

## Executive Summary

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The Intra Wales Air Service provides twice daily weekday flights between north and south Wales. 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 current contract expires at the end of 2014. The Welsh Government commissioned Arup, assisted by York Aviation and Aviation Analysis, to undertake a review of the value of the service and potential for alternative options should the Welsh Government decide to continue supporting an Air Service beyond the period of the current contract. The review also addresses a number of the areas raised in the Public Accounts Committee Report on the Intra Wales Air Service.<sup>1</sup>

Subsidised air services between Cardiff and Anglesey commenced in May 2007. The original service was operated by Highland Airways under a three year contract. That contract was terminated after Highland Airways ceased trading in 2010. Following the resulting two month service interruption, a four year contract was awarded to Manx/FLM in 2010 to operate the service with a three month break clause. The Air Service is currently operated via a contract between Welsh Government and two companies who are joint signatories; Citywing (formerly Manx2) undertake the ticketing and marketing, and Links Air, who were novated to the contract in 2012, operate the flights.

Several other parties are involved in the delivery of the Air Service including the Ministry of Defence, which owns RAF Valley (within which Anglesey Airport is located), Europa Belfinger (a contractor operating the Anglesey Airport terminal facilities), The Isle of Anglesey County Council and Cardiff Airport.

In the first year of the service operating (May 2007 – May 2008) over 14,000 passengers (one way trips) used the service which exceeded initial forecasts. A similar level of demand was achieved in the second year of operation, although demand had begun to fall during 2008 as the UK economy entered recession. Following the 2010 service interruption demand continued to decline until the start of 2011 when passenger numbers recovered slightly. Passenger numbers fell slightly in the first half of 2012 but have since remained relatively stable at around 9,000 passengers per year.

As part of this review existing passengers were surveyed and there was consultation with a range of aircraft carriers. The passenger surveys indicated that the majority of passengers (74%) were travelling on business and using the Air Service to make trips of a short duration to north and south Wales (as opposed to connecting to onward flights at Cardiff or travelling to further destinations outside the local areas). Around 60% of business travellers were employed in the public sector with the remaining 40% in the private sector. The primary reason passengers gave for using the Air Service is the time saving it offers in comparison to alternatives and in particular the ability to make a return trip in a day between north and south Wales. It is notable that a number of passengers suggested should the Air Service not be available they may not have made their

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<sup>1</sup> National Assembly for Wales, Public Accounts Committee, *Intra Wales – Cardiff to Anglesey – Air Service – Interim Report*, July 2014.

journey. Whilst a number of suggestions on service alterations were received (in particular timing of journeys) there was generally a good degree of stated satisfaction from existing passengers.

The operator consultation undertaken indicated that the limit on aircraft size means that renewal of the contract would not be attractive to some operators who do not have access to smaller aircraft. Aircraft operators also made a number of suggestions in relation to the current contract conditions; these primarily related to conditions increasing the flexibility and scope to vary the service offered.

In considering the potential renewal of the contract a review has been undertaken of a range of airports against the likely market for travel (population and employment catchment), the journey time benefits and the fit with the EU regulations on PSO services (in particular the alternative public transport options between locations). The review identified Cardiff, Anglesey and Hawarden airports as having the greatest potential to form part of a future Intra Wales Air Service. From these three airports it is judged that Cardiff Airport is best suited to be retained as the base for the aircraft in light of the facilities available for use by the operator. Two daily service patterns have been assessed in terms of their potential patronage and economic performance:

**Option 1:** Cardiff – Anglesey – Cardiff – Anglesey – Cardiff

**Option 2:** Cardiff – Anglesey – Cardiff – Hawarden - Cardiff – Anglesey–Cardiff

Whilst Option 2 was assessed to have a higher overall patronage potential the associated increase in operational costs would be likely to require an increase in the Welsh Government subsidy to support the service. It is also recognised that an air service between Cardiff and Hawarden may be considered marginal against the PSO regulations given the existing rail alternatives. For these reasons it is considered that maintaining the existing service pattern, Option 1, offers the best prospects for a future Intra-Wales Air Service.

The economic benefits of the service are particularly sensitive to the value attributed to passengers' time. By applying alternative values of time (for aviation passengers) to patronage forecasts for Option 1, it is considered that for a four-year contract to 2018 the Benefit to Cost Ratio of the service could be up to 1.10. This Benefit to Cost Ratio does not include a number of Wider Economic Benefits associated with the air service such as greater levels of business interaction between north and south Wales, additional costs borne by business of alternative travel modes (such as accommodation and effects of travel fatigue), improved access to new business markets and retention of businesses in north west Wales.

In relation to the procurement of a future contract a number of recommendations are made. These are targeted at increasing the flexibility and attractiveness of the service (to both passengers and the contracted operator) and to driving growth in patronage, and therefore lower subsidy, through a more comprehensive marketing strategy and by establishing a linkage between patronage and level of subsidy.

Following the findings of the review it is also recommended that the Welsh Government pursue a number of complementary measures. These notably include the investigation of measures at Anglesey Airport that would enable the airport to be compliant with the National Aviation Security Programme (NASP) regulations and in doing so obviate the current limit on the size of passenger aircraft that can be accommodated at the airport.