



Nick Ramsay AM
Chair
Public Accounts Committee

20 August 2018

Dear Chair

I am responding to your letter of 19 July in which you requested further information on the intra Wales air service.

While it is true the subsidy being paid to the current operator of the air service is greater than the subsidy paid to the previous operator, the comparison is not like-for-like, not least because the previous operator's business failed. Our visibility on the previous operator's costs, passenger revenues, overhead allowances and minimal profits suggest the level of subsidy being paid was too low to establish a viable service, on sustainable terms.

The current temporary contract was awarded on an emergency basis, and we do not hold an empirical estimate for the value of the premium being paid for the temporary arrangement. When the temporary contract was awarded to Eastern Airways, officials acknowledged that the increase in costs was largely the result of the short term nature of the rolling contract. However, in value for money terms, officials assessed that the increased cost of the temporary contract with Eastern Airways (compared to costs under the Van Air contract) would be lower than the expected increased costs of attempting to restart the PSO following a break in service. Previous experience had shown that a break in service would likely cause significant long term damage to the route, with a need to rebuild passenger numbers once again. In addition to this, as you have rightly pointed out, under the temporary contract Eastern Airways are providing for the use of a larger plane than the previous operator, with access to a more mature ticketing distribution network and improved passenger service.

We have now launched a full open procurement for the intra Wales air service and we are confident that this will allow the market to compete and respond appropriately to our competition. We do not as yet know how the subsidy cost per passenger under the new contract will compare to the current contract arrangements, or how future subsidy arrangements will be phased. These are details subject to the forthcoming tender and negotiation processes.

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Turning to the other information you have requested, the contract with Eastern Airways sets a maximum price cap of £90 per ticket with at least 60% of the total capacity of the aircraft to be sold at a maximum price of £60. Within those constraints, applied to retain the accessibility of the service for social travel purposes, the pricing strategy is a matter for the airline. We expect the current and future operators to work with us to continue to grow passenger numbers on the route.

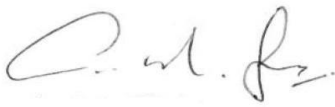
As part of the procurement for the new contract, bidders will be asked to demonstrate how they intend to market the service and this will be assessed during the evaluation. The much improved marketing currently being deployed by Eastern Airways demonstrates the positive impact on passenger growth an effective strategy can have.

Finally, I can confirm that Welsh Government has not yet published subsidy costs per passenger, as we indicated we would in responding to the Committee's previous report on the air service. I understand this was an oversight and will be corrected, with subsidy costs per passenger being published on the Welsh Government's website for the previous two years as follows:

	Total subsidy	Passengers	Subsidy per passenger
2016/17	£1.08m	10,039	£108
2017/18	£1.84m	13,845	£133

This information will in future be updated annually, alongside an assessment of the value for money of the service.

Yours sincerely



Andrew Slade
Director
Economy, Skills and Natural Resources