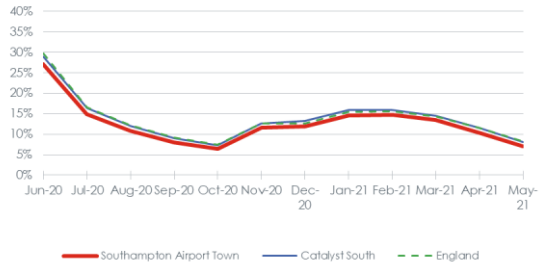
4: Stansted 'Airport Town' (Uttlesford, Harlow)



5: Southend 'Airport Town' (Southend, Rochford)



6: Southampton 'Airport Town' (Southampton, Eastleigh)



Source: HMRC, Annual Population Survey, 2021.

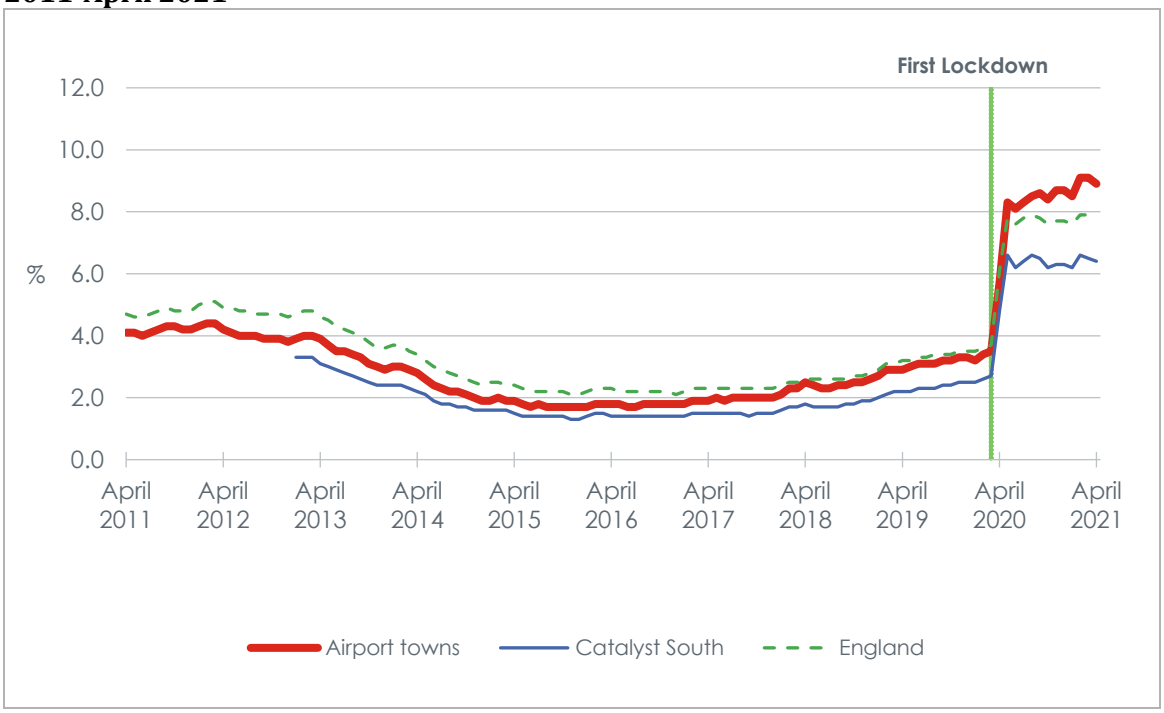
[24] See for example *The Beginning of the End* – Resolution Foundation, 4th July 2021

4.5 The latest furlough data – published on 29th July 2021 – suggest that nationally, at 30th June 2021, 6% of employments eligible for furlough were on furlough (provisional figure), down from 9% at 31st May 2021. The sector with the highest rates of jobs on furlough (as at 30th June 2021) was '*passenger air transport*' (58% of eligible employments); and the second highest was '*travel agency and tour operator activities*' (49%). Given this sectoral profile, it is likely that the local areas around airports are continuing to be heavily affected[25].

Claimant count

4.6 The claimant count measures the number of people claiming benefit, principally for the reason of being unemployed. Whereas furlough was an attempt to prevent unemployment, the claimant count is (essentially) the consequence of it. Across the whole country, the pandemic coincided with a sharp spike in the claimant count in April/May 2020 – and the claimant count has remained steady at this new, higher, level subsequently.

Figure 4-3: Claimants as a proportion of economically active residents aged 16+, April 2011-April 2021[26]



Source: ONS Claimant count, 2021.

Airport towns: Crawley, Slough, Hounslow, Hillingdon, Spelthorne, Luton, Southend, Rochford, Harlow, Uttlesford, Southampton, Eastleigh.

4.7 Across the 'Airport Towns', the spike was notably greater and claimant count (measured as a proportion of economically active residents aged 16+) increased by well over five percentage points in April/May 2020. On this measure, there is evidence that rather that stabilising, it has since continued to increase (albeit at a slower rate). By April 2021, it was about 9% across

[25] See Coronavirus Job Retention Scheme statistics: 29 July 2021 - GOV.UK (www.gov.uk)

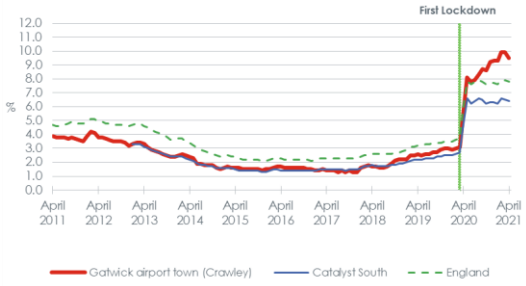
[26] These figures were taken directly from the ONS Nomis service using user-defined geographies for the 'Airport Towns' and 'Catalyst South' areas. Note that the denominator is economically active residents aged 16+ (rather than all residents aged 16-64 which is sometimes used).

the areas under consideration here, compared to 8% across England and around 6.5% within Catalyst South. **In short, across the 'Airport Towns' the claimant count (as a proportion of economically active residents aged 16+) was below the national average until the start of the pandemic; since April 2020, it has been well above it.**

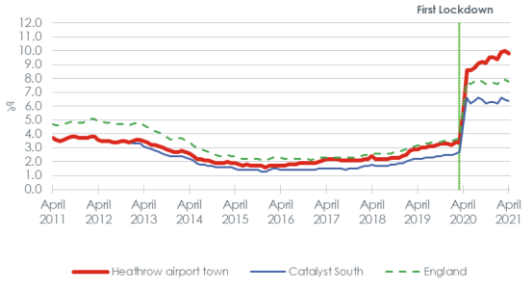
4.8 As with furlough, there have been notable differences at a local level. For both Gatwick and Heathrow, the picture has been severe and by April 2021, the claimant count was around 10%. However it was Luton that saw the biggest increase; its claimant count rose very quickly from about 4% to 10% of economically active residents aged 16+ at the start of the pandemic, and it has continued to rise subsequently (to over 11% by April 2021). The areas around the airports at Southend and Southampton have also seen a spike, but a less pronounced one.

Figure 4-4: Claimants as a proportion of economically active residents aged 16+, April 2011-April 2021, in individual 'Airport Towns', April 2011-April 2021

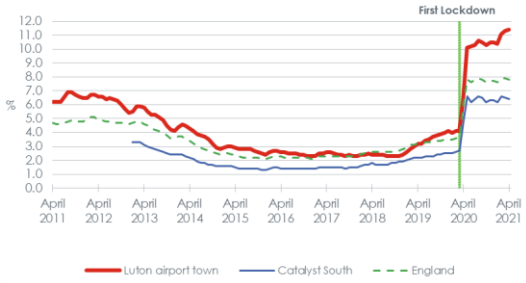
1: Gatwick 'Airport Town' (Crawley)



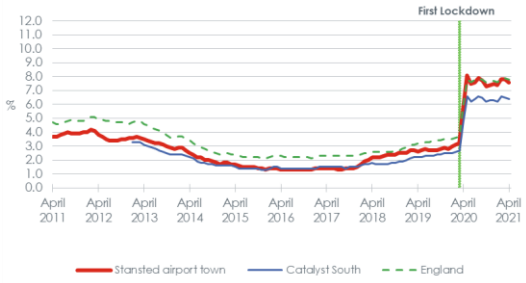
2: Heathrow 'Airport Town' (Hillingdon, Hounslow, Slough, Spelthorne)



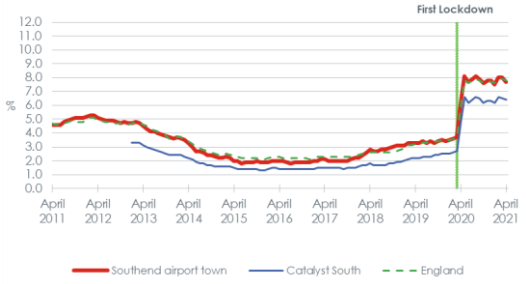
3: Luton 'Airport Town' (Luton)



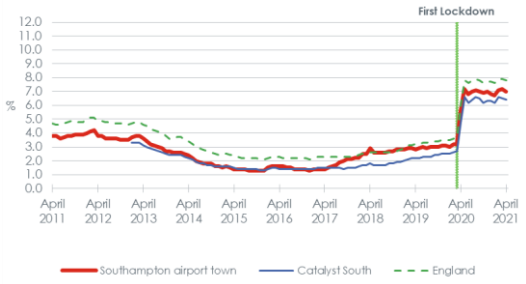
4: Stansted 'Airport Town' (Uttlesford, Harlow)



5: Southend 'Airport Town' (Southend, Rochford)



6: Southampton 'Airport Town' (Southampton, Eastleigh)

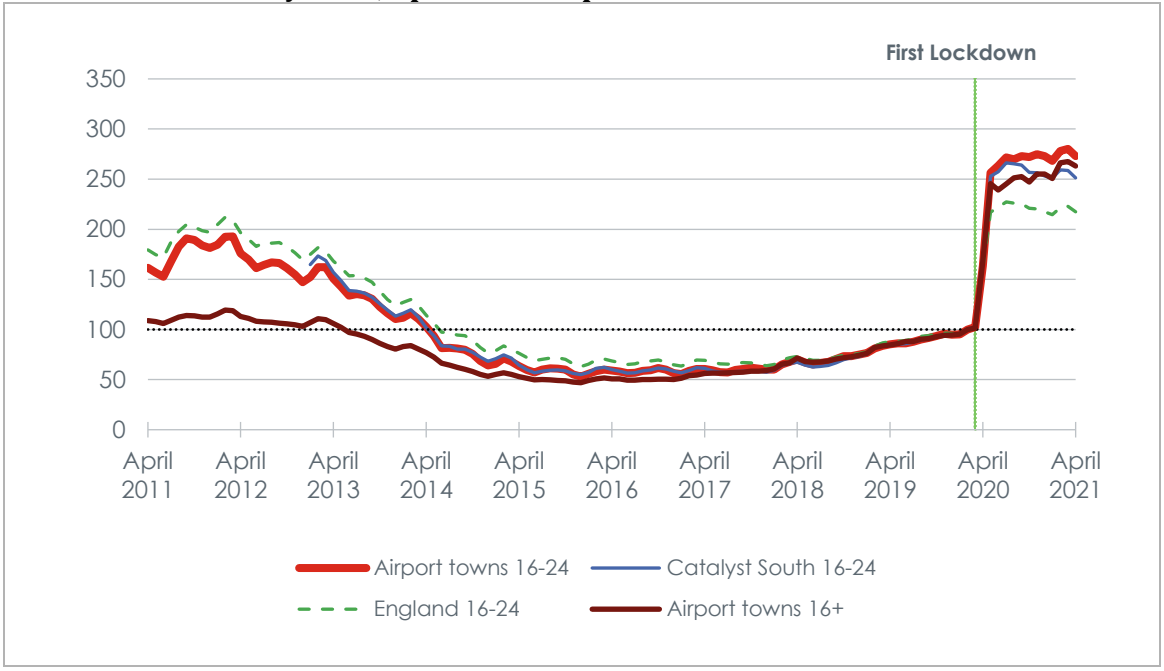


Source: ONS Claimant Count, 2021.

Claimant count – younger people

4.9 Within the claimant count data, we can examine the effects in relation to young people (aged 16-24). As the chart below shows, **at the start of the pandemic, the claimant count index for young people rose more quickly in the 'Airport Towns' than across England as a whole. The index also rose more quickly than for 'total claimants' within the 'Airport Towns'**. At a local level, the increases were particularly high in the areas close to Gatwick, Heathrow, Luton and Stansted.

Figure 4-5: Indices of 'youth' and 'total' claimant count, 'Airport Towns' combined, index: 100 = February 2020, April 2011 – April 2021

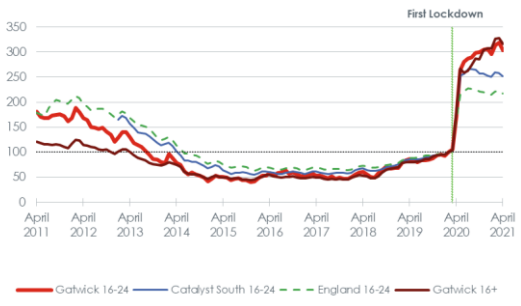


Source: ONS Claimant Count, 2021.

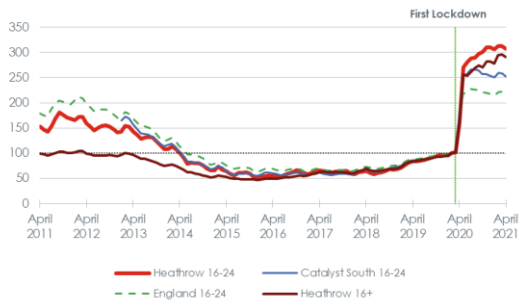
Airport towns: Crawley, Slough, Hounslow, Hillingdon, Spelthorne, Luton, Southend, Rochford, Harlow, Uttlesford, Southampton, Eastleigh.

Figure 4-6: Indices of 'youth' and 'total' claimant count by 'Airport Town', index: 100 = February 2020, April 2011 – April 2021

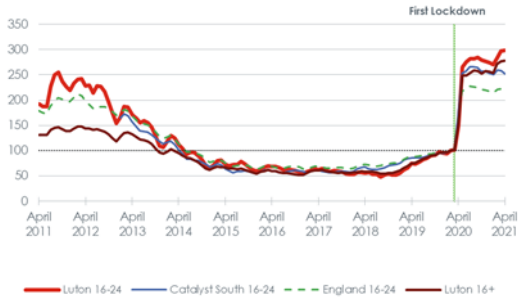
1: Gatwick 'Airprt Town' (Crawley)



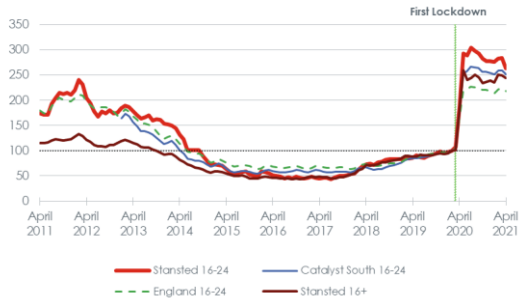
2: Heathrow 'Airport Town' (Hillingdon, Hounslow, Slough, Spelthorne)



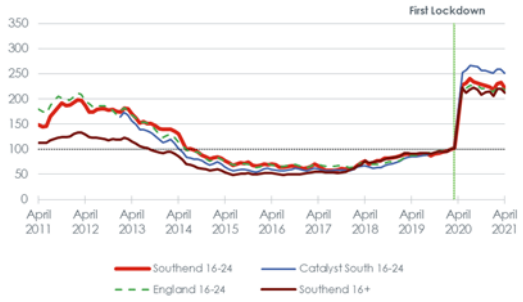
3: Luton 'Airport Town' (Luton)



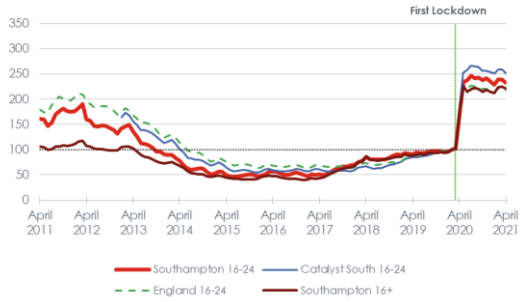
4: Stansted 'Airport Town' (Uttlesford, Harlow)



5: Southend 'Airpport Town' (Southend, Rochford)



6: Southampton 'Airport Town' (Southampton, Eastleigh)



Source: ONS Claimant Count, 2021.

Conclusion

4.10 The relationship between the uptake of furlough and the claimant count is a complicated one. In its design, CJRS was an attempt to avoid unemployment – although whether it has avoided, or simply postponed, significant redundancies is, as yet, unclear. Taken together, the two datasets suggest that:

- Luton has seen the biggest increase in the claimant count as a proportion of economically active residents aged 16+ since the start of the pandemic; on this measure, it is arguably therefore the 'Airport Town' that has experienced the greatest shock.
- The areas close to Heathrow and Gatwick have both seen a sizeable increase in the claimant count as a proportion of economically active residents aged 16+ alongside a very substantial use of the furlough scheme – suggesting that, although dampened in the short term, the scale of the economic shock could be relatively greater. It is notable that these two local economies are particularly dependent on the aviation sector in relation to local jobs.
- Relatively, the areas close to Southampton International Airport and London Southend Airport appear to have experienced a smaller economic shock.

5. Wider changes in the economies of 'Airport Towns'

5.1 Alongside the immediate job effects, it is important to understand wider changes within the economies of the 'Airport Towns' since the start of the pandemic. Data are again limited, but in this chapter, we consider two key elements –the labour market and the commercial land and property market.

Labour market indicators

5.2 Online job postings are increasingly recognised as a real time labour market indicator and they provide a perspective on vacancies and recruitment. They therefore say something about both business confidence and the number and range of opportunities that are available to those seeking employment. Based on Adzuna online job adverts data, the chart below provides an indexed assessment of conditions at a regional scale (across the Greater South East) and nationally. It shows that the volume of online job adverts fell at the start of the pandemic, but that it has risen steadily since May 2020. Across the Greater South East, the East of England was the first region to return to pre-pandemic levels and London was the last. The data suggest that both London and the South East recovered more slowly than was the case nationally.

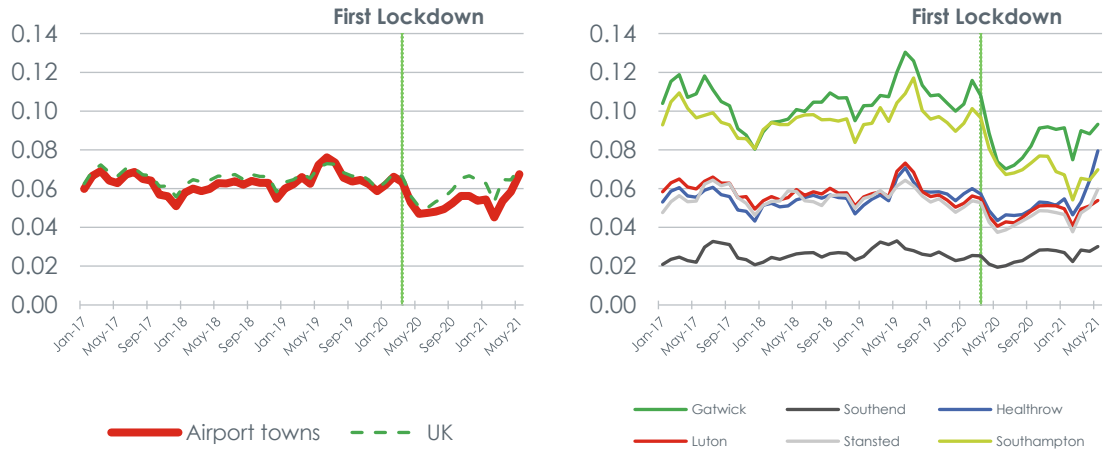
Figure 5-1: Volume of online job adverts by region, index: 100 = February 2020 average, 7 February 2019 to 18 June 2021

Source: Adzuna, 2021

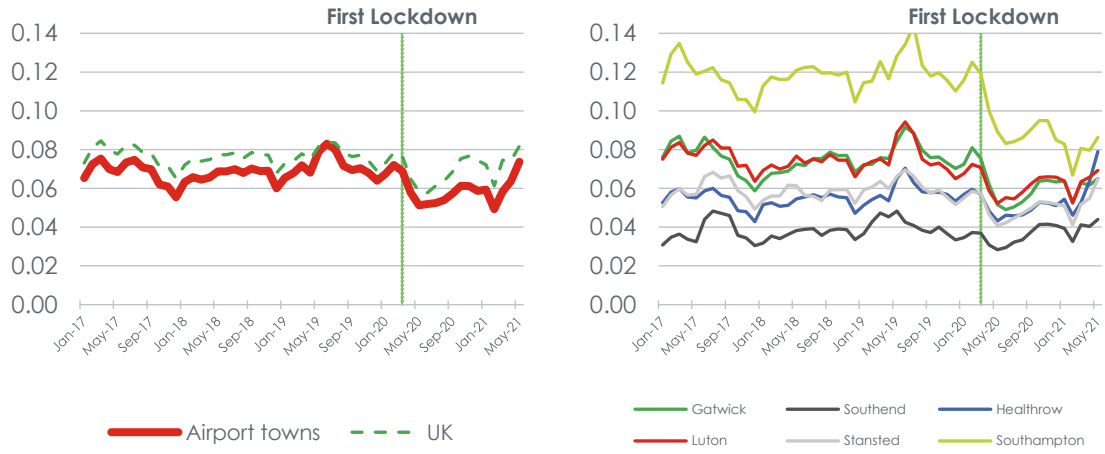
5.3 At a local level, data on job postings are available from EMSI. The charts below provide data for the 'Airport Towns' collectively and individually, scaled first by the resident working age population and second by the total number of jobs. On both measures, **the data suggest that the number of jobs postings has taken longer to recover in the 'Airport Towns' than has been the case nationally.**

Figure 5-2: Unique job postings scaled by working age population and total jobs, for 'Airport Towns' and the UK, Jan 2017 – May 2021[27]

1: Postings per working age (16-64) resident



2: Postings per job



Source: EMSI, ONS Population Estimates, ONS Jobs density, 2021.
Airport towns: Crawley, Slough, Hounslow, Hillingdon, Spelthorne, Luton, Southend, Rochford, Harlow, Uttlesford, Southampton, Eastleigh.

[27] Unique job postings in individual LADs were added to obtain the 'Airport Towns combined' and individual 'Airport Town' figures. For comparison purposes, these figures were further scaled using two measures (for robustness): the number of residents aged 16-64 and the total number of jobs for the defined geographies. Both are annual measures – where 2021 and 2020 data were not available, the most recent annual figures were used as proxies.

5.4 This assessment is broadly consistent with data produced by Centre for Cities and Indeed. On that analysis, in relation to the percentage change in job postings between 1st Feb 2020 and 9th April 2021, the local authority districts of Crawley, Southend, Slough and Luton were among the 10 worst affected in the UK[28].

5.5 Within this overall picture, there are however some differences between individual 'Airport Towns'. The EMSI data (Figure 5-2) suggest that:

- as of May 2021, the number of job postings was still well adrift of pre-pandemic levels in two of the 'Airport Towns': Gatwick and Southampton
- the fastest recovery has been seen in relation to Heathrow and (to a lesser extent) Stansted
- however – in absolute terms and looking across the different geographies, including the national average – the areas close to Gatwick, Southampton and (latterly) Heathrow have a relatively high number of job postings per working age resident.

Commercial property market indicators

5.6 In principle – as set out earlier in the model in Figure 3-1 – we might expect to see the effects of the economic shock working through commercial property markets. In practice, property markets respond in complicated ways which are critically dependent on the underlying (pre-pandemic) context.

5.7 The data in Figure 5-3 suggest that since the start of the pandemic, available lease space as a proportion of stock has increased in relation to *office uses* across the 'Airport Towns'; a similar picture is apparent across Catalyst South, but at a lower level. For *industrial uses*, there was a slight increase in the early months of the pandemic, but subsequently availability has actually declined and at a faster rate than for either Catalyst South or England. These data may not be wholly reliable but, they may point to important developments in local commercial property markets.

[28] *Where in the UK is job posting recovery strongest?* Centre for Cities, 22 April 2021.

Figure 5-3: Available lease space as % of total stock of lease space, 'Airport Towns' combined, 2017-2021[29]

Source: CoStar, 2021.

Airport towns: Crawley, Slough, Hounslow, Hillingdon, Spelthorne, Luton, Southend, Rochford, Harlow, Uttlesford, Southampton, Eastleigh.

5.8 They are corroborated by local evidence and insight. For example, Manor Royal is a very significant, 540 acre mixed use Business Improvement District to the north of Crawley and within the Gatwick 'Airport Town' as defined here. It is also the largest business district in the South East[30]. Since the start of the pandemic, it has seen major changes. One major airline has halved its employee footprint on Manor Royal (from about 3,000 people to around 1,400); moved its HQ; and vacated a training centre. The training centre was initially acquired for office uses but is now being converted to a distribution centre. More generally, redundant, formerly empty buildings on Manor Royal are being demolished and replaced by new

[29] Available lease space and total stock figures were taken directly from CoStar using user-defined geographies for the 'Airport Towns' and 'Catalyst South' areas.

[30] 'See Manor Royal - Top Ten Facts about Manor Royal

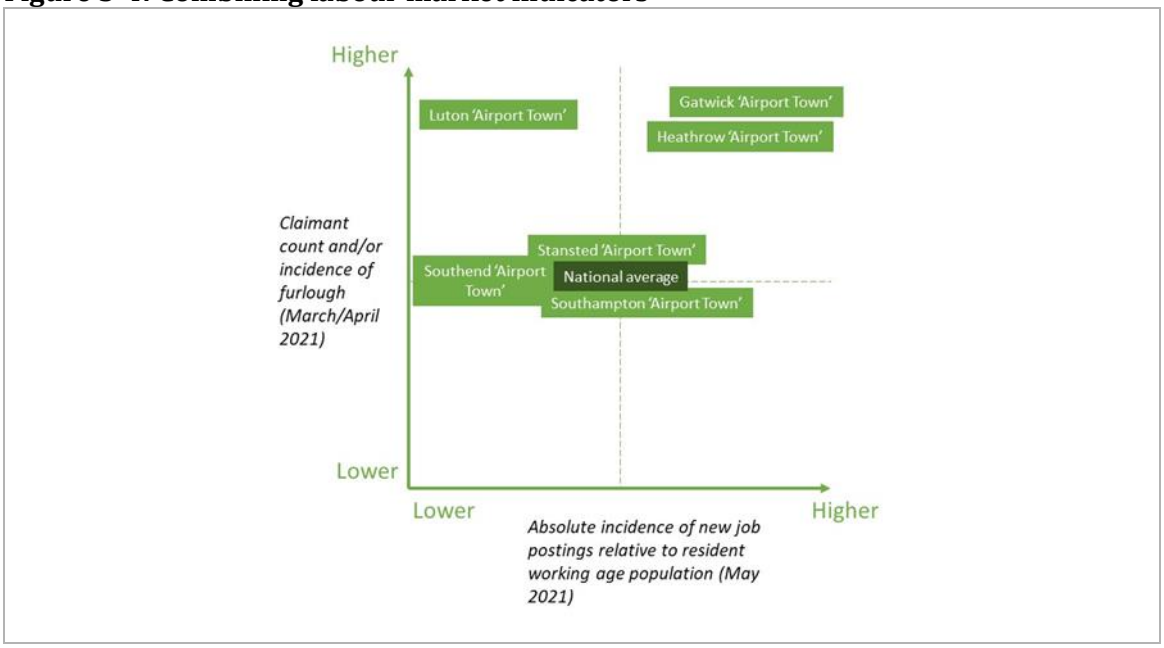
industrial and warehouse units; it is estimated that this will create something like one million sq ft of new commercial space. Locally it is noted that this is very different from the previous financial recession, where sites remained empty and dormant for a long time. Now there is a real interest in development at Manor Royal which has pushed land values up to £3m plus per acre. It also means that – despite the pandemic – rents are not softening, except possibly for office space[31].

Conclusions

5.9 Despite the scale of the economic shock within the 'Airport Towns', there are some signs of adjustment and – perhaps – some level of early recovery albeit on a varying basis.

5.10 In order to provide further insight, Figure 5-4 attempts to combine data on job effects (from Chapter 4) with the job postings data (presented above). **Overall, the six 'airport towns' are currently seeing an incidence of furlough and a claimant count that are both above the national average, *and* job postings have been slower to recover than is the case nationally**. Within this overall picture, there is a mixed set of local circumstances. The shock has been substantial in Gatwick and Heathrow 'Airport Towns' but there are *signs* of new jobs postings that are either relatively high or recovering. It is also within these 'Airport Towns' that the commercial property market appears to be adjusting – albeit with a weak office market and a relatively stronger industrial one. The picture in Luton 'Airport Town' is different and the level of bounce back appears more subdued. Across the other three 'airport towns', the situation is closer to national average. This all reflects quite distinctive local contexts.

Figure 5-4: Combining labour market indicators



Source: SQW

[31] Local intelligence provided to Coast to Capital LEP, July 2021

5.11 These conclusions are important – but they are also really quite nuanced and complicated. Although there is much variation, the 'Airport Towns' are in or close to London's city-region and there is, generally, underlying demand for both people and commercial space. The challenges of recruitment have been aired repeatedly in recent weeks[32]. This is a paradox given the scale of job losses. However it is not unrelated to the UK's departure from the EU which has coincided with the pandemic; we are therefore observing simultaneous labour shortages and job losses. It is also worth noting that similar adjustment bottlenecks are also visible in other countries as economies recover from the pandemic and mitigation measures are unwound (for example, in the United States). In relation to the commercial property market, the loss of employment land over recent years is well documented across Catalyst South, as is the huge underlying demand, particularly for logistics uses[33].

5.12 The inference is that there will be an economic recovery of some form and within it some level of structural adjustment; elements of it are already appearing in the data. Whether it 'works well' for the people and businesses of the 'airport towns' is however a different question. The risk is that the path to recovery results in a progressive shift to lower value activities. In a generally high cost region, this in itself could be very challenging.

[32] See for example Hospitality 'struggling to fill thousands of jobs' - BBC News – from 28th May 2021.
[33] See for example *Loss of Employment Space in Hertfordshire – Study into extent, implications and solutions* Lambert Smith Hampton, February 2019.

6. The outlook for aviation, airports and 'Airport Towns' – and elements of a response

The outlook in relation to aviation

6.1 In relation to aviation, there continues to be much speculation about the shape and pace of recovery. Analysis by the International Air Transport Association (IATA) has pointed to a very rapid bounce back in relation to **global air cargo volumes**. As of April 2021, IATA suggested that industry-wide cargo tonne-kilometres were 5% higher than the pre-crisis peak (August 2018). This reflects a strong economic rebound (so high demand) coupled with low inventory levels (and hence the need rapidly to refill stocks)[34]. The pace of recovery in relation to **air travel** has been slower, largely because of on-going restrictions. IATA reported that in April 2021, industry-wide revenue passenger-kilometres were 65.4% lower than pre-crisis levels; and for international travel only, the scale of the contraction continued to be even higher (87.3% lower than pre-crisis levels). Of late, bookings have been increasing[35] – suggesting a route to recovery – but in general terms, 2023 or 2024 appear to be the 'best guess' in terms of when global travel demand might return to 2019 levels. Within that context, there must be continuing uncertainty in terms of what 'after' will look like, particularly with regard to business travel; the cost/time savings associated with the shift to Zoom and other digital forms of communication have been significant.

6.2 Against this backdrop, there is much evidence that **structural changes are ahead**. In mid 2020, it was reported that 23 airlines (including Flybe and Virgin Australia) had collapsed while others (including Emirates and British Airways) announced major redundancy programmes[36]. The composition of the sector may therefore change.

6.3 In parallel, however, there are two more pervasive changes underway. Neither was caused by the pandemic, but both are likely to be accelerated by it:

- First, **the aviation sector is under substantial pressure to decarbonise**. This may involve a transition to sustainable aviation fuels (over the next three years) and moves towards electrical propulsion and hydrogen propulsion over the next 10-15 years[37]. Technological changes associated with decarbonisation will be a key feature of the aviation sector in the years ahead. In this context, UK government is consulting on plans to deliver net zero aviation by 2050[38]. These include "*act[ing] quickly to revolutionise the*

[34] Air Cargo Market Analysis, IATA, April 2021.
[35] Air Passenger Market Analysis, IATA, April 2021.
[36] "*The 23 airlines that have collapsed since Covid-19*". Article from The Telegraph, 21st July 2020.
[37] "*Hydrogen planes, electric propulsion and new regulations: Aviation is changing*" Article from CNBC, 15th June 2021.
[38] In July 2021, DfT published a consultation document on its strategy for net zero aviation. Whilst recognising the challenges of decarbonising aviation, the strategy seeks to deliver net zero aviation by 2050 ('Jet Zero'). See jet-zero-consultation-a-consultation-on-our-strategy-for-net-zero-aviation.pdf (publishing.service.gov.uk)

technologies needed across the aviation industry: develop cleaner aircraft, produce and use more sustainable fuels, and make our airspace and airports more efficient" [39].

- Second, **airport operations are likely to see a high degree of automation.** This is important for the 'Airport Towns' – and the people who depend on airports for their livelihoods – as more routine jobs in particular could start to disappear even when international air travel returns.

Responding to the economic shock – and future uncertainty

6.4 The future is, clearly, uncertain in relation to all six 'Airport Towns' within, or close to, the geography of Catalyst South. These 'futures' will be influenced by developments within the aviation sector – although a raft of other factors is also at play. It is important to recognise that across the six local areas:

- **the severity of the economic shock has varied substantially**: the 'Airport Towns' linked to London Heathrow, London Gatwick and London Luton have seen the most acute effects (in part because of the local importance of the aviation sector, and in part because of the character of the wider local economy)
- **different 'Airport Towns' have quite different underlying 'factor endowments'**: some have world class universities and research centres and a skills base to match, while others have a much narrower asset base.

6.5 This review for Catalyst South has been a small exercise and the evidence base is patchy. However in starting to think about potential responses, we can draw on a wider body of evidence linked to the consequences of previous economic shocks. The findings from a review of the evidence are summarised in Box 1 below.

Box 1: Economic Shocks Research[40]

In 2013, SQW completed a project for then-Department of Business, Innovation and Skills which considered evidence and lessons from previous economic shocks in the UK and internationally. Underpinned by the evidence, it developed a framework to inform decision-making on whether and how to intervene.

Across all types of economic shocks, the study identified four domains in which responses will be needed:

- **businesses**
- **supply chains**
- **workforce and skills**
- **place and communities**

[39] *Jet zero consultation: A consultation on our strategy for net zero aviation.* Published by Department for Transport, July 2021.
[40] *Economic Shocks Research.* A report to the Department of Business, Innovation and Skills from SQW (2013). Available at: *Economic Shocks Research: A report to the Department for Business, Innovation and Skills (publishing.service.gov.uk).*

The evidence suggested that good responses were characterised by:

- a **mix of interventions** across all four domains
- **good intelligence** – i.e. a prior knowledge of how the economy works, and on-going insight into how it is responding
- an understanding of **"significance" and "influence-ability"**
- **appropriate structures, processes and people** – i.e. governance and arrangements to enable a rapid response, plus local leadership.

In the light of the evidence, the report recommended a four-stage "framework" for responding to a shock. In essence:

- **gathering intelligence** to understand the nature and extent of the shock
- **reviewing functions and forms** – ensuring alignment
- developing **appropriate packages of support** across all four domains for the short-term and long-term
- **implementing those packages** (with monitoring and live evaluation and learning).

6.6 In the paragraphs that follow – and simply as a basis for discussion – we set out a series of possible responses. These are informed by the available evidence. They also take account of the comments and observations made at Catalyst South's conference on 'the future of airport towns' which was held in July 2021[41].

Challenges, opportunities and responses for the Airlines and Airports

6.7 The challenges surrounding air travel during a global pandemic have been at the root of the distinctive economic shock that has confronted 'Airport Towns'. Although not the primary focus of this report, three comments follow in relation to **short term planning horizons and the future of air travel.** All three were discussed at the Catalyst South conference referenced above.

- First, substantial numbers of airport and aviation employees are still on furlough. The scheme is set to end within a matter of weeks and with continuing uncertainty around air travel, significant numbers of redundancies seem probable. **Given the particular challenges facing aviation, there is a case for extending the CJRS into the autumn and winter**
- Second, **the aviation industry needs greater certainty with regard to international air travel**. It needs to be able to plan and to invest (in infrastructure, workforce development, innovation, etc.). However this has been very difficult in the context of frequently changing restrictions. **Any steps that can be taken to increase certainty**

[41] See https://www.youtube.com/watch?v=-AfC60xXaR0

will help the airports and airlines and – in turn – will create more stability across the economies of the 'Airport Towns'.

- Third, whilst the aviation sector (including the supply chain) has been a major beneficiary of the loans schemes put in place during the pandemic, these loans need to be repaid – and the ongoing uncertainties are very problematic in that context. Again, **the specific set of circumstances that confronts the aviation sector (and supply chain) could provide the rationale for an extended repayment period**.

6.8 In the **medium-long term, the aviation industry needs to respond to the challenges and opportunities of Jet Zero**, and there can and should be a partnership response with and through the Airport Towns. We consider this opportunity in the remainder of this chapter.

Challenges, opportunities and responses for the 'Airport Towns'

6.9 **Across the 'Airport Towns', a positive response is needed to the economic shock that has occurred over the last 18 months – recognising that this response needs to be a long term commitment**. In broad terms, this response could be structured around two Pillars:

- **<u>Pillar One</u>: Support the rebuilding and restructuring of the aviation sector and its supply chain locally, consistent with the imperatives linked to Jet Zero**
- **<u>Pillar Two</u>: Help 'Airport Towns' diversify their economies and build resilience –** 'inventing a future' that is perhaps less dependent on aviation – **and support local people through this restructuring process.**

6.10 Both Pillars are important. Although they could be read as conflicting, there is, in practice synergy between them. **'Airport Towns' may or may not succeed in 'shoring up' the aviation sector locally, not least because many key decisions will be taken elsewhere. However the steps that could be taken to help are likely also to equip local areas to 'pivot' their industrial and employment mix which in turn will be a key capability in terms of overall resilience**.

Pillar One: Local initiatives to support the aviation sector and its supply chain, consistent with Jet Zero

6.11 Part of the response could involve a proactive approach to innovation – recognising that this is increasingly place-based[42]. The Science and Innovation Audit (SIA), '*Innovation for sustainable airports'*, focused specifically on Heathrow Airport[43], and it provides useful insights. Paraphrasing slightly, it identified four main priorities:

[42] See *UK Innovation Strategy: Leading the future by creating it.* Published by BEIS, July 2021
[43] *Innovation for sustainable airports – Science and Innovation Audit.* Report led by Brunel University on behalf of a wider consortium, and sponsored by BEIS, summer 2018.

- the need for a **stronger connection between the research base and industry** supporting innovation in sustainable airports
- the importance of **ensuring that there is sufficient commercial space** for businesses to grow
- the opportunity/need to **establish incubators and/or accelerators** with a focus on sustainable aviation
- the overarching importance of **addressing higher-level skills shortages** to accelerate innovation in cyber security (which was identified as critical for the future of aviation).

6.12 **Although the SIA obviously pre-dates both the pandemic and the commitment to Jet Zero, the evidence reviewed in this report suggests that all four of its priorities are highly relevant for the 'Airport Towns'**. All four could be advanced at a local level and all four are relevant whether the ultimate prize is a resuscitated aviation sector or a more diversified high value local economy – or some new combination of the two.

6.13 Taking the four SIA priorities in turn:

- Connections between **the research base and industry** vary substantially across the six 'Airport Towns' – not least because some (e.g. Southampton 'Airport Town') have stronger assets than others (e.g. Gatwick 'Airport Town' and Stansted 'Airport Town'). But whether the focus is university- or business-led research, the importance of accelerating knowledge-based economic growth has never been greater. The aviation sector itself is facing long term challenges which need these connections. There will be a need to understand the barriers to innovation and adoption, in the context of changing UK Government regulation and the impact of regulatory pressures in other jurisdictions. Beyond that, three priorities appear uppermost, consistent with Jet Zero:
  - clean aircraft technology (electric, hydrogen, engines)
  - sustainable aviation fuels
  - airspace modernisation around decarbonisation.

  Where world class universities with capabilities relevant to this agenda are not a feature of 'Airport Town' economies (and even where they are), links will need to be made with institutions from further afield; and many of the other priorities set out in the SIA could help bring these links about.
- The economic shock means that pressures on **commercial space** have eased slightly in the short term. However the fundamental issues have not disappeared and there is evidence to suggest important changes are afoot. At Manor Royal (Gatwick 'Airport Town'), office space vacated by aviation businesses is being diverted to logistics – and there is some concern that lower value uses may be displacing higher value ones. This process is likely to be in evidence elsewhere. In parallel, commercial property may also be under pressure for conversion to residential uses. From both perspectives, 'Airport

Towns' must take steps to use commercial land and property assets wisely and in a manner that is aligned with wider ambitions for economic regeneration and growth.

- The possibilities surrounding **incubators/accelerators** have also been given increased impetus as a result of the economic shock. Well-qualified and experienced people are being made redundant from across the aviation supply chain, and amongst them could be the very entrepreneurs that 'Airport Towns' need to drive economic recovery. In all probability, these will gravitate to activities that they know – which are likely to be allied to aviation.

- The fourth priority from the SIA is, arguably, the most important. It relates to the need to address **higher level skills shortages**. Within the SIA, cyber security was the immediate focus – and this continues to be critically important. In addition, higher level skills linked to the different facets of decarbonisation will be imperative. The new 'green revolution' will shape aviation in the mid-21st Century, but it will also affect every sector of the economy. The same is true of digitisation. Enhancing workforce skills in these priority areas will be critical in terms of 'Airport Towns'' medium-long term economic futures whatever the relative importance of aviation.

Pillar Two: Local initiatives to support place and communities

6.14 The four SIA priorities were effectively defined from the airports/aviation sector 'looking outwards'. Reflecting on the experience set out in Box 1, we also need to reflect on the challenges/opportunities from the local area perspective: many local residents were working in low pay and low skill jobs, and these individuals – and their households – are the ones that are likely to have borne the brunt of the pandemic's impact.

Equipping local people for new jobs

6.15 In this context, it will be essential that people who were previously working in low pay and low skill jobs are **reskilled and upskilled** – so that they have the option of securing alternative employment. In practice, many low pay airport jobs were being lost through automation well before Covid-19 started to be a factor, and this process is likely to accelerate.

6.16 There are already initiatives underway in this context. For example, a thousand jobseekers previously employed in the aviation industry at Heathrow Airport are being supported to transfer their skills into world-class screen industries based at Pinewood Studios[44]. There is a need to build on ventures of this type.

6.17 More generally – and recognising the particular challenges facing young people – there may be a case for **a more flexible approach to the use of the apprenticeship levy.**

[44] See Lights, Camera, Action - jobseekers supported into film industry | Buckinghamshire Local Enterprise Partnership (buckstvlep.co.uk)

Equipping 'Airport Towns' for more inclusive growth

6.18 In the main, local economies in the south have not struggled to create jobs – but **there has been an ongoing challenge in relation to three inter-related processes: growing businesses to medium size; generating medium- and higher-quality jobs in the process; and equipping local people with the right skills to fill those jobs and to progress**.

6.19 This was a set of issues that occupied the Productivity Commission that was set up in Berkshire (home to a significant part of Heathrow 'Airport Town') in 2018[45]. The Resolution Foundation has also investigated it in detail[46]. In Berkshire, **the price and availability of commercial sites and premises**, and **workforce skills associated with progression**, were found to be critical. Similar issues are likely to exist across all of the 'Airport Towns': **making provision for small businesses to grow to medium scale, and for local people to progress through those businesses, will be very important in post-Covid recovery**.

Developing a resilience and support package

6.20 Given the shared challenges and opportunities that confront all six 'Airport Towns', there may be a case for **developing a resilience and support package for each local area**. This could initially be focused on skills, employment and training (and it could examine existing programmes and identify opportunities for changes in funding and policy to allow for more effective local interventions). Some of that might be worked up collectively (under the auspices of Catalyst South and bringing to bear the relevant Skills Advisory Panels in each LEP area) and then locally tailored.

[45] See The LEP Network | Local Industrial Strategies.
[46] *A rising tide lifts all boats? Advanced industries and their impact on living standards.* Neil Lee and Stephen Clarke, July 2017, for the Resolution Foundation.

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