

Adran yr Economi, Gwyddoniaeth a Thrafnidiaeth
Department for Economy, Science and Transport

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair
Public Accounts Committee

23 April 2014

Dear Mr Miller

Public Accounts Committee – Intra Wales Air Service

I am writing to follow up on your letter of 2 April requesting further information on the North South Air Service.

I have enclosed a document and annexes which attempt to do this as fully as possible. Please let me know if you require any further information.

Yours sincerely

James Price



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**Welsh Government response to the letter from the
Public Accounts Committee, dated 2 April 2014.**

Following the evidence provided at the Public Accounts Committee on 25 March 2014, the Public Accounts Committee raised a number of queries. This document provides responses to each query raised and seeks to provide the clarification required.

1. Clarify recent monthly passenger numbers (since October 2013), details regarding advance bookings and the comparison with advance bookings at an equivalent point in previous years;

Welsh Government Response:

Recent monthly passenger numbers (passengers carried), since October 2013:

Oct 13: 870

Nov 13: 821

Dec 13: 512

Jan 14: 631

Feb 14: 656

Mar 14: 785

Total: 4,275

Advance bookings taken at equivalent comparable points in previous years:

March 12:481

March 13:495

March 14:574

2. Provide further explanation about the changes in state aid rules affecting the PSO subsidy and the additional flexibility that these changes may provide should the Welsh Government decide to continue its subsidy of a North/South Wales Air Service beyond December 2014;

Welsh Government Response:

The European Commission has recently published (February 2014) new Guidelines for State Aid to Airlines and Airports, which permits (subject to certain criteria and needs) public support for investment, operation and Routes Development Fund (RDF) amongst others.

Annex A contains information and advice for public funding of PSOs.

3. Confirm why Hawarden is currently used as the emergency diversion route, as opposed to Caernarfon;

Welsh Government Response:

The length of the runway at Caernarfon is insufficient for the current service provision. Caernarfon does not have sufficient facilities and the level of fire cover is inadequate for the current service provision.

In emergency situations and if at all possible, industry preference is to return the aircraft and passengers to the departing airport should a diversion be necessary.

4. Confirm whether Arriva Trains Wales is able to provide the Welsh Government with data on split ticketing for journeys between North and South Wales'.

Welsh Government Response:

It is not possible for Arriva Trains Wales to provide this level of detail for passenger journeys.

5. Please provide the terms of reference for the work that Arup is undertaking on the Welsh Government's behalf to inform the overall value for money assessment of the Air Service;

Welsh Government Response:

Terms of Reference are at Annex B

6. If not specified by, or separate to, the terms of reference for the Arup work, please provide a detailed breakdown of the data the Welsh Government is gathering to inform its decision on the future of the Air Service, including distinguishing between different types of passenger (leisure/private sector business/public sector business - i.e. taxpayer funded travel), measuring the overall catchment area of the current service, comparing different route options and benchmarking with other PSO contracts elsewhere in the UK or the Republic of Ireland;

Welsh Government Response:

This is identified within the attached Terms of Reference.

7. Confirm the timetable by which the Welsh Government expects the Arup work to be completed;

Welsh Government Response:

We anticipate the review will be completed by July 2014.

8. Confirm the timetable by which Welsh Government expects to determine the future of the Air Service, including the timescale for the possible re-tendering exercise and the contingency arrangements should the tendering process fail to identify a suitable service provider;

Welsh Government Response:

Should the Welsh Government continue to support the Public Service Obligation Wales Intra Air Service, EU procurement regulations 1008/2008 will be followed.

Should the Welsh Government continue to support the Public Service Obligation Wales Intra Air Service, a six month OJEU tendering exercise will be undertaken. Contingency planning along with other contract requirements will be identified through the tendering process.

9. Provide any further explanation you can offer following on-going enquiries about the discrepancy in Welsh Government and Civil Aviation Authority passenger number data;

Welsh Government Response:

The CAA and the operators of the Cardiff to Anglesey PSO Service do report different passenger numbers. On average, the passenger numbers supplied by the air service operator are higher than the CAA figures.

It is not in the commercial interest for the operators of the Cardiff to Anglesey PSO Service to provide us with incorrectly high passenger data. This information is used to set their budgets and their subsidy requirements.

The differences in passenger data held by the CAA and the operator are greatest in 2012 and 2011 when the airport was under different ownership.

The recording and handling of data will be considered during the next phase of the review of the service.

10. Provide a description of any action taken by the Welsh Government to promote the Air Service or to encourage additional marketing activity by the operators during the current contract term and the extent of influence that the Welsh Government has over the pricing model. We are raising these points in the context of the different business model operated by Manx2/Citywing compared with Highland Airways that you put forward as one reason for the reduction in passenger numbers.

Welsh Government Response:

The current contract allocates Citywing an annual budget of approximately £20k-£25k for its total marketing activity. Marketing and awareness raising activity undertaken includes radio advertising (Real/Heart); adverts in local publications: Cardiff Advertiser, Around Town (Cardiff, Swansea, RCT, Bridgend); attendance at the Swansea and Anglesey Air Shows; and also awareness raising activity through its charity work. It has a comprehensive website and flights appear on comparison websites when searched.

Public Funding of Services of General Economic Interest (SGEI)

1. As with the 2005 Guidelines, the revised draft guidelines highlight the possibility of funding airports and/or certain routes as a SGEI, although the scope for utilising this, continues to be limited.
 - i. For an activity to be considered an SGEI, it should exhibit special characteristics as compared with ordinary economic activities, and the general interest objective cannot simply be that of development of certain economic activities or economic areas in Article 107(3)(c) of the TFEU.
 - ii. Public service obligations can only be imposed on a specific route or group of routes, not on any generic route originating from a given airport, city or region.
 - iii. Public service obligations can only be imposed on a route to fulfil transport needs which cannot be adequately met by an existing air route or by other means of transport.
2. The Commission considers that the overall management of an airport, in well justified cases can be considered an SGEI. However, this can only be the case if part of the area potentially served by the airport would be, without the airport, isolated from the rest of the EU to an extent that would prejudice its social and economic development. Such an assessment should take account of other modes of transport.
3. The Commission considers that the scope of public service obligations imposed on airports should not encompass the development of commercial air travel services.
4. A PSO can only be granted according to the conditions of Regulation No 1008/2008. However compliance with Regulation 1008/2008 does not mean that you do not have to assess State aid compliance with Article 107(1) of the TFEU. Funding an SGEI will be exempt from notification requirements and can be granted in accordance with the SGEI Decision if the funding is to airport managers where annual traffic does not exceed 200,000 passengers; and where the funding is to an airline to find an air link to islands where annual traffic does not exceed 300,000. If the SGEI Decision does not apply, it can be notified to the Commission and declared compatible.
5. The Commission has recently opened an in depth investigation into compensation for Sardinian Airports, where Italy maintains that it is lawfully funded as an SGEI. The outcome of this case should provide further guidance on what can and cant be funded by way of an SGEI.

REVIEW OF THE INTRA WALES PSO AIR SERVICE

TERMS OF REFERENCE

Purpose:

To undertake independent market testing and explore demand for the existing and potential future provision of an Intra Wales PSO Air Service.

- To provide market testing for an intra Wales air service joining north and south Wales;
- To make recommendations and provide advice to Welsh Ministers on the findings of the review;
- To review existing provision of the intra Wales PSO Air Service;
- To review the value for money of the service; and
- To identify the wider economic benefits of the service.

A phase 1 review of the service was undertaken and reported to Welsh Government on 5 March 2014 by ARUP Consulting. The report provides a preliminary assessment of the Air Service based on passenger and financial data since 2007 and makes recommendations for the scope of a second phase review.

Background:

The Intra Wales Air Service provides twice-daily weekday flights between north and south Wales (between RAF Valley, Anglesey and Cardiff). The Air Service has been designated by the UK Government as a PSO (Public Service Obligation) which allows the Welsh Government to provide financial support to sustain the service.

The service has operated in Wales since 2007, and is currently delivered by Citywing who provides ticketing and marketing functions. Links Air hold the operating license. The current contract expires December 2014. The Welsh Government is continuing its review of the service and this second phase scoping exercise will be used to inform future strategy should the Welsh Government decide to continue its support for the service.

Scope:

ARUP Consulting has been contracted to undertake an independent review of market conditions for the intra air service in Wales. The provider should explore and make suitable recommendations for the future of the PSO in Wales.

Considerations include, but are not limited to:

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| Economic impact and opportunities; | Review of fares policy; |
| Social and political cohesiveness between North and South Wales; | Alignment with existing Welsh Government policies and priorities (e.g. environment and sustainability); |
| Maximising commercial opportunities; | Connectivity; |
| Maximising market investment; | Regulations for PSOs; and |
| Maximising tender interest/bidders; | Resilience |
| Stakeholder and customer engagement; | Data handling |

Timescale:

The work is due to be completed by July 2014.