

## Tracey Burke

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



Llywodraeth Cymru  
Welsh Government

Mark Isherwood MS  
Chair – Public Accounts and Public Administration Committee  
Welsh Parliament  
Cardiff Bay  
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21 September 2022

Dear Chair

### CARDIFF AIRPORT

Thank you for your letter dated 1 August 2022, outlining the list of action points from the Public Accounts and Public Administration Committee meeting on the 29 June.

I can confirm we will provide Committee with our next update about the Airport six months from the date of this letter and thereafter on a six-monthly basis.

### Loans

We have now published the information on funding provided to the Airport on our website, this can be viewed here;

[Cardiff Airport: our role | GOV.WALES](#) / [Maes Awyr Caerdydd: ein rôl | LLYW.CYMRU](#)

### The Rescue and Restructuring Plan

We have discussed with the Airport what information both parties are able to share with the Committee about the Plan and the performance against it. The contents of this letter provide further information in this regard.

### Confidentiality agreement

Firstly, I will address the Committee's question about the confidentiality agreement. The Airport requested the confidentiality agreement to ensure that confidential financial and trade information shared with the Welsh Government (WG) (as Lender) and Development Bank of Wales (DBW) (as Agent) in connection with its Commercial Loan Agreement is not disclosed publicly. This was because it would likely prejudice the commercial interests of the Airport if it got into the hands of industry competitors which would have a negative impact on the business and its ability recover from the pandemic.

It is quite common for private commercial organisations to require Governments and other investors to sign confidentiality agreements in the same or similar circumstances to make sure its trade secrets and / or proprietary information remains private and protected.

### Quarterly reporting

Turning to the metrics used in the quarterly reports about the Airport's performance against the Rescue and Restructuring Plan, the Airport has the following agreed targets contained within their grant agreement;

Description of the Target	Date by when it should be achieved	Evidence required
Achieve an annual level of 1.3m flown passengers	31 March 2026	Report detailing Passenger numbers based on data submitted to the Civil Aviation Authority (CAA)
Reach a level of profitability, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) margin	31 March 2029	Set of audited accounts
Minimum of £500,000 salary cost saving	Year ended from 31 March 2022	Annual report
Maintain operating costs in line with the 11/02/21 forecast.	31 March 2029	Any projected increases of more than 5% to be notified to the Welsh Government Official as part of the quarterly reporting.
Commitment to becoming carbon neutral: a) Commit to an operational solar farm at Cardiff airport (or some other energy efficient usage for energy consumption) b) Commitment to the development of sustainable	31 March 2023	To be updated as part of the quarterly reporting.



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<p>aviation fuel and to offer this to airlines at Cardiff Airport as soon as practicably possible.</p> <p>c) Commitment that all future vehicle purchases will be electric or hybrid (where available)</p> <p>d) Offer a pricing structure (that can be made publicly available) where there is discount on fees and charges for those airlines operating the most fuel-efficient aircraft.</p> <p>e) Focus on enhancing environmental flightpath.</p>		
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There is one further target which is commercially confidential and would prejudice the commercial interests of the airport if it got into the hands of industry competitors. I will write to you separately, under confidential cover, in this regard.

In addition to the targets outlined above, the Airport has financial covenants set out within its loan agreement with the Welsh Government relating to minimum EBITDA (measured and monitored quarterly) and cash balance requirements (measured and monitored monthly) by our loan agents the Development Bank of Wales (DBW). These have been deliberately set tightly as an early warning system to alert to us to any potential financial risks.

The Airport must provide the Welsh Government with quarterly reports for us to monitor their compliance with the Conditions set out in the grant and loan agreements. The Airport must provide a quarterly report showing actual versus budgeted income and expenditure together with a written report highlighting any adverse variances from agreed budget and setting out in sufficient detail the reason for such variances This also includes a written report on progress against the Restructuring Plan. In addition to this the Airport provides monthly management accounts and fortnightly cash flow forecasts covering the next 12 months for more regular monitoring of it performance.

Each time the airport submits a grant drawdown request it must provide details of actual expenditure for the previous quarter, details of estimated expenditure for the next quarter and details of all surplus funding held at the end of the previous quarter. This should include evidence that they are operating in all respects in accordance with their constitution and confirmation that appropriate financial, risk and control systems are in place before utilising any part of the funding to procure any goods or services from third parties.



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In relation to all capital expenditure outlined in the agreement the Airport must notify the Welsh Government in writing of all spend under £50,000. All spend between £50,000 and £1,000,000 is to be approved by the Welsh Government, within five working days. All spend above £1m is to be reviewed by a Welsh Government appointed third party prior to our approval.

## Progress report

In regard to the Committee's request for further information on the monitoring and assessment of performance against the Rescue and Restructuring Plan we can share the following information:

- ✓ The Welsh Government has received four quarterly reports to date on the Rescue and restructuring plan from its loan agents, DBW.
- ✓ The latest report for the quarter ending March 2022 highlights that the Airport has experienced extreme adverse trading during the year to March 2022. This was due to the ongoing travel restrictions in Wales related to the Covid pandemic.
- ✓ Passenger numbers remained down across all areas in January and February. March was the first month to achieve target passenger numbers, processing 38,000 passengers. This was due to the lifting of international travel restrictions.
- ✓ Total passenger number for the year ending March 2022 were 188,000
- ✓ Operational adjustments have ensured bottom line profit/(losses) numbers remain in line with the budget set in Spring 2021.
- ✓ Cash is being preserved by very tight cost control and deferred capital expenditure whilst ensuring the Airport remains compliant with regulatory requirements to operate.
- ✓ Despite the adverse passenger numbers, income for the months ended 31<sup>st</sup> March 2022 is 28% ahead of budget. The additional income relates to non-aero related items: insurance receipts, furlough receipts and income from the St Athan contract.
- ✓ The airport is yet to reach a level of profitability, measured by the EBITDA margin. LBITDA (Loss Before Interest, Taxes, Depreciation, and Amortization) is in line with budget, reaching profitability is a future target.
- ✓ The airport continues to maintain operating costs in line with the 11/02/21 forecast.
- ✓ The Airport has achieved the target of a Minimum of £500,000 salary cost saving Year ended from 31 March 2022.



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- ✓ The airport has committed to the construction of an operational solar farm at Cardiff airport in FY22/23.

The Welsh Government has received and approved six capital expenditure requests of between £50,000 and £1,000,000 to date from the Airport, totalling £1.2m from a total pre-approved budget of approximately £29m ringfenced until March 2026. All investments were considered essential operational costs to continue to operate the Airport in accordance with regulatory compliance.

Moving forward, every six months, we will provide Committee with a progress report against each of the targets set out in the table above, the latest grant drawn down position, number of capex approvals and total value to date as outlined in the progress report section above.

## **WGC Holdco**

WGC Holdco Limited maintains control over material decisions of Cardiff International Airport Limited (CIAL) through a shareholder agreement with CIAL but has no responsibility for the decisions of the CIAL Board.

The primary duty of WGC Holdco Limited is to ensure that the Welsh Ministers receive value for their shareholding in CIAL. In addition, it is to provide strategic direction to CIAL, approve CIAL's business plan, provide assurance of governance and financial expenditure at CIAL. It is also to provide oversight of CIAL's operational and financial performance and agree matters such as the appointment or removal of directors and the need for consent to be sought in respect of material transactions.

As discussed at your Committee, following an internal governance review of WGC Holdco Limited, Welsh Ministers have agreed to two new Non-Executive Directors (NEDs) on the Board of Directors of Holdco, in place of the two Senior Civil Servants (SCS). The current NED will be retained, as will a position for one SCS on the Board.

These changes will serve to improve the commercial business expertise on the Board and provide greater independence from Welsh Government ensuring the Welsh Ministers receive greater value for their shareholding in CIAL. It will also help provide stronger strategic direction to CIAL; greater commercial expertise when scrutinising and approving CIAL's business plan; better assurance of governance and financial expenditure at CIAL; and better oversight of CIAL's operational and financial performance.

As CIAL looks to attract airlines and passengers back over the next few years, Holdco's Directors ideally need to have not only general commercial expertise, but also specialist experience of re-building businesses, restoring market share and diversifying income opportunities.



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We will shortly be starting a Public Appointments process for the recruitment of the new NEDs, hopefully by late autumn, ensuring the right level of experience and expertise is recruited to the Holdco Board. We hope to conclude the recruitment exercise early in the new year.

Finally, on the future appointment of a Holdco Chair, we are currently taking internal advice on the principles and rules which govern the position of a Chair for a wholly-owned subsidiary of the Welsh Government as this will determine our final decision on the appointment. I will write to Committee again once I have a clearer position on this and once the new NED posts have been advertised publicly. I will also include a link to those adverts.

Yours sincerely



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