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Cymru

National
Assembly for
Wales

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[The Public Accounts Committee](#)

09/02/2016

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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 reported 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

Mohammad Asghar Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jocelyn Davies Bywgraffiad Biography	Plaid Cymru The Party of Wales
Mike Hedges Bywgraffiad Biography	Llafur Labour
Sandy Mewies Bywgraffiad Biography	Llafur Labour
Darren Millar Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan Bywgraffiad Biography	Llafur Labour
Jenny Rathbone Bywgraffiad Biography	Llafur Labour
Aled Roberts Bywgraffiad Biography	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Eraill yn bresennol
Others in attendance

Simon Jones	Cadeirydd, Cwmni DalLIC, Llywodraeth Cymru Chair, WGC Holdco, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

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

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

*Dechreuodd y cyfarfod am 09:03.
The meeting began at 09:03.*

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

[1] **Darren Millar:** Good morning, everybody. Welcome to today's meeting of the Public Accounts Committee. Just the usual housekeeping notices: I remind Members and our witness that the National Assembly for Wales is a bilingual institution and that everybody should feel free to contribute to today's proceedings through either English or Welsh as they see fit; if anyone's got a mobile phone, if they could switch that to 'silent' or 'off' because, of course, it can interfere with the broadcasting equipment; and, in the event of a fire alarm, we should follow the instructions of the ushers.

[2] Members have received guidance on oral declarations of interest and, if there are any in addition to those that were declared at the start of this inquiry, then we'll take those as they arise on the agenda.

09:04

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

[3] **Darren Millar:** Item 2: papers to note. We have two papers to note. We've got the minutes of our meeting held on 2 February. I'll take it that those are noted. And we've got a letter from Roger Lewis, chair of Cardiff international airport, just providing a report on his first 100 days as chair. This was referred to, of course, in the evidence session last week. I'll take it

that that's noted.

[4] **Sandy Mewies:** Does that go into the evidence or is that just—?

[5] **Darren Millar:** We'll consider it as part of the evidence, yes. He wrote to all Assembly Members, I think, but given that it was referred to lots of times last week, I thought it was good just to put it on the record. Okay, I take it that that's noted.

09:05

Maes Awyr Caerdydd: Sesiwn Dystiolaeth 2 Cardiff Airport: Evidence Session 2

[6] **Darren Millar:** Item 3, then, is our second evidence session on Cardiff Airport. I'm very grateful to have Simon Jones, chair of the Welsh Government's Holdco company here this morning. You will have seen, no doubt, Mr Jones, a copy of the auditor general's report, which makes lots of references to Holdco and the different governance arrangements around the airport and your relationship with both the Welsh Government and, indeed, Cardiff international airport. Do you want to just put on the record your understanding of those relationships, just for the benefit of Members?

[7] **Mr Jones:** For sure. Good morning, everybody. For sure. So, the Holdco arrangements are set out in something called the management agreement, which was pulled together by the Welsh Government's legal advisers at the time of acquisition, and it's quite well described in the auditor general's report as to exactly what the management agreement does. Essentially, there are three elements to the management agreement—three elements that Holdco are involved in. Before describing that, perhaps it's just worth restating that the airport is run as an arm's-length business, remote from Government. So, they've got operational autonomy to make decisions for themselves, to decide on matters of strategy for the airport and the development of that business, but we have a responsibility as the shareholder to oversee that. So, the management agreement sets out a number of functions that Holdco perform, the first of which is the agreement with the board of CIAL, Cardiff International Airport Limited—the annual two-year business plan. So, our role is to agree that business plan just prior to the beginning of each financial year.

[8] Our second role is to monitor progress against that business plan, and

we do that at regular intervals through the year; generally through the monthly board meeting of the airport company. Then, the third element is the agreement of what are called consent matters. So, these are matters that require shareholder consent for the operation of the airport, and there are some examples given in the auditor general's report, but they might also include things like agreement of expenditure, which wasn't included in the original annual business plan. So, if there's an exceptional circumstance, Holdco would agree to that if it hadn't been previously included in the business plan. So, those are the three things that Holdco does. It's quite specific. Our role is quite specific: agree the business plan, monitor performance against it, and agree to the consent matters.

[9] **Darren Millar:** In terms of your relationship with the Welsh Government, because obviously you're civil servants—

[10] **Mr Jones:** I am, yes.

[11] **Darren Millar:**—but you're appointed to act in the interest of Welsh Government, if you like, on this board, what's your relationship with Ministers and with senior officials like?

[12] **Mr Jones:** Okay. It's an interesting one because there's an inherent tension, I suppose, in the way that Holdco has been set up. We have a fiduciary duty under the Companies Act to maintain shareholder value in the airport. So, that's one set of duties that we have, but we also have the civil service code, guiding us about how we should behave as civil servants. Those two work in tandem. So, we've got our duties to the company and we've got our duties to Government. There is an implicit tension in that, undoubtedly, and I think we manage that quite effectively. There are various control mechanisms set out in the management agreement that allow us to be able to resolve those tensions if we ever do get to that point.

[13] **Darren Millar:** So, how regularly are you required to report back to Government, for example?

[14] **Mr Jones:** So, I will generally take a note of the board meeting that I attend, if there are any matters that I think Government should note, but clearly there are confidentiality issues there as well. So, there's a balance to be drawn between things that the Government needs to know as the shareholder and things that the airport company needs to understand, or needs to keep within its four walls, to be able to deliver its business. You will

have heard Roger Lewis last week talking about the need for commercial confidentiality in operating a business, especially a business that is in such a dynamic environment, where planning horizons have to necessarily be quite short, because of outside circumstances, and the commercial deals that need to be done with their partners.

[15] **Darren Millar:** So, that's a judgment call for you, as a civil servant, as to what you need to report back and what you don't need to report back.

[16] **Mr Jones:** Yes. I think that's true. I think there are matters that are related to the operation of the shareholding of the airport that are quite distinct perhaps from other matters that might require input from colleagues elsewhere in Government. So, for example, if there's a matter that requires input from colleagues in Visit Wales, I think that's a matter to be shared across Government.

[17] **Darren Millar:** And to whom do you report in the Government?

[18] **Mr Jones:** I report to James Price.

[19] **Darren Millar:** And it's always James Price. Do you ever report to Ministers direct?

[20] **Mr Jones:** I do speak to Ministers about issues to do with the airport from time to time, yes, but at a very high level.

[21] **Darren Millar:** But that's at their request, rather than—

[22] **Mr Jones:** Yes, that's right.

[23] **Darren Millar:** You would usually just report directly to Mr Price.

[24] **Mr Jones:** Yes, that's right.

[25] **Darren Millar:** You talked about this tension. Can you give us some examples of where the tension arises for you?

[26] **Mr Jones:** Well, I think I've been fortunate in the time that I've been at Holdco that we haven't had any points of tension between us, actually. We've got a really good board at the airport, as you will have seen from the evidence last week, and they're pulling in the same direction as us. But who's

to say that, at some future point in time, there might not be some tension between us?

[27] **Darren Millar:** Was there any tension at all around the advertising that the Welsh Government pays for at the airport and the decision to spend less, as it were? It has an impact, doesn't it?

[28] **Mr Jones:** I think, as a business, Cardiff Airport—you know, the Cardiff Airport business side of it clearly wants to maximise its revenues; from the Welsh Government side, from the colleagues in Visit Wales side, there's an overall assessment of pressures on budgets and the kind of wider point of view of what Visit Wales is trying to achieve. It's going through a major rebranding exercise at the moment, and I think there's a need to be able to get clarity on the Visit Wales side about where they want to make their investments in future. That's not a finished issue, though, that's an ongoing issue.

[29] **Darren Millar:** So, what's your position in relation to that? As a Holdco board, have you shouted loudly to Ministers that you would like this funding extended, restored, these agreements? Or are you in a different camp? Where do you sit? That's the sort of issue where the tension might arise, isn't it?

[30] **Mr Jones:** Yes, of course. I think—

[31] **Darren Millar:** What's Holdco's position on the matter, as opposed to the Welsh Government's?

[32] **Mr Jones:** We're not involved in the day-to-day operation of the airport. It's for the airport to operate on a day-to-day basis. Our remit, really, is to make sure that the airport performs in line with its business plan. If the business plan doesn't include things like the future marketing money, then the metric that we'll be judging the performance of the airport against will not include that marketing money.

[33] **Darren Millar:** But you sign off the business plan and monitor performance, don't you?

[34] **Mr Jones:** We do sign off that business case, yes.

[35] **Darren Millar:** And that sort of level of income, certainly over the past few years, can have made the difference between profit or loss at the airport,

and that determines the value of the airport, which is something that Holdco has a direct interest in.

[36] **Mr Jones:** It does, yes. I think—

[37] **Darren Millar:** So, you don't have a view on that.

[38] **Mr Jones:** Well, we do have a view.

[39] **Darren Millar:** Okay. What is it?

[40] **Mr Jones:** Our view is that the airport needs to maximise all potential sources of revenue, but it needs to take account of whether those funding sources are materially available or not.

[41] **Darren Millar:** A direct question: how have you reported back on that matter? Have you reported back on that matter Holdco's view to the Welsh Government?

[42] **Mr Jones:** I've had various conversations with colleagues about the marketing agreement and about the need for the airport to maintain its external sources of revenue. Yes.

[43] **Darren Millar:** Okay. Julie Morgan.

[44] **Julie Morgan:** Thank you very much. I wanted to ask you about the relationship with the board and how that works out in practice. Obviously, we've heard about your relationship with the Welsh Government. Is there frequent interaction? What are the issues—any tension issues there?

[45] **Mr Jones:** There's a formal engagement—at the moment, twice a month with the airport. So, I attend the airport company board meeting once a month as an observer in the role that I've just described in order to monitor performance against the business plan. We also have Holdco board meetings now once a month and latterly we've invited Roger Lewis, the chairman of the airport company, and Deb Barber, the managing director of the airport company, to come along to that.

09:15

[46] So, we have two different fora in which we meet with the airport

company: for one, really, the agenda is set by the airport company, and one the agenda is set by Holdco. There are a range of issues that we discuss. When we're in the airport board meeting, really it's for the airport company to set the tone of that meeting, and that's largely about operational issues. There's an element of discussion about the strategic direction, route development and all the rest of it. When they're talking with us, I suppose, the emphasis is perhaps on some of the wider issues that affect the operation of the airport. So, typically, that might involve matters to do with future synergies with St Athan, as an example.

[47] **Julie Morgan:** I think there was a plan that the chair of the board was going to be a permanent member of Holdco, but that hasn't happened—

[48] **Mr Jones:** That hasn't happened, no. I think—

[49] **Julie Morgan:** Why hasn't that happened?

[50] **Mr Jones:** I guess there was a number of reasons for that. There was a handover between the previous chairman, Lord Rowe-Beddoe, and Roger Lewis. Roger's been in post, as you know, since November time, and we felt that that was probably a discussion that was best had with the incoming chairman, rather than with the outgoing chairman. So, we had to wait until November; it was quite a long period between the announcement of Roger taking up that role and Roger actually beginning to perform his duties. So, we've really only had the opportunity to have that discussion since November. I think we are open-minded about the way that that should work. So, should Roger be a formal member of the Holdco board and a director of the board? I think that's a discussion that we still—we are still trying to tease out the details.

[51] I think the way it's working at the moment is actually really positive. Roger and Deb attending our meetings gives us all the value that we want to achieve out of that. But, as I think Roger described to you last time, we also hold a separate session without the team from the airport company in that meeting in order to be able to discuss matters of oversight and review the performance of the airport. So, that would be quite difficult were Roger to be a member of the board of Holdco.

[52] **Julie Morgan:** Why would that be difficult?

[53] **Mr Jones:** Well, I suppose if there are matters that require discussion

about the airport in order to inform the view of Holdco to be able to take them back to challenge the team there, there's an argument that it could be done more effectively without anybody from the airport company on the team. But I think we're open-minded about that. I'm not saying that it's impossible, I'm not saying that we should do it or shouldn't do it; I think it's something that we're keeping under review.

[54] **Julie Morgan:** So, there's no decision been made on that yet.

[55] **Mr Jones:** There's no decision on that, no.

[56] **Julie Morgan:** And, obviously, it's quite a different model from the Glasgow Prestwick model. What you think of those comparisons?

[57] **Mr Jones:** Yes. It's an interesting one, isn't it? As Government, we've got a shareholding in an airport company, so you'd have thought perhaps, from the outside, that maybe it would be better if the chair of that holding company were directly accountable to Government, in this case a civil servant. It's slightly harder to see that working, perhaps, if the chair is external. But I don't know. I haven't spoken to the board at Prestwick airport or the board of the holding company at Prestwick airport about how that works. I'd be interested to see the evidence that's put forward to you on Thursday about that. Again, we're not closing any doors on that. We've still got a debate to be had about the future of that.

[58] Perhaps just extending that point a bit further, if I may, I don't know whether you've had a chance to see the Public Policy Institute for Wales report that was published last week, but that actually makes some additional recommendations in terms of how governance should work, particularly if we consider both Cardiff Airport and St Athan. I suppose what we really need to do is think about where we want to be in a few years' time in terms of the governance of Cardiff Airport, St Athan airport and the enterprise zone, and think about establishing a governance structure that's suitable for that, rather than dealing with just the here and now, because there are a number of moving parts to this.

[59] **Julie Morgan:** But, as far as you're concerned, it's working.

[60] **Mr Jones:** Yes, and I think Roger said the same to you to you when he was in here last week.

[61] **Julie Morgan:** Thank you.

[62] **Darren Millar:** Mike, you wanted to come in.

[63] **Mike Hedges:** Yes, on PPIW and their report. I found it very informative. One of the things they did talk about is raising wider economic benefits, and I know, for example, that a number of people in the Assembly are very keen on bringing major sports events in. We're also talking about inward investment. Both of those I believe very strongly rely on having a local airport for people to come into. What's the view of Holdco, or you in particular, on the other benefits of having an airport—or perhaps, might I say, what would happen if we didn't have one?

[64] **Mr Jones:** Well, I suppose it goes back to the rationale for buying the airport in the first place, which I know you discussed last week, and I guess you're going to be discussing later this week as well. But there are something like 1,700 people employed down at the site there. If you think about the British Airways Maintenance Cardiff facility, which I think Roger talked about—some of the conversations that he'd had about that with senior people in BA—it's a fantastic facility, a kind of flagship facility for BA. I think if we didn't have the airport and it had been allowed to continue to decline, that facility might have been lost, and those employment opportunities might have been lost. I think Roger talked about the importance of the aerospace sector in Wales in terms of employment, and what a significant role Wales plays in that sector. I think the figures that were quoted were something like 20 per cent or 25 per cent of all jobs in aerospace in the UK are actually in Wales, and the UK is the second-biggest aerospace employer in the world. So, Wales is a big player in this market. It would be slightly peculiar if we didn't have our own airport, especially when that airport is a major part of that aerospace industry, particularly with the BAMC facility.

[65] **Darren Millar:** Okay, Mike? Jocelyn first, then, and then I'm going to come to Sandy.

[66] **Jocelyn Davies:** It was just on the BA facility there, because I think this is something that has been there since the early 90s, something like that. It's the biggest hangar in the world or something like that—or one of the biggest in the world. It cost £17 million in 1990, so it was a huge investment. Was there Government money that went into that investment, do you know? Perhaps you could let us have a—

[67] **Mr Jones:** Yes, before my time, but I can find out. But—

[68] **Jocelyn Davies:** It's before all our times. Was there a danger then that, if the airport had closed, that would have gone? Because when you look at it on a global level, it was a huge investment at the time. It must be strategically important to BA. If the airport had closed to commercial flights, are you suggesting that that would have gone as well?

[69] **Mr Jones:** Well, I think the lease arrangements that we have with BA allow them certain step-in rights in the event of the commercial business failing there. But if you think about where else BA have got maintenance facilities in the UK, they are at thriving commercial airports—so Heathrow and Glasgow. Would BA have wanted to get into the space where they would have effectively had to operate that airport on their own, just for their own maintenance flights? I don't know. I guess that's a question for them, but it's a difficult to imagine that they would have wanted to do that.

[70] **Jocelyn Davies:** Can I just come back on something that you mentioned earlier about this tension? And I guess you do have to carefully manage it. So, you're an observer at the board meetings. Does that mean that you don't contribute, so you just sit there and listen?

[71] **Mr Jones:** I do, yes.

[72] **Jocelyn Davies:** So, you don't contribute to the discussion or to decisions that are made.

[73] **Mr Jones:** No, I certainly don't contribute to decisions. I contribute to the discussion insofar as it relates to monitoring the performance of the airport company against the annual business plan. So, if there are clarifications that I need to make in order to understand how the company's performing in its monthly report about its performance against the business plan, then I'll certainly ask those questions.

[74] **Jocelyn Davies:** And you are the one who always goes.

[75] **Mr Jones:** Generally. If I don't, then I'll ask a deputy to go on my behalf.

[76] **Jocelyn Davies:** So, somebody's always there.

[77] **Mr Jones:** Yes, that's right.

[78] **Jocelyn Davies:** Are you suggesting then that if Roger Lewis was a member of Holdco those tensions—would those increase, then? Would it be—

[79] **Mr Jones:** I think it's probably something that we need to work through. I don't think we've come to a conclusion on that.

[80] **Jocelyn Davies:** Who's going to make that decision?

[81] **Mr Jones:** Well, I think that'll be for the members of the Holdco board, and we will probably seek advice from others in Welsh Government as well about that.

[82] **Jocelyn Davies:** All right. But that's a decision for you—that wouldn't be a ministerial decision as to whether to go ahead with that appointment.

[83] **Mr Jones:** Well, I think, if we think about the wider remit that I talked about, particularly the kind of vision of the future described by PPIW, which might involve Holdco taking on other roles or other responsibilities in St Athan, then I think that probably would be a ministerial decision to understand whether Ministers want Holdco to take a wider role.

[84] **Jocelyn Davies:** So, an appointment for Roger Lewis to be part of that, would that be your decision, or would that be a ministerial decision?

[85] **Mr Jones:** Well, I think, ultimately that would be a ministerial decision, against a recommendation from Holdco.

[86] **Jocelyn Davies:** Okay.

[87] **Darren Millar:** Sandy.

[88] **Sandy Mewies:** Thank you, Chair. Good morning. This word 'tension' that's being used, I think we all understand what it means, and I think it may mean slightly different things to different people. At the moment, this tension is not causing problems or difficulties, that's the impression I'm getting, although it's possible that it could. I was thinking about what the Chair said about advertising. Would it mean, then, that, on the one hand, the airport board might be saying, 'Well, we need more money for marketing', that wouldn't necessarily mean—? You would understand that. Would you

understand that and say, 'Well, you should be making the most of marketing'? But, would it mean that you would then go to the Government and say, 'They need more money for marketing'?

[89] **Mr Jones:** Well, I think the proper channel for them to make the representations about marketing would be for the airport company to speak directly to Welsh Government, but you can't avoid the fact that I'm an employee of the Welsh Government. So, I would also try and make that connection myself between colleagues responsible for that and the airport company.

[90] **Sandy Mewies:** But it would be colleagues responsible for that.

[91] **Mr Jones:** Yes, that's right. There are various touch points between the airport and elements of Government. So, if we think about the loan facilities that were extended in previous years, that wasn't a matter for Holdco in terms of making the loan offer, that was a matter for the economic development teams within Welsh Government to make that loan offer. Holdco's role in that was to oversee that, because that was a consent matter. They were taking a loan against the value of the company, and it would have had an impact on the shareholding value. So, we had a role there, but we weren't the people who made that loan happen.

[92] **Sandy Mewies:** You're quite clear about what that role is.

[93] **Mr Jones:** Yes.

[94] **Sandy Mewies:** And other people are as well.

[95] **Mr Jones:** Yes, that's right. We're fortunate that we've got the management agreement that was spelled out before Holdco was constituted.

[96] **Sandy Mewies:** When Roger Lewis was here last week, he was very interesting about forthcoming plans for the future. Airbus is in Flintshire, and I'm particularly interested, obviously, in the aerospace industry, but also further north to Anglesey. Now, again, those are things that, eventually, might lead to some sort of Government involvement. Where would Holdco sit in that?

[97] **Mr Jones:** In terms of the air link to Anglesey, it's not really a matter for Holdco, because it's essentially a commercial—. When it comes down to

the airport level, it's a commercial deal between whoever wins that public service obligation contract and the airport. They pay the landing fees, the parking charges, and all the rest of it. So, it's just like another airline coming in to the airport. Elsewhere in Government, we have a responsibility for overseeing and managing that PSO, but that is not a Holdco responsibility.

[98] **Sandy Mewies:** Okay; fine. Thank you.

[99] **Darren Millar:** Oscar.

[100] **Mohammad Asghar:** Thank you, Chair, and thank you, Simon. Listening to you earlier, you have three areas to look after at the airport—Holdco—but I think that on the economic radar, you're watching the speed, direction and altitude of this airport, which is not right; it's the job of the Civil Aviation Authority. They look after airports in different ways. Are you really a hindrance or a help for the development of this airport? *[Interruption.]* I'll come back to you.

[101] **Mr Jones:** Well, I think maybe that's for others to judge. In terms of the CAA, the CAA is concerned with the safety and regulation of airports; they're not concerned with the economic development that airports can bring to a region. So, the CAA wouldn't have a view on whether the airport was financially viable or not. There's a kind of a market there; the CAA regulates what's in front of it.

09:30

[102] If I think more widely about what Welsh Government's role is here and the rationale for buying the airport, the airport was bought to secure the economic development opportunities that the airport brings. I think that's very distinct from the role of the CAA. Holdco's role is even more narrowly focused; it's about holding the board that's been appointed to run the operational company to account.

[103] **Mohammad Asghar:** My point here a little bit is say I'm a foreign investor or somebody who wants to invest in Cardiff Airport. We know it's not a healthy business; that's why Welsh Government bought it. So, basically, don't you think that if there are a couple of tiers like you involved if somebody wants to come and invest, why shouldn't they be dealing straight away with those people who are running the airport, to convince them why you are involved with that?

[104] **Mr Jones:** Sure. I think if you look at the model for ownership of airports across the UK, there are various different shareholders to airports. If we look at our nearest neighbour in Bristol, I think they're owned by the pension fund of Canadian teachers. So, you know, I guess in some respects we're equivalent to that pension fund in that we're the shareholder of a business, but there's an operational team with the expertise and the local knowledge to be able to run that on our behalf.

[105] **Mohammad Asghar:** On the other hand, these people who are actually running the airport—the operation of the airport—they should have free hands, not one hand tied behind their backs, which you are holding, saying, 'Look, you do this', because you've got a financial interest. That actually stops the people who run the airport professionally. It's a very technical, you know—. It's a city; I always say that. An airport is like a city—you run it with different sorts of departments; all of the departments are there. So, basically, you are only involved with finance; you should not be involving yourself with different aspects and arm's length of numbers—I don't want to go into those details; you probably know those. So, basically, all the others except for finances.

[106] **Mr Jones:** And I think that's probably a fair reflection of what we actually do; it is run at arm's length, as I said at the beginning—they are operationally autonomous. We don't pretend to have the operational expertise, and we don't seek to impose any operational views on the airport. Our role is simply, as the shareholder of the airport, to make sure that they are maintaining shareholder value by producing a workable annual business plan, holding their feet to the fire against that every month, and making sure that if there are major things that deviate from the business plan, we give our consent to them. That's the extent of our involvement with the airport.

[107] **Mohammad Asghar:** Finally, Chair, I personally think that the Welsh Government's interest is only bricks and mortar, not the business proposition in this game. I keep saying that the airport needs development, and that development must come with the professionals and the aviation industry, not with the people who just put money in. You can't put good money into bad and not grow it; that's what is happening in Cardiff Airport. You must give these professional people a free hand to develop before we can deliver a really world-class airport.

[108] **Mr Jones:** I don't disagree with anything that you've said, and I think

that's what we do.

[109] **Darren Millar:** Can I just ask, because I think there is a point here about the size and capacity of the board and its expertise? What's your day job in the Welsh Government? Do you mind me asking?

[110] **Mr Jones:** I'm the director of transport and ICT infrastructure.

[111] **Darren Millar:** Okay, and in terms of your expertise on boards—. I mean, you serve on a number of boards, and this is—

[112] **Mr Jones:** No, this is the board that I serve on, but prior to coming here—. Perhaps I should describe what I did before I joined the Government. So, I joined the Government three years ago. Prior to that, I spent 25 years in private industry, latterly as an executive director of the UK's largest engineering consultancy. So, I've got a significant amount of private sector experience to bear.

[113] **Darren Millar:** And the other two directors have got a similar profile background, have they?

[114] **Mr Jones:** No, their backgrounds are slightly different. One of my fellow directors looks after the advanced materials and manufacturing sector, which includes aerospace. So, he's got that kind of aerospace sector remit to bring to the party. And my other colleague is a transport professional engineer, just like myself, who was heavily involved in the acquisition of the airport. So, he understands; he's got a lot of history about our involvement with the airport.

[115] **Darren Millar:** But there are only three of you, obviously—very small in number—and one thing that we know from our experience with other inquiries is that the size of the board can have a big impact on the quality of the decisions that it makes, particularly if one member is absent. So, how do you cope with those sorts of situations, Mr Jones?

[116] **Mr Jones:** Yes, and I think it's a good point. Bearing in mind what our role is, which is to do a very limited set of activities—

[117] **Darren Millar:** But a very important set of activities.

[118] **Mr Jones:** Absolutely right, but they're not about overseeing the

entirety of the business. We're not operating a business; we are scrutinising a business against some particular points in time. So, in many ways, that's a bit easier to do. However, I think it's also true to say that we recognise that there is a need to strengthen the board, which we have done. We perhaps would have moved sooner on this had it not been for Roger's appointment. We were very keen to see how Roger decided to shape the operational board because it's important to us that whoever we bring on to our board in addition complements what's going on down at the airport. We want to make sure that we have the right mix of skills at our end to complement the skills that are down at the operational company.

[119] **Darren Millar:** And just finally on governance, before I bring Jenny in. Just in terms of that holding to account role that you perform of the executive, how do you compare the performance of the airport with that of other airports, for example, in the UK? Do you have benchmarks? Are there expectations? Do you publish a report that you pass on to James Price or others, saying, 'We're concerned about this aspect of performance'? What's the output?

[120] **Mr Jones:** The annual report has been discussed in the auditor general's report, and it's something that we'll be writing back to you shortly to say, 'Yes, that's something that we think we should be doing.' The key benchmark for us at the moment is the business plan. So, it's monitoring progress against the business plan, so the business plan needs to be realistic, but show ambition, and then what we do on a monthly basis is make sure that the airport board are actually delivering against the benchmark of their business plan.

[121] **Darren Millar:** But, you don't compare with other airports' performance more generally across the UK.

[122] **Mr Jones:** Well, I think there are some high-level metrics that we would typically look at there. So, I suppose the big three things that we're interested in overall are passenger numbers—that's one of the key metrics that anybody judges any airport by, and by any measure over the last seven or eight years, that has been a pretty poor indicator for Cardiff Airport. Financial stability is another one and, again, that's about monitoring progress against the business plan and making sure that, financially, the airport is delivering against its business plan. And then the third, which is slightly softer in some ways, but really, really important for future growth, is the number of destinations that are being served by the airport. Those are

the key metrics, I suppose, that we judge the airport by, and, actually, the outside world judges the airport by. Have we set those up as formal key performance indicators? No, we haven't, but, again, that's something that I think we'll be doing, and they will be the basis of the KPIs that we'll publish about the airport. But, much of that information is in the public domain anyway.

[123] **Darren Millar:** Okay. Was it on this, Mike?

[124] **Mike Hedges:** Yes. In the latest published information, Cardiff Airport was the twenty-first largest airport in Britain, ahead of Manchester, ahead of Glasgow Prestwick. You've talked about destinations. Would you agree that it's not just the number, but the variety of destinations? There was a time when Cardiff Airport was very successful at going to Spain a lot. So, it might have lots of different places in the holiday resorts around Spain, but that seemed to cover an awful lot of its destinations. Do you think that the variety of destinations, and the availability of long haul, are also a key indicator, not just the number of destinations? Adding another six destinations in Spain for holidays may not be as important for economic viability as adding half a dozen in North America.

[125] **Mr Jones:** Sure. It's an interesting point, and one which—. We've had that conversation ourselves. Looking at the airport through one lens, the easiest way to return it to financial stability might just be to lay on loads of bucket-and-spade flights to Spain, and other sun spots. But, if we think about our wider economic rationale for buying the airport, and the kinds of things that are talked about in the PPIW report, that talks about creating business routes—year-round routes. The bucket-and-spade things are great for the summer months, but, for the rest of the time, the place will be pretty empty.

[126] So, there is something about improving the business destinations that are served by the airport, to be able to support the Government's key sectors—I think the report talks about life sciences, it talks about finance and professional services, and it talks about advanced materials and manufacturing. Those kinds of sectors probably wouldn't be satisfied by having a load of charter flights to Spain and Greece. So, I think there is definitely something about the variety of destinations served, but, perhaps just as important there, is the frequency of those flights. If there's just one flight in the middle of the day to a business destination, and that's once a week, that's probably not sufficient to incentivise business travellers to make

Cardiff a future habit.

[127] **Mike Hedges:** As you know, Chair, when we went to visit Stormont, we ended up going from Bristol, because the timing of the flights meant that we'd have had to spend an additional night in Northern Ireland if we'd flown from Cardiff. So, really, the timings of these flights are very, very important.

[128] **Mr Jones:** Yes. I think it's a big challenge for any airport, and for any airline, because, I suppose, for business flights, people want to be getting on flights at seven o'clock in the morning, but there's only a limited stock of aeroplanes. You can't just have an aeroplane fleet that's only available for business flights at seven o'clock in the morning and then sitting around for the rest of the day. So, it's a challenge; it's a challenge for the airport and it's a challenge for its partners in the airlines, to be able to make that work.

[129] **Darren Millar:** I've got a few hands going up. I'm going to bring Jenny in. Just on routes, very briefly, you've got some powers of direction over routes—is that right? Or is there a suggestion about that in the PPIW report?

[130] **Mr Jones:** I think there's a suggestion about it in the PPIW report, yes.

[131] **Darren Millar:** Yes. Because, obviously, some of these routes might be less attractive to the airport, from a commercial point of view, but it's extremely important from an economic, strategic point of view for the Welsh Government.

[132] **Mr Jones:** That's right. So, I think there are things that kind of sit outside Holdco, which could be explored in future around the airport. The auditor general's report talks about the route development fund that was set up in the mid-2000s, which then fell victim to changes in the state aid rules around route development funds. But, those rules have been changed again—they were changed again in 2014. So, there are, potentially, options that are opening up in terms of support for new routes in a way that, maybe, wasn't available over the course of the last seven or eight years.

[133] **Darren Millar:** So, you'd welcome a new route development fund to help the less attractive routes get off the ground?

[134] **Mr Jones:** Yes, I think so. The Department for Transport launched a call for bidders for a route development fund that it set up earlier this—sorry, in 2015. The rules of the game that the DfT set up precluded Cardiff getting

too heavily involved in that, because it talked about proximity of adjacent airports in the catchment area, and it set a radius that is slightly wider than the European rules require. So, the European rules talk about 100 km; Cardiff Airport is about 100 km away from its nearest neighbour, in Bristol. But the DfT put an additional requirement in there, which actually made it more difficult for routes from Cardiff to be supported. So it would have been very difficult to set up a new route to a destination that was already served by Bristol airport, for example. But there are things that could, perhaps, be explored there in terms of route development. They're not directly matters for Holdco, but there are matters that could be explored.

[135] **Darren Millar:** Okay. Jenny, you've been very patient.

[136] **Jenny Rathbone:** Just pursuing that, that seems to me the Department for Transport actually preventing Cardiff from growing in the way that might be a perfectly good, commercial decision. I mean, what role—if any—would Holdco have in advising the Government to bang the drum with the Department for Transport?

09:45

[137] **Mr Jones:** There probably isn't a role for Holdco there. It's a role for Welsh Government to do that.

[138] **Jenny Rathbone:** Okay. Earlier, you described very clearly that it wasn't Holdco's decision whether or not to grant a loan to the airport. But, what role, if any, do you have around the terms for paying back loans? Because one of the loans has been paid back, from my reading of the WAO report. The original capital loan—is that right?

[139] **Mr Jones:** No, it hasn't.

[140] **Jenny Rathbone:** So, there's still the £23 million outstanding.

[141] **Mr Jones:** Yes. Holdco's role was to agree to the airport company taking that loan on board, because it clearly has a material impact on the future financial performance of the airport, because they've got to carry that loan in future.

[142] **Jenny Rathbone:** So, do you have a role in trying to determine at what point these loans are going to be paid back?

[143] **Mr Jones:** No. Holdco don't have that role. That's a matter for colleagues elsewhere in Welsh Government. It's clear to me that Holdco shouldn't be involved in those discussions, because there would be a conflict of interest there.

[144] **Jenny Rathbone:** Okay, thank you for that. In terms of other interesting possible conflicts of interest, one of the issues for me is the poor connectivity between rail and airport. With your director of transport hat on, how do you resolve that in terms of discussions about how we improve Rhoose airport?

[145] **Mr Jones:** The whole surface access issue—if I think about that with my director of transport hat on for a moment, rather than as Holdco—is really important, because airlines who are looking to secure routes into an airport will look at the catchment area. If you can improve the surface access and reduce travel times for people coming to the airport, so that, essentially, the boundary of your one hour travel time to the airport gets bigger, then there's a bigger catchment area and bigger opportunities for airlines that might wish to invest in the airport.

[146] In terms of rail in particular, the metro offers a fantastic opportunity to be able to improve links to the airport. I know that there are discussions ongoing at the moment about how we can do that. The metro will seek to bring something like a 15-minute interval between trains to the outer reaches of the network. I think a 15-minute service to the airport would be very welcome.

[147] **Jenny Rathbone:** Indeed. So, is there a potential conflict of interest, then, between your role in charge of the metro project as opposed to your role in Holdco?

[148] **Mr Jones:** We haven't got to that point. But, I guess there is a theoretical possibility that there could be a conflict, yes.

[149] **Jenny Rathbone:** Okay. The other thing I'm interested in exploring a bit further is—. You've mentioned the role of St Athan various times in your earlier remarks. I just wondered how crucial you and the Government see the relationship between St Athan and the airport for future development.

[150] **Mr Jones:** The PPIW report paints a picture of an exciting future for this

vision of one airport with two runways, if you like—recognising, though, that the two airfields do completely different things. In the short term, there are probably some operational synergies that we could bring into the operation of the two airports. It's difficult at the moment because of the fact that St Athan is run under a military set of aviation rules. But, that's due to come to an end in a few years' time. I think when that happens and the contractual arrangements which are in place at St Athan begin to fall away, there is an opportunity for Cardiff Airport perhaps to play a more significant role, so that we can share some of the services; things like fire and tower services, grass cutting, bird control and all those kinds of things. There's potential for significant savings for the Government in terms of operating two airports.

[151] **Jenny Rathbone:** So, if you're really successful, you might be able to then develop a second runway, sort of swords into ploughshares.

[152] **Mr Jones:** Well, I mean there is a second runway at St Athan and it is an extremely valuable asset. The PPIW report talked about the fact that we shouldn't be putting houses over runways anywhere in the UK because there aren't sufficient numbers of these important assets. The challenge is making that stack up as a business proposition. We can see where the strategic objectives are in terms of maintenance, repair and overhaul and some of the other exciting opportunities that they talk about in there, but bridging the gap between that kind of utopian future and where we are today is going to take funding and it's going to be a challenge.

[153] **Jenny Rathbone:** Thank you.

[154] **Darren Millar:** Okay. Jocelyn, you wanted to come in.

[155] **Jocelyn Davies:** Yes, it's to come back on a point you were making earlier, actually, because I was interested—. You told us that you weren't an aviation expert, but we've just had your views on destinations and the market and the strategic direction that, perhaps, the airport—. But they're not expressed on behalf of Holdco, are they? Or are they the view of Holdco, because, if they are, you shouldn't even be having them, should you?

[156] **Mr Jones:** Well, I suppose, in the sense that we will have a view on the business plan that the Cardiff Airport board are producing at the moment then it's not unreasonable to have views about what Cardiff Airport might put in front of us.

[157] **Jocelyn Davies:** So, do you have the expertise in order to express those views?

[158] **Mr Jones:** No, not in terms of 'could I shape the future strategy for Cardiff Airport?'—

[159] **Jocelyn Davies:** Well, this morning, I was listening to the *Today* programme and they said that everybody is going to want to go to Spain now because nobody wants to go to Turkey and all those places. Because of world events, Spain is the place that everybody will want to go. So, would you express that view in—

[160] **Mr Jones:** I suspect I wouldn't express a view about tourist destinations. I think, when it comes to challenging the business plan, it would be perfectly legitimate for Holdco to enquire about the ability of the airport to run routes year-round. If you're just focusing on running routes to Spain, then that is not a year-round business.

[161] **Jocelyn Davies:** The model—the management agreement that you mentioned; it's a bit irrelevant that it's an airport, isn't it? This is an agreement that, according to this report that we've got, is commonplace in the private sector. So, it doesn't matter that it's an airport; it could be applied to any sort of business having a holding company of this nature. So, it's not unusual.

[162] **Mr Jones:** That's right, yes.

[163] **Jocelyn Davies:** But is it unique for Welsh Government?

[164] **Mr Jones:** I can't speak for the rest of Welsh Government. In the area that I look after, yes it is, but then we don't have any other arm's-length companies that we look after.

[165] **Jocelyn Davies:** Could you maybe find out for us—

[166] **Mr Jones:** Yes, of course.

[167] **Jocelyn Davies:** —if it's unique for Welsh Government and, if not, when it's been used before?

[168] **Mr Jones:** Okay.

[169] **Darren Millar:** Okay. Julie.

[170] **Julie Morgan:** You mentioned the business strategy that you thought might be something to move forward on. The board would present a business plan and then you would implement it. Is that how it works?

[171] **Mr Jones:** No. The board would present a business plan for us to review, and then they would implement it. So, it's their responsibility. They are operationally empowered to be able to go ahead and deliver. You saw from Deb and Roger last week that we've got the necessary levels of enthusiasm and expertise to be able to deliver those things, and they're empowered to do that. As long as we can agree the business plan, then it's over to them to go and deliver against it.

[172] **Julie Morgan:** Fine. You said that you thought that there might be scope for developing certain routes that would be important for, say, life sciences, for example. What role would you have in exploring that?

[173] **Mr Jones:** It's not for me, really, to say to them, 'You've got to go to this destination'; our role really will be to challenge the airport in terms of the offering that it's putting out there. So, they will present something to us, and we will feed back to them and say, 'How is that going to help you deliver a year-round service? Have you thought about the opportunities for working with life sciences?' You heard Roger last week talking about things like freight, and freight is, potentially, particularly significant for something like life sciences. So, our job really is to take what they present to us and challenge them back on it.

[174] **Julie Morgan:** So, you don't initiate any of that.

[175] **Mr Jones:** No, no. It's their business plan, which we're responsible for challenging, and then they're responsible for delivering against that. Our role is to monitor their progress against that business plan.

[176] **Julie Morgan:** Right.

[177] **Darren Millar:** Sandy.

[178] **Sandy Mewies:** Yes, just to take you back to the surface access discussion that you had, and you said that, theoretically, there is the

potential for tension in the future and that some of the questions that you're being asked now are really about clarity of role, aren't they? So, if that did arise, what would be your role? What would you have to do in that case?

[179] **Mr Jones:** Well, ultimately, I guess, if there's an unresolvable conflict of interests, my ultimate move would be to resign from Holdco, but I don't think that's where any of us want to get to, and I can't envisage a situation where that would be necessary.

[180] **Sandy Mewies:** I think what I'm asking here, really, is about the level of awareness, because that's part of what we're talking about, potentially—the level of awareness of where Holdco is arm's-length, but it's still a link between the Government. You know, it's about where that sits. That was an interesting question about the surface access, because wearing your other hat, you would be thinking, 'This is what you should be doing', but would it be appropriate, wearing this hat?

[181] **Mr Jones:** Well, just to take you back to the point about Holdco being arm's-length, Holdco isn't arm's-length. Holdco is part of Government. It's the operational—

[182] **Sandy Mewies:** Yes, okay, so it's arm's-length; you're the link between the two, aren't you? That's basically it.

[183] **Mr Jones:** Yes, that's right. Yes.

[184] **Sandy Mewies:** It's about the level of awareness that there are certain things that will have to be observed.

[185] **Mr Jones:** Yes, I think so, but—sorry, I sound a bit like a broken record—the reference point is the management agreement. So, my duties, as far as Holdco is concerned, are what are set out in the management agreement. Anything beyond that, relating to things like surface access, actually, are issues for me to do in my other job.

[186] **Sandy Mewies:** Right. Well, that wasn't a broken record. That's been consistent, and that's what I was wondering about. Thank you.

[187] **Darren Millar:** Oscar, was it on this issue?

[188] **Mohammad Asghar:** Yes, Chair. Simon, you said, in your three points

earlier about passengers and finance and destinations, you know, that passengers will improve with more destinations. We are only 3 million people in Wales. Also, Bristol has developed so big, within no time—five or six years—and we are backpedalling ourselves. We'd like to see—all of us—Cardiff Airport as one of the best in the world. To protect the customers—and I know it is an operational matter—what are you doing to improve the passenger numbers to bring—? Bristol airport is sending buses there very regularly, from Swansea to Bristol every half an hour or 15 minutes. And with school holidays, when there are school holidays the aviation industry increases the prices of their travelling. You should be reducing, in Cardiff Airport, to protect the passengers, which will improve the financial viability in our airport. What are your plans?

[189] **Mr Jones:** So, like I say, that's a matter for the airport company to—

[190] **Mohammad Asghar:** But what you just said is that you meet them every month and you've got two-year plans. Two years is too long. You should be making plans to improve our profitability, passengers and destination pretty quickly. Two years is too long, when others go to the other side of the world and we are still around Europe. In the summertime we should be going towards the north, and in the winter time, we should be going towards the south. That's the golden rule, you know, in the aviation industry. So, what plans have you got to improve our airport destinations?

[191] **Darren Millar:** We appreciate that some of these are operational matters.

[192] **Mr Jones:** Yes.

[193] **Mohammad Asghar:** But they keep an eye, Chair.

[194] **Darren Millar:** But there is an issue here, isn't there, with the Welsh Government's sponsored bus links, for example, which can have an impact operationally on the airport but are not matters for the airport itself. So, where do those sorts of things fit in? We've touched on the metro, but there is a bus link at the moment—

[195] **Mr Jones:** There is, yes.

[196] **Darren Millar:** that is funded by the Welsh Government. Can you tell us a bit more about that? Is there scope to expand that, do you think?

[197] **Mr Jones:** Well, like I said earlier—

[198] **Darren Millar:** What's Holdco's view?

[199] **Mr Jones:** Holdco's view, I suppose, is that the airport have got to deliver against a business plan that shows passenger growth. Roger talked about the growth in passenger numbers that they've achieved already and their targets for growth next year of a further 9 per cent on top of what they've achieved this year.

10:00

[200] People need to be able to get to the airport in order to be able to deliver those numbers. So, I guess Holdco's view is that surface access is a really important matter for the airport. How that's achieved is not really within the remit of Holdco.

[201] Now, if you were to ask me that with my other hat on, I'd go back to the response that I gave earlier about the rail access. The work that is being done on Five Mile Lane is really important, and that's progressive. The T9 bus is showing signs of improvement in patronage, the shuttle bus link to the railway station is really important, especially if we were able, through the metro, to improve the frequency of the link to the airport as well.

[202] **Darren Millar:** So, you're monitoring the number of people arriving by each mode of transport, are you?

[203] **Mr Jones:** I don't have the figures, but that is monitored. The airport has fantastic data about the arrivals into the car park. I think they talked last week about their automatic number plate recognition system. So, they know when people are coming and going from the car park and when those people are coming back. So, they'll know exactly how many cars are entering and leaving the airport at any one time. As Welsh Government, we know how many people are using the T9 bus, for instance. So, we do have that data.

[204] **Darren Millar:** You can provide that data to the committee.

[205] **Mr Jones:** Yes, we can provide that.

[206] **Darren Millar:** That would be useful. Aled.

[207] **Aled Roberts:** Rwyf i eisiau gofyn yn Gymraeg. A ydych chi hefyd yn casglu data ar y bws wennol, felly, o'r orsaf reilffordd, fel Llywodraeth?

Aled Roberts: I'll be asking my question in Welsh. Do you also gather data on the shuttle bus from the railway station, as a Government?

[208] **Mr Jones:** I believe that we do. I think there may have been some references made to that in the auditor general's report. I could try and dig those figures out for you if that would help.

[209] **Aled Roberts:** Fine, okay.

[210] Rydych chi wedi awgrymu mai cyfrifoldeb cwmni'r maes awyr ydy'r cynllun busnes—rwy'n dallt hynny—ond, a ydyw hi'n wir i ddweud mai Holdco a wnaeth ddisodli'r amcanestyniadau ar gyfer pum mlynedd yng nghynllun busnes 2015, a rhoi amcanestyniadau am ddwy flynedd, yn hytrach? Beth oedd sail yr awgrym hynny?

You suggested that the business plan is the responsibility of CIAL—I understand that—but, is it true to say that Holdco replaced the projections for five years in the 2015 business plan with projections for two years? What was the basis for that suggestion?

[211] **Mr Jones:** I would just add to the comments that Roger Lewis made when he was with you here last week talking about that issue. I think it has been touched on in some of the questions that have been raised this morning. The aviation sector is pretty dynamic. If you just think about what's happened in aviation just in the last year with Sharm El Sheikh, with Tunisia, with Paris—they all had a material impact on the airline industry, not just coming into Cardiff, but around the world. Those things are impossible to predict, so putting together a business plan that we're going to monitor and we're going to hold the feet to the fire of Cardiff International Airport Limited board against, which projects for more than two years, is a very difficult thing to do. Bear in mind what we're doing here with the management agreement is monitoring their progress against that business plan. If we asked them to project five years into the future, that's going to be a very difficult act for them to perform to be able to consistently achieve against a five-year target, when we know that there are material changes there.

[212] I talked about some of the negative things there—the kind of terrorist-related things—but there are potentially some upsides, as well. Who

knows? If UK Government decide to devolve air passenger duty sometime in the next couple of years, that could, potentially have a significant upside effect on the performance of the airport and we would then be judging the airport over a five-year business plan period, when their performance would way exceed what was in the business plan and it would be very difficult for us to challenge them, to have a set of challenging targets. So, I think it's right that Cardiff Airport board produces a two-year business plan that we hold them to account to, and that's the basis of the management agreement. Is there a case for having a five-year view, or even perhaps a longer term view of where the airport wants to be strategically to deliver some of the things that are in this Public Policy Institute for Wales report? Yes, I think there is and I think, on reflection and in line with the comments of the auditor general, we will ask the airport, this time around, for both a two-year business plan, which we'll measure them against, but also a view of a five-year horizon and perhaps even a slightly longer horizon as well, just to be able to monitor the direction of travel, but also to be able to see where the airport is going from a strategic point of view.

[213] **Aled Roberts:** Felly, a **Aled Roberts:** Therefore, did you wnaethoch chi'r awgrym hwnnw ar make that suggestion on the basis of sail arfer o fewn y diwydiant? Os practice within the industry? If we go ydym ni'n mynd i faes awyr Bryste, to Bristol Airport, Liverpool or Lerpwl neu Fanceinion, a fydden Manchester, would they be planning nhw'n cynllunio ar sail cynllun on a two-year basis? busnes dwy flynedd?

[214] **Mr Jones:** I can't speak for those other airports—

[215] **Aled Roberts:** Felly, ar ba sail **Aled Roberts:** Therefore, on what wnaethoch chi'r awgrym hwnnw os basis did you make that suggestion, nad yr arfer o fewn y diwydiant ydy if it isn't industry practice to have a cynllun busnes dwy flynedd? two-year plan?

[216] **Mr Jones:** I think Roger covered this quite eloquently—

[217] **Aled Roberts:** Na, nid wyf i **Aled Roberts:** No, I don't want eisiau barn Roger; rwyf i eisiau'ch Roger's opinion; I want your opinion. barn chi.

[218] **Mr Jones:** Okay, but I was just going to ground my statement in reality, from other industries. A two-year planning horizon is a perfectly reasonable

thing to do—we clearly need to forecast for longer than one year in order to be able to take us through the end of the financial year. But when we've got all of those variables that are particularly prevalent in the airline industry, any longer than two years, I think, would not be sensible.

[219] **Aled Roberts:** Ond eto, o'ch ateb chi, gallwch chi ddim dweud mai dyna sail penderfyniadau yn y diwydiant—bod maes awyr Lerpwl neu Fanceinion yn gweithredu ar yr un sail. A oedd gennych chi unrhyw bryderon penodol am amcanestyniadau Maes Awyr Caerdydd dros fwy na dwy flynedd?

Aled Roberts: But, again, given your answer, you can't say that that is the basis of decisions within the industry—that the airports in Liverpool or Manchester operate on the same basis. Did you have any specific concerns about the projections of Cardiff Airport over a period of more than two years?

[220] **Mr Jones:** I wasn't involved in Holdco when my colleagues looked at that last year. I think the focus last year, though, was on making sure that we had an accurate and reliable business plan in order to be able to take us through what were difficult times, you know. The airport's performance last year was slightly behind where our acquisition business plan said it should be. I think there was a lot of focus on making sure that the performance in terms of those key metrics that I've talked about around passenger numbers, for example, headed in the right direction. It was important that we had a business plan that focused the airport on achieving those short-term aims, because without that short-term confidence, that contagious confidence that was talked about last week, it's quite difficult for us to be able to move forward.

[221] So, on balance, I think it was probably the right decision for the time, last year, to look at a two-year planning horizon. I think we're in a different place now. The development of passenger numbers over the course of the last year, the establishment of FlyBe at the airport has made a huge difference to the ability of the airport to be able to meet our longer term aspirations—that wasn't in place, remember, when the business plan was agreed last year. There were conversations taking place with FlyBe and they were close to doing a deal, but there was quite a lot of, still, uncertainty. So, I think, given that uncertainty, it was probably right to focus just on a two-year business plan. The airport have done a deal with FlyBe now that secures their presence at the airport for the next 10 years, and I think, in light of that, it is definitely appropriate to look to a longer term planning horizon.

[222] **Aled Roberts:** Felly, o ran y **Aled Roberts:** Therefore, in terms of cynllun busnes presennol, yn ystod the current business plan, during eich cyfarfod chi fis diwethaf, nid your meeting last month, you oedd unrhyw bryderon gennych chi expressed no concerns about the ynglŷn â pherfformiad y maes awyr. performance of the airport.

[223] **Mr Jones:** No, I think the airport—well, not ‘I think’, I know that the airport is performing in line with the business plan that we agreed with them in March of last year.

[224] **Aled Roberts:** Fe ddywedodd **Aled Roberts:** Roger Lewis said last Roger Lewis yr wythnos diwethaf fod week that there is a 15–indicative yna gynllun 15 mlynedd dangosol plan for the airport. Has that 15–year gan y maes awyr. A ydy’r cynllun 15 plan been shared with the Holdco mlynedd yna wedi ei rannu â bwrdd board? Holdco?

[225] **Mr Jones:** No. The programme that we have for agreeing the plan with the airport is that they will bring a draft of the business plan to the airport company board meeting at the end of this month, the end of February, for agreement by the operating company, and then that will be formally issued to Holdco at the beginning of March, and we have March, then, to review and agree it. We’ve seen a draft of the two–year business plan as part of that exercise at the last airport board meeting, but that was an early draft that is being worked on now, and it was more really about the principles, rather than the detail within it. There will be detail in the business plan that is presented to the operational board at the end of this month, and then we will be given the two–year business plan plus, I understand, the five–year and 15–year horizon to review during March.

[226] **Darren Millar:** So, just to clarify this point about this 15–year plan, we were told about its existence, but you’re not aware—you haven’t seen—

[227] **Mr Jones:** I’m aware it’s being worked on, but I haven’t seen it.

[228] **Darren Millar:** But even though you attend the board meetings every month of Cardiff international airport, you haven’t seen a 15–year business plan.

[229] **Mr Jones:** I haven’t seen the version that—

[230] **Darren Millar:** Have you seen any version?

[231] **Mr Jones:** So, no, I haven't seen that, but that's not surprising really, because this is an initiative that the incoming chairman has put in place since he arrived at the beginning of November.

[232] **Darren Millar:** So, there hasn't been a discussion of a 15-year plan, given that—

[233] **Mr Jones:** There's been a discussion that there's a need to produce one. There's been a discussion about the kinds of things that it might involve, the kind of areas that might be covered by it, but in terms of the detail, no, I haven't seen it, and I wouldn't expect to either. It needs to be produced by the airport company. As I understand it, it's not in a state to be able to present it to the board of the airport company yet, never mind to the board of the Holdco.

[234] **Darren Millar:** But there's an indicative plan in existence. You attend the board meetings of Cardiff international airport, and it has not been discussed at the board meetings.

[235] **Mr Jones:** It has not been brought to the board, no. There's a fixed—

[236] **Darren Millar:** Don't you find that quite surprising?

[237] **Mr Jones:** No, I don't. There's a fixed agenda for the board meeting, which covers the matters that are described in the management agreement. So, that's about monitoring the performance of the airport against its two-year plan.

[238] **Darren Millar:** I'm talking about the board meetings that you attend of the Cardiff Airport board, not Holdco.

[239] **Mr Jones:** That's right. So, there's a fixed agenda, there's a fixed set of papers that come there, and generally speaking they are about the operational matters to do with the airport. There's a discussion about strategic direction, and there's been a discussion about the fact that there's a need to produce a 15-year plan, but that hasn't been tabled yet.

[240] **Darren Millar:** So, you don't attend all of the Cardiff international airport meetings.

[241] **Mr Jones:** I do. I attend the entirety of the board, yes.

[242] **Darren Millar:** And that board doesn't discuss its 15-year plan. Aled.

[243] **Aled Roberts:** Ynglŷn â'r **Aled Roberts:** Regarding the 15-year cynllun 15 mlynedd, felly, os ydy'r plan, therefore, if the board that you bwrdd—rydych wedi bod yn have attended has discussed the bresennol yno—wedi trafod yr principles that should be included egwyddorion y dylid eu cynnwys o within a 15-year plan, has there been fewn y cynllun 15 mlynedd, a oes yna any discussion regarding who would unrhyw drafod wedi bod ynglŷn â be responsible for writing the 15-phwy fydd yn gyfrifol am ysgrifennu'r year plan? Are there any external cynllun 15 mlynedd? A oes yna experts being employed to undertake unrhyw arbenigwyr allanol yn cael eu that work? cyflogi i gyflawni'r gwaith yna?

[244] **Mr Jones:** That would be the responsibility of the Cardiff Airport company, the arm's-length company. I think it's a matter for them if they need to employ third parties. I'd be very surprised if they didn't take due account of the PPIW report in terms of that planning—after all, that was written by an external expert. Certainly, when we come to review that, we'll be looking at it through the prism of the work that PPIW have done.

[245] **Aled Roberts:** Rwy'n derbyn **Aled Roberts:** I accept that it's the mai cyfrifoldeb y cwmni maes awyr responsibility of the airport company, ydy o, ond y cwestiwn ydy: a oes yna but the question is: has there been unrhyw drafodaeth wedi bod yn ystod any discussion during board cyfarfodydd o fwrdd y cwmni maes meetings of the airport company, awyr, pan rŷch chi wedi bod yn when you've attended, about who bresennol, ynglŷn â phwy a sut fydd y and how the 15-year plan will be cynllun 15 mlynedd yn cael ei written? ysgrifennu?

[246] **Mr Jones:** My understanding is that it will be written, as is the two-year plan, by the executive directors of the airport company, who have significant amounts of aviation experience and understanding of the market.

[247] **Jocelyn Davies:** Could I just ask a quick—? There's no need for you to agree this 15-year plan, is there, in terms of your management agreement?

[248] **Mr Jones:** No.

[249] **Jocelyn Davies:** So, it's fairly narrowly focused.

[250] **Mr Jones:** Yes.

[251] **Jocelyn Davies:** So, they can have one if they want to; it's not a requirement and it certainly doesn't require you to ratify it.

[252] **Mr Jones:** That's right.

[253] **Jocelyn Davies:** Thanks.

[254] **Darren Millar:** But it is in your interests, given that you're trying to protect the value of the airport, if you like, the value of the asset, to take a longer term view of whether they can pay the loans down to the Welsh Government, et cetera, because you're acting on behalf of the Welsh Government.

10:15

[255] **Mr Jones:** I agree with you, and that's why we're keen to see it happen, but there are also other things that sit perhaps outside the immediate purview of the airport company that will affect that. So, things like some of the initiatives that are talked about in the PPIW report will have an impact on that, and there are things in there that are not matters for the airport company at the moment, but could have an impact on its future performance. And then there are some of the other matters that I've discussed—you know, the external influences that will also have an effect.

[256] **Darren Millar:** But that's the same for every business—it's the same for the Welsh Government—but there's not a two-year business plan from Welsh Government departments, is there? There's a longer term horizon that people look towards.

[257] **Mr Jones:** I think it's pretty common practice in—

[258] **Darren Millar:** Of course, you've got more certainty about what's immediately ahead; of course, everybody does.

[259] **Mr Jones:** Well, I think it's pretty common practice in business to have

a long-term strategy about where you want to be, and short-term business plans that are about how you're going to deliver your business over the next 12 or 24 months.

[260] **Darren Millar:** But shareholders would usually want to see both, wouldn't they, and you seem only interested in the short-term view?

[261] **Mr Jones:** We're interested in the short-term view in terms of how we monitor the performance of the airport day to day, because it's that which gives us the absolute numbers that we can monitor against. The long-term plan won't give us those long-term numbers that we can monitor against, but it will demonstrate—

[262] **Darren Millar:** But the Canadian teachers' pension fund will not be looking just two years ahead in terms of their investment at Bristol; they'll be wanting to know what's happening two years, five years, 10 years, even 15 years down the line, won't they? You seem only interested in the two-year horizon.

[263] **Mr Jones:** I wouldn't characterise it as only interested in the two years.

[264] **Darren Millar:** That is what—. Well, you specifically asked them to shorten their view, didn't you, in terms of their business plan?

[265] **Mr Jones:** And I think that was for a particular tactical need last year, given the local financial circumstances that the airport found itself in, to do with the decline in passenger numbers that year, to do with the imminent arrival of Flybe and the changes that that was going to bring to the business. The business is in a much, much more stable place now. Passenger numbers this year have grown phenomenally and are set to grow significantly next year as well. So, we're in a much stronger place now than we were a year ago.

[266] **Darren Millar:** Okay. I've got a few Members who want to come in. Sandy first, then Oscar, then Mike.

[267] **Sandy Mewies:** Can I just clarify, for my mind, anyway? I think you said that you've given the reasons for why a two-year plan was necessary. Would you, as a matter of course, expect Cardiff international airport to be looking at what other airports were doing, or looking specifically as to what would affect them? That's my first question.

[268] My second is: was I right when I heard you say that you are considering now, as conditions have changed, to ask for a medium term, if you wish to term it that way—a longer horizon in the future? You've also said that you are aware of the 15-year plan. It has been mentioned during board meetings. The two-year plan was worked up by executive directors. Are you assuming that that's what's happening now, and that's only been happening since November? It may not have been the first thing that Roger Lewis did, but it may have been something. Where are we? We're in February now. Are you assuming that would be being worked up and that, when it is completed, it will come to the board?

[269] **Mr Jones:** I think it's perfectly normal in any business for the executive team to do the heavy lifting in terms of producing material like a business plan, and then for that to be challenged by the non-executive directors of the company. So, in this case, it would be the non-execs of the airport company; they would be the first challenge group for the—. I mean, after all, that's why you have non-executive directors. And then it would be handed over to Holdco to review. So, I think that's a perfectly normal process in any business.

[270] You asked about a medium-term planning horizon. Well, we've kind of got the two extremes, haven't we? We've got a two-year business plan that we have to hold them to account for against the management agreement, which necessarily is very specific and very focused, and then a 15-year plan, which is very aspirational, and there are all sorts of variables that might throw the business off course over time. But, I think it's also sensible to have something that kind of sits in the middle of that, which allows for some investment decisions, for example, to be made perhaps by the airport company. Again, that's not unusual for businesses to have multiple horizons for planning. The businesses that I've been involved in prior to joining Welsh Government have done exactly that. It's not unusual.

[271] **Sandy Mewies:** Thank you.

[272] **Darren Millar:** It is unusual for shareholders not to be interested in all views.

[273] **Mr Jones:** I wouldn't characterise it as not being interested. I think we are interested. I think there were some very specific circumstances last year that meant that we wanted to focus in on the two-year time horizon, but

things are different now, and we've asked to see those long-term—

[274] **Darren Millar:** Okay, you've made your point. Jocelyn.

[275] **Jocelyn Davies:** Of course, before Roger's time—and you keep calling him Roger—

[276] **Mr Jones:** Mr Lewis.

[277] **Jocelyn Davies:**—Mr Lewis's time, we had Mr Rowe-Beddoe, who said that it's going to be returned to private ownership within five years. So, if he'd brought a 15-year plan, we would have ripped that apart as well, wouldn't we, and said, 'You don't really intend to do that'? So, it is difficult because we don't know what the future of the airport is in terms of ownership, do we? I think we're giving you a hard time here for no reason at all, to be honest, on that point—

[278] **Darren Millar:** That's not a question. Oscar.

[279] **Jocelyn Davies:** —so don't go away from here thinking that we all feel the same because we don't.

[280] **Mohammad Asghar:** Ok, but it's still the chairman—. Sorry, the First Minister has already said that he would be selling a bit of it, not all of it, anyway. My question to Simon is: you've been very eloquent about all the report and everything. Has progress been made on the environmental and equality objective? That's one. The second is: St Athan is only metres away from Cardiff Airport, and there is a possibility of financial benefit from having an RAF airbase next to it, and there can be more financial benefit if you work together on certain areas. Have you evaluated that?

[281] **Mr Jones:** Yes. So, I'll take the St Athan point first of all. I think it was something that was envisaged in the acquisition business plan that the two airports would—. I think they used the word 'synergy'. Whether—*[Inaudible.]*—or not, that was the word that was used. And, yes, there are opportunities for overall cost savings if certain elements are run as one because, as you described, they are very close together, so things like the management of wildlife, perhaps the fire service, perhaps the tower services, perhaps some of the other ground handling stuff, there are obvious opportunities for working together and reducing our overall costs, frankly, of running St Athan.

[282] I think there are perhaps some wider things that we could be thinking about as well. It's a huge site down at Cardiff Airport, but there are limitations in terms of future developments down there, in terms of being able to do some of the maintenance repair and overhaul activities. Some of the activities perhaps envisaged in this document—. It talks about perhaps recycling the aluminium air frames of old aeroplanes. Well, that probably isn't something that we'd want to see happening at a commercial passenger airport. You wouldn't want to arrive at the airport to see half dismantled hulks of old aeroplanes in the distance. That wouldn't be a great passenger experience, but perhaps that's something that would be entirely appropriate for St Athan, and indeed that happens down there already.

[283] So, this document paints a picture of a future where there are certain activities that are better suited to Cardiff Airport, the kind of commercial and passenger environment, and certain activities that are better suited to St Athan. They've got different characteristics; they've got different runway lengths. At the moment, St Athan is held back, I think; in part, because of the military operation and the fact that the military operation down there is only 9 a.m. until 5 p.m., Monday to Friday, which is perhaps not optimal for all of the tenants down there, who are—. If an aeroplane is on a schedule, flying around the world, it might not be able to get into St Athan at a particular slot between nine in the morning and five o'clock in the afternoon, to be able to touch down for maintenance repair and overhaul.

[284] So, there are things that I think we could do differently if we bring the two together. Cardiff Airport, Cardiff international airport, is a 24-hour operation. It's a great asset for us that we've got a 24-hour operational airport on our doorstep. There aren't that many airports that can operate for 24 hours a day, and the fact that planes can take off and land over the sea does give us a competitive advantage. We've got a lovely long runway there; there's a shorter runway at St Athan. So, I think it's about taking the best of both of those airports and being able to develop a strategy for the future that allows for the two of them to work together.

[285] **Darren Millar:** Okay. Can we just ask, in terms of the disposal of the airport, because time is short now—? Obviously, we heard some views from Cardiff international airport, from Roger, certainly—Roger Lewis—last week, that he would like to move towards a sort of shared ownership model in the medium term for the airport. What's Holdco's view?

[286] **Mr Jones:** Well, I think the—. It's an interesting one, I suppose. The First Minister, I think, has made it clear that that's something that the Government would like to move towards. But there are some imperatives that we've got to make sure are dealt with before that can happen. You could, in theory, return it to private ownership anytime now, but there's no guarantee that it won't just be turned into an enormous housing estate. So, it needs to turn a corner, it needs to turn back into a viable business, carrying significant numbers of passengers. It wasn't that long ago that it was carrying 2 million passengers. And to get it to the performance that it had in 2007, just to illustrate the numbers here—. We have spoken, by the way, as Government, with potential investors in the airport. Those conversations do take place—it's not something that is just being parked for the future—just to get a feel for where the market wants to be.

[287] The market seems to work on rule-of-thumb multiples of earnings—earnings before interest, taxes, depreciation and amortization, as they call it. The rule of thumb is something like 15 times—I think the report talks about in the range of between 10 and 20 times multiple of earnings. So, the potential investors that we've talked to have said, 'Well, you know, as a rule of thumb, we look at 15 times EBITDA.' If you cast your mind back to how the airport was performing in 2007, when the earnings were somewhere between £8 million and £10 million, that puts a value on the airport of perhaps £150 million. Compare that with what was paid for the airport, compare that with the value of the loans, that's potentially a return for the investment that the Government has made, so it's a good story. But there's a bit of work to do to get us to that point in time, and the plans that we've talked about—the five-year and 15-year horizons—they talk about how we get to those kinds of levels of earnings and allow us to be able to realise a return on our investment.

[288] **Darren Millar:** So, just based on that multiple that you use, what would be the value of the airport today?

[289] **Mr Jones:** We're kind of still in the territory we were in when we acquired the airport, where the Treasury said—the Treasury guidance is to not use that view of valuations of assets for buying the airport, so that—

[290] **Darren Millar:** But, in terms of the aviation market view, what would the value be today?

[291] **Mr Jones:** Well, if you just looked at that matrix—

[292] **Darren Millar:** If you used that matrix—the one that you’ve used yourself to value it.

[293] **Mr Jones:** I don’t know. It would be—. I think the numbers are described in the auditor general’s report; those earnings numbers haven’t changed dramatically. But that’s the earnings view, not the other view, which we used to value the airport when we bought it.

[294] **Jocelyn Davies:** Yes, but, if somebody else was buying it, they wouldn’t be using the Treasury rules, would they? So, if somebody else was buying it, what would they be prepared, in the industry, by their rule of thumb—? What would that answer be?

[295] **Mr Jones:** I don’t know off the top of my head. But I think—

[296] **Jocelyn Davies:** But you know what it was in 2007.

[297] **Darren Millar:** Yes. So, what’s the EBITDA at the moment of the airport? You are monitoring it every month, you’re attending the board meetings, you’ve got the Holdco meetings.

[298] **Mr Jones:** Yes. I can’t recall off the top of my head. It’s a fairly modest number. So, the EBITDA number—. That multiple view wouldn’t return the value that we paid for the airport.

[299] **Darren Millar:** I’m just asking what the EBITDA—

[300] **Mr Jones:** Yes. I can’t recall.

[301] **Darren Millar:** You can’t recall, but you attend two meetings per month, where you’re monitoring this stuff.

[302] **Mr Jones:** Yes.

[303] **Darren Millar:** And you can’t recall the EBITDA.

[304] **Mr Jones:** I can’t recall that number, no.

[305] **Jocelyn Davies:** That’s not something that’s raised every month, is it?

[306] **Mr Jones:** No, we don't talk about that. The metrics we look at are passenger numbers, and those kinds of things.

[307] **Darren Millar:** Yes, but you're also interested in value, aren't you? So the value—this EBITDA—is important, isn't it?

[308] **Mr Jones:** But it's about long-term value, not the short-term value of the airport.

[309] **Darren Millar:** I appreciate that, but given that value is what Holdco is all about—maintaining value for the Welsh Government— isn't it important to monitor that? Shouldn't that be one of your KPIs that you look at on a regular basis?

10:30

[310] **Jocelyn Davies:** They don't have KPIs. They haven't got KPIs.

[311] **Darren Millar:** Well, there has been a reference to that fact that you want to develop some KPIs, hasn't there?

[312] **Mr Jones:** There has, yes.

[313] **Darren Millar:** Okay. So, shouldn't this be a KPI?

[314] **Mr Jones:** Well, I think it will be something that we can consider when we look at the KPIs.

[315] **Darren Millar:** Okay, thank you. Mike.

[316] **Mike Hedges:** I have three quick points, which I will put to you. One of the best things to do, in purely economic terms, would be to close the airport and build houses on it, which would bring a substantial rate of return on the investment but would not necessarily be of any good to the Welsh economy.

[317] **Mr Jones:** If all we're interested in is recovering the initial investment, then that would be a way of doing it.

[318] **Mike Hedges:** You'd more than recover it. I would guess it's worth over £1 million an acre for building land, therefore—. I don't know how many acres you've got there, but I would guess you'd get at least four times the

price.

[319] The second question is—. We talk about 15-year plans. If, in 2001, they'd produced a 15-year plan, would we be looking at where we are now? Because we've had at least two changes in ownership, we've had at least two—and I think it's three—different chief officers, and the world has moved on substantially since then.

[320] **Mr Jones:** The auditor general's report, I think, talks about the master-plan exercise, which was carried out by the airport in 2006. That envisaged considerably more passengers using the airport than there are now. That was Abertis's view of the world in 2006. That was talking about 2 million, 3 million or 4 million passengers using the airport. That was not delivered by the previous owners. We've got to start again, essentially.

[321] **Mike Hedges:** The last point is, although you can't, I think, have a realistic 15-year plan—. Oil companies have been tearing up their 12-month plans in recent times, never mind their 15-year plans, as have lots of other industries as events have affected them, and I think in 2008 an awful lot of 12-month plans went out of the window. So, planning for 15 years does create a lot of problems. You can have aspirations for what you want to achieve over the next 15 years, things like flights to North America, things like flights to Asia. I think those aspirations are what you're trying to do and how you're going to set about it. Have you got those aspirations for what you want the airport to achieve in terms of flights, et cetera, and have you agreed them with the airport?

[322] **Mr Jones:** So, I think we've started on that process and I think the PPIW report is the start of that process. That kind of spells out what the aspirations for the airport could be and we will be having discussions, I think, about how we can turn that into something more substantial.

[323] **Mike Hedges:** I think that really is important: 15-year plans could end up being rewritten because of events, but aspirations for what you're trying to achieve gives you something to aim at. At what stage would you expect you and the airport to come to an agreement on the aspirations in terms of destinations?

[324] **Mr Jones:** I think that will be part of the discussion that we'll have when they submit their 15-year plan. Will we get into the detail of particular destinations that are going to be served in 15 years? Probably not.

[325] **Mike Hedges:** I'm not saying 'to go to New York' or 'to go to Orlando'. What I'm saying is: will North America be in there? Or, for example, will South America be in there? Obviously, which airports you're going to fly to in those places—. Will Asia be there? Will Australia be there? It's that aspiration.

[326] **Mr Jones:** Yes, and I think that's probably the case. Sorry to keep going back to the PPIW report, but it does talk about it in those kinds of terms. It talks about routes to North America, routes to the middle east.

[327] **Mike Hedges:** Sorry, can I just—? I know the PPIW report says that. I actually agree very much with the PPIW report. What I'm asking is: do you at Holdco, and, in your discussions with the airport, want to take the PPIW report forward?

[328] **Mr Jones:** I think we do, yes. Yes.

[329] **Darren Millar:** Can I just go back to this issue of what might happen in the future? Obviously, as I said, we heard the view of Roger Lewis last week on behalf of the airport, saying that he'd like some public-private partnership, effectively, in terms of the owning of the airport. Is that Holdco's view? You said that there's been expression of interest from parts of the aviation market—

[330] **Mr Jones:** I wouldn't characterise them as expressions of interest—more, at this stage, as discussions that have been had.

[331] **Darren Millar:** And the Welsh Government or Holdco would like that sort of public-private partnership as opposed to a disposal to a—

[332] **Mr Jones:** I think the view of Ministers is that that public-private partnership is really important to secure the long-term future of the airport, for fear that we will end up repeating what happened under the previous ownership.

[333] **Darren Millar:** And what sort of timescale? We heard a timescale suggested by Roger Lewis last week.

[334] **Mr Jones:** Yes. It would be nice to be able to have discussions in three years' time. Will we have concluded those discussions in three years' time? I don't know.

[335] **Darren Millar:** Roger Lewis seemed to suggest that he himself was going to have some of these discussions. Wouldn't it be more appropriate for Holdco to be having the discussions with—?

[336] **Mr Jones:** Yes. Holdco is the shareholder, so Holdco would have to be driving those discussions, yes.

[337] **Darren Millar:** Yes. Were you surprised that Mr Lewis seemed to assert that he would be sort of leading on this?

[338] **Mr Jones:** Well, I think it would be a bit strange if the chairman of the operational company weren't involved in those discussions. So, was I surprised? No, I wasn't. Do Holdco need to be involved in those discussions? Does the Welsh Government more widely need to be involved in those discussions? Yes, it does.

[339] **Darren Millar:** Just one final question: the auditor general's report makes reference to the fact that, under your agreement, you have the power to be able to appoint non-execs to the Cardiff Airport board and to approve or not approve any appointments that they want to make in terms of the board. Do you think that that's appropriate? Are you happy with those arrangements?

[340] **Mr Jones:** Yes. There's also the sanction of removing directors from the board as well, and it's important to be able to have all of those tools available. We've talked about the performance of the airport. It's those kinds of sanctions that are also important to Holdco to be able to make a material difference if the need arose. Fortunately, it hasn't arisen. But, yes, I think the tools are available to Holdco, should Holdco need to exercise them.

[341] **Darren Millar:** Again, last week, there was some discussion about the fact that the Cardiff Airport board could be expanded in order to fill some of the expertise gaps, perhaps, or to add some value to the existing membership. You are having active discussions about that with the board.

[342] **Mr Jones:** Yes, I am. I've spoken with Roger Lewis about that on a few occasions, and I think you heard from the discussion last week that there is a recognition that that wider aviation or airline experience might be valuable to the airport company board, and I think I'd agree with that assessment—from a non-exec director point of view, as we discussed earlier. The exec team

has got lots and lots of experience of running airports, but the non-exec team needs to be able to challenge that. There is aviation expertise and experience on that board, but there's an argument that that could be further bolstered.

[343] **Darren Millar:** Just finally, in terms of the loan facility that has been made available so far—£23 million—worth of loan facility—again, there was a suggestion that that would need to increase in the short to medium term in order to continue to allow for the development of the airport, to make it more attractive for people to want to use, et cetera. What sort of figure does Holdco have on the—?

[344] **Mr Jones:** So, we don't have a figure yet. I think that will likely fall out of the business planning exercise, because that will be a consent matter—the loan amount. I think it's worth recognising that loans to airports are not in any way unusual. I've got some figures here if you'd be interested in them. This is public domain information. Bristol Airport, for example: £280 million in June 2015. Luton airport: £318 million in April 2015. Edinburgh: £440 million in May 2014. Heathrow, June 2012: £4.527 billion. So, it's not unusual for airports to carry huge amounts of debt. Actually, the amount of loan—

[345] **Jocelyn Davies:** It is unusual for Governments to—*[Inaudible.]*—though, isn't it?

[346] **Mr Jones:** Yes, but I think the auditor general's—

[347] **Jocelyn Davies:** Are any of those loans from Governments?

[348] **Mr Jones:** Well, I don't know, but some of those airports that I talked about are in partial public ownership. So, Manchester Airports Group, which is 60-odd per cent owned by local authorities in the Manchester area—they've got substantial loans. I think, to go back to the point about whether it's unusual for Government to be lending that kind of money, there is an issue about the way that the accounting rules work for us in Wales. If the airport borrowed that money on the open market, which, in theory, it could go out and do, that would have a direct impact on the consolidated grant that we get from Westminster.

[349] **Darren Millar:** Do they have any other loans—the airport—or is it just this Government loan?

[350] **Mr Jones:** It's just the Government loan, because of that accounting issue.

[351] **Darren Millar:** So, a £23 million facility at the moment.

[352] **Mr Jones:** Yes.

[353] **Darren Millar:** It's going to be extended. You have no ballpark figure as to where it may go.

[354] **Mr Jones:** We don't have that number, no.

[355] **Darren Millar:** And you've got a financial check that you've commissioned, which is under way.

[356] **Mr Jones:** Yes. So, we asked Deloitte to go in and have a look at the finances of the airport. There were a number of reasons for doing that. We asked them primarily because we'd owned the airport for three years. It was important to understand the financial health of the airport. I think it was a prudent thing for a shareholder to do. There was also a need for us to be able to benchmark the interest rate that was being charged—or for Government to be able to benchmark the interest rate that was being charged on the existing loans. There's a requirement that loans offered by Government are seen to be commercially compatible; so, they are calculated against a European reference rate, and percentage points above that rate, based on a range of different criteria around risk and all the rest of it. The Deloitte work is, in part, looking at whether that analysis of the interest rate is still appropriate.

[357] **Darren Millar:** Is there no scope for the airport to go—? I know you talked about accounting rules earlier, but there's no scope to go out to the wider loans market in order to—

[358] **Mr Jones:** Well, there's nothing stopping the airport, in theory, from doing that. The downside wouldn't be for the airport; the downside would be for the Welsh Government as a sole shareholder. It would have a direct impact on the block grant, which we get from Westminster. So, that £23 million—

[359] **Darren Millar:** Okay. And that's purely the only reason.

[360] **Mr Jones:** That's the driving factor here. So, that £23 million would have been removed from our block grant.

[361] **Darren Millar:** I see. So, the facility's going to need to go up. We don't know to what yet. We've got this financial health check piece of work going on, which will report back springtime-ish.

[362] **Mr Jones:** Yes.

[363] **Darren Millar:** That will help you determine the interest that's charged on the loan, and just a general health check three years on from acquisition.

[364] **Mr Jones:** That's right.

[365] **Darren Millar:** Aled, you wanted to—.

[366] **Aled Roberts:** I just wonder, if those figures are in the public domain, whether you could provide a note as to who those loans are with, just for us to see whether or not they are Government borrowing.

[367] **Mr Jones:** I don't know whether they are in the—. Sorry; they're in the public domain, but I don't know from whom the money has been borrowed.

[368] **Aled Roberts:** Okay. But perhaps you could check whether that information is available.

[369] **Mr Jones:** Yes.

[370] **Darren Millar:** Mike.

[371] **Mike Hedges:** Effectively, the airport is a wholly-owned subsidiary of the Welsh Government, in exactly the same way as health boards are wholly-owned subsidiaries of the Welsh Government, and your borrowing will be treated exactly the same way as health boards, and it would come off the block grant. Is that correct?

[372] **Mr Jones:** That's right.

[373] **Mike Hedges:** The other point is that, whilst governments may not have given loans—and I don't know about Scotland and Ireland—what I do

know is that local government—. The airport was exceptionally well-run before John Redwood made the local authority sell it, and when it was incredibly successful, they did get loans from local authorities in those days.

[374] **Mr Jones:** I can't comment about what happened then.

[375] **Darren Millar:** Okay. That brings us to the end of our evidence session, Mr Jones. Thanks very much for joining us this morning.

[376] **Mr Jones:** Thank you.

[377] **Darren Millar:** You'll be sent a copy of the transcript of today's proceedings, and if there's anything inaccurate in there, then obviously you can have the opportunity to correct that. We look forward to the additional information, which you've promised you'll send. The clerks will be in touch just to give you a note of the things that you've promised. We'll look forward to perhaps engaging with you further in correspondence. Thank you very much indeed.

[378] **Mr Jones:** No problem. Thank you.

10:44

**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**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o weddill y exclude the public from the
cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in
17.42(vi).*

*accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[379] **Darren Millar:** Item 4, then, is a motion under Standing Order 17.42 to resolve to exclude the public from the remainder of our meeting. Does any

Member object? There are no objections; so, we'll go into private session.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10:44.

The public part of the meeting ended at 10:44.