

**National Assembly for Wales**  
Public Accounts Committee

**Intra-Wales - Cardiff to Anglesey -  
Air Service: Final Report**

July 2015

Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



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# Public Accounts Committee

The Committee was established on 22 June 2011. The role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to Welsh Government expenditure. The specific functions of the Committee are set out in Standing Order 18. The Committee will consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

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## Current Committee membership:



**Darren Millar (Chair)**  
Welsh Conservatives  
Clwyd West



**Mohammad Asghar**  
Welsh Conservatives  
South Wales East



**Jocelyn Davies**  
Plaid Cymru  
South Wales East



**Mike Hedges**  
Welsh Labour  
Swansea East



**Sandy Mewies**  
Welsh Labour  
Delyn



**Julie Morgan**  
Welsh Labour  
Cardiff North



**Jenny Rathbone**  
Welsh Labour  
Cardiff Central



**Aled Roberts**  
Welsh Liberal Democrats  
North Wales

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The following Members were also Members of the Committee during this inquiry



**William Graham**  
Welsh Conservatives  
South Wales East



**Alun Ffred Jones**  
Plaid Cymru  
Arfon

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## **Chair's Foreword – Darren Millar AM**

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In July of last year, the Public Accounts Committee published an interim report on the Welsh Government-subsidised Intra-Wales Air Service. Our inquiry examined the air service in advance of the expiration of its contract at the end of 2014 in the hope that our work could inform any decisions to re-tender the contract to provide value for money for the taxpayer.

Our interim report made nine recommendations in all and we were pleased that the Welsh Government accepted them all. This final report reviews how the Welsh Government made its decision to continue the service; how it conducted the re-tendering exercise; and how the air service operates.

Given that the Welsh Government had commissioned a comprehensive independent review of the operation of the air service, the Committee did not explore its operation in great depth. We did however have concerns about how clear the Welsh Government was in advance about the scope of the review and the advice it sought. We were also of the opinion that the Welsh Government should have given itself more time to consider its options for the tendering of a continued service. In this report, we make suggestions for how they can plan better in the future to provide a greater opportunity of striking the best deal for the public purse.

Our interim report was supportive of how the air service can act as a platform for greater connectivity between North and South Wales, and we welcome that the new contract allows greater flexibility for operators to provide additional routes on a commercial basis. We consider in this report how further opportunities for commercial spin-offs from the service could be encouraged by the Welsh Government.

Passenger numbers for the air service are still disappointing so we were pleased that the Welsh Government responded positively to our interim report in requiring extra marketing for the service in the new contract. In this report we make further recommendations for how the Welsh Government should monitor the new marketing arrangements, along with passenger numbers and their profile, to secure increasing numbers of passengers in the future and ultimately provide a better return for the public subsidy invested in the service.

We trust that the report will be of interest to all who read it.

## Recommendations

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**Recommendation 1.** The Committee recommends that when commissioning external advice the Welsh Government should set out in advance the detailed scope of the work required and that any subsequent changes to the scope are supported by a clear business case. (Page 17)

**Recommendation 2.** To allow itself flexibility to make timely and effective decisions, the Welsh Government should take a three yearly view of contracts that will expire and when new contracts need to be awarded by. (Page 21)

**Recommendation 3.** The Committee recommends the Welsh Government, in liaison with the Ministry of Defence, provides an assessment of (a) the costs and impact of opening RAF Valley on weekends, against an appraisal of likely revenue and any other benefits from operation; and (b) the potential modification of Anglesey Airport to accommodate greater passenger numbers, including using the opportunity of the RAF's anticipated improvement works. (Page 26)

**Recommendation 4.** The Committee recommends that the Welsh Government sets out its plans to ensure that the alteration to the route due to the temporary closure of RAF Valley is communicated to potential passengers well in advance to ensure minimum disruption to the uptake of the service. (Page 26)

**Recommendation 5.** The Committee recommends that Welsh Government should explore with Links Air other uses for the aircraft between its flights under the PSO, particularly those which may be of benefit elsewhere in Wales. (Page 26)

**Recommendation 6.** The Committee recommends that the Welsh Government provide an update on passenger figures and provide an explanation for any discrepancy with the CAA figures in January 2016. (Page 31)

**Recommendation 7.** The Committee recommends that the Welsh Government set out how it intends to use the findings from the required passenger surveys to identify how to increase passenger numbers (Page 32)

**Recommendation 8.** The Committee recommends that the Welsh Government publish a subsidy cost per passenger periodically, and its



assessment of the value-for-money of the service, using suitable comparisons, on an annual basis. (Page 32)

**Recommendation 9.** The Committee recommends that the Welsh Government set out how it will evaluate the marketing of the scheme, which should be undertaken early in 2016. (Page 32)

# 1. Background

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1. The Intra-Wales Air Service has operated since 2007, providing twice-daily weekday flights between Anglesey Airport, based at RAF Valley, and Cardiff Airport. It is supported by the Welsh Government through a subsidy known as a PSO (Public Service Obligation), permitted under European State Aids rules to allow Member States to provide scheduled air services on air routes which are deemed vital for the economic development of the region they serve but which are not commercially viable in their own right.
2. Initially, the service was operated by Highland Airways from May 2007 until March 2010. The contractual arrangements that were then in place between May 2010 and December 2014 had seen the service operated on a joint signatory basis. Manx2, and later Citywing, had been providing the ticketing and marketing functions and FLM Aviation, later Links Air, had been operating the flights. The previous contract expired in December 2014.
3. In July 2014, the Public Accounts Committee published an interim report on the Intra Wales - Cardiff to Anglesey - Air Link. The Committee decided to publish an interim report to set out its views, which the Welsh Government could then take account of as it re-tendered for the continuation of the air service.
4. Usually, the Committee would undertake inquiries following the publication of a value-for-money study report by the Auditor General for Wales. In the case of the Air Service, the Committee initiated this inquiry itself as part of its new ways of working. This was intended to allow the Committee to identify and investigate areas that it felt would merit further consideration of how public money was being used.
5. To support the Committee's inquiry, the Auditor General provided a memorandum on the operation of the Air Service in January 2014,<sup>1</sup> and the Committee took oral evidence from Welsh Government Officials and Martin Evans, an aviation industry expert based at the University of South Wales. The Committee's interim report, and the Auditor General's memorandum, set out in more detail the history of the contractual arrangements for the service.

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<sup>1</sup> Intra-Wales - Cardiff to Anglesey - Air Service Memorandum for the Public Accounts Committee

6. The purpose of this report is to reflect on the Welsh Government's response to the recommendations of the Committee's interim report, and further issues relating to the tendering for the continuation of the air service.

### **Interim report findings**

7. The Committee found the use of the air service had declined over the period of operation, and the understanding of customer profiling or marketing of the service could be strengthened. The Air Service's benefits had not been recently evaluated, which should help demonstrate why a continued service operating under a PSO would be justified. The Committee heard the Welsh Government had commissioned some research and analysis from ARUP Consulting Ltd to inform decisions on the future of the air service.

8. The interim report also explored the split of the service between two operators, and the Committee heard questions as to whether separate companies could operate as joint signatories to a PSO. A particular issue was clarity around the operators' liabilities. The Committee also heard concerns regarding the robustness of the tendering process for the air service in the past, whether it had attracted sufficient interest for the Welsh Government to find the best arrangement and whether there would be sufficient time to run the imminent re-tendering.

9. The Committee also gave consideration to how the service could be operated to ensure best value-for-money, including the optimum size of the aircraft, the frequency of the service and the route served.

10. The Committee made nine recommendations in its report. The recommendations, and the Welsh Government's response of September 2014 are as follows:

**Recommendation 1:** The Committee recommends that the Welsh Government use an independent source to verify data on passenger numbers using the Air Service and that data on passenger numbers be published on a regular basis in the future.

*Welsh Government Response: Accepted – The Welsh Government will include a requirement in any future air service contract that passenger numbers are subject to an external and independent auditing process. Passenger numbers will be published by the Welsh Government on an annual basis based on the reporting requirements included in the next contract.*

**Recommendation 2:** We recommend that the Welsh Government monitor any future discrepancies between the data it is supplied with by the operating airline and the data reported by the Civil Aviation Authority.

*Welsh Government Response: Accepted – In addition to proposals for an independent audit of passenger numbers, data reported by the Civil Aviation Authority (CAA) will be monitored to ensure that any discrepancies between the reporting sources that are identified are investigated within a reasonable timeframe.*

**Recommendation 3:** While noting the recent increase in advance bookings, the Committee recommends that the Welsh Government commission independent research into the longer term trend, which shows a decline in passenger numbers.

*Welsh Government Response: Accepted – Prior to publication of the interim report, an independent consultancy firm was appointed to review the air service to inform the procurement action now underway, which included an assessment of the long term trend of passenger numbers. We will continue to monitor usage of the air service for the remaining term of the existing contract and any future contract as part of our contract management responsibilities.*

**Recommendation 4:** The Committee recommends that the Welsh Government include an explicit requirement in any future tender, for a comprehensive marketing programme to be undertaken by the successful bidder. Evaluation of this marketing programme should be incorporated into the overall evaluation of the bids and specified in any subsequent contract.

*Welsh Government Response: Accepted – The Welsh Government will include a requirement in any future air service contract for a comprehensive marketing strategy. This will be assessed as part of the evaluation of bids undertaken as part of the contract award process.*

**Recommendation 5:** The Committee recommends that information on passengers using the Air Service be collected to determine the reason for travel (e.g. business or leisure) and the sectors in which business passengers are employed and to what extent journeys are funded by the taxpayer. Such information should be published and collected on a regular basis.

*Welsh Government Response: Accepted – The Welsh Government will include a requirement in any future air service contract for a passenger survey to be conducted on a regular basis to collect information on journey purpose, sectors of employment and passenger satisfaction. It is expected that information from the surveys will be published by the Welsh Government on a regular basis to be determined, but not less than annually.*

**Recommendation 6:** The Committee recommends that the Welsh Government makes public the full scope, content, methodology and timetable for the ARUP review. We further recommend that the findings of this review are published when available in order to satisfy the areas of concerns the Committee has around the information used to inform decisions on the future of the Air Service.

*Welsh Government Response: Accepted in principle – The Welsh Government expects to publish summary findings of the review undertaken on the air service contract following completion of the current procurement exercise in December. Information not suitable for publication under freedom of information legislation will not be published.*

**Recommendation 7:** Given the concerns that have been expressed in relation to the potential for lack of clarity regarding liabilities under joint contract arrangements, the Committee recommends that the Welsh Government keep a watching brief of the investigation into the Cork air crash and reflect on the outcome in any future Air Service contract.

*Welsh Government Response: Accepted – The Welsh Government has considered liabilities under current contract arrangements and the recommendations from the final report of the Irish Air Accident Investigation Unit into the Cork air crash. Any lessons learned will be incorporated into any agreement reached for the award of the new contract for the service to start in December 2014. Procurement action and subsequent award of contract will be in line with the relevant EU regulations.*

**Recommendation 8:** The Committee recommends that, should the Welsh Government tender for a new Air Service, every possible step (such as pre-consultation) be taken to increase the number of bidders for the contract without compromising the overall timetable ahead of the expiry of the current contract.

*Welsh Government Response: Accepted – The invitation to tender for the new air service contract was published on 11 August and the closing date for bids to be returned is 10 October. Steps are being taken during this period to*

*ensure that potential suppliers able to deliver the service are being made aware that the invitation to tender has been published so that they have the opportunity to take part in the procurement process.*

**Recommendation 9:** The Committee recommends that, given the new flexibility under the Public Service Obligation rules, the Welsh Government explores possible options to maximise the benefits and opportunities presented by the Air Service in the future.

*Welsh Government Response: Accepted – The Welsh Government will explore and keep under review all opportunities to maximise the benefits of the service within the limitations imposed by Public Service Obligation rules.*

## **Final Report**

11. Following the publication of its first report, the Committee has been kept informed of developments by correspondence from the Welsh Government. It has considered some key documents, including the invitation to tender and a report of a review of the air service that the Welsh Government Commissioned from Arup Consulting [the Arup Report]. The Committee also held an evidence session with the then Director General for Economy, Science and Technology and Gareth Morgan, the responsible Deputy Director, at its meeting on 20 January.

12. At the outset of the Committee's consideration of the air service, we had been minded to undertake a more comprehensive examination. This would have included a comparison of the value for money of a public subsidy to the air service over other modes of public transport, and further consideration of whether the air link's route served by the air link provided the optimum service.

13. These issues were largely addressed by the Arup Report. The additional information obtained in the course of this follow-up work has addressed many of the Committee's areas of inquiry.

14. The Committee did however have questions on the way that the Welsh Government commissioned the Arup review, and its capacity to adequately support Ministers in making decisions on the air service.

15. The Public Accounts Committee would not consider the merits of a policy decision of the Welsh Government. Our role has been to consider how the implementation of Ministers' decision to support an air service has been designed and executed to ensure best value for the taxpayer.

## 2. The Arup Report and the decision to continue the service

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16. In its discussions with the Welsh Government in advance of its interim report, the Committee sought clarity around a review of the air service the Welsh Government had commissioned from Arup Consulting. The review was held simultaneously with the Committee's consideration of the air service, with input from York Aviation LLP and from Martin Evans, Director of Aviation Analysis Ltd.<sup>2</sup>

### Commissioning Arup

17. In his oral evidence before the Committee, the Director General undertook to provide further information in writing to the Committee why Arup had been selected to undertake its review.<sup>3</sup> The further information confirmed that Arup had been contracted on 25 February 2014, with the following rationale:<sup>4</sup>

“Arup was selected to provide transport related advice as part of the Welsh Government framework and has extensive experience in a wide variety of strategic transport projects. Arup provides strategic and technical advice covering all aspects of airlines and airports giving an understanding of aviation business planning and aviation economics. Arup has previously provided advice to a number of airports and airlines in regional locations including Newquay Airport development and business plans, Edinburgh and also to a regional (confidential) airport on the restructuring of aeronautical charges with a view to attracting new airlines. The company has previously contributed to a study on the feasibility of PSO services to the Isle of Skye in Scotland. Other relevant experience includes appraising service options, completing Business Case work, considering potential service options and aviation planning.”

18. Recognising that there is currently only one air service operated in Wales under a Public Services Obligation, the Committee asked whether the Welsh Government felt confident it had developed its expertise to

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<sup>2</sup> Mr Evans provided evidence to the Committee in the preparation of its interim report on the Air Service, 25 March 2014

<sup>3</sup> Record of Proceedings, paragraph 129, 20 January 2015

<sup>4</sup> PAC(4)-05-15 PTN1, 10 February 2015

successfully procure the air service and assess the review it had commissioned from Arup. The Welsh Government responded:<sup>5</sup>

“I don’t think I’d ever say I was completely confident that there was enough expertise, because you can always learn and you can always get better. However, given the number of PSOs that we’re running—one—I think that I’m content that we have enough expertise, both internally, and externally, to get a satisfactory outcome. If you pushed me further, and said, ‘Could we get a better outcome?’ it is very difficult to answer, but we can always get better. I think our expertise has increased since the last time we looked at this, not least because we’re able to engage with Cardiff Airport, if you like, with them on our side, rather than as a commercial adversary, which may have been the case in the past.”

### **Decision to re-tender**

19. The Committee had understood this review would help the Welsh Government to decide whether the air service should be continued, and second, how it could be best designed. In oral evidence from the Welsh Government, it transpired that the Arup Review would not address the question of whether the air service should be continued:<sup>6</sup>

Darren Millar: “[T]he indication that you gave this committee, when you first came in to give evidence, Mr Price, was that the Arup report would inform whether you proceeded to tender or not, as a Welsh Government, not that it was a stage 1 piece of work because a commitment had already been given to proceed to re-tender the contract.”

Mr Price: “[A]s with all these things, things evolve as time goes on, and the Arup work, as often happens, reported in a number of stages. So, we had an early-stage report, informing things like cost-benefit analysis, and just the legalities of PSO, where we could go into, et cetera. Then we had a further stage, and, finally, a further stage again, which included talking to a whole number of different operators and advising on the commercials.”

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<sup>5</sup> Record of Proceedings, paragraph 32, 20 January 2015

<sup>6</sup> Record of Proceedings, paragraphs 12 and 13, 20 January 2015



20. Asked for clarification of whether Arup had been commissioned to undertake their review specifically to support a re-tendering process that had already been agreed upon, the Director General responded:<sup>7</sup>

Mr Price: “No, sorry, they had been commissioned to provide evidence to help us through the whole process, and it just so happened that we decided to re-tender, and, as part of that evidence, we got them to help us through the tender process.”

Darren Millar: “Your responses suggest that a decision to re-tender had already been made.”

Mr Price: “No, I don’t think so at all.”

21. The Committee also heard from the Welsh Government that the Arup interim review would “allow us to decide whether we wanted to take the contract forward, or whether we would want to stop the contract at the end of the previous contract in December 2014”.<sup>8</sup>

22. In further written evidence, the Committee learned that the Minister for Economy, Science and Transport approved the procurement of the continuation of air service in August 2014.<sup>9</sup> It was unclear to the Committee whether the Arup report had been used to support a decision on whether to continue the service, or to support the designing of the re-tendering of the service.

### **Content of the Arup Report**

23. The Welsh Government received an interim report from Arup in July 2014,<sup>10</sup> which it was able to take account of conducting the re-tendering exercise. It then apparently received the full report in December 2014, against a deadline of July 2014 in the original terms of reference.<sup>11</sup> The review’s scope was broad, and related closely to the Committee’s areas of interest. It included market testing for an intra-Wales air link, reviewing the existing provision and its value for money, and to identify wider economic benefits from the service.

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<sup>7</sup> Record of Proceedings, paragraphs 19-21, 20 January 2015

<sup>8</sup> Record of Proceedings, paragraph 139, 20 January 2015

<sup>9</sup> PAC(4)-05-15 PTN1, 10 February 2015 – the decision report puts the date of decision at 17 July [gov.wales/about/cabinet/decisions/2014/julsep/transport/eh2009/?lang=en](http://gov.wales/about/cabinet/decisions/2014/julsep/transport/eh2009/?lang=en)

<sup>10</sup> Record of Proceedings, paragraph 11, 20, January 2015

<sup>11</sup> PAC(4)-27-14 PTN1, 4 November 2014

24. The report ultimately recommended the air service should operate on the existing model, against other models of service provision.<sup>12</sup>

25. As set out in Recommendation 6 of the Committee's interim report, the Welsh Government finally shared the full terms of reference for the Arup review (received April 2014), an executive summary (received 14 January 2015) and, upon further request and redacted for purposes of commercial sensitivity, the full report. A final report, dated 20 March 2015, was received by the Committee on 24 April 2015.

26. The Arup review was clearly undertaken with regular engagement with the Welsh Government to inform its scope. The Welsh Government were reluctant to share the terms of reference for the review, or timings associated with its conduct, until it was nearly concluded. It is not clear how the report of the review developed between July 2014, when it was apparently used to inform the tender exercise, December 2014, when it was apparently received by the Welsh Government as a final report, and March 2015, the date of the report received by the Committee.

### **The Committee's View**

27. The Committee found the Arup Review helpful in satisfying itself that its concerns had been explored by the Welsh Government. It would have been helpful if the review had been more transparent, or available to the Committee at an earlier stage – even on a confidential basis. While we understand that the scope of the review developed as issues came to light as it proceeded, the initial commission should have been clear and available to the Committee at an earlier stage.

28. The Committee heard that a cost-benefit analysis of the air service, using Department for Transport figures, gave a cost-benefit ratio of 1.1.<sup>13</sup> This would not take into account the wider socio-economic benefits that would be the purpose of a PSO route as permitted under European Union rules. The Committee regrets that the Welsh Government has not provided a clearer explanation of the role of Arup in their decision-making on the air service.

29. Given the information the Committee has received about the process of reviewing the air service, using the services of Arup, it is difficult to fully gauge whether the decision-making process and evidence used was sound. It is not clear what information was available to the Welsh Government from

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<sup>12</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>13</sup> Record of Proceedings, paragraph 77, 20 January 2015

the Arup review at the time the Welsh Government made its decision to continue the service.

**The Committee recommends that when commissioning external advice the Welsh Government should set out in advance the detailed scope of the work required and that any subsequent changes to the scope are supported by a clear business case.**

### **3. Re-tendering for the Air Service**

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30. As noted above, the Committee sought to provide its views in an interim report in July 2014, mindful of the expiration of the existing contract for the air service in December. At that stage, it was assumed, but not confirmed, that the Welsh Government would seek to continue the air service by awarding a new contract from December 2014.

31. The Welsh Government wrote to the Committee in November 2014 to confirm that the contract for the air service had been awarded to Links Air, for a further four years from 10 December 2014. The Committee was provided with a copy of the invitation to tender, and could consider whether the Welsh Government had taken into account its recommendations.

32. The new contract allowed for a maximum of subsidy to the route of £3.94m over the four years of the contract,<sup>14</sup> which could rise by up to 10 per cent should fuel prices increase significantly.<sup>15</sup> This was around 20 per cent lower than the maximum subsidy under the previous contract.

#### **The Committee's interim views**

33. Links Air were the sole operators under the new contract, and so any concerns about the previous joint-signatory arrangements would no longer apply.

34. In its interim report, the Committee was keen that the re-tendering exercise be conducted in such a way that it would attract a good amount of interest. The interim report recommended concerted efforts be taken by the Welsh Government to ensure the re-tendering exercise encouraged maximum interest, without delaying the overall process (Recommendation 8, above).

#### **A Shorter Re-tendering Process**

35. The re-tendering process, which ran between the publication of the invitation to tender on 11 August 2014 and a deadline of 10 October 2014, saw 23 organisations registering an expression of interest in the service. This was more than three times the number of expressions of interest in the 2010 tendering exercise for the service.

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<sup>14</sup> Record of Proceedings, paragraph 120, 20 January 2015

<sup>15</sup> Record of Proceedings, paragraph 199, 20 January 2015

36. The Committee heard that the Welsh Government had undertaken a re-tendering process on the basis that the air service would have fewer than 10 000 passengers.<sup>16</sup> Under the European rules around a PSO, this meant the invitation to tender could be advertised locally, and for a shorter time period.

37. It was clear from the Welsh Government's evidence that the curtailed re-tendering exercise was the option pursued largely as a consequence of deciding whether to continue the service close to its expiration – in effect, there would have been insufficient time to undergo the full tendering process:<sup>17</sup>

“[a six-month period for tendering] would have made it very difficult to achieve the initial review that we would want by Arup to allow us to decide whether we wanted to take the contract forward, or whether we would want to stop the contract at the end of the previous contract in December 2014. So, in order to achieve that breathing space for us to make our fully valid decision on whether to proceed with the procurement, we decided to proceed with the amended process, which doesn't require the six-month period.”

38. In addition to undertaking a shorter process, which allowed them to take account of the Arup report, the Welsh Government felt that the less extensive advertisement of the invitation to tender was more appropriate and cost-effective:<sup>18</sup>

“[F]or two reasons, we deviated from the normal EU procurement rules on this process, and we used a reduced timescale process... the reasons for that are, firstly, we wanted to gain as much information and thinking as possible from, not just the Arup work, but the work that we were doing ourselves; and, secondly, in exploring the procurement routes that were available to us, we looked to pick the route that had the highest efficiency, i.e. the one that was going to have the lowest administrative costs, but go to the biggest market. So, it was advertised in *The London Gazette* and on Sell2Wales. I think *The London Gazette* is more relevant for this marketplace, but additionally to that, we spoke to all operators that we believed had planes that were able to fly routes such as this. I think we spoke to about 16 or 17 different operators. Arup were also commissioned to speak to different operators to try to drum up interest. So, I think we

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<sup>16</sup> Record of Proceedings, paragraphs 138-139, 20 January 2015

<sup>17</sup> Record of Proceedings, paragraph 139, 20 January 2015

<sup>18</sup> Record of Proceedings, paragraph 135, 20 January 2015

made all efforts to not just advertise something, but to ensure that... everyone knew that we were looking for bids for the service.”

39. Average passenger numbers for the air service over the first six years of operation were close to 11 000 per annum, though that reflects two years of operating with over 14 000 passengers at the outset of the service and then four years where it was below 10 000 (the lowest figure was 8 406 passengers in 2012/13).<sup>19</sup> The Arup report suggested that it was difficult to fully gauge the level of demand for the service, which was potentially untapped due to the marketing of the scheme. That would indicate that it would have been entirely realistic to have anticipated passenger numbers of over 10 000 per annum, requiring the fuller invitation-to-tender process.

40. In oral evidence, the Welsh Government assured the Committee the decision to undertake a shorter, narrower exercise on a lower estimate was “all based on external legal advice and notified to the EC [European Commission] at every stage”.<sup>20</sup> Should passenger number exceed the figure of 10 000 under the new regime, as the Committee would hope, the Welsh Government was confident that the tender process would remain valid.<sup>21</sup>

### **Interest in the air service**

41. While there appears to be a good amount of interest in the re-tendering, only two bids progressed fully. The Welsh Government believed this was a consequence of operators registering an expression of interest as a matter of course, despite not having the size of plane stipulated by the contract,<sup>22</sup> or because of a lack of confidence in likely passenger numbers.<sup>23</sup>

“Various experts did speak to the larger plane companies and, basically, there wasn’t a huge amount of interest in the service, either because they didn’t have the 19-seater planes or they weren’t convinced in terms of the passenger numbers at the moment.”

42. The Arup report appeared to support this view, suggesting that, of the 12 airlines interviewed by Arup to gauge interest in the survey, only Citywings and Links Air, the then co-signatories to the air link, had access to an aircraft of the correct size and able to fly in all weather conditions (that is, were pressurised).

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<sup>19</sup> Intra-Wales – Cardiff to Anglesey – Air Service Memorandum for the Public Accounts Committee, page 18

<sup>20</sup> Record of Proceedings, paragraph 140, 20 January 2015

<sup>21</sup> Record of Proceedings, paragraph 147, 20 January 2015

<sup>22</sup> Record of Proceedings, paragraph 149, 20 January 2015

<sup>23</sup> Record of Proceedings, paragraph 189, 20 January 2015

## **The Committee's View**

43. While the Committee welcomes the efforts taken to increase interest in the tender process, and recognises the increased level of interest against the 2010 tender exercise, the Welsh Government should have begun the process of evaluation earlier in order to allow itself the option of a longer and more widely-advertised tender process.

**To allow itself flexibility to make timely and effective decisions, the Welsh Government should take a three yearly view of contracts that will expire and when new contracts need to be awarded by.**

## 4. The route and timing of the Air Service

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44. A key issue the Committee considered in its interim report was whether the air service, as designed, served the best route and at the best times to attract passengers. This would support the purpose of the Welsh Government's use of the Public Service Obligation to encourage economic development and increase connectivity across Wales.

45. While the size of aircraft was discussed in the Committee's first report, we were persuaded that the likely take-up of the service, the fact a larger aircraft would incur Air Passenger Duty, and the conditions at RAF Valley suggested a smaller aircraft would be the feasible service in the short term at least.<sup>24</sup>

46. In its further consideration, the Committee heard that eligibility criteria for Air Passenger Duty had been amended, meaning any flight operating under a PSO would be exempt from APD.<sup>25</sup>

### Use of RAF Valley as the North Wales base for the air service

47. The Committee's interim report set out that we heard there were two main constraints from the use of RAF Valley as the North Wales destination: the size of the aircraft able to operate with the facilities at Anglesey Airport, and the available times to operate the service.

48. The Welsh Government's oral evidence in January 2015 suggested that adapting Anglesey Airport to accommodate larger aircraft was not impossible and may be considered should passenger numbers increase.<sup>26</sup>

Mr Morgan: "I think, potentially, if the numbers do grow, then it's something that the outputs suggest we do look to in the future, in possibly looking to modify the facilities at Anglesey in terms of allowing us to expand. But, again, obviously, we'd have to make a judgment in terms of where the passenger numbers go in to justify such an expense."

Mr Price: "The value of the expenditure we believe would be in the order of £1 million to be able to take a bigger plane; certainly £1 million post-2018."

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<sup>24</sup> Public Accounts Committee, Intra-Wales – Cardiff to Anglesey – Air Service, Interim report, paras 63-68

<sup>25</sup> Record of Proceedings, paragraph 165, 20 January 2015

<sup>26</sup> Record of Proceedings, paragraphs 189-190, 20 January 2015



49. The Arup report set out in some greater detail the level of modifications that would be required to accommodate larger aircraft – primarily to make the airport compliant with the National Aviation Security Programme.<sup>27</sup> Should the airport be NASP compliant, the Arup report suggested it may also be able to accommodate other private aircrafts from whom the RAF currently has to decline requests to land.

50. In its interim report, the Committee discussed the viability of Hawarden as a north Wales base for the service, mindful of the larger local population than in the vicinity of Anglesey Airport. It set out evidence from the Welsh Government that an Anglesey-Cardiff route with a stop at Hawarden would not be commercially viable. It also heard from an aviation expert that a Hawarden-Cardiff route may be ineligible for support under a PSO as it would be in competition with an existing, well-used train service.<sup>28</sup>

51. The Arup report set out some greater detail to what the Committee heard. It noted that Hawarden would not be able to accommodate scheduled flights currently given the conditions of operation imposed by Airbus, the owners of the airport.<sup>29</sup> In addition, the rail route was marginal against the three-hour threshold of the PSO rules, with some existing services offering journeys of less than three hours, with more services anticipated in the future.<sup>30</sup> It also suggested that the shorter train journey would reduce demand for the air service from the local population –essentially meaning similar demand levels to Anglesey, despite the greater local population.<sup>31</sup>

52. The Committee also heard that the operator was keen to provide a seven-day service on a commercial basis. This would necessitate the use of a different North Wales destination on weekends, as RAF Valley would not be available. The Director General said:<sup>32</sup>

“[I]n the information that the operator sent to me, they were also talking about making use of the plane on weekends for other services, which may or may not be scheduled—they might be more ad hoc. But they want to make use of the plane on the weekends as well... Not from RAF Valley; they would go to Hawarden or maybe to

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<sup>27</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>28</sup> Intra-Wales – Cardiff to Anglesey – Air Service Memorandum for the Public Accounts Committee, paragraph 10

<sup>29</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>30</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>31</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>32</sup> Record of Proceedings, paragraphs 175 & 179, 20 January 2015

other services. It wouldn't be part of the PSO. This is, again, at their commercial risk, but they've said that they want to do that."

53. Noting the Arup report's discussion of the constraints of operating a scheduled flight to Hawarden, the operator would presumably have to negotiate with Airbus in order to use Hawarden as a weekend base for the service should it wish to offer a weekend service to Cardiff or any other destination.

54. The invitation to tender document set out that RAF Valley will be closed for the resurfacing of the runway, likely in September 2015.<sup>33</sup> The Director General set out that this was now likely to be in summer 2016, and that the air service would operate between Cardiff and Hawarden temporarily.<sup>34</sup> This would apparently not affect the eligibility of the route under the PSO.<sup>35</sup> It would be possible therefore to explore the viability of an alternative base, but efforts would need to be taken to avoid jeopardising the air service – mindful of the impact of the 2010 disruption on passenger figures.

55. The Arup report set out that there was opportunity to take action to incorporate NASP-related changes with the planned modifications to the airfield at RAF Valley. It is not clear what the Welsh Government has done to explore further this opportunity to modify the facilities in a potentially more cost-effective way.

### **Timing of the service**

56. In his letter outlining the awarding of the new contract, the Director General mentioned that "from spring 2015 [Links Air] will alter the schedule to allow passengers to have a longer working day in both North and South Wales".<sup>36</sup> The Committee was pleased that the service could now operate later each date, though noting that it would continue to fly an hour earlier on Friday as RAF Valley was unable to accommodate a later flight.<sup>37</sup>

57. In its oral evidence session, the Welsh Government acknowledged the Committee's consideration in its interim report of how the air service could be developed in such a way as to encourage other routes,<sup>38</sup> in particular through using the aircraft during the day, between its flights under the PSO. In developing the re-tendered service in such a way – and taking advantage

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<sup>33</sup> PAC(4)-27-14 PTN 1, 04 November 2014

<sup>34</sup> Record of Proceedings, paragraph 170, 20 January 2015

<sup>35</sup> Record of Proceedings, paragraph 170, 20 January 2015

<sup>36</sup> PAC(4)-32-14 paper 1, 09 December 2014

<sup>37</sup> Record of Proceedings, paragraph 172, 20 January 2015

<sup>38</sup> Record of Proceedings, paragraph 65, 20 January 2015

to greater flexibility permitted under the PSO regime, the Welsh Government looked to enable operators to use the aircraft during the day for other routes, rather than remain at Cardiff, mindful of the need to provide the Cardiff-Anglesey service punctually.<sup>39</sup>

58. The invitation to tender document stated:<sup>40</sup>

“Additional flights on the PSO route may be operated with the prior consent of the Welsh Government. Where such consent is granted, any such additional flights must be in addition to the minimum requirements as outlined and must themselves also comply with the Operational Requirements of the Services. Any such additional services will be subject always to the Ministers maximum allocated budget for the PSO Services and will only attract a subsidy if and to the extent that the Welsh Ministers agree.”

59. Links Air announced in January 2015 that they would be providing a further daily service to Norwich from April 2015. This would be on a commercial basis, rather than as part of the PSO arrangement with the Welsh Government. In June 2015, it was announced that the service was not likely to provide profitability in the very short term, and would be withdrawn.

### **The Committee’s view**

60. With the change of the APD regime, and possibility of modifying Anglesey airport, it may be possible for the air service to use a larger air craft in future. The removal of some barriers to growth of the service is welcomed by the Committee.

61. The Committee is encouraged by the operator’s interest in providing a weekend service, noting its intention that it would be on a commercial basis, and not under the publicly subsidised PSO. The Arup report sets out that RAF valley could be operational on weekends, but that this would cause significant costs.

62. It would be desirable for the Welsh Government to ensure that the temporary closure of Anglesey Airport minimises disruption to the service. We would hope that the Welsh Government had sought to explore how the temporary closure can be used to examine other options for the air service, including assessing the demand of the alternative north Wales base and how the investment could help support the long-term future of the service.

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<sup>39</sup> Record of Proceedings, paragraph 73, 20 January 2015

<sup>40</sup> PAC(4)-27-14 PTN 1, 04 November 2014

63. While the Cardiff-Norwich route did not prove commercially viable, the Committee is encouraged that the PSO is being used as a springboard to operate other routes, and would encourage the Welsh Government to continue to promote other potential routes.

**The Committee recommends the Welsh Government, in liaison with the Ministry of Defence, provides an assessment of (a) the costs and impact of opening RAF Valley on weekends, against an appraisal of likely revenue and any other benefits from operation; and (b) the potential modification of Anglesey Airport to accommodate greater passenger numbers, including using the opportunity of the RAF's anticipated improvement works.**

**The Committee recommends that the Welsh Government sets out its plans to ensure that the alteration to the route due to the temporary closure of RAF Valley is communicated to potential passengers well in advance to ensure minimum disruption to the uptake of the service.**

**The Committee recommends that Welsh Government should explore with Links Air other uses for the aircraft between its flights under the PSO, particularly those which may be of benefit elsewhere in Wales.**

## 5. Use of the Service

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64. In its interim report, the Committee requested regular publication of the air service's passenger numbers (Recommendation 1), which the Welsh Government agreed to do annually. This was to help enable a constructive public debate on the air service.

65. The Committee was concerned that there was a long-term trend of declining passenger numbers for the route, encouraging the Welsh Government to commission research into the longer-term trend. This was Recommendation 3 of the Committee's report, and the research was included in the Arup report, as the Welsh Government promised in its response to the Committee's report.

### Arup's findings

66. The Arup report considered a number of factors contributed to the decline in passenger numbers for the air service.<sup>41</sup> In part, it reflected the broader economic circumstances – with domestic air travel in the UK declining by 16 per cent between 2008, when the UK entered recession, and 2013.

67. In the same period, the air service's passengers declined by 35 per cent, which the report suggested related to improved rail connectivity, broader difficulties faced by Cardiff Airport, and the consequence of service disruption when the original contractor entered insolvency.

### Recent Developments

68. Arup's report suggested that demand had stabilised since 2012, with prospects of future growth as the economy recovers and passenger numbers at Cardiff airport increase more generally.<sup>42</sup>

69. At the Director General's evidence session, he noted that there was a year-on-year improvement of 15%, approximately one month into the new contract.<sup>43</sup> While this might reflect reduced demand in early 2014, and is early in the new contract, the Committee welcomes this positive development.

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<sup>41</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>42</sup> PAC(4)-12-15 paper 2, 05 May 2015

<sup>43</sup> Record of Proceedings, paragraph 140, 20 January 2015

## Uncertain figures

70. The Committee noted in its interim report that there was some discrepancy between the passenger numbers presented by the Welsh Government, and those held by the Civil Aviation Authority. The interim report contained a recommendation that the Welsh Government monitor any future discrepancy between those figures (Recommendation 2). In its evidence session, the Welsh Government was asked about the cause of the discrepancy between figures. The Director General responded:<sup>44</sup>

“The honest answer is we still don’t exactly understand that, no. We did spend an awful lot of time trying to get to the bottom of this. The difference is no longer as great as it was. The difference was much higher in numbers before we bought Cardiff Airport. The discrepancy’s reduced now, so I don’t know whether Cardiff Airport was simply looking to make its passenger numbers look marginally higher than they actually were, but, commercially, as under the last contract, it’s not in the operator’s interests to overstate passenger numbers, because they get paid less. So, ironically, if they overstated passenger numbers, provided we then find out afterwards they’re wrong, we’re paying less for the service anyway.”

## Passenger Profile

71. In addition to the broad issue of the number of passengers, the Committee was struck that there was little understanding of who was using the service. There were concerns at the lack of surveying from both a commercial basis – whether the operators sufficiently understood their market – and broader economic development basis – whether the service was largely for the convenience of public sector workers. The Committee recommended improved understanding of the passenger numbers in its interim report (Recommendation 5).

72. As part of the Arup review, a passenger survey was held in July 2014.<sup>45</sup> Of the 164 surveys completed, 88 were from the Anglesey-Cardiff route and 76 the Cardiff-Anglesey. This allowed Arup to present findings on the profile of passengers using the route, in terms of the full origin and destination of their journey and their reason for travelling.

73. The surveys suggested that that 78 per cent of journeys were for business purposes, 14 per cent were leisure trips, being visits to friends or

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<sup>44</sup> Record of Proceedings, paragraph 204, 20 January 2015

<sup>45</sup> PAC(4)-12-15 paper 2, 05 May 2015

family, and four per cent were for 'other' reasons, including tourism. Compared with a survey held by the operator earlier in 2014,<sup>46</sup> the proportion of business passengers were markedly greater than the 56 per cent.

74. Of those business journeys in the July survey, roughly 60 per cent were passengers in the public sector – including the education sector (21 per cent of total passengers), the Welsh Government (13 per cent), and the UK Government and agencies (nine per cent). The majority – 61 per cent – of flights were passengers making a same-day return journey, suggesting the service was often used for itineraries that would be very difficult for car or train users and/or it was being used to eliminate the need for, and cost of, overnight accommodation.

75. Both surveys discussed in the Arup report suggested passengers sought greater flexibility for weekend travel and more flexibility on weekday flights to allow more time at passengers' destinations. This accords well with the Committee's support for the service to be as flexible as possible to attract more customers.

76. The invitation to tender document set out in its operational requirements that:<sup>47</sup>

“The operator must undertake a twice-annual passenger survey, format and content to be agreed by Welsh Ministers, which can be published by the Welsh Government.”

### **Increasing passenger numbers**

77. In its interim report, the Committee recommended that greater efforts should be made to market the service, and its connectivity with other modes of transport. This was set out in Recommendation 4 of the Committee's report, and was consistent with the Arup report's finding that:<sup>48</sup>

“Anecdotally, we are led to believe that the current marketing of the service, likely to be the result of a limited budget allocation, may be responsible for the shortfall against assessed potential [passenger numbers].”

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<sup>46</sup> PAC(4)-12-15 paper 2, 05 May 2015. A CAA survey from 2012 placed the proportion of business travellers at 66 per cent.

<sup>47</sup> PAC(4)-27-14 PTN1, 04 November 2014

<sup>48</sup> PAC(4)-12-15 paper 2, 05 May 2015

78. The Welsh Government set out that its contract with Links Air required a budget of between £63 000 and £69 000 to market the air service,<sup>49</sup> which would be approximately three times the existing marketing budget. The operational requirements for the service in the invitation to tender document included:<sup>50</sup>

“A marketing strategy must be developed to increase awareness of the service and raise patronage.”

79. The Welsh Government updated the Committee to set out that Links Air had appointed a marketing lead for the service.

### **Cost of Passenger Journeys**

80. The Committee had been interested in the value-for-money achieved by the air service compared with other types of public transport, and other air services supported under a PSO. Both these points were explored by the Arup report.

81. In our interim report, we gave a figure of £86 of PSO subsidy per passenger in the first six years of operation of the service, based on the Auditor General’s memorandum. This obviously covered a variety of years, with passenger numbers in one year 57 per cent of a different year.<sup>51</sup>

82. The Arup report set out some time savings of journeys made using the air service compared to equivalent journeys made by car or train, which suggested that the air service would allow significantly quicker journeys, taking into account travel to the airports and time taken to check in etc. It concluded that:<sup>52</sup>

“the Air Service has the potential to save passengers significant time in comparison to other transport options but that this benefit erodes as the final destination of passengers becomes more remote from the airports serviced. It is therefore considered likely that the patronage of the service will be strongly related to the locations serviced and their catchment in terms of population and employment within easy reach of the airports as well as the onward transport links available at the airports.”

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<sup>49</sup> Record of Proceedings, paragraph 39, 20 January 2015

<sup>50</sup> PAC(4)-27-14 PTN1, 04 November 2014

<sup>51</sup> Intra-Wales – Cardiff to Anglesey – Air Service Memorandum for the Public Accounts Committee, page 17

<sup>52</sup> PAC(4)-12-15 paper 2, 05 May 2015



83. In its interim report, the Committee drew out the latter point, and discussed the need for integrated transport to be available, reliable and communicated to potential passengers in order to increase demand for the air service. This contributed to Recommendation 4, suggesting the marketing of the scheme should include promoting related services.<sup>53</sup>

84. Noting the time savings, and mindful of the difficulty of comparing the cost of the subsidy of the air service with other subsidised transport modes, the Arup report suggested the air service subsidy was over 3.5 times that of the subsidy per passenger kilometre of the Wales and Borders rail franchise (£0.71 compared with £0.19 per passenger km).

85. At present, it is difficult to adequately assess the value-for-money of the air service. The Welsh Government accepted the recommendation of our first report that they regularly publish passenger numbers (Recommendation 1). It would be helpful to highlight the equivalent level of subsidy and their assessment of the value-for-money of the service alongside the passenger numbers.

### **The Committee's View**

86. The Committee welcomes early indications of increased demand for the service, and looks forward to receiving the annual passenger numbers as promised by the Welsh Government in response to our first report.

87. The Committee would hope the Welsh Government's optimism about the reduced discrepancy between passenger figures it is able to produce and those of the CAA is well-founded, and that any discrepancy is minimal.

88. The Committee welcomes the commitment to better understand the passengers using the service, and the Welsh Government's continued involvement in the form and content of that survey.

89. The Committee welcomes the Welsh Government's commitment to greater marketing of the service, as shown by its contract with Links Air. The Committee was keen to understand what evaluation the Welsh Government would undertake of the marketing of the service.

**The Committee recommends that the Welsh Government provide an update on passenger figures and provide an explanation for any discrepancy with the CAA figures in January 2016.**

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<sup>53</sup> Public Accounts Committee, Intra-Wales – Cardiff to Anglesey – Air Service, Interim report, paragraph 25

**The Committee recommends that the Welsh Government set out how it intends to use the findings from the required passenger surveys to identify how to increase passenger numbers**

**The Committee recommends that the Welsh Government publish a subsidy cost per passenger periodically, and its assessment of the value-for-money of the service, using suitable comparisons, on an annual basis.**

**The Committee recommends that the Welsh Government set out how it will evaluate the marketing of the scheme, which should be undertaken early in 2016.**

## Annexe A: Witnesses

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at [www.senedd.assembly.wales/mgIssueHistoryHome.aspx?IId=1311](http://www.senedd.assembly.wales/mgIssueHistoryHome.aspx?IId=1311)

### 20 January 2015

<i>Name</i>	<i>Organisation</i>
James Price	Welsh Government
Gareth Morgan	Welsh Government