

Public Accounts Committee

Meeting Venue:

Committee Room 4 – Ty Hywel

Meeting date:

Tuesday, 25 March 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

Fay Buckle

Committee Clerk

029 2089 8041

Publicaccounts.comm@Wales.gov.uk

Agenda

1 Introductions, apologies and substitutions (09:00)

2 Papers to note (09:00–09:05) (Pages 1 – 2)

Child and Adolescent Mental Health Services: Letter from David Sissling (10 March 2014) (Pages 3 – 7)

Child and Adolescent Mental Health Services: Letter from the Auditor General for Wales (14 March 2014) (Pages 8 – 9)

Covering Teachers' Absence: Letter from the WLGA to the Auditor General for Wales (10 March 2014) (Pages 10 – 15)

Covering Teachers' Absence: Letter from the Auditor General for Wales to the WLGA

(Pages 16 – 17)

3 Intra-Wales – Cardiff to Anglesey – Air Service: Briefing papers (09:05)

(Pages 18 – 57)

Wales Audit Office memorandum

Research Briefing

4 Intra-Wales – Cardiff to Anglesey – Air Service: Evidence Session 1

(9:05–10:00) (Pages 58 – 59)

PAC(4)-09-14 (paper 1)

James Price – Director General - Business, Enterprise, Technology & Science, Welsh Government

Mal Drury – Head of Rail/Air Commitments Operations, Welsh Government

Gareth Morgan – Deputy Director, Delivery, Welsh Government

5 Intra-Wales – Cardiff to Anglesey – Air Service: Evidence Session 2

(10:00–10:45) (Pages 60 – 63)

PAC(4)-09-14 (paper 2)

Martin Evans - Visiting Fellow - Faculty of Business and Society, University of South Wales

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (10:45)

Item 7

7 Intra-Wales – Cardiff to Anglesey – Air Service: Consideration of evidence (10:45–11:00)

Public Accounts Committee

Meeting Venue: **Committee Room 4 – Ty Hywel**

Meeting date: **Tuesday, 18 March 2014**

Meeting time: **09.00 – 10.56**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_500000_18_03_2014&t=0&l=en

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Darren Millar (Chair)
William Graham (In place of Mohammad Asghar (Oscar))
Mike Hedges
Alun Ffred Jones
Julie Morgan
Jenny Rathbone
Aled Roberts
Sandy Mewies

Witnesses:

David Sissling, Director General for Health and Social Services, Welsh Government
Huw Vaughan Thomas, Auditor General for Wales, Wales Audit Office
Dave Thomas, Wales Audit Office

Committee Staff:

Fay Buckle (Clerk)
Claire Griffiths (Deputy Clerk)
Joanest Jackson (Legal Advisor)

TRANSCRIPT

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

1.1 The Chair welcomed the Members to Committee.

1.2 Apologies were received from Mohammad Asghar. William Graham substituted.

2 Papers to note

2.1 The papers were noted.

2.1 Covering Teachers' Absence: Letter from Owen Evans (28 February 2014)

2.2 Senior Management Pay: Letter from the Auditor General for Wales (5 March 2014)

2.3 Grants Management in Wales: Letter from the Permanent Secretary, Welsh Government (3 March 2014)

3 Valedictory session: Director General, Health Social Services and Children, Welsh Government

3.1 The Committee held a valedictory session with David Sissling, the out-going Director General Health and Social Services/ Chief Executive NHS Wales, Welsh Government.

3.2 The Director General agreed to send a note to the Committee on mental health issues.

3.3 The Committee thanked David Sissling for his service to the NHS and the public sector in Wales and the way he had contributed to the Committee's work. The Committee wished him well for the future.

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

4.1 The motion was agreed.

5 Unscheduled Care: Consideration of draft report

5.1 Members considered the remainder of the draft report. The Clerks will prepare a revised version and send it to Members by email for comment. The Committee will return to the item at the meeting on 3 April.

Yr Adran Iechyd a Gwasanaethau Cymdeithasol
Cyfarwyddwr Cyffredinol • Prif Weithredwr, GIG Cymru

Department for Health and Social Services
Director General • Chief Executive, NHS Wales



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Our Ref: DS/JP/TLT

10 March 2014

Dear Darren

Wales Audit Office (WAO) / Healthcare Inspectorate Wales (HIW) Report 'Child and Adolescent Mental Health Services: Follow-up Review of Safety Issues'

Thank you for your letter of 10 February regarding the Committee's consideration of the WAO/HIW Child and Adolescent Mental Health Services (CAMHS) report.

I am pleased the report recognises that improvements have occurred since the original 2009 report. Further improvements will have also occurred during 2013 which are not reflected in the report, as the fieldwork and evidence gathering occurred during 2012. I attach a copy of a letter dated 4 October 2013 to WAO/HIW in response to their draft report, which provided an update on activity until that point.

In relation to the recommendations made in the report we are working with LHBs to ensure they are implemented.

- **Recommendation (a), emergency and crisis support from inpatient units**

We are seeking proposals from WHSSC and the Health Boards by the summer and LHBs will be required to further report progress towards the end of the year. This recommendation will also be supported by the Minister's announcement, in October 2013, to invest £250,000 for eating disorder treatment and the reengineering of CAMHS inpatient provision.

- **Recommendations (b) and (c) inappropriate admissions.**

A meeting between CAMHS clinicians and their adult counterparts, from across Wales was held last month. Detailed guidance for adoption across Health Boards will be produced by the summer.

- **Recommendation (d), out of area placements and capacity within the inpatient units**

This is a key outcome identified as part of the Minister's October 2013 announcement to invest £250,000 new funding into CAMHS Eating Disorder services. We are currently discussing the implementation with Health Boards, and expect the service to be fully operational early in the new financial year.

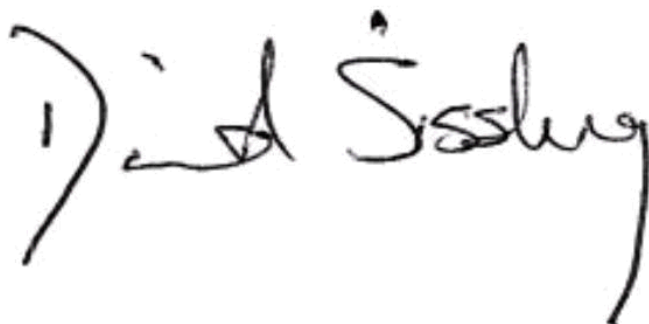
- **Recommendations (e) and (f), polices/procedures and DBS**

This matter was discussed with Health Board Directors and WHSSC on 14 February. WHSSC and the Boards are now considering the HR implications and will develop plans to ensure safeguarding is addressed. Health Boards will report progress annually to the multiagency Together for Mental Health Children, Young People and Families Delivery Assurance Group. The first report will be available by the end of 2014.

More broadly, to ensure the wider improvements Welsh Government wishes to see in CAMHS are implemented, we have established an Improvement Steering Group. The group is chaired by a senior Health Department Official, acting as Senior Responsible Officer. It comprises key Welsh Government stakeholders, and others drawn from WHSSC, Local Health Executive Leads and CAMHS Clinical Leads.

I am confident that over the course of 2014 these arrangements will ensure that CAMHS are able to more effectively meet the needs of the young people using the service. We will, of course, report on this work as it progresses to the Children, Young People and Education Committee as part of its consideration of CAMHS Services. I am copying Ann Jones, Chair of the Children, Young People and Education Committee into this response.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Sissling'. The signature is fluid and cursive, with a large initial 'D' and a long, sweeping underline.

David Sissling

ENC.

c. Ann Jones, Chair of the Children and Young People and Education Committee



Mandy Collins
Deputy Chief Executive and
Director, Inspection and Regulation
Healthcare Inspectorate Wales
Bevan House
Caerphilly Business Park
Van Road
Caerphilly CF83 3ED

Paul Dimblebee
Group Director
Wales Audit Office
24 Cathedral Road
CARDIFF
CF11 9LJ

Our Ref: DS/RA

4 October 2013

Dear Mandy and Paul

**DRAFT AGW/HIW REPORT ON CHILD AND ADOLESCENT MENTAL HEALTH
SERVICES: FOLLOW UP REVIEW OF SAFETY ISSUES**

Thank you for the opportunity to comment, prior to publication, on the draft report into Child and Adolescent Mental Health Services: follow up review of safety issues.

Overall I am content with the balance of the report and the facts as these relate to the actions of the Welsh Government at the point the fieldwork was undertaken. I can also confirm that we have checked the relevant elements of the report with the Delivery Support Unit (DSU). I note that you are separately seeking views from LHBs and WHSSC on extracts which relate to their services.

I welcome this report as it focuses on issues which are of particular importance to Welsh Government and have a high priority in "Together for Mental Health". Given the time lag since the field work was undertaken in 2012, I am grateful for the opportunity to provide an update on some of the actions taken by Welsh Government during 2013 on the issues identified in the report.

Inappropriate admissions

The period of fieldwork overlapped with the period of transition to the requirement for CAMHS services to extend provision to encompass 16 and 17 year olds. As such there is likely to be some instances where young people, particularly 17 year olds, would have been seen by adult services until the transfer from adult to CAMHS occurred. We would hope that this would no longer be the case.



The Welsh Government has been closely monitoring the number of inappropriate admissions to adult wards over the last few years. The need to reduce inappropriate admissions and ensure those that do occur are reported, has been reinforced by Welsh Government at our regular meetings with the relevant professionals and LHB officers. This includes a meeting between the Minister for Health and Social Services and the Vice Chairs' of LHBs in July 2013 (subsequently reiterated in a letter) and also one held with the relevant officers at the CAMHS/Adult Mental Health Leaders Collaborate event in April 2013.

Our records show that the following admissions of under 18s have been reported to Welsh Government by LHBs since 2012.

LHB	BCU	C&V	ABMU	Powys	AB	HD	CT
2012	7	1	1	1	1	0	0
2013 (to date)	2	3	4	1	3	1	0

All incidents are reviewed by the Welsh Government Clinical Governance team and for the past 12 months health professionals in the mental health team have followed up individual incidents, to understand the reason for their occurrence and seek to drive down the number of incidents further. We recognise there will be situations where the admission may in fact be appropriate. Any issues highlighted by our discussions with practitioners on individual cases are communicated back to the LHBs concerned, through regular meetings with Divisional Nurse Leads for Mental Health and Nurse Directors. We are also ensuring that the information is shared between CAMHS and Adult Services.

Earlier this year the DSU team, and separately health professionals in my Department, visited the In-Patient Units in both North and South Wales. This work identified issues around staff skills and expertise which we are currently working with WHSSC and the LHBs to address. The first element of this work involved a review of occupancy levels and working practices. As a result of these findings, the Minister will be making an announcement shortly which will relieve pressure in some areas. It is intended that this will assist with a programme of work to address the issues related to assessment and crisis support you have identified. Our aim will also be to reduce further the number of young people who need to be referred to in-patient facilities outside of Wales.

Policy and Protocols

In June 2013 we published CAMHS specialist advice for service planners developed by our National Expert Reference Group of practitioners working in the field. The advice is non-prescriptive in terms of the 'how' of service provision, and focuses on service functions as opposed to specifying a service model. It has been developed to encompass the range of CAMHS provision and all the partners with which CAMHS works. The advice details that providers need to have robust information sharing arrangements between services and across agencies that ensure risk and safeguarding issues are assured. It includes the Betsi Cadwaladr UHB information sharing policy as a model for other services to consider.

DBS Checks

In August 2013, Martin Jones, Director of Workforce, wrote to Health Boards and NHS Trusts reiterating that they should comply with the requirements of paragraph 2.24 of Welsh Government guidance 'Safeguarding Children: Working Together Under the Children Act 2004'.

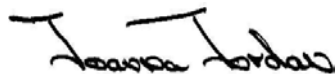
That guidance states an employee should have a DBS check on employment, checks should be made routinely and repeated at regular intervals of no more than three years, throughout the period of employment.

Risk Assessment

Following the findings of the DSU review, Dr Sarah Watkins wrote to LHBs in February 2013 asking them to work with partner LAs and the Third Sector to ensure evidenced based risk assessment training is provided for CAMHS staff covering all settings, client groups and ages. It noted that discussions had already occurred around adopting the model used in adult services, and endorsed the approach of having a similar model across the age ranges. In early September we sought an update from LHBs on their progress on this issue and on their implementation of the DNA/was not brought protocols. The updates are expected next week.

I hope this information helps in the preparation of the final report and please do not hesitate to contact me or Joanna Jordan if you wish to discuss any of this further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Joanna Jordan', with a stylized, cursive script.

On behalf of David Sissling



24 Cathedral Road / Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / Epost: wales@wao.gov.uk
www.wao.gov.uk

Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Date: 14 March 2014
Our ref: HVT/2103/fgb
Page: 1 of 2

Dear Darren

HIW/WAO FOLLOW-UP REPORT ON CHILDREN AND ADOLESCENT MENTAL HEALTH SERVICES

I am writing with regard to David Sissling's letter to you of 10 March, in which he sets out the Welsh Government's response to the recommendations in the HIW/WAO follow-up report on Children and Adolescent Mental Health Services.

In his letter, David suggests that the HIW/WAO report was out of date when it was published in December 2013, because it did not take into account developments that had taken place during 2013, since completion of the fieldwork in 2012. To quote from David's letter:

'.....Further improvements will have also occurred during 2013 which are not reflected in the report, as the fieldwork and evidence gathering occurred during 2012. I attach a copy of a letter dated 4 October 2013 to WAO/HIW in response to their draft report, which provided an update on activity until that point.'

This statement is incorrect. The 4 October 2013 letter to which David refers was sent in response to our invitation to the Welsh Government to comment on the factual accuracy of the draft report, as part of our normal report clearance process. In requesting comments we had specifically asked the Welsh Government for an update on developments during the time since the fieldwork was completed, and we amended the draft report, as appropriate, to reflect the more recent developments referred to in the 4 October letter. As the relevant accounting officer, on 15 November David formally accepted that the report, as subsequently published, was materially accurate and presented fairly, with no material facts omitted.

I hope this clears up any misunderstanding that might have arisen from the reading of David Sissling's letter of 10 March.

I am copying this letter to Ann Jones, Chair of the Children, Young People and Education Committee, who was also a copy recipient of David Sissling's 10 March letter.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

cc Ms Ann Jones, Chair of the Children, Young People and Education Committee

Agenda Item 2c

Our Ref/Ein Cyf:
Your Ref/Eich Cyf:
Date/Dyddiad:
Please ask for/Gofynnwch am:
Direct line/Llinell uniongyrchol:
Email/Ebost:

ST/JL/

10th March 2014
Steve Thomas
02920468610
steve.thomas@wlga.gov.uk



Mr Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Dear Huw

We refer to your letter dated 11th February 2014 – **Covering Teachers Absence: PAC Inquiry** sent to Mr Darren Miller AM following the Public Accounts Committee (PAC) inquiry session on 21st January 2014. As you will be aware, this letter is now the public domain.

Your letter refers to providing additional information in relation to three matters that were discussed during the session. The second of these is:

'the inadequacy of HR advice provided to schools by local authorities, leading to the education consortia needing to set up their own HR advice service.'

We consider this statement to be a matter of concern, for the reasons set out below:

The establishment of the regional School Improvement Services (SIS) was founded on the principle of providing expert advice and support to schools and teachers to improve performance. To make best use of skills and resources a regional approach was recommended. In those areas where concerns about a teacher's performance were identified the concept was that HR specialists from within the SIS would work alongside Improvement Advisers in supporting a school to deal with matters which could include capability, grievance and/or conduct issues i.e. discipline. The model proposed would in fact have seen existing HR advisers move into SIS. This does not equate to the idea that HR advice was inadequate, rather it was perhaps not in the right place.

However, since the establishment of the Regional School Improvement Services HR Directors from the local authorities have been engaged with Welsh Government officials to develop an alternative and more effective model to support the aims of the SIS in a way which also takes account of wider critical issues like

Steve Thomas CBE
Chief Executive
Prif Weithredwr

Welsh Local Government
Association
Local Government House
Drake Walk
CARDIFF CF10 4LG
Tel: 029 2046 8600

Cymdeithas Llywodraeth
Leol Cymru
Tŷ Llywodraeth Leol
Rhodfa Drake
CAERDYDD CF10 4LG
Ffôn: 029 2046 8600

www.wlga.gov.uk

accountability and responsibility under employment law (as the local authority is the employer in law and not the SIS).

Agreement is progressing on providing a dedicated unified region-wide HR support service within each regional Consortium. This again supports the view that the move to regional consortia was always about making best use of the existing HR skills and knowledge and not because HR advice was in any way inadequate.

It is noted that the Hill review is the primary evidential source for your letter.

The HR Directors wrote to Robert Hill in March 2013 regarding the assumptions made by the then Minister who publically criticised HR advice and support to schools in his statement on 20/11/12.

This letter is attached and provides a useful summary of the issues and complexities of the employment relationship in schools, including the rationale behind the move towards corporate working. Again, evidence on this assertion was in short supply and the offer of assistance from the HR Directors was not taken up. We found this perplexing when such evidence would surely have been very helpful in developing the SIS HR services.

It also appears that your views are based largely on a range of comments drawn from 'several **head teachers ... on the lack of support they had received in dealing with long-term absence and poor attendance**' during visits to 23 schools.

There are in the region of 1650 maintained schools in Wales, the vast majority of which have chosen to engage the HR services of the local authority. The comments of a small number of head teachers, who often receive advice that is challenging in terms of the way in which the schools workforce has been managed, does not amount to a robust evidential base for the statement in your letter to the PAC when viewed in context. As previously stated we would wish to see detailed evidence of any failings in order to address any issues.

We also note that specific issues you raise as listed in your letter as areas of concern about the HR service are not the responsibility of the local authority HR service.

Under delegated responsibility school managers – Headteachers and Governors - are responsible for all school-related staffing matters. Crucially, head teachers are responsible for appointing/dismissing and managing all staff, including supply teachers and agency workers. They are responsible for the application of all employment policies within the school - grievance, discipline, sickness absence, performance management etc. They cannot simply rely on the corporate policies of the local authority, although model policies are produced as part of the HR support package for schools. They are also responsible for induction and safeguarding issues at the school. These responsibilities cannot be delegated back to the local authority, albeit support from HR and others (e.g. SIS) can and should be sought by head teachers to support them in discharging these responsibilities.

Therefore, all the specific issues you list in your letter are the primary responsibility of the head teachers and governing bodies, and not the HR service.

There is a very real danger in failing to carefully distinguish between (a) head teachers' and governing bodies' responsibilities for managing and developing their schools workforce and (b) the specialist support which is provided by local authority teams. We have noted that "workforce" and "HR" are terms which are too often used interchangeably, leading to a lack of clarity about accountability.

It is noted that, within your own recommendations in your report, are the following:

- 2 b Schools should apply their attendance management policies rigorously, particularly in the management of long-term absence
- 2. d Schools should ensure that they provide sufficient information and support to supply teachers (for example, daily timetable, lesson plans, and material, school policies such as approach to behaviour management and access to IT) so that they can work effectively

You also endorse those recommendations of Estyn which say that schools should:

- o R1 manage teacher absence more efficiently;
- o R2 improve the quality of teaching and learning in covered lessons by making sure that the work is set an appropriate level and staff receive enough information on the individual needs of learners;
- o R3 support supply and cover staff to improve their classroom behaviour management techniques
- o R5 ensure that supply staff are included in performance management arrangements;
- o R6 provide more professional development opportunities for supply staff;
- o R7 make sure that supply staff receive essential information on health and safety and safeguarding, including the contact details of the named child-protection officer at the school.

It is important to note that, later in your letter under (3), you fully acknowledge that cover and absence issues are matters for school leaders and managers when you refer to the inspection guidance for secondary school inspections as a means of inspectors picking up on absence and cover issues:

'Inspectors should judge how efficiently and effectively leaders and managers plan and carry out strategies to manage staff and resources. Inspectors may consider whether there are any clear management features that contribute to or detract from the efficient management of resources'.

Given our differing opinions on some of these issues we feel it vital that counter balance is provided.

It might also be useful if you were to meet with HR professionals to seek a fuller picture about the services provided to schools by HR teams, alongside the people management role/s played by School Leaders.

You may then want to reconsider the issues as presented to the PAC since, as our letter hopefully highlights, this is an issue that is essentially contested. We are also copying this letter to Darren Millar AM.



Steve Thomas
Chief Executive, WLGA



Graham Jones
Chair HR Directors Network

Pennaeth Adnoddau Dynol
Head of Human Resources

Alwyn E. Jones

Gofynnwch am/Ask for: Alwyn E. Jones

☎ (01286)679335

☎ (01286)671072

✉ AlwynEvansJones@gwynedd.gov.uk

Ein Cyf / Our Ref: AEJ

Eich Cyf / Your Ref:



Robert Hill
Independent Policy Analyst
c/o Welsh Government
Department for Education and Skills
Cathays Park
Cardiff
CF10 3NQ

06/03/2013

Dear Mr. Hill

I am writing as Chair of the local government all-Wales HR Directors network which comprises the Directors and Heads of HR from the 22 local authorities in Wales.

We discussed the Education Minister's 20th November statement on 'The Future Delivery of Education Services in Wales' at our meeting in December 2012, and noted his view that *'All too often I am being told that local authorities have failed to provide adequate tailored human resources support to schools.'* While this was the catalyst for our decision to write it brought into focus a range of broader concerns that we believe need to be considered in the context of school performance.

A major issue that is often not well understood is that of the relationships between the Local Education Authority, the Head Teacher and teachers and the Governing body. While the Education authority is nominally the employer, the Director of Education has no power to dismiss a poorly performing Head Teacher or Teachers. Only the Governing body has this power, and in our experience can be reluctant to use it, even where there are the strongest indications that it should. We can provide examples of situations where this has been the case.

Because of the complexity of the relationships, the position of the council and that of individual officers concerned in providing HR support can be very difficult. In our experience again, HR advice may not be welcomed by either the Governing body and / or the unions because it exposes local management weaknesses and / or the failings of a teacher or Head Teacher. We have had a number of instances where HR advice has been complained of because of this factor. That does not mean that the HR advice was wrong or not adequate.

The above issue and the need to address the fragmentation of responsibilities and accountabilities is one which we consider key in this matter. However, the following information may also help clarify the current situation:

Swyddfa'r Cyngor
Caernarfon
Gwynedd, LL55 1SH
01286 672255
www.gwynedd.gov.uk

ontd....)

In terms of the *tailoring* of HR support to schools, as with any other service authorities have sought to become more efficient and effective. There has therefore been a move away from separate dedicated departmental teams to a more holistic corporate approach. This has in our experience enabled more of the HR resource to be available to respond to schools issues and the development of a broader range of HR officer skills.

It is worth also highlighting the fact that the local authority has two roles in relation to schools. The one is to provide HR services directly to those schools that choose to buy that service. The second is its statutory role as the employer. In providing the first service to schools the HR function clearly cannot do anything that could impact negatively on its statutory role. The advice and guidance given must be professional, timely, fair and reasonable. Failure to do this could result in the Local Authority as the statutory employer facing an Employment Tribunal and not the Governing Body.

Finally, you will be aware that HR services will be included as part of Phase 2 of the development of Regional Schools Improvement Services. It is important that we base any future models and structures on sound business case and good practice, and it will be important to have concrete examples of any current existing problems in order to ensure that these are resolved and not replicated. With this in mind we would welcome the opportunity to examine the specific problems the Minister has been informed of.

We believe the current review of the delivery of education services in Wales provides a timely opportunity to examine and address the issues we have outlined, and we strongly advise that that of the role of the Governing body and local accountabilities should be included within the terms of reference. The HRD Network is also keen to assist the review in any way possible and we would very much welcome any requests for our involvement on the relevant issues

Yours sincerely



Alwyn E. Jones
Head of Human Resources



24 Cathedral Road / Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / E-bost: wales@wao.gov.uk
www.wao.gov.uk

Mr Steve Thomas CBE
Chief Executive
Welsh Local Government association
Local Government House
Drake Walk
Cardiff CF10 4LG

Date: 20 March 2014
Our ref: HVT/2107/fgb
Page: 1 of 2

Dear Steve

PAC INQUIRY – COVERING TEACHERS' ABSENCE

Thank you for the letter of 10 March 2014 in which you expressed your concern about the additional information I provided in my letter of 11 February 2014 to the PAC Chair with regard to *'the inadequacy of HR advice provided to schools by local authorities, leading to the education consortia needing to set up their own HR advice service.'*

I think I should clarify that, although my report on Covering Teachers' Absence found that many schools would welcome more support in managing attendance, it did not draw any significant conclusions about the quality of HR advice and support provided to schools by local authorities. Nor did it refer in any way to the Hill report or to education consortia HR advice services. The wording in one of the headings in my letter of 11 February that has caused you concern (italicised in the paragraph above) arises from points raised by members of the Public Accounts Committee during the Committee's consideration of the evidence provided to them by the Welsh Government's Director General for Education and Skills on 21 January, and on which I promised to provide the PAC with additional information.

As recorded in my letter of 11 February, my report identified some concerns about the HR services provided by local authorities and described some of the variable arrangements for providing such services that exist. It noted that some head teachers had expressed concerns about the level of support they had received in handling long-term absence, but these concerns were balanced by a recognition that some head teachers had spoken favourably about the support that they received from local authority HR staff and occupational health services in managing staff with long-standing illness.

I believe that my report is clear is about the differing responsibilities of schools, Governors and local authorities in staffing matters. The references in your letter to some of the recommendations in my report seem to acknowledge this.

You should be interested to know that your letter of 10 March, which you copied to the PAC Chair, has been tabled as a paper for PAC to note next Tuesday, 25 March. As such it will be available as evidence for the Committee's inquiry.



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

cc Mr Darren Millar AM, Chair, PAC



Intra-Wales – Cardiff to Anglesey – Air Service

Memorandum for the Public Accounts Committee

Report presented by the Auditor General for Wales to the National Assembly for Wales on xx January 2014

I have prepared this report for presentation to the National Assembly under the Government of Wales Act 2006.

The Wales Audit Office team who assisted me in preparing this report comprised Jeremy Morgan and Matthew Mortlock under the direction of Gillian Body.

**Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ**

The Auditor General is totally independent of the National Assembly and Welsh Government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies in Wales. He also has the statutory power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also appoints auditors to local government bodies in Wales, conducts and promotes value for money studies in the local government sector and inspects for compliance with best value requirements under the Wales Programme for Improvement. However, in order to protect the constitutional position of local government, he does not report to the National Assembly specifically on such local government work, except where required to do so by statute.

The Auditor General and his staff together comprise the Wales Audit Office. For further information about the Wales Audit Office please write to the Auditor General at the address above, telephone 029 2032 0500, email: info@wao.gov.uk, or see web site www.wao.gov.uk

© Auditor General for Wales 2014

You may re-use this publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

Introduction	4
Origins of the Air Service	7
Procurement and contracting	9
Commencement of the original three-year Air Service contract in May 2007	9
Unsuccessful re-tendering of the contract in early 2010	9
Interim contractual arrangements for the period from May to December 2010	11
Procurement of the current January 2011 to December 2014 contract	12
Appointment of a replacement air carrier in November 2012	13
Costs: 2007-08 to 2012-13	16
Performance monitoring: punctuality, load factor and passenger numbers	17
Benefits evaluation	20
Looking to the future	21
Appendix 1 – Timeline of key events	23

Introduction

- 1 In March 2013, the Chair of the Public Accounts Committee passed on to the Auditor General correspondence from Byron Davies AM which raised concerns about a number of air transport related issues, including the Welsh Government's subsidy of the 'Intra Wales – Anglesey Airport (RAF Valley) to Cardiff Airport – Air Service' (the Air Service). The Committee discussed the correspondence at its meeting on 7 May 2013 and took up the Auditor General's offer of a briefing paper in respect of the subsidy. The Committee also passed on to the Wales Audit Office certain specific concerns about previous procurement arrangements for the Air Service.
- 2 The Air Service, and the Welsh Government's subsidy of it, first started on 7 May 2007. The Welsh Government subsidy is provided under terms known as a 'Public Service Obligation' (Box 1).
- 3 While there have been various changes over time (Appendix 1), the Air Service is currently operated by two companies. Citywing provides the ticketing and marketing functions and Links Air operates the flights, having taken over this function from FLM Aviation in November 2012². The current contractual agreement expires on 9 December 2014. Other parties involved in the delivery of the Air Service include the Ministry of Defence, which owns RAF Valley, Cardiff Airport and a separate contractor (Europa) that operates the terminal building at RAF Valley on behalf of the Isle of Anglesey County Council (Figure 1).
- 4 In addition to its direct subsidy of the Air Service, currently worth up to £1.2 million a year, the Welsh Government currently provides up to £300,000 in grant funding each year to the Isle of Anglesey County Council. This grant funding covers the costs incurred in running the terminal building at RAF Valley, including the operating contract with Europa, the Council's expenses for administration and contract management, and the lease and landing fees paid to RAF Valley. The Wales Audit Office has certified this grant since it commenced in May 2007 and has found no issues of concern.

Box 1 – Public Service Obligation (PSO)

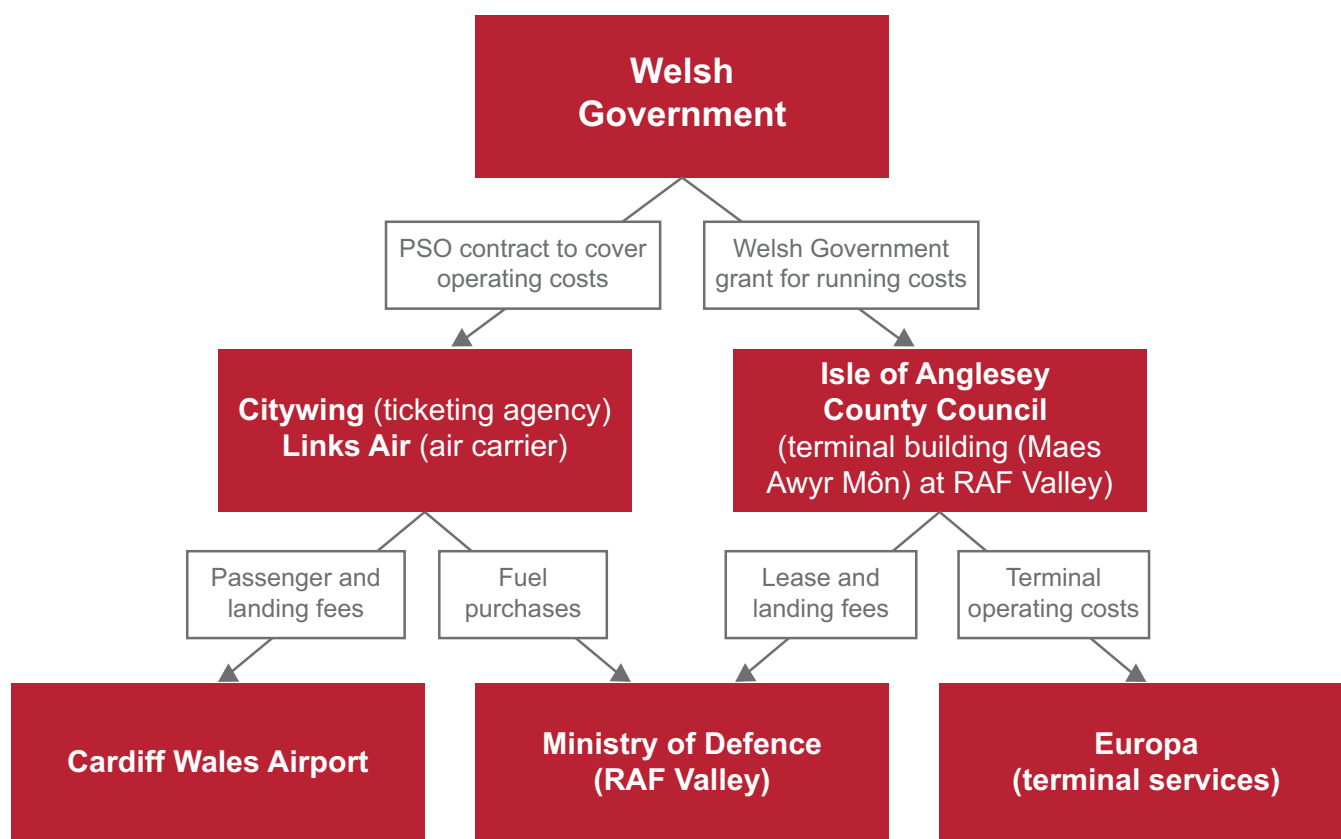
EU member states may provide scheduled air services through PSOs on air routes which are deemed vital for the economic development of the region they serve but which are not commercially viable in their own right. Member states must respect the conditions and the requirements set out in Article 16 of the European Commission's Air Services Regulation 1008/2008¹. For example, the regulations state that the airports used for the service should be linked to one another and to the city or conurbation they serve by frequent, reliable and efficient public transport services.

The PSO is a subsidy to compensate the operator for the deficit incurred in providing a service which would not otherwise be commercially viable.

1 REGULATION (EC) No 1008/2008 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 24 September 2008 on common rules for the operation of air services in the Community. When the Welsh Government was planning and procuring the original Air Service contract the relevant equivalent regulation was Regulation No 2408/92, of 23 July 1992 on access for Community air carriers to intra-Community air routes. There are differences between the 1992 and 2008 regulations. For example, the 1992 regulations did not contain the requirement cited in Box 1 in relation to public transport connections.

2 FLM are still party to the contract and as such, remain jointly and severally liable along with Citywing and Links Air.

Figure 1 – Intra-Wales Air Service organisation chart



Note

We understand that, since the start of the Air Service in 2007, landing fees at RAF Valley have been paid via the grant given to the Isle of Anglesey County Council by the Welsh Government. This is in contrast to the landing fees at Cardiff Airport that have been paid by the PSO contractors. We understand that because the landing fees at RAF Valley are paid by one public body to another, this reduces their cost and that this arrangement is therefore more cost-effective to the Welsh Government than if paid by the PSO contractors but recharged to the Welsh Government through the subsidy arrangement.

Source: Wales Audit Office

- 5** As has been the case since May 2007, the Air Service currently provides two scheduled flights in both directions between Anglesey and Cardiff each weekday. The timing of the flights into and out of Anglesey is constrained by the times when RAF Valley is open – from 08:00 to 18:00 Monday to Thursday and 08:00 to 17:00 on Friday. However, the schedule is intended to enable users of the service to maximise their time at either end of the route without the need for an overnight stay, as follows:
- a** Cardiff to Anglesey: 07:40 – 08:40
 - b** Anglesey to Cardiff: 09:00 – 10:00
 - c** Cardiff to Anglesey: 16:15 – 17:20 (15:15 – 16:20 on Fridays)
 - d** Anglesey to Cardiff: 17:40 – 18:45 (16:40 – 17:45 on Fridays)
- 6** The schedule is planned so that a single aircraft, carrying 18 passengers, undertakes all of the flights each day, offering the potential for up to 18,720 seats per year. Currently, the maximum single fare under the terms of the PSO contract is £59.45, with lower fares available for advance bookings. The advertised maximum fare has increased from £52 compared with when flights under the current contract started in January 2011. As well as factoring in inflation, the increase is because the advertised fare now includes certain fees that were previously charged to passengers separately from the ticket price.
- 7** Our methods in preparing this briefing paper were as follows:
- a** We reviewed a range of documentation supplied by the Welsh Government, dating back to before the commencement of the Air Service in May 2007 and including monitoring reports, procurement-related information, relevant Ministerial submissions and Welsh Government legal advice. Due to the period of time covered, it has not been easy to locate all of this information, some of which has been retrieved from archived records. We note within this paper certain issues that we have been unable to confirm from documentary evidence. However, we are satisfied that we have seen enough documentation with which to describe key developments over the lifetime of the Air Service.
 - b** We interviewed the Welsh Government's Air Service contract managers, although the official responsible for managing the contract over much of its lifetime is no longer employed by the Welsh Government.
 - c** We also interviewed representatives of Citywing, Links Air, Cardiff Airport, the Isle of Anglesey County Council and RAF Valley. We also met Martin Evans, an aviation industry expert at the University of South Wales (previously with the University of Glamorgan), who provided advice to the Welsh Government on the procurement of the Air Service in November 2012.
 - d** We compared Air Service performance data with industry-wide figures.

Origins of the Air Service

- 8 In December 2003, a UK government air transport white paper³ identified the potential for new intra-Wales air services, particularly in respect of connecting North and South Wales. In July 2004, the Welsh Government undertook a scoping study to investigate this potential more fully, followed by consultation with stakeholders on issues such as the potential route, environmental impacts and economic considerations.
- 9 The original concept was to enable people to travel between North and South Wales in one day, to allow time for business or leisure activities and to facilitate connecting flights out of Cardiff Airport. The Welsh Government's option appraisal, in December 2004, included the prospect of connecting flights between Cardiff and West Wales.
- 10 The Welsh Government identified three possible locations in North Wales: RAF Valley, Caernarfon and Hawarden (the Airbus site). While part of the option appraisal, the Welsh Government may have found it difficult to justify a PSO subsidy for the Hawarden route for a number of reasons; including Hawarden airport's proximity to other transport links from North to South Wales. The PSO regulations state that 'the necessity and the adequacy of an envisaged PSO shall be assessed by the Member State having regard to the possibility of having recourse to other modes of transport and the ability of such modes to meet the transport needs under consideration, in particular when existing rail services serve the envisaged route with a travel time of less than three hours and with sufficient frequencies, connections and suitable timings'.
- 11 The Welsh Government's Economic Advice Division undertook a cost-benefit analysis for each of the following route options:
 - a Swansea – Cardiff – RAF Valley
 - b Swansea – Cardiff – Caernarfon
 - c Swansea – Cardiff – Hawarden
- 12 In addition to the costs of operating the different services, the cost-benefit analysis factored in estimated capital costs to develop facilities at each of the North Wales locations – £390,000 for RAF Valley, £905,000 for Caernarfon, and £450,000 for Hawarden. We note that, in the end, the Welsh Government invested £1.5 million developing a brand new terminal building at RAF Valley, rather than upgrading existing facilities. However, we have not seen sufficient evidence with which to compare the basis of the initial estimate with the work that was undertaken to develop RAF Valley. It is possible that the estimates for the other sites would also, in practice, have proven less than necessary.

3 Department for Transport, *The Future of Air Transport – White Paper and the Civil Aviation Bill*, December 2003

- 13 The cost-benefit analysis identified that each of the three short-listed routes would continue to need public subsidy throughout the 30-year appraisal period. However, there was a negative net present value associated with each route over the 30-year period, using the HM Treasury recommended discount rate of 3.5 per cent⁴.
- 14 At -£5.5 million, the least negative net present value of the costs and benefits was for the 'Swansea – Cardiff – RAF Valley' route. This compared with -£9.0 million for the 'Swansea – Cardiff – Hawarden' route and -£9.3 million for the 'Swansea – Cardiff – Caernarfon' route. RAF Valley had also been the more popular route based on responses to the Welsh Government's initial stakeholder consultation although, as noted previously (paragraph 5), its opening times present limitations on the operation of the service.
- 15 Regardless of the route, the cost-benefit analysis identified that there may be some wider economic benefits in the form of business investment and benefits to the tourism industry. However, the Welsh Government did not expect net impacts to be large. For example, employment generation directly associated with the service was not expected to exceed between 20 and 50 jobs. While there did not appear to be an economic case for establishing a service, based on the results of the cost-benefit analysis, the Welsh Government's business case contended that the unquantifiable benefits that may be gained through enhancing the feeling of integration between North and South Wales represented sufficient justification for introducing the service.
- 16 Based on the work we have undertaken and the information supplied by the Welsh Government, we have been unable to confirm the basis of the Welsh Government's eventual decision to drop the Swansea connection from its plans for the Air Service. Nor have we seen evidence of the Welsh Government having revisited its cost-benefit analysis to take into account the removal of the Swansea connection from any of the options that it considered.

⁴ The discount rate is used to convert all costs and benefits to 'present values', so that they can be compared. The recommended discount rate is 3.5 per cent. Calculating the present value of costs and benefits provides the net present value (NPV) of an option. The NPV is the primary criterion for deciding whether government action can be justified. Generally, where the NPV is negative, the option is rejected. However, in this case all the options were negative. The Welsh Government identified that its calculations could have been significantly affected by altering one or more of the underlying assumptions but that the calculations were based on the best available information. A number of factors were said to be unquantifiable, such as security, environment accessibility and integration and some of the wider economic benefits.

Procurement and contracting

Commencement of the original three-year Air Service contract in May 2007

17 In February 2007, following the evaluation of three competing bids, the Welsh Government awarded the original three-year PSO air carrier contract to Highland Airways. Services started on 7 May 2007. Under the terms of that contract, the Welsh Government paid a subsidy of up to £800,000 per year for three years. However, additional payments of up to £100,000 per year could be made – subject to agreement between the Welsh Government and Highland Airways – if there were significant increases in air fuel prices. The contract specified several important criteria for the route, including a maximum single fare of £50 and various minimum service levels.

Unsuccessful re-tendering of the contract in early 2010

18 In mid-2009, ahead of the expiry of the first Air Service contract in May 2010, the Welsh Government started to explore the merits of retendering the contract on the back of the apparent popularity of the service over the previous two years. Welsh Government officials examined various options, including the possibility of increasing the size of the aircraft to a 29 or 49-seater, increasing the frequency of flights and possible changes to maximum fares. While the Welsh Government commissioned a financial appraisal from an

external multidisciplinary consultancy firm to support its consideration of future options, it did not carry out a cost-benefit analysis as part of that appraisal.

19 In November 2009, the Welsh Government commenced the OJEU⁵ tendering process for a new Air Service contract based on a service using an aircraft offering at least 29 and as many as 50 seats. However, the records that we have reviewed indicate that, during the procurement process, the Welsh Government decided against increasing the size of the aircraft from 18 seats for two reasons:

- a** Increasing the size of the aircraft would have incurred air passenger duty⁶ at £11 per passenger per flight and would have significantly increased the cost of ticket price and/or the PSO subsidy – although the impact of the duty had been identified in the financial appraisal that preceded the start of the procurement process. Many PSO funded routes serving destinations in Scotland use larger aircraft and are exempt from the duty, but the population density of Anglesey is too large for an exemption because it has more than 12.5 people per square kilometre⁷.
- b** The Welsh Government could not guarantee sufficient growth in passenger numbers.

⁵ The Official Journal of the European Union is the gazette of record for the European Union. It includes invitations to tender, prior information notices, qualification systems and contract award notices.

⁶ Air passenger duty is an excise duty charged on the carriage of passengers flying from a United Kingdom airport on an aircraft that has an authorised take-off weight of more than 10 tonnes or more than 20 seats for passengers.

⁷ The specific areas that this exemption applies to are stipulated in the *Air Passenger Duty (Designated Region of the United Kingdom) Order SI 2001/808*, which came into force on 1 April 2001.

- 20** The Welsh Government officials now responsible for managing the Air Service contract have suggested to us that another reason for not increasing the size of the aircraft would have been that the airport at RAF Valley does not meet the requirements of the UK National Aviation Security Programme for civilian aircraft with more than 18 seats. Among these requirements is the need to establish a restricted zone which we understand would represent a significant logistical challenge, and additional costs, due to the airport being located within an operational RAF airfield.
- 21** It is not clear whether the Welsh Government was fully sighted of the security programme requirements when tendering for the Air Service contract and when commissioning external consultancy advice:
- a** We have not seen any specific reference to the security programme requirements in respect of RAF Valley in the procurement records we have reviewed for the re-tendering of the Air Service contract in November 2009 or for the original contract in 2007. One of the tenders for the original contract included a bid for using a 50-seat plane, which the Welsh Government deemed a compliant bid.
 - b** We found that, despite considering the possibility of increasing the size of the aircraft to a 29 or 49-seater, the consultancy report that the Welsh Government commissioned in 2009 ([paragraph 18](#)) did not consider issues relating to the security programme requirements.
- 22** In March 2010, the Welsh Government published its National Transport Plan with the commitment that, in letting a new contract to cover the period up to 2014, it would increase the capacity of the Air Service. The decision to remain with an 18-seat aircraft ruled out one of the main methods for fulfilling this commitment.
- 23** Six companies originally expressed an interest in the contract, but five of those companies pulled out after the Welsh Government decided against increasing the size of the aircraft from 18 seats. Only one company, the incumbent contractor Highland Airways, bid for the contract. However, for reasons that we have been unable to ascertain from the documentation now held by the Welsh Government, the bid from Highland Airways was based on operating a 30-seat aircraft, despite the Welsh Government having changed its tender specification.
- 24** In the event, however, the Welsh Government rejected the bid it received from Highland Airways amidst concerns about the financial standing of the company, including that the company's 2008-09 accounts were unaudited and had not been filed with Companies House. Highland Airways complained to the Welsh Government about aspects of the procurement process, including that the Welsh Government had not identified its concerns about the company's financial standing at the expression of interest stage. Highland Airways then ceased operating on 24 March 2010 and the Air Service came to an abrupt halt.

Interim contractual arrangements for the period from May to December 2010

25 In light of its rejection of the only bid that it had received, the Welsh Government examined the merits of an interim contract for the continuation of the Air Service until the end of the December 2010. In raising concerns about the Welsh Government's original procurement process, Highland Airways also expressed disappointment that the Welsh Government had issued a press release about a new short-term contract being tendered before giving Highland Airways the opportunity to appeal against the rejection of its bid for the planned longer-term contract. Highland Airways tried to persuade the Welsh Government to agree a contract extension. However, coupled with its concerns about the company's financial standing, the Welsh Government received legal advice that a contract extension would have breached EU procurement regulations.

26 The PSO regulations state that member states can make interim arrangements for continuation of a service for up to seven months 'in case of emergency'⁸. The European Commission does not clearly define what constitutes an emergency, but Welsh Government legal advice stated: 'there must be more than just an interruption of the service there must be an emergency as well. We are not aware of any specific guidance from the European Commission on this provision but there is a similar provision in the Public Contracts Directive referring to extreme urgency brought about by events unforeseeable by the contracting authority. However, the legal advice also noted that the PSO regulations say that: 'in case of sudden interruption of service by the Community air carrier selected in accordance with Article 17 [public tender procedures], the Member State

concerned may, in case of emergency, select by mutual agreement a different Community air carrier to operate the PSO for a period up to seven months under the following conditions:

- a** any compensation paid by the Member State shall be made in compliance with the PSO regulations;
- b** the selection shall be made among Community air carriers in compliance with the principles of transparency and non-discrimination; and
- c** a new call for tender shall be launched.'

27 The Welsh Government's legal advice questioned whether the 'emergency' condition could be satisfied. The advice stated: 'if you want to keep the service going pending a new procurement exercise and award of contract, we cannot identify any risk free options for doing so' and 'there are likely to be risks involved which may lead to the interim contract being terminated and may require payment by the Welsh Government of damages and possibly fines'. The advice also stated that any communication with the European Commission to, for example, inform it of any proposed action, did not remove the risk of legal challenge from a potential carrier.

28 The PSO regulations state that 'the Commission... shall be informed without delay of the emergency procedures and of its reasons' and, on 10 March 2010, the Welsh Government wrote to the European Commission to set out the issues it was facing. A reply came from the European Commission in the form of a telephone conversation. The Welsh Government's note of that conversation highlights that, amongst other things, the European Commission would have been more cautious if it were

⁸ Article 16/12 of REGULATION (EC) No 1008/2008 on common rules for the operation of air services in the Community.

providing written advice; the full procurement should be done as soon as possible; and the European Commission should be kept up-to-date. However, we have not seen any further records of contact between the European Commission and the Welsh Government with regard to the interim contract arrangement.

29 Following the telephone conversation with the European Commission, the Welsh Government accepted the risks identified by its legal advice and, on 31 March 2010, began an interim tender process with a deadline for tenders on 9 April 2010. The Welsh Government received seven bids but deemed that three of these bids did not comply with its tender requirements. On 20 April 2010, officials made a recommendation to the then Minister for Economy and Transport (Ieuan Wyn Jones) that an interim contract should be awarded to Manx2⁹, a 'virtual commuter airline'¹⁰, with its partner airline FLM (a German airline).

30 Following the award of the interim contract, the Welsh Government received correspondence from an airline that had not bid for the contract, stating that the PSO carrier must hold a valid air operator's certificate¹¹ and that, as Manx2 was only a virtual airline, the contract was illegal. The Welsh Government made it clear that the Manx2/FLM bid was a consortium bid and that both Manx2 and FLM would be joint signatories. The Welsh Government's legal advice also stated that this was a legal course of action to take. The Welsh Government was under no obligation to have stated in its tender documentation that this contractual arrangement was acceptable. We understand that it was not until it was put forward by Manx2/FLM that the Welsh Government gave this sort of contractual arrangement any consideration.

31 On 27 April 2010, RAF Valley and the Isle of Anglesey County Council wrote to the Welsh Government emphasising their concerns over the running of the interim contract procurement process. Both organisations stated that they had received little contact from the Welsh Government during the process. RAF Valley emphasised that the prime objective of RAF Valley is for the training of RAF aircrew and that 'nothing should be done to jeopardise this', reminding the Welsh Government that there might be issues to resolve, for example with regard to consideration of an operator's safety record, before they could be permitted to operate into RAF Valley. Representatives of RAF Valley and the Isle of Anglesey County Council told us that the Welsh Government engaged with them much better in the subsequent tender for the full contract.

Procurement of the current January 2011 to December 2014 contract

32 On 9 July 2010, the Welsh Government set in motion the process for the procurement of a full four-year contract. The OJEU tender assumed increased costs of up to £1.2 million per year for the continuation of the same service specification. This above-inflation increase in the contract value, compared to £800,000 under the previous contract, was due mainly to higher landing fees at Cardiff Airport and increased fuel costs. The Welsh Government's tender documentation also invited potential bidders to include a bid for a third rotation on Mondays and Fridays, the days of highest demand, offering an opportunity to fulfil the National Transport Plan commitment to increase the capacity of the Air Service.

⁹ Following a management buy-out in December 2012, Manx2.com became CityWing on 1 January 2013.

¹⁰ A virtual airline is an airline that has outsourced as many possible operational and business functions as it can, but still maintains effective control of its core business.

¹¹ An air operator's certificate is the approval granted from a national aviation authority to an aircraft operator to allow it to use aircraft for commercial purposes.

33 While seven companies expressed an interest in the contract, Manx2 and FLM were alone in submitting a formal [joint] bid and did not include the third rotation as part of its bid. In addition, legal advice obtained by the Welsh Government during the course of the procurement process stated that the third rotation would breach the PSO regulations because it must be for the minimum necessary service only.

34 Because Manx2 and FLM were alone in bidding for the contract, the Welsh Government referred the bid to its Corporate Procurement Service for 'departure approval'¹². The submission from transport officials to the Welsh Government's Corporate Procurement Service included an evaluation of the bid by an external aviation consultancy. The evaluation advised that the bid represented value for money.

35 The bid from Manx2 was on the basis of sub-contracting the flying services to FLM. However, the Welsh Government's legal advice stated that to comply with the PSO regulations, Manx2 and FLM, should be joint signatories to the contract, thus reducing the risk of any legal challenge in regard to the contractor not holding an air operator's certificate. Legal advice stated that regulations do not explicitly prohibit the joint-signatory approach and there did not appear to be any infringement of EU law. Furthermore, the Welsh Government had previously informed the European Commission that it had awarded the temporary contract on the same basis and the European Commission did not question it. The Welsh Government also considered that the risk of legal challenge from competitors was low. On 23 November 2010, Welsh Government officials recommended to the

then Minister for Economy and Transport (Ieuan Wyn Jones) the appointment of Manx2 and FLM. Flights under the new four-year contract commenced on 4 January 2011.

Appointment of a replacement air carrier in November 2012

36 On 1 November 2012, the German Aviation Authority regulator removed its accreditation from FLM as a licensed air carrier because FLM failed to meet a financial assets target set. Consequently, from 1 November 2012, FLM no longer held a valid air operator's certificate and therefore was no longer eligible to operate the Air Service.

37 The Air Service contract specifies that the service providers should maintain planned arrangements for one back-up aircraft to ensure continuity of the service. Any provider brought in on a temporary basis must hold an air operator's certificate and comply with relevant clauses of the contract regarding the operation of the service. On 1 November 2012, Manx2 informed the Welsh Government that FLM was unable to operate the service from that day and that Manx2 had arranged a back-up supplier (Links Air) to operate the service whilst FLM attempted to regain its air operator's certificate and resume its role, a process in which it ultimately was unsuccessful. There was no interruption in service as a result of the change of air carrier.

38 The Welsh Government invoked the PSO emergency procedure and formally assigned Links Air to the Air Service contract from 16 November 2012. The Welsh Government could have interpreted FLM's loss of accreditation as a breach of the Air Service contract, sufficient to justify a termination of the agreement. However, the Welsh

¹² The Welsh Government classifies single tenders as departures from normal contract procedures. A single tender action valued above £5,000 can only proceed by approval from the Welsh Government's Head of Corporate Governance Unit, who will seek advice from the Corporate Procurement Services.

Government determined that terminating the agreement would have 'caused severe disruption to travellers, many of whom had already booked flights and have a severe impact on a strategically important route'.

39 In accordance with the PSO regulations, the Welsh Government should have gone back out to tender to cover the remainder of the period of the existing Air Service contract to December 2014, following expiry of the seven-month emergency period on 17 June 2013. However, written advice from Martin Evans on 6 November 2012 had stated that competition among UK operators for continuation of the service on the same scale was likely only to generate a response from the incumbent operator. In addition, the advice suggested that, unless linking up with a company like Manx 2 with ticketing and marketing expertise, an EU-based operator would face high UK set-up costs.

40 Alongside its previous experience of there being only one bidder for the full contract in late 2010, the Welsh Government interpreted this advice as saying that re-tendering for the remaining contract term would not represent value for money. The Welsh Government was also concerned that a failed competition could risk serious disruption to passengers. On 7 March 2013, the then Minister for Local Government and Communities (Carl Sargeant), whose portfolio included responsibility for transport policy, agreed to assign Links Air to the contract for the remaining period of the contract, from 17 June 2013, to follow on from the seven-month emergency procedure arrangement.

41 The Welsh Government should have informed the European Commission without delay of the emergency procedure arrangements that were established in November 2012. However, it was not until March 2013, when writing to the European Commission about its decision to assign Links Air for the remainder of the existing Air Service contract from 17 June 2013, that the Welsh Government notified the European Commission of the emergency procedure. Welsh Government officials told us that the delay in writing to the European Commission about the emergency procedure was due to the following two factors in turn:

- a** Immediately after the assignment of Links Air to the PSO contract, Manx2 informed the Welsh Government of its intention to transfer its rights and liabilities to a new company called Citywing and requested that Welsh Ministers consider novating their responsibilities under the PSO contract to Citywing. Before writing to the European Commission, Welsh Government officials were waiting for legal advice and Ministerial approval on the novation of the contract to Citywing. The then Minister for Local Government and Communities (Carl Sargeant) gave his approval on 23 January 2013. Had the Minister declined the novation, we understand that this would, in effect, have terminated the PSO contract.
- b** Officials were also then waiting on the results of an investigation prompted by the Minister, on whether there was potential for the Air Service to include Hawarden as a stop in the daily rotation. In the end, this option was rejected on the basis of legal advice which stated that this would not be possible within the terms of the Air Service contract.

- 42** The Welsh Government's letter to the European Commission stated: 'this decision is being taken in the light of independent expert advice about the current state of the market in respect of low-capacity flights'. Martin Evans emphasised to us that his advice said that the market was very limited, but that he had given no opinion on the value of testing the market¹³.
- 43** The Welsh Government's direct award of the contract to Manx2/Citywing and Links Air was not in line with the PSO regulations, as it did not allow for competition. We understand from Welsh Government officials that the European Commission contacted the Welsh Government by telephone to confirm the content of the Welsh Government's letter of March 2013. We have not seen a record of that conversation but Welsh Government officials told us that the European Commission advised that it would not be responding formally and would not investigate the Welsh Government's approach further unless it received a complaint from another air carrier. There has been no further contact between the Welsh Government and the European Commission on this matter.

¹³ This correspondence was subject to a Freedom of Information request in April 2013, asking for a copy of the Welsh Government's letter to the European Commission on proposals regarding procurement of the Air Service: www.wales.gov.uk/about/foi/responses/dl2013/aprjun/transport1/dltra136/?lang=en

Costs: 2007-08 to 2012-13

44 The total cost associated with the Air Service from 7 May 2007 to 31 March 2013 was £9.01 million (**Figure 2**), including the £1.5 million capital cost of developing the civil terminal building at RAF Valley, the Air Service contracts and the grant funding to the Isle of Anglesey County Council for the costs associated with running the terminal building and landing fees at RAF Valley. As noted previously, the cost of the Air Service contract is now substantially higher than when the service was first introduced, mainly due to higher fuel costs and landing fees. In contrast, the costs met through the grant funding to the Isle of Anglesey County Council have reduced over time.

45 On a monthly basis, the Welsh Government provides a fixed 90 per cent of the costs to the Air Service contractors of operating the service as estimated at the start of the contract. The actual costs of running the service and the Welsh Government's subsidy payments are reconciled on a quarterly basis. Other than if additional payments are due because of increasing fuel prices, annual costs payments are kept within the annual £1.2 million cap. The payment of £1.25 million in 2012-13 included a reconciliation payment of around £50,000 relating to 2011-12. The Welsh Government makes payments to Citywing, and Citywing makes payments to Links Air.

Figure 2 – Costs associated with the Air Service, 7 May 2007 to 31 March 2013 (£ million)

Cost category	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Air Service PSO contractors ¹	0.81	0.71	0.73	0.82	1.15	1.25	5.47
Isle of Anglesey Council (terminal building running costs and lease/landing fees at RAF Valley)	0.38	0.37	0.35	0.31	0.33	0.30	2.04
Capital investment to develop RAF Valley ²	1.50						1.50
TOTAL	2.69	1.08	1.08	1.13	1.48	1.55	9.01

Notes

¹ Highland Airways (7 May 2007 to 24 March 2010) and Manx2/Citywing and FLM/Links Air (10 May 2010 to present). The service did not operate between 25 March and 9 May 2010.

² This is the cost of developing the new terminal building at RAF Valley, which was completed in December 2007.

Source: Welsh Government

Performance monitoring: punctuality, load factor and passenger numbers

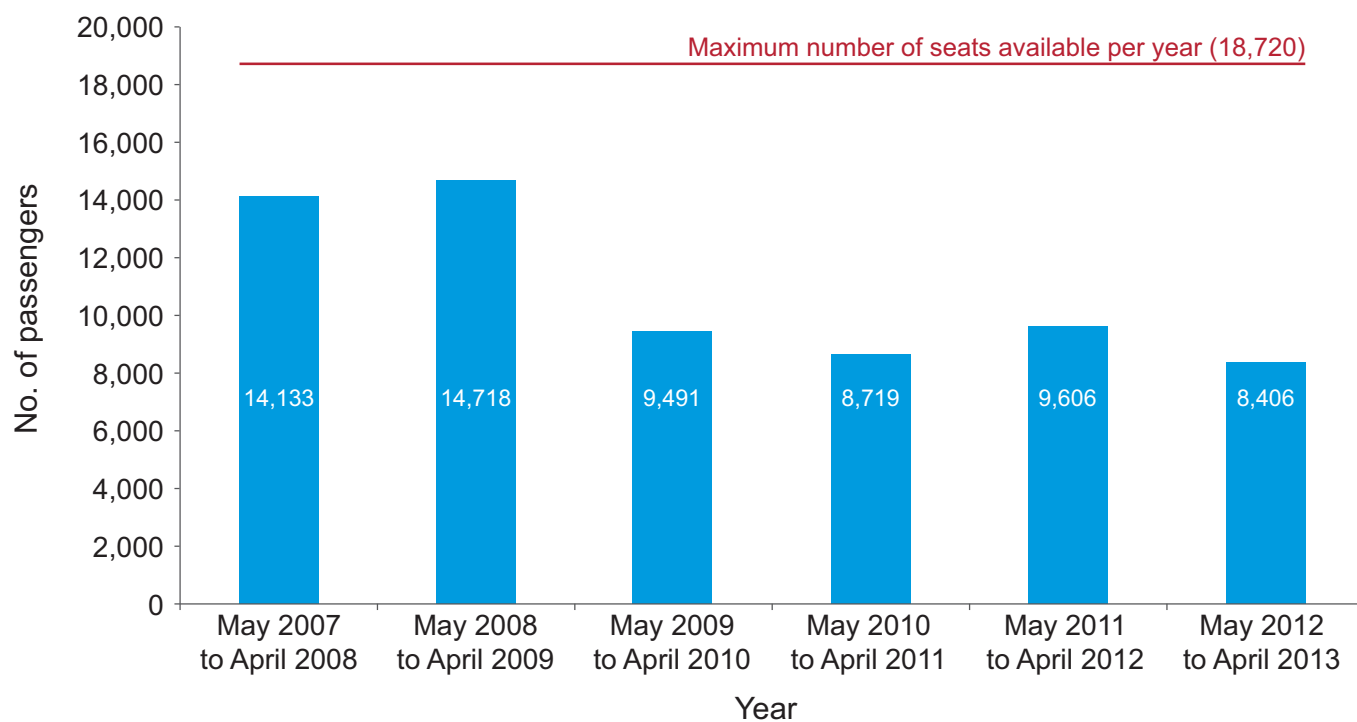
- 46** On behalf of both of the current Air Service contractors, Citywing provides the Welsh Government with monthly reports on punctuality, load factor¹⁴ and passenger numbers. For comparison with the original contract, the Welsh Government collates annual performance data on the basis of a 1 May to 30 April year, rather than the financial year. Citywing and the Welsh Government told us that performance data are discussed at monthly performance meetings, although we have not seen any documented record of those meetings.
- 47** In total, 65,073 passengers used the service between 7 May 2007 and 30 April 2013. This is equivalent to an average PSO subsidy per passenger of around £86.
- 48** During the first two years of the Highland Airways contract – May 2007 to April 2009 – nearly 29,000 passengers used the service with an average reported load factor of 82 per cent. This load factor performance compared favourably with an industry average load factor over the same period of around 76 per cent¹⁵. However, passenger numbers have been markedly lower in recent years and fell by 12.5 per cent between 2011-12 and 2012-13 (Figure 3).
- 49** Figure 4 shows seasonal variations in use of the Air Service since May 2009. The Welsh Government does not hold monthly passenger numbers for the period of operation prior to May 2009.
- 50** Regarding punctuality, on average around 90 per cent of flights have arrived on time over the full lifetime of the Air Service, some 10 per cent more than the UK industry average¹⁶. Citywing also reports on regularity of services (the proportion of flights scheduled that take place). Although there are no industry-wide figures for the regularity of services, the Air Service has operated at close to 100 per cent regularity since the recommencement of the service on 10 May 2010 following the demise of Highland Airways. Figures are not available for the first contract under Highland Airways, although Welsh Government officials told us they are confident that it was also close to 100 per cent.
- 51** A survey undertaken by Manx2 in September 2012 showed that 74 per cent of passengers rated the service as 'excellent' and 92 per cent said that they would recommend the service to other people.

¹⁴ Load factor is a measure of the amount of utilisation of the total available capacity of an aircraft. It is useful for calculating the average occupancy. Using this information, airlines can determine the profitability and revenue potential of various routes. Load factor is defined as the number of passenger-kilometres travelled as a percentage of the total seat-kilometres available.

¹⁵ International Air Transport Association (IATA), *Air Transport Market Analysis*, December 2007, 2008, 2009

¹⁶ Data is compiled by the UK Civil Aviation Authority (CAA) in co-operation with Airport Coordination Limited (ACL).

Figure 3 – Intra-Wales Air Service passenger numbers 7 May 2007 to 30 April 2013¹

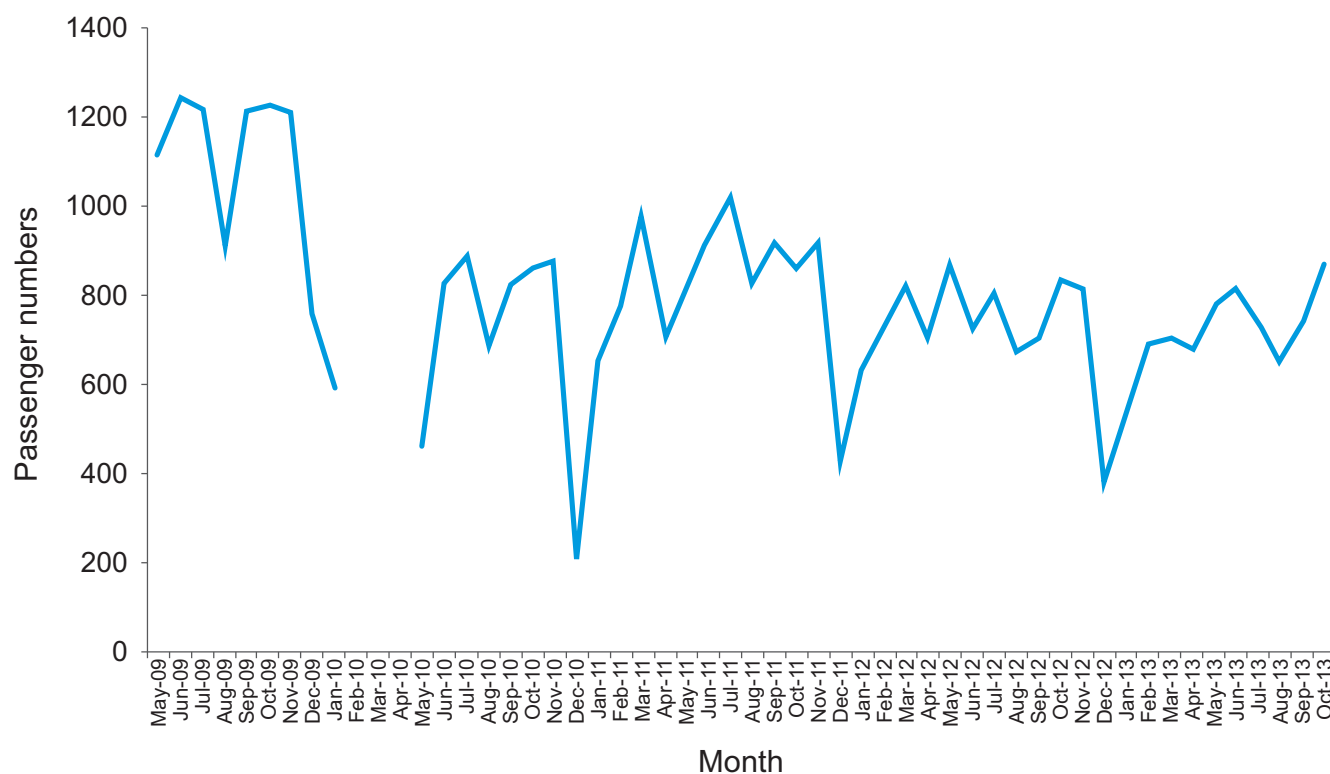


Note

¹ Highland Airways (7 May 2007 to 24 March 2010) and Manx2/Citywing and FLM/Links Air (10 May 2010 to present). The service did not operate between 25 March and 9 May 2010 and Highland Airways did not submit to the Welsh Government passenger number information for the period from 1 February 2010 to 24 March 2010.

Source: Welsh Government

Figure 4 – Intra-Wales Air Service passenger numbers by month – 1 May 2009 to 31 October 2013



Note

- 1 Highland Airways (1 May 2007 to 24 March 2010) and Manx2/Citywing and FLM/Links Air (10 May 2010 to present). The service did not operate between 25 March and 9 May 2010 and Highland Airways did not submit to the Welsh Government passenger number information for the period from 1 February 2010 to 24 March 2010.

Source: Welsh Government

Benefits evaluation

- 52** The Welsh Government commissioned a study in 2008 to evaluate the performance of the Air Service¹⁷. The report was based on interview surveys of passengers and found that ‘there is evidence to suggest that the air service has improved the quality of life for many passengers’. Based on the fact that 1,879 trips between North-West Wales and South Wales had been created, the evaluation also concluded that the service had had a positive impact on many sectors of the Welsh economy.
- 53** While the Welsh Government commissioned a financial appraisal of the Air Service in preparation for the procurement exercise it started in late 2009, it did not evaluate any of the benefits delivered through the introduction of the service. The Welsh Government has not commissioned any further evaluation of benefits and there is no regular benefits realisation process as part of the Welsh Government’s overall governance of the service. For example, there is limited information readily available on the purpose for which passengers use the service or with which to assess the catchment area for the service in North or South Wales. However, data from the September 2012 passenger survey undertaken by Manx2 indicated an equal split between business and leisure travellers.
- 54** Without robust benefits evaluation, it could prove difficult for the Welsh Government to continue to justify any continued subsidy of the existing Air Service in terms of demonstrating that the service is vital for the economic development of the regions it serves, especially in light of the apparent reduction in passenger numbers over recent years.

¹⁷ Halcrow, *Monitoring of the Cardiff/Ynys Mon Air Service*, October 2008

Looking to the future

- 55** The current contract with Citywing is due to expire on 9 December 2014. Welsh Government officials told us that they are planning to assess the value for money of the Air Service towards the end of 2013 to help inform the future Air Service strategy.
- 56** We did not prepare this briefing paper with a view to making recommendations to the Welsh Government. However, there are a number of actions that we think the Welsh Government should consider taking as part of its assessment of the value for money of the Air Service and in planning any new contract, as follows:
- a** The Welsh Government's value for money assessment of the existing contract should look to incorporate the principles of a Gateway 5 benefits evaluation review¹⁸.
 - b** The Welsh Government should revisit the business case for the Air Service and undertake a full options appraisal and cost-benefit analysis and applying the principles set out in HM Treasury's *Green Book*¹⁹. This analysis should include examining alternatives to investment in the Air Service that could deliver the same results, for example, enhancements to rail services. The Welsh Government should take into account that there is now a different economic and public finance environment to the one when the original business case was developed. The Welsh Government should also consider the strategic fit of the Air Service with current transport and economic development policy and with its sustainable development objectives.
 - c** Any future procurement for a PSO contractor should make explicit whether the Welsh Government is open to receiving bids from consortia.
 - d** The Welsh Government should make sure that Cardiff Airport, RAF Valley and the Isle of Anglesey County Council are fully engaged in the assessment of value for money, any subsequent business case and if relevant, any future procurement exercise. In doing so, we would expect that the Welsh Government would consider how the continuation of the Air Service plays into the future development of Cardiff Airport, including links to other airports to make better use of the aircraft which currently sits at Cardiff Airport for nearly seven hours between rotations.
 - e** A robust benefits management process, based on the principles of *Managing Successful Programmes*²⁰ good practice, should accompany any new PSO contract; along with the use of Gateway reviews during the management of any new contract.

¹⁸ The Gateway Review process has been developed by the Office of Government Commerce and is based around short and focused peer review at key stages of a project or programme.

¹⁹ HM Treasury guidance on how to appraise proposals before committing funds to a policy, programme or project.

²⁰ *Managing Successful Programmes* is a framework developed by the Cabinet Office comprising of a set of principles and processes for use when managing a programme.

- 57** RAF Valley is to undertake a period of planned maintenance to the main runway, currently planned for early 2015. The project will take approximately one year and airfield operations will be limited to one runway. For a short period, likely to be around three to four weeks, the airfield will close completely. As the project is still in the planning stages, all dates and plans are yet to be confirmed.

Appendix 1 – Timeline of key events

This timeline summarises some of the key events described in the main body of this paper	
December 2003	UK Government's Air Transport White paper identifies the potential for new intra-Wales air services between North and South Wales.
July 2004	The Welsh Government undertakes a scoping study to investigate the potential for a North-South Wales air service.
December 2004	The Welsh Government develops a business case which examines the costs and benefits of various route options for the Air Service.
February 2007	The Welsh Government awards a three-year contract to Highland Airways to run the Air Service between Cardiff Airport and RAF Valley on the Isle of Anglesey.
7 May 2007	Air Service flights commence.
November 2009	The Welsh Government commences the tendering process for a new four-year Air Service contract.
10 March 2010	Welsh Government officials write to the European Commission regarding the legitimacy of using an interim seven-month contract having failed to secure viable bids for the full four-year contract.
24 March 2010	Highland Airways goes out of business and flights cease.
31 March 2010	The Welsh Government commences the tendering process for an interim Air Service contractor.
20 April 2010	Welsh Government officials recommend that an interim seven-month contract should be awarded to Manx2 with its partner airline FLM.
10 May 2010	Manx2 and FLM commence flights.
9 July 2010	The Welsh Government recommences the tendering process for a four-year Air Service contract.
December 2010	The Welsh Government awards a four-year Air Service contract to Manx2 and FLM.

This timeline summarises some of the key events described in the main body of this paper

1 November 2012	FLM fails its assessment by the German Aviation Authority, loses its Air Operator's Certificate, and is unable to discharge its responsibilities as a service provider under the terms of the Air Service contract. Manx2 takes on Links Air as the carrier and informs the Welsh Government.
16 November 2012	The Welsh Government formally assigns Links Air to the Air Service contract to supply plane and crew for a seven-month 'emergency' period.
1 January 2013	Manx2 transfer its assets to a new company, Citywing.
23 January 2013	The then Minister for Local Government and Communities agrees the novation of Manx2's rights and liabilities under the contract to Citywing.
7 March 2013	The Welsh Government decides to assign Links Air to the Air Service contract for the remaining period of the contract from 17 June 2013.
March 2013	The Welsh Government writes to the European Commission setting out the arrangements it made following the removal of FLM's accreditation and appointment of Links Air to the contract for both the emergency seven-month period and the remaining period of the contract from 17 June 2013.
March 2013	Reply via telephone from the European Commission advising the Welsh Government that it would not be responding formally and would not investigate the Welsh Government's approach further unless it received a complaint from another air carrier.
9 December 2014	Current Air Service contract with Links Air/Citywing expires.

Document is Restricted

Agenda Item 4

Adran yr Economi, Gwyddoniaeth a Thrafnidiaeth
Department for Economy, Science and Transport

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair – Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

10 March 2014

Dear Mr Millar

Response to the National Assembly for Wales Public Accounts Committee on the north/south Air link - 18th March 2014

I welcome the opportunity to respond to the recommendations contained in the Auditor General for Wales' briefing memorandum about the North/South Wales Air link.

The service is currently contracted until December 2014. It is operated by Links Air with tickets for the flights sold by their partner organisation Citywing. The air service was first established in 2007, following a public consultation on introducing an intra-Wales air service carried out in 2004.

The service greatly reduces journey times between North-West Wales and Cardiff, helping to improve business connectivity and providing new tourism opportunities. The timetable has been designed to make day return journeys a practical proposition.

Response to recommendations made by the Auditor General for Wales

Recommendation The Welsh Government's value for money assessment of the existing contract should look to incorporate the principles of a Gateway 5 benefits evaluation review.

Welsh Government Response A value for money assessment of the Public Service Obligation is currently being undertaken as part of the appraisal to inform Ministers in making any decisions regarding the provision of north - south public transport.

Recommendation The Welsh Government should revisit the business case for the Air Service and undertake a full options appraisal and cost-benefit analysis and applying the principles set out in HM Treasury's Green Book. This analysis should include examining alternatives to investment in the Air Service that could deliver the same results, for example, enhancements to rail services. The Welsh Government should take into account that there is now a different economic and public finance environment to the one when the original business case was developed. The Welsh Government should also consider the strategic fit of the Air Service with current transport and economic development policy and with its sustainable development objectives.



BUDDSODDWYR | INVESTORS
MEWN POBL | IN PEOPLE

Canolfan QED • QED Centre
Y Brif Rodfa • Main Avenue
Treforest • Treforest
Pontypridd, CF37 5YR

Page 58

Ffôn • Tel 02920 826646
james.price@wales.gsi.gov.uk
Gwefan • website: www.wales.gov.uk

Welsh Government Response Welsh Government practice is to keep programmes and interventions that it funds under review, to ensure that government objectives are being fulfilled including better value for money. Work is currently underway to better understand the potential value for money of any further North/South Air contract.

Recommendation Any future procurement for a PSO contractor should make explicit whether the Welsh Government is open to receiving bids from consortia.

Welsh Government Response Any future procurement of the Public Service Obligation will strictly follow the appropriate EU Regulations, the process used will try and maximise the opportunity for bidders to innovate.

Recommendation The Welsh Government should make sure that Cardiff Airport, RAF Valley and the Isle of Anglesey County Council are fully engaged in the assessment of value for money, any subsequent business case and if relevant, any future procurement exercise. In doing so, we would expect that the Welsh Government would consider how the continuation of the Air Service plays into the future development of Cardiff Airport, including links to other airports to make better use of the aircraft which currently sits at Cardiff Airport for nearly seven hours between rotations.

Welsh Government Response The Welsh Government is and will continue to engage with Cardiff Airport, RAF Valley and Isle of Anglesey as stakeholders.

Recommendation A robust benefits management process, based on the principles of Managing Successful Programmes good practice, should accompany any new Public Service Obligation contract; along with the use of Gateway reviews during the management of any new contract.

Welsh Government Response As this is a single project, the Welsh Government has adopted the principles of Projects in Controlled Environments (PRINCE 2) as the best practice approach which incorporates a Gateway Review Process.

Yours sincerely

James Price

Agenda Item 5

SUBMISSION OF MARTIN EVANS TO THE PUBLIC ACCOUNTS COMMITTEE OF THE NATIONAL ASSEMBLY FOR WALES - CARDIFF/ANGLESEY AIR SERVICE

Background

Martin Evans is a Visiting Fellow at the University of South Wales. In 2008, working with the Wales Transport Research Centre at the University and Halcrow, he undertook the first year monitoring report of the Cardiff/Anglesey air service on behalf of the Welsh Government. No further monitoring reports have been published by the Welsh Government.

Introduction

The possibility of Welsh internal air services was proposed in ‘The Future of Air Transport - Wales’ White Paper published by the UK Department for Transport in 2003. A feasibility study was undertaken by The Welsh Government and published in the form of a consultation in 2004. The consultation document examined the feasibility of a number of different networks for Welsh internal air services and the level of investment required for the necessary infrastructure.

There are no internal air routes in Wales that would be viable if operated on a commercial basis. The Welsh Government acquired the powers to fund internal air services under a Public Service Obligation (PSO) in the Transport (Wales) Act 2006.

The conditions to be followed in funding a PSO route are set out in Article 16 of the Air Services Regulations 1008/2008 of the European Union.

“3. The necessity and the adequacy of an envisaged public service obligation shall be assessed by the Member State(s) having regard to:

- a) the proportionality between the envisaged obligation and the economic needs of the region concerned;*
- b) the possibility of having recourse to other modes of transport and the ability of such modes to meet the transport needs under consideration, in particular when existing rail services serve the envisaged route with a travel time of less than three hours and with sufficient frequencies, connections and suitable timings;*
- c) the air fares and conditions which can be quoted to users;*
- d) the combined effect of all air carriers operating or intending to operate on the route.*

The effect of these conditions is to eliminate all possible internal routes in Wales except for north west Wales to south Wales.

RAF Valley was chosen as the northern terminal for the route due to a number of costs being covered by RAF operations. However the choice of RAF Valley severely limited the development of the service due to Valley’s limited opening hours.

The southern terminals were intended to be Cardiff and Swansea. However, scheduled air services ceased at Swansea before the route commenced and therefore Cardiff remains the sole southern terminal.

The service providers operating the PSO have been

DATE	TICKET SELLER	AIR CARRIER
May 2007 - March 2010		Highland Airways
April 2010 - November 2012	Manx2	FLM
November 2012 - January 2013	Manx2	Links Air
January 2013 -	Citywing	Links Air

Paragraph 10 of Article 16 of the Air Services Regulations 1008/2008 states

SUBMISSION OF MARTIN EVANS TO THE PUBLIC ACCOUNTS COMMITTEE OF THE NATIONAL ASSEMBLY FOR WALES - CARDIFF/ANGLESEY AIR SERVICE

“The right to operate the services referred to in paragraph 9 shall be offered by public tender in accordance with Article 17, either singly or, in cases where justified for reasons of operational efficiency, for a group of such routes to any Community air carrier entitled to operate such air services. For reasons of administrative efficiency, a Member State may issue a single invitation to tender covering different routes.”

A Community air carrier is defined as

“ ‘Community air carrier’ means an air carrier with a valid operating licence granted by a competent licensing authority in accordance with Chapter II”

The regulations do not mention the funding of an unlicensed ticket seller, only a licensed air carrier.

The Welsh Government approved the novation of Manx2’s responsibilities as a Service Provider in relation to the PSO Air Service Compensation Agreement to Citywing.

Economic benefits of the Air Service

Whilst the 2008 Monitoring Report found that over 50% of the additional trips generated by the introduction of the air service where for leisure purposes, nearly 25% of the additional trips were new business trips.

Passenger comments given in the 2008 Report

- 1) They now undertake work in one day that previously would have taken two days with an overnight stay
- 2) The air service not only gave them more time but more productive time
- 3) One passenger calculated giving his employer an extra 12 hours per week
- 4) Driving would leave them tired for the rest of the week
- 5) The reduced travel time saved their company on money and resources
- 6) They now attended more meetings in Cardiff which helped raise the profile of north west Wales bringing significant economic benefit to the region
- 7) The new air service has opened new business opportunities for their organisation. If their business continues to grow they would consider a north Wales office

The effects would be limited by passenger numbers but it was clear that a number of new leisure trips were generated which will have had an impact upon the tourism sector.

However, it is now nearly 6 years since the Monitoring Report was undertaken and this information is now considerably out of date particularly in the context of falling passenger numbers. Without more recent research it is not possible to explain the fall in passenger numbers.

**SUBMISSION OF MARTIN EVANS TO THE PUBLIC ACCOUNTS
COMMITTEE OF THE NATIONAL ASSEMBLY FOR WALES -
CARDIFF/ANGLESEY AIR SERVICE**

	2007	2008	2009	2010	2011	2012	2013
Jan		1020	911	524	660	658	512
Feb		1097	786	888	769	728	724
Mar		979	1155	813	996	831	702
April		1185	958	0	697	709	675
May	864	1161	1007	450	841	791	765
June	1153	1221	1084	808	931	705	819
July	1144	1336	1118	869	1005	799	727
Aug	1149	1085	839	657	489	675	667
Sep	1069	1176	1111	828	644	693	740
Oct	1222	1291	1093	844	677	821	874
Nov	1157	1157	1085	802	709	820	823
Dec	795	763	699	333	412	364	512

Passenger Numbers on Cardiff/Anglesey Air Service (CAA Statistics)

Quality Issues

In February 2011, another operator operating on behalf of Manx2 experienced a fatal accident at Cork Airport.

The Accident report by the Ireland's Air Accident Investigation Unit highlighted a number of issues

1) "The UK CAA stated that there were concerns that the Ticket Seller was allowing the impression to be created that it was a licensed airline in its own right. The CAA addressed these concerns by requesting the Ticket Seller to amend its website. The Investigation notes that the term 'airline' was not defined or addressed in EU regulations.

The Investigation is of the opinion that the Ticket Seller, an 'air carriage contractor' as defined in Regulation (EC) No. 2111/2005, Article 2 c, was portraying itself as an airline. The Investigation further considers that in the eyes of the travelling public, an airline is synonymous with an air carrier, an entity which is required to hold a valid operating license. Such an operating license can only be held by the holder of a valid AOC.

The Ticket Seller was nominated as a joint 'Service Provider' in the PSO Air Service Compensation Agreement granted according to Regulation (EC) No. 1008/2008. The Investigation notes that this Regulation states that: *'the Member State concerned may compensate an air carrier...'* and contains no provision for any undertaking other than an air carrier to be granted such compensation.

2) "The Investigation was informed by the Luftfahrt-Bundesamt (LBA), the regulatory authority responsible for the issue of operating licences in Germany, that AOC No. D-275 and operating license of FLM Aviation were revoked with effect from 1 November 2012 due to financial/economical reasons as the operator was no longer able to fulfil the requirements of Regulation (EC) 1008/2008, Article 5. Accordingly, FLM Aviation ceased operations. Subsequently, the Ticket Seller continued to sell tickets on this PSO route with FLM Aviation being replaced by an Air Carrier operating under an AOC issued by the UK CAA.

The Ticket Seller informed the Investigation in late 2012 that it assets were being sold to a new company as

**SUBMISSION OF MARTIN EVANS TO THE PUBLIC ACCOUNTS
COMMITTEE OF THE NATIONAL ASSEMBLY FOR WALES -
CARDIFF/ANGLESEY AIR SERVICE**

part of a management buy-out of certain parts of its business. The new company commenced operation on 2nd January 2013 and continued to sell tickets on the PSO route.”

3) “It is the view of the Investigation that the role of a ticket seller who engages in providing passenger air services is not clear. While the role and responsibilities of an air carrier are well defined, the involvement of ticket sellers in this activity requires that their role and responsibilities should be clearly defined. The Investigation therefore makes a Safety Recommendation to the European Commission in this regard.

Safety Recommendation No.6

It is recommended that the Director-General for Mobility and Transport, European Commission should review the role of the ticket seller when engaged in providing air passenger services and restrict ticket sellers from exercising operational control of air carriers providing such services, thus ensuring that a high and uniform level of safety is achieved for the travelling public.”

Conclusions

1) There were clear social and economic benefits for Wales shown by the 1st Monitoring Report, however this analysis is now very out of date and there is not enough current information to come to a meaningful conclusion about the air service. The data that we do have shows that passenger numbers have dropped since Manx2/Citywing became the ticket seller with a consequent reduction in benefit from the air service.

2) Future contracts should only be issued to licensed Community Air Carriers as required by EU Regulations.

12th March 2014

Martin Evans
Visiting Fellow
University of South Wales
Pontpridd CF37 1DL

Bibliography

The Future of Air transport - Wales: Department for Transport, 2003
Intra Wales Air Service Consultation: Welsh Government, 2004
Monitoring Report of the Intra Wales Air Service: Welsh Government, 2009
Formal Report: Accident Fairchild Metro 111, EC-ITP, Cork Airport Ireland, 10/02/11, 2014