

## Tracey Burke

Cyfarwyddwr Cyffredinol / Director General

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



Llywodraeth Cymru  
Welsh Government

Mark Isherwood MS  
Chair – Public Accounts and Public Administration Committee  
Welsh Parliament  
Cardiff Bay  
Cardiff  
CF99 1SN

21 March 2023

Dear Chair

### CARDIFF AIRPORT

Further to my letter to you of the 21 September 2022 in relation to Cardiff Airport, I am writing to provide the Committee with a six-monthly update. I am also following up on my letter to you of 12 January 2023 in relation to Wizz Air.

Clearly, we remain disappointed that Wizz Air made the commercial decision to withdraw from Cardiff Airport. The company had cited general macroeconomic conditions as the reason for the decision. There was no suggestion of any problem with the services and customer support provided by the Airport to the airline. Welsh Government officials are in regular contact with the Airport's executive team and as far as they are aware the airlines currently operating out of the Airport are happy with the service they receive. There is no immediate impact on the viability of the airport due to the withdrawal of Wizz Air. This is largely due to strong demand for package holidays with Tui from Cardiff Airport and additional flights being put on for the World Cup in Qatar and the return of international sporting events such as the Six Nations rugby. By the end of this financial year (end March 2023) the Airport expects to be around 55% recovered in terms of 2019 passenger numbers, handling just under 900,000 passengers.

The £42.6m rescue and recovery package the Welsh Government put in place is designed to enable Cardiff Airport to become self-sustainable and profitable in the future. We are working with the Airport to understand in detail the impact of the recent withdrawal of Wizz Air on the timescale for self-sustainability but Ministers do recognise that the pathway to profitability could be longer than anticipated originally. Our Covid recovery plan for the



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MEWN POBL | IN PEOPLE

Parc Cathays • Cathays Park  
Caerdydd • Cardiff  
CF10 3NQ

Ffôn • Tel 0300 0258047  
[tracey.burke@gov.wales](mailto:tracey.burke@gov.wales)  
Gwefan • website: [www.wales.gov.uk](http://www.wales.gov.uk)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Airport remains in place and although demand is recovering, the current economic climate, tight labour market and regulatory requirements continue to present significant challenges to the aviation sector. Inflationary pressures on the cost of maintaining regulatory compliance are expected to place substantial strain on the capital investment budget. Ministers are aware of this risk and have tasked officials to work with the Airport executive to consider potential mitigations.

We are happy with the leadership that the Airport team has demonstrated and continues to demonstrate. The progress on recovery of passenger numbers over the last year is testament to their ability to manage an airport in turbulent times.

The Airport is seeing an increase in flights from the Airport from companies such as KLM and Ryanair, who have recently announced extra flights to Dublin, Malaga and Faro for summer 2023, and a new year-round route to Belfast. We understand Ryanair recently announced their biggest ever summer of flying from Cardiff and that bookings across all services are looking healthy for the coming spring and summer season, which shows positive signs of recovery.

## **Quarterly reporting**

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

## **Progress report**

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 updates for the period ending 30<sup>th</sup> September<sup>1</sup>:

- ✓ Total passenger numbers were 367,195 for the three-month period to September, 38% ahead of budget, for the year ending March 2023.
- ✓ The Airport had drawn down £26.2m of its £42.6m rescue and restructuring aid grant.
- ✓ The Welsh Government has received six quarterly reports to date on the Rescue and restructuring plan from its loan agents, The Development Bank of Wales (DBW).
- ✓ The latest report for quarter two (Q2) ending September 2022 highlighted the airport performance continued to exceed their financial forecasts predicated for the financial year to date.
- ✓ Cash balance remained high due to higher income and cash being preserved by very tight cost control and deferred capital expenditure whilst ensuring the Airport remains compliant with regulatory requirements to operate.
- ✓ Income for the three months ending 30<sup>th</sup> September 2022 is 36% ahead of budget. Higher passenger numbers underpinned the over-achievement in traffic, commercial

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

and car parking income.

- ✓ The Airport is yet to reach a level of annual profitability, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) margin, however it was profitable in Q2 (£0.5m). Whilst LBITDA (Loss Before Interest, Taxes, Depreciation, and Amortisation) is significantly better than budget in the year to-date, reaching annual profitability remains a future target.
- ✓ The Welsh Government has received and approved nine capital expenditure requests of between £50,000 and £1,000,000 to-date from the Airport, totalling £2.2m 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.

## **WGC Holdco**

I updated you in my letter of the 21 September, that 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.

The recruitment for the new NEDs is about to commence and we hope to have concluded the appointments process before Summer Recess, with a similar timing for our final decision on the appointment of a new Holdco Chair. I am happy to provide you with a written update as soon as these matters are concluded.

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

Yours sincerely



**Tracey Burke**

Director General, Climate Change and Rural Affairs Group