

Lee Waters AS/MS
Dirprwy Weinidog yr Economi a Thrafnidiaeth
Deputy Minister for Economy and Transport



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref:

Russell George MS
Chair
Economy, Infrastructure and Skills Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

24 March 2021

Dear Russell,

Economy, Infrastructure and Skills Committee 10/03/2021

I am writing to you following the Economy, Infrastructure and Skills Committee held on 12 March 2021 in which I agreed to send a note to the committee that sets out the full details of the type of support the Welsh Government have offered to Cardiff Airport and the process we have gone through to arrive at that decision.

Doing nothing would see the airport stop trading, job losses and we would lose this critical piece of infrastructure for generations to come.

The recent investment decision maximises the likelihood of recovery of the Welsh Government loan investment and delivers the lowest lifetime cost option. It provides the best way forward for the Welsh Ministers as sole shareholders of the airport from a commercial perspective.

By taking this action we are confident that this will best protect the value of the public investment in the airport and ensure that it is sustainable into the future.

This funding will help sustain up to 5,200 indirect jobs retained from the economic activity of the firms on-site at the airport and from the firms in the wider supply chain, at a time when we know the Aviation sector needs support.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Below is a table of the support provided to the airport;

Loan issued to date:	£54.6m
Interest due:	£9.5m
COVID-19 emergency Loan:	£4.8m
Equity Investment:	£61.3m
TOTAL investment to date:	£130.2m

Our balance sheet reflects this value.

In 2016, the Welsh Government provided grant funding of £169,000 to support the airport's safety and security, and in 2019, grant funded the replacement of e-Passport Gates at a cost of £610,000.

Rescue and restructuring aid.

We have recently agreed investment by way of a grant of up to £42.6m under rescue and restructuring aid under the terms of UK-EU Trade and Co-operation Agreement, which will be given to enable Cardiff Airport to restructure its operations, and secure its long term viability.

We have invested £130.9m in cash to date, and are committed to putting in a further £42.6m spread over 5 years.

Write off of debt & equity impairment.

Separately, in its capacity as the only lender to the airport the Welsh Government, have made the decision on a purely commercial basis to write off £42.6 million of the airports debt. This decision maximises the likelihood of recovery of Welsh Government loan investment and delivers the lowest lifetime cost option. It provides the best way forward for the Welsh Ministers as sole shareholders of the airport from a commercial perspective,

We are also impairing the equity at this time as a prudent step to reflect the loss of value as a result of Covid which amounts to £46.3m. By taking this action we are confident that this will best protect the value of the public investment in the airport and ensure that it is sustainable into the future.

The £61.3m share value in CIAL now has a £15m liquidated market value for all of the assets of the business on a break up basis, which leads to a £46.3m loss in value.

There is no further loan facility available to Cardiff Airport from the Welsh Government.

The remaining outstanding debt of £68.9m following the £42.6m write off will be £26.3m as at 31 March 2021 which is fully recoverable. The loan repayments will commence in financial year 2031/32 and the airport will be in a position to repay the remaining outstanding value of the debt to the Welsh government by 2045.

In summary; to reflect the global downturn in the aviation market we have adjusted down the way that we recognise the value of the airport's equity (£15m) and loans (£26.3m). So we now recognise the value of our investment in the Airport as £41.3m.

The £42.6m grant investment will be structured over 4 years as follows;

Year	2021/22	2022/23	2023/24	2024/25
Grant value	£16m	£10.2m	£15m	£1.4m

The R&R grant funding will be drawn down with the first advance payment being made on a 6-monthly basis, then moving to quarterly. CIAL's progress against its restructure plan will be monitored closely by WGC Holdco. The Development Bank of Wales will continue to monitor the business against the remaining loan to be repaid.

The rescue and recovery package of support aims to bring the airport back to financial viability in the next c.6 years (by 2025/26).

The Airport is expected to hit a sustainable 1.3m passengers per annum by March 2026, this being the first year when the airport expects to meet its own cash requirements. We have a viable plan for recovery in place benchmarked against global, EU and UK passenger predictions along with third party advice from two consultancy firms. Progress will be monitored regularly. As the sole shareholder, we will continue to act on commercial terms as we review progress.

The process we have gone through to arrive at that decision is a detailed restructuring report was prepared by independent consultant Oxera and finalised on 21 February 2021. This has been corroborated by a further external party, Duff & Phelps, who provided a second opinion and was scrutinised by WG lawyers and backed up with advice from a QC who is an expert in competition and subsidy control law.

We have in place an agreed rescue and recovery plan which has been scrutinised by Welsh Government officials, Holdco and two independent consultant firms. The contents of that plan remain commercially sensitive.

The rescue and recovery plan will be performance managed regularly in order to evaluate and protect our ongoing investment. Further to this, we are also in the process of reviewing the governance of Cardiff Airport and strengthening the role that Holdco will play moving forward. I will let you know the outcome of those deliberations in due course.

This decision maximises the likelihood of recovery of the Welsh Government investment and delivers the lowest lifetime cost option. It provides the best way forward for the Welsh Ministers as sole shareholders of the airport from a commercial perspective.

This is the only financially responsible course of action which maximises the protection of our investment and the decision has been made on commercial terms. The alternative is to do nothing where the airport will stop trading resulting in job losses and closure of the airport. In that situation, our investment loss would take a much greater hit.

Yours sincerely



Lee Waters AS/MS
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Deputy Minister for Economy and Transport