

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>Department for Transport</b>	<b>Title:</b> <b>Impact Assessment of the airport security provisions of the Transport Security Bill</b>	
<b>Stage:</b> Consultation	<b>Version:</b> Final	<b>Date:</b> 14/07/08
<b>Related Publications:</b> Airport Policing, Funding and Security Planning consultation paper		

**Available to view or download at:**

<http://www.dft.gov.uk/consultations/open/airportpolicing>

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**What is the problem under consideration? Why is government intervention necessary?**

The Independent Review of Airport Policing 2006 identified the need for a fair and transparent funding system for airport policing across all UK airports. It further recommended that security stakeholders at airports undertake a security planning process to ensure effective mitigation of threats to the airport, improve co-operation and co-ordination and prevent misunderstanding.

Government intervention is necessary to establish a mandatory framework to deliver these changes, ensuring the mitigation of threats to the airport from terrorism and other crime. In particular, it should clarify the police role and address the funding of police activities by industry. The current funding arrangements are no longer fit for purpose given current national threat levels and the growth in the air transport market.

To achieve this, the Government proposes to develop a comprehensive set of guidance for use by airport security stakeholders, underpinned by legislation where elements of the planning and funding process need to be mandated at all airports currently regulated by the National Aviation Security Programme.

### What are the policy objectives and the intended effects?

The objectives of the legislation and guidance are to:

- provide for mandatory risk assessments and airport security plans, at the majority of airports in the UK, based on an agreed threat and risk assessment process. These would clearly set out the current and future responsibilities of stakeholders and capture key mitigating actions for the year ahead.
- introduce a transparent process by which the need for any dedicated police presence at airports that fall within the scope of the National Aviation Security Programme is determined, and levels agreed, by the airport and police force.
- provide a process that clarifies where there might be a role for a dedicated policing presence at individual airports
- abolish the current legislative system of 'designation' at airports and require all airports with an agreed, dedicated police presence to pay for that service. This will replace the current unequal system.
- establish an effective dispute resolution process where there is a disagreement over Police Service Agreements or Airport Security Plans.

### What policy options have been considered? Please justify any preferred option.

Two possible options on enhancing airport security have been identified, which are assessed against the 'base case'. The base case assumes that no changes are made to existing procedures and legislation. The base case is not assessed as a policy option since the current system of funding airport policing is inequitable and anticompetitive so this aspect of current arrangements must be changed as a minimum.

Detailed descriptions of the options can be found under Section 2 (Options Analysis). Briefly these are:

- i Option 1 – Extend designation to require all airports in the existing National Aviation Security Programme with an agreed, dedicated police presence to pay for policing costs.
- ii Option 2 – Strengthening airport security planning and remove existing designation for policing costs. This would introduce new airport security planning procedures, with a new framework that ensures that all airports with a permanent police presence pay for agreed policing costs.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

A review of the impact of the policy will take place 12-24 months after the legislative requirement to introduce and produce elements of the new framework. This will allow the Department to assess what the airport policing costs are to operators and to understand how well the new process is facilitating collective agreement and action to strengthen airport security.

The Department for Transport (DfT) and Home Office will also monitor and evaluate the impacts of policy changes via:

- DfT's regulatory role ensuring compliance with aviation security standards under the National Aviation Security Programme
- Evidence presented to the National Aviation Security Committee and its sub-committees, as well as separate reports that may be submitted by interested parties to DfT or the Home Office
- Calling in Airport Security Plans and Police Service Agreements as necessary
- Assessing the reasons for, and outcome of, any dispute resolution process.

**Ministerial Sign-off** for consultation stage Impact Assessment:

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options*

Signed by the responsible Minister:

Ruth Kelly MP

..... Date: 15/07/08

# Summary: Analysis & Evidence

<b>Policy Option: 1</b>	<b>Description:</b> Extend designation to require all airports in the to pay for any dedicated policing costs
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups'	
	<b>One-off (Transition)</b> <b>Yrs</b>	Extending designation (under the terms of current legislation) would introduce a new requirement for airport operators (at those airports not currently 'designated' - currently fifteen - to pay for the cost of any agreed, dedicated policing presence.	
	<b>Average Annual Cost</b> (excluding one-off)	<b>Total Cost (PV)</b>	
12-17m (ongoing)			
<p><b>Other key non-monetised costs</b> by 'main affected groups'</p> <p>Many airports will not require a dedicated police presence. Airports that do may choose to pass on some or all of the policing costs on to airlines or other customers. These are commercial decisions to be taken on an airport by airport basis and as such, cannot be assessed quantitatively.</p> <p>Extending designation would require most airports to agree a Police Service Agreement with the local force and Police Authority. This would require some additional resource to take part in analysis of the police role and negotiations over policing levels and facilities.</p>			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups'	
	<b>One-off</b> <b>Yrs</b>	Costs agreed in a PSA would be met by the airport operator. Monetised benefits would therefore accrue to those police authorities and central police budgets that are currently contributing towards airport policing costs at non-designated airports.	
	<b>Average Annual Benefit</b> (excluding one-off)	<b>Total Benefit (PV)</b>	
12-17m (ongoing)			
<p><b>Other key non-monetised benefits</b> by 'main affected groups'</p> <p>Extending designation would create a level playing field so that all airports are exposed to the costs of policing their assets. Current arrangements are anti-competitive.</p> <p>The process of negotiating a Police Services Agreement will bring some openness and clarity as to the role of the police at the airport.</p>			

**Key Assumptions/Sensitivities/Risks**

Future policing costs will be influenced by a number of factors, primarily based on the risk presented by threats to the airport. Moreover, certain functions carried out by police officers or police staff might in some cases be carried out by airport security or contract staff. Decisions on how to resource these activities are for local airport security stakeholders to determine.

The ranges presented as an average annual cost or benefit are based on 2007-08 figures (see table 2 below) and an assumption about efficiency savings.

Price Base Year	Time Period Years	<b>Net Benefit Range (NPV) £</b>	<b>NET BENEFIT (NPV Best estimate) £</b>
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What is the geographic coverage of the policy/option?	United Kingdom
On what date will the policy be implemented?	2010
Which organisation(s) will enforce the policy?	DfT, Home Office

What is the total annual cost of enforcement for these organisations?					
Does enforcement comply with Hampton principles?					Yes/No
Will implementation go beyond minimum EU requirements?					Yes
What is the value of the proposed offsetting measure per year?					n/a
What is the value of changes in greenhouse gas emissions?					n/a
Will the proposal have a significant impact on competition?					Yes/No
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large	
Are any of these organisations exempt?	No	No	No	No	
<b>Impact on Admin Burdens Baseline</b> (2005 Prices)					(Increase - Decrease)
Increase of	Decrease of		<b>Net Impact</b>	£ minimal	
Key:	Annual costs and benefits: Constant Prices			(Net) Present Value	

<b>Policy Option: 2</b>	<b>Description:</b> Strengthen airport security planning and require all airports to pay for any dedicated policing costs
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'
	<b>One-off (Transition)</b>	<b>Yrs</b>	
	<b>Average Annual Cost (excluding one-off)</b>		Monetised costs are effectively the same as those for option 1 with airports required to pay for the cost of any dedicated policing presence, where they do not already do so.
	12-17m (ongoing)		
		<b>Total Cost (PV)</b>	£
<p><b>Other key non-monetised costs</b> by 'main affected groups'.</p> <p>Option 2 would lead to similar non-monetised costs as Option 1, but with additional administrative and resource costs associated with carrying out the MATRA process and producing Airport Security Plans and Police Service Agreements. These costs would be borne by central Government, local police forces and authorities, and airport operators</p>			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups'
	<b>One-off</b>	<b>Yrs</b>	
	<b>Average Annual Benefit (excluding one-off)</b>		Costs agreed in a PSA would be met by the airport operator. Monetised benefits would therefore accrue to those police authorities and central police budgets that are currently contributing towards airport policing costs at non-designated airports.
	12-17m (ongoing)		
		<b>Total Benefit (PV)</b>	£
<p><b>Other key non-monetised benefits</b> by 'main affected groups'.</p> <p>As for option 1. There would also be key additional benefits that are not monetisable. Instituting a structured and holistic security planning process, informed by threat and risk assessment, will help to ensure that all security stakeholders understand their roles and responsibilities in delivering effective mitigation of threat. It will also improve inter-agency co-operation to ensure resources are utilised in an effective way to deliver both business-as-usual security (above and beyond NASP requirements) but also new measures where these are needed.</p>			

**Key Assumptions/Sensitivities/Risks**

Future policing costs will be influenced by a number of factors, primarily based on the risk presented by threats to the airport. Moreover, certain functions carried out by police officers or police staff can be carried out by airport security or contract staff. Decisions on how to resource these activities are for local airport security stakeholders to determine.

The ranges presented as an average annual cost or benefit are based on 2007-08 figures (see table 2 below) and an assumption about efficiency savings.

The resource and administrative commitment required of security stakeholders taking part in the security planning process will be dependent on the scale and complexity of operations.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
What is the geographic coverage of the policy/option?		United Kingdom	
On what date will the policy be implemented?		2010	
Which organisation(s) will enforce the policy?		DfT, Home Office	
What is the total annual cost of enforcement for these organisations?			
Does enforcement comply with Hampton principles?		Yes/No	
Will implementation go beyond minimum EU requirements?		Yes	

What is the value of the proposed offsetting measure per year?		n/a		
What is the value of changes in greenhouse gas emissions?		n/a		
Will the proposal have a significant impact on competition?		Yes/No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No
<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)		
Increase of	Decrease of	<b>Net Impact</b>	£ minimal	
Key:	<b>Annual costs and benefits: Constant Prices</b>	<b>(Net) Present Value</b>		

## Evidence Base (for summary sheets)

### 1. Scope of the Impact Assessment

- 1.1 This Impact Assessment (IA) assesses the impact of the statutory measures the Government is considering, through the Transport Security Bill to take to strengthen airport security planning and clarify the role and funding of police at UK airports.
- 1.2 As described in section 6 of the consultation document, the Government intends to implement a flexible framework within which airport operators, the police, and other security stakeholders, can effectively plan for security above and beyond the measures that are in place as part of the National Aviation Security Programme. The framework will be key in establishing, clearly, whether or not a dedicated police presence is required at an airport, and if so, what that level should be; and the specific activities required of the police to mitigate the risks presented by terrorism and other criminal activity. Overall, the outcomes that are sought are five-fold:
  - a. strengthened co-ordination and co-operation between airport security stakeholders;
  - b. robust analysis of the current risks to an airport
  - c. clear and agreed roles and responsibilities for the delivery of airport security
  - d. identification and delivery of measures necessary to address vulnerabilities
  - e. a consistent funding regime for dedicated airport policing, that abolishes the current system and requires all airport to meet any agreed policing costs

#### Airports in scope of legislation

- 1.3 The intention is that the legislation should apply to all UK airports currently directed under powers in sections 12, 13, 13A and 14 of the Aviation Security Act 1982. These airports are included in the scope of the National Aviation Security Programme (NASP) - currently those airports hosting commercial flights using aircraft that are either more than ten tonnes in weight or have more than nineteen seats. The current list of airports can be found at Annex B.

#### Scope of the proposals and impacts

- 1.4 All security stakeholders at UK airports that are part of the NASP will have some involvement in the new security planning process, either directly or through representatives on risk assessment (MATRA or similar) and/or executive groups. This is explained fully in section 6 of the consultation document.

- 1.5 Impacts will be most significant for airport operators and police forces that supply a dedicated policing contingent to an airport. The UK Border Agency, airlines, cargo agents, retailers, and where appropriate, National Air Traffic Services Ltd, Special Branch and the Serious Organised Crime Agency, will all have some involvement in the security planning process.

## 2. Options Analysis

- 2.1 This section sets out some potential costs and benefits of implementing the proposed airport security legislation. Projected monetised costs and benefits are not included in this impact assessment due to the complexity and unpredictability of the factors that will influence future policing costs at airports.

### BASE CASE

#### Definition

- 2.2 The DfT WebTAG Guidance requires that all options are assessed relative to a common 'base case', sometimes referred to as the 'do-nothing' scenario. The 'base case' is defined over the appropriate appraisal period of the relevant 'do-something' options. The base case would see the maintenance of the current system of designation and inter-agency cooperation. This has the following features:

- nine airports<sup>1</sup> are designated for the purposes of the Aviation Security Act 1982.
- this legislation requires airport operators to pay for agreed policing costs at the nine designated airports following consultation with named parties
- costs include staffing and the provision of facilities and accommodation
- some voluntary contributions from airport operators to policing costs at non-designated airports
- Multi-Agency Risk and Threat Assessment is being used at most UK airports on a voluntary basis to inform agreement on policing levels

- 2.3 There are no *additional* costs and benefits associated with the base case. However certain drivers, such as threat level and the complexity of airport operations are likely to change over time, amplifying the profile of costs and benefits within the base case over time relative to the *current year*. Drivers of policing levels are likely to change over time irrespective of current funding arrangements.

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<sup>1</sup> Heathrow, Gatwick, Stansted, Aberdeen, Edinburgh, Glasgow International and Glasgow Prestwick, Birmingham and Manchester

## Policing costs

- 2.4 Under the current system of designation, airport operators at nine airports would continue to pay for the costs of any agreed dedicated policing (as set out in the Aviation Security Act 1982 as amended by the Civil Aviation Act 2006).
- 2.5 Table 1 presents the historic trends in total policing costs for designated airports (airports that currently pay for policing costs). These show that costs have increased over time, although there have been instances of modest falls in overall costs from year to year. The costs are shown in current prices.

**Table 1: quantum of policing costs at the designated airports in UK for period 2001/02 to 2007/08 in current prices.**

Year	Total Cost of Policing (£)
2001/02	54.2
2002/03	63.3
2003/04	66.2
2004/05	73.6
2005/06	72.2
2006/07	81.8
2007/08	80.0

- 2.5 A significant proportion of policing, particularly at larger airports, is in place to protect the travelling public and staff from the threat of terrorism. Fluctuation in aggregate costs at designated airports has been largely driven by changes to the aviation threat level as well as the nature of detailed negotiations at the local level. The attacks of September 2001 in the United States and July 2005 in London necessitated a security response that included a notable increase in policing costs borne by the designated airports in the subsequent financial year. Other factors that are likely to have influenced overall policing costs include, the growing size of these airports, the number and activities of airport security personnel; specific local intelligence; local crime statistics; movements of high value goods; and the use of technology. It is not possible to unpick the extent to which these factors individually influence policing levels.

## Increased costs of current system

- 2.6 The Independent Review of Airport Policing completed in 2006 found several weaknesses with the current system of airport security planning and airport policing:
- an absence of shared strategic vision amongst security stakeholders

- a lack of fruitful relationships and open communication between stakeholders at individual airports
- risk assessment based on detail rather than delivery of mitigating actions
- misunderstanding as to individual roles for delivering airport security
- a lack of a national vision for the appropriate security response necessary to meet the national threat
- specifically, the lack of a consistent transparent framework for establishing the police role at an airport
- a funding regime, whereby only some airports pay for dedicated policing, that is no longer fit for purpose
- the omission of airport policing from the mainstream policing agenda

2.7 It is likely that as airports grow in the long-term, assuming the continuation of the current threat level, that non-monetised costs associated with these issues would continue to increase.

## OPTION 1

### Description

2.8 **Extend designation to all airports in the existing National Aviation Security Programme.** Extending designation (under the terms of the Aviation Security Act as amended) would introduce a new requirement at some airports (at those airports not currently 'designated' under current legislation) to pay for the cost of any agreed, dedicated policing presence. As is currently the case, not all airports will require a dedicated police presence, with emergencies being addressed through a '999' response from the local station. Where dedicated policing is agreed, the airport operator will meet the costs of officers, their training and accommodation, as well as any facilities required for police activities. These elements would be captured in a Police Services Agreement.

2.9 The policing costs borne by operators would not include Special Branch activities. Further areas that are exempt from this requirement will be set out in guidance and include civil contingency activities, additional policing in response to emergencies (including hijack) and border control activities. The policing associated with these activities will be subject to separate Home Office police funding channels.

### Costs

2.10 Option 1 would impose both direct and indirect costs on society relative to the 'base case' scenario. Direct costs are defined as first round impacts that would be borne directly by airports and local police. Indirect costs are second round impacts that may be borne by tax payers, airlines, the retail industry, and air passengers.

### First round costs

- 2.11 The main direct costs associated with Option 1 are the policing costs and administrative/resource costs.
- 2.12 Policing costs would now fall on airport operators that currently do not pay for policing. A survey of current policing levels and costs has been carried out for the current financial year (2007-08) and is set out in the table below. The airports represent all those that currently handle more than 500,000 passengers per annum. We are not aware of a dedicated police presence at airports smaller than this although this may change in line with future national threat levels and the growth in size of airports themselves. Equally, it is possible that police levels may reduce at some airports.
- 2.13 The majority of costs include an amount of management overhead and/or support for various security-related activities (such as attendance at risk assessment/MATRA meetings, community safety advice), resourced from the local police station, which may incur a small cost to the operator.
- 2.14 The data in table 2 shows current policing costs at those non-designated airports that currently have a dedicated police presence. The data has been anonymised and categorised by airport size on security grounds so as to not reveal the current policing levels at individual airports.

**Table 2: *policing costs at non-designated airports in UK for 2007-08 with pax nos exceeding 500,000 per annum***

<b>Airport</b>	<b>(£m)</b>
Large regional	0.47
Large regional	1.60
Large regional	0.81
Large regional	1.00
Large regional	0.30
Medium regional	0.21
Medium regional	7.00
Medium regional	0.50
Medium regional	1.40
Medium regional	0.50
Small regional	0.04
Small regional	0.29

Small regional	0.40
Small regional	0.15
Small regional	0.18
Small regional	0.01
<b>Total</b>	<b>16.40</b>

Key: Large regional = >5m departing or arriving passenger per annum (2007)  
Medium regional = 2-5m departing or arriving passenger per annum (2007)  
Small regional = <2m departing or arriving passenger per annum (2007)

Note: Two of the airports in table 2, Belfast City and Belfast International, are policed by private forces. The airport operators concerned currently meet these costs.

2.15 Whether or not a dedicated police presence is required, and to what extent, is a matter for local negotiation between the airport operator, police force and police authority, informed by the influencing factors set out in the base case. The wide range of figures for airports of similar size demonstrates that policing levels are influenced by a number of factors, and that passenger numbers have a relatively weak influence over resourcing decisions.

2.16 The requirement to meet additional security costs may have a short term negative impact on the profitability of some airports. This is likely to be minor in most cases although more significant in others. Based on current passenger numbers and policing costs, additional policing costs borne by non-designated airports would equate to approximately 70p per return ticket.

2.17 Due to commercial sensitivities, it is not possible to publish details as to how individual operators will be affected. However, a survey of affected airports was conducted by the Airport Operators' Association, looking at impacts for both operating profits and profitability. This revealed that if non-designated airports were to meet current policing costs, notwithstanding airport size, average impact on operating costs would be approximately 7-9%. The implications for profitability are less clear. At larger airports, impacts on profitability would be of the order of 20-30%. For medium-sized and smaller airports (as per the categories used in table 2), profitability impacts vary widely. It is notable that a number of small regional airports estimate that, taking a static view of current profit levels, they would become loss-making as a result of additional policing costs.

2.18 Airports are currently operating in a highly competitive marketplace in the context of high fuel and energy prices. With this in mind, the requirement to pay for policing is unlikely in itself to have a significant bearing on an airport's future commercial viability. In cases where an airport operator is faced with what appears to be unreasonable or financially untenable policing costs, then the process of dispute resolution would be initiated.

2.19 The first round costs of policing are subject to a number of variables beyond passenger numbers and the threat presented by terrorism. While growth in passenger levels is clearly a strong influence over future policing levels at airports, changing technology, police operating practices and changes to criminal and terrorist modus operandi will also be factors. Moreover, policing levels are not benchmarked nationally. **As such we have not quantified the impacts of policing costs over time.**

2.20 Although it has not been possible to present a monetised forecast for future policing costs for non-designated airports, this impact assessment does present a clear view of the order and range of financial impact. **We would welcome from airport operators, further, more detailed evidence on financial impacts, on a confidential basis.**

### *Second round costs*

2.21 In addition to the first round costs, there are likely to be second round depending on how airport operators choose to recover policing costs from their customers. Potential second round costs may fall on the following sectors where a commercial relationship exists with airports:

- Airlines (and their customers): costs may be recovered through increased airport charges, and in turn, these costs may be passed through to passengers through increased ticketing prices.
- Air Cargo Operators (and their customers): costs may be recovered through increased airport charges, and in turn, these costs may be passed through to customers.
- Retail (and their customers): costs may be recovered through the costs of retail leases and other commercial arrangements that may exist. In turn, any increases to these costs may be passed through to customers.

2.22 Collectively, these are commercial decisions to be taken on an airport by airport basis and as such, cannot be assessed quantitatively.

### **Benefits**

2.23 Option 1 would offer both direct and indirect benefits on society relative to the 'base case' scenario. Direct benefits are defined as first round impacts that would be borne directly by airports and local police forces and authorities. Indirect costs are second round impacts that may be borne by tax payers, airlines, the retail industry, and air passengers.

### *First round benefits*

2.24 If designation were extended to all airports within the NASP, costs agreed in a Police Services Agreement would transfer to the airport

operator in all cases. This would result in a reduction in the costs borne by police authorities and central police budgets that are currently contributing towards airport policing costs at non-designated airports (as displayed in table 2). Police authorities would then be in a position to realign future budgets to focus on other policing activities in the local area.

- 2.25 In addition to reduction in the cost burden on local police, there are potential efficiency savings arising from the process of negotiating and agreeing a PSA since the airport operator will be in a position to apply a level of scrutiny and challenge to those police activities that are being paid for.

### *Second round benefits*

- 2.26 The second round benefits emanate from a reduction in the burden to tax payers. Police authority budgets are met from a combination of Government grants, business rates and the police precept in the council tax. Releasing police authorities from the requirement to fund airport policing at non-designated airports would therefore benefit local and national tax-payers as well as businesses. It is not clear at this stage what this would mean for the redeployment of police officers or police authority budgets.

## **OPTION 2**

### **Description**

- 2.27 Strengthening airport security planning and remove existing designation whereby airport operators at only nine airports are required to meet uniformed policing costs. This would see new airport security planning procedures (set out below), with a new framework that ensures that all airports with a dedicated, agreed police presence pay for policing costs. In essence, the airport security provisions set out in the new framework would :

- Provide for a threat and risk assessment process, based on the multi-agency threat and risk assessment (MATRA) process already in place at most airports.
- Abolish the current legislative system of 'designation' at airports, whereby only nine airports are required to meet policing costs, and require all airports with a permanent police presence to pay.
- Require the principal security stakeholders at the majority of airports in the UK to agree a local airport security plan, based upon an agreed threat and risk analysis.

- Establish an executive security function with appropriate authority to review security risks to the airport and ensure that Airport Security Plans are delivered to mitigate unacceptable levels of risk.
- Introduce a transparent process by which the need for any permanent police presence at airports that fall within the scope of the National Aviation Security Programme is determined, and levels agreed, by the airport and police force. Where necessary, this would then be captured in a Police Services Agreement.
- Amend the current process of expert determination in the event that parties are unable to conclude a Airport Security Plan or Police Services Agreement

## Costs

2.28 Option 2 would impose both direct and indirect costs on society relative to the 'base case' scenario. Direct costs are defined as first round impacts that would be borne directly by airports and local police. Indirect costs are second round impacts that may be borne by tax payers, airlines, the retail industry, and air passengers.

### *First round costs*

2.29 The main direct costs associated with Option 2 are the costs associated with airport policing costs from de-designation and administrative/resource costs of the new security planning regime.

2.30 The airport policing costs borne by airport operators from designation and associated administrative costs for negotiations would be similar to Option 1.

2.31 Carrying out the threat assessment and executive security functions at UK airports will place an administrative cost on those agencies participating in the development and maintenance of risk assessments and Airport Security Plans:

- Airport operator
- Local police force
- Local police authority (Airport Security Plans only)
- UK Border Agency
- Airlines
- Other parties directed under the provisions of the Aviation Security Act 1982 (e.g. cargo agents)
- National Air Traffic Control Service

2.32 The most significant administrative costs will fall to the airport operator, who will be responsible for ensuring that both risk assessments and Airport Security Plans are produced and maintained so that these documents are complete, accurate, and up-to-date. Other agencies

involved in both the risk assessment and executive security functions will need to provide staff to attend meetings and to deliver actions as agreed. The frequency of meetings and the level of supporting analysis carried out to execute these activities will be a matter for local determination.

- 2.33 There may be legal costs associated with the development of Airport Security Plans or Police Service Agreements although legal advice may be provided by in-house lawyers. It has not been possible to estimate the monetised cost of this.

### *Second round costs*

- 2.34 These costs will be similar to those for option 1 since they derive from a similar process of negotiation. Policing costs met by those airport operators that are not currently designated may be passed on to airlines, air cargo agents, retail interests and any other customers. This in turn may be passed through to passengers and other groups. This is a commercial decision for the operator concerned and as such, cannot be assessed quantitatively.

### **Benefits**

- 2.35 Option 2 would impose both direct and indirect benefits on society relative to the 'base case' scenario.
- 2.36 The non-monetised benefits are key here in relation to the relatively modest savings made by taxpayers. The benefits of the proposed new system are explored further in the consultation document.

### *First round benefits*

- 2.37 The first round benefits associated with option 2 build on the limited benefits arising from option 1 with regard to a reduction in the costs for local police from designation and any efficiency savings that might arise from the new security planning regime.
- 2.38 We would expect the new security planning process to produce efficiency savings in terms of the way in which resources are deployed to mitigate threats which go beyond any gained from implementation of option 1. A comprehensive, open and robust assessment of how resources are currently being deployed, where this is not already happening, should allow agencies to reach agreement in the Airport Security Plan as to changes to operating practices and use of resources that mitigate threats in a more efficient way than is currently the practice.
- 2.39 However, primary benefits will be realised from the introduction of a security planning process that provides a framework for more robust and effective mitigation of threats to the airport, and allows the police role in doing so to be effectively determined.

- 2.40 Mandating a threat and risk assessment process will ensure that all airports regulated by the National Aviation Security Programme are carrying out a thorough assessment of the threats to the airport and the most appropriate mitigation.
- 2.41 An Airport Security Plan will act as a formalised agreement between all parties, setting out responsibilities for all aspects of security in an individual airport providing clarity on roles and responsibilities and ensuring that key strategic actions to strengthen airport security are monitored and delivered by senior security stakeholders.
- 2.42 Ensuring an executive group of security stakeholders is required to consider the threat and risk analysis and assessment with the delegated authority to fund and resource strategic mitigating actions will enhance airport security and establish collective responsibility for doing so.
- 2.43 Removing the system of designation will provide a consistent funding process for police activities at airports that treats all operators equally in a competitive market. The current system whereby only nine airports meet dedicated policing costs is inequitable.
- 2.44 Providing a robust dispute resolution process where Airport Security Plans and Police Service Agreements cannot be agreed could save parties significant resource time. It will also ensure that a state of uncertainty does not exist whereby urgently required activities are put on hold.

### *Second round benefits*

- 2.45 As for option 1, these benefits stem from a reduction in the burden to tax payers. It is not clear at this stage what this would mean for the redeployment of police officers or police authority budgets.
- 2.46 A more robust and evidence-based process of assessing and mitigating threats, over and above the airside activities required under the NASP, will only strengthen security and should enhance relationships between stakeholders, benefiting all those who use work in, and use, UK airports.

## **3. Competition Assessment**

- 3.1 A full competition assessment is set out at **Annex A**. This looks at the competition implications for the aviation sector brought about by the new proposals.

## **4. Small Firms Impact Assessment Test**

- 4.1 We do not anticipate that airports with fewer than 50 employees are likely to require a dedicated police presence given current UK threat levels and other variables (see assumptions), although there may be exceptions to this in future. However, a small number of such airports - those currently regulated under the National Aviation Security Programme - may be required to discuss and agree a risk assessment and high-level Airport Security Plan with other security stakeholders (for example, the local police borough commander). A minimum frequency of meetings will not be prescribed in legislation and will be a matter for the airport to determine.

## **5. Implementation**

- 5.1 Implementing the airport security provisions are subject to securing a legislative slot time in the 2008-09 Parliamentary Session. It would be sensible to introduce the new system of airport security planning and police funding to coincide with the financial year subsequent to enactment of legislation (common commencement date of April 6<sup>th</sup> 2010). This position would be reviewed if enactment occurred shortly before the start of the financial year.
- 5.2 Co-ordination of the new regime will generally be the responsibility of the airport operator although all parties will need to fulfil their individual responsibilities as set out in legislation. Implementation of Police Service Agreements will be the joint responsibility of the airport operator, local police force and police authority.
- 5.3 Implementation will be supported and overseen by the Transport Security Directorate in the Department for Transport.

## **6. Race / Disability / Gender Equality**

- 6.1 The provisions are concerned with how stakeholders communicate, plan, and fund security activities and as such have no bearing on race, disability or gender.

# Competition Assessment

## 1. Competition Implications of new proposals

### Extent of Government Consultation

- A.1 The Government is consulting on establishing a mandatory framework for airport security planning which provides a clear and transparent process for mitigating threats to the airport from terrorism and other crime. In particular, it should clarify of the police role and address the funding of police activities by industry.
- A.2 The impact assessment has outlined two possible options on enhancing airport security. Briefly these are:
- *Option 1* – Extend designation to require all airports in the existing National Aviation Security Programme with an agreed, dedicated police presence to pay for policing costs.
  - *Option 2* – Strengthening airport security planning and remove existing designation for policing costs. This would introduce new airport security planning procedures, with a new framework that ensures that all airports with a permanent police presence pay for agreed policing costs.
- A.3 This competition assessment largely focuses on the requirement for all airports to pay for the costs associated with a permanent police presence since this has by far the most significant financial implications.

### Potential implications for competition

- A.4 The policy proposals are directly applicable to UK law, and makes specific requirements for non-designated airports to pay the costs of airport policing. As stated in the consultation paper, the purpose of the legislation is to ensure that the users of policing services bear the full costs.
- A.5 There are number of ways in which UK airports may react to the proposals. In some cases they will bear the full costs in the short term, in other cases they will be able to pass them onto to airlines, retail and other players in the market. Therefore, the range of possible outcomes is broad and difficult to predict with certainty. However, the need to discuss competition issues arises from the possibility that any introduction of additional policing costs to medium and smaller airports

may increase the costs they face and may affect the way they compete with larger airports.

## Key Questions

A.6 The OFT Competition Assessment Guidance 2007 broadly sets out the key issues that should be addressed in the competition assessment for each of the terminal charging options. This competition assessment addresses the following questions:

- What markets may be affected by the new requirement for all airports to pay for the costs associated with a permanent policy presence?
- How would this new requirement affect competition in the affected markets? In addressing this question, attention is focussed on the four questions set out in the OFT Competition Assessment Guidance (2007).

## 2. Affected Market

### AIRPORT MARKET

#### Market Identification

A.7 The primary market that may be affected by the new proposals is the UK commercial airport market. Commercial airports hold licenses to operate landing and take-off facilities for scheduled and charter airlines for air passengers and air freight services. They generate their revenues principally from two sources:

- *Aviation revenues* : these take the form of passenger charges (including levies on departing passengers and baggage handling charges), runway movement charges (levied on aircraft, according to weight) and aircraft parking charges (based on a combination of aircraft weight and time parked). At Heathrow, Gatwick, Stansted and Manchester airports, passenger charges, runway movement charges and aircraft charges are currently regulated by the Civil Aviation Authority (CAA), according to a price formula linked to the retail price index (RPI).
- *Commercial revenues* : these include various forms such as duty free and tax free shopping, tax-paid specialist shops, catering, bureaux de change, car parking and rental, transport operations and property services (including property development and rent from businesses located within the airport). Retailing, catering and revenues from car parks tend to be the main sources of commercial revenues.

A.8 There are essentially three forms of demand for the aviation and commercial services provided by airports :

- *Passenger demand:* Passengers are both direct and indirect consumers of airport services. We define direct demand as those airport services that passengers consume directly from an airport (e.g. shops, parking, etc). Whilst indirect demand represents those airport services they consume as result of purchasing a service from the airline that relies on airport provision (e.g. flights, check-in, interlining, etc
- *Freight Demand:* In addition to passengers, air freight represents a large proportion of demand for commercial airport services.
- *Airline Demand:* While passengers can switch between airports easily and businesses can change their demand for air freight, airlines in general tend to make plans over longer time horizons. For example, airlines change their service plans season-by-season (rather than day-by-day) and take a number of strategic decisions (such as which airports to operate from) over longer time horizons. They generally prefer to be located in places that provide a greater reach in terms of consumers and that allows them to reduce their cost of operation, although a number of airlines operate profitably from smaller airports. Airlines demand for an airport will depend on the expected profitability of their operations, which depends on passenger and freight demand and other costs.

### Market Size

A.9 The UK airport market has grown year on year with the revenue generated in 2006 standing at nearly £3bn. Between 2002 and 2006, the airport market grew overall by 23%. The largest increase in revenues occurred between 2003 and 2004, where the revenue generated by the sector grew by 9.1%. Table A1 shows the total UK airport revenues and the sector break down.

<b>Table A1: UK Airport Revenues by Type (£m and %), 2002 - 2006</b>					
	2002	2003	2004	2005	2006
Commercial Revenues	1,393	1,433	1,545	1,641	1,694
% of total	58.3	58.8	58.1	58.2	58.0
Aviation revenues	991	1,006	1,115	1,117	1,226
% of total	41.7	41.2	41.9	41.8	42.0
<b>Total</b>	<b>2,374</b>	<b>2,439</b>	<b>2,660</b>	<b>2,820</b>	<b>2,920</b>

A.10 In 2006, UK airports generated revenue of nearly £3bn, an increase of 3.5% from the previous year. This represents an increase of 23% since 2002 - slightly below the growth in passenger numbers. Commercial activities accounted for 58% of UK airport revenues in

2006, down from 58.25% in 2005.<sup>2</sup> Commercial operators (which include catering, retailing and property services) are estimated to have increased in value by 22.5% between 2002 and 2006, to £1.7bn. Aviation revenues (airport traffic charges and related income) are estimated to have reached £1.2 billion in 2006 - a 4% increase on the figure for 2005 and a 23.7% rise since 2002.

A.11 Passenger traffic is a key driver of revenue for an airport. In 2006, UK airports handled 235 million passengers - an increase of 3% in 2005 (Table A2). Passenger traffic at the five main London airports (Heathrow, Gatwick, Stansted, Luton and London City) grew by 2.5% during the year, to 137m passengers. The growth in passenger traffic has largely been driven by the continued expansion of European scheduled services, growth in long-haul operations and establishment of new routes. The increasing prosperity of the low cost model and the expansion and refurbishment of many airport facilities also contributed to the ongoing rise in terminal passengers numbers.

**Table A2: Terminal Passengers (million), Aircraft Movements (million) and Freight Moved at UK Airports (million tonnes), 2002-2006<sup>3</sup>**

	2002	2003	2004	2005	2006
Terminal Passengers	188	199	215	228	235
ATM	3.3	3.5	3.5	3.6	3.6
Freight Moved	2.2	2.2	2.4	2.4	2.3

### Market Segmentation

A.12 The analysis of market segmentation has focused on assessing UK airports ownership shares in three key areas: passenger services, aircraft movements, and freight services. The overall picture of the UK airport market is one dominated by BAA, with control of more than 53% of the airport sector in terms of ATMs and passengers. Heathrow airport has the largest share of the market under all three indicators. Table A3 shows the sectoral breakdown of the market by ownership.

<sup>2</sup> Source : Keynote Airports Report, 2007

<sup>3</sup> Source : CAA Airport Statistics

**Table A3 : UK airports by ownership in 2006 - passengers, ATMs and freight moved (tonnes)**

Owner	Airport	Passengers		ATMs		Freight [tonne]	
		(m)	%	(000)	%	(000)	%
BAA	Heathrow	67.4	18.3	471	19.8	1,263.1	54.6
	Gatwick	34.1	9.3	254	10.7	211.8	9.2
	Stansted	23.7	6.5	190	7.9	224.3	9.7
	Glasgow	8.8	2.4	97	4.1	6.3	0.3
	Edinburgh	8.6	2.4	116	4.9	36.4	1.6
	Aberdeen	3.2	0.9	98	4.1	4.0	0.2
	Southampton	1.9	0.5	46	1.9	0.2	0.0
Manchester	Manchester	22.1	6.0	213	8.9	148.9	6.4
	Nottingham	4.7	1.3	56	2.4	272.3	11.7
	Bournemouth	0.9	0.3	12	0.5	5.1	0.2
	Humberside	0.5	0.1	13	0.6	144.0	0.0
Abertis	Belfast	5.0	1.4	48	2.0	38.4	1.7
	Cardiff	2.0	0.6	22	0.9	2.2	0.1
	Luton	9.4	2.6	79	3.3	17.9	0.8
Peel	Doncaster	0.9	0.3	7	0.3	0.2	0.0
	Durham	0.9	0.3	12	0.0	0.4	0.0
	Liverpool	4.9	1.4	48	2.0	5.7	0.3
Others	Others		45.7	594	25.0	77.8	3.4
Total			100.0	2,376	100.0	2.3	100.0

### 3. Competition Impact of Policy Proposals

A.13 In line with the OFT Competition Assessment Guidance, assessment of the impact on competition in each of the markets affected focuses on addressing four key questions against the base case:

- i. Does the option directly limit the number of suppliers, relative to the do minimum?
- ii. Does the option indirectly limit the number of suppliers, relative to the do minimum?
- iii. Does the option limit the ability of suppliers to compete, relative to the do minimum?
- iv. Does the option reduce suppliers' incentives to compete vigorously, relative to the do minimum?

## Directly limits the number of suppliers?

- A.14 This criterion assesses the extent to which requirement for all airports to pay for the costs associated with a permanent policy presence would *directly* limit the number of suppliers in the market. A policy proposal may directly limit the number of suppliers in the market, in a number of ways, including the following:
- the award of exclusive rights to supply; or
  - procurement from a single supplier or restricted group of suppliers; or
  - the creation of a form of licensing scheme; or
  - a fixed limit (quota) on the number of suppliers.
- A.15 The policy proposal has no elements within it that that would *directly* limit the number of suppliers in the both the primary or secondary markets because the legislation would simply require non-paying airports to now pay costs for policing, which they previously have secured for free.

## Indirectly limits the number of suppliers?

- A.16 This criterion assesses the extent to which the requirement for all airports to pay for the costs associated with a permanent policy presence *indirectly* limit the number of suppliers in the market. This is likely to happen if the new requirement significantly increases the costs (relative to the do-nothing) of:
- new suppliers relative to existing suppliers; or
  - some existing suppliers relative to others; or
  - entering or exiting an affected market;
- A.17 The extent to which there might be indirect impacts on suppliers would depend on the primary and second markets. We now examine these in turn.
- A.18 The requirements for non-paying airports to pay for policing costs would raise the costs to existing non-paying airports and any new airports. These costs will be absorbed by the airport if profitability allows, or recouped partly or wholly via aviation or other commercial revenue streams.
- A.19 In addition to the direct impacts identified above, this requirement might impact on the cost of entering the airport market. The key question therefore is *extent* to which these new costs may potentially increase the barriers to entry or exit. We have identified a range of barriers to the airport market and assessed the extent to which those barriers may worsen with additional policing costs on non-designated airports relative to the do-nothing scenario.

- *Upfront costs* - investment in the airports market require large upfront investments in terms of runway and terminal facilities, surface access infrastructure and air navigation services. These cost acts as a barrier for new investment, especially given the uncertainty of returns over a long period of times. The new requirements for airport operators to pay costs of policing would increase these costs, therefore increasing that particular barrier to entry. The extent to which this might be possible depends on how significant such costs are to new airports, and the ability of new and existing airports to pass on the costs to airlines and retail service providers.
- *Relative scarcity of land* – this barrier is critical to the functioning of the airport since availability of land may impede small airports from expanding or small bidders from entering the market. Additional policing costs on non-designated airports is not likely to increase the cost of accessing land nor will it lead to intense price competition for land.
- *Network economies* – large airports benefits from the network economies that arise from the range and frequency of services from the airport and the ability of passengers to connect between a large numbers of destinations. Where network economies are present, it is unlikely that the major airline customers would be willing or able to relocate their whole business to an alternative airport, even with increased costs. At the moment, Heathrow is the only UK major hub airport and it already pays for policing costs. This barrier is therefore irrelevant.
- *Ownership of key sites* - most airports derive their advantage from key locations with wide catchments. This feature puts the new potential providers of airport capacity at a disadvantage and has helped reduce competition in small cities. Additional policing costs would not affect this barrier to entry.
- *Long term aspects of demand for infrastructure* - benefits from airport capacity to airlines are likely to occur after a given period, inevitably this gives most of the product a long-term element to its demand. This feature makes it harder for new airports to gain a customer base, and compete against existing airports. The question is whether additional capacity at Heathrow would increase this long term aspect of demand for the infrastructure relative to the do-minimum. We have no reason to believe that this might be the case.

A.20 From the analysis above, it's quite clear that many barriers that affect entry or exit to the airport market would remain unaffected, mitigating potentially negative impacts on competition. However, we have identified that in so far as this policy increases upfront costs to existing

new airports it might increase barriers to entry. The extent to which this might be significant would depend on the ability of new airports to pass on the costs to airlines and retail service providers.

### Limit the ability of suppliers to compete?

A.21 We have interpreted this criterion to refer to *direct* and *indirect* influences of the policy proposals the issues identified above. We do not believe the policy proposals would *directly* influence any of the other issues identified above. However, by increasing the costs of airport policing falling on individual airports, it may indirectly influence existing airports' ability to compete.

A.22 In particular, higher policing costs may indirectly influence two key areas identified above:

- Prices a supplier may charge – additional policing costs would lead to possible increases in airport charges, which may fall on airline and their passengers.
- Innovation to introduce new products – additional policing costs may reduce the commercial returns of airport, which might influence their ability to invest in new airport technologies in the long term.

### Limit the incentive of suppliers to compete?

A.23 This criterion assesses the extent to which the policy proposals would reduce suppliers' incentives to compete vigorously. This is likely to be the case if the additional burden of policing costs leads to the following:

- exempts suppliers from general competition law;
- introduces or amends intellectual property regime;
- requires or encourages the exchange between suppliers, or publication, of information on prices, costs, sales or outputs; or
- increases the costs to customers of switching between suppliers;

A.24 The policy proposals discussed in the impact assessment would not lead to any other effects identified above.

## 4. Conclusions

A.25 The competition assessment has sought to provide an overview of the potential impact of requiring all airports to pay for the costs associated with a permanent police presence. Deducing these effects on competition is difficult due to the uncertainties around how the affected UK airports may react to the new proposals.

A.26 We have relied on the OFT Competition Assessment Guidance (August 2007) to address four key questions: direct impacts on number of suppliers; indirect impacts on number of suppliers; ability of suppliers to compete, and; incentives of suppliers to compete. Our preliminary conclusion is that additional policing costs may negative impact on competition in two ways:

- It may raise the barrier of entry into the commercial airports market, by increase the potential cost of policing that may be faced by new smaller or medium regional airports. The extent to which this might be possible depends on how significant such costs might be to new airports, and the ability of new and existing airports to pass on the costs to airlines and retail service providers.
- It may influence the price airports charge to airlines and retail services, and; may reduce their ability to raise sufficient return on their investments to enable them to invest in airport-related technologies.

## Annex B

# Aerodromes within the National Aviation Security Programme

1.	ABERDEEN
2.	ANGLESELEY
3.	BARRA
4.	BELFAST INT'L (ALDERGROVE)
5.	BELFAST CITY (GEORGE BEST)
6.	BENBECULA
7.	BIRMINGHAM
8.	BLACKPOOL
9.	BOURNEMOUTH
10.	BRISTOL
11.	BRIZE NORTON
12.	CAMBRIDGE
13.	CAMPBELTOWN
14.	CARDIFF
15.	CARLISLE
16.	COVENTRY
17.	DUNDEE
18.	DURHAM TEES VALEY (TEESSIDE)
19.	EDINBURGH
20.	CITY OF DERRY
21.	EXETER
22.	FARNBOROUGH
23.	FILTON
24.	GATWICK
25.	GLASGOW
26.	GLOUCESTERSHIRE
27.	HEATHROW
28.	HUMBERSIDE
29.	INVERNESS
30.	ISLAY
31.	ISLE OF MAN
32.	KENT INT (MANSTON)
33.	KINLOSS
34.	KIRKWALL
35.	LEUCHERS
36.	LEEDS BRADFORD
37.	LIVERPOOL JOHN LENNON
38.	LONDON BIGGIN HILL
39.	LONDON CITY
40.	LONDON LUTON
41.	LYDD (LONDON ASHFORD)
42.	MANCHESTER
43.	NEWCASTLE
44.	NEWQUAY
45.	NORTHOLT
46.	NORWICH
47.	NOTTINGHAM EAST MIDLANDS (NEMA)
48.	OXFORD
49.	PLYMOUTH CITY
50.	PRESTWICK
51.	ROBIN HOOD – Doncaster
52.	SCATSTA
53.	SOUTHAMPTON
54.	SOUTHEND
55.	STANSTED

56.	STORNOWAY
57.	SUMBURGH
58.	TREE
59.	VALLEY
60.	WARTON
61.	WICK
62.	WOLVERHAMPTON