

**National Assembly for Wales**  
Public Accounts Committee

**The Welsh Government's  
acquisition and ownership of  
Cardiff Airport**

March 2016

Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



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# Public Accounts Committee

The Committee was established on 22 June 2011. The role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to Welsh Government expenditure. The specific functions of the Committee are set out in Standing Order 18. The Committee will consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

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## Current Committee membership:



**Darren Millar (Chair)**  
Welsh Conservatives  
Clwyd West



**Mohammad Asghar**  
Welsh Conservatives  
South Wales East



**Jocelyn Davies**  
Plaid Cymru  
South Wales East



**Mike Hedges**  
Welsh Labour  
Swansea East



**Sandy Mewies**  
Welsh Labour  
Delyn



**Julie Morgan**  
Welsh Labour  
Cardiff North



**Jenny Rathbone**  
Welsh Labour  
Cardiff Central



**Aled Roberts**  
Welsh Liberal Democrats  
North Wales

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## Contents

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Chair's Foreword .....	5
Recommendations .....	6
1. Introduction .....	8
2. History leading up to the acquisition .....	9
3. Strategic rationale for acquisition the Airport .....	15
4. The Valuation and Acquisition Process .....	20
5. Governance arrangements post-acquisition .....	26
6. Commercial Progress .....	37
7. Wider Developments and Benefits Realisation .....	47
Witnesses .....	54



## Chair's Foreword

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Following the Welsh Government's announcement in December 2012 of its intention to purchase Cardiff Airport we raised concerns regarding value for money for the tax payer of the purchase. We also questioned whether public ownership would improve the performance of the airport and secure an important national asset bringing wider economic benefits to Wales. Our concerns prompted the Auditor General for Wales to examine the Welsh Government's Acquisition and Ownership of Cardiff Airport publishing his findings in 2016.

Our inquiry concluded that the Welsh Government had a clear rationale for buying the airport given it was in decline and that prospects for turning it around under its previous ownership were bleak. We also recognise the importance to Wales of having its own international airport and the wider benefits for Wales arising from this. Evidence received by Committee highlights that the Welsh Government considered a range of commercial and public asset valuations and we conclude that the airport purchase price can be justified.

However, the Committee has found that the airports performance, whilst improving, is still falling short of expectations and this is an area that will need to be monitored to ensure growth is sustained. We believe that there are opportunities for improving the future performance of the airport and that devolution of Air Passenger Duty could assist in realising these.

Our report concludes that the Welsh Governments governance arrangements for managing its investment in the airport are sound, but board arrangements could be enhanced.

I commend this report to you.

Darren Millar AM  
Chair

## Recommendations

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**Recommendation 1.** We recommend that the Welsh Government regularly review the businesses it has designated as anchor companies and regionally important companies. (Page 14)

**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. (Page 35)

**Recommendation 3.** We recommend that Holdco encourage the CIAL Board to consider expanding its Membership to include wider aviation and/or airline experience. (Page 35)

**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. (Page 35)

**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. (Page 35)

**Recommendation 6.** We recognise the uncertainty of longer term business planning and that Holdco may wish to formally approve actions on a two year outlook. However, we recommend that Holdco should also require medium and longer term financial projections as part of its review of the airport's business plans. (Page 45)

**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. (Page 46)

**Recommendation 8.** In order to measure the benefits to Wales of passengers coming through the airport we recommend that CIAL and the Welsh Government work together to collect this data. (Page 52)

**Recommendation 9.** Given our observations regarding signage with regard to the Airport Express bus service the Committee recommends that CIAL work with the Welsh Government to ensure signage is improved with specific consideration to making more user friendly for foreign travellers. (Page 52)

**Recommendation 10.** With regards to discussions between Cardiff Airport and Arriva Trains Wales to improve rail links to the airport, we recommend that the Welsh Government work with both parties to encourage dialogue to improve the rail links to the airport. (Page 52)

# 1. Introduction

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1. The Auditor General published his report on “The Welsh Government’s Acquisition and Ownership of Cardiff Airport” on 27 January 2016.<sup>1</sup>
2. The Committee agreed to undertake an inquiry into the findings of the Auditor General’s report and specifically examined the Welsh Government’s role in the acquisition process, governance arrangements post-acquisition, commercial progress and wider developments and benefits realisation that the acquisition can bring to the Welsh economy.
3. The Committee held oral evidence sessions with a number of witnesses including Cardiff Airport, aviation and transport experts, Transport Scotland, Glasgow Prestwick Airport, the Welsh Government and the Welsh Government’s Holdco Company. The Committee Chair also undertook a visit to Cardiff Airport as part of the inquiry.
4. The report details the Committee’s conclusions and recommendations based on the evidence received during the course of its inquiry. The Committee would like to thank all those who contributed.

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<sup>1</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016

## 2. History leading up to the acquisition

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5. The Auditor General's report sets out that following a period of steady growth, the performance of Cardiff International Airport Limited (CIAL) declined sharply from 2007 onwards. Passenger numbers fell from a peak of 2.1 million in 2007 to just over one million in 2012 with the loss of several low-cost carriers and with the airport facing strong competition from Bristol Airport. The decline had an adverse effect on the airports turnover and its underlying profits.<sup>2</sup>

6. The Managing Director and Chief Operating Officer of Cardiff Airport, Ms Debra Barber, who joined the Airport in May 2012 as the then Operations Director, confirmed:

“It's fair to say that the airport was struggling at that time. We'd had a number of years of declining passenger numbers. We'd also had a number of years of limited capital investment in infrastructure. I think, also, we had a sort of poor perception of the airport amongst a lot of our passengers and also airline partners.”<sup>3</sup>

### ***Extent of Welsh Government Intervention prior to acquisition***

7. The Auditor General's report describes the Welsh Government's engagement with the airport's managers and the practical support that it provided in the years leading up to the acquisition in 2013. The Welsh Government financed a route development fund to establish new routes between 2006 and 2010 and applied to the European Commission for state approval for a capital grant to part-fund major improvements to the airport's infrastructure. However, progress with route development was disappointing, overall, only £336,000 of the £4 million budget for the fund was spent and the capital grant never came to fruition.<sup>4</sup> The Welsh Government also worked with the airport on tourism promotion and marketing, and in 2012 established a task

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<sup>2</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 1.8 and Figure 4

<sup>3</sup> National Assembly for Wales, Record of Proceedings (RoP), 2 February 2016, paragraph 10

<sup>4</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 10

force to bring together key stakeholders in discussions about the airport's development.<sup>5</sup>

8. CIAL expressed concern that the route development fund was introduced shortly before a change in state aid regulations came into force. In CIAL's view, the devolved administrations in Scotland and Northern Ireland had introduced their funds earlier and had therefore benefited to a greater extent from the more flexible state aid regime before the change in the regulations.

9. Ms Barber suggested that the problem previously had been Abertis' willingness to match-fund some of the opportunities on the table as "there was just no appetite to do that".<sup>6</sup>

10. The Committee explored the reasons for the low take-up of the Welsh Government's route development funding between 2006 and 2010. The Welsh Government's Deputy Permanent Secretary, Economy, Skills and Natural Resources Group, Mr James Price, explained that low take up was due to a combination of state aid rules, CIAL being unwilling to cut landing charges to a competitive level and the challenging economic conditions, which made developing routes less attractive.<sup>7</sup> Mr Price pointed to a specific example whereby the Welsh Government had identified an airline that was willing to fly from Cardiff but the owners were not willing to allow CIAL to reduce its charges to a competitive level, even though both local management and the Welsh Government thought that the opportunity would be profitable.<sup>8</sup>

11. With regard to the securing of capital grant funding, we asked Mr Price why it had taken so long to obtain state aid approval from the European Commission when speed was clearly important to bringing forward investment. Mr Price explained that the process for obtaining state aid approval for new schemes takes a long time, as it requires significant evidence which has to be submitted through the UK Government and tested.<sup>9</sup>

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<sup>5</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 11

<sup>6</sup> RoP, paragraph 249, 2 February 2016

<sup>7</sup> RoP, paragraph 17, 11 February 2016

<sup>8</sup> RoP, paragraph 15, 11 February 2016

<sup>9</sup> RoP, paragraph 11, 11 February 2016

12. Members asked the Welsh Government why the airport had not been identified as an anchor company given the Welsh Government's view that the airport was of strategic importance.

13. Mr Price acknowledged that it might have been useful to have Cardiff Airport as an anchor company but stressed that the anchor company programme was in its infancy and Cardiff Airport was unlikely to qualify due its size. However, he added that the airport ought to have been considered as a regionally important company.<sup>10</sup>

14. Mr Price also told the Committee that the Welsh Government were doing "an awful lot" to engage with local management at the airport:

"I think that period, probably from about 2007 all the way through to when the taskforce started, was characterised by an increasing lack of wish to engage on behalf of the local management team."<sup>11</sup>

15. Mr Price confirmed that it was apparent as early as 2008 that Abertis were not interested in the airport and the Welsh Government had concluded that by 2010 or 2011.<sup>12</sup> He added that he did not think anymore could have been done that would have made any difference.<sup>13</sup>

16. This sentiment was supported by Mr Cain, Aviation Expert, who told the Committee:

"You can identify projects and build business cases if there's a willing partner. If there isn't a willing partner, I don't think there's a lot a Government can do, unless it owns an asset, to make people invest."<sup>14</sup>

### ***Declining Performance and Risk of Closure***

17. Mr Price explained one of the reasons the airport was in decline was due to the unwillingness of owners to operate a competitive pricing regime<sup>15</sup> and their willingness to accept a core business of 1

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<sup>10</sup> RoP, paragraph 7, 2 February 2016

<sup>11</sup> RoP, paragraph 11, 11 February 2016

<sup>12</sup> RoP, paragraph 76, 11 February 2016

<sup>13</sup> RoP, paragraph 11, 11 February 2016

<sup>14</sup> RoP, paragraph 324, 11 February 2016

<sup>15</sup> RoP, paragraph 39, 11 February 2016

million passengers a year that, in their view, could be sustained with the relatively high level of aeronautical charges at Cardiff. Members asked whether this approach was sustainable given the danger that passenger numbers could drop considerably below 1 million. Mr Price acknowledged that this was indeed a risk and noted that it had been a concern of the Cardiff Airport taskforce.<sup>16</sup>

18. The Committee were told that the charging regime being operated by Cardiff Airport was an unusual approach for a UK airport. Mr Price acknowledged that smaller airports facing large local competitors might have fared as badly as Cardiff, but Cardiff was a significant airport in its own right, and in his view it underperformed, in relation to its potential.<sup>17</sup>

19. In commenting further on the commercial approach of the previous owners, Ms Barber emphasised that the approach had been counter-productive given their emphasis on revenue generation including increasing aeronautical charges in contrast to other airports and charging for baggage.<sup>18</sup>

20. By way of comparison Professor Stuart Cole, Transport Expert, reflected on the approach taken by Bristol Airport, which had grown through scheduled operations whereas Cardiff was heavily charter dominated.<sup>19</sup> Professor Cole also emphasised the importance of Easyjet's presence at Bristol in giving it a competitive advantage and Cardiff would have to offer a very significant discount in terms of a whole series of charges, or free operations, to compete with Bristol.<sup>20</sup>

21. The Committee heard that given its declining performance there had been brief mention of the risk of airport closure in board discussions but no active move to close.<sup>21</sup> However, Ms Barber acknowledged that there was feeling locally that the owners were also losing their general appetite for the business.<sup>22</sup> She explained that the

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<sup>16</sup> RoP, paragraph 41, 11 February 2016

<sup>17</sup> RoP, paragraphs 60 & 62, 11 February 2016

<sup>18</sup> RoP, paragraph 15, 2 February 2016

<sup>19</sup> RoP, paragraph 299, 11 February 2016

<sup>20</sup> RoP, paragraph 299, 11 February 2016

<sup>21</sup> RoP, paragraph 13, 2 February 2016

<sup>22</sup> RoP, paragraph 42, 2 February 2016

airport was receiving around £600k against a £3m capital programme requirement<sup>23</sup> adding:

“One of the key things for me—I was the operations director at the time—was that we put together a capital programme of critical infrastructure that needed to be replaced and we actually got about a fifth of what we required, which just about enabled us to do the sort of stuff that we were required to do by regulation.”<sup>24</sup>

22. In giving evidence, Mr Chris Cain reflected on his awareness within the industry that the approach being taken by Abertis was one of minimal investment in the airport. He explained that he had visited the airport with potential investors, prior to Welsh Government negotiations, and comments were made that the airport was “run down” and in its then state was not what was to be expected from an international gateway airport.<sup>25</sup>

23. The Committee looked at the impact of potential closure of the airport on staff morale and whether there was a general feeling that the closure was a definite prospect to which Ms Barber responded:

“Everybody could see that the infrastructure was being worn down, critical maintenance contracts were being left aside for a sort of fix-on-fail mentality. So, there was that general perception that things really needed to be lifted.”<sup>26</sup>

24. Mr Roger Lewis, who took over as Chair of Cardiff Airport in November 2015, emphasised that in his view the airport had been heading towards a tipping point when closure could have been a prospect.<sup>27</sup> Mr Lewis and Ms Barber highlighted the difficulties of reopening the airport as a commercial airport had it closed, citing examples of other UK airports that had closed such as Plymouth and Manston, or Blackpool which had closed and reopened but as a general aviation airport.<sup>28</sup>

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<sup>23</sup> RoP, paragraph 64, 2 February 2016

<sup>24</sup> RoP, paragraph 44, 2 February 2016

<sup>25</sup> RoP, paragraph 304, 11 February 2016

<sup>26</sup> RoP, paragraph 46, 2 February 2016

<sup>27</sup> RoP, paragraph 49, 2 February 2016

<sup>28</sup> RoP, paragraphs 48, 51 – 52 and 62, 2 February 2016

25. Evidence from Mr Cain reinforced these examples and the further highlighted the potential difficulties of reopening after closure.<sup>29</sup>

26. In questioning Professor Cole on whether the airport was at risk of closure, he stated that he did not know as there were many unknown factors.<sup>30</sup> Mr Cain told us that it was impossible to say with certainty whether the airport would have closed if it had continued in Abertis' ownership, but one "couldn't rule it out," especially if the owners were unable to see an opportunity in the long term to realise their investment.<sup>31</sup>

### ***Conclusions and Recommendations***

In considering the extent of the Welsh Government's intervention prior to acquisition of Cardiff Airport, the Committee notes that the Welsh Government were regularly engaging with local management at the airport and offered support through the route development fund and a potential capital grant offer to improve the airports infrastructure. Designating CIAL as an anchor company, or potentially as a regionally important company, may have provided an opportunity to bring a greater focus to this work.

The Committee notes that the airport was clearly in decline during the final years of Abertis' ownership. The evidence strongly suggests that Abertis was reluctant to invest in the airport and that its commercial strategy was likely to lead to further decline. It is difficult to conclude that this decline would have resulted in closure, but we consider that it would have been exceptionally difficult to reopen the airport for commercial aviation if it had closed.

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

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<sup>29</sup> RoP, paragraphs 364 – 369, 11 February 2016

<sup>30</sup> RoP, paragraph 299, 11 February 2016

<sup>31</sup> RoP, paragraph 365, 11 February 2016

### **3. Strategic rationale for acquisition the Airport**

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27. The findings of the Auditor General's report outline the factors that influenced the Welsh Government's decision to purchase the airport and set out that the Welsh Government had a clear rationale for buying the airport.<sup>32</sup> The airport was failing under its previous ownership and public sector ownership would give the airport the stability and commitment that it needed in order to develop over the longer term.<sup>33</sup>

28. In the context of continuing decline and concerns about the possible closure of the airport, Mr Lewis considered the Welsh Governments decision to purchase the airport being the right one stating:

"I think the fundamental metric is it has to be a national asset for Wales and you can measure the importance of that national asset. There's no country in the world that doesn't have an airport as part of its capital city, and I think that is so important for us, by any measurement, that we maintain that position."<sup>34</sup>

29. Mr Lewis explained the airport was an asset worth rejuvenating for many reasons including the commitment of British Airways to have a maintenance centre (BAMC) at Cardiff Airport for the foreseeable future.<sup>35</sup> Mr Lewis added that the airport was now up to 1.1 million passengers, with prospects for growth going forward and potential for freight to come through the airport. Commenting on whether purchasing the airport was the right decision, he stated:

"...was this the right decision for Wales? Absolutely. Was it the right price? One will never know what was in the mind of the seller. Can we enhance the value of the enterprise going forward? Yes. Can we make sense of it? Yes. Will it be proved to be the right decision? It is the right decision today, dare I say. It's absolutely the right decision today, because, if you look at

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<sup>32</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, page 35,

<sup>33</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 2.7

<sup>34</sup> RoP, paragraph 30, 2 February 2016

<sup>35</sup> RoP, paragraph 55, 2 February 2016

the increase in passenger numbers, look at our growth going forward, you look at the quality of the asset now, you look at the relationship with British Airways, and the fact that British Airways are now committed to a further 20 years of the enterprise.”<sup>36</sup>

30. Members noted the importance of the BAMC presence at Cardiff Airport and questioned Mr Price on the potential impact of closure of the airport on this facility. In responding, Mr Price outlined the significant increase in costs to BAMC of having to take over the operation of the runway, which could potentially cost several millions of pounds a year.

“So, my guess would be that, fairly quickly, BAMC would run their plant down and leave if the airport wasn’t there, because the costs of operating would simply go through the roof.”<sup>37</sup>

31. Mr Cain concurred with this view, to the extent that the closure of the airport would raise BAMC’s operating costs and put the long term viability of the facility in doubt.<sup>38</sup>

32. In September 2012 Welsh Government officials prepared a strategic outline case for acquisition, before negotiations began. The outline business case (the middle stage in which options are shortlisted) was incorporated into the full business case, which was finished after the acquisition and had some gaps.<sup>39</sup> The Auditor General’s report identified some ways in which the preparation of the business case could have been strengthened, including more comprehensive investment objectives<sup>40</sup> and undertaking further sensitivity analysis to highlight the possible impact of certain risks.<sup>41</sup>

33. The Auditor General’s reports notes that the business case did not include any reference to the Airport’s contribution to the wider economy, especially the potential for promoting investment and inbound tourism, nor the potential environmental benefits.<sup>42</sup>

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<sup>36</sup> RoP, paragraph 108, 2 February 2016

<sup>37</sup> RoP, paragraph 116, 11 February 2016

<sup>38</sup> RoP, paragraph 363, 11 February 2016

<sup>39</sup> AGW report, paragraph 2.6a

<sup>40</sup> AGW report, paragraph 2.11

<sup>41</sup> AGW report, paragraph 2.19

<sup>42</sup> AGW report, paragraph 2.11

34. In evidence, Mr Price accepted that the Welsh Government's business case could usefully have set out more clearly the Welsh Government's investment objectives and its consideration of alternative options, risks and benefits, stating:

"The auditor general quite rightly said that the business case didn't fully set that out, but other documentation did. Ministers, the permanent secretary, I and the senior team were clearly aware all the way through of why we were doing it, but I would accept the criticism that that wasn't articulated as well as it should have been in the business case. But, I think, importantly, for the team that was doing this, to act as though they were doing it on a commercial basis was the right thing to do anyway, (a) to drive the best possible price; and (b) to ensure that we were compliant with state aid. But I take the point, and we've agreed with the auditor general that the initial business case, in terms of the public rationale for purchasing the airport, could have been clearer."<sup>43</sup>

35. The Auditor General's report states that the Welsh Government gave some consideration to options other than outright purchase, such as a joint venture with Abertis or a third party, but acquisition was the strongly preferred option because of the constraints of other options and taking account of the outcome of previous efforts to stimulate investment by Abertis.<sup>44</sup>

36. The Auditor General's report notes that the Welsh Government approached Abertis about a possible joint venture in July 2012 but Abertis responded that it would be prepared to sell the airport to the Welsh Government instead.<sup>45</sup> The report acknowledged that finding a third party for a joint venture would have been considerably more complex, uncertain, and time-consuming than purchasing the airport outright, although it would have offered the potential to benefit from

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<sup>43</sup> RoP, paragraph 243, 11 February 2016

<sup>44</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 2.12 – 2.16

<sup>45</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 2.14

external expertise in operating the airport and the development of new markets, as well as sharing the financial risk.<sup>46</sup>

37. Members queried the extent of discussions with any other potential third parties to enter a joint venture partnership. Mr Price explained that discussions were held but the potential investors wished to work to longer time scales than the Welsh Government which was working to Abertis' requirements.<sup>47</sup>

38. Evidence from Mr Cain confirmed that a joint venture partnership would typically take longer than an outright purchase because a joint venture would need to be agreed between the parties. He explained that in the case of one of the potential investors he brought to Cardiff it would have taken 12 months to complete a purchase.<sup>48</sup>

## Conclusions

The evidence heard by the Committee concurs with the findings of the Auditor General's report that the Welsh Government had a clear rationale for buying the airport. It is clear to us that the airport was declining and that prospects for turning it around under Abertis' ownership were bleak. The previous owners were pursuing a commercial strategy focussed on high prices and cost reduction, which was clearly ineffective in stemming the airport's decline, and were unwilling to invest the sums needed to develop the airport to anything approaching its full potential. In this situation, the Government had a legitimate case for intervening to help secure a change in ownership to meet policy objectives that recognised the strategic importance of the airport to the wider economy.

We also recognise the importance of Wales having an international airport and the wider benefits for Wales arising from this including securing the presence of the BAMC facility for the foreseeable future.

With regard to the Welsh Government's business plan we note the findings of the Auditor General and welcome the Welsh Government's acceptance that its business case could usefully have set out more

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<sup>46</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 2.15

<sup>47</sup> RoP, paragraph 165 & 167, 11 February 2016

<sup>48</sup> RoP, paragraphs 340 – 342, 11 February 2016

clearly the Welsh Government's investment objectives and its consideration of alternative options, risks and benefits

We note that the Welsh Government gave some consideration to other options but that public acquisition was preferred and that other options could have been explored and developed further given sufficient time. However, it seems clear that Abertis led the negotiations, given they were in a stronger bargaining position, and were keen to move quickly.

## 4. The Valuation and Acquisition Process

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39. The Auditor General's report notes that the Welsh Government ultimately accepted a commercial valuation of the airport based on specific assumptions about the overall commercial performance of the airport – centred on a positive assessment of business growth – and the cost of capital (required rate of return for the investor).<sup>49</sup> The report explains how enterprises are typically valued on a commercial basis and notes that valuations can vary greatly depending on the assumptions applied, as was the case for the acquisition of the airport.<sup>50</sup>

40. The Auditor General's report provided a detailed account of the valuation and due diligence process and negotiations between the Welsh Government and Abertis.<sup>51</sup> The Auditor General concluded that the Welsh Government undertook appropriate due diligence, with the price paid for the airport informed by a range of commercial and public asset valuations, but there were some weaknesses in the preparation of the business case.<sup>52</sup> The Welsh Government also took into account the wider strategic context.<sup>53</sup>

41. The Welsh Government made a revised offer of £41 million to Abertis in March 2013, which the company rejected. The Welsh Government asked Arup to review the commercial valuations on the assumption that marketing income was included and using a 12 per cent cost of capital. On this basis, Arup concluded that a commercial valuation of up to £55.3 million was acceptable.

42. In terms of the valuation of the airport, Mr Price said that the strategic rationale was always the public value of the airport stating:

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<sup>49</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Paragraph 2.22

<sup>50</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Paragraphs 2.23 to 2.25

<sup>51</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 2.22 – 2.65

<sup>52</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, page 10

<sup>53</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 14

“We are not in this as a commercial entity. Clearly, we want to protect the airport for the benefit of Wales.”<sup>54</sup>

43. However, he acknowledged that the business case could have been clearer on this rationale, although other documents set out the relevant information.<sup>55</sup> The Committee explored the reasons as to why, given the strategic importance of the airport, the public valuation was commissioned by the Welsh Government so late in the process, just weeks before the acquisition. Mr Price explained that the acquisition team’s focus was rightly on commercial value, to ensure Value for Money and State Aid compliance<sup>56</sup> but public valuation was part of the final testing of the evidence.<sup>57</sup> The public asset valuation was an estimated £472 million, which included transport user and environmental benefits and was based on different assumptions to the commercial valuations in line with Treasury Guidance.

44. This concurred with evidence from Ms Barber explaining that in terms of the valuation, wider economic benefits including employment opportunities have to also be considered at least from a Welsh Government perspective.<sup>58</sup>

45. In exploring the formal valuations of the airport undertaken by KPMG, Members noted that the Welsh Government made a formal non-binding offer of up to £55 million in December 2012, at which point an initial commercial valuation report had suggested an indicative valuation range of between £25 million and £35 million but with a higher valuation possible by taking a positive view of future performance. Members questioned the Welsh Government’s decision to make an initial offer of £55 million.

46. Mr Price told the committee that the Welsh Government’s view was that it was reasonable to put forward a £55million non-binding offer in order to keep Abertis at the table stating:

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<sup>54</sup> RoP, paragraph 243, 11 February 2016

<sup>55</sup> RoP, paragraph 243, 11 February 2016

<sup>56</sup> RoP, paragraph 243, 11 February 2016

<sup>57</sup> RoP, paragraphs 236 – 241, 11 February 2016

<sup>58</sup> RoP, paragraph 116, 2 February 2016

“...that wasn’t binding us to anything, because this was before formal valuations, it was before any due diligence had been done, and we could have walked away from the table anyway.”<sup>59</sup>

47. Mr Price added that it was not uncommon to make an initially high offer and then try and negotiate it down afterwards<sup>60</sup> using an analogy of buying a house he said:

“I’d like to use the analogy of buying a business or buying a house. Typically, to get people to the table, you will agree a price, and, quite frequently now, in buying houses, people will come in and they’ll offer the full price, subject to contract, subject to valuation and subject to survey, and they’ll come back, kick the tyres, and try and get the price down by 20 per cent. So, in all honesty, I do not believe that we damaged our negotiating position by quoting prices, and, when we were quoting £35 million, they were quoting £200 million.”<sup>61</sup>

48. In further evidence, Mr Price explained that there was challenge within the Welsh Government as to whether offering up to £55 million for the airport was a reasonable and fair thing to do explaining:

49. “That was exactly the question I asked the team in, frankly, quite a heated meeting and the conclusion was it was a reasonable and a fair thing to do on the basis that Abertis wouldn’t come to the table to even discuss it without doing that. But that wasn’t binding us to anything, because this was before formal valuations, it was before any due diligence had been done, and we could have walked away from the table anyway.”<sup>62</sup> Members asked whether any other valuations had been undertaken and for example had the Welsh Government taken into account the residual land value. Mr Price explained that land values as residential housing had been considered but valuation not materially different to value as an airport because of planning constraints and potentially the need to fund infrastructure.<sup>63</sup>

50. In written correspondence, the Committee requested full details of the various valuations carried out prior to the acquisition;

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<sup>59</sup> RoP, paragraph 163, 11 February 2016

<sup>60</sup> RoP, paragraph 163, 11 February 2016

<sup>61</sup> RoP, paragraph 156, 11 February 2016

<sup>62</sup> RoP, paragraph 163, 11 February 2016

<sup>63</sup> RoP, paragraph 177 – 191, 11 February 2016

confirmation as to whether the original land value was carried out on the site as an airport or the Residual Land Value of the airport site prior to the time of purchase and if the calculations on the Residual Land Value are available.

51. In responding, Mr Price stated that:

“The process of commercial and public asset valuations, the methodology used and the impact of varying assumptions on values is outlined by the Auditor General in his Report. Having re-read the report, I have no further detailed information to add.”<sup>64</sup>

52. However, the Auditor General’s report does not contain this information on residual land values.

53. Mr Cain’s evidence to the Committee highlighted that he was actively promoting the airport to investors but Abertis were still at the stage of seeking a price that was not in line with market prices.<sup>65</sup> However, Mr Cain also made reference to the difficulties in the period 2009 – 2013-14 in finding buyers for smaller airports<sup>66</sup> and confirmed that in terms of the price the Welsh Government paid:

“Yes. I think it was the market price, because that was the price that the seller was willing to sell at”.<sup>67</sup>

54. Mr Cain added that no one else would have been interested in purchasing the airport at the price paid by the Welsh Government.<sup>68</sup> He suggested others would have been looking to buy at £35m with £20m Welsh Government investment, which the Committee noted equalled the £55m the Welsh Government paid for the airport. However, this could be interpreted as the investor looking for general financial support from the Welsh Government and not an equity stake. Mr Cain’s further evidence supported this interpretation when he stated:

“If the scenario arose that each purchaser would have needed significant grant support from the Welsh Government, I guess

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<sup>64</sup> PAC(4)-08-16 PTN6, 1 March 2016

<sup>65</sup> RoP, paragraph 311, 11 February 2016

<sup>66</sup> RoP, paragraphs 326 – 327, 11 February 2016

<sup>67</sup> RoP, paragraph 329, 11 February 2016

<sup>68</sup> RoP, paragraph 331, 11 February 2016

somebody takes the view that, rather than hand that to a private investor and have the same problem that we had before, maybe it's better just to acquire the asset ourselves.”<sup>69</sup>

55. Members asked Mr Lewis what price to would he have regarded as too high to pay for the airport. He explained:

“...the imperative for a purchase or a disposal is: what is the strategic rationale of the company? Could one have paid less for it? Perhaps. Could one have paid more for it? Perhaps. One never knows, and one will never know, because what's in the mind of the seller—and you need a willing seller, as well as a willing buyer—one will never know. The key metric for myself, though, having inherited this position, is: can we create value in the enterprise that is significantly better than its value now? Yes.”<sup>70</sup>

56. The Committee sought clarity on the current commercial value of Cardiff Airport. The Welsh Government confirmed that the latest audited Holdco accounts prepared by Grant Thornton LLP place a current value on Cardiff Airport of £55 million.<sup>71</sup>

### ***Conclusions***

The Committee is satisfied that the evidence it has received is consistent with the findings of the Auditor General and that the Welsh Government negotiated a purchase price that was informed by the estimated value of the airport as a public asset and a range of commercial valuations. We accept the views of the witnesses that the purchase price took into account the wider strategic benefits of purchasing the airport. We note that the price paid was, in commercial terms, based on positive assumptions about future growth and although a long term view needs to be taken, the Committee notes that progress has been slower than expected to date.

However, we remained unconvinced that the Welsh Government had a clear negotiation strategy and we question the decision to make an initial offer of £55 million, with a view to negotiating the purchase price down afterwards. We also question whether there was sufficient

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<sup>69</sup> RoP, paragraph 338, 11 February 2016

<sup>70</sup> RoP, paragraph 108, 2 February 2016

<sup>71</sup> PAC(4)-08-16 PTN1, 1 March 2016

internal challenge within the Welsh Government to challenge whether this initial offer was reasonable. The Committee were told by the Welsh Government that other valuations had been undertaken including taking into account the residual land value of the airport for the purposes of residential housing. Although we note that it was never the Welsh Government's intention to develop the land for housing purposes. Furthermore, details of these valuations have not been seen by the Committee.

## 5. Governance arrangements post-acquisition

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57. The Auditor General's report found that the Welsh Government obtained legal advice on governance arrangements and established a sound governance system in good time for the acquisition.<sup>72</sup> The report also found that the Welsh Government took legal advice during the due diligence process about appropriate governance arrangements for its ownership of the airport.<sup>73</sup> Based on that legal advice, the Welsh Government established a holding company (Holdco) to manage its investment in CIAL at arm's length and the relationship between the two companies is regulated by a Management Agreement.<sup>74</sup>

58. Holdco is staffed entirely by civil servants.<sup>75</sup> The Minister for Economy, Science and Transport had approved a proposal that could have seen the Chairman of CIAL join the Holdco board, but this appointment was never made. Recommendation 1 of the Auditor General's report supports a previous recommendation by the Welsh Government's Internal Audit Services and suggests appointing to the Holdco Board someone from outside the Welsh Government with appropriate business experience. Recommendation 2 of the Auditor General's report suggests Holdco should consider amending the Management Agreement to reflect its preferred policy on the role of the Chairman of CIAL on the Holdco Board.

### ***Relationship between Holdco and CIAL***

59. The arrangements for oversight of CIAL to some extent contrast with the arrangements that the Scottish Government put in place to manage its investment in Glasgow Prestwick Airport. The holding company for Glasgow Prestwick has a wider membership, with the Chairman of the airport operations company also serving as Chairman of the holding company. The Chief Executive of the operations company for Glasgow Prestwick is also a member of the holding

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<sup>72</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, page 55

<sup>73</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 3.2

<sup>74</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.2 - 3.4

<sup>75</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.6 - 3.7

company board. The Committee explored with representatives from Glasgow Prestwick Airport and Transport Scotland how this worked in practice<sup>76</sup> and heard that the model had been working well. Mr John Nicholls stated:

“I should say that in opting for the governance model that we did, we did take advice from industry experts and corporate finance and legal advisers as to the best way of both undertaking the acquisition and governance thereafter. This was the model that was recommended to us. It’s reassuring to note that, from the Audit Scotland report that came out last year, they have said that their assessment was that we had put good governance arrangements in place. So, we could take some comfort from that.”<sup>77</sup>

60. Members referred to the model operated by Glasgow Prestwick Airport whereby the Chairman of the airport operation company also serves as Chairman of the holding company. Mr Lewis confirmed he was happy with the arrangements at Cardiff Airport. In also commenting on the model operated by Glasgow Prestwick, Mr Jones said:

“It would be better if the chair of that holding company were directly accountable to Government, in this case a civil servant. It’s slightly harder to see that working, perhaps, if the chair is external. But I don’t know. I haven’t spoken to the board at Prestwick Airport or the board of the holding company at Prestwick Airport about how that works. I’d be interested to see the evidence that’s put forward to you on Thursday about that. Again, we’re not closing any doors on that. We’ve still got a debate to be had about the future of that.”<sup>78</sup>

61. In commenting on his dual role as Chair of the Holding Company and Chair of the operations company, Mr Andrew Miller, explained that there had been no conflict of interest between his roles and that the arrangement had worked well.<sup>79</sup>

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<sup>76</sup> RoP, paragraphs 455 – 469, 11 February 2016

<sup>77</sup> RoP, paragraph 469, 11 February 2016

<sup>78</sup> RoP, paragraph 57, 9 February 2016

<sup>79</sup> RoP, paragraphs 472 – 478, 11 February 2016

62. Members questioned Mr Jones on whether the Chair of CIAL should be a member of the Board of Holdco, and he explained that no conclusion had been drawn on this matter:

“...That’ll be for the members of the Holdco board, and we will probably seek advice from others in Welsh Government as well about that.”<sup>80</sup>

63. Members asked whether any decision to appoint the Chair of CIAL as a Member of the Holdco board would be a Ministerial decision or not. Mr Jones explained:

“Ultimately that would be a ministerial decision, against a recommendation from Holdco.”<sup>81</sup>

64. Members explored the roles and responsibilities and the relationship between the CIAL and Holdco. Mr Lewis explained:

“In terms of Holdco, we invite Holdco into our board as an observer, and, likewise, I’m an observer on the board of Holdco. We met with Holdco last month and we will meet with Holdco in a few days’ time. There is an agenda, which is structured, and we will propose items, and, likewise, if there’s anything that they want to question our board, we will then step out, at appropriate moments. Holdco will ask us to step out of their board meeting, and, if appropriate, we will ask them to step out of their meeting. And that allows us this arm’s-length relationship with Government.”<sup>82</sup>

65. Ms Barber further explained that CIAL had to provide performance indicators to Holdco along with monthly updates on their management accounts, regulatory performance, environmental performance and commercial performance. She added:

“We attend the board meeting as observers, and also, within the Management Agreement, there are some issues that require us to seek consent from Holdco, if we’re going to do any things

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<sup>80</sup> RoP, paragraph 81, 9 February 2016

<sup>81</sup> RoP, paragraph 85, 9 February 2016

<sup>82</sup> RoP, paragraph 83, 2 February 2016

that have a major impact on the business. So, it's that sort of arm's-length relationship that we have with them."<sup>83</sup>

66. The Chair of Holdco, Mr Simon Jones, provided the Committee with an overview of his understanding of the roles and responsibilities within the CIAL/Holdco Management Agreement. He explained that the airport is run as an arm's-length business, remote from the Welsh Government. Therefore the airport has operational autonomy to make decisions on matters of strategy and business development, but Holdco has responsibility as the shareholder to oversee that.<sup>84</sup>

67. Mr Jones informed the Committee that the Management Agreement set out a number of functions that Holdco perform, the first of which is the agreement with the board of CIAL, the annual two-year business plan prior to the beginning of each financial year.<sup>85</sup> The Committee were also told that Holdco's second role is to monitor progress against the business plan and this is undertaken at regular intervals through the year, usually through the monthly board meeting of the CIAL.<sup>86</sup>

68. Mr Jones further explained a third element to the agreement known as consent matters which require shareholder consent for the operation of the airport and may include matters such as agreement of expenditure that hadn't been included in the original annual business plan.<sup>87</sup>

69. The Committee asked for clarification of the mechanisms in place for Holdco to report back to the Welsh Government. Mr Jones explained:

"I will generally take a note of the board meeting that I attend, if there are any matters that I think Government should note, but clearly there are confidentiality issues there as well. So, there's a balance to be drawn between things that the Government needs to know as the shareholder and things that

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<sup>83</sup> RoP, paragraph 84, 2 February 2016

<sup>84</sup> RoP, paragraph 7, 2 February 2016

<sup>85</sup> RoP, paragraph 7, 2 February 2016

<sup>86</sup> RoP, paragraph 8, 2 February 2016

<sup>87</sup> RoP, paragraph 8, 9 February 2016

the airport company needs to understand, or needs to keep within its four walls, to be able to deliver its business.”<sup>88</sup>

70. Members asked for clarification of Mr Jones’ role as an observer of CIAL board meetings and whether he contributed to discussions and decisions. Mr Jones stated:

“No, I certainly don’t contribute to decisions. I contribute to the discussion insofar as it relates to monitoring the performance of the airport company against the annual business plan. So, if there are clarifications that I need to make in order to understand how the company’s performing in its monthly report about its performance against the business plan, then I’ll certainly ask those questions.”<sup>89</sup>

71. The Committee explored how the potential tension between Mr Jones’ role as a Welsh Government Civil Servant and as a Director of the holding company at arm’s-length from the Welsh Government is managed in practice. Members referred to examples of such tensions identified in the Auditor General’s report including;

- the reduction in the value of the Welsh Government’s commercial advertising and sponsorship agreement with CIAL and the consequent impact on CIAL’s income:<sup>90</sup>
- the introduction of the express bus service between the airport and Cardiff city centre which could have a detrimental impact on the airport’s car parking income.<sup>91</sup>

72. In commenting on the tensions relating to commercial advertising Mr Jones explained:

“The Cardiff Airport business side of it clearly wants to maximise its revenues; from the Welsh Government side, from the colleagues in Visit Wales side, there’s an overall assessment of pressures on budgets and the kind of wider point of view of what Visit Wales is trying to achieve. It’s going through a major rebranding exercise at the moment, and I think there’s a need

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<sup>88</sup> RoP, paragraph 9, 9 February 2016

<sup>89</sup> RoP, paragraph 73, 9 February 2016

<sup>90</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 1.22 – 1.23, 2.52 and 3.48

<sup>91</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 3.54

to be able to get clarity on the Visit Wales side about where they want to make their investments in future. That's not a finished issue, though, that's an ongoing issue.<sup>92</sup>

### ***Board Size and Composition***

73. The Auditor General's report explains the arrangements for appointing non-executive directors of CIAL.<sup>93</sup> The Welsh Government took a leading role in the initial appointments at acquisition, but the expectation was that CIAL would lead in selecting its board members after the initial directors had been appointed. However, the appointment of Mr Lewis as Chairman of CIAL was directed by Holdco drawing on its powers in the Management Agreement. Two of the five non-executive directors (other than the Chairman) were re-appointed by CIAL in April 2015 for a further two year term. The three non-executives who stepped down have not yet been replaced.

74. Mr Jones highlighted that the report published by the Public Policy Institute for Wales (PPIW) report on Cardiff Airport made recommendations in terms of how governance should work, particularly if considering Cardiff Airport working alongside the airbase at St Athan, and in the future maybe a different governance structure for that would need to be considered.<sup>94</sup>

75. Members questioned whether there was any intention to increase the size of the CIAL board and, if so, whether there were any particular skills and experience that would enhance the board. Mr Lewis explained that he had decided to keep the organisation "very lean and tight and very focused."<sup>95</sup> In reference to increasing the size of the board he added:

"Could we increase it? Yes, we could. But what I want to do is increase it when I feel we've identified where our strengths and weaknesses are—and we're pretty close to it, actually."<sup>96</sup>

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<sup>92</sup> RoP, paragraph 28, 9 February 2016

<sup>93</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.8 - 3.12

<sup>94</sup> RoP, paragraph 58, 9 February 2016

<sup>95</sup> RoP, paragraph 122, 2 February 2016

<sup>96</sup> RoP, paragraph 126, 2 February 2016

76. However, evidence from Mr Jones stated that there was a recognition that wider aviation or airline experience might be valuable to the CIAL Board.<sup>97</sup>

77. In terms of the appointment of Mr Lewis as Chair of the CIAL Board Members questioned whether Mr Lewis had sought out appointment as chair, or whether he had been encouraged to take an interest.<sup>98</sup> Mr Lewis confirmed that he had been invited to consider the role by the Minister for Economy, Science and Transport.<sup>99</sup>

78. Evidence from Glasgow Prestwick highlighted an alternative approach whereby recruitment of the Chair of the Board was undertaken through open competition.<sup>100</sup>

79. The Committee questioned Mr Jones on the size and capacity of the Holdco Board and its breath of expertise. Mr Jones explained that he brought significant private sector engineering expertise to the board which alongside the experience of the other directors in term of the advance material and manufacturing sector, which included aerospace, and transport sector.<sup>101</sup> However, Members were concerned that the Holdco Board consisted of just three directors and that the size of the board can have a significant impact on the quality of decision making, particularly if one Board member is absent.<sup>102</sup>

80. The Committee also heard in evidence from Mr Cain that the composition of Holdco could benefit from aviation expertise being brought into it.<sup>103</sup>

81. Mr Jones assured the Committee that the Holdco Board's role was to undertake a limited, but important, set of activities explaining:

“We're not operating a business; we are scrutinising a business against some particular points in time. So, in many ways, that's a bit easier to do. However, I think it's also true to say that we

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<sup>97</sup> RoP, paragraph 342, 9 February 2016

<sup>98</sup> RoP, paragraph 98, 2 February 2016

<sup>99</sup> RoP, paragraphs 99 & 101, 2 February 2016

<sup>100</sup> RoP, paragraph 460, 11 February 2016

<sup>101</sup> RoP, paragraph 114, 9 February 2016

<sup>102</sup> RoP, paragraph 115, 9 February 2016

<sup>103</sup> RoP. Paragraph 410, 11 February 2016

recognise that there is a need to strengthen the board, which we have done.”<sup>104</sup>

82. Mr Jones added that the Holdco Board were keen to see how Mr Lewis would decide to shape the CIAL Board given that it would be impact the expertise Holdco would wish to bring into its membership to complement the skills set of the operational company.<sup>105</sup>

### ***Performance Monitoring***

83. The Auditor General’s report explains how the Holdco Board operates in practice and concludes that the holding company exercises an appropriate level of control over CIAL, although there is scope to improve performance monitoring.<sup>106</sup> The report also highlights that Holdco has not set key performance indicators for CIAL although it intended to do so for monitoring purposes when first established.<sup>107</sup> Recommendation 4 suggests that Holdco and CIAL agree a set of performance indicators, covering commercial and wider objectives in keeping with the principles of sustainable development and also suggests that Holdco should encourage CIAL to publish an annual report summarising its progress.

84. Mr Lewis told the Committee that CIAL was content to publish an annual report along these lines.<sup>108</sup>

85. Members explored the role of Holdco in holding to account CIAL and whether the performance of the airport was compared with the performance of other airports, were there any bench marks and reporting back to Welsh Government of performance data.<sup>109</sup>

86. Mr Jones noted the Auditor General’s conclusion on the production of an Annual Report by CIAL and confirmed that he would be writing to the Committee shortly to confirm that this was something Holdco should be doing. Mr Jones added:

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<sup>104</sup> RoP, paragraph 118, 9 February 2016

<sup>105</sup> RoP, paragraph 118, 9 February 2016

<sup>106</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Paragraphs 3.13 to 3.19

<sup>107</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Paragraph 3.17

<sup>108</sup> RoP, paragraph 132, 2 February 2016

<sup>109</sup> RoP, paragraph 119, 9 February 2016

“The key benchmark for us at the moment is the business plan. So, it’s monitoring progress against the business plan, so the business plan needs to be realistic, but show ambition, and then what we do on a monthly basis is make sure that the airport board are actually delivering against the benchmark of their business plan.”<sup>110</sup>

87. Mr Price also confirmed that consideration was being given to requiring Holdco to produce a formal report setting out the performance of the airport and identifying any issues and exceptions. He explained that while that work was being currently undertaken it was not being formalised on an annual basis, and that partly as a result of the Committee’s inquiry it would that be a sensible thing to do.<sup>111</sup>

88. With regard to recommendation 4 of the Auditor General’s report, Holdco should encourage CIAL to publish an annual report summarising its progress, the Welsh Government confirmed that:

“Holdco will discuss with Cardiff Airport the merits of the airport producing an annual report summarising progress.”<sup>112</sup>

89. Mr Jones outlined that other high-level performance information Holdco were interested in included passenger numbers, financial stability and future growth. He explained that although these have not been established as formal performance indicators these would form the basis of the Key Performance Indicators that Holdco will publish about the airport, although much of this information is in the public domain.<sup>113</sup>

### ***Conclusions and Recommendations***

The Committee notes the roles and responsibilities of the CIAL Board and the Holdco Board. It concludes from the evidence that these are clearly set out. The Committee welcomes the ongoing and regular communication between the two Boards and that sufficient reporting mechanisms are in place for Holdco to report back to the Welsh Government.

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<sup>110</sup> RoP, paragraph 120, 9 February 2016

<sup>111</sup> RoP, paragraph 281, 11 February 2016

<sup>112</sup> RoP, paragraph 120, 9 February 2016

<sup>113</sup> RoP, paragraph 122, 9 February 2016

The Committee notes the approach taken by the holding company for Glasgow Prestwick Airport which has a wider membership, and the Chairman of the airport operations company also serves as Chairman of the holding company. **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.**

In terms of the size and composition of the CIAL Board the evidence we have heard would suggest that this can be improved. We heard the CIAL are giving consideration to the future make up of its Board. **We recommend that Holdco encourage the CIAL Board to consider expanding its Membership to include wider aviation and/or airline experience.**

**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.**

We note the potential for conflicts to arise between Holdco and the Welsh Government, particularly given the Holdco board members including the Chair are Welsh Government officials within the same group that provides the advertising contract.

Unfortunately, issues arising from such conflicts of interest have been a reoccurring theme within our work, for example within our inquiries on the Regeneration Investment Fund for Wales and Wales Life Sciences Investment Fund. We recommend that the Welsh Government have a clear protocol for managing potential conflicts of interest that could arise between Holdco and the Welsh Government.

We note that following any changes to the composition of the CIAL Board, consideration would be given to the membership of the Holdco Board. We welcome that such consideration would seek to complement the skills set of the CIAL Board. **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.**

We note from the evidence that the recruitment of the Chair of the Board of Glasgow Prestwick airport was undertaken through open competition. We are concerned that a similar process was not used to appoint the Chair of CIAL and can see no reason as to why this approach was taken. We believe that there should have been a sound reason for such a significant departure from the Welsh Government's usual recruitment practice for public appointments.

With regard to the role of the Chairman of CIAL on the Holdco Board, evidence to the Committee suggests that this remains a matter for further consideration in the future and a decision remains to be made. We endorse the recommendation of the Auditor General that suggests Holdco should consider amending the Management Agreement to reflect its preferred policy on the role of the Chairman of CIAL on the Holdco Board.

The Committee notes the recommendation of the Auditor General suggesting that Holdco should encourage CIAL to publish an annual report summarising its progress. We note from our evidence that the publication of an Annual Report is supported by CIAL, Holdco and the Welsh Government and work is ongoing to take this work forward. We welcome the publication of Annual Report by CIAL and consider this to be important in terms of monitoring the performance of the airport. Furthermore, it could also serve to demonstrate the airport's contribution to the Welsh Government's policy objectives and help raise the airport's profile more generally.

## 6. Commercial Progress

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90. The Auditor General's report refers to CIAL's requirement for external finance to deliver its business plan.<sup>114</sup> The finance requirement was estimated at £2.7 million at acquisition but now stands substantially higher, with the estimated requirement increasing in each business plan. The Welsh Government has provide commercial loan facilities totalling £23 million but CIAL anticipates that additional finance will be needed before 2020.<sup>115</sup> The Welsh Government has commissioned a review of the airport's financial health and likely future finance requirements.

### *Business planning and external finance*

91. Members queried whether based on CIAL's current financial projections, the £23 million loan facility, provided by the Welsh Government, is sufficient for the medium term, and the possible scale and timing of any additional finance that will be needed.

92. Mr Lewis explained that he thought consideration would need to be given to sourcing further investment into the airport but the loan from the Welsh Government was being paid back.<sup>116</sup> However, Mr Lewis also noted the importance of air passenger duty (APD) being devolved to Wales and that this would be a "significant game-changer".<sup>117</sup> He added:

“...it would increase the number of airlines, increase the number of destinations, reduce the prices on offer, and help us then invest further into the airport.”<sup>118</sup>

93. Mr Nicholls explained that in Scotland, APD had been a deterrent to route development and highlighted that that once APD was devolved to the Scottish Parliament, there would be for a cut of 50 per cent from 2018 and abolition when resources allow. He added:

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<sup>114</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.28 to 3.36

<sup>115</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 3.28

<sup>116</sup> RoP, paragraph 241, 2 February 2016

<sup>117</sup> RoP, paragraph 241, 2 February 2016

<sup>118</sup> RoP, paragraph 241, 2 February 2016

“We’ve seen over recent years very many airlines saying to us, both in conversations with Ministers and with officials, but also supported by a fair amount of analysis, that APD is a major deterrent to further route development in Scotland. Ryanair and EasyJet have both been on record as saying that, and have even put numbers on how many more passengers there might be to Scottish airports if APD were to be reduced or, in their view, preferably abolished.”<sup>119</sup>

94. However, evidence from Mr Cain exercised a note of caution on using devolved powers on air passenger duty explaining that there is no doubt the removal of APD stimulates growth but the issue is how it is funded. He stated:

“There is an opportunity to do it in a targeted way that would be very effective. And I think it probably—. I don’t know what evidence was put to the Silk commission, but it needs to be carefully thought through—and I’m sure the Welsh Government officials are doing that—to find the most effective and optimum way of using any devolved powers. I don’t think it necessarily needs to be a blanket removal.”<sup>120</sup>

95. In his report, *Maximising the Economic Benefits of the Welsh Government’s Investment in Cardiff and St. Athan Airports*, for the Public Policy Institute for Wales (PPIW) published in January 2016, Mr Cain also reflected on the impact of devolving APD to Wales. His report notes that the Welsh Government would “need to carefully consider its options in the context of updated market analysis and detailed discussions with key airlines”. The report makes a number of suggestions for interventions that would otherwise help increase the number of routes and frequency of services to target destinations, and thus build the competitiveness of the airport. These include:

- destination marketing packages, as used in Scotland;
- a new Welsh Route Development Fund, similar to the schemes which existed in Scotland and Northern Ireland between 2003 and 2008, to develop services to key hubs and business destinations; and

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<sup>119</sup> RoP, paragraph 486, 11 February 2016

<sup>120</sup> RoP, paragraph 414, 11 February 2016

- in the longer term, public service obligation (PSO) funding for a London hub connection, ideally a shuttle service running to an expanded Heathrow Airport, and possibly for other services.<sup>121</sup>

96. Recommendation 5 of the Auditor General’s report notes that, in 2015, Holdco asked CIAL to submit business plans with a two year planning period, whereas CIAL had included five year financial projections with its previous plans and in its draft 2015 plan. The report also recommends that Holdco should return to its previous practice of considering at least five year financial projections as part of its review of the airport’s business plans. Paragraph 3.23 notes that Glasgow Prestwick Airport had prepared a long-term financial plan including projections at least eight years ahead.

97. Members queried why the airport only had two year business plans and questioned why they were not looking further ahead. Mr Lewis confirmed that the airport had a two year plan and a five year plan but that it was a challenge to look beyond two year with certainty and that aviation “is a business that has many unknown unknowns”.<sup>122</sup>

98. Mr Lewis explained that any business plans could not be placed in the public domain given their commercial sensitivity and because they make assumptions on their relationship with commercial partners in commercial agreements.

99. Mr Jones explained the difficulties of planning for more than 2 years ahead stating:

“The aviation sector is pretty dynamic. If you just think about what’s happened in aviation just in the last year with Sharm El Sheikh, with Tunisia, with Paris—they all had a material impact on the airline industry, not just coming into Cardiff, but around the world. Those things are impossible to predict, so putting together a business plan that we’re going to monitor and we’re going to hold the feet to the fire of Cardiff International Airport Limited board against, which projects for more than two years, is a very difficult thing to do. Bear in mind what we’re doing here with the Management Agreement is monitoring their

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<sup>121</sup> Maximising the Economic Benefits of the Welsh Government’s Investment in Cardiff and St. Athan Airports Public Policy Institute for Wales page 38 (January 2016)

<sup>122</sup> RoP, paragraph 264, 2 February 2016

progress against that business plan. If we asked them to project five years into the future, that's going to be a very difficult act for them to perform to be able to consistently achieve against a five-year target, when we know that there are material changes there."<sup>123</sup>

100. Mr Jones added that any decision by the UK Government to devolve air passenger duty in the next couple of years could potentially have a significant impact on the performance of the airport and we would then be judging the airport over a five-year business plan period, when their performance would way exceed what was in the business plan and it would be very difficult to challenge them, to have a set of challenging targets. Mr Jones stated:

"It's right that Cardiff Airport board produces a two-year business plan that we hold them to account to, and that's the basis of the Management Agreement. Is there a case for having a five-year view, or even perhaps a longer term view of where the airport wants to be strategically to deliver some of the things that are in this Public Policy Institute for Wales report? Yes, I think there is and I think, on reflection and in line with the comments of the auditor general, we will ask the airport, this time around, for both a two-year business plan, which we'll measure them against, but also a view of a five-year horizon and perhaps even a slightly longer horizon as well, just to be able to monitor the direction of travel, but also to be able to see where the airport is going from a strategic point of view."

101. The Committee questioned the Chairman of Glasgow Prestwick Airport on whether the holding company at Cardiff only requiring two year business plans was sufficient and appropriate in their view. Mr Miller explained that in his view an appropriate planning horizon would be longer given the number of issues that affect aviation stating:

"So, when it comes to airlines, their planning horizon is at five years plus and most of the big airlines already know what aircraft they're buying at a five-year plus horizon. Airports' long-term capital investments, infrastructure businesses, where a lot of the big pension companies—you know, global pension

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<sup>123</sup> RoP, paragraph 211, 2 February 2016

schemes—take a position, they work very much on a 20-year horizon. So, one would say that operating in a two-year horizon isn't probably best practice; a five-year horizon would be more appropriate, especially when you consider the long-term planning horizons of the airports and the competition around Cardiff and, indeed, the airlines that are flying in and out of there—the big players.”<sup>124</sup>

### ***Potential Equity Sale***

102. Moving into the future, Mr Lewis outlined his vision that the airport needed to have a partnership following movement to a sustainable position as an enterprise that:

“...delivers the numbers, that works holistically with aviation in Wales, we need to have other partners, and that's why we're out talking to a lot of people. And I'm confident, when the time is right, as I said—. The industrial editor of *The Times*, Robert Lea, reported on our position that, three years from now, we will go to the market for appropriate partnership for private equity, with the approval and agreement, obviously, of the shareholder.”<sup>125</sup>

103. Furthermore, Mr Lewis outlined a three year time frame for bringing in private investment and provided the example of Manchester Airport of which 65% is in public ownership although he did not comment specifically on the optimal equity release for CIAL.

104. Mr Lewis added that his overarching ambition was to create long-term certainty and sustainability for the enterprise and the need to safeguard the airport as a national asset adding:

“The key thing is that we need to safeguard this national asset for the people of Wales, and that's why the decision that was made two years ago was the right decision, because it safeguarded this for the people of Wales, but we now need to take it forward.”<sup>126</sup>

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<sup>124</sup> RoP, paragraph 484, 11 February 2016

<sup>125</sup> RoP, paragraph 221, 2 February 2016

<sup>126</sup> RoP, paragraph 227, 2 February 2016

105. In responding to questions regarding the size of future investment in the airport, Mr Lewis suggested that he would be looking for more funding sooner rather than later, although he did not clarify whether this would be through Welsh Government loans or private investment.<sup>127</sup>

106. The Committee notes that CIAL has a commercial loan facility of £23 million from the Welsh Government to fund investment in assets and route development, and additional finance is likely to be needed. The Welsh Government has commissioned a review of the Airport's financial health.

107. Mr Jones explained that loans to airports are not in any way unusual and cited examples of other UK airports that currently have loans.<sup>128</sup> He confirmed in written evidence that many commercial airport operations carry significant debt to help finance their activities and realise business development objectives. Cardiff Airport is far from unique in that regard.<sup>129</sup>

108. The Committee questioned CIAL on their understanding as to why the Welsh Government was undertaking a review of the financial health of the airport. Ms Barber and Mr Lewis acknowledged that in carrying out a review on the financial health of the airport, the Welsh Government were exercising due diligence in the context of loan finance.<sup>130</sup>

109. In providing clarification on the financial review of the airport being undertaken by the Welsh Government, Mr Jones explained:

“...we asked Deloitte to go in and have a look at the finances of the airport. There were a number of reasons for doing that. We asked them primarily because we'd owned the airport for three years. It was important to understand the financial health of the airport. I think it was a prudent thing for a shareholder to do. There was also a need for us to be able to benchmark the interest rate that was being charged—or for Government to be

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<sup>127</sup> RoP, paragraph 254, 2 February 2016

<sup>128</sup> RoP, paragraph 344, 9 February 2016

<sup>129</sup> PAC (4) 08-16 PTN 1, 1 March 2016

<sup>130</sup> RoP, paragraph 259, 2 February 2016

able to benchmark the interest rate that was being charged on the existing loans.”<sup>131</sup>

### ***Passenger Growth***

110. The Auditor General’s report highlights that the central aim of the commercial strategy in the acquisition business plan was to drive passenger growth by attracting a major low cost carrier to base aircraft at Cardiff Airport, re-engage existing airlines, and in the near- to medium-term to secure long-haul routes to the Middle East and North America.<sup>132</sup> The acquisition business plan projected that passenger numbers would increase rapidly from just over one million in 2012 to around two million in 2017-18 and 2.2 million in 2020, with more modest but steady growth to 3.3 million in 2037. The report explains how these forecasts were developed from four scenarios that modelled different marketing approaches.<sup>133</sup> The scenario selected as being “most likely” would require a reduction in aeronautical charges<sup>134</sup> and a substantial increase in incentives to attract airlines.<sup>135</sup>

111. CIAL’s own business plans for 2014 and 2015 scaled back these ambitions, with passenger numbers of around 1.4 million now expected for 2017-18.<sup>136</sup> Paragraphs 3.37 to 3.39 of the Auditor General’s report outline actual progress since acquisition – numbers rose in 2013-14 but dipped again in 2014-15 to just above the 2012-13 level. CIAL has recently secured a ten-year agreement with Flybe to base two aircraft at Cardiff and became the airport’s main low cost carrier starting in June 2015. The agreement is expected to generate a substantial increase in passenger numbers, although not to the level expected in the acquisition business plan. The agreement is not without financial risk but the view of CIAL and Holdco is that it is

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<sup>131</sup> RoP, paragraph 356, 2 February 2016

<sup>132</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Figure 8 page 61

<sup>133</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Paragraphs 2.58 to 2.60

<sup>134</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 2.56

<sup>135</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 2.58c

<sup>136</sup> Auditor General for Wales, [The Welsh Government’s Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Figure 10, page 68

based on conservative assumptions and that robust measures are in place to mitigate foreseeable risks.<sup>137</sup>

112. Members questioned whether there was any explanation for the shortfall in passenger numbers compared with earlier forecasts and the CIAL board's confidence in current projections. Ms Barber explained that the airport was currently about a year behind its projections for passenger numbers and that it would take time to achieve the necessary momentum in terms of increasing passenger numbers through drawing in airlines and boosting confidence.<sup>138</sup> In terms of plans for future development, Mr Lewis stated:

“So, the three strategies, simply: more destinations at competitive prices at times that our passengers want, wrapped in a fantastic customer experience.”<sup>139</sup>

113. Mr Lewis shared this confidence in terms of growth projections taking into account size of the potential catchment area and he also emphasised the importance of marketing Wales in the destinations that the airport serves to generate inbound tourism and traffic.<sup>140</sup> He highlighted the importance of having an international gateway to Wales through the airport, not just for South Wales but for Wales as a whole, with 24% of passengers in 2015 inbound to Wales.<sup>141</sup>

“The opportunity for Wales to market itself in those destinations to encourage people to come to Wales, I think, is very, very attractive indeed. I think it would be of a huge economic benefit, and there are great examples of where this has succeeded. The nearest example would be Ireland. Ireland have done remarkably well in encouraging people—inbound travel and tourists into Ireland—via their airports.”<sup>142</sup>

114. Members questioned whether there was data available to show the onward destinations of inbound international travellers into Wales. Mr Lewis confirmed there was a commitment to collecting that information.

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<sup>137</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.40 to 3.42

<sup>138</sup> RoP, paragraph 256 – 57, 2 February 2016

<sup>139</sup> RoP, paragraph 138, 2 February 2016

<sup>140</sup> RoP, paragraph 161, 2 February 2016

<sup>141</sup> RoP, paragraphs 70 – 71, 2 February 2016

<sup>142</sup> RoP, paragraph 161, 2 February 2016

115. The Committee referred to the current marketing agreement the airport has with the Welsh Government, which had initially been agreed for 3 years, extended by 16 months and coming to an end in March 2016. Ms Barber explained that discussions were currently ongoing to decide what happens beyond that point.<sup>143</sup>

### ***Profitability***

116. The Auditor General's report outlines the airport's financial performance since acquisition and note that early projections for an underlying profit of £21 million in the five year period following acquisition have been progressively reduced in subsequent business plans.<sup>144</sup> The main reasons for this are higher costs for airline incentives and lower revenues from aeronautical charges,<sup>145</sup> marketing income and savings from joint working with St Athan.<sup>146</sup> However, commercial income was slightly above projected figures in 2013-14 and 2014-15 and a programme has begun to make efficiency savings.

### ***Conclusions and Recommendations***

We note the potential benefits to the future growth and development of Cardiff Airport arising from devolved powers on air passenger duty. We fully support the Welsh Government's intention to secure devolved powers on air passenger duty in the future.

We note that although CIAL consider a long term outlook, business plans are only approved on a two year basis given the difficulties of planning beyond this with any certainty. This view was shared by Holdco although we note that evidence from Glasgow Prestwick Airport suggested that two year planning was not necessarily good practice. We note that Glasgow Prestwick Airport operates within much longer term business planning. **We recognise the uncertainty of longer term business planning and that Holdco may wish to formally approve actions on a two year outlook. However, we recommend**

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<sup>143</sup> RoP, paragraph 287, 2 February 2016

<sup>144</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.47 - 3.50

<sup>145</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 3.48

<sup>146</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.48 and 3.62 - 3.64

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

We note the airports progress against the acquisition business plan in terms of passenger growth and the disparity between CIAL and Holdco's evidence, in that passenger growth targets are a year behind target. We also note the findings of the Auditor General in that the targets in the acquisition business plan are unlikely to be met. As such although progress is being made we are concerned that progress has not been sufficient to date.

We note that it is not unusual for airports to operate without loans in order to help finance their activities and realise business development objectives, and that Cardiff Airport is not unique in this regard. However, we recognise this may present a risk to other Welsh Government investments.

The Committee has considered where the Welsh Government is investing its resources on wider marketing through Visit Wales. We recommend that the Welsh Government give consideration to whether money spent on the marketing agreement with CIAL might have more impact and achieve greater value for money if spent on marketing overseas.

**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.**

## **7. Wider Developments and Benefits Realisation**

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117. The Auditor General's report outlines the airport's working relationship with the Welsh Government and its relations with other key stakeholders and the local community.<sup>147</sup> The AGW's report also explains how the airport is working with the Welsh Government to promote tourism.<sup>148</sup> The report noted that the Cardiff Airport taskforce was disbanded in October 2013 when the Welsh Government decided to progress specific initiatives through other means, such as the Enterprise Zone or tourism sector panel.<sup>149</sup>

### ***Capital Improvements***

118. Members asked for details of recent capital infrastructure investment at the airport and were told that work had been undertaken to upgrade the airport including improvements to parking facilities, automated check in, customer facilities within the airport such as a café and a larger security area.<sup>150</sup> Ms Barber explained that a current project would see further improvements to passenger's shopping experiences and replacement of a café, restaurant and bar, with an aim of making the airport a more welcoming, family-friendly environment.<sup>151</sup>

119. Members sought the views of Holdco on the wider benefits of having an airport in Cardiff. Mr Jones referred to the initial rationale for purchasing the airport explaining that around 1,700 people were employed at the site. Mr Jones emphasised the benefits of British Airways having a flagship maintenance site at Cardiff and how this facility would have been lost had the airport continued to decline or had the facility been lost. He highlighted the importance of the aerospace sector in Wales in terms of employment, and what a significant role Wales plays in that sector stating:

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<sup>147</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraphs 3.52 - 3.53

<sup>148</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, Paragraphs 3.60 - 3.61

<sup>149</sup> Auditor General for Wales, [The Welsh Government's Acquisition and Ownership of Cardiff Airport](#), 27 January 2016, paragraph 1.19

<sup>150</sup> RoP, paragraph 236, 2 February 2016

<sup>151</sup> RoP, paragraph 237, 2 February 2016

“I think the figures that were quoted were something like 20 per cent or 25 per cent of all jobs in aerospace in the UK are actually in Wales, and the UK is the second-biggest aerospace employer in the world. So, Wales is a big player in this market. It would be slightly peculiar if we didn’t have our own airport, especially when that airport is a major part of that aerospace industry, particularly with the BAMC facility.”<sup>152</sup>

### ***Transport Access***

120. On the matter of transport links, Mr Jones, in his capacity as the Welsh Government Director of Transport, said that access to the airport is important given that airlines that are looking to secure routes into an airport will look at the catchment area. He explained:

“If you can improve the surface access and reduce travel times for people coming to the airport, so that, essentially, the boundary of your one hour travel time to the airport gets bigger, then there’s a bigger catchment area and bigger opportunities for airlines that might wish to invest in the airport.”<sup>153</sup>

121. Members asked about public transport links to the airport and specifically whether there were any plans to move Rhoose train station nearer to the airport terminal or moving the terminal nearer to the train station. Ms Barber explained that the complexities of making any changes to the location of the train station and it would only be possible by moving the runway to land outside of the existing airfield structure.<sup>154</sup>

122. With regard to rail, Mr Jones outlined that the metro offers an opportunity to be able to improve links to the airport and discussions were on-going to consider how these improvements might be achieved.

“The metro will seek to bring something like a 15-minute interval between trains to the outer reaches of the network. I

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<sup>152</sup> RoP, paragraph 64, 9 February 2016

<sup>153</sup> RoP, paragraph 145, 9 February 2016

<sup>154</sup> RoP, paragraph 195, 2 February 2016

think a 15-minute service to the airport would be very welcome.”<sup>155</sup>

123. The Committee discussed the Cardiff Airport Express Bus Service and asked for an update on passenger numbers. Professor Cole commented favourably on the express bus service highlighting that it was fast and frequent with growing passenger numbers.<sup>156</sup>

124. Figures provided by CIAL on passengers’ access to the airport and the method of transport used indicate an increase in passengers travelling by bus/coach. These figures are detailed in the table below.<sup>157</sup>

CAA Surveys	2015 (provisional Jan-Sept)	2012 (final Jan - Dec)
Car	65%	72%
Taxi/Minicab	22%	20%
Bus/Coach	11%	5%
Train/Shuttlebus	2%	3%

125. However, Professor Cole was sceptical about whether the shuttle bus link from Rhoose train station to the airport should continue as the hourly frequency is not sufficient and change from train to bus is off-putting.<sup>158</sup>

126. Professor Cole told the Committee that better road access to the airport was needed for car travel.<sup>159</sup> Mr Cain added that a large majority of passengers would arrive at the airport by car and would continue to do so even if public transport were improved.<sup>160</sup>

127. During the Committee Chair’s visit to the airport it was noted that signage for the Cardiff Express bus service was confusing and this could potentially discourage travellers from using the service. Specifically it was noted that foreign travellers might find the signage unhelpful and this may lead to them using alternative forms of

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<sup>155</sup> RoP, paragraph 146, 9 February 2016

<sup>156</sup> RoP, paragraph 355, 11 February 2016

<sup>157</sup> Additional information from Debra Barber, Chief Operating Officer, Cardiff Airport (23 February 2016)

<sup>158</sup> RoP, paragraph 381, 11 February 2016

<sup>159</sup> RoP, paragraph 372, 11 February 2016

<sup>160</sup> RoP, paragraph 393, 11 February 2016

transport such as taxis without exploring the benefits of using the service.

During the visit the Chair was also informed that despite a number of efforts to engage with Arriva Trains Wales in discussions to improve rail links with the airport, no progress had been made to date.

### ***Maximising the Airport's Potential***

128. Members explored how the airport would be marketed in the future to help maximise its potential. Ms Barber highlighted that marketing was a significant part of the strategy for the airport with research being undertaken to understand the airports passengers, customers and airlines.<sup>161</sup> She added that under the previous owner, marketing, PR and interacting with the media had not happened, “It was something that there were very sort of adverse to” and it was now a priority.<sup>162</sup>

129. Ms Barber also provided evidence on the importance of marketing Cardiff Airport as a link to hub airports. She explained that Cardiff Airport had links to several hubs now and work was being undertaken to advertise the benefits of this.<sup>163</sup>

130. Members asked for the airport's perspective on its contribution in attracting major sporting events and also the impact of sporting events such as the rugby world cup and 6 nations on traffic through the airport. Ms Barber stated the airport had been tested by two significant events recently, the first being the NATO summit which involved 17 heads of state and 28 senior secretaries in three days. The second event was the Rugby World Cup which required just under 250 additional flights to cater for the additional 35,000 passengers. Ms Barber added that the airport was proud of the support they had, and continue to give during major events.<sup>164</sup>

131. Mr Lewis outlined that work was also being undertaken to ensure the airport could support forthcoming major events including the around the world yacht race that is coming to Wales in 2018, the

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<sup>161</sup> RoP, paragraph 160, 2 February 2016

<sup>162</sup> RoP, paragraph 160, 2 February 2016

<sup>163</sup> RoP, paragraph 167, 2 February 2016

<sup>164</sup> RoP, paragraphs 173 – 174, 2 February 2016

[UEFA] Champions League football in 2017, the world half marathon later in 2016, and the Senior [golf] Open Championship on 2017.<sup>165</sup>

132. Evidence from the Football Association of Wales (FAW) concurred with this in stating

“...the Football Association of Wales (*FAW*) has always had a strong and positive working relationship with Cardiff Airport. Over recent years, the FAW has worked closely with the airport in relation to the planning for UEFA Super Cup 2014. The airport also featured prominently in the FAW's UEFA EURO 2020 bid.”<sup>166</sup>

133. Furthermore, the FAW confirmed that without Cardiff Airport's support, it wouldn't have been able to submit its successful bid to stage UCL Final 2017. The FAW has been working closely with Cardiff Bristol Airports as it sets out to deliver the considerable air operations plan for UCL Final 2017.<sup>167</sup>

134. Similarly, the Committee received evidence stating that the Welsh Rugby Union and Principality Stadium work closely with all stakeholders in the planning and delivery of major events to promote proactive dialogue and engagement to ensure all transport operators are able to maximise operating capacities and meet the demands of the events.<sup>168</sup>

135. Members asked Mr Jones for his views on how crucial the relationship between RAF St Athan and the airport is for future development, he explained:

“The PPIW report painted a picture of an exciting future for this vision of one airport with two runways, if you like—recognising, though, that the two airfields do completely different things. In the short term, there are probably some operational synergies that we could bring into the operation of the two airports. It's difficult at the moment because of the fact that St Athan is run under a military set of aviation rules. But, that's due to come to an end in a few years' time. I think when that happens and the

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<sup>165</sup> RoP, paragraph 188, 2 February 2016

<sup>166</sup> PAC(4)-08-16 PTN3, 1 March 2016

<sup>167</sup> PAC(4)-08-16 PTN3, 1 March 2016

<sup>168</sup> PAC(4)-08-16 PTN5, 1 March 2016

contractual arrangements which are in place at St Athan begin to fall away, there is an opportunity for Cardiff Airport perhaps to play a more significant role, so that we can share some of the services; things like fire and tower services, grass cutting, bird control and all those kinds of things. There's potential for significant savings for the Government in terms of operating two airports."<sup>169</sup>

136. The Committee Chair was informed during his visit to Cardiff Airport that there had been resistance from the Ministry of Defence in terms of how RAF St Athan works together with Cardiff Airport.

### ***Conclusions and Recommendations***

We note the important wider benefits to Wales arising from having its own international gateway through Cardiff Airport. We note that currently useful and promising data is collected on where passengers are drawn from within the UK to travel from Cardiff Airport. However, no data is collected to determine the onward destinations of travellers coming into Wales through the airport. **In order to measure the benefits to Wales of passengers coming through the airport we recommend that CIAL and the Welsh Government work together to collect this data.**

**Given our observations regarding signage with regard to the Airport Express bus service the Committee recommends that CIAL work with the Welsh Government to ensure signage is improved with specific consideration to making more user friendly for foreign travellers.**

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

The Committee note the benefits arising from major events and recommend the Welsh Government work with CIAL to maximise these benefits.

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<sup>169</sup> RoP, paragraph 150, 9 February 2016

We note there are obstacles between Cardiff Airport working alongside RAF St Athan. We recommend that the Welsh Government opens discussions with the UK Government to develop direct liaison with the Ministry of Defence to explore the benefits of working together.

Throughout our report we have made reference to the report, *Maximising the Economic Benefits of the Welsh Government's Investment in Cardiff and St. Athan Airports*, published for the Public Policy Institute for Wales (PPIW) in January 2016. We recommend the Welsh Government publish an overall public response to the report and report back on this response to our successor Committee in the fifth Assembly.

## Witnesses

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at:

[www.senedd.assembly.wales/mgIssueHistoryHome.aspx?Ild=1311](http://www.senedd.assembly.wales/mgIssueHistoryHome.aspx?Ild=1311)

<b>Name</b>	<b>Organisation</b>
<i>2 February 2016</i>	
Roger Lewis	Cardiff Airport
Debra Barber	Cardiff Airport
<i>9 February 2016</i>	
Simon Jones	WGC Holdco, Welsh Government
<i>11 February 2016</i>	
James Price	Welsh Government
Chris Cain	Northpoint Aviation
Stuart Cole	University of South Wales
Andrew Miller	Glasgow Prestwick Airport
John Nicholls	Transport Scotland