



PARLIAMENT OF THE CAYMAN ISLANDS



PARLIAMENT OF THE CAYMAN ISLANDS STANDING PUBLIC ACCOUNTS COMMITTEE

**EFFICIENCY AND EFFECTIVENESS
OF CAYMAN AIRWAYS LIMITED**

*Official transcript relating to the Official Report of the
Standing Public Accounts Committee Meeting
held on 6 June, 2024*

CONTENTS

Ms. Angela Cullen, Acting Auditor General Office of the Auditor General	1-3, 17
Mr. Fabian Whorms President and Chief Executive Officer Cayman Airways Limited	3-20
Dr. John-Paul Clarke Chairman of the Board Cayman Airways	20-24
Mr. Stran Bodden Chief Officer Ministry of Tourism and Ports	24-28

PRESENT WERE:

PAC Members: Hon. Roy M. McTaggart, JP, MP, Chairman
Hon. W. McKeever Bush, JP, MP, Member
Mr. Joseph X. Hew, MP, Member
Ms. Barbara E. Conolly, NP, JP, MP, Member
Mr. Bernie A. Bush, JP, MP, Member

Apologies: Mrs. Sue Winspear, Auditor General
Ms. Heather D. Bodden, OCI, Cert. Hon., JP, MP, Member

Audit Office: Ms. Angela Cullen
Acting Auditor General

Witnesses: Mr. Fabian Whorms
President and Chief Executive Officer
Cayman Airways Limited

Dr. John-Paul Clarke
Chairman of the Board
Cayman Airways

Mr. Stran Bodden
Chief Officer
Ministry of Tourism and Ports

In attendance: Mr. Kenneth Jefferson
Financial Secretary and Chief Officer
Ministry of Finance and Economic Development – (MFED)

Mr. Matthew Tibbetts
Accountant General
Ministry of Finance and Economic Development – (MFED)

Mr. Kevin Bradfield
Audit Project Leader
Office of the Auditor General

PAC Clerk: Ms. Susan Burke

**OFFICIAL VERBATIM REPORT
STANDING PUBLIC ACCOUNTS COMMITTEE
THURSDAY
6 JUNE, 2024
10.22 A.M.**

EFFICIENCY AND EFFECTIVENESS OF CAYMAN AIRWAYS LIMITED

Verbatim transcript of the Standing Public Accounts Committee Meeting held on Thursday, 6th June, 2024, at 10.22 a.m., in the Chamber of the House of Parliament; George Town, Grand Cayman.

[Hon. Roy M. McTaggart, Chairman presiding]

The Chairman: Good morning, members of the Committee. Thank you all for being here this morning to participate in this hearing of the Public Accounts Committee (PAC).

As it is our custom to begin with a prayer, I've asked the Hon. McKeeva Bush if he would lead us in that prayer this morning.

Hon. W. McKeeva Bush: Let's pray then:

Dear Lord and Master of us all, we pause now to acknowledge that you are, indeed, the Lord of all and we pause to give thanks for your many, many mercies to us, your children.

We ask now that you would bless and guide our deliberations here; keep safe our families, wherever they are, and protect and guide all our leaders. For all this we say amen and amen.

The Chairman: Thank you, sir.

Members of the committee, I would like to once again welcome everyone from the Auditor General's Office as well as the Ministry of Finance and members of the committee.

We have five of the six members of the committee this morning so we are quorate, but I would like to acknowledge, too, the presence of Messrs. McKeeva Bush and Bernie Bush who are both here attending the first hearing, I think, since they were appointed members of this committee. As a committee we are quorate, but we have had apologies from the Honourable Heather Bodden who I understand is off-island and will be returning home tomorrow.

I would like to welcome as well, Ms. Angela Cullen, who is the Deputy Auditor General and is standing in this morning for the Auditor General Mrs. Sue Winspear who is off-island receiving medical attention. We continue to hold her up [in prayer] and wish her well in her medical treatments as well, and acknowledge that she is off-island at this time. Ms. Cullen is accompanied by Mr. Kevin Bradfield who was the Audit Project Leader on the engagement that we are examining this morning, so at this time I would like to invite the

Acting Auditor General to introduce the report that we will be examining.

OFFICE OF THE AUDITOR GENERAL

Ms. Angela Cullen, Acting Auditor General: Thank you.

Mr. Chairman, members of the committee, officials from the Ministry of Finance and the listening public: Good morning, and thank you for the opportunity to make some opening remarks; and again, I would like to extend apologies from the Auditor General who is sorry that she can't be here with us today.

We are considering our report "*Efficiency and Effectiveness of Cayman Airways Limited*" that the office published in March this year. The audit covered four main areas:

- Strategic direction and governance;
- Financial performance;
- Workforce planning and management; and
- Non-financial performance.

Before I move on to those areas, I would like to note that Cayman Airways Limited, which I will refer to as CAL from now on, plays an important role. CAL provides essential inter-island connectivity and contributes around \$200 million to the economy each year.

The Chairman: [Acting] Auditor General, can I ask you to speak a little closer into the mic?

Ms. Angela Cullen, Acting Auditor General: Sure.

I will now briefly summarise our findings in each of the four areas— is that better, sir? Thank you. Okay. I will start with Financial Performance and there are three issues I would like to highlight here:

- CAL's financial performance;
- The Funding Model; and
- The budget process.

CAL consistently incurs losses and over the five years 2018 to 2022, CAL made total losses of \$34 million and the annual losses varied each year. At the end of 2022, CAL's net worth was (\$25) million which means it owes more money than the value of its assets and that balance did not vary much over the five years.

CAL's funding model is unclear. The majority of CAL's income is from ticket sales, but it also receives significant funding from the government. Over the five years, CAL received \$114 million in output funding from the government, but it is unclear what the funding is intended to cover and it is impossible to assess the adequacy of that funding.

For example, the government provides funding for strategic domestic air services between Grand Cayman, Cayman Brac and Little Cayman. After government funding, CAL made almost \$8.5 million in losses on those routes over the five years. While we appreciate that these flights are also used by tourists, they provide essential lifeline services for Caymanian across the three Islands, and it's unclear why they are not more fully funded by government.

CAL also received \$34 million in equity injections over the five years. Equity injections are supposed to be used for capital investment and, in the case of CAL, repayment of debt; however, when you look at the budgets requested and received, it looks like some of the funding may have been for day-to-day operations.

Not for the first time we are raising concerns about the budgeting process and I will highlight two issues here. CAL appears to be requesting unrealistic budgets in that, with the exception of 2022, CAL requested the same amount of output funding each year despite making losses. Secondly, CAL does not receive the budgets for output funding that it actually requests. In addition to the output funding, CAL received supplementary funding and equity injections each year, and it's not clear why this happens.

Moving on to strategic direction and governance, I am pleased to report that there is good collaboration between CAL, the Ministry of Tourism and Ports (MTP), and the Department of Tourism (DOT), and this includes discussions on the selection of routes.

"Our review of the selection process for the Los Angeles route found that it was effective." In October 2023 CAL added the Barbados route. This route was outside the scope of our audit, but we did look at the agreement made. The Barbados route was not assessed in the same way as other routes and it was added as part of the Surplus category— Surplus category routes are expected to make profits. CAL agreed to operate the route initially for one year, and set a minimum revenue guarantee where it expected to make profits on the route. Since publishing our report, CAL has announced that the Barbados route would be scaled back from the 17th of May and would stop on the 3rd of July.

Our office previously reviewed CAL's governance arrangements in both 2013 and 2017 and improvements have been made since then, but we did note that a few recommendations made in 2013 had not yet been implemented.

Moving on to workforce planning and management, CAL employed 360 staff at the end of 2022, most

of whom were Caymanian. Around two-fifths of the staff, including over a third of pilots were aged 50 and over, but CAL does not have a workforce plan to ensure that it will have the right people with the right skills in place for the future. We also noted that CAL does not routinely prepare or monitor human resources data that could help with some decision making.

I want to raise the financial consequences of the Public Authorities Act (PAA)— again, another common theme from recent reports from our office. CAL started to implement Section 47 of the Act in 2023; that included agreeing a separate pay scale for pilots to ensure they were comparable with the global market. By the end of 2023 CAL had spent \$2.6 million implementing the Act, and estimated that it would cost a further \$3.5 million annually to fully implement it. This will add around \$6 million to CAL's annual running costs, an organisation that is already making annual losses.

Finally, moving on to CAL's non-financial performance: CAL performs well against its ten key roles, however, we found that CAL's performance against its output targets was mixed. We also found that CAL did not effectively report on its non-financial performance; until 2022, CAL only reported performance against its ten key roles in its Annual Report. As the national airline, it is important that the Parliament and public are able to assess CAL's performance against a range of measures including the agreed outputs.

Finally, I'd like to comment on CAL's new fleet of aircraft. The plan to replace the fleet of larger aircraft was approved in 2016. The replacement took longer than anticipated because of the grounding of the 737 Max 8 in 2019, however, there are two areas worth noting:

- Firstly, CAL received favourable terms on leasing the new aircraft; and
- Secondly, CAL has already started to reap the benefits from the new fleet of aircraft and I hope this will continue.

We made fourteen recommendations in our report. I am pleased to note that all were accepted and, as you mentioned, Mr. Chairman, I have with me today Mr. Kevin Bradfield who undertook the audit with me.

Thank you, and we are happy to support the committee this morning.

The Chairman: Thank you, Auditor General for your introductory remarks. Our first witness is Mr. Fabian Whorms, President and Chief Executive Officer of Cayman Airways Limited. I would like to call him into the Chamber at this time.

[Pause]

The Chairman: Good morning, Mr. Whorms, a quick question for you. Did you bring anyone else with you?

CAYMAN AIRWAYS LIMITED

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Good morning, Mr. Chairman. I have the support cavalry outside, but I don't have anybody here with me.

The Chairman: Mr. Whorms, I want to welcome you to the committee this morning. I think you're well acquainted with the report of the Auditor General that we will be examining this morning.

By way of introduction, when you answer your first question I ask if you could state your name and your position for the record so that it will be captured; and before I open this hearing up to questions from members of the committee, I have a very short opening preamble that I would like to read for the record as well as for everyone's benefit.

The Auditor General published her report in March 2024. This is the Office of the Auditor General's first overarching review of Cayman Airways' performance. I think it is fair to say that the report presents a positive picture of Cayman Airways. It is particularly pleasing to note that the Auditor General's Office has concluded that Cayman Airways has already realised the anticipated benefits from modernising the fleet, however, the Auditor General noted a few significant areas that the committee would like to probe into a little further this morning.

We are pleased to note that you accepted all of the Auditor General's recommendations. You indicated that some of those would be implemented this year, so committee members may want to ask you about progress being made or planned for this year, and into the next.

I have agreed that Mr. Bernie Bush would lead off the questioning this morning; he is time constrained, so he will be leaving us about halfway through the hearing today. He had some questions, I think, for yourself and the Auditor General that he would like to ask, and I have given permission for him to ask them before we actually get into the formal report so, Mr. Bush, you can proceed with your questions at this time.

Mr. Bernie A. Bush: Mr. Chair, through you. Thank you so very much.

Good morning, everyone. Listening to the Acting Auditor General, it was good and then listening to what the Chairman said, for my very first time sitting in this place and sitting on the PAC before, I've always been conscious of not making Cayman Airways a political football. It is too important to the island and to hear the Auditor General say that when they did their homework, that is like \$200 million that the airline brings into the economy. My first set of questions, Mr. Chairman, is over to the Auditor General's side. What other positive things did you find from this report?

Ms. Angela Cullen, Acting Auditor General: Thank you, Mr. Chairman.

Thanks for your question, Mr. Bush. I think there are a number of positives in the report. As Mr. Chairman said, we think it paints a pretty positive picture of Cayman Airways. I think some of the particular issues are the contribution it makes, it does provide a lifeline service.

I'm getting notes written for me here: the improvements that have been made in governance since we last reported on those and, as I mentioned in my opening remarks, that the fleet modernisation has been key for Cayman Airways and I think the fact that they had already started to realise the benefits from that fleet modernisation so quickly. It is great news and I think it will continue.

Mr. Bernie A. Bush: Thank you.

Mr. Chair through you, in your professional opinion, were you given enough time to have sufficient meetings with the Ministry as well as Cayman Airways?

Ms. Angela Cullen, Acting Auditor General: Through you, Mr. Chairman. Yes, we met with Ministry officials, Chief Officer and the Department of Tourism officials on a number of occasions during the audit.

Mr. Bernie A. Bush: Thank you. Mr. Chair through you. The audit process helps us understand how Cayman Airways works?

Ms. Angela Cullen, Acting Auditor General: Through you, Mr. Chairman.

Absolutely. From our perspective, it was really insightful to understand how Cayman Airways operates. Obviously, we do the financial audit of Cayman Airways through one of the private firms so we know its financial performance, but to actually delve deeper into its non-financial performance and the way that it operates was really helpful.

Mr. Bernie A. Bush: Thank you, Mr. Chair.

Now through the Chair to Mr. Whorms. Welcome, sir. The Auditor General's report highlighted that CAL has a range of measures including the strategic ownership goals, key roles, budgeted outputs, and key performance indicators. It is good news that CAL has met its ten key roles and we are pleased to hear that you have already realised benefits from modernising the fleet, but we note that CAL's performance against the agreed output targeted was mixed.

We also noted that CAL only started reporting its performance against the output targets in its 2022 Annual Reports. This means that until then, neither the Parliament nor the public could assess whether CAL was meeting its performance targets. We also understand from your response to recommendation 14, that in addition to output targets, you intend to report CAL's performance against other measures in your Annual Report from June this year.

The Office of the Auditor General's team told us that you have improved the performance reporting in the draft 2023 Annual Report, but it would seem that there is scope to improve this further. For example, we understand that despite setting metrics in the 2023–2028 business plan, you have not reported performance against all of these. I would like to ask the Chief Executive Officer:

1. Plans to further improve performance reporting in the annual report.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Fabian Whorms, President and Chief Executive Officer at Cayman Airways.

First, I would like to point out that whereas what the Auditor General's Office has recommended, we embrace it and we are endeavouring to increase the performance-related data that we include in our Annual Report. The Annual Report actually follows a prescribed template, and I would not want it to be felt that we are somehow in breach of not reporting things which are required to be reported. This is simply a matter of better, or best practice, for the benefit of the shareholder, who happens to be the people of the Cayman Islands, so that they can see.

It should also be remembered that Cayman Airways operates in a commercially sensitive, very competitive environment, and not all of our performance, in terms of how we meet our targets, is something that we may wish to readily disclose because disclosure to the public is also disclosure to our competition; so as we go about redefining or enhancing or improving the measures that we report on, we are also being very careful that we're not frivolous in doing so, and it will take some time, so the date of implementation is the end of this month. What that means is that, going into the Annual Report for 2024, which will be Tabled in 2025, you can expect to see the full slate; we have, however, picked the low-hanging fruit that we are comfortable with for inclusion in the report that's about to be Tabled—the next report, which is a 2023.

Something that the current board brought into play at Cayman Airways, was also a new set of performance metrics. Everyone is accustomed to the term KPIs (Key Performance Indicators). We have had our traditional airline KPIs. We have now moved to a framework which we are referring to as objectives and key results, so we don't just measure—we don't just focus on what the KPIs are, but what are the objectives that these results are tied to, so there is a benchmark. Some of the improvements in our performance, for instance, ties back to the Ownership Agreement, so these are the goals specified in our Ownership Agreement.

Traditionally, we were to deliver a certain number of passengers and that was historically a standard component in all of the Purchase Agreements. We have found that this is not necessarily a good measure

because it is really an issue of us delivering seat capacity; as to whether or not that capacity gets filled, or to what degree it gets filled would be the component of actual delivery of passengers, but our mission must start with putting capacity in there.

What we found as we transitioned from the 737-300s, which had a seating capacity of 122—whereas, we are now using a seat capacity of 160—is that it changes, for one, the number of flights, because now we are using less flights to deliver more passengers, so if the purchase agreement before said we should have delivered a certain number of flights, we may not be hitting those targets now, but it's not a bad thing, because we are delivering the same seat capacity and, in turn, the same number of passengers probably. This is where the tweaking, in terms of how the ownership goals are defined and how we tie our performance back to that, needed to take place, so we have totally embraced and acknowledged that it needs refinement.

It's not a very daunting or challenging task, which is why we also stipulated that we would have this addressed by the 30th of June. When we set our compliance timelines there were many things for which we said, *“Well, this we can do in three months, this we can do in six, this will take a year”*. This was one of those which had an early implementation at our disclosure because it's not a significant task.

Mr. Bernie A. Bush: Mr. Chairman through you. Thank you.

In your answer you touched on this a little bit. Are there any plans, keeping in mind the commercial sensitivity on certain issues, like you said—I was happy to hear you say that. Are there plans to publicly report performance other than the Annual Report? Is it possible, are there any plans to do so?

Mr. Fabian Whorms, President and Chief Executive Officer Cayman Airways Limited: Through the Chair. We consider the statutory requirements to have been well thought-out and suitable for what the public needs to know about. Anything beyond that requires the airline's careful consideration. We are often very cautious to even boast about our “wins”.

For example, recently we have had a tremendous streak of on-time performance especially with our SAAB operation; but there is a reputational stigma with respect to the SAAB operation, so we are very careful to come out and say that our on-time performance with the SAABs has been tremendous, because we know that it may be very short-lived, you know? Tomorrow there may be a situation where the SAAB is grounded, which statistically is not significant, but the impact of someone not being able to travel makes the news.

Unfortunately, we are in this “fishbowl” when it comes to the media, so we are very careful. We don't “toot our horn” as much as some think we should but there is a reason for that, and again, it has to do with

not creating false expectations. This is one of the reasons we are often reluctant to go over and beyond what the statutory reporting requirements are because, really, the only reason to do it is to give the public a better perception, a better perspective as to how well Cayman Airways is doing— but we have found that it doesn't really matter at the end of the day, because it doesn't matter how well we do, or for how long, we are viewed by the public only as good as what happened yesterday.

Mr. Bernie A. Bush: Thank you. Mr. Chairman, through you.

The next line of questions, Mr. Whorms, is on workforce planning and management. The Auditor General's report highlighted that CAL had 360 staff at the end of 2022. Exhibit 17 in the report provides a summary of the staffing profile. This shows that CAL's **"workforce is ageing; around two-fifths of the entire workforce is aged 50 or over and over one-third of the pilots are aged 50 or over"**. The Auditor General noted that, **"CAL does not have a comprehensive workforce plan that considers the workforce size, skills and capabilities that are needed to achieve its overall strategy. In the absence of a workforce plan. It is unclear how well CAL is managing the risk of an aging workforce."**

We understand from your response to Recommendation 12, that you committed to develop a workforce plan by the end of June. Mr. Whorms, the PAC wishes to ask you about:

1. Progress with developing the workforce plan; and
2. Explain how CAL manages the risk of an aging workforce, particularly in relation to pilots.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thank you for the question. Through the Chairman: Again, we readily embraced the recommendation because the recommendation is to have a workforce plan.

Now, the Auditor General Office's work, like any audit entity, is evidenced-based so this was a situation of the Auditor General's Office looking for documented evidence that we have a workforce plan. It does not mean that proper workforce planning is not taking place. We do exercise proper workforce planning. The issue of a significant percentage of our employees being over the age of 50 is not necessarily a problem to us at this time. At any given time, we, or any large entity, will find that there is a significant number of employees that are over the age of 50.

With respect to our pilots, the retirement age is 65. We have been around for 56 years this year, and we have never had a problem with our pipeline of pilots' supply which allows progression all the way through to senior captaincy as Captains retire, so it's not so much that there is a problem that needs to be fixed, but that

we need to be able to provide more evidence in the form of a documented plan; a consolidated documented plan which the Auditor General thinks would be good practice because, certainly, as we think about our threats to future operation, manpower planning is a big deal. How do we deal with retirements, turnover; so, we readily embrace that.

Again, this is a simple one, so the time frame that we stipulated was the end of June and we are well underway— we already had templates in place. If we had more time with the Auditor General... but the audit needed to be wrapped up. For instance, maybe we could have done a bit more, but this is one of those issues that was not significant enough to challenge the Auditor General because it was much easier for us to just accept that we can put this together quickly and go with it.

For instance, the Auditor General flagged that we didn't measure turnover rates but what we did measure and what we did provide to the Auditor General's Office was the number of employees at the beginning of each of the five years under review and the number of employees at the end, which then tells you how many people have left when you offset the number of people who we have employed; so, our turnover was found to vary between 11 and 13 per cent. We were asked what our turnover rate was, and we provided raw data rather than saying "between 11 and 13 per cent".

The fact of the matter is that we were already using the raw data at a much more granular level. In other words, there are years when we had a high turnover— let's use one of the years in question being 2020, which was the COVID year, when we actually had a programme of voluntary separation and early retirement. This would have led to a spike in our turnover and if you were to look at that alone, you may say something is wrong; but inherently, we know nothing was wrong, that it was by design. It was a concerted effort to make the workforce smaller because our operations became very much contracted.

We also have a situation where turnover is not the same for all disciplines and all categories of staff. We have many entry-level jobs and we do provide that first job to many Caymanians, [but] the airline business is not for everyone. Generally, the airline business is for people who love it— and some don't. We tend to have higher turnover rates with the entry-level positions [where] someone may join as a cabin crew member. Fresh from high school, it's a wonderful job, but three years into it, it's not the right thing for them because they may not enjoy the traveling, or the odd hours, things like that, and they change their career.

We expect a level of turnover in an area like that, which is going to be much higher than, for instance, with our pilots, where the turnover is extremely low. The extremely low, if I was to put a percentage to it my rough calculations tell me that our annual turnover with our pilot group is less than 2 percent, yet there is a perception, because it's promulgated all the time in

social media, that we have a problem retaining pilots. Half the pilots that leave Cayman Airways leave by way of retirement. It does not cause us problems because, again, we planned for it; there is a constant pipeline of progression with our pilots, and when a pilot retires we must also remember that it creates an opening at the entrance level for someone else to join the pipeline.

If someone leaves on their own accord, maybe because they would like to fly 747s, that's their dream. It is what pilots do. They have professional dreams and objectives. We have a handful of Caymanian pilots that over the years, have moved to other organisations. We have two or three pilots right now in the Middle East, and it's often spoken about as if we have had a mass exodus of pilots at Cayman Airways, when what we have had is completely normal; and we are actually very happy for those individuals who have now gone to spread their wings beyond our shores and are making us proud.

They are making Cayman Airways proud, because we were their breeding ground, and they are making the Cayman Islands proud. We are a very small nation, and it is very good when our presence can get felt around the globe so we don't perceive this as a problem, but if it's framed in a way that we are not measuring the average turnover for the company, when in fact, we do conduct very granular level, meaning deep-level analysis, looking at why people actually leave...

You know, one of the reasons why it's good business practice for organisations to look at their turnover rate is because, if there's a problem with retention and it's something to do with the organisation's culture, meaning the organisation is not a happy place to work, it could be indicative of that— but we also look at the levers on a granular level. For the most part we know why they leave.

Some people will leave and say Cayman Airways was not a good place to work, but I have also seen how the vast majority of those people who leave, wherever they go to, they also say it's not a good place to work and within six months they are asking us to take them back at Cayman Airways. It has to do with the level of exposure, especially with young people. You know, their expectations are very high and it's not until they experience the grass on the other side that they realise it actually wasn't greener.

That's the sort of analysis we do but, again, we embrace the Auditor General's recommendation. It is something that we see as very easy to do and it will be helpful in terms of providing evidence, quickly, to demonstrate to anyone who asks that we do, in fact, conduct effective manpower planning— and bear in mind, 50 years old is fifteen years away from the normal retirement age. For many of the long-serving Cayman Airways employees, at the time they joined the company, they did not have contracts that required them to retire at 65, and we cannot go in after the fact and say

to them, *"we are now unilaterally changing your contract and you have to retire at 65."*

Many of these employees who are over the age of 65— we do have a handful, maybe ten employees working with the company who are aged over 65— the airline is benefiting from their wealth of experience and it is good, because people are able to perform. This is a worldwide phenomenon. People are living longer. People are healthier. People are able to perform beyond the age of 65, and when they can, and they are still providing a very positive contribution we see it as a positive, so it's not a cause for alarm in our estimation.

Mr. Bernie A. Bush: Thank you. Mr. Chairman through you.

First, I want to say thank you for publicly saying that CAL embraces what the Auditor General's Office has recommended. Having sat in PAC before I've seen the kick back and common sense has always told me that what they are saying makes transparency so much better, et cetera, so I'm happy to hear that.

It would be remiss of me, Mr. Chairman, not to mention the retirement from Cayman Airways of one of Cayman's greats, Mr. Rex Miller; and the passing of one of the greatest, Captain Harrison Bothwell, because when he talked about flying the 747s, it was Harrison who had my son dream of getting to the 747s and he went above that to the 380-800, which is even bigger; so like you said, we must remember these type of people. We must mark them and tell them, and their families, thanks for their sacrifices.

Now, sitting as the Deputy Leader of the Opposition I asked you a question once and you refused to tell a lie and it was hedged. I said to you, was there a plan in place for people who were retiring from Cayman Airways because there was one in particular who was going after fifty-one or fifty-two years' [service], and I think he was only getting something like \$200-300 a month— some kind of retirement pension; and I asked you if anything was being researched or looked at to try to help those employees that have been there for a long time. Have you been able to get to that plan yet? At least working on it?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thank you for that question.

There is a bit of a paradox in that scenario because one of the reasons why we are not keen to see an employee who attains the age of 65... We are not keen to use casual terms— "kick them out of the organisation"— because of the reality that their pension is completely out of sync with that of the majority of the public service, certainly out of sync with the entire civil service.

Cayman Airways has historically operated as if it were a private entity when it comes to certain things, and the treatment of pension is one of them, so Cayman Airways' employees have a private pension and

the accumulations that most people have in their pension fund at this time will only assure them \$1,035 a month when they retire. They will also have no post-retirement health care.

Now, this is a problem that Cayman Airways itself cannot fix. It requires much funding, and is one that myself as the CEO, see as one that the shareholders have to intervene in. It is just logically impossible for Cayman Airways to print money on its own and create an environment to fix a problem such as this. The Public Authorities Act (PAA) actually has features in it which aim to narrow the gaps that exist between, for instance, what Cayman Airways can offer, or is offering, versus what obtains in the civil service.

I think when the Public Authorities Act was implemented by most SAGCs (Statutory Authorities and Government Companies), they were already in a favourable position. Cayman Airways was one of those entities that were significantly behind the eight ball and this is why implementing the PAA, which in my informed estimation was brought about to keep SAGCs in check— to ensure that SAGC employees were not receiving remuneration [at] levels that were well over and above what obtained in the civil service— it was the reverse in the case of Cayman Airways. It had a significant financial impact on us.

The conundrum comes about whereby yes, we would love to do whatever we can to improve this, but we don't have the ability on our own, so it is a shareholder problem and it is a problem that has been known by successive administrations over many years. This is not a challenge that is just facing the current administration or facing Cayman Airways in its current state. What you have described, Mr. Bush, is a long-standing phenomenon, and at times it is very sad and painful for me, as a CEO, to see employees with 30, 40, 50 years of service retire to know full-well that they have no significant pension that can even allow them to pay their electricity bill, and they'll have no post-retirement health care.

I, myself will be approaching retirement at some point, so whereas I have great compassion for the staff, my compassion is also one whereby I'm experiencing it myself. I know exactly what the concerns are, so I will be the last person who is unsympathetic. The entire Cayman Airways management team, this is something that we are most sympathetic towards. We don't know what's going to happen when we retire, you know. We do not think we will be able to survive, and I think it is very serious.

Everybody talks about it almost every single time we are in the House. Whether it's in Finance Committee or Public Accounts Committee, it comes up every time, and I am just hoping to see the day when government does something very tangible. It could be simply just accepting responsibility for the Cayman Airways employees under the Public Service Pensions Board (PSPB) provisions and implementing a different style of pensions, or funding us to do more. It can be

simply “umbrella-ing” retired Cayman Airways employees with the civil servants who have retired for their post-retirement healthcare benefits through the HSA and CINICO.

Mr. Bernie A. Bush: Thank you, Mr. Chairman.

I'll give somebody else a chance, but let me close by saying: Mr. Whorms, I've come into your office on many occasions, ranting and raving. You know, I'm a die-hard KX fanatic— before my son got there and after he left, it's still my airline. I learned that from the Jamaicans with Air Jamaica. It is *my* airline, *our* airline. Thanks for always taking time to explain to me when I did not understand something, and thanks for never saying, “*Where did you get that information?*” You never asked me to be an informer, like who told me this, that, or whatever— and thanks for always trying to look out for the best for our airline.

Thank you very much.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: I appreciate that comment, sir.

The Chairman: Thank you, Mr. Bernie.

We are now going to move on, Mr. Whorms, to talk about the strategic direction of Cayman Airways, particularly, the strategic ownership goals.

The Auditor General's report, sir, highlighted that Cayman Airways agreed 12 Strategic Ownership Goals with the government as part of the 2018-2019 budgeting process. These are still in place, however, the Auditor General reported that these goals do not meet all of the elements of the SMART principles— that is, that they are “**specific, measurable, achievable, relevant and time-bound**”. For example, “**not all are measurable or time-bound and this makes it difficult to effectively measure performance against them.**”.

Mr. Whorms, we understand from your responses to the Auditor General's Recommendation 1 that you plan to revisit these goals as part of the 2026-2027 budgeting cycle. Can you give us your thoughts, then, as to whether these Strategic Ownership Goals are fit for purpose?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thanks for that question, Mr. Chairman.

Let me preface something, and I'm pretty sure the Auditor General's Office will concur. A good read of the report will indicate that the vast majority of these goals are SMART. It is in some of them, that not all of the SMART elements are in place. I would not want the impression to be that we have a raft of goals and objectives none of which meet the S-M-A-R-T elements. Hence, what the Auditor General pointed out is, in fact, true: we need to tie our strategic plan more to these strategic objectives and goals.

In areas where, for instance, time bound-ness may have been absent, it often has to do with the uncertainty that constantly plagues Cayman Airways—it's very hard to plan; so, there are some things that we know we have to do, [but] for us to specify a time measurement becomes a bit of a challenge and in cases like that, you may find that we did not specify it so, again, we have embraced that we can do things.

I'll give a good example: If one of the strategic goals in our strategic plan is to work with the Cayman Islands Government to achieve more parity with the civil service through the implementation of Section 47 of the Public Authorities Act, I do not have a track record that will allow me to put a time frame against that because it's not within our control, and history has told me that it is something that may be talked about forever and will never get anywhere, so if that was a strategic goal within our strategic plan, we could not put a time frame on it, you know?

I just used that one as an example because of the recent discussion but, again, it would be better business practice if everything was SMART, so we have embraced the recommendation and we will be moving ahead and that is for the 2026/2027 budget cycle.

The Chairman: Do you have any thoughts on how these strategic ownership roles could be improved?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: In a variety of ways, but it's within the theme of what the Auditor General's Office has said. We need to ensure that every goal is completely SMART—that it ticks the box for the S, the M, the A, the R and the T. If you want me to give specific examples, I can say that we have put much work into our strategic plan and it is something that has its seasons and times, when we devote attention and focus to it.

Our strategic planning processes are always collaborative. I can tell you that there is a strategic retreat planned for later in the summer for the Board, and that is when we intend to start doing a deeper dive; but we already have certain inclinations as to what needs to be changed and what needs to be improved because it's mentioned in the report, so I wouldn't want to get any more specific than that.

The Chairman: I understand, sir. I want to turn next to your strategic plan then, and explore that a bit more.

The Auditor General's report highlighted that Cayman Airways' most recent strategy, which is the Business Plan 2023–2028 was approved by the Board in May 2023. We are pleased to note that the strategic plan aligns with some elements of good practice, but we understand from the Auditor General that it has gaps. I refer you, particularly, to Exhibit 4 in the report. For example, it does not have clear baselines, does not link to financial plans to demonstrate affordability or

workforce plans to guide human resources, and does not have a stakeholder engagement plan.

The report also states that the plan, “**does not set out how CAL will achieve four of the 12 Strategic Ownership Goals**”. We understand from your response to the Auditor General's Recommendation 3 that you have committed to update the plan by the end of this year. Can you tell us what action has been taken to improve the strategic plan?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Mr. Chairman, again, we prioritise our work and Cayman Airways is a very complex operation.

We have committed to the end of the year; we have initial thoughts and inclinations, but we have not dived as deep into this as yet as we intend to, so it would be premature for me to give too much detail in terms of progress because there is still time left. We did not commit to an earlier date than the end of this year because this is the length of time that we see necessary.

Again, this is all going to be done collaboratively. In fact, something the Auditor General wanted to see demonstrated is the collaboration. It's all well and good for us to say that we arrive at our strategic plans with input from the Ministry, the Department of Tourism [and] our various stakeholders, but to be able to demonstrate it is a different thing. In practice, it happens, and it happens a lot—we wouldn't be functioning the way we are if it didn't. There has to be a good alignment between our efforts and those of the Ministry of Tourism and Ports, so there is that alignment.

What would be nice, to be able to demonstrate it to the Auditor General, is a consolidated document of evidence, because they work evidence-based, so that's where our task lies.

Hon. W. McKeever Bush: Mr. Chairman.

The Chairman: Mr. Bush. Please go ahead.

Hon. W. McKeever Bush: Mr. Chairman, since you are on that line, and Mr. Whorms spoke earlier on the difficulty of implementing the Public Authorities Act—Why would it cost so much?

Now, I am not a fan of that Act because it seems this country believes that all we need to do is just build more and more bureaucracy and we can be better off. I don't hold that view but... why would it cost so much? It seems to me what is said is well over \$6 million in total.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Through the Chair.

Good question, Mr. Bush. What the Public Authorities Act required all public authorities to do, is to

ensure that all jobs within a public authority are evaluated and scored by using the same system used by core government, which is the Hay Job Evaluation Method.

Core government itself undertook the exercise to have all the jobs evaluated at Cayman Airways and once the jobs are evaluated, they must be placed in the same set of scales that are used by core government, so as our jobs were evaluated, it resulted in placement in scales that commanded salaries that in many cases were significantly more—in all cases, it was more, but in many cases, it was significantly more than what we were paying; and our remuneration line item in our expense pile happens to be our largest item. For many airlines fuel is their largest item, but the cost of labour, and because most of our employees are predominantly in the Cayman Islands, we carry a very high labour overhead costs. It actually puts us at a disadvantage with our competitors.

We found that [for] many jobs, especially these entry-level jobs, there had to be significant uplifts in order to close the gap and that is just with salaries. The Public Authorities Act also said that where there are differences in the terms and conditions of employment those should be narrowed, and when you have a situation where Cayman Airways would contribute to someone's pension, 5 per cent of the first \$87,000 earned in a year, which complies with the [National] Pensions Act and the Labour Act, that pales in comparison to core government which contributes a full 12 per cent on someone's entire salary.

These are some of the gaps that we have yet to fully close. What we did to achieve compliance with the Act, is [that] we went from contributing 5 per cent on the first \$87,000 to contributing 10 per cent on the first \$87,000. That satisfied the criteria to narrow the gap, but the spirit and intent of the Public Authorities Act was to ensure more parity, and there is still a far way to go. That is where the extra expense comes in.

The Chairman: Any other questions, Mr. Bush?

Hon. W. McKeever Bush: Not at the minute, sir.

The Chairman: Okay. Thank you.

Mr. Whorms, we are going to move on briefly to the Barbados route. I know it was outside the scope of the audit, but the report provided some high-level information in it. The report states that CAL signed an agreement with Barbados Tourism Marketing Inc. (BTMI) in July 2023. That agreement stated that the route would be operated for an initial one-year period, and that CAL expected the route to be profitable.

We note that on the 10th of May Cayman Airways announced that the Barbados route would reduce to once weekly from 17th of May 2024, and stop from the 3rd of July 2024. Can you give us some indication, sir? Does not necessarily have to be numbers, but some indication as to the route's financial performance?

Hon. W. McKeever Bush: Mr. Chair, I don't want to break your train of thought, but when we spoke earlier we said that we would want some information but we would want it outside of the Chamber.

I am wondering whether that is not the point we are at—whether we should indeed go inside and have a chat with Mr. Whorms and some of his key people [who] are here, rather than an open discussion here.

The Chairman: Mr. Bush, I believe the final conclusion was that the two questions that I had were sufficiently vague that it should not be an issue, but if we want more fulsome details we could go and ask those of Mr. Whorms privately at some point.

Hon. W. McKeever Bush: Well, it is up to him, but we did talk about the sensitivity of certain things.

The Chairman: And I understand that, sir.

Hon. W. McKeever Bush: I know that I want information, but I am aware of the sensitivity and I believe it is at this point that we should not go any further with it here, but should talk to them inside but, you are the Chairman. He will choose to answer whatever he can, I guess.

Mr. Bernie A. Bush: Mr. Chairman?

Mr. Chairman, through you. Maybe the question, "Will we be paid in full, anything that's due to us?" Is that a legitimate question?

The Chairman: Mr. Whorms, do you want to proceed?

Two questions here impact on the financial performance. As I said, I'm not looking for your numbers, but an indication as to what it means. If you could comment on that; and also, will government receive all of the monies that are owed to it by the Barbados entity?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thank you, Mr. Chairman, for the questions; and thank you, Messrs. Bush and Bush, for the consideration for the sensitivity of this.

What is sensitive is that we would not want to disclose the actual financial arrangements because this is the first time—that I am aware of—that we have been contracted by a foreign government, so to speak, to do something that they considered a strategic objective of theirs, and they agreed to pay for it. It is really not much different from what obtains when the Cayman Islands Government pays Cayman Airways to fulfil certain strategic objectives. I'm happy to speak about it a bit because there's much public perception that plagues... It plagues me. I cannot go anywhere and not be asked, "*Why are we doing this?*"

The issue with Barbados from the very beginning, in my mind, was that there would be perception issues; there would be issues with optics, and I knew it would be a challenge to address those issues with the public because the only way to address them is to actually come out and say how much money we are making. What I am prepared to say is that we did not go into it blind; to address a request from BTMI to start this service was not a decision that was agreed to by any singular person. We have a Board of Directors with twelve very capable minds [and] everybody was able to analyse it. We went into it with five or six key objectives and those criteria had to be met. I can say what they are.

One is [that], because it fits into what we call the *surplus category* of our airlift framework, means that we would not do it to the detriment of the rest of our service. There should be no opportunity costs, so operating these flights should not in any way hinder any of our current services, or our future plans, so you will find that these flights were scheduled on days of the week, and times of the day, when it had no impact. There is nothing else we would have done with the aircraft or our crews, thereby putting the aircraft and crews to use in a scenario where we are guaranteed to cover both our variable costs and our fully allocated costs. Many of our routes do not cover their fully allocated costs; they operate profitably when you look at the direct variable coverage, but not when it's fully allocated—but we went into this *ensuring* that all of those things were bulletproof.

We ensured we went into a contract that was secure in every way possible, to protect our ability to receive payment. It was all done to the same high standard that we do everything—and we have entered into much more sophisticated contractual arrangements than this one, so to put in place the terms that we wanted was not a challenge for us.

We built a margin of profit into it that was consistent with the margins that we build into any charter service that we do so, although it was not officially called a charter, in essence, the application of it was no different from a charter.

With respect to payment, there is a quarterly payment schedule. When we look at the duration of time that the service will operate, we have already collected 70 per cent of the revenues that are to be generated from the route—and bear in mind that the revenue comes from two places. It comes from the actual ticket sales first and, if that number falls short of the specified revenue target which guarantees us a profit, then BTMI tops that up, and we have received the payments, so everything is in good order.

Opportunity cost, there was none; in terms of how it is performing financially, there is none; it has contributed positively to Cayman Airways. We have made a level of profit from this venture which assures us that if we find ourselves in a situation where we need to go to the Cayman Islands Government or shareholder, and say we have a shortfall that we need to

bridge for whatever reason for this fiscal year, we know that number is going to be so much smaller now because we can apply the profits that were earned from this. Thus, in that regard, the Barbados government, through BTMI, actually contributed to Cayman Airways to a degree that essentially relieves some of the burden that the Cayman Islands Government was solely carrying, and the reason I'm happy to speak about it is because there's a persistent perception that this is not the case, and I would like it to stop.

Again, when we went into it, my only concern was that there would be this perception, right, but we have come out before and said that our costs are covered. I'm not going to say that we have made good money, but if we did, it is not something for us to boast about. It doesn't suit us, because tomorrow there may be another jurisdiction that would like us to work strategically with them, because there are many jurisdictions that don't have the benefit of their own national airline that can be used strategically but we do. If we can partner with another country that would like to share some of our load, share some of the Cayman Islands Government's load with Cayman Airways, I don't see that as a bad thing. I don't think anybody would see it as a bad thing, so there is no bad news in the Barbados story; none at all. Again, it's a perception problem.

While we are on this topic, we have a similar problem with the Max 8s. On many occasions myself, and other Cayman Airways representatives, we have literally come out and said that we are paying half the rent that the market dictates, but we are still plagued with a continuous perception that we entered into lease agreements that have taken away the birth-right of our grandchildren because we have committed the Cayman Islands' Government to a level of expense; and the numbers that get quoted are market rates.

Market rates are easily available, it is why people quote them. You can Google it and you will see what the number is, and if I have told you the number is half, you can do the math. That saves me having to breach confidentiality in a contractual agreement and come out and say the number, which was a preferential number to begin with. It's the same sort of phenomenon, and I'm very happy that the Auditor General's Office decided to actually look at the Max procurement and the favourableness of the deal, because now we get a very informed, educated, qualified perspective. A good set of eyes to say, "*This is a good deal*"; and if that does not dispel the perceptions from the naysayers now, the people who are not qualified to assess it, I don't know what will, but this is what we struggle with.

The Barbados perception issue is the same thing we struggle with when it comes to the Max leases, but in both cases they are fantastic arrangements. Good deals for Cayman Airways, good deals for the people of the Cayman Islands.

The Chairman: And I want to thank you for your honesty, sir, and the clarity you have provided.

I think it has been good to have this aired here this morning, and to ask these questions, because I will say quite plainly to you, sir, that you satisfied many of the concerns I had with regard to things that I had heard about the Barbados route. You have clarified it for us and set my mind at ease, so I thank you for your honesty and your transparency. I said at the outset that I didn't want to put you in a position. I was aware of the—

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Mr. Chair, we will be happy to share the numbers in camera.

I think when you see them, as representatives of the people of the Cayman Islands, if you're happy with what you see, then I hope it will trickle into your constituents and the support that you have from your constituents and the representation that you give, so we will be happy to share the numbers in camera.

The Chairman: And I think what you have shared with us should go a long way to removing many of the misinformation and misconception that exists.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Another perception that I would like to address is that we stopped the service. The service was being provided at the request of BTMI who were doing it for strategic reasons. They had their strategic mission. They were looking for connectivity onward from Cayman Airways. The entire Eastern Caribbean is always screaming for more West to East connectivity.

The reason it doesn't exist to the degree that people would like it to exist, is because the economies of scale are just not there. If it worked commercially, it would have been done a long time ago by various entities, so it became a government's responsibility, and I must lift my hat to the Barbados Government because they decided to put their money where their mouth was, and put some skin in the game and they explored an arrangement that would create that East-West connectivity.

From the very beginning, the loads were not possibly what they were looking for. We anticipated what the loads were going to be, but we knew we were protected; however, they stuck with their strategy and they stuck with it until they did a reassessment of their airlift recently, which has also considerably improved. There are now other entities like Inter-Caribbean [Airways] that is providing direct service from Kingston to Barbados four times a week— which was not happening when we were there— and we fly to Kingston and actually connect with those flights, so now their objective of having that East-West connectivity all the way through to Grand Cayman is being achieved.

They have reviewed the scenario and they're the ones who said to us, *"we do not want to continue with it"*, so if the perception is that Cayman Airways went into something, produced poor loads, and then six

or eight months later, Cayman Airways says *"we're done with it"*, that's not the case. It's the case where the Barbados Government has decided, *"we did our run with this, it's no longer needed"*, and they gave us the contractually required notice. During that notice period, we agreed that we would reduce the service to reduce their exposure, which is totally reasonable. They have been totally honest and the contract always had that provision for adjustments in service.

Another principle that we made sure we abided by in going into the agreement was— yes, it can be said that we entered into it for a year, that is true. The general terms and arrangements are valid for a year and the contract is intended to last a year, but the contract also had the provision where either party could give two months' notice so, you know, we did not engage into something, neither did they, where we were overly committed and could not get out if it didn't work. They chose to give the notice for financial reasons, but what if while we were doing this, and doing well, our strategic mission changed? What if our shareholder said to us, *"you know what, we actually need to now open service tomorrow to Timbuktu, and I need you to do this"*. We would have had the ability to give BTMI two months' notice because we need our equipment to do something else for ourselves, so that is another element that we ensured we protected ourselves with.

The Chairman: I thank you for that clarity as well. I appreciate it very much. Now I am going to turn to financial performance under the report, and I'm going to call upon Ms. Barbara Conolly to lead that line of questioning.

Ms. Barbara E. Conolly: Thank you, Mr. Chairman.

I'm going to speak to the funding model for Cayman Airways, and this question is for Mr. Whorms. The Auditor General's report highlights that Cayman Airways established an airlift framework in 2009 and the government pays CAL for certain routes under the framework.

The Auditor General noted that **"the airlift framework does not clearly state what cost the government's funding should cover"**— and just for the listening public, the airlift framework is to serve as the basis for the strategic planning, costing, and allocation of government output payments; because of this, the Auditor General's Office **"could not assess whether or not the government adequately funds CAL's operations,"** and she concluded that the funding model is unclear. She specifically mentioned that it was unclear why the strategic domestic category is not fully funded. This category covers flights across the three Islands and provides a lifeline service for Caymanians that live in the Sister Islands.

We understand, Mr. Whorms from your response to Recommendation 8 in the report that you plan to work with the Ministry to implement this in time for the 2026/2027 budget cycle. Can you indicate or

confirm, whether the current airlift framework is fit for purpose?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thank you for the question and through The Chairman.

The Committee and the general public probably would be best served if there was an understanding as to how this airlift framework came about in the first place.

Prior to 2009, Cayman Airways received output payments, often referred to as a “subsidy”, to fund its operations, but there was no framework that indicated how the money received from government should be used, so it was a total fog; and that was a situation that existed for many years.

I'm very familiar with this because the airlift framework was born in 2009 when I first became the CEO, at a time when Chairman Jude Scott and the head of our financial sub-committee, Mr. Philip Rankin, both qualified accountants, probably did, at that time, the deepest dive that was ever done to look into this issue because what would happen was that the airline would receive a certain amount of money, and the shareholder would say, “*this is my wish list*”; but unless you can quantify and tie the two things together, you have a conundrum so, the airlift framework came about whereby much emphasis was now placed on what we call “strategic operations”—these are operations that are not for profit, because they could not be profitable if we operated them and charged the fares that we should, so they're done strategically.

The Sister Islands' service is probably the clearest example of a strategic service. It's an air bridge that requires a level of service where the revenues that can be generated from that level of service would not fund its operations, so it needs to be subsidised so we created this framework. There's a strategic domestic element and a strategic tourism element, which means when we get the government's money, we say to them, “*This is how we are going to apply it: We are going to put this amount to servicing historical debt; then we are going to put this amount to servicing interest payments on the historical debt, (the principal payments); [and] we are going to put this amount towards your strategic tourism needs.*” Let's speak about strategic tourism needs for a minute.

It means that we will—and I have to be careful here, because many airlines in the world take great objection to state-sponsored activity which creates what they consider an uncompetitive landscape; but that phenomenon is now so mature that some countries that claim other countries are exercising unfair advantages, have themselves been subsidising their private airlines to large degrees. Bailing them out—in the United States, for instance, paying them to fly into cities that have limited air service. They actually make payments to them to have those cities have service.

However, the long and short of it, to put it simply so people can understand, is: We will charge an airfare to New York, a strategic tourism route, which is less than what it costs us to operate it. We lose money. Why do we do it? Because whereas the airline loses, let's just say \$200 on each ticket, we bring someone to the Cayman Islands who is going to leave an economic contribution here that is in excess of \$5,000 per day, in terms of their total spend and the subsequent spending generated from their initial spend; so one individual coming here for seven days can have a total economic contribution based on their spend, of \$35,000, so we do it. We give up the airfare in order to achieve this benefit for the country.

Now, it could be argued that we could leave that to another airline, but if we are not on the route to create that competitive environment, then that other airline is not going to charge that reduced fare. What they're going to do is that we would be in a similar situation to Turks and Caicos, Bermuda, many other jurisdictions, where we see these exorbitant fares and then many of our visitors would possibly find these other jurisdictions more attractive simply because of the airfare component for a family of five, so that's the strategy behind it.

The airlift framework came about to categorise our spending. We apply none of the government subsidy to non-strategic routes, so Jamaica as an example, which does not produce tourism spend in the Cayman Islands, there are no droves of tourists coming from Jamaica to spend money here, that route must sustain itself, it must cover its variable and its fully allocated costs because we are not applying any of the government's money to it. Our output payments go towards the strategic thing, so that initial creation of the airlift framework was brought about to give definition.

What the Auditor General's Office is saying, which we concur with, is that it needs more definition because, although we may receive a certain amount for a particular purpose, there is nothing now that stops the shareholder from saying, “*I want more flights without necessarily giving you any more money to do it*”, and this is where the fog exists. This is what needs to be improved in terms of how the earlier framework is defined; a more numeric connection and transparency. I think that's a fair statement, Ms. Angela? It's a valid point, and we embrace it, but it is something we now have to work with the shareholder to achieve. How do we refine this?

There are other models that can be chosen as well, or other elements that can be added into the airlift framework. There's one state-owned airline that I know about that essentially receives a form of subsidy, whereby government pays their fuel bill. Now, that's clearly defined. If the fuel goes up, the government's payment goes up because they're paying the fuel bill, right? The way we receive our payments, it's like, “*you get a payment, but what I ask you to provide in return can vary*”.

There are state-owned airlines where the state will say, *"we will take care of your aircraft leases and your capital needs. You just run a profitable operation from here on in"*, right? In which case, if that was our objective, and we received our funding that way, it would be very clear cut. If the leases go up, then the payments from the government have to go up. If the leases go down, the payments from the government would go down; but what would happen in that environment too, is we would then say, *"well, we can only operate profitable routes, so we're not going to fly to New York"*— but then, where is the strategic component to flying to New York?

There are other things that can be considered, other additions and modifications that can be made to the airlift framework, to make it more transparent and make life easier for [both] the shareholder and Cayman Airways; and I know that is the point that the Auditor General's Office is trying to make.

Ms. Barbara E. Conolly: Through you, Mr. Chairman. Thank you very much for that detailed response, Mr. Whorms.

My next question was, what your views on the funding model are and how do you think this should be improved, but I think you've actually already answered that unless of course, you had other—?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: The funding model? Which would be the airlift framework, and how do you tie back?

Ms. Barbara E. Conolly: Yes. Is there any other?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: I think the question you specifically started with was: Why the Sister Islands' service, right?

That was a great observation by the Auditor General because it is one of the most glaring areas where there seems to be a disconnect, because what we receive to fund it is not enough when you compare it with its actual cost of operation. One way we might be able to address it is to increase the fares. To impose bag fees on the Sister Islands is another way of garnering more revenue, but it is not something that the shareholder has ever had as an objective. Not this administration, nor any of the previous administrations. Cayman Airways is not here to make life more difficult for our Sister Islands residents, right?

Those are not options but then, if we are asked to put on more service or do more things, how do we do it? Maybe we use some of the money that we made operating in Barbados, you know, that's how we try and get by.

The Chairman: We will continue to look at budgeting, and I'm going to ask Mr. Joey Hew if he would pick up the questioning from here.

Mr. Joseph X. Hew: Thank you, Mr. Chairman and good morning. Good morning, Mr. Whorms.

It is one of the great mysteries of government, the budget. Mr. Whorms, I noticed that the report highlighted that CAL's approved budgets were less than requested during the five years, and that the government covers CAL's revenue budget shortfall with equity injections. If we look at Exhibit 16 in the report, it shows that over the five years, namely 2018 to 2022, CAL's budget was approved for \$37.5 million in equity injections from the government.

Our understanding is that equity injections are expected to be used for capital investment, however, it appears that some funding was used to cover operating expenses. Is this a matter of the budgets not being approved as submitted, or is it intentional?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Through the Chair. [There are] various components to that question, so there will be various components to my answer.

First, let me address the remark pertaining to the understanding that the Equity Investments (EIs) are to cover capital expenditures only and not operating expenses. We had requested—and it was done—that in our Annual Plan and Estimates, when the Finance Committee goes through the process of approving the EIs, et cetera, the wording for the EI is similar to that which obtained for the Turtle Farm for a very long time, which is: in addition to addressing capital needs and servicing debt, it should also be used to fund losses. That necessarily means that our use of the EI to pay for operating expenses is an authorised use.

The problem is [that], because it's an equity injection or investment from the government, we cannot count it as revenue, hence it doesn't show on our income statement. The loss has to exist first, then the EI covers that shortfall. This is something that I think the Auditor General believes is unfortunate, and not the best way for it to be treated. We ourselves have asked that the funding we receive from the EI, which we use to fund losses, be paid to us instead in the form of an output payment— and there was actually one budget cycle when this was achieved.

Now, why is it not done is probably a question better asked to the Ministry, but my understanding is that government has its own budgeting constraints on how it can allocate money; there are times when the government has the money to allocate under its capital budget, versus its operating or recurrent expenditure budget.

We are just happy to get the Appropriation any which way we can. We obviously would prefer to have it as an output payment because then we could book it as revenue and we would not show a loss, but what

happens is [that] it's not booked as revenue, we show the loss— and again, this is a perception issue now, because if you look at the entire period you might see \$35 million in EIs for the period. If that \$35 million was paid as an output payment, guess what? Cayman Airways would not have had any losses. It would have been a break-even so, when we submit our budgets as well, it appears as if we submit a budget with a loss. Technically, that's true, but we submitted with a loss that is within the constraints of what the EI will be, so it still produces a balanced equation.

The other component to the question, which is something the Auditor General's Office noted, is that we often don't get what we ask for. I've been with the airline for 30 years, [and] my understanding is that long before that time, you know, it is really how it's always been; and Mr. Hew, I think you yourself alluded to budgeting [being], you know, one of government's challenges. It really comes down to what is available; we will have our asked [budget], and our asked [budget] is based on what we have been asked to do.

The current budget cycle is a good example. We asked for funding to support the increases that arose from what we have done so far to implement the PAA's section 47, and we received a certain amount of funding for 2024 but none in 2025. That's a good example of an ask that does not get satisfied; but, you know, our shareholder are the ones who know what they have to give and they have many mouths to feed.

That is the reality, the practical reality of how it works. It's not optimal and I think that's the point that the Auditor General's Office is making, and we agree and we embrace it; but it's also the practical reality of how things work. It is how it has always worked. I think government may one day refine its process of how it makes its allocations, but that is not within Cayman Airways' control, so I go back to my opening remarks on this topic: I think that is something best answered by the Ministry.

Mr. Joseph X. Hew: Thank you, Mr. Whorms. Through you, Mr. Chairman, I thank you for that very comprehensive answer.

Mr. Whorms I'm going to skip over to the budget requests and primarily on the domestic routes. We see in the report that the same amount of funding is being requested each year, even though it consistently incurred losses from 2018 to 2022.

If we look at Exhibit 16 in the report, it shows that CAL received the budgets that it requested for strategic domestic routes. We also see in Exhibit 13 that over the five years CAL made a net loss of almost \$8.5 million on these routes. What is unclear, is why CAL continues to request budgets for strategic domestic routes that will result in losses.

A similar statement could be made for the strategic tourism routes on the CAL 2 [output], and we understand from your response to Recommendation 9 that you plan to set realistic budgets in the 2026–2027

budgeting cycle. Is there a reason for requesting budgets that will result in losses?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Through the Chair. To a large degree, I think that question was answered in the previous discussion, but let's just say, hypothetically, that for the 2026–2027 budget cycle, we submit a number which will create a break-even scenario for the domestic (CAL 1 output), and the government says, *"we can't allocate that; we are going to have to give you some of that in the form of an EI"*, then it comes right back.

It's in the method of application. It's not that we are consistently asking for budgets that are not realistic, you know. It is how the treatments obtain and apply. During my tenure, I have seen Boards that have taken this as a situation that they do not find desirable. They do not like to submit a budget that is going to show a loss, you know; but there really is no other way, once the losses are being addressed by an EI. The simple fix for it is that CAL 1 simply needs to be increased to match its true costs and we do not receive the funding anywhere else.

Mr. Joseph X. Hew: Thank you and through you, Mr. Chairman. I would then suggest that the reason that the budget is the same year after year follows the same.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Yes, and we don't just prepare our budgets and then say to our Ministry, *"this is it"*. There's a process that we go through in developing it and, in going through that process, there is consultation with both the CFO within our Ministry and the Ministry of Finance and the end result of what we submit reflects a collaboration of what we know can be approved because the resources will be there.

I think for the most part, that is how government and government entities work in general. I could be wrong, but that's certainly the impression I have.

Mr. Joseph X. Hew: Thank you. Through you, Mr. Chairman, thank you, again, Mr. Whorms for that.

Let's move on to improving your financial performance. The Auditor General report highlighted that **"CAL reported deficits in each of the five years from 2018 to 2022,"** with cumulative losses of \$34 million.

The report also noted that CAL had a negative net-worth of \$25 million at the end of December, 2022. Now, we understand that the audit of the 2023 financial statements has not yet been complete, but provisional figures show that CAL incurred a deficit of around \$9.3 million, and its net worth position remains negative at \$22.3 million. We also note that **"CAL has taken some measures to improve the financial performance, but does not have a documented plan for doing this."**

In the report, the Auditor General specifically notes that **“cargo rates have not been changed since 2017”**, and your response to Recommendation 10 states that you intend to prepare a financial improvement plan including re-assessing cargo rates by the end of this year. Are you able and willing to provide this committee with the progress in developing that financial improvement plan?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thanks for the question. Through the Chair. Again, many components to that question.

The first part of the statement of question actually comes back to having losses which would not be losses if the EIs were paid as output payments. I think there was a reference in your question, Mr. Hew to projected loss of \$9 million. The EI is \$9.1 million, so if it were allocated that way it's... That's the court that we try to play in.

There was a question about cargo rates. The Auditor General could have picked many things to say, *“well, to improve your financial performance you can look at cutting costs”*, which is very difficult for us to do because we operate very lean. Despite what people may think, we operate very lean and efficiently and to cut costs is not something that is very easy for us to do because we have already gone through so many cost-cutting exercises over the years and refined and leaned down; and we operate so lean, that there is not much to trim.

The answer could come from increasing our revenues and if someone looks at our cargo rates, for instance, and says, *“well, they haven't changed in all these years”*, one could speculate that maybe this is an area where you could generate some more revenue. The first thing is that the percentage of our revenues that we derive from transporting cargo is not that significant a piece of the pie where moving the needle will have a dramatic effect. We would have to move the needle so much for it to have a reasonable effect that it's not practical.

What we also need to remember is that air freight sounds like quick cargo that people are willing to pay a premium for; drop it off today, it's on a flight tomorrow. What most people don't realise is that such is not the case. We are only allowed to transport cargo on our passenger flights if the shipper is registered as a known shipper. This is something that came about after 9/11, okay?

The vast majority of our customers— not the vast majority of our cargo, but the vast majority of our *customers*— are not known shippers, so their cargo has to come on one of our scheduled cargo flights which are two or three times a week, and when you look at the schedule of operations for that and you compare it to ocean freight, we are not offering that “quick” cargo service. We'll save you a day versus ocean freight so, when we look at prices, the first thing we look at is: what

are the prices being charged for ocean freight, and is there room for us to exploit that small advantage of one day buying off of a premium and it typically has never existed, so we feel that messing with those rates...

It is not that we are stupid, you know. We do know that if we charge more, we stand the potential to make more money. We also know, that if we charge more we stand the potential to lose business and make less money, so it's an issue of constantly monitoring this; but, without an articulated plan— without a document which demonstrates to the Auditor General that we do monitor this, that we do have something which says it's to be monitored every month— I can't provide the evidence that makes the Auditor General have comfort in knowing that we are analysing it.

Going forward, not just with this, but wherever a plan needs to come about, it means we need to start documenting what we are already doing in a more articulate way; so for instance, when we may look at the profitability of our routes in a Board meeting, but you don't see anything recorded in the Minutes, which specifically says that *‘the performance of Havana was scrutinised and a decision was taken to continue or not continue’*, then I have nothing to show the Auditor General but the fact of the matter is that a presentation is given and it's accepted and there may be some informal chitchat about it and it's fine, but I have nothing to articulate that.

When it comes now to this whole issue of having a plan to improve our financial performance, again, it's about recording, documenting, having evidence that we can articulate because, I can assure you, if you look at our strategic plan, if you look at anything that we do, you will find that it's riddled with measures to improve our financial performance. Let me give you an example.

We have a programme within our flight operations department which ensures we optimise and minimise fuel consumption. It means we fly the aircraft in a particular way, we operate at speeds, we take climb and descent profiles that would produce the best result from a financial perspective. It might not produce the best result from an on-time performance perspective, but it produces— let's just say, hypothetically, we call that programme, “make every drop of fuel count.” If I have that documented and I said, here's the programme, make every drop count, then the Auditor General sees an articulated plan to improve financial performance. The fact of the matter is we do have all those measures in place, but how do I articulate to the Auditor General's Office that you need to read all these manuals and I need to explain how all of this works...

We are riddled with it. We are riddled with measures. Our strategic plan is full of stuff, all of which is aimed at improving our financial performance. How do we tie it all together? And remember: a big part of what's viewed as poor financial performance because it results in losses, is not so much that we are losing money, it's how we record and demonstrate the appli-

cation of the EI to fund the losses so, again, we embrace the recommendation, it does need tidying up. We want to be not just transparent, but articulate, so when people pick things up, they can see the true picture and this is the issue that the Auditor General's Office had with us.

Mr. Joseph X. Hew: Thank you, once again, for that very detailed answer, Mr. Whorms.

Finally, for myself, you know, we are talking about financial performance, the EI investments, even going back to the Barbados route, and perhaps one of my observations could be that we start looking at the relationship between CAL and the Owner's Agreement. Perhaps we need to start looking at the strategic routes being more like a charter.

We often loosely talk about a seat costing \$400, but a person daily spend is \$178, average family of 5, 6.5 days' stay, it's worth it to government to spend \$400 for that seat. Maybe that just has to be the way we approach it, whereas Department of Tourism buys X number of seats to New York or LA from CAL and then you almost have a similar agreement to what we discussed on the Barbados route. Just an observation, from my perspective.

Thank you very much for your answers.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Through the Chair. Could I comment on what Mr. Hew just said? Just to make a point.

There is an overarching theme and the Auditor General recognised it in the report, and that is the \$200-million annual contribution toward the Cayman Islands economy. I think, even if the landscape is foggy, the billboard can be clearly read and this is where I think successive administrations have seen the logic. Whether the financial support to Cayman Airways is, you know, \$18, \$20 or \$25 million— regardless of how you package it— they know that the return to the economy, which means a betterment in the life for the people of the Cayman Islands, is in the \$200 million range.

Coincidentally, the "father" of discovering that notion is actually Mr. McKeever Bush, because he was the one who commissioned the first study done by Deloitte & Touche at the time, many years ago, which indicated the magnitude of the economic contribution. Over the years we have renewed the study twice. We are often advised to do it again, but it's expensive to do, and we already know what the end result is going to be. It's not going to be any less of a contribution than it used to be. It's going to be more, because it reflects inflation as well. We also do our own in-house calculations, which we call our strategic economic value calculations, based on the same methodology that was used when the economic impact studies were done.

Again, it's an overarching theme. I also think it was something visionary for the Cayman Islands to adopt as a perspective and outlook, you know, because

there are other state-owned airlines in the world that made tremendous socio-economic contributions to their societies, which have gone by the wayside because they were not profitable. The end result is that those economies suffered *vastly* because of these airlines' demise when the focus was only profitability.

I think it is that overarching theme which has justified Cayman Airways' existence. I certainly subscribe to it not because I'm the CEO and, you know, I have a vested interest in all things Cayman Airways. I subscribe to it because it makes sense; it's just perfectly logical— and I think it is the reason why the Cayman Islands' Government has to continue to support Cayman Airways. To not do so would be foolhardy.

Thank you.

The Chairman: We are now going to turn our attention to route profitability and for that line of questioning, I'm going to call on Ms. Barbara Conolly.

Ms. Barbara E. Conolly: Thank you, Mr. Chairman. Through you to our witness.

The Auditor General's report highlighted that CAL's management prepares route profitability reports monthly. The report shows several loss-making routes under the core strategic domestic and strategic tourism categories. The report states that over five years, CAL only made a net profit in seven of the total sixty-nine flight routes operated during that time. It also states that all routes categories, except surplus, incurred losses between 2018 and 2022.

The Auditor General said that it is unclear whether management and the Board routinely assess underperforming routes to decide whether to continue or discontinue them. In your response to Recommendation 11, you state that such assessments are already in place, but not documented. You have reiterated over and over that you have many things in place, but they're not, in essence, documented.

Can you explain the process for deciding to continue or discontinue routes that are not profitable?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thank you for the question. Through the Chair.

Again, this comes back to if our EI was paid as an output payment, then there would be no overall losses, in which case the vast majority of routes would cover what is now known as their fully-allocated costs, which is the variable costs plus the airline's overhead.

Now, when the Auditor General speaks about the vast majority of routes not being profitable, it is on a fully-allocated cost basis. In terms of covering their variable costs, meaning the ability to pay for themselves and generate a profit margin, which is then applied towards our overheads, the vast majority of the routes are actually profitable. Certainly everything in our core, right?

The ones that may not be, are some of the strategic tourism routes, and even that varies, but New York, typically, does the worst in terms of covering its variable costs; and the domestic, strategic, doesn't cover its variable costs, [either]. The issue comes about now with the overheads, it's the contribution to the overheads. If it doesn't have enough of a contribution to cover its share of the overheads, then on a fully-allocated cost basis, it is not profitable; but the problem is with our fixed overheads. We just spoke about issues such as when we have to find an additional \$3.5 million to address an overhead expense like employee remuneration to satisfy the PAA and adequate funding isn't there, therein lies the conundrum.

The first thing that could be done to improve it is, again, if we can receive a component of the EI that we need to apply to our operating expenses as an output payment, then it will address the apparent loss that's coming from our fixed costs, and then it would not be a finding or an observation that most routes are unprofitable. Again, it's all in the packaging.

It is technical stuff, but... Ms. Angela, is that along the line, or would you like to comment on it? Maybe I'm not hitting the nail on the head, but what I do see is that most of our routes absolutely do cover variable costs. The only one that sticks out is New York—and we do it for strategic reasons.

Ms. Angela Cullen, Acting Auditor General: Thank you. Through you, Mr. Chairman.

I think the discussion this morning has been helpful, in that many of the losses relate to the way you are funded—the equity injection versus output payments. You also touched, a number of times, on how you do things, but they're not documented properly, particularly, the route profitability. When we looked at it again, you told us that discussions happen, but it's not clear; and back to Miss Barbara's question, you may not want to document the process for deciding whether to continue with or discontinue a route in your Board minutes, but the fact that the discussion happened and you have decided to go ahead despite it making a loss, would be transparent decision-making.

Again, I think Ms. Barbara was trying to get to what are some of the things that you consider when making those decisions about continuing with routes.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Well, certainly on the variable cost level, if a route is not covering its variable costs, it is a loss maker on its first premise, then why do we do it? If it falls in strategic tourism or strategic domestic, then it's done for strategic reasons. Its purpose is not, necessarily, to make money. Its purpose is another effect which is beneficial to the Cayman Islands.

This is where the shareholder collaboration comes into play. These are the factors that the Board takes into consideration. You may find, with New York,

that we may say we should discontinue flying that route because it loses money; but we don't, and we don't have anything recorded that illustrates to the Auditor General how we came to the conclusion that we don't—but the reality is we didn't because we know we are receiving an output payment from the government to operate that route at a loss strategically.

Now, as to how many flights per week to New York that, again, is not clear, but it was addressed earlier in the shortcomings to do with how the airlift framework and its funding is allocated across that framework. That does need work with the shareholder, and I think we committed to a time frame which would allow us the time to work with the shareholder to refine that process.

The Chairman: Mr. Whorms. Just one quick question from me. Why is New York such a poor performer?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: You know, the sword always has two sides.

Of course, our presence on that route is aligned with the DOT'S marketing efforts on that route. It is one of the gateways to a very affluent... You know, the tri-state area which is right in the DOT'S target market set. The DOT makes significant spend, we work with them, and we're there to help keep the others on the route, who are there because of the DOT'S marketing efforts, honest. The instant we leave the other airlines flying to New York or directly out of JFK on their own, because there's no competition, then the airfare element...

It's not that we are setting low fares, but we are there to provide a competitive environment which has them remain honest and sometimes we don't even have to do it often. We just need to be on the route once or twice a week, you know, and it provides that competitive environment. We look at the effect of that too and say, you know, if we get off the route then... Look at what JetBlue is charging from JFK to Turks and Caicos for argument's sake. That gives us an indication of what we could expect if we did.

We do all these things and thought goes into it, but is it documented in a way that illustrates that such good thought went into it? That's the Auditor General's point, so we have to agree that we need to do a better job at it, but we will also insist that we are doing it in the background. The ability to provide the evidence is the issue.

Ms. Barbara E. Conolly: I don't know if this question is relevant either, but let me ask it.

In terms of the routes, how many have been cancelled in recent years due to unprofitability? I'm a little confused with the whole thing whereas most of the routes do make a profit.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: When we say recent years, I don't know how far back we want to go, but let me use some examples.

We used to fly to Panama and it was profitable, but we discontinued the service and we opted to use the aircraft to venture into a US strategic tourism gateway which we knew would not start off profitable, so what business sense does that make? It's all strategic. If the strategic effort requires New York to work, as an example, but Panama, which is generating a small profit, the fact that it exists in our schedule hinders the accomplishment of the strategic mission which for the airline creates a loss, but for the Cayman Islands creates a *huge* positive impact, you'll find out that the decision may be to cancel a profitable route. It's all about opportunity costs.

The converse holds true as well, sometimes. If you were to find that a route like Jamaica suddenly became unprofitable, then there is no question: it *would* get cancelled, because there is no strategic reason to continue to fly to Jamaica. The issue comes about now, how do we demonstrate to the public, and to the Auditor General, and to everybody, that this is what's going on behind the scenes?

I just explained the process we use to decide what routes get cancelled and which ones don't, but I also made a point in the process that it's not just about profitability. There's a huge focus on the strategic reasons, and this is why the airlift framework came about in the first place, to introduce the notion of strategic tourism and strategic domestic— strategic things.

[Pause]

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Just to clarify, when speaking about Panama, I'm not speaking about the Panama service now. I'm speaking about in the days of old.

The Chairman: Okay.

Next area we want to examine, Mr. Whorms, is Human Resources (HR) data. Mr. Bush was supposed to be leading it, but I see he's not in his seat so I'll just go ahead and ask you these couple of questions.

The Auditor General's report highlighted that CAL's (Cayman Airways) staff turnover ranged from 7 to 13 per cent between 2018 and 2022 averaging 11 per cent; however, she noted that Cayman Airways does not routinely collect or monitor this information. We understand, from your response to Recommendation 13, that you will regularly collect human resources data and statistics by the end of June to inform decision-making.

Can you tell us what progress you've made in improving the use of HR data to inform decision-making?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Thank you for the question, sir.

That one was just touched on the turnover. I think we spoke about it earlier whereas I said that in actuality, that is an example of a measurement that we wouldn't press a button and print, but we were doing all of the background work in a more granular level. What we have done is add more data along this line— more of the sort of information that we know will be assisting in articulating what we are doing in the background—to the reports that exist; so we have enhanced reports.

It wouldn't show in the period, in the time frame that was under review, but this particular Board actually instituted quite early in their tenure, maybe seven, or eight months in, a people's initiative subcommittee of the Board; and something that they focused on was to have enhanced HR reporting actually for the board's purpose. I don't know if I ever shared that report with the Auditor General's Office because it would have been outside of the audit period, but that's an example where much work has been done already with vast improvement in terms of the metrics and KPIs that we are looking at.

We also just completed an internal review of our HR processes with outside assistance. Something that came from this review was that our HR unit is, in fact, understaffed, and there was a recommendation as to how to most-efficiently increase the staff component. We have four generalists within our HR unit and, while that's good on the one hand because each of our HR officers or managers/director is capable of handling *anything* HR related, we found— and again, this is by scrutinising data— that the vast majority of issues that arise are actually simple things that do not require a high level of HR expertise to address; so, there is a notion of introducing an HR Administrator to the team, to field all of these things. Again, much of this is data-driven.

I chose to mention that because it demonstrates some work that's just been completed where we are putting together the internal analysis, you know, but it has led to decision-making now, which is actually telling us, given the nature of the issues that our HR department is plagued with, that there's a particular skill set that we need to insert— and to be honest with you, we didn't realise it until we had another set of eyes take a look and say, "*Hey, there's a simple solution for this.*". That had its genesis from the Auditor General's report.

The Chairman: The final section I want to touch on, and it has probably been quite extensively mentioned in several of your responses, Mr. Whorms, is the implementation of Section 47 of the Public Authorities Act. The PAC in one of its reports made a recommendation which will be Tabled this month in Parliament, that all SAGCs implement Section 47 of the Act. How will you respond to that?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Well, we already complied with the requirements of the PAA which was not to create full parity, but to narrow the terms and conditions' gaps.

The only thing that was very specific is that all the jobs had to be evaluated using the same methodology as used by core government which is the Hay method. That was the mandatory bit, and it was done. [As for] the rest of it, there's more latitude for the application of discretion, whereby, what does "narrowing the gap" mean?

What subsequent boards (the past board and the previous board), would like, the intent as I understand it, is to get more parity with the civil service because that's what our employees want. It doesn't matter what the Act says about closing the gap; in the minds of our employees, closing the gap means matching pension, matching post-retirement health care, matching health care premium contributions now— [whereas] we pay 75 percent of a private health care insurance premium, in the civil service the employee pays zero.

These are areas where our employees see themselves behind; and this is not even going into areas such as our working a 40-hour work week, whereas the civil service works 37.5 hours— and the monthly salary scales. Even though we have parity with the monthly salary scales, if you were to break it down to hourly, our staff is still 6.5 per cent behind because their hourly rates are 6.5 percent behind. Hence, if you work an hour extra overtime at Cayman Airways, you are going to get paid 6.5 per cent less than if you worked...

We have not even looked at that because the practicality of where these funds would come from, you know, who knows?

The Chairman: That was one of the questions I wanted to lead into, because you said you started that whole process at a cost of \$2.6 million, and you estimate it will cost another \$3.5 million. Have you had any discussions with government about the potential funding for that? Are they aware of what is going to take for you to do it?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Well, let's put it this way: For the 24-25 budget cycle, we put in the funding for what we have already committed to for both years.

The Chairman: And that would be—

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: It was approved for '24, we did not get it for '25. What does that tell me about 2026 and 2027? I can only hope.

The Chairman: Yes.

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: What's left to be done is going to be defined by what financial resources we have to do it. It may well be that we do no more, the point being that we have already complied with the PAA because the requirement is to narrow the differences and we have narrowed the differences, right. The extent to which they are narrowed now, that's subjective.

The Chairman: Any other questions?

Well, Mr. Whorms, it has been a marathon session with you this morning, sir, but I thank you for your candidness in your response to the questions before the Committee.

Members of the Committee, this brings us to the lunch break. It is now twenty minutes to one, and I am going to be a bit mean and say let's take no more than thirty-five minutes and come back at 1:15 so we can try and get back on schedule, because we did start a bit late.

I want to thank you again, Mr. Whorms, for your presence here. We will begin after lunch. I think the next person that we will have in the Chamber will be Doctor John-Paul Clarke, who is the Chairman of the Board, followed by Mr. Stran Bodden, Chief Officer of the Ministry of Tourism and Ports.

Thank you again. You want to make a comment, sir?

Mr. Fabian Whorms, President and Chief Executive Officer – Cayman Airways Limited: Yes, thank you very much.

I actually wanted to have opened, if I had the opportunity, by thanking the Auditor General's Office for what I would say must have been quite an intensive process because the amount of work we had to do was quite a bit, and it must have been that you had to do even more.

The review actually started in 2019, and was interrupted by the COVID pandemic. After the pandemic, the scope was adjusted so that the review could even take a look at how we handled the COVID pandemic. It has been said that report is favourable, but if someone really takes the time to read the entire report, you will see that there are myriad things that were not mentioned today because there were no findings to do with them and they are huge and significant things that are working well at Cayman Airways.

Again, we thank the Auditor General because this becomes a record that brings this to light, even though the public may not be aware of it unless they actually read the report. The public only grasps what's in the media, et cetera. Fourteen recommendations, some of them sound worse than they actually are— but they are all just recommendations, because this is a review against best practice, eh? It's not a review against statutory or regulatory requirements and this is why we embrace them, because we are in search of excellence.

We want best practice. We want to be able to be transparent and articulate, so I thank the Auditor General's Office and their team. Mr. Bradfield, especially; we had so many interactions over such a long time, you know. The audit process itself, if you were to combine everything, was probably closer to two years' worth of work I would say, so this was not a quick, quick review that was done by the Auditor General's Office. It was thorough, intensive and deep.

We are accustomed to being criticised for everything we do. That's the life we live at Cayman Airways, right? If the weather is bad in Honduras and we can't fly, we get blamed for it, right; if the weather is bad but it was within limits and we flew there, we get blamed for it too. If we put a bottle of water on the airplane that's economical for us to purchase in bulk, but it's not a Caymanian brand, we get blamed for it; but if we put the Caymanian brand on board the aircraft, we get blamed for it because it's too expensive.

Everything we do, we are criticised, so it's good when an informed and educated set of eyes could have taken a look at what we do and came up with what we consider to be reasonably positive. It inspires us and helps us to, you know, continue doing what we're doing, because it is hard when there is no pleasing anybody, you know. I just wanted to close with that.

Thank you.

The Chairman: Thank you too, sir.

Well, we will break for thirty-minute lunch. We will be back at 1:15 pm. Thank you all.

Committee suspended at 12:46 pm

Committee resumed at 1:27 pm

The Chairman: I would like to call this meeting to order if I could. Members, please be seated.

Our next witness is Doctor John-Paul Clarke, and we invite him into the Chamber.

[Pause]

The Chairman: Good afternoon, Dr Clarke. I thank you very much for appearing before the committee today as we examine the report that was issued by the Auditor General regarding Cayman Airways.

We are glad to have you here, and I have to tell you, sir, that we are not going to keep you very long. We had the CEO of the airline here right until the lunch break, and he did a really thorough job of answering the questions that we asked him, some of which we were going to ask you as well. In terms of our questioning this afternoon, we are going to focus specifically on the area of governance. That will be the extent of our discussions with you and the questions that we want to ask you.

You know the Auditor General published the report back in March. This was the Auditor General's

first overarching report and review of CAL's performance, and I have to say that I do believe it is fair to say that the report presents a very positive view of Cayman Airways. I was pleased to see, in particular, that governance and oversight of Cayman Airways have improved—that was the feature of a mention in her report.

Although she noted that there are few areas outstanding from previous Auditor General's reports, the Auditor General noted a few significant areas that the committee would like to probe a little further with you today. As I mentioned, we have cut that back quite significantly, and will focus primarily on governance.

I'm going to get right into it with two very small sections: the Board's skills and experience, and the performance evaluations—two areas we wanted to explore with you that were featured in her report. I'm going to turn things over to Ms. Barbara Conolly, who is going to lead the questioning.

Ms. Barbara E. Conolly: Thank you, Mr. Chairman, and good afternoon, Doctor Clarke.

I'm going to speak to the Board's skills and experience. The Auditor General's report highlighted that the entire non-executive Board of Cayman Airways was replaced in 2021 leaving only the four ex-officio, non-voting members with the corporate memory. The report notes that the current Board has the skills and experience required by the Public Authorities Act, however, the Auditor General also noted that the change in board members in 2021 would have reduced their individual and collective experience as a Board.

It was further noted that in 2017 the Office of the Auditor General recommended that Cayman Airways prepare a skills matrix to inform the Cabinet of the desired qualities when considering new board appointments; the Board had yet to do this. We note from the response to Recommendation 4, that you agree to develop a skills matrix by the end of this year, so my first question is: What are your thoughts on changing all non-executive Board members at the same time, and have you experienced any challenges that this may have caused?

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: Thank you for the question and through you, Mr. Chairman.

The Chairman: Doctor Clarke, can I just ask you to state your full name and your position for the record?

BOARD OF CAYMAN AIRWAYS, LIMITED

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: My apologies. My full name is John-Paul Barrington Clarke and I'm the Chairman of the Board of Cayman Airways.

Through you, Mr. Chairman. In any organisation, corporate memory is an important factor. I say that

from my own experience, when I took a sabbatical to work at United Technologies as a VP of Strategic Technology. We actually created a programme there to keep the corporate memory of our technical fellows, the engineering geniuses in the corporation, as they retire—to keep that collective memory. I am one who, in my lifetime, has strongly supported the keeping of corporate memory. I think it is always good practice to keep some previous members of a Board or any organisation and do sort of a graduated thing as you transition.

I will say that for me and the current Board, I did not feel that there was significant or any loss of memory because a number of the Board members either had recently retired from Cayman Airways and had been corporate officers. I speak of my Deputy Chairman, Kris Bergstrom; Tyrone Welds and Stefanie Ebanks, as well, have worked there and have been involved in different aspects, so I feel that compensated for whatever losses might have happened but, in principle, I am supportive of keeping that memory going and having a gradual transition.

Ms. Barbara E. Conolly: Thank you, Dr Clarke for that response.

My second question is what are your views on the skills and qualities needed for the Cayman Airways Board now, or in the future?

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: Thank you for the question. Through you, Mr. Chairman.

One of the things that I instituted when I became Chairman in 2022, was to actually have a Board self-assessment at the end of every calendar year. I serve on a number of corporate boards; I also Chair the NASA Aeronautics Committee, so it is something that I'm accustomed to doing as part of being on a Board. Through that self-assessment, we looked at things like the actual board composition; the board culture, and at how well the executive management responded to the direction of the Board.

In that self-assessment, we actually went through and looked at the skills that are required by an airline. Thankfully, like I said, Chris and Tyrone have airline experience. I have consulted for many airlines around the world, so we actually went through and did an assessment of what was needed. We felt that the current Board has what is needed.

There are some potential additions in Information Technology (IT), for example, but we're still going through the process to meet that deadline for the end of the year to have a proper skills' matrix with all the validation and supporting documentation by the end of the year. We have done two successive years of skills assessment and self-evaluation of how well we have been progressing and we have been quite honest with ourselves. We try to keep honest and we work as a good team to cover all the bases.

Something we have done is that we have actually energised our sub-committees and our sub-committee Chairs. HR, for example: Director Shanna Myles was heading that sub-committee and she created a template for HR to report to the Board which looks at hires, people who are either terminated or retired, you know; changes in HR Policy—what we call progression planning. I don't know if the CEO spoke about that.

For example, we can't pick somebody for a position before it's competed in, but we now have a policy in Cayman Airways for what we call progression planning, which ensures that folks who could be eligible for a position are properly prepared before competition ensues for it—when people retire or move on. We follow that very closely and we keep track of all of those things.

We also spread the load around. Captain Bergstrom is in charge of the Safety Committee, and I was in charge of the Commercial Committee until Jude Scott stepped down. For good governance, Tyrone Welds is running that committee now, and Marco Archer is running the Legal, Finance and Audit committee, so we have it spread out.

The Committees work very actively and come back to every meeting with a report. In the Commercial Committee, for example, we meet with Chief Financial Officer (CFO) Paul Tibbetts and it's an entire commercial team looking at all the routes, and looking at our network on a monthly basis and making recommendations back to the Board.

Hon. W. McKeeva Bush: Mr. Chairman, just an observation.

The Chairman: Mr. Bush, go ahead.

Hon. W. McKeeva Bush: In regards to changes to the Board. As you know, any Government is allowed by law to change a whole Board when a new Government comes in. That is common practice and I don't think administrative law rules it out. I don't know of any.

I think, also, that we can say we as a government, any government has every right to change the Board composition when a government deems it necessary to carry out the government's policies. I had some questions, I don't know if it's at this point or not.

The Chairman: Does it concern the area we are discussing right now, the area that we are dealing with right now?

Hon. W. McKeeva Bush: Yes. I just don't want to have to go to the bathroom and you ask my questions.

The Chairman: Apologies, sir.

Doctor Clarke, you mentioned the assessments that you have done for the particular skills that

might be needed, and you mentioned IT. Are you contemplating making recommendations to government with regard to any other potential changes?

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: We are.

Ideally, they are potential additions, not necessarily changes because I think our board members are working quite effectively; but we are. It's a little premature to give you the full list right now, I just mentioned IT because it is one of the things that we identified when we were looking at our strategic planning and our Objectives and Key Results (OKRs), which I'm happy to talk about in our governance structure.

Across the enterprise, it was one area we felt we needed to boost, our IT capabilities, because airlines, as you know, are highly technical and use much more software; and much more *specialised* software is involved in running an airline so, having someone on the Board who has some experience in that area would be helpful. That's just one I mentioned but, as I said, we will have a complete skill matrix, with recommendations, which we will pass on.

The Chairman: Thank you, sir. Mr. Bush, you want to proceed?

Hon. W. McKeeva Bush: Yes, two areas, Mr. Chairman.

The Office of the Auditor General team told us, Mr. Chairman, that you have improved your performance reporting in the Draft 2023 Annual Report, but there's scope to improve further. For example, we understand that, despite setting metrics in the 2023-2028 Business Plan, you have not yet reported performance against all of those things. Can you tell us:

1. The Board's role in developing and improving the Annual Report; and
2. Any plans to enhance the performance reporting in the Annual Report?

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: Thank you. Excellent question. Through you, Mr. Chairman.

I am a Systems Engineer, (an aerospace engineer, but systems engineer) and I am a firm believer in having high-level goals that flow down to actual functional requirements, that flow down to metrics and we're in the process of doing that right now through our revision to our strategic plan, which we welcome the Auditor General's note about that, and we're working on it. To your specific question about the Annual Report, I believe we were sort of, satisfying the statutory requirements on reports and it was, quite honestly, a sort of bare-bones report which checked the boxes. We are working to improve that.

I think something the Auditor General noted, at least in conversations with me when she interviewed

me, was the fact that we don't sing our praises or provide context around the reporting. Our reporting is more financial, so we are working on it for the next report—to make it more in line with what I would say is a corporate-type report, as opposed to just the minimum functional requirements in a template that's supplied by government office departments.

Hon. W. McKeeva Bush: I didn't have a follow up but I have a separate question—

The Chairman: Go ahead and ask your questions.

Hon. W. McKeeva Bush: —that the Chairman might be able to share some light on.

I think many times Cayman Airways, are put at a commercial disadvantage by having to follow government procurement processes. For example, when trying to acquire a new aircraft, they have to go through all the hoops, loops, et cetera, in place. How has Cayman Airways absorbed the additional costs due to the PAA's [Section] 47?

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: Thank you for the question. Through you, Mr. Chairman. I will try to unpack both.

With regards to the procurement rules, aircraft are a—I hate to use the words “hot commodity”. It is sometimes disadvantageous to us to actually have to identify an available airplane and then have to go through the procurement process because, by that time, it's gone.

You will note, and you might recall, that you appropriated funds for a third Twin Otter, the previous year. It took us a fair bit of time and everybody was asking why haven't we gotten this third Twin Otter. I can tell you we identified at least five or six airplanes, spoke to the owners about purchasing the airplane, done the checks to see that the airplane met all our needs and then, by the time we looked around and said, “*Okay, let's go get the procurement done*”, the airplane was gone and we had to start over again.

In other countries I've seen it done like a mortgage pre-clearance— you actually do the procurement analysis based on a range of performance and prices, and once you get into that slot, you are able to act. Like buying a house, where you know the problem is that you go and bid on a house and then you can't get the mortgage. Having something like a mortgage pre-clearance would be very advantageous to us in terms of getting these hard-to-come-by items; or when it is very competitive and the procurement process lends it out—and that's just my thinking of how one might deal with it within a formal review process. It is a suggestion.

With regard to your second question, through you, Mr. Chairman... Quite honestly, we've had to raise revenue. All the costs from the PAA, pilots' contracts, fuel prices.

Our Board was determined not to have to come back for supplemental appropriations in any way, and we have cut costs, started new routes, put on sales. We've been watching each route very, very closely, and if a route was performing and the lows were going down, we changed frequency or time of day, to basically ensure our airplanes are as full as possible and we are getting them so, as far as possible.

I think we raised record revenue by about \$12 million in 2023 to basically off-set those additional costs. You heard about the PAA, but there are also fuel prices, et cetera, so we have been strongly focused on revenue. Now we're actually looking at some of our partnership programmes, and I hope to have more to talk about that later in the year, as the way to increase additional revenue— revenue, revenue, revenue, because we got to cover costs.

I'm sure the CEO said, and he's fond of saying it, that we run a bare-bones operation so cutting more is not the way to go, you know. In the airline business, cutting your way to profitability is never a good idea.

The Chairman: You finished, Mr. Bush? Okay. Ms. Conolly.

Hon. W. McKeever Bush: Thank you, Mr. Chairman.

Ms. Barbara E. Conolly: Thank you. Mr. Chairman, through you.

My second question is on performance evaluations. The Auditor General noted that in 2013 her office recommended that CAL's **"Board evaluate the performance of the President and Chief executive Officer (CEO) on an annual basis"**. This is important for holding the CEO to account, however, the report states that **"the board did not formally assess the performance of the CEO between 2018 and 2022. The Board started the CEO's assessment in 2023, but had yet to finish this"** at the time of the report in March 2024. We also note that **"the Board did not assess his performance between 2018 and 2022"**. Again, **"the Board started to do this in 2023 but had yet to finish the evaluation"** at the time of the report.

In your response to the Auditor General's Recommendation 7, you stated that you would complete these evaluations by the end of April 2024. Can you give this committee an update on the completion of the CEO's performance evaluation and clarification of the period it covers?

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: Thank you. Through you, Mr. Chairman.

The CEO's performance for 2023 was completed in the First Quarter of 2024 and reported. To conduct the review I formed an ad-hoc committee of the Board chaired by my Deputy Chairman Kris Bergstrom and consisting of Director Stefanie Ebanks, who was in charge of the People's Initiative Committee, Robert

Hurlstone, and Director Shanna Miles. The group conducted a 360-degree review of the CEO, interviewing all his direct reports and all the Board members— including themselves, of course; giving rankings, areas of concern, and areas of improvement. The report was duly provided to the Board for our discussion and deliberation. We also reviewed the performance of the CEO relative to what we call our "Objectives and Key Results" (OKRs).

I had the good fortune to complete a leadership training at West Point from the FFAIR Leadership Group, which I strongly encourage— not as a commercial, but it's really, really, great; and I learned about the whole issue of *commander's intent*, whereby leadership provides clear instructions on what they want and by when they want it, to those who report to them, and leave it to them to figure out how to get things done, report back on their plans to do it, and agreeing to it.

Hence, in January of last year, the Board put together a series of commander's intent for specific things which was given in terms of what we call objectives and key results. *"Here is what we want for you as CEO, your management team and the airline to do."* Here are the objectives we want to achieve and the key results, measured within the SMART methodology, that you have to achieve, and by when. We reviewed those OKRs quarterly, made a complete review at the end of the year at our retreat in January, and were scored on it. We also had a scoring of the airline's performance in eleven metrics— you can tell I'm an engineer, can't you— and those general airline performance metrics also went into part of the CEO's 2023 review.

Because the Auditor General pointed out that the CEO was not evaluated during the period of the audit, we also conducted a 2023 review of that performance but not at the level of the OKRs because, obviously, the OKRs were not defined for the period before I became Chair, so we did it at the managerial level.

That review was conducted by myself, Director Bergstrom and Director Myles and was completed— and reviewed— with the CEO as well, so we are up to date. Like the Board self-assessment, it is something that we programmed to be done annually. We also started a formal Board Charter, which goes through and specifies and incorporates all the public accounts laws by statute. We will adjust the Board Charter to ensure that [the review] is in there. Obviously, a future Board can change the Board Charter, but at least an annual review process will be in there.

Ms. Barbara E. Conolly: Thank you, Dr Clarke. You've answered all of my questions in that one response, so thank you very much.

The Chairman: Do members have any other questions? No?

Doctor Clarke, that concludes our examination and questioning of you as a witness today. I once again

thank you for being here, and I wish you continued success in your role as Chairman of Cayman Airways. We do appreciate you being here today, and thank you again. You are excused, sir.

Dr. John-Paul Clarke, Chairman of the Board of Cayman Airways: Thank you.

The Chairman: Our next witness is Mr. Stran Bodden, the Chief Officer in the Ministry of Tourism and Ports.

[Pause]

The Chairman: Good afternoon, Mr. Bodden. Thank you for appearing before the Committee today. You are the last witness of the day, and I know we are not going to keep you as long as we had planned. As I mentioned with our previous witness, the company's CEO did a really good job answering many of the queries this morning and gave us solid answers to what we were looking at, so we feel that in some of these things there is no need, really, to question you as well.

We narrowed the scope of the questions we are going to be asking you this afternoon, so hopefully we can be through quite quickly. When asked the first question, I ask you to state your full name and your position for the record.

You know that the Auditor General issued her report in March, being the first overarching review of Cayman Airways' performance. It seems fairly clear to me that the report presents a very positive image of Cayman Airways and its operations, and it is pleasing to note that a good working relationship exists between CAL, the Ministry, and the Department of Tourism; but the report does highlight a number of issues and makes fourteen recommendations. We heard from the CEO and the Chairman, and want to follow up on some issues with you, as Chief Officer in the Ministry of Tourism and Ports.

We turn first to a standalone topic, namely the National Tourism Plan. The Auditor General's report stated that the National Tourism Plan, which provided high-level strategic direction to CAL as well as other public bodies, expired at the end of 2023. We understand that you intend to roll the plan forward while developing a new plan. Can you give us an indication of the timetable for the preparation of a new National Tourism Plan?

MINISTRY OF TOURISM AND PORTS

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Thank you, Mr. Chairman. Good afternoon to yourself and members. Stran Bodden, Chief Officer in the Ministry of Tourism and Ports. Thank you for the question.

Mr. Chairman, what we decided in the Ministry and Department of Tourism, in relation to the National Tourism Plan was that, given the timing—whereas it expired in 2023—it is still a very dynamic and comprehensive document, so we decided to roll it forward. We

will actually be publishing the roll-forward document this month, and develop a new National Tourism Plan, as per the report, next year.

It is anticipated that for the next administration of Government, that would be their plan to be able to take it forward during that term in terms of the initiatives; any projects identified; any changes in perspective in terms of how to best leverage tourism for the entrepreneurship and employees in tourism. That was the thought process. Given that election is due by April next year, we envision that we can have a brand new plan in place by December 31st next year.

The Chairman: Secondly, can you give us some indication of what will be the process for developing that plan, including engaging key stakeholders such as Cayman Airways, Cayman Islands Tourism Association (CITA), and other entities in terms of the development of that policy.

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Thank you for the question, Mr. Chairman.

I'll have to repeat exactly what you just said. The National Tourism Plan process is always a very stakeholder-engagement-focused process, so we typically have meetings in each and every district throughout the three Islands. We have focus groups with all major stakeholders and we meet with CITA and SITA (the Sister Islands' Tourism Association), as well. We are all-encompassing in our approach, engaging stakeholders to get their focus in terms of determining the way forward for tourism.

The Chairman: Thank you for those comprehensive answers as well. Let's now turn to the financial performance—unless other members have questions about the tourism plan? No?

Let's turn, then, to financial performance and the funding model. For that, we turn to Ms. Barbara Conolly.

Ms. Barbara E. Conolly: Thank you, Mr. Chairman to our witness. The Auditor General's report noted that the airlift framework provides the overarching funding model for Cayman Airways; however, the report states that the airlift framework does not clearly state what costs the Government's funding should cover. The Auditor General concluded that the funding model is unclear.

The Auditor General specifically mentions that it was unclear why the strategic domestic category is not fully funded. This category covers flights across the three Islands and provides a lifeline service for Caymanians who live in the Sister Islands. We understand that the Ministry and Cayman Airways plan to work on the funding model in time for the 2026–2027 budget cycle. My question is: What is your view on the fitness-for-purpose of the airlift framework?

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Through Mr. Chairman, I thank the Member for the question.

From the Ministry's perspective, I believe the airlift framework is a very robust process and document. Can we tweak it, can we make it more detailed? Yes, we can, and we commit to doing so.

In respect of the strategic domestic I would have to briefly state the budget process— and obviously not for the audience here, especially yourself, Mr. Chairman, as a former Minister of Finance— whereby the Ministry would receive operational and capital expenditure targets. That filters down into the various Ministry targets and into the entity targets so we would have identified an overall number for Cayman Airways. From an operational perspective, that's split between CAL 1 and CAL 2— Strategic Domestic and Strategic Tourism.

That overall number is what we have to divide between the two. Cayman Airways competes with government's many competing priorities, not least of which are health care, education, social welfare, provision of roads and other infrastructure. Therefore, once we have that global amount for Cayman Airways, if we were to, for example, increase CAL 1 - Strategic Domestic to, say, cover more of those costs, what we would be doing is reducing CAL 2 - Strategic Tourism, because we have that global amount allocated for Cayman Airways. It would be, as they say, taking from Peter to pay Paul— no pun intended with the staff Member.

That would be the answer: to increase CAL 1 to fully fund Strategic Domestic, we would have to decrease CAL 2 - Strategic Tourism; whether that would be acceptable could be a discussion point as well, that strategic tourism is severely underfunded. I hope that at least explains a bit more in terms of the perspective in terms of CAL 1.

The Chairman: If I could jump in here and ask a quick question then. In terms of the allocation between operational and equity injection— are such allocations given to you by the Ministry of Finance, or do you determine that allocation in conjunction with Cayman Airways?

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Mr. Chairman, it is a combination of both. We get our target which is typically based on previous years' (historical) budgets, right, and we roll it forward.

The Chairman: No further questions from you, Ms. Barbara? Okay.

Next we will look at the approved budgets and the use of equity injections and for that, we turn to Mr. Hew to lead the questioning.

Mr. Joseph X. Hew: Thank you. Through you Mr. Chairman, and good afternoon to the Chief Officer.

We heard from the CEO about why Equity Investments (EIs) are used for part of the operating budget and how that was explained; but when questioned about the budgeting, he suggested that perhaps the Ministry could add some more to it. Over the five years from 2018 to 2022, the Government approved the CAL budget for \$37.5 million in equity injections and, as I said, it was explained earlier why they are sometimes used for operational over capital; but the Auditor General also highlighted that **"CAL's [total] approved budgets were less than requested during the five years"**.

In fact, exhibit 16 in the report shows that CAL received the funding requested for strategic domestic routes, however, it also shows that CAL requested around \$9 million more for CAL 2 routes over the five years than was approved. The report states that **the government covers CAL's revenue budget shortfall with equity injections**; we also heard through the CEO's response to one of the recommendations, that he is planning to prepare a more realistic budget for the 2026–2027 budget cycle.

Are there reasons for the requested budgets not being approved and do you foresee any issues for the CEO and the Board in presenting a realistic budget in 2026–2027?

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Through Mr. Chairman, I'd like to thank the Member for the question.

Again, it comes down to the budgeting exercise of the entire government. Cayman Airways competes with other government priorities, so the two outputs— CAL 1 and CAL 2, Strategic Domestic and Strategic Tourism— are recurrent expenditures of the government. It impacts their profit or their loss in terms of operational expenses, as I understand it.

The equity injection is a capital investment so it doesn't hit the Government's profit and loss— its income statement. Historically, it has been, as long as I have been in the Ministry, an easier exercise to identify funding on the capital side to fund Cayman areas Airways, as opposed to the operational side, because, again, there are so many competing priorities for recurrent expenditure— education, health, social welfare, police, et cetera. The running of the country.

There tends to be some more flexibility on the capital side, however, in terms of what is spent in that area, and the availability of funding for the equity injection EI 1 for Cayman Airways is typically where any funding that is needed above what has been a historical average, gets allocated; and that's what I've seen since I've been in the Ministry. It is an easier exercise to do. As you are well aware, when you look at the government overall, the entire public sector funding, it is easier to identify funding on the capital side as opposed to the

operational side, and much of Cayman Airways' funding is historical.

The numbers for CAL 1 and CAL 2 have pretty much been the same since I have been in the Ministry, which is about twelve years now. Once again, where CAL can get that additional funding, if needed, comes down to the budgeting exercise; the competing priorities of government in terms of what they have to fund in a budget cycle.

Mr. Joseph X. Hew: Through you, Mr. Chairman. I thank the Chief Officer for that answer.

We spoke earlier, Chief Officer, and we clearly understand now the economic impact Cayman Airways has on the country, and why we run the strategic routes. There was much discussion about how we account for these; how do we document the Shareholder's Purchase Agreement on these strategic routes; and separating them, as far as not showing the route as a loss but, perhaps, showing it as one that is—for lack of a better word—subsidised, and the CEO spoke in depth about the commercial sensitivity of showing subsidies and so forth.

Do you feel there is a better way, that you can have a Purchase Agreement for these strategic routes that would make it clearer and much more transparent? We talked about charters and about the commercial agreement between Cayman Airways and the Barbados Government. Is that model or some extract of that model, something that we could use to make it more transparent where we are supporting these strategic routes?

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: through you, Mr. Chairman, I thank the Member for the question.

How we structure the airlift framework between core strategic domestic, strategic tourism, and surplus really maps out the different categories of routes. What we did with the pricing model for the Barbados route [was that] we considered it a charter in terms of covering costs, to ensure that there was no downside for the Cayman Islands as a whole.

To really address the funding of the strategic domestic and strategic tourism routes: If the funding we received from government could be classified as output payments, it would address the losses in terms of those routes that are under those categories because, again, they're not funded. What we would fund solely through the EI would be any long-term debt—which is typically what you would want to see funded from an equity injection as opposed to operating losses; but the Ministry understands the confines in which the government as a whole operates. Where we would recommend it is not always possible, given the competing priorities and the accounting treatments that are included in the entire public sector budgeting exercise.

Mr. Joseph X. Hew: Through you, Mr. Chairman and thank the Chief Officer for that.

From everything we spoke about this morning, one of the clear messages I got is that there is a lack of clear documentation and, I guess, transparency, to how many of these accounting dressings are done and how we account for the funding used by CAL.

This is probably more of a comment. We spoke of New York earlier. We know what the economic impact of a tourist from New York brings to the country and that it far, far surpasses the cost of that seat; but if the Department of Tourism (DOT) said, "*Listen, we think we can get 100,000 people from New York. We need to keep that route competitive*", and CAL says, "*We think New York on its own runs a 30 per cent lower factor*,"—I'm only using hypothetical numbers, obviously—and then DOT says, "*Ok, we'll buy the other 30 per cent, so we guarantee you that 30 percent*"...

I don't know how practical that is in the grand scheme of things, but to me it seems as if when we are auditing, when we are looking at a route, it would be so much easier to look at New York and say this is what New York is doing for us, this is what New York is doing for the country, and it can be easily audited.

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Mr. Chairman through you.

I would agree with that comment, sir, and that is why New York features in our strategic tourism routes. The tri-state area of New York, New Jersey and Connecticut is a high target market for us, so we want to ensure that Cayman Airways is placed there. I think, a previous witness actually outlined that we are in there to temper that price point of airfare to the Cayman Islands. There are two airlines, JetBlue and United, that are covering it now, and we fly in three times a week.

Mr. Chairman, we are there to provide checks and balances so that the price point of airfare for that area, which is a target market for us, does not go too high that would make you want to second guess a Cayman Islands experience, because we have seen it in other jurisdictions that are in the unfortunate situation where they do not have a national flag carrier like we do, that they cannot do it; they actually experience that and—on top of that—what they have to do on occasion, not all the time, is to have revenue guarantees for those seats out of various jurisdictions. By having Cayman Airways, we negate that. We can put them into key gateways in order to address those issues for the entire tourism sector as a whole.

The Chairman: If I could ask: Do you feel that Cayman Airways is actually achieving that—in terms of tempering the air fares?

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Thank you for that, Mr. Chairman.

Unfortunately, the only way that we would truly know is if we came out of the New York market, but I

believe so. I believe that we need to be there. I think that if we are not in there, again, showing and servicing a strategic tourism route, it would have a negative impact. Like I said, the only way to truly know that is to come out of the market, but we are there tempering it.

What we are doing is that we used to fly with higher frequency into New York but, given the service there now, we temper it by only going three times a week because of the coverage and the service that is available through United States' carriers.

The Chairman: Any more questions, Mr. Hew?

We turn now to Ms. Barbara Conolly, who will ask you some questions regarding route profitability.

Ms. Barbara E. Conolly: Thank you, Mr. Chairman. Through you to our witness.

The Auditor General's report states that CAL's management prepares route profitability reports monthly. The report shows several loss-making routes under the core strategic domestic and strategic tourism categories. Over five years, CAL only made a net profit in seven of the total sixty-nine flight routes operated during that time. In addition, all route categories except surplus incurred losses between 2018 and 2022.

The Auditor General said that it is unclear whether management and the Board routinely assess under-performing routes to decide whether to continue or discontinue them. As you are an ex-officio Member of the Cayman Airways Board, we would like to hear from you what the Ministry and Department of Tourism's role is, in assessing route profitability.

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Through the Chairman, thanks to the Member for the question.

Myself as Chief Officer, and the Director of Tourism Mrs Rosa Harris, sit on the Board of Cayman Airways as ex-officio members. We are there to provide Ministry input on policy direction, and marketing expertise from the Department of Tourism. We hear the route performance, and we advise based on our expertise. As former witnesses have said, the profit or loss of a route is not always what you are looking at; it's the strategic value of it as well.

Also, Mr. Chairman, coming back to what we've been discussing across the witnesses, including myself, the loss of a route is the budgeting aspect of it in terms that, if it was funded on an output payment basis it would show a different result so yes, we are there to provide our expertise and advice to the Board. I think it is a system that works and will continue to work. I think a previous witness talked about, you know, coming out of a profitable route to implement a strategic route because it was better for the country.

Again, that happens on occasion but, yes, I do think it works from the Ministry's perspective, from the department's perspective in terms of advising on the route profitability and whether we should stay; build a

route, not build a route, given the opportunity cost as was mentioned by another witness in terms of what is the best value for the country.

The Chairman: Ms. Conolly is indicating to me that we covered the remaining items, so we will skip over them and get to the final line of questioning which is work-force planning and management, and the implementation of Section 47 of the Public Authorities Act. Mr. McKeeva Bush is scheduled to ask those final questions. They're on page 21.

Hon. McKeeva Bush: Mr. Chairman, I thought Mr. Whorms had cleared the air on this question.

The Chairman: It is one in which he gave the airlines' perspective; but these questions are more with regard to government funding and the government's views on it in terms of implementing Section 47 of the Public Authorities Act.

Hon. McKeeva Bush: I am not going to ask that, Mr. Chairman, because I'm no fool. I know too well what the Government's position is.

The Chairman: Well, these seem not necessarily about what we may know, sir, so if you are ok, we will cover it off and I'll ask the question.

Mr. Bodden, with regard to the government's funding CAL to implement Section 47 of the Public Authorities Act— and well, the government you know, committed to helping them find the funding that they will need in order to comply with the directives from government.

Mr. Stran Bodden, Chief Officer, Ministry of Tourism and Ports: Thank you, Mr. Chairman. Thank you for the question.

Section 47 of the Public Authorities Act is in the first two sections. The first sub-section is in relation to the adoption of the civil service salary scales. Cayman Airways has done it, so that has been complied with. The second one, as a former witness has said, is reducing the gap between the terms and benefits of Cayman Airways' employees and civil servants. That has also been complied with to an extent; now, it's not the same parity with the civil service employees, but it has complied because it has reduced it.

That comes at a cost, Mr. Chairman, and we know the staff complement at Cayman Airways is somewhere around 360 [people] I think was the number that was talked about. That comes at an increased cost in terms of addressing pension and health care premium payments. That has started. Again, the task that Government has, is addressing this across all SAGCs, which is a *significant cost*, Mr. Chairman. It has been done with Cayman Airways to an extent, with

reducing the gap as per legislation, but from a government perspective, it will be a significant cost to address it across all SAGCs.

It is something that will have to be looked at very carefully, very sensitively, in terms of how it is done, whether it's funded partly by government or by the SAGC itself, which government always has to be minded in terms of what costs they are increasing to meet these other costs, because what you will do is, either reduce other expenditures which are priority for the government— that typically is a no-go; or increase revenue, which impacts the cost of living, or increase debt— which is always something you want to do for capital as opposed to operating expenses.

None of the options that face Government are an easy choice, so I think it has to be done very carefully, very thoughtfully, in terms of how it will be addressed and resolved going forward across all SAGCs. I think that is what Government is wrestling with.

Hon. McKeeva Bush: Mr. Chairman.

The Chairman: Yes, sir.

Hon. McKeeva Bush: I said that I thought Mr. Whorms had more or less addressed the same thing, but I will only say this: to put it simply, the expectations on this law do not meet what Government can do. If I was to turn it around, that would have been the question, but I don't need to turn it around.

It's unrealistic, what that law brings about. It's unrealistic, and what the audit office needs to do, is look at it from that point, not just that the law says that everybody must be equal or equal in comparison to what government is paying. Unrealistic.

The Chairman: Any other questions from members? Okay.

Mr. Bodden, I thank you for appearing before the Committee this afternoon. Thankful, too, for the candid way in which you've answered the Committee's questions. You're free to leave at this point in time. Members of the Committee, Finance Ministry and the Auditor General's Office— thank you, too, for your presence here today, and for the support that you have rendered to this committee.

We are at the conclusion of the hearing today; I wish you all a pleasant afternoon and rest of the week, and thank you all again for participating and being here today. Our proceedings are now concluded. Thank you all.

The Committee adjourned at 2.25 pm.