

30th August 2016

Nick Ramsey AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Cardiff Airport, Vale of Glamorgan, Wales CF62 3BD
Maes Awyr Caerdydd, Bro Morgannwg, Cymru CF62 3BD

Dear Mr Ramsey

NATIONAL ASSEMBLY FOR WALES – PUBLIC ACCOUNTS COMMITTEE
The Welsh Government's acquisition and ownership of Cardiff Airport
Update on recommendations applicable to Cardiff Airport

Firstly, may we congratulate you on your appointment as Chair of the National Assembly for Wales, Public Accounts Committee, established for the 5th Assembly on 22nd June 2016?

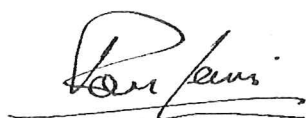
As you will know, the last report published by the Public Accounts Committee during the 4th Assembly (2011-2016) was a report on the Committee's inquiry into the Welsh Government's acquisition and ownership of Cardiff Airport. As Chairman and Managing Director of Cardiff International Airport Limited (CIAL), we were invited to provide oral evidence to the Committee at their session on 2nd February 2016. The Report that was subsequently published in March 2016, contained a total of 8 recommendations targeted primarily at the Welsh Government and HoldCo. However, 5 of these required action from CIAL and we thought it would be useful to provide you with an update of progress against these recommendations, which we do in the table below.

	Recommendation	Status
3	We recommend that HoldCo encourage the CIAL Board to consider expanding its membership to include wider aviation and/or airline experience.	CIAL Board has initiated the process to recruit an additional non-executive director with specialist aviation experience.
6	We recognise the uncertainty of longer term business planning and that HoldCo may wish to formally approve actions on a two year outlook. However, we recommend that HoldCo should also require medium and longer term financial projections as part of its review of the airport's business plan.	CIAL 2-year rolling business plan, approved by HoldCo on 31 st March 2016, incorporated the operating budget for year ending 31 st March 2016 and forecasts for FYs 17/18, 18/19, 19/20 and 20/21. In addition CIAL has submitted projections out to 20yrs to WG in support of commercial loan applications.
8	In order to measure the benefits to Wales of passengers coming through the Airport, we recommend that CIAL and the Welsh Government work together to collect the data.	CAA regional survey data (normally collated every 3-5years), collated from passenger interviews conducted on departure, can be segmented to consider visitors to Wales and measures their last point of stay before departure from Cardiff Airport. In addition, we are working with Visit Wales to determine how we can increase the frequency of survey and

		improve the quality of the data that is available to us and WG.
9	Given our observations regarding signage with regard the Airport Express bus service, the Committee recommends that CIAL work with the Welsh Government to ensure that signage is improved with specific consideration to making more user friendly for foreign travellers.	Work has commenced in conjunction with the T9 operator to improve signage for arriving passengers.
10	With regards to discussions between Cardiff Airport and Arriva Trains Wales to improve rail links to the Airport, we recommend that the Welsh Government work with both parties to encourage dialogue to improve rail links to the Airport.	<p>We are working with the management of Arriva Trains Wales to discuss rail links to the Airport and the station infrastructure at Rhoose Station.</p> <p>We are also fully engaged with the WG's programme of activity to improve the connectivity within the City Region, which will also directly enhance surface access to the Airport. Projects of particular significance include:</p> <ul style="list-style-type: none"> • Improvements to the A4050 – 5 Mile Lane. 12 month construction period due to commence in 2017 and be completed in 2018 • M4 Corridor around Newport – due to open in Spring 2022. This will significantly improve access to the Airport from the east and is an important improvement for potential airline customers. • Metro network for south-east Wales. The Airport will be connected to the Metro system, with quicker journeys and higher frequencies leading to reduced journey times across the whole of the Capital City Region.

Finally, we would like to advise you that the CIAL Board has committed to produce an Annual Report each year, which will be released to coincide with the filing of our statutory accounts in December. We will also produce a more operationally-focussed half-year update, which we will publish at the beginning of July each year. A copy of the first Update, which was released on 12th July, is enclosed for your information.

Yours sincerely

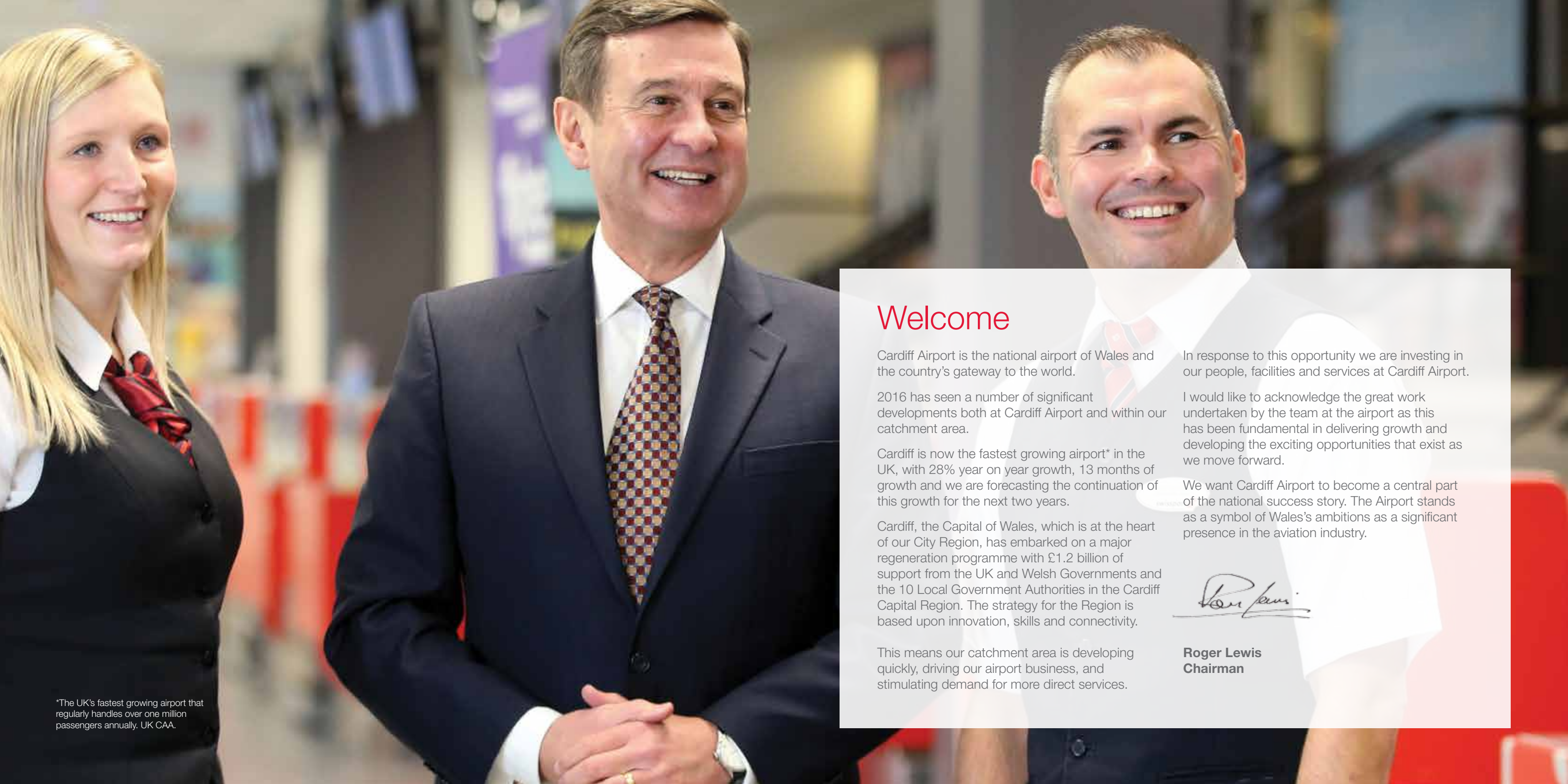


Roger Lewis
Chairman



Debra Barber
Managing Director/Chief Operating Officer





*The UK's fastest growing airport that regularly handles over one million passengers annually. UK CAA.

Welcome

Cardiff Airport is the national airport of Wales and the country's gateway to the world.

2016 has seen a number of significant developments both at Cardiff Airport and within our catchment area.

Cardiff is now the fastest growing airport* in the UK, with 28% year on year growth, 13 months of growth and we are forecasting the continuation of this growth for the next two years.

Cardiff, the Capital of Wales, which is at the heart of our City Region, has embarked on a major regeneration programme with £1.2 billion of support from the UK and Welsh Governments and the 10 Local Government Authorities in the Cardiff Capital Region. The strategy for the Region is based upon innovation, skills and connectivity.

This means our catchment area is developing quickly, driving our airport business, and stimulating demand for more direct services.

In response to this opportunity we are investing in our people, facilities and services at Cardiff Airport.

I would like to acknowledge the great work undertaken by the team at the airport as this has been fundamental in delivering growth and developing the exciting opportunities that exist as we move forward.

We want Cardiff Airport to become a central part of the national success story. The Airport stands as a symbol of Wales's ambitions as a significant presence in the aviation industry.

A handwritten signature in black ink, appearing to read 'Roger Lewis'.

Roger Lewis
Chairman

Business update

More than 1.3 million passengers are now choosing to fly from Cardiff. This growth comes following a number of positive airline developments including:

- Flybe celebrating its first anniversary of the two aircraft base and flying more than 380,000 passengers to destinations across the UK and Europe. The airline has also added new routes to London City, Verona and Berlin
- Vueling increasing its summer programme by over 40%, meaning greater capacity on flights to Alicante, Barcelona, Malaga and Palma Majorca.

Ryanair has doubled its flights to Tenerife, adding a second weekly flight from November. Winter will also see new direct cruise flights to Dubai with Thomson and P&O Cruises will continue to grow its programme of cruise flights to the Caribbean.

The terminal building has undergone a major transformation, with a number of improvements having been made to enhance the customer experience. These include the opening of a brand new walk-through tax and duty free store and the launch of Caffè Ritazza and The Beer House bar and restaurant. In addition we have invested in 3 state of the art fire vehicles.

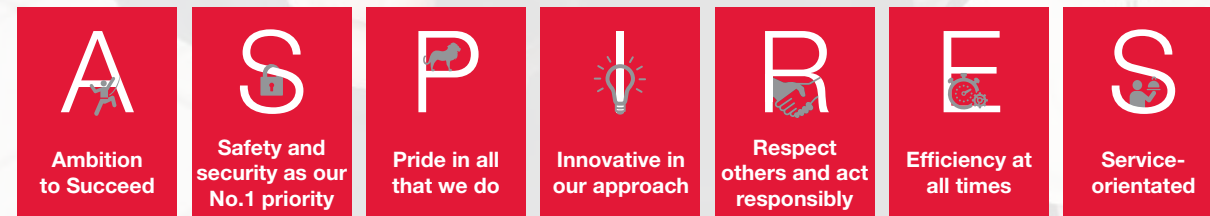
Our team has grown with over 250 people now working directly for the Airport company and we are focussed on delivering exceptional service.

We are also very proud of our environmental performance achieving 100% recycling and zero waste to landfill which contributed to Cardiff being voted the best Airport in the UK for our environmental achievements in 2015 by the AOA.

As the capital city Airport we fly the flag for Wales every day of the year.

Debra Barber
Managing Director and Chief Operating Officer

We have a set of shared values, which help us to achieve our business priorities:



“ **Our vision:**
Cardiff Airport **aspires** to be an outstanding capital city airport connecting Wales to the world and the world to Wales, whilst delivering an exceptional customer experience. ”

“ **Our mission:**
To be a sustainable airport business generating significant economic benefit for Wales. ”

WELCOME TO NEWCASTLE AIRPORT



New routes
for 2016/17:
Verona, Berlin,
Dubai cruise
flights

Flights to
London City
will operate
during the
Severn Tunnel
closures

Growth

- Passenger numbers have grown to over 1.3 million
- 13 consecutive months of growth since June 2015
- We are forecasting growth for the following two years.

28% growth over the rolling year 

Cardiff is the fastest growing UK airport*

Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
12%	8%	10%	21%	62%	32%	56%	42%	68%	29%	40%	27%	17%

Growth has been achieved by enhancing capacity and driving volumes based on existing market demands:

- Developing year round services for core business and ‘visiting friends and families’ markets delivering economic value to Wales such as Cork, Dusseldorf, Glasgow, Munich, Milan and Paris
- Growing low cost carrier capacity on key leisure routes including Tenerife, Malaga, Palma and Faro
- Developing bespoke market options to differentiate Cardiff such as Caribbean and Dubai cruise flights, Italian tour charters and Orlando long haul flights
- Supporting major events both in Wales and internationally with Welsh teams and fans travelling abroad. Including RWC 2015, World Half Marathon 2016, UEFA Euro 2016 and upcoming UEFA Champions League 2017.

*Source: The UK's fastest growing airport that regularly handles over one million passengers annually. UK CAA.

Drive times from Cardiff Airport

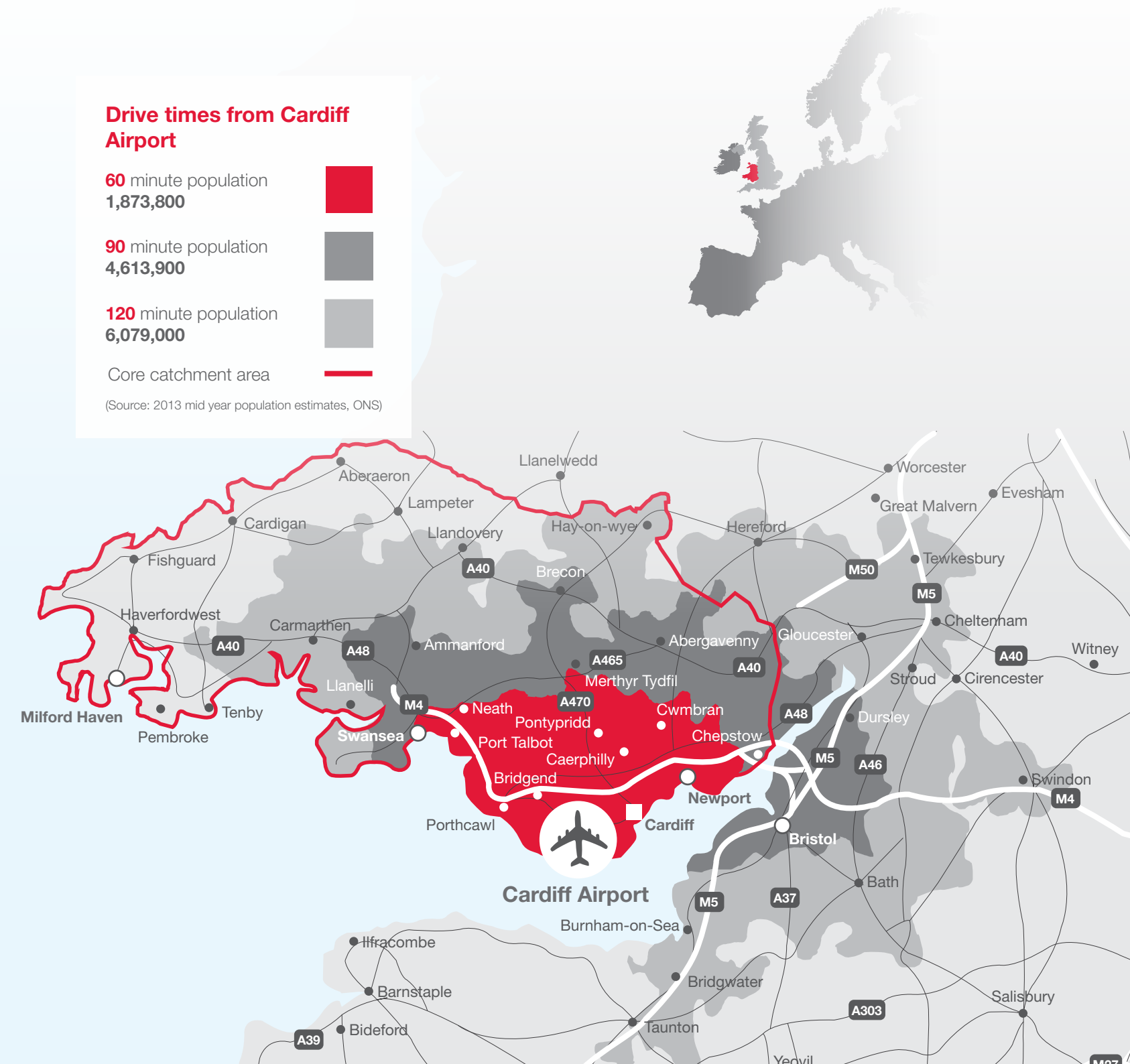
60 minute population
1,873,800

90 minute population
4,613,900

120 minute population
6,079,000

Core catchment area

(Source: 2013 mid year population estimates, ONS)



The potential for more growth

- Over four million passengers from South Wales took flights in 2015
- 1/3 used Cardiff Airport
- We are continuing to grow our market share by stimulating choice for customers living in our catchment area.

Top countries travelled to:



Source: CAA survey 2015/South Wales passenger final destination



Enhancing the customer experience

As part of our commitment to ensuring the best customer experience for our passengers we have continued to invest in our terminal. 2016 has seen the launch of renovated airside catering and shopping facilities;

- A new, transformed walk through tax and duty free store
- The Beer House bar and restaurant has been designed to reflect the best of Welsh products and includes locally produced beers, as well as using Welsh ingredients throughout the menu
- Caffè Ritazza inspired by cosmopolitan and multicultural European café culture.

Developed in partnership with World Duty Free and SSP the investment will significantly improve the customer experience; leading the way for further commercial opportunities in 2016 and beyond.



Investing in safety & security

We are investing in the latest security screening equipment for baggage to ensure ongoing compliance and even higher standards of detection.

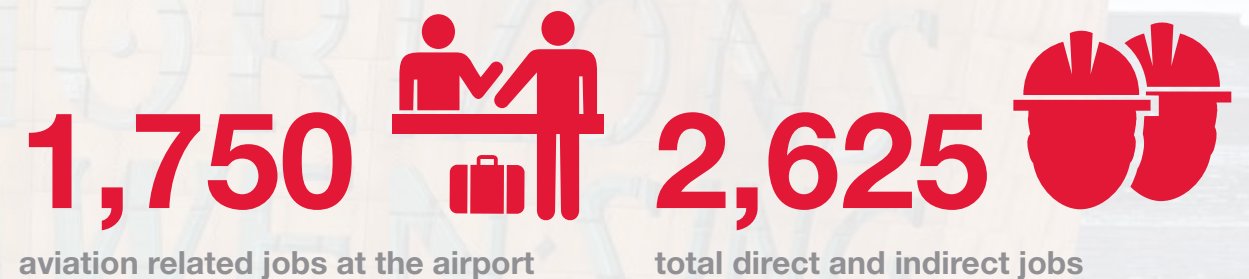
We are also delighted to have taken delivery of our new fire vehicles, investing over £2million in three state of the art trucks.

It is essential we have safe and efficient fire equipment on site that crew can utilise to respond in the event of any emergencies either on the airfield or within the local area.

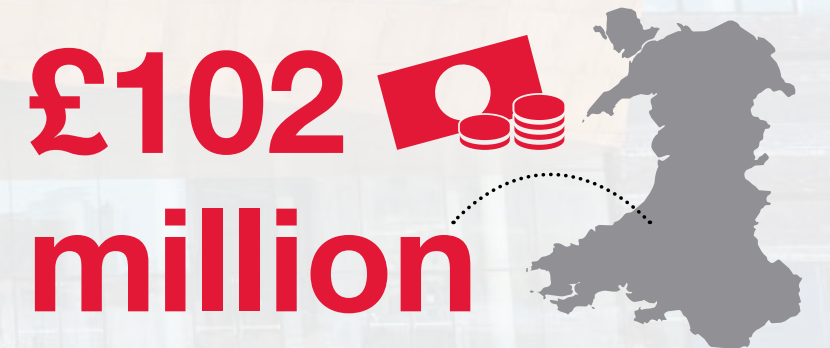
The three new vehicles, named by local primary school children, were built and customised working with our partners, Oshkosh and Terberg, and will be fully operational from June 2016.



Impact of Airport on Welsh economy



The overall
GVA impact
to the local
economy is



Source: PPIW report 2015



Visitors using Cardiff Airport

1 in 4 passengers are visitors to Wales...



of which international visitors using Cardiff Airport contribute an estimated

£55 million
to the Welsh economy



International passengers by country of residence



Source: 2015 CAA Survey/2015 IPS Survey



Cardiff Airport promoting the region

The Airport delivers the 3 key themes for the Cardiff Capital Region: connectivity, skills, innovation & growth

Future development:

- Cardiff Capital Region has secured a deal worth over £1.2 billion. The City Deal is expected to deliver up to 25,000 new jobs and leverage an additional £4 billion of private sector investment
- This includes investment into Cardiff Capital Region Metro system due to be complete by 2030
- £300m investment into Cardiff Innovation System; a Cardiff University facility
- Cardiff is forecasted to have the highest population growth rate of any UK city over the next 20 years.

Economy:

- One of the UK's fastest growing inward investment locations for 'Financial & Professional Services' businesses
- Access to a skilled and loyal workforce; up to 1.6m people within a 45 minute commute
- Cardiff is 'the fastest growing British city for financial services jobs' and an essential near-shoring hub for the City of London
- 25% of jobs in Cardiff are now in the Financial & Professional Services sector. Major investors include Eversheds, Deloitte, ING, Zurich, Conduit, Lloyds, AA, Centrica, Brewin Dolphin, Target, BT, PWC, Admiral, Principality, Serco, Tesco, Legal and General, and Confused.com
- The UK's number 1 city for workforce loyalty.

Education:

- Home to three universities – over 72,000 students
- The quality and impact of Cardiff University's research has led to it being ranked in the UK's top 5 universities breaking into the 'Golden triangle' of Oxford, Cambridge and London
- Cardiff 6th Form is the highest performing College in the UK.

Sports and Culture:

- Hosts of the UEFA Champions League Final 2017
- BBC's chosen Centre of Excellence for drama production
- The UK's number 1 city for quality of life.

Source: Cardiff University, UKSPA.org.uk, Cardiff City Region Board, FT, Welsh Government

Supporting special events

Cardiff Airport works closely with stakeholders to ensure major events hosted in Wales are delivered safely and successfully. Our team, along with other transport providers, local authorities, venues and emergency services adopt a collaborative 'Team Wales' approach to achieve this success.

Rugby World Cup 2015

Cardiff received the biggest economic boost of all host cities: £380m from staging 8 games including £198m of tourism spend.

The Airport handled over 35,000 extra passengers during the tournament.

UEFA Champions League Final 2017

With a capacity of 74,500, the Principality Stadium will host the biggest event on the football calendar in 2017 – the UEFA Champions League Final.

We'll be working hard to finalise plans to welcome thousands of fans to the capital and to make the most of this great opportunity. We are expecting over 12,000 passengers and over 200 aircraft movements during this momentous event.

Source: The economic impact of Rugby World Cup 2015 - Post event study



Future events



2018 - Volvo Round the World Yacht race



2017 - UEFA Champions League Final



2017 - Senior open championships



2016 - Roald Dahl's City of the unexpected



British Airways A380 visiting British Airways Maintenance Centre at Cardiff Airport.

British Airways will maintain its new Boeing 787 Dreamliner at Cardiff Airport from 2016.

Aerospace

The Airport is a hub that helps develop aerospace in the region

Six of the world's top ten aerospace and defence companies operate in Wales.

- The core competencies of the aerospace industry in Wales are maintenance, repair and overhaul (MRO), manufacturing, materials and tooling, test equipment, ground support equipment and UAV operations
- 160 companies with turnover of £5 billion operate in this sector in Wales
- All Airbus wings are made in Wales
- Over 20% of the UK's MRO is carried out within 20 miles of Cardiff Airport.

MRO

Babcock • BAE Systems • British Airways, Avionics, interiors and British Airways maintenance Cardiff (BAMC) • Cardiff Aviation • DSG Avionics at Sealand • GE Aviation • Marshall Aviation Services Ltd • Nordam Europe Ltd • Raytheon • TES Aviation Group

Manufacturing

Airbus in the UK, an EADS Company • CAV Aerospace • Doncasters • Gardner Aerospace • General Dynamics • Magellan Aerospace • Timet UK • Trittech Group • Zodiac Seating UK Ltd

Other key aerospace companies in Wales

Allied Aerosystems • AMSS • Airbus Defence & Space • Cottam and Brookes • Denis Ferranti • Group 8 • Ecube • Electroimpact UK • Airborne Systems Ltd • FAUN Trackway • MPI Aviation Ltd • Rovac Aerospace • TBD (UK) Limited

Cardiff Airport & St Athan Enterprise Zone

The area has been a base for aerospace and development activity for over 75 years and is home to some of the world's biggest aerospace and defence companies.

Earlier this year iconic British car maker Aston Martin announced it has chosen the Enterprise Zone as the site of its new centre of excellence. The new site will see Aston Martin manufacturing its new DBX crossover vehicle in Wales from 2020.

The zone presents a number of key development opportunities:

- A highly skilled aerospace and manufacturing cluster
- Two airfields providing scope for a gateway development
- Incentives and support available for establishing businesses in the area.

Current partners

Maintenance, repair & overhaul



Training



Manufacturing



Tear Down



Business jet charter



Tool hire



Emergency response



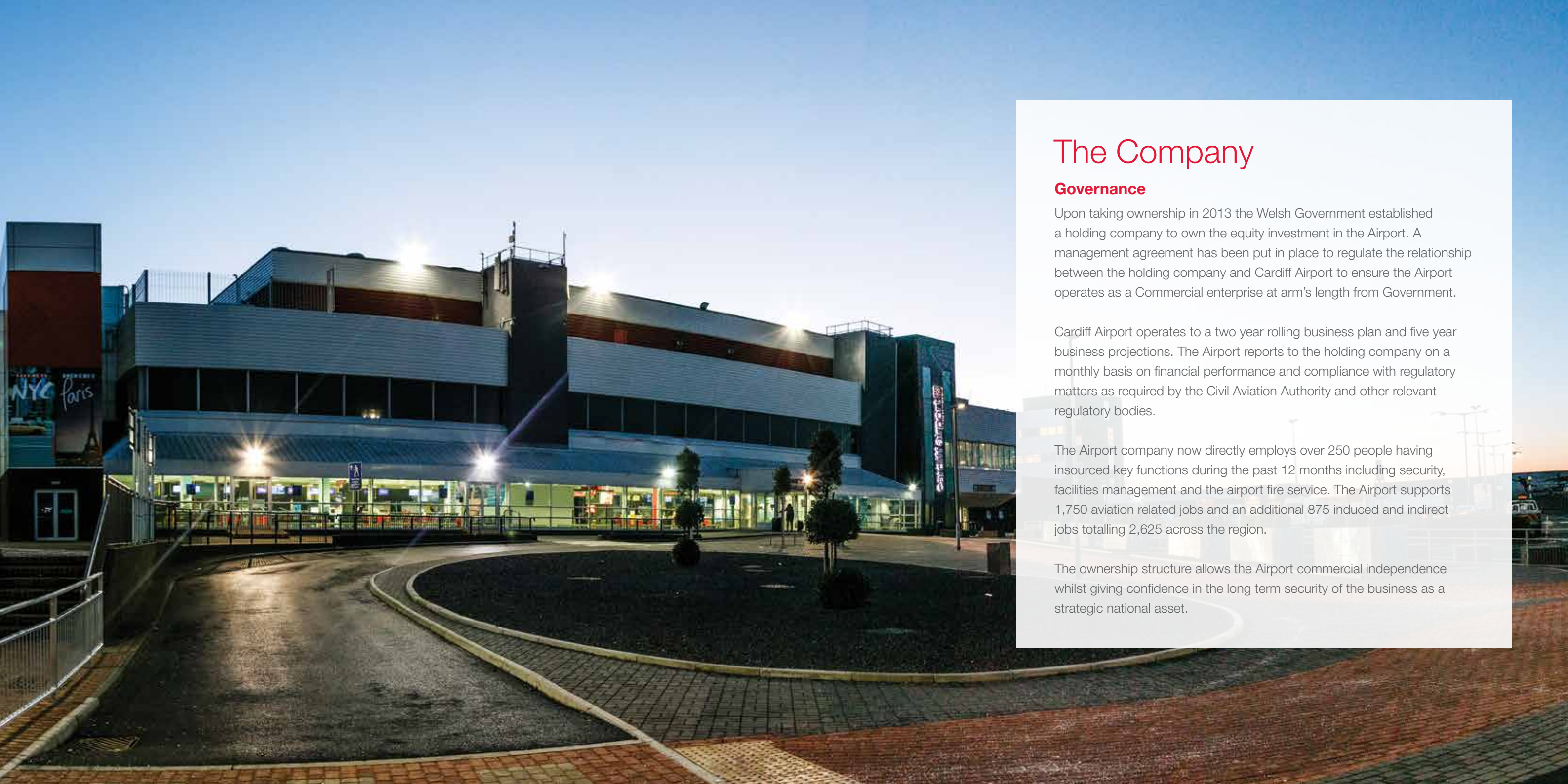


The future

We are focussed on developing a sustainable Airport business which we will achieve in the following ways:

- Increasing capacity with incumbent carriers
- Developing long haul flight opportunities
- Diversifying the business
- Promoting Wales as a market to do business
- Focusing on inbound tourism opportunities
- Stimulating the local economy
- Working with Welsh stakeholders in the development of regional and national plans
 - Cardiff City Region
 - Strategic transport plans
- Continuing to lobby on the devolution of air passenger duty (APD) to Wales
- Creating contagious confidence in the market

... to ensure Cardiff becomes **the** Airport of choice for people travelling to & from Wales.



The Company

Governance

Upon taking ownership in 2013 the Welsh Government established a holding company to own the equity investment in the Airport. A management agreement has been put in place to regulate the relationship between the holding company and Cardiff Airport to ensure the Airport operates as a Commercial enterprise at arm's length from Government.

Cardiff Airport operates to a two year rolling business plan and five year business projections. The Airport reports to the holding company on a monthly basis on financial performance and compliance with regulatory matters as required by the Civil Aviation Authority and other relevant regulatory bodies.

The Airport company now directly employs over 250 people having insourced key functions during the past 12 months including security, facilities management and the airport fire service. The Airport supports 1,750 aviation related jobs and an additional 875 induced and indirect jobs totalling 2,625 across the region.

The ownership structure allows the Airport commercial independence whilst giving confidence in the long term security of the business as a strategic national asset.

Board of Directors

Roger Lewis

Chairman

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Debra Barber

Managing Director & Chief Operating Officer

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Geraint Davies CBE

Non Executive Director

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Margaret Llewellyn OBE

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