



Nick Ramsay AM
Chair – Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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Dear Chair

CARDIFF AIRPORT

During the evidence session on Cardiff Airport that I attended with Public Accounts Committee on 23 September, I undertook to write to you to provide further information in a number of areas. Subsequent to this, you wrote to me on 4 October seeking clarification on a number of additional points that were also discussed in the evidence session. I have addressed each of your points below.

In exploring the financial performance of the airport, the Deloitte report commented on the funding requirement and the underlying performance of the business as well as reflecting on payment terms. The report reviewed the potential structure of a loan going forward and what would be an appropriate commercial structure.

The principle of the extended loan facility of an additional £15.2m in 2017 was to consolidate the existing debt and make further funds available. The revised loan agreement was based on the same fundamentals as the original loan, but included the following additional points to ensure it was on appropriate commercial terms:

- interest was charged in line with the European Commission's framework;
- covenants were included within the loan agreement for performance measurement;
- a repayment schedule was included based on the realistic performance of the business and phased to ensure that repayments were made on a realistic cash flow basis;
- the agreement ensured that the loan was equivalent to that of a commercial lender as opposed to that of a parent and subsidiary; and
- the loan introduced additional controls over the borrowing facility.

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Subsequent to the evidence session on 23 September, the Committee is aware that the Minister for Economy and Transport has agreed a further consolidated commercial loan facility for the airport up to a further £21.2m. We continued to apply the lessons learned and I can confirm the recently agreed loan extension is based on the same fundamental principles as the 2017 consolidated loan facility. (You raised this issue with me during the evidence session with the Permanent Secretary on 21 October. As one of the actions emerging from that session, we will write to you separately to set out the reasons for the loan, how much of the previous loan had been drawn to date, and repayment terms.)

In terms of passenger numbers, Welsh Government acknowledges that the airport is not yet at the position set out in the business plan that was agreed immediately following acquisition in 2013. There are, however, specific influencing factors which need to be taken into consideration when scrutinising against expired targets. The operating environment has changed significantly since Welsh Government bought the airport.

Brexit has caused great uncertainty. The weakening of the pound has influenced holiday makers' choices on whether they travel abroad for their holidays. We have, in recent years, had marked weather improvements over the spring and summer months – making it more attractive for families to holiday in the UK rather than travel abroad. Increases in fuel prices have driven unanticipated consolidation in the airline industry and these increased costs have been passed on to the customer by way of increased airline ticket prices. All of these factors, and others, have had a considerable combined effect on aviation passenger activity – and not just at Cardiff.

We have also seen some significant changes in the airline industry in recent years that were not foreseeable at the time that the acquisition business plan was put together. It is to the credit of the leadership team in place at the airport that we are still within touching distance of the initial plan. The airport now welcomes almost 1.7 million passengers each year, which demonstrates an impressive 65% growth in just six years.

Through Holdco, Welsh Government maintains a distinct and discrete monitoring regime and the Holdco Board is looking forward to receiving Cardiff Airport's revised business plan towards the end of this financial year, which we anticipate will continue to set out its plans for growth and expansion, in line with the ambitions of its 2040 Masterplan.

In the session on 23 September, I committed to providing some additional information in relation to the Cardiff to Anglesey Public Service Obligation (PSO), Thomas Cook, and Border Force.

A thorough review of the Cardiff to Anglesey PSO air service was undertaken prior to the procurement of the existing contract. The review, which was undertaken by external aviation experts, covered a range of scenarios for the service including withdrawing the service entirely, maintaining service provision and looking at growth and expansion options. The value to the Welsh economy was a key consideration in all parts of the study. The report was published on the aviation pages of the Welsh Government website in January 2018, and can be accessed here: <https://gov.wales/sites/default/files/publications/2018-01/review-of-the-public-service-obligation.pdf>. Prior to any re-procurement of a new four year PSO contract, a thorough review of the service is undertaken to determine its strategic and policy fit with evolving Welsh Government priorities. It is also a requirement for us to provide a business case to the European Commission each time we impose a four year PSO on the Cardiff to Anglesey route, which sets out the economic benefits of the service. The PSO passenger numbers for the last financial year (1 April 2018 - 31 March 2019) are also published on the Welsh Government website and can be accessed here: <https://gov.wales/intra-wales-air->

[service-our-role](#). We will update the passenger figures again after the end of the current financial year. The passenger numbers we report on, and publish, are based on actual passenger journeys travelled. It is worth noting that around 5-10% of passengers who book to travel simply do not turn up for whatever reason (this is normal, and particularly so for low cost ticket services). These seats, for the PSO, cannot be re-sold. We do not allow the airline to 'overbook' the way a many commercial airlines do, as this would present a real risk of the PSO being over-capacity which would result in the airport staff turning our passengers away.

With regards to the routes that Thomas Cook offered; it operated the following 10 destinations from Cardiff:

- Antalya
- Dalaman
- Enfidha
- Lanzarote
- Larnaca
- Palma
- Reus
- Rhodes
- Tenerife
- Zante

All of the above routes are also serviced out of Cardiff by Tui, and Palma has services which are operated by Vueling. Tenerife currently has services operated additionally by Ryanair (until January).

Finally, we also discussed Border Force's presence at Cardiff Airport in relation to its Brexit planning. Colleagues at the airport have informed us that Border Force has not increased its permanent establishment at Cardiff. However, along with other ports, it will have access to a roving pool of officers that it can call upon in the event of major issues. Border Force regards e-gates as an important part of its contingency planning for Brexit and has expanded the gates' use to additional groups of passport holders to further mitigate the risk of queues at key airports where there is high passenger throughput. We recognised the benefit that this would bring to Cardiff and it was a key factor in the Minister's decision to fund the five new e-Passport Gates which were installed and launched earlier this year, replacing the first generation e-gates previously installed by UKG.

Please let me know if you have any further questions.

With best wishes.

Yours sincerely



Andrew Slade
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