



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyfrifon Cyhoeddus **The Public Accounts Committee**

Dydd Mawrth, 25 Mawrth 2014
Tuesday, 25 March 2014

Cynnwys **Contents**

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

Papurau i'w Nodi
Papers to Note

Gwasanaethau Awyr o fewn Cymru, rhwng Caerdydd ac Ynys Môn: Papurau Briffio
Intra-Wales Cardiff to Anglesey Air Service: Briefing Papers

Gwasanaethau Awyr o fewn Cymru, rhwng Caerdydd ac Ynys Môn: Sesiwn Dystiolaeth 1
Intra-Wales Cardiff to Anglesey Air Service: Evidence Session 1

Gwasanaethau Awyr o fewn Cymru, rhwng Caerdydd ac Ynys Môn: Sesiwn Dystiolaeth 2
Intra-Wales Cardiff to Anglesey Air Service: Evidence Session 2

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are recorded in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

William Graham	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Sandy Mewies	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Eraill yn bresennol
Others in attendance

Gillian Body	Swyddfa Archwilio Cymru Wales Audit Office
Mal Drury	Pennaeth Ymrwymiadau Gweithgareddau Rheilffyrdd/Awyr, Llywodraeth Cymru
Martin Evans	Head of Rail/Air Commitments Operations, Welsh Government Cymrawd Gwadd, Cyfadran Busnes a'r Gymdeithas, Prifysgol De Cymru Visiting Fellow - Faculty of Business and Society, University of South Wales
Gareth Morgan	Dirprwy Gyfarwyddwr, Cyflawni, Llywodraeth Cymru Deputy Director, Delivery, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
James Price	Cyfarwyddwr Cyffredinol, Busnes, Menter, Technoleg a Gwyddoniaeth, Llywodraeth Cymru Director General, Business, Enterprise, Technology and Science, Welsh Government

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Fay Buckle	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

Dechreuodd y cyfarfod am 09:01.
The meeting began at 09:01.

**Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Darren Millar:** Good morning everybody and welcome to today's meeting of the Public Accounts Committee. I have a few notices for Members and witnesses. I remind everybody that today's meeting is a bilingual meeting and that Members and witnesses should feel free to contribute to this meeting in either English or Welsh as they see fit. Headsets are available for translation. I encourage everyone to turn off their mobile phones and other electronic devices, because they interfere with the broadcasting equipment. I remind everybody that, in the event of a fire, we should follow the instructions of the ushers. We have received no apologies for absence this morning.

09:02

**Papurau i'w Nodi
Papers to Note**

[2] **Darren Millar:** There are the minutes of the meeting held on 18 March and a letter from David Sissling on the child and adolescent mental health services. There is some interesting information in that letter regarding money for dealing with eating disorders that has been set aside by the Welsh Government. There is another letter on child and adolescent mental health services from the Auditor General for Wales, which disputes some of the content of David Sissling's letter in terms of how up to date the figures were for the number of placements in adult mental health services of children and young people. We have a letter on covering teachers' absence from the Welsh Local Government Association to the Auditor General for Wales. We have also been copied in to the response from the Auditor General for Wales to that letter from the WLGA. May I take it that those are noted? In that case, we move on to the next item.

09:03

**Gwasanaethau Awyr o fewn Cymru, rhwng Caerdydd ac Ynys Môn: Papurau
Briffio
Intra-Wales Cardiff to Anglesey Air Service: Briefing Papers**

[3] **Darren Millar:** We have had briefing papers from the Wales Audit Office and a research briefing. Those papers are the basis on which we are taking some evidence today from the Welsh Government and Martin Evans, the aviation expert who has given advice to the Welsh Government in the past.

**Gwasanaethau Awyr o fewn Cymru, rhwng Caerdydd ac Ynys Môn: Sesiwn
Dystiolaeth 1
Intra-Wales Cardiff to Anglesey Air Service: Evidence Session 1**

[4] **Darren Millar:** We will begin by taking evidence on this matter from the Welsh Government. I thank James Price, the director general of business, enterprise, technology and science, for his attendance at today's meeting, along with Mal Drury, the head of rail and air commitments operations in the Welsh Government—welcome to you, Mal—and Gareth Morgan, the deputy director of delivery in the Welsh Government.

[5] We have had a brief paper that responds to some of the tentative recommendations that were made by the Wales Audit Office in its research briefing, which it provided to this committee. In terms of the investment that is currently being made in this intra-Wales air service, is it delivering value for money for taxpayers, Mr Price?

[6] **Mr Price:** Clearly, we think that it is; otherwise we would not be doing it. However, it is quite a difficult thing to measure, and it is something that we are trying to benchmark right now before providing advice to Ministers in terms of any continuation of the service beyond the existing contract.

[7] **Darren Millar:** So, you say that you think it is but that you are not sure.

[8] **Mr Price:** No. Based on the original evidence that was collected and the reasoning behind taking forward a public service obligation, which is all about socioeconomic links between north and south Wales, in our case, and other places across the European Union in other instances, there is a strong argument for that type of activity. However, it is an activity that is very difficult to quantify. I think that that is the difficulty in both appraising a project before you do it and evaluating a project after you have done it. What has actually been the economic effect of that particular service is that there are lots of intangibles and lots of really good positive anecdotes. There are also lots of good data, but attributing data to a particular service is quite difficult, which is what we are trying to do now in as fair and honest a way as possible.

[9] **Darren Millar:** So, what sort of data are you collecting at the moment, in terms of this service, to determine whether it is value for money or not?

[10] **Mr Price:** Obviously, we have information on passenger numbers. We have some idea, albeit not as good an idea as I would like, in terms of who is using the service, the balance between business and leisure, numbers, load factors, and obviously economic growth in both north Wales and south Wales. We have been working with Arup, and economists at Arup, to try to understand this better. We are half way through a piece of work now, which will conclude fairly shortly, that will enable us to provide advice in good time to Ministers before the end of the contract.

[11] **Darren Millar:** So, in terms of passenger numbers, they have plummeted since the service was established, have they not? They appear to be running now at a load factor of just a little over 40%.

[12] **Mr Price:** Yes, it is about 46% or 47%.

[13] **Darren Millar:** Why is that? Have you had any understanding as to—

[14] **Mr Price:** I can give a better answer to that than my last answer, in terms of understanding the figures better. The passenger numbers are down by about 35% on the highs when they were introduced. There was a time—you are quite right—when load factors were up around 85% and 86%.

[15] **Darren Millar:** That depends on which figures you use, of course.

[16] **Mr Price:** Yes, it depends on which figures you use. I am sure that you will come to that later. In the round, they were above 80% and they are now between 40% and 50%. I would absolutely agree that that is a significant fall. There seems to be a number of reasons for that. The first is the general economic downturn. We think that that relates to around 10% of the fall—not 10% of the 35%, but 10% out of the 35%. The balance appears to be as a result of the interruption in service, which put people off using the service. I was a bit sceptical about that, but I have spoken to a number of operators that say that that is an entirely plausible argument. Also, there is the fact that Cardiff Airport declined significantly more than other regional airports over the past few years, before the Welsh Government took

ownership of it, and that around 40% of the passengers using the north-south service connect into another service. The view expressed by operators—not just the current operator, but other operators—was that if the ongoing flights are significantly poorer, people just will not use the service. So, we think that it is a combination of the economic downturn, the break in service, and the poor performance of Cardiff Airport. There is evidence to suggest that, over the last four to five months, passenger numbers have been picking up quite significantly. Forward bookings are up around 150 month on month, currently.

[17] **Darren Millar:** Just in terms of the economic downturn, what was the downturn at other regional airports in terms of passenger numbers? Was it significantly different in Wales?

[18] **Mr Price:** Yes, it was. I do not have the figures in terms of the airports in front of us, but the figure that I quoted of 10% of the downturn being attributable to the overall economic downturn is an Arup figure, which is based on evidence from other airports.

[19] **Darren Millar:** So that we can put this matter to bed, if at all possible, in terms of the passenger numbers that have been provided to this committee by the Wales Audit Office, which you had provided to the Wales Audit Office, and those which have been provided to us, which are Civil Aviation Authority figures, why are they different? Why are your figures higher?

[20] **Mr Price:** May I just make one other point, just for the fullness of record, which I should have made, and which has just come back to me, on the reason for the drop in numbers? The way that the two operators work is quite different. I am much less acquainted with the current operator than I was with the original operator. At the time of the original operator, I was director of transport, so I used to meet with the managing director. Its whole business model was about getting the load factors as high as it possibly could. I do not think that the same is necessarily true of the current operator, so I think that that is also a factor that kind of overlays and will lead to slightly lower loading factors.

[21] In terms of the figures, we are trying to get to the bottom of it still; that is the honest answer. The CAA has a rider on all of its figures, which says that the figures cannot necessarily be 100% relied upon because they are sourced from other places. Cardiff Airport assures us that its figures are absolutely correct as well and we have gone and tried to reconcile the two. What I can say is that there are a number of legitimate reasons why the figures may be different and they include things like how you account for people who book a ticket, but then do not fly, cancelled flights, and people who hub into other airports as part of a longer journey. We are trying to get to the bottom of it.

[22] The other thing that I know that I can say is that, having looked at the overall figures, on average, year on year, the figures look roughly the same. In terms of the way that the contract is written with the current provider, it is not in its interest to overstate the passenger numbers because it gets paid less for more passenger numbers. If anything, it looks like passenger numbers have been marginally overstated under the figures that it presents to us to pay against, which would lead to it being paid less, not more. When I say ‘marginally’, it is two or three people; it is not tens or hundreds.

[23] **Darren Millar:** It sounds like the crew, does it not—two or three people? Do you think it might be the crew?

[24] **Mr Price:** I genuinely cannot comment. We are speaking to all the people who should know the answer. Mal, you might want to cover this. We tried to get to the bottom of this.

[25] **Darren Millar:** The microphone will come on automatically; there is no need to press the button.

[26] **Mr Drury:** Yes, it has come on; thank you. We get our source data for the public service obligation service via the operators, which I am sure you will find reassuring. That is part of the contract that we have with Citywing and Links Air. On those numbers, we were quite surprised to see a differential, raised recently, with the CAA's data and, of course, the CAA data are sent by airports and airlines. As James said, we cannot confirm why there is this discrepancy, but the reassurance is that the operators do not get compensation for the amount of people on the flight—it is exactly the opposite; there is a cap on the overall subsidy that is provided to the operators. Therefore, that is some reassurance. However, we are still investigating with the CAA, Cardiff Airport and the operators as to why there are these discrepancies. There are various reasons, we believe. Things like a foggy day can lead to a cancellation; however, passengers would have checked in on occasion and the flight cancelled later. We are reassured that Cardiff Airport would report that flight to the CAA as a zero return, as does the operator, but we are reconciling the information between the three and that will take a bit of time, unfortunately, but yes, we are aware of the issue.

[27] **Mr Price:** The other thing that is important to point out is that this is not just something that affects this particular flight or this particular airport. If you look at most flights across most airports, there is a discrepancy between the two sets of data.

[28] **Darren Millar:** Okay. However, in terms of the incentives within the contract, potentially, there was a greater incentive with the first operator to have a higher load factor than the new one.

[29] **Mr Price:** It was not about incentives within the contract; it was just about the type of company and the ethos of the company. Highland Airways simply ran PSOs; that is what it did. It claimed to have a social ethos and was quite keen to have its planes full all the time. That is what it did. Its pricing structure was geared to try to fill the plane. It was not particularly incentivised in the contract.

09:15

[30] **Darren Millar:** So, the higher price is now disincentivising people to take a seat, is it? Is that what you are telling me?

[31] **Mr Price:** Not necessarily.

[32] **Darren Millar:** So, you do not know why, then. You do not know why there is such a marked difference between the first carrier's numbers and the second.

[33] **Mr Price:** I think that the big answers were the ones that I gave around economic factors.

[34] **Darren Millar:** No, you said something about operational differences earlier on. You said there is a different way of operating with the current providers compared with the previous.

[35] **Mr Price:** Yes; sorry. I said it was economic factors, followed by a break in service and the flight links from Cardiff Airport, additionally, which I have been unable to quantify. I do not think that it is significant, but it is a factor that the first operator had a company ethos about loading the planes as high as it could. The current operator does not have that ethos. How would it have done it? It did it by marketing in different ways; it probably would have done it using last-minute flights costing less. I can see where you are trying to take the

argument; the reason why I did not go straight into that is because there are as many arguments saying that maybe we ought to allow the cost of tickets to go up as there are about them going down. It depends what you want to achieve. One way of reducing the subsidy would be to allow for an uncapped fare, but I am not sure, on a socio basis, if that would be an attractive thing to do.

[36] **Mr Drury:** I would like to come in about the fare. Although the contract was let with a maximum fare, it is up to the commercial operator, in this case Citywing, to advertise advance fares that are lower. I am sure, if you were to look on its website and book in advance—a bit like rail travel—that you could book advance tickets and get lower fares. Although there is a maximum fare on the flights, there are lower fares available. A lot of it is about demand.

[37] **Darren Millar:** I have a few Members who want to come in. I will come to Julie first, then Sandy.

[38] **Julie Morgan:** Following up, Mr Price, did you say, looking forward, that the numbers appear to be going up? Have you got anything more that you can tell us about that?

[39] **Mr Price:** We can provide it in a note. The figures, over the last few months, are marginally up. The airline operator is reporting to us that it is quite positive about future figures. Additionally, the main metric that I was quoting was future bookings—people booking in advance. If you look at advance bookings for this time this year, compared with advance bookings this time last year, they are 150% up for this period.

[40] **Julie Morgan:** It would be useful to have a note on that, Chair.

[41] **Mr Price:** Okay; I am happy to do that.

[42] **Darren Millar:** That would be very helpful indeed.

[43] **Julie Morgan:** Can you tell us what you see as the economic benefits of having the link?

[44] **Mr Price:** I need to split this up in terms of descriptive economic benefits and quantifiable economic benefits. The descriptive economic benefits are quite clear. That is what public service obligation contracts are designed to allow for, which is to allow economies that might be at a distance, and damaged by being at a distance from significant hubs, to be connected in a time that allows for economic activity between the two to occur. If you cannot demonstrate that, then you cannot run a PSO contract.

[45] There is a lot of anecdotal evidence—I say that it is anecdotal in the sense that I cannot prove to you that this creates GVA when you take into account deadweight and displacement for Wales—that businesspeople from north and south Wales are able to do business in either place in a day. They do not have to stay over. The cost of the service means that it is not a big cost for them to do that. So, they will engage in economic activity between north Wales and south Wales. There are many examples, which I do not necessarily have to hand, of people telling me that they have been able to interact with businesses in Cardiff, or Cardiff businesses have been able to interact with businesses in north Wales. Hence, economic growth is higher—mainly in north Wales rather than in Cardiff—as a consequence. It is anecdotal, because I cannot attribute GVA growth to it, but it is not anecdotal in that I am not just repeating stories. Those things are true. What we are trying to do is to do some kind of cost-benefit analysis for the service in an attributable way in order to inform the next or any future service.

[46] **Julie Morgan:** In terms of Cardiff Airport itself, is this link an important part of the long-term development of the airport?

[47] **Mr Price:** I think so, yes. That is one of the reasons why we have been a bit slower than I would like in coming up with plans for the future service. The figures that we have indicate that between half and two thirds of all passengers using the north-south service are business travellers, and 40% of all travellers have some interconnectivity at the Cardiff end with another air service—that is right, is it not?

[48] **Mr Drury:** Yes.

[49] **Mr Price:** Therefore, if you are doing that and the ongoing services are not there, that is bound to have a significant impact. The other thing that I do not think that we have exploited fully—and the contract did not allow for that to be exploited fully—is the downtime in the service, when the plane is sitting on the ground at each end. Potentially, operators that we now have at Cardiff Airport—those that were perhaps not there before—may want to operate a north-south service, or a variation on it, as part of their existing provision of service patterns. This might lead to better value for money.

[50] **Darren Millar:** The figures sound quite remarkable—the fact that half to two thirds of the passengers are business travellers. What proportion of those would be from the public sector versus private sector?

[51] **Mr Price:** I thought that you would ask that, because I have been asking this all along. My cynical view is that a big proportion would be—. I do not know whether you can dig out the actual numbers, Mal, because I will probably get this wrong now—a couple of hundred over the year were from the Welsh Government, out of 8,500. So, that was not—. If I look here at the number of flights—yes, I can see that the number was a couple of hundred in 2008-9—

[52] **Darren Millar:** Not from the Welsh Government, but the public sector as a whole—

[53] **Mr Price:** I cannot tell you the figures for public sector as a whole.

[54] **Darren Millar:** Is that not an important question?

[55] **Mr Price:** It is, and it is one that I would like to be able to answer. So, in 2008-09 we had 194—so the data say—Welsh Government staff using it, in the whole of the year. Sorry, that was the number of flights. In 2013-14, it was 92 out of the 8,500 flights. So, I am guessing that it would be 5% to 10% maximum.

[56] **Darren Millar:** You are guessing without having any data, other than data for Welsh Government flights. The public sector is much bigger, obviously, than the Welsh Government—we have the NHS, local government and other public services operating in Wales. Do you have data that are able to tell us clearly what proportion of those passengers are—

[57] **Mr Price:** No, I have data on the proportion of business users and estimated data on the proportion of leisure users, which together account for just over 90%. So, the balance cannot be any more than 10%.

[58] **Darren Millar:** You say ‘business’ but you are not telling us what proportion of that business travel is public sector. I think that what the committee would like to know is what proportion of tickets is paid for by the public sector, by taxpayers. Would you be able to get those data for us?

- [59] **Mr Price:** They are data that I am trying to get. It is very difficult to get them.
- [60] **Darren Millar:** Why is it difficult? Can you not just ask people on their way to collect tickets? What about surveys?
- [61] **Mr Price:** Survey data have been collected, yes. However, you obviously cannot go back in time to do that. You could do it at a point in time—
- [62] **Darren Millar:** Yes, from now forward.
- [63] **Mr Price:** The data would not necessarily be that fulsome. They would rely on—. You could ask everyone, but you would rely on honesty, obviously. That is something that we should look at. It is something that I have been asking for. It is not something that I am not interested in. I think that it is a valid and very important question. It does not necessarily mean, of course, that, if the proportion was 10% or 15%, it was necessarily a problem—that would need to be balanced against time-savings et cetera. I quite agree that it is a completely valid and important question.
- [64] **Darren Millar:** Okay. Sandy is next.
- [65] **Sandy Mewies:** The date of 14 December is coming quite quickly, I expect, so there is quite a lot of work to do, and one of the things that I was interested in, looking back at previous surveys, was that they were not carried out by the Welsh Government, presumably, but by operators, were they?
- [66] **Mr Price:** I am sorry, can you—
- [67] **Sandy Mewies:** The previous surveys that you have mentioned—
- [68] **Mr Price:** Yes.
- [69] **Sandy Mewies:** They are not that good, are they, at providing good, accurate information as to what—. I looked through the summer, and you may assume that the rise in the summer was because of leisure, but there is no way of knowing that. You do not know who is travelling how. So, the first thing that I wondered was whether, before 14 December, you expect to have better data about users than has previously been established.
- [70] I was extremely interested in your reference to the rise in usage of Cardiff Airport, which has gone up by over 9%, but I am aware, anecdotally, of people who are using Cardiff as a hub and going transatlantic even—going from Cardiff to Dublin and onwards. Will you be looking closely at that, because there certainly is a relationship there?
- [71] As a north Walian, there is a bit of self-interest here, but when this service was first mooted, Hawarden was looked at as a possible link. I suspect that, at that time, there was a certain resistance by the people who owned Hawarden to having it as a link. I am not sure that that would exist anymore, because you have the—I do not want to call it the Chester airport, because it is not, it is very firmly in Wales, but is there a different attitude there? Will you be investigating links, not just with Hawarden, but with other places, because that will enhance the service? I think that these aircraft are sitting for about seven hours on the tarmac. That is the turnaround time.
- [72] **Mr Price:** That is right, absolutely.
- [73] **Sandy Mewies:** It is dead time, is it not? It is absolutely dead time. So, I think that

that is enough to go on with for the moment.

[74] **Mr Price:** Okay. So, if I try to pick those up one at a time, in terms of survey data, those are what we are looking at the minute with Arup. We will try to get the best information to inform the next service that we can. We have got some interim data in, and we are going on to a second stage of it now.

[75] Cardiff as a hub is really important, and, of course, what we are able to do now, which we could not do before, is to have much more fruitful conversations with Cardiff Airport about how that activity links in and also sensible conversations with operators into the airport in terms of what they can provide.

[76] Picking up on the seven-hour downtime issue, we did explore this at the time of the first contract. The problem is twofold. First, there is a contractual one around public service obligations. As soon as the service is running something as part of a contract, that is not a PSO route. The whole thing falls apart and does not become a PSO route anymore, at which point the Government cannot subsidise it, at which point air passenger duty is chargeable, at which point the service is not able to run. That does not mean, though, that, in the downtime, the operator could not choose, for commercial reasons, to run a different service. However, the interplay there is that the contract needs to be flexible enough to allow that, and there is a balance there. So, if we go back to Highland, it was looking at running a service into, I think, Paris or somewhere in Belgium—I cannot remember which one it was. However, its concern was that if it ran into delays at the other end, there would be a knock-on effect and then we would penalise it in the contract for not being able to meet its north-south obligations. None of this is saying that it cannot be done—

[77] **Sandy Mewies:** It is complicated.

[78] **Mr Price:** It is just slightly complicated. I think that we are in a better place now to have a go at something, both with state aid rules being a bit more flexible than they were before and with us having ownership of the airport.

09:30

[79] On the Hawarden link specifically, it was looked at; we are looking at it again now. There are significant questions around what would be the best type of route, however. So, you could have a three-legged journey to Anglesey, on to Hawarden and then back to Cardiff. The view of operators is that that would eliminate lots of benefit to travellers from north Wales, and so you would see a massive dip in passenger numbers and a dip, therefore, in economic benefits.

[80] **Sandy Mewies:** Is that because it would take longer?

[81] **Mr Price:** Yes, because it would take longer. Also, the timing of the service from Hawarden does not fit with the economic day. A less good option, which still might be commercial, that some operators have suggested is to do the existing service, then fly back up to Hawarden and then fly back again. The fuel cost of this type of activity is not as big as you might imagine.

[82] **Sandy Mewies:** There is a time factor involved in that, again, is there not, in terms of whether you have a working day there or not?

[83] **Mr Price:** Absolutely. However, ideally, the best thing we would do is run the widest competition that we possibly could with the least restrictions and allow people to innovate in the contract and come forward.

[84] **William Graham:** With regard to your present contractual provisions, are safety issues raised with you from time to time? How is that investigated?

[85] **Mr Price:** Civil aviation in the UK is regulated by the Civil Aviation Authority. This is something that we obviously take seriously, and it is something that we have reviewed in some detail over the last 18 months to ensure that the operators that we are using meet safety standards.

[86] It is important to note that the previous operator that lost its air operator certificate did not lose the air operator certificate for any safety issues; it lost it for a financial issue. I guess that you could say, 'I'm not sure I'd want to fly on a plane operated by someone who had financial difficulties'. However, it was not a safety issue. As a result of the incident in Ireland, which included links to the previous operator, which was Manx2, we have gone through a full checking procedure with the CAA, which has confirmed that all safety procedures and contracts are in order. Would you like to come in, Malcolm?

[87] **Mr Drury:** The CAA would oversee the operation completely, which is clearly Links Air. Let us be clear about that. Links Air has the AOC for the PSO and, therefore, it is responsible for safety and is audited and assessed by the CAA.

[88] We have dialogue with the CAA, and, indeed, since Links Air has been assigned to the contract, I would even go as far as saying that it is more robust, because we have in Links Air a UK carrier that is well known to the CAA. So, we have that reassurance with them. In addition to that, we have a regular contractual meeting with Links Air and Citywing, where we review the general operation of the service, including safety, which, clearly, is really important to us.

[89] **William Graham:** I think that I noted somewhere here that Anglesey will not be operational for some months next year. What plans can you make for that eventuality?

[90] **Mr Price:** The headline of this is that there needs to be some resurfacing work on the runway. I thought that we were managing that problem away as much as possible in Anglesey and diverting the service for a few weeks, basically. However, I do not know—

[91] **Mr Drury:** That would be the plan, however, given that we have just mentioned the future procurement, that would be in a potential future contract. So, that will be considered as part of a wider picture.

[92] **William Graham:** If that was not available for some weeks or months, would that have a very adverse effect on the service?

[93] **Mr Drury:** It is something that we would have to look into. However, the nature of RAF Valley, being a military airfield, makes these matters slightly more complicated than they would be in other airports. However, it is something that we are looking into.

[94] **Mr Price:** It is an important point that you raise, in the sense that the previous interruption in the service did lead to a drop in numbers. So, any future interruption in service, I think, would be bound to do the same thing. We have looked at how you could run an alternative service into somewhere else that would not breach PSO regulations, because it was a diversionary route rather than a main route.

[95] **Aled Roberts:** Rwyf am holi ynglŷn â'r amserlen. Mae'r cytundeb presennol yn gorffen ym mis Rhagfyr. Dim ond rhyw wyth
Aled Roberts: I want to ask about the timetable. The current agreement finishes in December. We are only some eight months

mis sydd cyn hynny, ac eto, mae'r dystiolaeth yr ydych chi'n seilio unrhyw benderfyniad arni yn edrych yn wan. Pryd fydd y broses dendro yn dechrau ar gyfer y gwasanaeth newydd hwn?

away from that time, and yet, the evidence that you base any decisions on looks weak. When will the tendering process for this new service start?

[96] **Mr Price:** The full process, Gareth, will take between four and six months. Is that right?

[97] **Mr Morgan:** Four to six months.

[98] **Mr Price:** Yes, the full process takes between four and six months, so we would need to be out to market this summer. We are on track to be able to do that and we are gathering the information necessary to do that. What is important is that we are able to provide Ministers with full advice on that.

[99] **Aled Roberts:** You would actually need to be out to market by the beginning of June, so we are talking about eight weeks. Yet, the evidence—. You are not able to tell us what the situation is regarding public sector usage compared with private sector and value for money considerations.

[100] **Mr Price:** No, I am slightly constrained about what I am—. You are right about that, but in terms of future plans, it is not my responsibility—'responsibility' is the wrong word—or, I do not think that it is my right, as a civil servant, to come here and second-guess Ministers in terms of future plans for the service. What I can talk about is the performance of the service in the past and what we are doing to ensure that we are delivering value for money now and how we are gearing up for any potential contract in the future. What I do not want to do is give any—it is not to give any indication, but, I do not want to be second-guessing Ministers' decisions for any future service.

[101] I am confident that we are on track to be able to give Ministers robust advice to enable them to take a decision as to what they do for the next period. There are reasons why we have taken longer than I would like. The state aid rules have literally only just changed; the UK Government has just put a route development fund in the budget, and we have only just acquired Cardiff Airport. All of those reasons are material reasons in terms of getting any next service right, and I think that it is right that we take all of those things on board as part of the planning for it.

[102] **Aled Roberts:** Rwy'n derbyn bod Gweinidogion yn gyfrifol am y penderfyniadau, ond sut gall Gweinidogion gymryd penderfyniadau doeth os nad yw gweision sifil yn paratoi tystiolaeth sydd yn sail i'r penderfyniadau hynny?

Aled Roberts: I accept that Ministers are responsible for the decisions, but how can Ministers take wise decisions if civil servants do not provide the evidence base on which those decisions can be made?

[103] **Mr Price:** That is a fair point, and if we did not, they could not. That would be my fault, and not theirs. We do, however, have work under way, and we have the first report to inform the future air service. I think that we will have all of the data that we are able to have, and necessary to have, to inform any future service.

[104] **Aled Roberts:** Felly, pa drefniadau yr ydych chi wedi eu gwneud i gynnal arolwg o'r bobl sy'n defnyddio'r gwasanaeth hwn er mwyn i ni wybod, o ran tystiolaeth? Os ydych chi'n dweud bod y penderfyniad yn

Aled Roberts: Therefore, what arrangements have you made to conduct a survey of the people who use the service so that we can know, in terms of evidence? If you say that the decision is based partly on economic

seiliedig yn rhannol ar fudd o ran datblygu economaidd ar gyfer y gogledd-orllewin yn arbennig, pa drefniadau yr ydych chi wedi eu gwneud i gynnal arolwg? A fydd yr arolwg hwnnw'n cael ei ddechrau o fewn y pythefnos i dair wythnos nesaf?

development benefit for the north-west specifically, what arrangements have you made in relation to conducting a survey? Will that survey be commenced within the next two to three weeks?

[105] **Mr Price:** Arup is under contract to assess the economic benefits of the north-south service and to explore and advise us in terms of what data it thinks are necessary. We are going through the first round of data that it has provided. It may be that a survey is necessary. A survey on the scale that would be necessary for this would be very easy and quick to do. So, I do not have any concerns that we cannot do it in the time.

[106] **Aled Roberts:** Ond, rhan o'r ddadl wleidyddol hon yw bod y gwasanaeth hwn er budd y sector gyhoeddus yn fwy nag y mae ar gyfer unrhyw fudd o ran datblygu economaidd. Oni bai eich bod yn cael y dystiolaeth honno, nid ydych yn mynd i ateb y cwestiwn hwnnw yn y naill ffordd na'r llall.

Aled Roberts: However, part of this political argument is that this service is for the benefit of the public sector more than it is for the benefit in terms of economic development. Unless you have that evidence, you are not going to answer that question one way or the other.

[107] **Mr Price:** I think that all I can say is that we will provide Ministers with rounded advice on this, which includes all things that we, and they, believe are necessary in order to take a decision on the next service, or on any next service. I am not concerned that the timing of this is an issue. These are issues that we can explore as part of a tender process as well, because we would be looking to run a competitive dialogue, I think, rather than just a standard procurement, which would allow all the factors that we talked about earlier to come into play in terms of what different services could be offered. That could be one of the things that are explored.

[108] **Aled Roberts:** Mae gen i un cwestiwn arall. Mae'r achos yng Ngweriniaeth Iwerddon yn dweud eu bod nhw am i'r Comisiwn Ewropeaidd edrych ar y sefyllfa lle mae cwmnïau tocynnau yn gyfrifol am y cytundeb rhwng unrhyw lywodraeth a'r cwmni. A ydych yn ymwybodol o'r amserlen o ran a yw'r Comisiwn Ewropeaidd wedi derbyn bod angen iddo wneud hynny, ac a oes unrhyw fath o gynnig wedi cael ei wneud o ran a fydd hynny'n dod i law ar gyfer unrhyw benderfyniad ym mis Rhagfyr?

Aled Roberts: I have one more question. The case in the Republic of Ireland states that they want the European Commission to look at the situation where ticketing companies are responsible for the contract between any government and the company. Are you aware of the timetable in terms of whether the European Commission has accepted that it needs to do that, and has any kind of proposal been made in terms of whether that will come to hand for any decision in December?

[109] **Mr Price:** I think that you are referring to the report on the back of the incident in Cork, in Ireland.

[110] **Aled Roberts:** Yes.

[111] **Mr Price:** The answer is that we are generally aware of the issues, and are generally aware of what the European Commission is doing. However, I am not seeking updates from the Commission on a regular basis, because I am aware that we are operating, to a certain degree, not by being at risk, but by taking a risk-based approach to some of these aspects. We have not sought written confirmation from the European Union that everything that we are

doing is, in its view, 100% okay, but the EU is aware of everything that we are doing and has not stopped us doing it, and it has not indicated that it wants to stop us doing it. Therefore, I do not think that there is any risk to the service prior to December. Past December, if the EU was intent on changing the rules, then our contract provision would be run with different rules, so there would not be an issue then either.

[112] What I can say is that the reason that that question was raised was around not so much the fact that you had a ticket sales agent and an operator, but around concerns that the two were playing each other off, and that an organisation such as the Civil Aviation Authority was not checking properly the safety provisions. The allegation, I think, was that the ticket sales agent was rostering the pilots, rather than the operator of the plane. That is not something that at all can happen with us, and it is something that CAA has confirmed is not happening, and it is content with the arrangements. However, I absolutely take your point. My view is on a risk-based approach in terms of contractuals—it will not affect us before December. We will, obviously, have to check with the European Union to make sure that what we set up next time round—if that is the Ministers' decision—is not going to run into any difficulties.

[113] **Darren Millar:** Jenny Rathbone has the next questions.

[114] **Jenny Rathbone:** I have two issues. First, to go back to the diversion possibility if Valley runway was being repaired, this is diversion to where?

[115] **Mr Drury:** We would look at Hawarden.

[116] **Mr Price:** It was Hawarden, was it not? That is what we were looking at.

[117] **Jenny Rathbone:** Caernarfon—does that not function?

[118] **Mr Price:** Can you answer that, Malcolm?

[119] **Mr Drury:** Caernarfon has been looked at before, and I do not believe that it was taken forward. As we said earlier, these are the routes and areas that we would like to consider as part of our ongoing appraisal of the route. However, it is currently Hawarden that we use as an emergency diversion if, for any reason, RAF Valley is unavailable.

[120] **Jenny Rathbone:** Okay. I am keen to hear a little bit more about why Caernarfon is not suitable. Geographically, Caernarfon is more centrally based in the north-west of Wales, which is the area that we are endeavouring to serve, because the rail service goes around the other way. Are there technical problems about Caernarfon Airport?

09:45

[121] **Mr Drury:** 'I do not know' is the answer. We will need to look at that.

[122] **Mr Price:** In terms of the diversionary route, what is looked for is the nearest available technically proficient runway, because people will have booked assuming that it was going to Anglesey.

[123] **Jenny Rathbone:** Caernarfon is a bit closer.

[124] **Mr Price:** Absolutely. So, based on the normal decision tree, I am guessing, but I do not know, that there must be a technical issue. We need to take that away and provide you with a note. In terms of future provision of service, that is absolutely something that we should look at.

[125] **Jenny Rathbone:** I would be expecting you to do so. Mr Drury, I see that you are also the head of rail as well as air commitments. I wonder if you can tell us what the subsidy is for rail.

[126] **Mr Drury:** I can tell you that. This year, the Welsh Government has paid £180 million to rail, roughly.

[127] **Jenny Rathbone:** So, obviously, that is of a different order altogether.

[128] **Mr Drury:** Yes it is, very much so.

[129] **Jenny Rathbone:** The issue that I want to tease out here is what it would cost to have a more rapid service up the west coast of Wales via Aberystwyth.

[130] **Mr Price:** You can come in on the back of this, Malcolm, but there are a couple of things it might be worth my dropping in here, in terms of interesting data. There is a caveat on these data because they are Arriva data, not our data, but there are 46,000 trips between north Wales and south Wales on an annual basis on the railways. So, the air service is a much bigger proportion of north-south public transport trips—if you can call an air service public transport—than I thought. I was quite surprised when I saw the data. There is no problem in principle with faster north-south journey times on rail, which is of course what we are trying to do. The issue is that, unless you were to have a dedicated north-south high-speed link, you would never get close to an hour journey time, or even a two-hour journey time. All the improvements that we are currently making will take in the order of 15 minutes off the journey time.

[131] **Darren Millar:** What consideration is given to home-to-airport travel?

[132] **Mr Price:** Quite a bit. The data assume that that is roughly a two-hour door-to-door journey. Is it two hours, or two hours 20 minutes, Malcolm? It is something of that order. That is the door-to-door journey time. Then you compare that with four and a half hours on the train and four to five hours in the car. Those are the benchmark data on this.

[133] **Darren Millar:** So, there is an allowance for that.

[134] **Mr Price:** Yes. With all the data that we look at, we do not say, ‘You have saved three and a half hours’. It is real, equivalised time saving, so you assume that it would have taken you over two hours to fly.

[135] **Jenny Rathbone:** So, in terms of getting a decent rail line up the west coast, the figures for that are just enormous.

[136] **Mr Price:** They would be huge, yes—billions.

[137] **Jenny Rathbone:** So, we are stuck with this air service, really, if we want to maintain—

[138] **Mr Price:** Air is the only way of achieving those kinds of timings, yes.

[139] **Jenny Rathbone:** I appreciate that we are not about to have a high-speed rail link up the west coast.

[140] **Mr Price:** It would be nice.

[141] **Jenny Rathbone:** It would be nice, but that is not realistic for the foreseeable future. Okay. I think that is probably it from me.

[142] **Darren Millar:** Bearing in mind what Jenny said, in terms of the PSO route, I understand that the north-south link was looked at as primarily wanting to come to Cardiff, but what about north-east Wales to south-west Wales? Was that ever considered? It is the same distance, is it not?

[143] **Mr Price:** South-west Wales was explored as part of the original PSO, yes.

[144] **Darren Millar:** But as a three-point route.

[145] **Mr Price:** I do not think so, no. The problem with it becomes the problem of specifying it as a PSO route.

[146] **Darren Millar:** You can still specify south-west Wales to north-east Wales as a PSO route, can you not, because the travel distances are in excess of the three hours?

[147] **Mr Price:** Yes.

[148] **Darren Millar:** But that was not considered.

[149] **Mr Price:** Not from the file data that we have looked at, no.

[150] **Darren Millar:** Is that something that is being considered as part of the new arrangements?

[151] **Mr Price:** I think that what we need to do, or what I would advise we do, is to run a very open tender contract, which would allow people to come back with all sorts of different ideas.

[152] **Darren Millar:** So, you will not specify which airports have to be used.

[153] **Mr Price:** Well, Cardiff Airport would be in the mix, but it would not necessarily have to be, I suppose; someone could come up with a different idea. However, my view would be that we should specify the minimum we can get away with. There are risks in that approach, because we might say from a social point of view that we want to specify a particular time, a particular capped fare or a capped fare for a proportion of the seats, but I think, generally speaking—it is not always the case—allowing contractors to innovate and allowing a tendering process where you can engage—. What is it called, Gareth?

[154] **Mr Morgan:** Competitive dialogue.

[155] **Mr Price:** It is competitive dialogue. Generally, that will lead to a better outcome.

[156] **Darren Millar:** Alun Ffred is next.

[157] **Alun Ffred Jones:** Diolch yn fawr. Well i mi ddatgan diddordeb fel un sy'n defnyddio'r gwasanaeth yn wythnosol, bron iawn. Gyda llaw, nid wyf yn credu'r ffigurau sy'n awgrymu bod 40% o'r bobl sy'n teithio yn cysylltu â gwasanaethau awyry eraill o Gaerdydd. Nid yw hynny'n gywir, rwy'n meddwl.

Alun Ffred Jones: Thank you. I had better declare an interest as someone who uses the service on a weekly basis, almost. By the way, I do not believe the figures that suggest that 40% of those travelling are connecting to other air services from Cardiff. I do not think that that is correct.

[158] Nid wyf erioed wedi cael arolwg ynglŷn â fy mwriad i wrth deithio, er fy mod wedi bod yn teithio ar y gwasanaeth ers y dechrau. A ydych yn credu y byddai'n ddefnyddiol i gael gwybodaeth ynglŷn ag ardal teithio'r bobl sy'n defnyddio'r gwasanaeth a'u pwrpas dros deithio mewn rhywfaint o fanylder os ydych o ddifrif eisiau gwneud achos o ran datblygiad economaidd neu hwylustod?

I have never been surveyed as to my travel intentions, even though I have been travelling on the service from the beginning. Do you think that it would be useful to have information regarding the travel area of the passengers using the service and their reason for travelling in some detail if you seriously want to make a case in terms of economic development or convenience?

[159] **Mr Price:** As an economist—which I was a long time ago—I would absolutely say that the better the data you can get, not the better business case you can build, because that is not the game we are in, but the better your understanding of the costs and benefits would be. We are doing it anyway, but I want to go away from here with renewed vigour and look at it and ask how we can get the best possible data, not to allow us to make the best possible business case, but to allow us to make the best possible decision. So, I agree, yes.

[160] **Alun Ffred Jones:** A ydych yn credu hefyd y byddai'n ddefnyddiol i gael cymhariaeth efo gwasanaethau mewn gwledydd eraill? Rwy'n meddwl am Iwerddon yn arbennig, a'r Alban efallai, sydd hefyd yn gwasanaethu ardaloedd gyda phoblogaeth gymharol denau ond sydd eisiau gysylltu efo prifddinasoedd, ac yn y blaen. A ydych yn bwriadu chwilio am wybodaeth felly?

Alun Ffred Jones: Do you also believe that it would be useful to have a comparison with services in other countries? I am thinking of Ireland in particular, and perhaps Scotland, which also serve areas with relatively low population density but want to connect with the capital cities, and so on. Do you intend to look for such information?

[161] **Mr Price:** 'Yes' is the answer; we are doing that already and we have some data on that.

[162] **Alun Ffred Jones:** A fydd y wybodaeth honno ar gael yn gyhoeddus?

Alun Ffred Jones: Will that information be available publicly?

[163] **Mr Price:** That is a very good question. That is a matter for Ministers as much as it is a matter for me. I would imagine that we would, as part of the process for the next service, should there be a next service, be putting some of these data in the public domain. In any event, lots of this would be publicly available anyway. There is no reason why we would want to withhold any of this.

[164] **Alun Ffred Jones:** Fel pwyllgor sydd â diddordeb yn y gwasanaeth, yn amlwg byddai diddordeb gennym yn y wybodaeth honno.

Alun Ffred Jones: As a committee interested in the service, clearly we would be interested in that information.

[165] Yn olaf, mae cyfeiriad wedi cael ei wneud at y gwasanaeth trên rhwng y gogledd a'r de sydd, ar hyn o bryd, yn cymryd pedair awr a chwarter rhwng Bangor a Chaerdydd ac, os ydych yn teithio o Gaerdydd, mae hi'n hanner awr arall. A oes unrhyw fwriad i leihau amseroedd y siwrnai honno rhwng, dywedwch, Caerdydd a Chaerdydd, i rywbeth

Finally, reference has been made to the train service between the north and the south, which, at the moment, takes four-and-a-quarter hours between Bangor and Cardiff and, if you travel from Holyhead, it takes another half an hour. Is there any intention to reduce the journey time between, say, Holyhead and Cardiff, to something that

fyddai mewn gwirionedd yn gallu cystadlu? would really be able to compete? I am not
 Nid wyf yn sôn am wasanaeth awr, ond talking about an hour's service, but a service
 gwasanaeth a fyddai'n cymryd tai awr, that would take three hours, say.
 dywedwch.

[166] **Mr Price:** We are working with Network Rail all the time to look for service improvements on all lines in Wales, including increasing the speed of services. I think—well, I know, sorry—that achieving a time saving of as much as going down to three hours or two hours would require a new line to be put in, the reason being that, even if you were to massively improve the existing line in terms of line-speed improvements, which would be very expensive in and of itself, any stopping service would be caught up very quickly by a fast service coming behind it. So, it is not physically possible with the provision of track that we currently have to run that speed of services. It is not just a single-track issue; you would have to have a whole series of passing loops and/or significant areas of additional track. However, it is something that we are constantly looking at achieving. The current improvements will achieve a saving of about 15 minutes. Is that right, Malcolm? You are more expert on this than I am.

[167] **Mr Drury:** How long have I got? I will keep it brief. The current infrastructure project for north-south journey time improvement that the Minister reviewed in the summer, and which is publicly available in terms of the detailed output, does deliver, as James said, up to 15 minutes improvement beyond spring 2015. That will happen with timetable changes. I am sure that you will know that the rail industry has dedicated timetable changes when improvements are implemented, and we will be seeking those improvements as soon as possible once the infrastructure project is complete, which is on time, and, of course, we are monitoring Network Rail's performance against the reviewed project.

[168] However, in the longer term, the difficulty with the north-south service is that it is a long way, of course, and also that there are a number of stations that everyone wants it to call at. There is always a balance to be struck. You could have a much faster journey if you missed all stations and you went from north straight to south, but that is not going to impress lots of people that rely on the service. So, that is one factor.

[169] The other factor is that, when you improve the line speed between the key parts of that route, you still have interconnecting junctions. For example, near Newport, where the line merges with the Great Western mainline from London to Swansea, the danger is that you would be early waiting at a junction for another service to come in from London. Which one has priority? Those are the difficulties that we face when we look at improving journey times, but we are doing all we can through that project to improve the service from north to south.

[170] **Alun Ffred Jones:** Mae hyn yn eithaf pwysig i unrhyw gyfiawnhad dros wasanaeth awyr. Ar hyn o bryd, nid yw cynlluniau'r Llywodraeth yng Nghymru yn mynd i wella'r cyswllt rhwng Bangor a Chaerdydd y tu hwnt i bedair awr. **Alun Ffred Jones:** This is quite important to any justification for an air service. At the moment, the Welsh Government's plans are not going to improve the link between Bangor and Cardiff beyond four hours.

[171] **Mr Price:** I think that is right, yes.

[172] **Mr Drury:** That is correct.

[173] **Mr Price:** It is not because we do not want to—it is because we cannot.

[174] **Darren Millar:** Mike is next.

[175] **Mike Hedges:** May I ask you a question that has come to my mind? With buses, you can subsidise part of a route. For example, you can subsidise the bit in rural Gower and then, when it comes into urban Swansea, it becomes a non-subsidised route. If somebody wanted to run a service to, say, London City Airport or to Jersey in the summer, could you have the Ynys Môn to Cardiff route subsidised, but then run a commercial route from Cardiff to London City Airport? Has anyone thought of doing that?

[176] **Mr Price:** ‘Yes’ and ‘yes’. I did not explain myself very clearly before, but I think that I said that Highland Airways was looking at running something into France or Belgium, and that was on that basis.

[177] **Mike Hedges:** You also said that the problem with going to France or Belgium was turnaround time, et cetera. If you go on a shorter journey or to a less popular airport, such as Dublin or London City Airport, which tend to be less popular in terms of the number of flights in and out, perhaps that would mean fewer problems with queuing, et cetera. I do not know what the airport is like in Jersey or how busy it is, but I presume that it is mainly picking up holiday traffic during the summer. I am asking about going somewhere where you would have fewer problems with the queuing system than you would going into Paris or Brussels perhaps.

10:00

[178] **Mr Price:** That is exactly the type of thing that I would hope a wider procurement exercise would bring forward because what you want is a commercial operator that is going to want to make more money and that is prepared to take a risk that it will perhaps not make money straight away. It cannot be for us to specify that additional service. We probably could. We could work with it and say, ‘We think there’s an opportunity for you to do X, Y and Z’. It would be difficult because people would question whether we were cross-subsidising one route over another. However, I would say that there is a fundamental problem with that in that it is a commercial operator that ought to be in the best possible place to understand, in terms of commercial airline routes, where people want to travel, what load factors they can achieve and how much money they can or cannot make. I am fundamentally agreeing with what you are saying, yes.

[179] **Mike Hedges:** A lot of people would like to get to London quicker. The other question, carrying on from the south-west Wales issue, is that I read somewhere about the possibility of it going on to Swansea—either it was done or people were looking at it—

[180] **Mr Price:** It was looked at.

[181] **Mike Hedges:** Is there any particular reason why it is not done now?

[182] **Mr Price:** It was looked at right at the very beginning of the project. I was not working within the Welsh Government at the time—none of us were, actually. So, I can only go by the file notes because everyone else has retired. However, it was looked at. It would appear that, even though the original business case—the very original business case—showed it to be marginally better than Cardiff to Swansea, the advice within the department or the view within the department was that it would not have been as successful. I think there were also some concerns around the public service obligations element as well. Obviously, the route between Cardiff and Swansea would not be a PSO-supportable route.

[183] **Mike Hedges:** No, but it could go from Ynys Môn to Cardiff and then Cardiff to Swansea, which would take you 15 minutes or 10 minutes in the air, including taking off and landing. It would be adding very little to the time, but you might get some more passengers from both ends who wanted to use it.

[184] **Mr Price:** Point taken. That is something that it will be possible to explore in any wider procurement process, should there be a procurement process.

[185] **Mike Hedges:** May I urge you to consider Swansea? For those of us who live west of Cardiff, we have come to the conclusion that the world does not stop there.

[186] **Darren Millar:** You have held up the PSO rules as a reason for not tabbing on other stops to the service. Given that the Welsh Government knew those PSO rules before it even started engaging in this process, why on earth was the whole business case predicated on a three-stop service?

[187] **Mr Price:** I honestly do not know the answer to that, and the files do not give me the full indication of the answer to that. I do not think that it is necessarily correct to say that the whole business case was predicated—

[188] **Darren Millar:** Well, the initial business case—

[189] **Mr Price:** The very first business case was. There was a subsequent one that was based, I think, just on Cardiff to north Wales, which showed a marginally lower business case. None of the business cases looked exceptionally good, I have to say—

[190] **Darren Millar:** They all had a negative net present value, did they not?

[191] **Mr Price:** —which is partly because it is very difficult to quantify the benefits of a PSO-type arrangement.

[192] **Darren Millar:** In terms of the consideration that RAF Valley brings into the process, obviously, it is not easy to get to from a public transport point of view. You really have to use a car to get there. How does this air link fit in with the sustainability objectives the Welsh Government has, promoting green travel, et cetera?

[193] **Mr Price:** You could ask that on any number of levels, I suppose, first and foremost because it is air travel and carbon emissions from air travel are much higher than with other forms of travel. The answer to that is twofold. First, the planes that we are using on the service and that are likely to be used on the service, emit significantly lower carbon per passenger kilometre travelled than most planes. The reason for that is that they are not jets, so they do not—I cannot remember what the term is.

[194] **Mr Drury:** It is about carbon forcing.

[195] **Mr Price:** Yes, it is about carbon forcing. There are much lower emissions. I can remember going into detail on that at the time of the original contract. The other thing that I think is important is that sustainable economic development is not just about minimising carbon usage; it is about economic development for everyone in a balanced way. Therefore, we took the view that the marginal increase in carbon was a price worth paying in terms of trying to promote economic development in north Wales and trying to create more of a true Welsh economy, rather than having an economy in south Wales that is reliant on or linked heavily with Bristol and Swindon and an economy in north Wales that is heavily linked with north-west England. It is not that there is a problem with any of that, but the view was, and the view is, that creating an economy within Wales, which also has links between north and south, is a positive thing to do.

[196] **Darren Millar:** I see that, but what about public transport links for people in north Wales to be able to get to the airport without having to use their car?

[197] **Mr Price:** All of that has to be balanced, and I am sure that we constantly look at that. The car is not always bad is what I would say.

[198] **Darren Millar:** Yes, but what public transport is there to RAF Valley at the moment?

[199] **Mr Price:** I do not know the answer to that. 'Not much', I think is the answer.

[200] **Darren Millar:** Are there just general buses?

[201] **Alun Ffred Jones:** There is a bus from Holyhead.

[202] **Darren Millar:** Okay. Obviously, there are constraints with RAF Valley because it is a military base and the service currently operates only five days a week, but there are potentially opportunities to make the service more viable if it were a seven-day-a-week service in terms of increasing the tourism opportunities et cetera. What consideration did the original business planning give to the fact that only a five-day service was going to be managed rather than a seven-day service?

[203] **Mr Price:** From the looks of the file and the business case, I think that it was taken into account. So, people were not assuming something that was then not delivered. It is something that can be explored as part of the next contract to see whether we can get a seven-day-a-week operation, if a seven-day-a-week operation was deemed to be economically viable. That takes you straight back into who is using the service.

[204] **Mr Drury:** There is an RAF issue there.

[205] **Mr Price:** There is an RAF issue there, yes.

[206] **Mr Drury:** Obviously, the RAF has jurisdiction on RAF Valley and that is something that was an issue before. Clearly, it would still be something that would have to be, and will be, explored in this procurement exercise, whether or not RAF Valley could be open at the weekends. However, the RAF has overall jurisdiction on that airfield.

[207] **Darren Millar:** However, you are speaking to it about that at the moment.

[208] **Mr Drury:** Yes, we will be.

[209] **Darren Millar:** You will be, but you have not yet. Aled, do you want to come in?

[210] **Aled Roberts:** A gaf ofyn ddau gwestiwn cyflym ar ddata? Rydych wedi dweud bod data cadarn yn angenrheidiol. Rwyf eisiau gofyn i chi am ffigurau Arriva Trains Wales, achos rwy'n gwybod, o'r adeg pan oeddwn yn Wrecsam, fod problem lle nad oedd yn mesur lle roeddech yn dechrau ac yn gorffen eich taith. Yn amlwg, o ran pobl sy'n teithio o'r gogledd-ddwyrain, mae'n rhaid i chi ddal y trê'n yn yr Amwythig o Fanceinion i Gaerdydd bob yn ail awr. Felly, a ydych chi'n hyderus bod y ffigur hwnnw o 46,000 o deithiau rhwng y gogledd a'r de yn gywir? Rwy'n meddwl bod nifer ohonom sy'n teithio yn aml iawn yn

Aled Roberts: May I ask two quick questions on data? You have said that robust data are necessary. I want to ask you about the Arriva Trains Wales figures, because I know that when I was in Wrexham there was a problem where it did not measure where you started and ended your journey. Evidently, in terms of the people who travel from the north-east, you have to catch the train in Shrewsbury from Manchester to Cardiff every other hour. Therefore, are you confident that that figure of 46,000 journeys between the north and south is correct? I think that a number of us who travel often question that, given how difficult it is to get a

cwestiynu hynny, o ystyried pa mor anodd seat on the train at times.
yw hi i gael sedd ar y trenau ar adegau.

[211] **A** gaf hefyd ofyn i chi esbonio'r anghysondeb rhwng ffigurau Llywodraeth Cymru a ffigurau'r Civil Aviation Authority o ran nifer y teithwyr ar y gwasanaeth awywr? May I also ask you to explain the inconsistency between the Welsh Government figures and the figures of the Civil Aviation Authority in terms of the number of passengers on the air service?

[212] **Darren Millar:** The witnesses have answered the second question.

[213] **Aled Roberts:** Sorry.

[214] **Mr Price:** On the ticketing on the north-south service and whether I am absolutely confident, I think that at the time that I answered I said that I was not absolutely confident because these are Arriva data, not our data. However, these are ticketing data in terms of people who bought a ticket from Cardiff to any of the north Wales stations. That is a service that is quite easy to pick up data from, because people do buy a ticket all the way from north to south.

[215] There is a phenomenon on rail, which is the same as on road, that the vast majority of people who, for instance, use the A470, do not go all the way from north Wales to south Wales, and the vast majority of people on the north-south train service are not going all the way from north Wales to south Wales; they are going on intermediate journeys. So, I do not think that it necessarily implies that there is low usage on that service. It implies that the usage all the way from one end to the other is not—

[216] **Aled Roberts:** Are they able to provide you with data regarding split ticketing, for example, which is widely used?

[217] **Mr Price:** I will go back and ask that.

[218] **Aled Roberts:** If you buy a ticket, for example, from Wrexham to Shrewsbury and then from Shrewsbury to Cardiff, it is cheaper than getting a Wrexham to Cardiff ticket.

[219] **Mr Price:** We need to check that.

[220] **Darren Millar:** I have one final question as we have to bring the session to an end. You mentioned a recent change in state aid rules. Would you be able to send us a note on the implications of that change for the public service obligation route, so that we can consider it as part of the evidence that we receive?

[221] **Mr Price:** Yes.

[222] **Darren Millar:** Unfortunately, that brings us to the end of the time that we have for evidence from you. So, with the thanks of the committee for your attendance, we look forward to receiving the additional information that you have agreed to provide. We will send you a copy of the transcript of today's proceedings, so that you can correct any information that might be inaccurate.

[223] **Mr Price:** Thank you for your time.

10:12

**Gwasanaethau Awyr o fewn Cymru, rhwng Caerdydd ac Ynys Môn: Sesiwn
Dystiolaeth 2
Intra-Wales Cardiff to Anglesey Air Service: Evidence Session 2**

[224] **Darren Millar:** We will move on to item 5 on our agenda, taking evidence on the intra-Wales Cardiff to Anglesey air service. This time we are being joined by Martin Evans, who is visiting fellow at the faculty of business and society at the University of South Wales. He is something of an aviation expert. That is according to your Twitter account, Mr Evans.

[225] **Mr Evans:** You are very kind, Chair; thank you.

[226] **Darren Millar:** We are very grateful to you for coming in to give evidence to the committee. We are looking at the value for money aspects of the north-south air link in Wales, given the significant sums of public money that are being invested in that service, and you have been very kind in sending us a copy of a paper that you have prepared to assist our inquiry. Would you like to give us a few comments to start, perhaps giving a little bit of information regarding your background and involvement in this service to date? Then, we will go into some questions.

[227] **Mr Evans:** I am a visiting fellow at the University of South Wales, previously the University of Glamorgan. I work with the Wales transport research centre. Although I get involved in other modes, my specialist area is air transport. In that regard, I have worked on a number of projects for the Government and on its air policy, including the Wales transport strategy, the Wales freight strategy and the first monitoring report of the Cardiff-Anglesey air service. That monitoring was undertaken a year after the service first started. So, we are talking about information that is considerably out of date at this point. However, that is the latest information that I have available and I will try to apply what we found then to the current situation.

[228] **Darren Millar:** In terms of the monitoring that was done previously, is there a copy of that information in the public domain?

[229] **Mr Evans:** It is available on the Government's website.

10:15

[230] **Darren Millar:** Can you tell us about the passenger make-up at that time? You seem to suggest in your paper that around 50% of the trips generated by the air service were for leisure purposes and you say that 25% were for new business trips. What about the remaining 25%?

[231] **Mr Evans:** We are talking there about the additional trips. So, these are people who, if the air service was not there, would not have travelled. The complete make-up of the passengers was that 64% were travelling for employers' business, and of those business passengers, 45% were in the private sector, 20% were Government and local government and 30% were other public sector.

[232] **Darren Millar:** So, obviously, a significant proportion was being funded by the taxpayer in terms of the journeys at that time, during those initial two years.

[233] **Mr Evans:** I think that the 45% from the private sector is a very positive figure. We cannot be too negative about people who travel for public sector business; obviously, people need to travel for public sector business and still receive the consequent benefits of using the air service.

[234] **Darren Millar:** In terms of those additional trips, what proportion of the air service was accommodating trips that would not have taken place otherwise, where there would not have been a north-south journey?

[235] **Mr Evans:** That was around 1,800 additional trips that were undertaken.

[236] **Darren Millar:** Was that in that two-year period?

[237] **Mr Evans:** It was in the one-year period.

[238] **Darren Millar:** It was the one-year period. So, it is a relatively small proportion of the overall number of journeys that were taking place at that time.

[239] **Mr Evans:** Absolutely. The predominant modal shift that we found was movement from cars to the air service. There was very little shift from rail onto the air service. So, these were people who would otherwise be using their cars, who decided to use the air service. There were a number of benefits that we noticed from that that we were not expecting. One of those was that car drivers, after they had done a north-south or a south-north journey, found that their performance in the following couple of days of that week was not as good as it would normally have been, because they had undertaken a car journey. They found that, when they used the air service, they were more productive in the following days. Obviously, those are benefits that are difficult to quantify; they would not come out in a normal cost-benefit analysis, but they were benefits that were there.

[240] **Darren Millar:** In terms of the reason for the passenger numbers falling so significantly since 2010, is there anything that you think might have caused that significant change in passenger numbers, Mr Evans?

[241] **Mr Evans:** As I said previously, I have not undertaken any recent work. So, this is something that I could not be definitive about without going back and doing extra work with passenger surveys. However, what we found was that, although there was a maximum fare of £50, which has since been increased to slightly over £50, there were a range of fares at lower prices. At that time, there was a £15 fare and I think that the minimum fare now is around £19. We did find that people travelling on the cheapest fares were very price sensitive, so if you put up that fare by a small amount, they would not travel or they would travel by a different mode. Therefore, I cannot give you an answer without looking at the number of passengers that travel in each fare category—obviously, that is commercial information that the company has, to which I do not have access. However, looking at that would tell you whether it is because of the mix of fares that people have been persuaded not to travel.

[242] **Darren Millar:** I have one final question before I invite some members of the committee in. In terms of the public service obligation EU Commission rules on being able to provide subsidy to these routes, your paper suggests that the arrangement that has been entered into, whereby a ticket seller and a licensed operator—an air carrier—are, effectively, joint signatories to a contract, is not within those rules. Is that a fair assessment of the way that you presented the information to us, or your interpretation of it?

[243] **Mr Evans:** Obviously, that is only my personal opinion. It is also the opinion of the investigators of the Cork air crash. Clearly, the Government has had legal advice that it can appoint operators in this way, and there has been no challenge to the arrangement, so you have to assume that this arrangement is okay at the moment. My worry is not particularly about this form of arrangement. Obviously, it is used in other parts of the air travel industry. Basically, it is the same arrangement as if you went on holiday and travelled on a charter airline; there would be two companies involved, both regulated—the holiday company

regulated financially and the air carrier regulated financially and operationally. I think that this arrangement could work well, and I do not think that the Government was wrong to pursue it.

[244] Where it has gone wrong is in the particular choice of ticket seller. The concerns that I have are that this company has stated that the reason why it does not operate as a regulated air carrier is because it does not like regulation. When you get a company that avoids regulation because it does not like it, it does raise a number of concerns. The concerns of the Cork air crash investigators were that there was no separation of the operational functions of the ticket seller and of the air carrier, so that undue influence could be brought upon the air carrier by the ticket seller, because they were so closely integrated operationally. Also, at this level of operation, there is no financial regulation of the ticket seller. It can do whatever it likes.

[245] The other area of concern for me is that, in a rather Arthur Daley-like way, one company, Manx2, disappeared on a Sunday night to be replaced by another company, Citywing, which sprung up on the Monday morning to replace all the operations that Manx2 was previously undertaking, including the operation of the Welsh PSO. My concern is that, at that point, when it decided to go out of business, for whatever reason—there has to be a suspicion that it decided to go out of business because it wanted to evade the liabilities of the Cork air crash—you have to think, ‘Fine, if it wants to do that’, but perhaps it is not suitable for it to then carry on operating the PSO in Wales.

[246] **Darren Millar:** That is very interesting. Thank you for that.

[247] **William Graham:** Do you think that, this time, when the tender is put out, there will be more competition? The last time, it started off with seven and came down to one.

[248] **Mr Evans:** I am concerned, actually, that there will be less competition when the route goes out for tender this time. Looking at PSO routes across Europe, yes, you go out to tender on a Europe-wide basis but carriers tend to only go for routes in their own domestic markets. It is expensive to set up an operation in another country, particularly when you know from the start that you are limited to only a four-year operation. So, that tends to restrict the number of people who will tender for the operation. Also, the small, 19-seat operation is an operation that tends to disappear. Obviously, changes have happened in the air transport market over the last 10 years, with low-cost carriers becoming predominant, and it is difficult for operators of small aircraft to be competitive, given the fares offered by low-cost carriers. So, those routes with that size of aircraft are not operated as much as they used to be. There are also very large barriers for entry for new carriers to go into the air transport market. It is not as significant for operators at this level, because of the lower level of financial regulation that occurs with carriers with 19 seats and fewer, but it is still a difficult market to get into.

[249] **William Graham:** If it had planes with more seats, it could not go into Valley.

[250] **Mr Evans:** It would be possible to tender for a larger aircraft.

[251] **William Graham:** But it cannot go into Valley, can it? More than 19 passengers cannot go into Valley.

[252] **Mr Evans:** There does seem to be a question over this. The terminal at Valley was designed for use by aircraft of up to 50 seats in size, but I believe that there is some question over that at the moment.

[253] **William Graham:** What we are told is that, according to the United Kingdom national aviation security programme, for civilian aircraft with more than 18 seats, RAF

Valley does not comply.

[254] **Mr Evans:** Yes. That is the question.

[255] **William Graham:** So, if they wanted larger aircraft, they would have to go elsewhere.

[256] **Mr Evans:** They would either have to make changes at Valley to ensure compliance—I am not sure what those changes would have to be—or indeed, as you say, go to another airfield in north Wales. Obviously, Caernarfon was considered at the same time as Valley. The Government chose Valley because a number of the operational costs were then covered by the RAF. However, it would be possible to do another appraisal to see what those costs would be in using another airfield. Using another airfield would gain other benefits for the route. At the moment, the route is restricted by the operating hours at Valley. It is not terribly user-friendly at the moment. Travellers would prefer, certainly on the return journey, to travel much later in the afternoon than is presently the case. That is restricted by the operating hours at Valley.

10:30

[257] **Mike Hedges:** I thank William for asking most of the questions that I was going to ask; however, he has left me with two.

[258] The first is on the contract. You said that the contract, at four years, was very short. What about using a longer contract, or the same contract with an option at the end of it?

[259] **Mr Evans:** The PSO rules limit the length of the contract—you have to retender the contract every four years. In fact, you have to look at the case for continuing the contract every time that it comes up for renewal. So, the Government should have undertaken economic appraisal to show that there is still a need for the PSO to be operated.

[260] **Mike Hedges:** Is there a case for picking one of the other airports—either Hawarden or Caernarfon—and doing whatever work needs to be done in order to make that effective, in order to take larger aircraft?

[261] **Mr Evans:** Hawarden would not be possible, in my view, because there is a competing mode of transport that is adequate, namely the rail service, and, therefore, under the PSO rules, you would not be allowed to impose a PSO on that route. As I said previously, Caernarfon was considered before; it was not considered competitive in terms of the amount of work that would have to be undertaken. Subsequently, the work undertaken at Valley was actually more expensive than was previously thought, so that analysis may not have been valid. Of course, on operational costs, Valley is an expensive terminal to operate just to have two flights daily. Certainly, Caernarfon thought that it would not be as expensive, but you would have to do the analysis to find out whether that is so.

[262] **Darren Millar:** Before I bring in Aled Roberts, I have one question on the Hawarden to south Wales link. You are suggesting that, because rail times between Cardiff and, effectively, Chester—or north-east Wales—

[263] **Mr Evans:** Wrexham, probably.

[264] **Darren Millar:** Forget Wrexham; what about the north Wales coast? Rail times between most of the north Wales coast and Cardiff are greater than three hours, so that would meet the PSO rules.

[265] **Mr Evans:** Yes, but it is marginal, is it not? It is only just three hours.

[266] **Darren Millar:** Looking at my own travel time from Rhyl, for example, it is three hours and 45 minutes into Cardiff. From Colwyn Bay—the biggest town on the north Wales coast—it is approaching four hours, depending on which train you take. There are one or two trains per day that might squeeze 15 minutes off that travel time, but it is still in excess of three hours.

[267] **Mr Evans:** It is in excess of three hours. However, what would have to be done when any assessment was being made would be to look at whether there is any likelihood of any improvement being made in that rail time. There are improvements being made in the line between Wrexham and Chester at the moment, which could bring down that travel time. It is not just a case of meeting the rules; you have to show benefit for the air passengers. Remember that there is a journey to be undertaken at the other end, from the airport to wherever a person is travelling to. Obviously, if that is to a meeting in central Cardiff, the situation has been improved by the Cardiff Airport express bus service, which was one of the concerns that was expressed to us by passengers when we undertook the first monitoring report. However, you have to bear in mind an actual journey that a passenger is going to make, and ensure that there are clear benefits.

[268] **Darren Millar:** I am going to bring in Aled, and then Sandy. Sandy, did you want to come in on this particular issue, before I bring Aled in?

[269] **Sandy Mewies:** No, that is okay.

[270] **Aled Roberts:** You mentioned that the PSO market, looking forward, will probably be domestic in nature. Looking at the figures, there is potential capacity of 18,720 seats per annum; the figure from May 2012 to April 2013 was only 8,400. So, it is less than 50%. With regard to the overall cost to the Government, how does the performance of the service compare against that of other PSO services within the UK?

[271] **Mr Evans:** It still performs well in comparison with other PSO routes, but it has quite a low cost to the passenger compared with other PSO routes. The answer here is to make sure, when the contract is issued, that you incentivise the carrier to maximise the passenger loadings to make sure that we get the most benefit out of the air service. With the first carrier, Highland Airways, that was something that it did naturally, because it was a company whose business model was to operate only PSO routes and it saw its function as carrying the maximum passengers it could, and it priced its fares accordingly. With a more commercially minded operator, you have to persuade it that that is the best thing to do, otherwise it will maximise its revenue, which may necessarily not maximise the number of passengers.

[272] **Aled Roberts:** I have another question, which takes up William Graham's point on the decision during the previous tendering process to reduce the size of the planes back down to 18 seats. The reasons given by the Welsh Government were not only the capacity and security requirements as far as value is concerned, but that it had also realised that there were costs associated with air passenger duty with a larger capacity plane. Could you explain that to us?

[273] **Mr Evans:** Let me first go back to the decision not to go to a larger aircraft. When we undertook the first monitoring report, the load factors were up around 88%; a third of the passengers had experienced trying to book a ticket and not being able to get on the service. So, the service was being harmed at that time by passengers being turned away and not being able to get on the aircraft. At that time, it was imperative to move to a larger aircraft.

[274] The APD situation is that, on an aircraft of greater than 19 seats, air passenger duty has to be charged. So, you immediately add £13 to the ticket cost for a one-way sector that has to be either paid by the passenger or absorbed by the operator in the maximum ticket price. The effect would be to increase either the amount paid by the passengers or the subsidy that has to be paid by the Government.

[275] You also have the additional costs of operating a larger aircraft, and a factor in that is that operators of aircraft of that size are more reluctant to leave an aircraft sitting on the ground, unproductive, at an airport for the greater part of the day, which is what happens with this route at the moment. When the aircraft arrives in Cardiff, it stays on the ground until it is required for the evening rotation. That would not be acceptable to an operator of a larger aircraft. So, it has to make sense for their complete route structure rather than being a stand-alone service. So, there is this barrier to this move to a larger aircraft. On the passenger numbers as they are at the moment, that would not be a requirement.

[276] **Darren Millar:** Sandy has the next questions.

[277] **Sandy Mewies:** We have been talking to Welsh Government officials, and many of the variables that you have talked about and answered questions on came up in that evidence—for example, the size of planes, planes sitting on the ground for seven hours and the likelihood of varying the route to places like Hawarden, Swansea or wherever else. While they were very clear that there is no decision on whether there will be a tendering process in December of this year—the evidence is being collected—it is likely that, should it go out to tender, that tender would be a very open contract. Do you think that could encourage more people to come forward?

[278] **Mr Evans:** I have had two concerns in the past. The first is a lack of engagement with the air transport industry. Where you have such a small pool of airlines likely to tender for a new contract, it would be sensible to have a consultation with them before you set out the specification for the tender. You could then issue a tender document that would maximise the benefits for the Welsh Government, because you would have a tender that somebody would respond to.

[279] **Sandy Mewies:** May I ask you to clarify that for me? When you say that it should be consulting closely with the air transport industry, do you mean operators? Is that who we are talking about?

[280] **Mr Evans:** Yes, I am talking about air carriers.

[281] **Sandy Mewies:** Right. Thank you.

[282] **Mr Evans:** My second concern is that the contract itself—the tender—has not had enough of a quality element to it for the Welsh Government to maximise the benefits from the contract, such as favouring a carrier that would want to use the aircraft to introduce new routes, either from Cardiff or from Valley, to maximise the use of the aircraft. I have never thought it a sensible policy to have that aircraft sitting on the ground unused throughout the day, when we know that we are anxious in Wales to maximise the benefits from air transport. That could be done by making better use of that aircraft.

[283] **Sandy Mewies:** In response to previous questions, the impression that I got was that this more open tendering contract, while it could not favour a particular carrier, would be more favourable and more variable than has been the case in the past. So, are you saying that if it is a more open and varied tender, which would encourage dealing with some of these elements should carriers so wish, it could lead to more operators?

10:45

[284] **Mr Evans:** Yes, you want to reward innovation. I know that carriers were keen to develop opportunities in Wales, but they felt hampered by the very tight restrictions that the Government put on the tendering process. What we need to do is encourage innovation, so, if carriers come forward with good ideas—obviously, those ideas still have to be tested in the market and you still have to have competition between the carriers—and if we are going to spend public money on this service, let us maximise the benefits that we get out of it.

[285] **Sandy Mewies:** Thank you; that is very useful.

[286] **Jenny Rathbone:** You said that there has been this lack of engagement with the air transport industry. Obviously, the low-price air passenger transport operators have opened up new routes to all sorts of previously undiscovered provincial airports across Europe. Why is it that they have not been attracted to operate a service to Anglesey, when, obviously, it is an extremely beautiful place from a tourism perspective? Is it simply because nobody in Welsh Government has picked up the phone, or is it that they cannot see the potential for driving up tourist traffic?

[287] **Mr Evans:** There are two elements that you have to put in place. The first is that you have to have the infrastructure that would accommodate a 180-seat aircraft, so that is a completely different scale to what is there at the moment. The second is that low-cost carriers are constantly looking for new opportunities. We know that one well-known carrier does not really care where it flies you to as long as it flies you somewhere, and you may not even know where you are going when you book it, or you may not even be close to where you want to go when you get there. The reason it operates like that is because it wants to maximise the benefits that it is offered to fly into somewhere. I remember going to a provincial airport in France and asking what this carrier paid in landing charges, and the representative mentioned a very healthy figure, which surprised me. He said, 'Of course, I give the money back to it the following day in a marketing grant'. If you are going to attract that sort of inbound business, unfortunately you have to not just convince operators of the opportunity, but make it worth their while. The way they see it is that they can deliver a plane-load of passengers to enhance the local tourism market, and they want to maximise the benefits for delivering those passengers to you.

[288] **Jenny Rathbone:** Are the restrictions on Valley insurmountable in terms of using Valley in the future for such an operation?

[289] **Mr Evans:** As I said previously, you would have to make sure that the infrastructure was there in terms of terminal capacity and security considerations. You would then have to negotiate with the RAF, which, really, although it tolerates this service coming in, is not its first concern. Its first concern is training pilots, and it does not particularly want anything that interferes with that activity.

[290] **Jenny Rathbone:** Equally, it is a public service.

[291] **Mr Evans:** Yes, and because it is publicly funded it tries to be as helpful as possible, but it is not a very good match with the ambitions of the Welsh Government to increase connectivity and inbound tourism. I can understand why the attractions of Valley compelled the Welsh Government to go there, because of the costs, such as the fire service and the operation of the airfield, that were covered by the RAF. However, to maximise the benefits of developing air transport, I think that I would have had a closer look at other options in north Wales.

[292] **Jenny Rathbone:** So, does Caernarfon have such a potential?

[293] **Mr Evans:** Well, for the sort of operation that you are talking about, Caernarfon would require significant upgrading. Access to the airport is particularly difficult and the runway length is not long enough, so there are significant infrastructure problems there. However, certainly for an operation of the size of the PSO, it may have provided more development opportunities to have looked at Caernarfon rather than Valley.

[294] **Darren Millar:** May I just ask two final questions before we bring this evidence session to a close? In your paper, you suggest that the PSO link has to have this distance of three hours et cetera so that, effectively, everything is ruled out apart from Cardiff to north-west Wales. What if the destination in south Wales were to be Swansea? How would that change the game in terms of the opportunities to provide a service from elsewhere in north Wales?

[295] **Mr Evans:** If the southern terminal was Swansea, that would then give you the opportunity to have a service to north-east Wales that would be well within the PSO rules. The difficulty with Swansea at the moment is infrastructure, so there would have to be significant upgrading in order to operate passenger services into Swansea. However, there is a long history of passenger services into Swansea Airport, so it would be possible.

[296] **Darren Millar:** I will just ask one question on landing fees. Obviously the subsidy to support the PSO has increased significantly from the initial service that was provided by Highland Airways. A large proportion of that increase, as I understand it, was as a result of landing fee increases by the then operators of Cardiff Airport. Of course, the airport is now in different hands. Is there scope for a reduction in landing fees in some way that would then enable alternative PSO arrangements or perhaps introduce some flexibility to allow for other routes to be established?

[297] **Mr Evans:** The difficulty when this current contract was started was that the airport was excluded from a lot of the negotiations, so it was not prepared to give the same low-cost regime that the previous operator had enjoyed. Part of that difficulty was that it did not like the arrangement with the operator that had been selected, so it did not like the arrangement of the ticket seller and the air carrier. I think that, if it saw an air carrier coming in to operate the route that was prepared to have that aircraft operating other new routes that would be to the benefit of the airport, you would find that the regime on costs and charges would be very different.

[298] **Darren Millar:** That is great. On that note, that brings us to the end of the evidence session. We are very grateful to you for coming in to share some of your expertise in the aviation industry with us and to tell us about some of the interesting history of the service, particularly in its early years. Thank you very much indeed, Martin Evans. You will be sent a copy of the transcript of today's proceedings so that you can correct any factual inaccuracies.

[299] **Mr Evans:** Thank you.

10:55

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[300] **Darren Millar:** Moving on through our agenda, I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[301] Does any Member object? I can see that there are no objections, so we will move into private session.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:55.
The public part of the meeting ended at 10:55.*