

National Assembly for Wales - Public Accounts Committee:

Revisiting Cardiff Airport's performance

Response by Cardiff Airport

Scope of our response

Following the Fourth Assembly Public Accounts Committee's report, published in March 2016, on the Welsh Government's Acquisition of Cardiff Airport, the Public Accounts Committee has agreed to revisit the issues identified in the [report](#) and review Cardiff Airport's current performance.

We will provide comment in response to the following recommendations:

Recommendation 3. *Holdco encourage the CIAL Board to consider expanding its Membership to include wider aviation and/or airline experience.*

Recommendation 6. *Holdco should also require medium and longer term financial projections as part of its review of the airport's business plans.*

Recommendation 7. *The Committee recommends an update is provided by the Welsh Government following completion of the financial health review and whether this has resulted in any change in terms of the commercial loans and that the Committee is kept updated on any additional loan finance that is agreed.*

Recommendation 8. *In order to measure the benefits to Wales of passengers coming through the airport, CIAL and the Welsh Government work together to collect this data.*

Recommendation 9. *CIAL work with the Welsh Government to ensure Airport Express bus signage is improved with specific consideration to making more user friendly for foreign travellers.*

Recommendation 10. *With regards to discussions between Cardiff Airport and Arriva Trains Wales to improve rail links to the airport, the Welsh Government work with both parties to encourage dialogue to improve the rail links to the airport.*

We will not be responding to the following recommendations, which we consider to be outside of the scope of Cardiff Airport:

Recommendation 1. *We recommend that the Welsh Government regularly review the businesses it has designated as anchor companies and regionally important companies.*

Recommendation 2. *We recommend that the Welsh Government consider engaging with Transport Scotland to understand the different approach they have taken to*

membership of their holding company, how conflicts of interest are managed within the Scottish model and to consider the merits of such an approach alongside the work currently being undertaken to consider the composition of the CIAL and Holdco boards.

Recommendation 4. *With regard to the composition of the Holdco Board we recommend that the Welsh Government give consideration to extending its membership to include a civil servant from outside the Directorate that has responsibility for economy, skills and natural resources to minimise the potential for conflicts of interest to arise.*

Recommendation 5. *We endorse the recommendation of the Auditor General's report and previously that of the Welsh Government's Internal Audit Services that Holdco should appoint a board member from outside of Welsh Government with appropriate business experience.*

As part of the evidence session the Committee will specifically be looking at the airport's performance together with its medium to long-term plans for future development, including financial performance since acquisition. We will respond to these points in more detail.

Introduction

The end of April 2019 marked an important milestone for Wales' national airport in terms of passenger growth. Over the last 12 months, more than 1.6 million passengers have flown through Cardiff Airport, reflecting an increase of 7% versus 2018. This is the busiest year since 2009.

This is on top of passenger growth of 10% in the financial year 2018 and 11% in 2017.

Passenger numbers have grown by over 60% since Welsh Government purchased the Airport in 2013.

This growth reflects the Airport's position as not only a point of departure, but also as a key international gateway for visitors to the UK.

Cardiff Airport is a key contributor to the local economy, supporting 1,900 aviation-related jobs and driving over £163m of direct economic benefit to the region. Over 30% of passengers are visitors to the country.

Headlines in the Airport's development include:

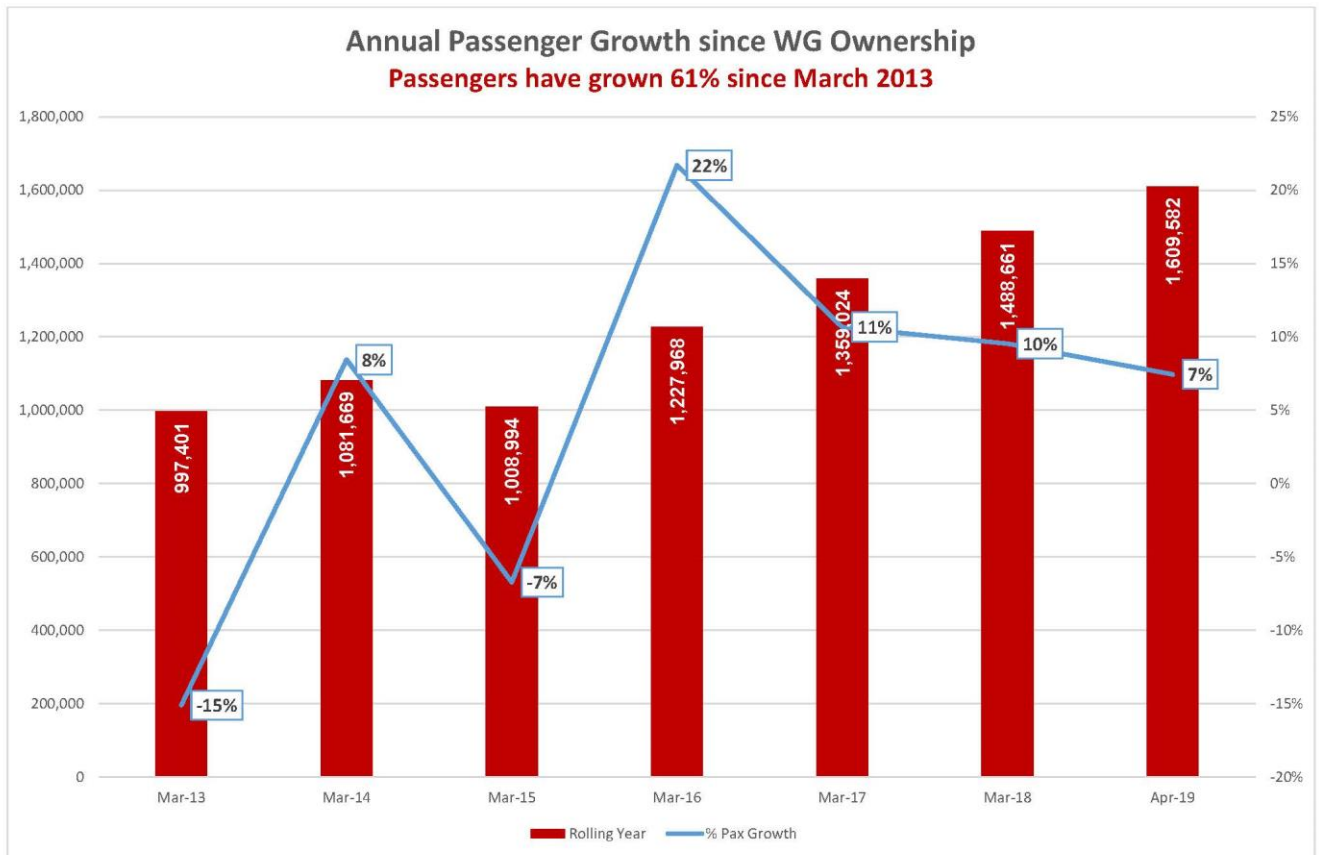
- In 2018 the Airport posted its first positive EBITDA in eight years, a significant milestone for its long term sustainability
- Qatar Airways launched new flights to Doha. The 5* airline, which touched down in Cardiff on 1st May 2018, flies customers on board a Boeing 787 Dreamliner to Hamad International Airport where they can connect to 160 destinations worldwide
- A number of improvements and new facilities were unveiled including additional seating in departures, two new Costa outlets, a larger WH Smith store with Well Pharmacy products, the car parks have been extended and reconfigured, a new car hire centre, a Meet & Greet parking service and a revamped 51^o Executive Lounge and Business Lounge
- New-generation passport e-gates have been introduced at border control
- We introduced a new baggage belt system, improved the security search process and upgraded two air bridges to enhance the customer's journey through the Airport
- From 1st April 2019 we took over running the St Athan airfield, in effect being one airport with two runways – this offers significant benefits in terms of efficiency and operational delivery
- We have been able to bring forward our commitment to paying the 'Real living wage' to start from April 1st 2019, a year earlier than planned
- In 2019 the first gender pay gap reported that Cardiff Airport's 'Mean Gender Pay Gap' of 2% is significantly less than the Aviation Sector average which stands at 34% and differs greatly to the UK average of 17%; Wales' average of 12% and the Industry (Transportation and Storage) average 3%
- In 2019 we reported a 15% decrease in carbon emissions; a 7% reduction in electricity consumption and 11% increase in natural gas consumption
- KLM celebrated 30 years of flying customers between Wales and its hub at Amsterdam Schiphol airport
- Vueling celebrated its 800,000 passenger milestone.

2019 saw new routes launched:

- TUI began operating flights to Dubrovnik (Croatia), Naples (Italy) and Hurgada (Egypt) this summer, adding 100,000 seats from Cardiff
- Ryanair introduced new routes to Barcelona, Malta and Malaga complementing existing flights to Faro and Tenerife
- Thomas Cook will operate its summer schedule on larger aircraft, adding 29,000 extra seats across its 11 routes and starting some flights earlier due to popular demand.

The Airport unveiled its draft Masterplan for the next 20 years, which sets out ambitious plans for expansion between now and 2040.

Airport performance



N.B. The decline in traffic in 2015 was due to a reduction in services by CityJet and Stobart Air. These were then picked up by Flybe in June 2015.

Financial performance

The financial performance of the Airport has continued to improve with a positive EBITDA being achieved for the financial year ended 2018 for the first time in 8 years.

The Airport has been through a period of recovery over the last 5 years. The Airport has invested in developing its facilities and in relationships with airline partners with the key objective of creating a sustainable airport business.

Whilst the development of our financial performance has been positive, the business continues to invest in creating additional income streams. Cardiff Airport continues to develop the offering for our customers and the recent investment of £6m has been a key part in providing an improved experience for our customers.

To continue this journey the delivery of the Airport Masterplan is a critical in delivering the future sustainability of the Airport.

Medium – long term planning

CWL2040

Cardiff Airport set out ambitious plans to develop the Airport business over the next 20 years as a key gateway to the Wales and the UK.

The Masterplan sets out the Airport's aspirations to grow to three million and beyond. Facilities must therefore meet the needs of the increased passenger numbers but also meet and exceed modern traveller's expectations. All growth must be balanced with local environmental and social concerns, with the Airport recognising the important role sustainability plays in the future vision.

The Masterplan highlights

International Gateway:

- Build upon our efficient, safe and secure 24/7 operation
- Deliver greater capacity to grow to three million passengers per annum and beyond
- Attract new airlines, secure new routes and more choice for customers travelling to and from the region
- Diversify the airport to create and develop opportunities for aviation, cargo, education, technology and innovation.

A unique place:

- Create a public realm for the community to enjoy
- Excite customers before they fly and those arriving to Wales
- Link businesses across the Airport campus, supporting the region and Enterprise Zone
- Support education with a place to learn and innovate.

Terminal Development:

- Enhance our unique identity as the gateway to Wales, creating a memorable first and last impression
- Ensure ease of access for all
- Enhance our customer experience with best in class facilities, including SMART technology
- Develop our 'green' credentials to meet our environmental and social commitments.

New 4* Hotel:

- Develop the first on site hotel
- Offer more choice in local accommodation for customers
- Offer business meeting and conference facilities
- Provide a convenient base for visitors to explore the region.

New Transport Hub & Car Park:

- Offer greater travel choice for customers, the community and the Airport team; car, bus, rail, taxi, car hire and active travel

- Offer an improved integrated transport facility
- Develop a new multi storey car park close to the terminal building
- Offer new services to enhance the customer experience.

Masterplan attached.

Recommendation 3

Holdco encourage the CIAL Board to consider expanding its Membership to include wider aviation and/or airline experience.

In April 2017 Terry Morgan was appointed as Non-Executive Director to the CIAL Board with a wealth of aviation experience.

Mr Morgan joined the British Airports Authority (BAA) as a management trainee in 1980 and since then has held a number of senior positions in the airport industry, including the role of Managing Director at London Stansted Airport. Over the years Mr Morgan has also gained a wealth of experience in all areas of conducting airport business in an international environment. From 1997 – 2000, Mr Morgan was Chief Executive of Australia Pacific Airports Corporation and between 2007 and 2013 he held senior executive positions at London Heathrow Airport, including interim Chief Operating Officer and Technical Standards Director, the latter role included leading the airport's governance in aviation safety and security compliance.

Mr Morgan has sat on the UK National Aviation Security Committee, the board of Airports Council International and the board of the UK Airports Operators Association. He is a Member of the Royal Town Planning Institute and a Fellow of the Royal Aeronautical Society.

In April 2018 Fiona Gunn was appointed as Non-Executive Director to the CIAL Board. During a career spanning over 35 years in the retail sector, Fiona has strong commercial experience with e-commerce, marketing and strategy understanding. Fiona also has general management and FTSE 100 executive committee experience.

Fiona oversaw the strategy, creation and leadership of the George clothing business at Asda. As a divisional CEO she also led and oversaw the creation of the Non-Food segment.

She also undertook the transformation of the family owned and controlled value retailer, Wilko Retail Ltd, undertaking a complete overhaul of its 370 store estate, rebranding of its products, creation of its first online shopping platform and opening of an office in Hong Kong. Fiona also served as a NED of its innovation division, W'Innovate.

Fiona went on to create the Marketing function for Greene King and drove its digital and social media strategy as it joined the FTSE 100 and continued to grow to become the UK's largest pub retailer and hospitality business. She was a member of its five-strong Trading Board led by the Group CEO.

At the end of October 2019, the current Airport Chairman, Roger Lewis will stand down after a 4 year tenure. The recruitment process for a new Chairman is underway.

Recommendation 6.

Holdco should also require medium and longer term financial projections as part of its review of the airport's business plans.

Cardiff International Airport Limited annually prepares a budget along with a two year operating plan. In conjunction with this a 5 year forecast is prepared together with a high level 20 year projection. The plan is approved by the Cardiff International Airport Limited Board of Directors and is approved by the Board of WGC Holdco.

Recommendation 7.

The Committee recommends an update is provided by the Welsh Government following completion of the financial health review and whether this has resulted in any change in terms of the commercial loans and that the Committee is kept updated on any additional loan finance that is agreed.

A loan facility was agreed with Welsh Government in May 2017 for £38.2m.

In 2018 The Airport launched its 2040 masterplan for the future development of the Airport. The Airport is a key Gateway to Wales and is a key part of the National Infrastructure. The Airport has shown significant growth in passenger numbers over the last 5 years. For the Airport to continue to progress as a business and to be an asset that Wales can be proud of investment is required as highlighted by our masterplan.

We will work through the details with all our stakeholders to explore in more detail the actual deliverables to ensure a sustainable development plan which delivers economic value to Wales to realise our ambitions. All investment options will be explored.

Recommendation 8.

In order to measure the benefits to Wales of passengers coming through the airport, CIAL and the Welsh Government work together to collect this data.

Cardiff Airport works with the Civil Aviation Authority (CAA) to understand travel habits through the annual survey. This tracks points of origin plus the areas of Wales visitors travel to once in the country.

Over the past 18months we have focused on gaining more customer insights through a range of market research methods gathering data throughout the airport experience. Customers are encouraged to complete our survey on site in the terminal and online once they have travelled, understanding more about their reasons for travel.

We continue to work closely with Visit Wales and are exploring more ways to collectively collate and share data insights.

Recommendation 9.

CIAL work with the Welsh Government to ensure Airport Express bus signage is improved with specific consideration to making more user friendly for foreign travellers.

Improved signage at the Airport was installed in 2017.

We are currently exploring ways of further improving the information provision for customers with live arrival/ departure boards integrated into the Airport Arrivals Hall. This is expected to be complete in summer 2019.

Recommendation 10.

With regards to discussions between Cardiff Airport and Arriva Trains Wales to improve rail links to the airport, the Welsh Government work with both parties to encourage dialogue to improve the rail links to the airport.

Cardiff Airport engages with Transport for Wales as a key stakeholder and is meeting regularly to share best practice and joint ways of working.

We are actively engaged with partners including councils, Welsh Government and transport providers to explore ways of accessing the Airport in addition to the Express Bus and current rail services. It is particularly important to improve access from west Wales and the south west of England.

As part of the Masterplan we have included a new transport hub which will incorporate all modes of access to the Airport – including public transport and active travel. There is an area safeguarded for a potential new train station but further consultation is required to explore this option.

Conclusions

Cardiff Airport is on a long journey of recovery and much progress has been made which can be evidenced in the growth of passenger numbers, customer choice and the improved airport experience. The Airport Company is further developing by diversifying the business to ensure long term sustainability. The running of the St Athan airfield also shows how greater efficiency and cost savings can be achieved.

We believe the increasing cost of regulation is having a disproportionate impact on smaller, regional airports as UK Government policy passes on costs to users (airports) which cannot be absorbed or recouped. The UK Governments refusal to cover the cost of new E-passport gates at Cardiff Airport is evidence of this 'un-level' playing field which directly impacts on the customer experience arriving into Cardiff, as a key gateway to the UK. The Welsh Government was able to step in and fund the gates so that Wales was not disadvantaged compared to English Airports.

In autumn 2018 Cardiff Airport gave evidence to the Welsh Affairs Committee Inquiry into the devolution of Air Passenger Duty (APD) to Wales. Devolution would allow the Welsh Government the discretion to set levels appropriately for Wales. The potential reduction or abolishment of APD would positively affect Cardiff Airport by stimulating airline activity resulting in more passengers and business growth. This supports aspirations for a 'Western Powerhouse' and an integrated UK Aviation Strategy.

We believe that the modification of APD offers a significant opportunity to create value for both the Airport and region supporting an integrated UK aviation strategy. With Brexit on the horizon, the UK should seize the opportunity and take forward solutions to be more competitive, stimulate investment and encourage global connectivity.