

**Grwp yr Economi, Sgiliau a Chyfoeth Naturiol
Economy, Skills and Natural Resources Group**

Cyfarwyddwr Cyffredinol - Director General



**Llywodraeth Cymru
Welsh Government**

Mark Isherwood MS
Chair – Public Accounts and Public Administration Committee
Welsh Parliament
Cardiff Bay
Cardiff
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15 December 2021

Dear Chair

CARDIFF AIRPORT

During the evidence session on Cardiff Airport that I attended with Public Accounts and Public Administration Committee on 3 November, I undertook to write to provide you with further information in a number of areas. These actions were set out in your letter to me of 18 November. I have addressed each of these points below.

Since the Welsh Government's acquisition of Cardiff Airport in 2013, have any bonuses or benefits been paid to the organisation's executives? If so, could you also please provide details of the bonuses or benefits paid and the role of Holdco and/or the Welsh Government in respect of them?

Questions about staffing and remuneration matters are for Cardiff International Airport Limited ("CIAL") to consider and respond to, as it is a separate legal entity to the Welsh Government. I have therefore asked Spencer Birns, CEO of CIAL, to write to provide you with details of any bonuses or benefits paid. I can however provide you with some further details on the role of WG, Holdco and CIAL in this area. Holdco is a private limited company, wholly-owned by the Welsh Government and operated as a commercial business. The Welsh Government is responsible for the appointment of directors to the board of Holdco. Holdco is the sole shareholder in CIAL – this Holdco structure was adopted in order to allow CIAL to operate on a commercial basis at an arm's length from the Welsh Government (the structure having been subject to detailed legal and commercial advice at the time of acquisition). The relationship between Holdco and CIAL

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is governed by the memorandum and articles of CIAL, and also a Management Agreement entered into in 2013 between Holdco and CIAL. Under the Management Agreement, remuneration arrangements are covered in a number of ways:

- (i) the board of directors of CIAL is responsible for determining and setting the remuneration of the CIAL directors, subject to the prior written consent of Holdco; and
- (ii) Holdco is responsible for determining certain specific “Consent Matters” which are specified issues or decisions which should not be taken by CIAL or its board, without the specific consent of Holdco. Certain “Consent Matters” relate to remuneration, for example, Holdco’s consent is required prior to CIAL:

- entering/terminating any employment contract ... in respect of the services of any person where:
 - such person is, or is to be, an executive director of CIAL; or
 - where the annual benefits (including bonus and pension contributions) payable under such contract is or is to be in excess of £50,000 (index linked);

(unless such agreement has been approved by a Remuneration Committee of CIAL).

- any alteration, consent, approval or waiver under the terms of any employment contracts as described above, or any increase or variation in the basis of calculating the remuneration paid by CIAL (including any salary, fee, bonus or commission entitlement or arrangement or pension contribution) under any such contract/agreement (unless such increase or variation in remuneration has been approved by the Remuneration Committee of CIAL).

For completeness, we would note that the Memorandum and Articles of Association of CIAL deal with matters such as share capital, allotment etc., the number of directors, general meetings, directors’ powers, appointment/retirement of directors and so forth, and as is usual for a company’s constitutional documents. These documents contain limited provisions relating to directors’ expenses and gratuities and pensions, and these aspects are supplemented by the provisions of the Management Agreement.

The Committee ***requested more information on the alternative scenarios, including those that did not include supporting the Airport. This should include an explanation why sell-offs, the different interactions in relation to land values and potential for planning permission were not considered as the favoured option for moving forward.***

As described in the Evidence Session, had the Welsh Government chosen not to support CIAL, the Airport would have run out of funds in early April 2021; this would have meant it would not have been able to meet its liabilities as they fell due. CIAL’s directors would have had an obligation to its creditors to declare the business as insolvent unless there was confirmation of funds to cover the business’s liabilities for the next 12 months. Had

CIAL become insolvent, it would have been forced into administration which could have resulted in a voluntary liquidation as a way of closing Cardiff Airport (the "Airport") and clearing any outstanding debts.

In March 2021, independent advisers Duff & Phelps advised that the Welsh Government could be expected to recover in the region of £15m in a liquidation scenario, with CIAL's assets sold on a breakup basis. Furthermore, Duff & Phelps advised that the funding requirement facing the business would not fall away following the appointment of administrators as most of the liquidity needs were to fund future losses and critical capital expenditure needed to run the Airport. This funding requirement could have proven commercially prohibitive to any parties interested in acquiring the Airport for its existing use. This could have seen CIAL being wound up, and its assets sold on a break up basis via liquidation. This would have seen a full write off of the Welsh Government's equity interest and the majority of its commercial loans in the Airport with a modest recovery of c£15m against its funding commitment (which stood at c£130m in aggregate in March 2021).

A review was conducted by Duff & Phelps of future development opportunities for the land. The review concluded that residential development might be favoured for the land, albeit further feasibility due diligence would be required.

Consideration was given to providing temporary liquidity support to CIAL in the form of funding for 12 months to enable CIAL to recover from the pandemic as soon as travel restrictions were lifted. This option would have cost the WG a total c£10m over 12 months, and ultimately it was highly likely that CIAL would go into liquidation in 12 months' time regardless of passenger numbers picking back up to normality. Furthermore, Duff & Phelps considered the merits of a mothballing strategy for 12 months. Whilst they would have expected the funding requirements facing CIAL in this period to decrease, they believed this strategy would have risked the very viability of CIAL, as existing airlines would likely choose to exit. In many ways, with this proposal, the keystone to any successful turnaround strategy would potentially be irreversibly lost. Duff & Phelps considered this option to potentially be the riskiest, and it could lead to a liquidation outcome following the provision of additional WG support of c£10m. This option only provided for short term support, was at best uncertain in its likely outcome, and would fail to deliver on the objective of keeping the business open in the long term.

Subsequently, as part of the year end Holdco accounts preparation process, an updated full valuation of the assets of CIAL as at the financial year end was obtained by RICS Registered Valuers, Alder King. This provided a final valuation of £17.83m. The valuation assumed cessation of the business. The valuation was based on the Market Value / Fair Value of the land and buildings, on the assumption they are marketed for alternative use potential. The valuation considered all the existing planning permissions in place to arrive at this market value.

The relevant development plan which covers CIAL land, is the Vale of Glamorgan Local Development Plan (LDP) 2011 – 2026, which was adopted on 28 June 2017. CIAL is identified within the LDP at Policy MD16 (12) as an existing employment site. At existing employment sites, proposals for non B1, B2 and B8 uses will only be permitted where certain criteria can be met. Policy MD16 seeks to protect the loss of existing employment sites unless it can be clearly demonstrated that the site is no longer suitable or viable for

employment uses. CIAL is within the St Athan and Cardiff Airport Enterprise Zone. There are 77.4 hectares adjacent to CIAL and Port Road, which are allocated as strategic employment land.

The valuation considered that CIAL's property is strategically situated close to Cardiff city centre and the M4 motorway. The property would be viewed as a large scale brownfield redevelopment opportunity. Demand for the freehold interest would be forthcoming from owner-occupiers, investors and developers / speculators. An owner-occupier would purchase in order to obtain planning consent for a new bespoke facility for their own occupation. It also considered that any developer might consider the potential for higher value uses such as residential in the future and acquire planning consent for a residential-led mixed use development.

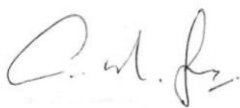
These alternative options presented to Welsh Ministers focused around future funding as only when CIAL had recovered to a sustainable business model could we consider any other potential solvent options such as a joint venture partner, third party sale to enable CIAL to continue to run the business but under new ownership, or a management contract whereby the private sector obtains a fee for the management of all or part of the business or certain key aeronautical activities. There were also potential insolvency options considered at the time, such as supporting a purchaser of the business and assets of the Company out of administration to incentivise them to continue to run it as a regional airport or considering providing a planning framework and funding support to assist one or more third parties to redevelop the area in a liquidation scenario. All these options would have come with significant risks and require furthered substantial independent specialist advice.

I trust the above information provides the clarity that the Committee is seeking, but please do let me know if you have any further questions.

I will also write to the Committee with the outcome of the review of Holdco governance for CIAL in due course.

With best wishes.

Yours sincerely



Andrew Slade
Director General
Economy, Skills and Natural Resources Group