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Y Grŵp Newid Hinsawdd a Materion Gwledig
Climate Change and Rural Affairs Group



Llywodraeth Cymru
Welsh Government

Mark Isherwood MS
Chair – Public Accounts and Public Administration Committee
Welsh Parliament
Cardiff Bay
Cardiff
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14 November 2023

Dear Chair

CARDIFF AIRPORT

Further to my letters to you of the 18 September and 26 October in relation to Cardiff Airport, I am writing to provide the Committee with a six-monthly update.

Quarterly reporting

In my letter sent to you on the 21 September 2022, I set out the metrics used in the quarterly reports for the Airport's performance against the Rescue and Restructuring Plan. The progress report below refers to those metrics.

Progress report for Quarter one (Q1) being the period ending 30 June 2023¹:

- Total passenger numbers were 236,199 for the three-month period to June. There were 3,789 less passengers travelling during Q1 than forecasted which was driven by the loss of Wizz Air, yet income was ahead of budget driven by stronger passenger spend.
- The Welsh Government has received nine quarterly reports to date on the Rescue and Restructuring Plan from its loan agents, the Development Bank of Wales (DBW).

¹ Under the terms of our agreements with the Airport, the Airport has to provide DBW, as loan agents, with a quarterly report by no later than 45 days of the end of each financial quarter. Following receipt of that information from the Airport, DBW then delivers its quarterly report to the Welsh Government within 20 business days. These timescales account for the lag in reporting each quarter's figures.

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- In-line with the drawdown schedule set out in the Rescue and Restructuring Plan grant Agreement, Cardiff Airport has drawn down £38.2m to date of its £42.6m, with the balance to be drawn down by the end of December 2024.
- The loan balance outstanding as at 30 September 2023 is £31.4m. This includes capitalisation of interest, which is added to the overall balance at each month end. There are no future allocated or existing loans for Cardiff Airport to draw down funds from.
- Cash balance remained high due to higher income and cash being preserved by very tight cost control and deferred capital expenditure whilst ensuring the Airport remains compliant with regulatory requirements to operate.
- Income for the three months ending 30 June 2023 was 5% ahead of budget. Higher income from traffic, commercial and car parking underpinned this over-achievement.
- The Airport is yet to reach a level of annual profitability, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) margin, however costs have been well contained, meaning the EBITDA loss, for Q1 2023 was lower than forecasted. Reaching positive EBITDA remains a future target.

The Welsh Government has received and approved nine capital expenditure requests of between £50,000 and £1m to-date from the Airport, totalling £2.2m, and two requested above £1m totalling £12.6m, from a total pre-approved budget of approximately £29m ringfenced until March 2026. All investments were considered essential operational safety and/or security costs to continue to operate the Airport.

Performance targets

I outlined the Airport's performance against the Rescue and Restructuring Plan in my letter to you dated 21 September 2022. I have outlined in the table below the Airport agreed targets again for ease of reference contained within their grant agreement and provided updates against each target.

Description of the Target	Date by when it should be achieved	Evidence required	Updates
Achieve an annual level of 1.3m flown passengers	31 March 2026	Report detailing passenger numbers based on data submitted to the Civil Aviation Authority	Cardiff Airport has recovered 58% of its 2019 passenger figures, recording



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		(CAA)	910,000 passengers through its terminal by the end of the last financial year (31 March 2023). The airport is on a trajectory to achieve 1.3m passengers by 31 March 2026.
Reach a level of profitability, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) margin	31 March 2029	Set of audited accounts	The airport is yet to reach a level of profitability, measured by the EBITDA margin. LBITDA (Loss Before Interest, Taxes, Depreciation, and Amortization) is in line with budget, reaching positive EBITDA is a future target.
Minimum of £500,000 salary cost saving	Year ended from 31 March 2022	Annual report	The Airport achieved the target of a minimum of £500,000 salary cost saving in Year ending 31 March 2022.
Maintain operating costs in line with the 11/02/21 forecast.	31 March 2029	Any projected increases of more	The airport continues to



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		than 5% to be notified to the Welsh Government Official as part of the quarterly reporting.	maintain operating costs broadly in line with the 11/02/21 forecast. However, we recognise the continuing impact the pandemic is having on the aviation industry; inflationary pressures, a tight labour market and mandatory regulatory requirements continue to present significant challenges to the aviation industry in its recovery and it is no different for Cardiff Airport.
<p>Commitment to becoming carbon neutral:</p> <ul style="list-style-type: none"> a) Commit to an operational solar farm at Cardiff airport (or some other energy efficient usage for energy consumption) b) Commitment to the development of sustainable aviation fuel and to offer this to airlines at Cardiff Airport as soon as practicably 	31 March 2023	To be updated as part of the quarterly reporting.	The position remains the same as articulated to Committee in my letter dated 5 th May 2022.



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<p>possible.</p> <p>c) Commitment that all future vehicle purchases will be electric or hybrid (where available)</p> <p>d) Offer a pricing structure (that can be made publicly available) where there is discount on fees and charges for those airlines operating the most fuel-efficient aircraft.</p> <p>e) Focus on enhancing environmental flightpath.</p>			
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I have previously written to you separately on the 9 May 2023, under commercially confidential cover, with an update regarding the other performance target and that position has not changed.

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

Next Generation Security (NGS) Scanners

As mentioned in my letter of 18 September, consideration was being given at the time to the issue of additional cost pressures for the new Next Generation Security 3-D baggage scanners that Cardiff Airport is required to install by 2024; a regulatory requirement under a direction from the UK Government. We have concluded that work and as a result, the Welsh Government, as the sole investor in the airport, has determined that on a commercial basis it should provide an equity investment of £6.6m to the airport, as a one-off measure to address the cost challenges and meet this compulsory regulatory requirement. This will ensure that passenger security and the passenger experience at Cardiff is equivalent to that at other regulated airports across the UK. For further details please see link to the written statement by the Welsh Government here:

[Datganiad Ysgrifenedig: Sganwyr Diogelwch y Genhedlaeth Nesaf \(NGS\) ym Maes Awyr Caerdydd \(26 Hydref 2023\) | LLYW.CYMRU](#)

[Written Statement: Cardiff Airport Next Generation Security \(NGS\) Scanners \(26 October 2023\) | GOV.WALES](#)



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WGC Holdco

As the Committee is aware, following an internal governance review of WGC Holdco Limited, Welsh Ministers agreed to two new Non-Executive Directors (NEDs) on the Board of Directors of Holdco, in place of the two Senior Civil Servants (SCS). The current NED position was to be retained and his position is to be replaced at the end of his current term which ends on 14 November 2023. A position is also to be retained on the Board for one SCS.

Following an internal recruitment process conducted by civil servants and approved by the Welsh Ministers, I am pleased to announce the pending appointment of Reg Kilpatrick, Director General for the Covid Recovery and Local Government Group as a new Director and Chair to the WGC HoldCo Limited Board.

We are in the final stages of recruiting the three new NEDs to the Holdco Board. I will update the Committee of the outcome of that process in my next update letter.

I trust the contents of this letter meet the commitment I gave to you for a six-monthly update, but if you would like further information or clarification, please let me know.

Yours sincerely



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