



Mark Isherwood MS
Chair – Public Accounts and Public Administration Committee
Welsh Parliament
Cardiff Bay
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15 August 2024

Dear Chair,

CARDIFF AIRPORT

Further to Tracey Burke's letter to you of 14 November 2023, I am writing to provide the Committee with an update in relation to Cardiff Airport. The Committee will wish to note AAO responsibility in respect of the airport returned to me in April this year, when changes were made to group structures across Welsh Government.

Quarterly reporting:

I have used the same metrics in this update as used in previous updates. These are consistent with the quarterly reports for the Airport's performance against the Rescue and Restructuring Plan.

Progress report for Quarter four (Q4) being the period ending 31 March 2024:

- Total passenger numbers were 138,836 for the three-month period January to March 2024, falling short of budget by 20,094 for this quarter – this was largely due to Ryanair lifting 22,486 fewer passengers than expected. Year To Date (YTD) passenger numbers are 861,920; 5% behind budget. Passenger numbers YTD vs Prior Year is down 5% (49k) due to the loss of Wizz Air. Conversely, Tui continues to perform strongly.
- The Welsh Government has received 12 quarterly reports to date on the Rescue and Restructuring Plan from its loan agents, the Development Bank of Wales (DBW).
- Cardiff Airport has drawn down £42m of its £42.6m Rescue and Restructuring aid grant to date, with the balance to be drawn down by the end of December 2024.

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- The loan balance outstanding as of July 2024 was £33.7m. This includes capitalisation of interest, which is added to the overall balance at each month end.
- Cash balance remained high due to higher income and cash being preserved by very tight cost control and deferred capital expenditure whilst ensuring the Airport remains compliant with regulatory requirements to operate.
- Income for the year ending 31 March 2024 was c.4% ahead of budget. Higher income from traffic and commercial activity underpinned this over-achievement despite the passenger numbers being behind budget.
- The Airport is yet to reach a level of annual profitability, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) margin, however costs have been well contained, meaning the EBITDA loss for the year was lower than forecasted. Reaching positive EBITDA remains a future target.

The Welsh Government has received and approved 15 capital expenditure requests of between £50,000 and £1m to-date from the Airport, totalling £4.6m, and three requested above £1m totalling £13.6m, from a total pre-approved budget of approximately £29m ringfenced until March 2026. All investments were considered essential operational safety and/or security costs to continue to operate the Airport.

Update on performance targets:

Description of the Target	Date by when it should be achieved	Evidence required	Updates
Achieve an annual level of 1.3m flown passengers	31 March 2026	Report detailing passenger numbers based on data submitted to the Civil Aviation Authority (CAA)	Cardiff Airport has recovered 52% of its 2019 passenger figures, recording 860,000 passengers through its terminal by the end of the last financial year (31 March 2024). Due to the unforeseen loss of Wizz Air in early 2023 and route cancellations such as the Ryanair route to Belfast in October, the airport is now on a trajectory to achieve 1.3m passengers by 31 March 2028.

<p>Reach a level of profitability, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) margin</p>	<p>31 March 2029</p>	<p>Set of audited accounts</p>	<p>The airport is yet to reach a level of profitability, measured by the EBITDA margin. LBITDA (Loss Before Interest, Taxes, Depreciation, and Amortization) is in line with budget, reaching positive EBITDA is a future target.</p>
<p>Minimum of £500,000 salary cost saving</p>	<p>Year ended from 31 March 2022</p>	<p>Annual report</p>	<p>The Airport achieved the target of a minimum of £500,000 salary cost saving in Year ending 31 March 2022.</p>
<p>Maintain operating costs in line with the 11/02/21 forecast.</p>	<p>31 March 2029</p>	<p>Any projected increases of more than 5% to be notified to the Welsh Government Official as part of the quarterly reporting.</p>	<p>The airport continues to maintain operating costs broadly in line with the 11/02/21 forecast. However, we recognise a number of factors continue to impact on the aviation industry including inflationary pressures, a tight labour market and mandatory regulatory requirements, that present significant challenges to the aviation industry in its recovery and it is no different for Cardiff Airport.</p>

<p>Commitment to becoming carbon neutral:</p> <ul style="list-style-type: none"> a) Commit to an operational solar farm at Cardiff airport (or some other energy efficient usage for energy consumption) b) Commitment to the development of sustainable aviation fuel and to offer this to airlines at Cardiff Airport as soon as practicably possible. c) Commitment that all future vehicle purchases will be electric or hybrid (where available) d) Offer a pricing structure (that can be made publicly available) where there is discount on fees and charges for those airlines operating the most fuel-efficient aircraft. e) Focus on enhancing environmental flightpath. 	<p>31 March 2023</p>	<p>To be updated as part of the quarterly reporting.</p>	<p>The position remains the same as articulated to Committee in Tracey's letter dated 5 May 2023.</p>
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Tracey Burke wrote to you on 9 May 2023, under commercially confidential cover, with an update regarding the other performance target. That position has not changed.

No revisions, new measures or targets have been agreed by either party on any of the targets.

Next Generation Security (NGS) Scanners:

CIAL anticipate the new Next Generation Security 3D baggage scanners to be operational later this year. Significant preparatory work has been undertaken at the airport in preparation and we look forward to the new scanners being in place at Cardiff Airport for an improved customer experience.

WGC Holdco Limited Board of Directors:

Further to the update in November 2023, I am also pleased to provide an update on the recent changes to the Board of WGC Holdco Limited (Holdco), the Welsh Government's (WG) holding company for Cardiff International Airport Limited (CIAL).

As the Committee is aware, following an internal governance review of Holdco, Welsh Ministers agreed to two new Non-Executive Directors on the Board of Directors of Holdco, in place of the two Senior Civil Servants (SCS). A position was also retained on the Board for one SCS.

Despite appointments to Holdco not being regulated by the Commissioner for Public Appointments, the process for the new appointments followed the principles under the Code of Governance for Public Appointments as closely as possible and we consulted with our Public Appointments Team to ensure the integrity of the appointments process.

These changes serve to improve the commercial business expertise on the Board and provide greater independence from Welsh Government, ensuring the Welsh Ministers receive greater value for their shareholding in the airport. They also help provide a stronger strategic direction to the airport; greater commercial expertise when scrutinising and approving the airports business plan; better assurance of governance and financial expenditure at the airport; and better oversight of the airport operational and financial performance.

I am pleased to confirm the following appointments to the Board:

Reg Kilpatrick, Director of Local Government Directorate WG Senior Civil Servant (SCS) member

Dr. Rhian Thomas – Non-Executive Director

Geraint Davies – Non-Executive Director

In his capacity as the WG SCS member, Reg has also been voted in as the new Chair of Holdco.

I have included short biographies for Reg, Rhian and Geraint in the attached Annex.

Following these appointments, Jason Thomas and Dickie Davis have tendered their resignations as directors of Holdco. I would like to put on the record my thanks to them, and to the Board's previous external Non-Executive Director, Stuart Castledine, for their service on the Board.

The Holdco Board is quorate and has remained so throughout the process of appointing new directors.

The above changes have been reflected on Companies House records, which can be reviewed here: <https://find-and-update.company-information.service.gov.uk/company/08455972/officers>.

In addition to the above Holdco update, I also wanted to take this opportunity to notify the Committee that we are pleased that the CIAL Board and WGC Holdco Limited made the

decision to reappoint Wayne Harvey as CIAL Chair for another two-year term, from 1 June 2024.

Long Term Strategy for Cardiff Airport:

Committee members will have noted from the Written Statement issued by the Cabinet Secretary for Economy, Transport and North Wales on 22 July 2024 that, as the specific rescue and restructuring package draws to a close, we have been working with the Airport leadership team to develop a longer-term strategy for the business, focused on how the Airport can contribute to economic growth and help to reduce economic inequality in South Wales. To achieve the objectives outlined in the Written Statement, the Welsh Government is planning to provide the Airport with long-term additional investment funding and will be seeking regulatory approval for a package of up to a maximum of £206m across a ten-year period. A copy of the Statement can be found here: [Ministerial Statement](#).

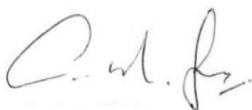
As the investment in the Airport would be classed as a subsidy of particular interest under the UK subsidy regime, our proposed investment package must be referred to the Competition & Markets Authority (CMA) for their consideration in the first instance. This referral will take place over the summer recess period and will take several months to conclude. Once Cabinet Secretaries have had an opportunity to consider the CMA's report and then taken a final decision on what form any investment package should take, they will report back to the Senedd. I will write to this Committee with an update as soon as a final decision has been made.

Subject to certain important commercial considerations, our intention is to report regularly on the flow of funding to the Airport and ensure a close monitoring of the economic outcomes of investment. As with the existing rescue and restructuring package, we will look to agree with you a new reporting regime to keep this Committee updated on progress at the Airport in the context of any new investment package that is put in place by the Welsh Government.

Separately, I have confirmed my availability to attend an evidence session with the Committee on 19 September. The Committee will appreciate that given the nature of the process there will be restrictions on what can be said publicly about the detail of the CMA application and what additional commercial information could be shared while the regulator considers our intended investment package. However, we recognise the Committee may want to explore some aspects of this more fully and we are happy to do so in a short private session, following the public session, if that is something the Committee would like to consider.

With best wishes.

Yours sincerely



Andrew Slade
Director General
Economy, Energy and Transport

Annex – Biographies

Reg Kilpatrick

Reg began his career with British Airways as an aircraft engineer before gaining a degree in Behavioural Sciences. On graduating he joined the Welsh Office as a statistician and worked in a range of areas including directing the Wales Cancer Registry, before managing the NHS Wales budget and health authority allocations. He held a number of policy roles including oversight of the National Museum of Wales and Welsh Development Agency then worked closely with the Wales Millennium Company helping to secure political and financial approval for the project before seeing the building phase begin.

Reg then headed the Welsh Government Financial Planning Division where he directed financial strategy and managed the annual Spending Reviews. He moved to Local Government Policy and become Director of Local Government and Public Services department where he oversaw local government finance, performance and governance, as well as the fire service, community safety, civil contingencies and national security matters. In this role he directed the Welsh Operation Yellowhammer in preparation for a no-deal EU exit and was appointed as Director General in 2020 to co-ordinate the cross-government response to the Covid Pandemic, later moving to take up post as Director General for the Covid Recovery and Local Government Group. He now heads up Welsh Government's Local Government Directorate.

Rhian Thomas:

Dr Rhian Thomas is a Director at Norwegian-Welsh consultancy The Commercial Toolkit, specialising in Commercial and Contract Management, having previously worked in the Aerospace and Marine industries. This included working for Rolls-Royce plc, specialising in bid management, negotiation, risk and contracting.

An experienced Commercial Management practitioner, Rhian's consultancy work covers both private and public sector, supporting Small and Medium Enterprises (SMEs) and larger, international organisations across the UK and Norway to pursue commercial opportunities, develop sound contracting governance and manage commercial risk.

Rhian has a broad range of governance experience across the Welsh public, private and third sectors, including healthcare and utilities, culture and community financial services. Rhian is an Independent Member of the Cardiff & Vale University Health Board, Chair of Cardiff & Vale Credit Union and is also a Member of Glas Cymru (Dŵr Cymru/Welsh Water).

Formerly a Senior Lecturer in Strategy and Management, lecturing through the medium of Welsh and English, Rhian holds a PhD in Modern History with additional degrees in Business Management and Modern & Medieval Languages.

Geraint Davies CBE FCA:

Geraint has been a Trustee and Director of the Hay Festival Charity and its predecessor bodies for 8 years.

After 25 years as a partner with Grant Thornton finishing as Senior Partner Wales and the West, Geraint retired in June 2013. Since then, he has held numerous Non-Exec roles in the private sector, public sector and 3rd sector. He finished as a Director of Cardiff Airport in April 2023 after 10 years. He is also Vice Chair of GCRE Ltd appointed by Welsh Government in 2020. He also sits on a number of other audit and risk committees including the WRU and WNO. He is Chair of one Church in Wales committee and sits as a member on another. He chairs several charities and is a member of fund-raising committees for others.

Geraint is the pro bono lead adviser to the Aberfan charities, a role he has held for some 45 years. He has for the last few years also advised the Grenfell Tower Memorial Commission and DLUHC on the longer-term strategies needed arising from the disaster. He was awarded a CBE in the 2013 New Year Honours List for voluntary and charitable services in Wales.