

# **Evidence Paper in advance of the Public Accounts and Public Administration Committee Scrutiny Session – 3.11.21**

## **Cardiff Airport**

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### **1. Introduction and Background**

#### **Ownership of Cardiff Airport:**

In 2013, the Welsh Government purchased Cardiff International Airport Limited (CIAL) for £52m as a strategic addition to Wales' transport infrastructure. The airport is Wales' gateway to the world and is a vital piece of our transport infrastructure. Continuing to sustain and develop such an important asset is a key priority. The strength of our domestic and overseas relationships and improving transport connectivity will help determine our ability in future to: develop new markets; maintain and grow existing markets; and establish our position as an attractive and competitive place to visit and study, and to invest and do business - especially following our exit from the EU and as we look to recover from the pandemic.

In the most recent economic impact analysis performed by independent consultancy, Oxera, pre-COVID-19, in September 2019 it was estimated that the Airport's direct economic footprint (the economic activity of the firms on-site at the Airport) was c£87m GVA, based on c2,000 employees employed in and around the site. It went on to estimate a further £159m GVA from Indirect economic activity i.e. economic activity of firms in the supply chain, based on an estimated 3,500 such jobs.

The Welsh Government, on behalf of the Welsh Ministers, operates CIAL as an arms-length private limited company, with distinct separation achieved through WGC HoldCo Limited (HoldCo). HoldCo was incorporated as a private company limited by shares on 21 March 2013.

HoldCo acquired CIAL on 27 March 2013. The objective of the acquisition was to secure CIAL's future, enable the commercial management team to reinvigorate activity levels, and ensure its continued contribution as an asset to the economy and people of Wales. HoldCo owns 100 per cent of the ordinary share capital. As such, whilst CIAL is a wholly owned subsidiary of the Welsh Government, it operates in an independent and commercial manner, makes investment decisions on a commercial basis, and is liable for its own actions and any issues arising from the running of its business.

### Investment in Cardiff Airport to date:

The below information sets out the full details of the support the Welsh Government has provided to Cardiff Airport as at 24 March 2021.

|                                  |                    |
|----------------------------------|--------------------|
| Loan issued:                     | £54.6m             |
| Accrued Interest due:            | £9.5m <sup>1</sup> |
| COVID-19 emergency Loan:         | £4.8m              |
| Equity Investment:               | £61.3m             |
| <b>TOTAL investment to date:</b> | <b>£130.2m</b>     |

Further to the investment above; 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 £523,000.

## 2. COVID-19 Rescue and Recovery Support Package

Since its purchase in 2013, and prior to the pandemic, the airport had seen a significant turnaround in fortunes. Figures from the Civil Aviation Authority showed that passenger growth at Cardiff Airport had increased by over 50 per cent as at March 2020.

### Passenger Growth

| Calendar Year | Passenger Numbers <sup>2</sup> |
|---------------|--------------------------------|
| 2012          | 1017458                        |
| 2013          | 1059362                        |
| 2014          | 1024085                        |
| 2015          | 1162287                        |
| 2016          | 1347758                        |
| 2017          | 1467686                        |
| 2018          | 1583128                        |
| 2019          | 1657429                        |
| 2020          | 220796                         |

<sup>1</sup> Accrued interest calculated on 24 March 2021.

<sup>2</sup> Source Civil Aviation Authority; <https://www.caa.co.uk/Data-and-analysis/UK-aviation-market/Airports/Datasets/UK-airport-data/>

However COVID-19 has had a catastrophic impact on international travel world-wide and has significantly impacted on both airports and airlines ability to operate and trade. The priority for all airports and airlines across the globe is recovery, sustainability, and then eventual growth.

Since the beginning of the pandemic, we made the conscious decision to keep the airport open to support freight and logistics during the crisis which also saw delivery of much needed PPE for the NHS in Wales. The Board and management team at CIAL have continued to work hard to reduce costs as much as possible and generate new sources of revenue. This has included furloughing and re-deploying a number of its staff via secondment opportunities to a range of organizations.

Last year, the Welsh Government agreed a financial package to provide support to CIAL in the medium term against a five year plan for the rescue and restructure of the airport following Covid-19. The package satisfies the terms of the UK-EU Trade and Co-operation Agreement, in particular the provisions around subsidies for the purposes of rescue and restructure. We agreed investment by way of a grant of up to £42.6m which has enabled Cardiff Airport to begin restructuring its operations, and securing its viability.

The £42.6m Rescue and Restructure grant investment will be structured over four financial years as follows;

| <b>Year</b> | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|-------------|----------------|----------------|----------------|----------------|
| Grant value | £16m           | £10.2m         | £15m           | £1.4m          |

£13m of this has been drawn down to date.

Future drawdowns are scheduled to be made on a quarterly basis. 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.

### **Write-off of debt as at 6 May 2021**

|                                |                     |
|--------------------------------|---------------------|
| Loan issued:                   | £54.6m              |
| Accrued Interest due:          | £10.4m <sup>3</sup> |
| COVID-19 emergency Loan:       | £4.8m               |
| <b>Total debt:</b>             | <b>£69.8m</b>       |
| Minus Loan write off:          | £42.6m              |
| <b>Remaining Loan Balance:</b> | <b>£27.2m</b>       |

Separately, as sole shareholders of Cardiff Airport and its only lender, we also made the decision on a purely commercial basis to write off £42.6 million of the airport's debt.

The total debt of £69.8m including accrued interest following the £42.6m write off was £27.2m as at 6 May 2021 which is fully recoverable. The loan repayments will

<sup>3</sup> Accrued interest calculated on 6 May 2021.

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.

### **Equity impairment as at 31 March 2021.**

|   |               |
|---|---------------|
| WG Share Value                              | £61.3m        |
| Minus CIAL Liquidated market Value          | £17.8m        |
| Impairment charge                           | £43.5m        |
| <b>Current CIAL Liquidated market value</b> | <b>£17.8m</b> |

We also impaired the equity at this time as a prudent step to reflect the loss of value as a result of COVID. The £61.3m share value in CIAL had a £17.8m liquidated market value for all of the assets of the business on a break up basis, which leads to a £43.5m loss in equity value. As part of the year end accounts preparation process, an updated full valuation of the assets as at the financial year end was obtained by RICS Registered Valuers Alder King. This resulted in a final valuation of £17.83m and an impairment of £43.5m

In 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 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 this decision is detailed in a restructuring report which was prepared by independent consultants Oxera and finalised in February 2021. This work has been validated by a further external party, Duff & Phelps, who provided a second opinion and was scrutinised by Welsh Government lawyers and further advice from a QC who is an expert in competition and subsidy control law. These reports are commercially confidential.

The rescue and recovery plan is 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.

These decisions maximise 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 and is the only financially responsible course of action which maximises the protection of our investment and the decision has been made on commercial terms.

### **3. Airline operators at CIAL**

The COVID-19 pandemic continues to heavily impact the aviation industry and the situation remains fluid. All airlines are reviewing their flying programmes globally based on international restrictions and demand. The same is happening with the operators at Cardiff Airport.

A number of European flights are now operating from Cardiff on a daily basis, but passenger numbers remain low, reflecting the global downturn in the aviation market.

Despite the ongoing international travel regulations, and significantly reduced scheduled air passenger services across the globe, we are pleased to confirm that Wizz Air remains committed to operating services from Cardiff Airport from spring 2022 and discussions continue with Qatar Airways about how soon they can re-instate their services. Eastern Airways, Loganair, KLM, TUI, Vueling and Ryanair all continue to operate flights from Cardiff, albeit at a far reduced programme than normal. Vueling has confirmed they will announce their intention to commence the Paris – Cardiff route from November 2021 at 2 x weekly. Ryanair is commencing the Cardiff – Dublin route at 4 x weekly from 31 October. Eastern Airways picked up the vacant Belfast route earlier this year and Logan Air did the same on the Cardiff - Edinburgh route. The airport now has service to 16 non-stop destinations, as part of the recovery to get back to the 52 non-stop routes that were regularly serviced prior to the collapse of flybe at the onset of the Covid in 2019.

The Anglesey to Cardiff Airport Public Service Obligation (PSO) air service is currently suspended due to the impact of COVID-19.

### **COVID-19**

Aviation has been one of the hardest hit sectors of the COVID-19 pandemic, which in turn has caused an existential crisis for the aerospace industry more widely. The devastating impact of the Covid-19 pandemic on the global aviation sector is stark, with 2020 having been the worst year on record for the industry. Industry-wide air travel demand (measured in revenue passenger-kilometres, or RPKs) dropped by 65.9% year-on-year in 2020.<sup>4</sup>

The International Air Transport Association (IATA) estimated total industry losses to reach \$201bn between 2020 and 2022 accounting for losses of \$138bn in 2020, \$52bn in 2021 and at least a further \$12bn predicted in 2022.<sup>5</sup>

The UK saw a 90% decrease in total arrivals over the period between April 2020 and July 2021, compared with pre-COVID figures. July 2021 saw just under 1.5m air arrivals, representing an 87% decrease on July 2019.<sup>6</sup>

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<sup>4</sup> Source [IATA - Airline Industry Statistics Confirm 2020 Was Worst Year on Record](#)

<sup>5</sup> Source [COVID-19: Global aviation industry to lose \\$201 bn during 2020-22 period, says IATA - BusinessToday](#)

<sup>6</sup> Source [Statistics relating to passenger arrivals since the COVID-19 outbreak, August 2021 - GOV.UK \(www.gov.uk\)](#)

Passenger numbers coming through Cardiff airport in August 2021 were down 90.7% vs pre-COVID. The total for all UK airports for the same period saw a decrease of 75.4%. Cardiff's figure for August 2021 is the lowest out of all UK airports, apart from Southend (-93.7%), having been the UK airport to suffer the largest drop in passenger numbers in 2020 (-86.7%).<sup>7</sup>

The impact has, and will continue, to be stark for many companies. COVID-19 has had a much greater impact than any previous crisis. Globally, it has caused a significant reduction in passenger numbers, resulting in flights being cancelled or aircraft flying empty, which has impacted in massively reduced revenues for airlines and has forced many airlines to lay off staff or declare bankruptcy.

World recovery and passenger demand are beginning to improve, but ongoing international travel restrictions continue to have a disturbing impact on global travel. All airlines are reviewing their flying programmes globally and regularly, based on international restrictions and demand.

#### **4. Governance Arrangements**

Holdco was established with the sole purpose of being the direct owner of CIAL and the repository of its shares. This structure was intended to maintain a clear legal demarcation between the WG, as a body responsible of public functions and public policy, on the one hand, and as the sole shareholder in a commercial enterprise, on the other hand. This demarcation was considered important at the time for a number of reasons, including to facilitate investment in compliance with the state aid rules, the separation of CIAL's assets/liabilities from those of the WG under HMT rules, and the separation of function and decision making processes as between the function of government, and the operation of a commercial company.

Stringent governance arrangements are in place for managing the airport and monitoring its performance.

Various governance and control mechanisms were put in place to enable CIAL to operate on a full commercial basis, at arms-length from its owner, and as such, to enjoy operational independence. High level strategic oversight, accountability and shareholder control was secured by combination of bespoke amendments to CIAL's articles of association, bespoke articles of association for Holdco, and by way of a Management Agreement that was put in place between Holdco and CIAL.

Holdco is a private limited company operated as a wholly-owned commercial business independent from the Welsh Ministers. Holdco has three primary responsibilities, which are set out in the Management Agreement between Holdco and CIAL. These are to:

- approve an annual business plan,
- monitor and assure progress against the annual business plan, and
- to agree to specific "consent matters" (akin to reserved matters) which relate to reserved activities which CIAL may wish to undertake, especially outside the normal business planning cycle

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<sup>7</sup> Source [UK airport passenger numbers drop 75% to 74m in 2020 | Airline industry | The Guardian](#)

The CIAL Board formally reports to HoldCo on a quarterly basis, which monitors the airport on behalf of Welsh Ministers. The CIAL Board is made up of a non-executive Chairman, two Executive Directors and three Non-Executive Directors with significant commercial industry experience. The HoldCo Board is currently made up of two Welsh Government senior civil servants and an independent non-executive director.

In August 2019, HoldCo agreed to the appointment of Wayne Harvey to take over as Chair of the Cardiff Airport Board of Directors, as replacement for Roger Lewis from June 2020, who had served over four years with the airport. HoldCo has also confirmed the appointment of Spencer Birns as CEO, who has served on the board since 2013 and has been in senior management at the airport since 2006 and the new recruitment to the board of David Walters, with over 25 years of significant financial management experience as the Financial Director, replacing Deb Bowen-Rees and Huw Lewis respectively. As a result, we continue to have very strong leadership in place and have full confidence in the team to achieve the best possible outcome for our investment in Cardiff Airport.

A range of KPIs are reported on, along with critical success factors and the business plan is approved and adjusted annually. On-time performance and customer satisfaction are also monitored. Whilst the detail of the KPI's that CIAL reports to HoldCo on are commercially confidential, we can confirm they do include financial position, passenger numbers and destinations.

As part of the recent rescue and recovery package Welsh Ministers agreed a review of the governance arrangements in Holdco would be required, with a view of strengthening its governance. We will share the outcome of that review with this committee once it has been completed.

## **5. International Travel Regulations**

Restrictions on international travel as a result of COVID-19 continue to significantly impact the aviation industry, locally and across the globe. The Welsh Government remains committed to working with the UK Government and other devolved administrations to maintain open borders and support a four-nations approach where possible, practical and safe to do so. However it is vital that the restrictions remain under constant review in order to monitor the situation and better protect the country from new and variant strains of the virus. All amended guidance about international travel arrangements is published on the Welsh Government website.

Whilst public health is a devolved matter, UK border control is not. Welsh Ministers remain concerned about the UK Government's approach – and the speed at which it is opening up international travel, along with decisions to change border health measures, which are important protections to prevent the risk of new cases – and new variants of coronavirus – from entering the UK. The Welsh Government have consistently urged the UK Government to take a precautionary approach towards reopening international travel.

However, it is difficult for us to adopt a different regime to that required by the UK Government, as the majority of Welsh travellers enter the UK through ports and airports

in England. Having different requirements would cause significant practical problems, confusion among the travelling public, logistical issues, enforcement at our borders and disadvantages for Welsh businesses.

While the pandemic continues, the Welsh Government continues to encourage people to only travel for essential reasons.

## **6. Climate Change**

On 19 April 2019 Welsh Government declared a climate emergency. The climate emergency is one of the biggest and most defining issues of our time. In March 2021, following December 2020 advice from the Climate Change Committee, Welsh Government placed a 2050 Net Zero target in law. This target was supplemented with further regulation covering decadal interim targets and our third carbon budget (2026-30). We also made our second carbon budget (2021-25) more ambitious than previously regulated.

Wales' carbon budgets include all emissions from aviation in Wales, including both domestic and international flights. This means emissions from Cardiff airport are included in Wales' Net Zero targets and therefore within the overall emission reduction approach taken by the Welsh Government. Decarbonising aviation is one of our biggest challenges. Whilst aviation contributes only 2-3% of global greenhouse gas emissions today, it is forecasted to become one of the highest residual emitters in 2050 as other sectors with greater abatement potential reduce their emissions. Our ambition is to decarbonise every sector of our economy. The aviation sector has already contributed towards this, participating in the EU ETS since 2012. Since Brexit, the aviation sector has been included in the UK ETS to ensure the sector continues contributing to decarbonising the UK and the aviation sector will be captured by further improvements to the UK ETS. This will include clarifying the interactions with CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) which aims for any growth aviation to be carbon neutral from 2020.

Aviation policy is not devolved. The nature of air travel in the UK means that many travellers from Wales use, or have the option to use, airports in England, which has implications for the potential effectiveness of Welsh policies. The UK Government launched a consultation on 'Jet Zero' in 2021 covering a number of potential actions across the areas of fuel efficiency; the development of new zero emission aircraft; accelerating the supply and uptake of sustainable aviation fuels (SAF); modernisation of UK airspace and airports; and the development of verifiable markets to offset residual emissions.

In September 2019, Cardiff Airport (CIAL) launched its Environmental Flight Path which is a framework developed to track environmental and sustainability successes that have already been achieved, whilst setting out immediate short term goals. The airport is planning to update its Environmental flight path in 2022, with a publication of revised targets to achieving Carbon Net Zero.

We will continue to work with the UK Government and the Jet Zero initiative, as well as with Cardiff Airport, to reduce the environmental impacts of aviation



## **7. Surface Access**

The new Wales Transport Strategy indicates that high priority should be given to decarbonisation and minimising environmental damage. Such considerations result in the favouring of options that, first, minimise the need for travel, and then, subject to this, promote a shift towards modes with lower levels of environmental impact. A new link road providing fast (largely private) car access to the airport does not support this policy position. We therefore made the policy decision not to fund the cost of a new Cardiff Airport access road between the M4 and A48 as the scheme did not demonstrate alignment with the Wales Transport Strategy or climate change ambitions to achieve net zero by 2050.

Transport for Wales are currently working closely with Cardiff Airport to put in place a robust plan to restore the fast bus link between Cardiff Airport and Cardiff city centre. We continue to provide a shuttle bus link between the Airport and Rhoose Station. During the development of the Cardiff Airport Masterplan, consideration was given to an additional rail spur into Cardiff Airport. Two options were explored however we made the decision not to pursue these at this time due to cost and anticipated passenger demand. A direct rail spur into Cardiff Airport in the future has not been ruled out, however the impact of COVID-19 and the shift in focus to recover and restore the airport's passenger demand will remain the priority for the next few years ahead.

## **8. Our Vision for Aviation**

As part of the Wales Transport Strategy, we are committed to maintaining an aviation capability in Wales, because of the benefits that it brings to the Welsh economy as a whole, whilst recognizing the challenges this creates for meeting our targets on decarbonisation. We acknowledge the difficult policy tension between owning and supporting an airport to grow and prosper, whilst tackling the impact of climate change.

Over the next five years we will:

- develop Cardiff Airport to enable Welsh-based passengers to fly from closer to home
- work with the UK Government and the Jet Zero initiative, as well as with Cardiff Airport, to reduce the environmental impacts of aviation
- support Cardiff Airport to recover from the impact of COVID-19 on the business and wider industry
- engage with UK airports and other devolved administrations to improve regional connectivity to Wales as part of the regional planning process
- continue to work with the UK Government on levelling up UK-wide aviation policy specifically for Wales, including continuing the pursuit of devolution of Air Passenger Duty (APD) to Wales and via the introduction of new Public Service Obligation (PSO) air services
- continue to explore opportunities to better connect Cardiff and Wales with the rest of the UK and Europe.

***Welsh Government  
October 2021***