

The Efficiency and Effectiveness of Cayman Airways Limited



March 2024



To help the public
service spend wisely

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KEY FACTS



43,403

Total flights operated over the five years from 2018 to 2022



29,922

Inter-island flights over the five years from 2018 to 2022



\$114 million

Government funding between 2018 and 2022



\$34 million

Total losses in the five years from 2018 to 2022



\$25 million

Deficit position at the end of 2022



360

Staff employed by Cayman Airways Limited as at 31 December 2022



8,500

Flights cancelled because of the COVID-19 pandemic



\$228 million

Cayman Airways Limited's average annual contribution to the Cayman Islands' economy (2018, 2019 and 2022).

EXECUTIVE SUMMARY

Cayman Airways Limited (CAL) is the national airline of the Cayman Islands. The Cayman Islands Government (the Government) uses CAL to support its national priorities for domestic air services and services to and from destinations that it has identified as key to expanding the Cayman Islands' tourism base and economic development. CAL's principal activity is to provide scheduled passenger and cargo transport to, from and within the Cayman Islands. It generates revenue from its operations and receives government funding to deliver agreed outputs. CAL was significantly affected by the COVID-19 pandemic. The Government closed the borders in response to the pandemic, which significantly reduced CAL's operations between March 2020 and November 2021.

As a government company, CAL is governed by a board of directors (the board). In December 2013, the OAG issued two reports about the governance of statutory authorities and government companies (SAGCs) in the Cayman Islands.¹ The reports identified weaknesses in governance arrangements and the accountability relationships within SAGCs. As part of the audit, the OAG prepared a separate report for each SAGC containing specific recommendations for improvement. The separate report on CAL made 15 recommendations. In July 2017, we published a follow-up report looking specifically at governance of the Cayman Islands' three aviation bodies.² That report provided an update on CAL's progress with implementing 15 recommendations and further actions it had planned. As part of this audit, we followed up on CAL's progress with implementing the recommendations made in 2013.

The overall objective of this audit was to assess CAL's efficiency and effectiveness. It sought to answer the following audit questions:

- How effective is CAL's strategic direction and governance?
- How efficiently and effectively does CAL use its resources?
- Does CAL monitor and report its performance effectively?

KEY MESSAGES

We make 14 recommendations in this report, covering CAL's funding model, financial and non-financial performance, strategic direction, governance, and workforce planning and management. We summarise

¹ *The Accountability of Statutory Authorities and Government Companies*, Office of the Auditor General, December 2013 and *A Survey of Statutory Authorities and Government Company Governance*, Office of the Auditor General, December 2013.

² *Governance in Aviation Bodies: Summary of Key Findings*, Office of the Auditor General, July 2017.

our key messages for each of these areas below. In our view, the most important recommendations are those on the funding model and financial performance, including on budgeting. Therefore, we urge the Government and CAL to implement these recommendations as soon as possible.

Funding model

CAL and the Government agreed on the Airlift Framework in 2009, which is intended to direct the allocation of government output payments. Under the framework, the Government pays CAL for strategic domestic, strategic tourism and core routes (see Exhibit 2). The funding model is unclear because it doesn't specify what the funding provided by the Government is intended to cover. CAL makes losses on three of its route categories, including on strategic domestic routes across the three islands. It is unclear why CAL is not fully funded for strategic domestic routes, which provide essential lifeline services across the three islands. Government funding does not cover the total cost of CAL's routes or CAL's fixed costs.

CAL aims to generate enough operating revenue, that is, all revenue except government funding for outputs, to cover its variable costs and some of its fixed costs. CAL's operating revenues usually cover its variable costs. However, operating revenues did not cover variable costs for the strategic tourism routes in 2020 and 2022. Over the five years from 2018 to 2022, CAL operated 16 routes. Two of the 16 routes consistently made a loss. CAL launched two more routes in 2023. CAL's operating revenues do not cover the total cost of most flight routes. For the purposes of our audit, we counted each route flown in a year to be unique resulting in a total of 69 individual routes. For example, CAL's New York route (see Exhibit 2) is one of 16 routes. CAL flew to New York in each of the five years from 2018 to 2022. Therefore, in analysing the performance of all routes, we count these as five individual routes. Of these, 57 (83 per cent) generated a gross profit, that is revenue less variable costs. Over the same period, only seven (ten per cent) of the 69 individual flight routes achieved a net profit, that is revenue less variable and fixed costs.

CAL does not usually receive the funding that it requests as part of the budgeting process and often receives supplementary appropriations. However, CAL requests the same amount of funding every year, even though it consistently incurred losses from 2018 to 2022. We noted that CAL receives the budgets that it requests for strategic domestic routes but makes losses on these routes. It is unclear why CAL does not request higher budgets for these routes.

Financial performance

CAL has reported deficits in each of the five years from 2018 to 2022, resulting in total losses of around \$34 million. As at December 2022, CAL's net worth was a deficit position of \$25 million. Net worth is the value of an entity's assets minus its liabilities. CAL has taken some measures to improve its financial

performance but it has not documented a plan for doing this. CAL's strategies contain some plans to improve financial performance, but these are not sufficiently detailed.

CAL's financial performance was affected by the COVID-19 pandemic. CAL did not operate any flights between March 2020 and November 2021, except repatriation flights, which reduced its ability to generate revenues. However, CAL's expenditure also declined during this time. Because there were no flights, expenditure on fuel and aircraft passenger services and other expenses also reduced significantly in 2020 and 2021. The Government provided additional funding to CAL during this time.

Performance

CAL has a range of goals, measures and indicators that could be used to measure and report its performance.

The Government and CAL agreed on 12 Strategic Ownership Goals and a range of outputs as part of the budgeting process. The Strategic Ownership Goals are not SMART – specific, measurable, achievable, relevant and time-bound – which makes assessing performance difficult. We were not able to measure performance for four of these goals. Of the remaining eight, we concluded that CAL had achieved six, partly met one and not met one. CAL's performance against its agreed outputs for the Government is mixed. We found that most of the outputs had not been delivered, including in the years before and after the COVID-19 pandemic. CAL did not collect data for one output measure until 2022.

CAL has fulfilled all of the ten key roles that it set out in its strategic plans, except in 2021. In particular, CAL provides an essential inter-island air bridge across the three islands, contributes over \$200 million annually to the economy and played a crucial role during the COVID-19 pandemic.

Between 2018 and 2022, CAL used a set of operating statistics to measure performance. However, there were no baselines for some of these. In April 2022, the CAL Board adopted a set of new key performance indicators (KPIs) that covered commercial performance, customer service, safety, customer experience and priority routes. However, the use of this set of KPIs had limitations. For example, there were no benchmarks and the KPIs did not provide a holistic view of the organisation, as not all departments or operations were covered. We also noted that the Board did not consistently measure progress against all of the metrics. CAL's Board replaced these KPIs in May 2023 with new objectives and key results and actions. The strategic plan sets out organisation-wide objectives, key results and actions. Some of the metrics require comparison with similar airlines. CAL has recently started to benchmark its performance against some statistics from the United States Department of Transportation.

In 2016, CAL's fleet modernisation plan was approved by the Government. The plan was to replace CAL's four larger aircraft with an equal number of new ones. CAL received favourable terms for the lease price and its duration from the preferred bidder. CAL set out nine benefits that it expected to achieve from

modernising the fleet. These included providing more seats and baggage capacity and reducing fuel use. CAL has realised all of these benefits and can further build on the opportunities they offer, such as increasing baggage revenue from the increased capacity.

Despite having a range of goals and performance measures, CAL does not report on its performance to the public effectively. In 2022, CAL started to report its performance against its output targets in its annual report. This is a start but CAL could do more to report its performance against its goals and performance measures to the public.

Strategic direction

Consecutive governments have set strategic outcomes to have a strong economy. The tourism sector and CAL are integral to achieving this outcome. The National Tourism Plan is a key government strategy but it expired in December 2023. A new tourism strategy is needed to provide essential high-level strategic direction to CAL and other public bodies. In 2018, the Government and CAL agreed on 12 Strategic Ownership Goals, and they have not changed since then. However, the goals are not SMART.

CAL had two strategic plans between 2018 and 2022. The Board was involved in developing these but did not formally approve them. The CAL Board approved its most recent strategic plan – the Business Plan 2023–2028 – in May 2023. All three strategic plans set out CAL’s ten key roles and align with good practice, but they have some gaps. For example, the most recent strategic plan aligns with the Government’s priorities and the National Tourism Plan but does not set out how CAL will achieve some of the 12 Strategic Ownership Goals. Moreover, it sets out CAL’s vision, goals and objectives and identifies success measures but it does not have clear baselines or links to financial and workforce plans, or a stakeholder engagement plan.

The Ministry of Tourism and Ports (MTP), Cayman Islands Department of Tourism (CIDOT) and CAL collaborate effectively on marketing and route selection. Our review of the route selection process for the Los Angeles route found this to be effective. However, that route selection process was not used for the new Barbados route added in 2023 because the route falls within the Surplus category in the Airlift Framework. All flights in the Surplus category should be profitable because it mainly comprises charter flights. We were told that the Barbados route was added at the request of the Barbados Tourism Marketing Inc. (BTMI). In July 2023, CAL and BTMI agreed that CAL would be refunded for any shortfall against a minimum revenue threshold. Therefore, CAL accepted BTMI’s request because it expects to operate the route profitably.

Governance

CAL has made some progress in implementing the recommendations that we made in 2013 to strengthen governance but some remain outstanding or have only recently started to be implemented.

CAL's current board has been in place since August 2021, when eight new non-executive members were appointed. One more member was appointed in September 2022 after the resignation of the chairman. The board members have adequate knowledge and experience as prescribed in the *Public Authorities Act* (PAA). However, the new members would have taken time to get up to speed and the continuity of the board was dependent on the four ex-officio members. We noted that the ex-officio members from MTP and CIDOT do not always attend CAL board meetings or send a substitute.

The CAL Board developed and adopted in March 2023 a Board Charter to guide how it functions. This should help improve overall governance but we noted that it does not align fully with international good practice. Before this, the Board used the PAA to guide its operations. CAL has a Code of Conduct for its staff but not one that applies to board members.

CAL provides orientation training for its board members. CAL's orientation training covers some aspects of governance but more governance training for Board members is needed. The Office of the Deputy Governor within the Cayman Islands Government started to deliver governance training for board members in summer 2023. Two of CAL's board members have attended this training.

The Board receives the right information to inform decision-making and provides good strategic direction. However, we noted that some discussions were not documented in the minutes of board meetings, which is essential for demonstrating effective scrutiny and challenge.

Workforce planning and management

CAL has consistently employed more than 325 staff in the Cayman Islands, except in 2021. In 2020, as a direct result of the COVID-19 pandemic and reduced flight operations, CAL decided to reduce its staffing levels. It did this through a voluntary separation package and reduced its total workforce by around 20 per cent. Since then, CAL's workforce has increased. As at December 2022, CAL employed 360 staff.

CAL has a varied workforce made up of many different professionals. The workforce is mainly Caymanian and, similar to many other organisations, it is ageing. Around two-fifths of CAL's workforce is aged 50 or over and over one-third of its pilots is over 50. CAL told us that it has some plans for certain staff groups. However, it does not have an overarching workforce plan that considers the size, skills and capabilities needed to achieve its strategic plan.

CAL does not routinely prepare workforce statistics to help make informed decisions. We calculated the average staff turnover as 11 per cent over the five years from 2018 to 2022, ranging from 7 per cent to 13 per cent. CAL is usually able to recruit staff to specialist roles, such as pilots and maintenance staff.

CAL is implementing section 47 of the PAA, which aims to bring SAGC staff's terms and conditions in line with the civil service. The Cayman Islands Government's Portfolio of the Civil Service completed its evaluation of CAL's job descriptions and pay scales in September 2021. CAL decided to implement the

revised pay scales from 1 December 2022. In addition, CAL proposed a separate pay scale for pilots, to ensure that it compares favourably with pay offered by competitors. The Cabinet approved the pilot pay scale in May 2023. This was applied retrospectively from 1 December 2022. In July 2023, CAL implemented other parts of section 47 of the PAA to better align its other terms and conditions, such as pensions and healthcare insurance. By December 2023, CAL had spent \$2.6 million implementing the PAA. CAL plans to fully implement section 47 in the future, subject to affordability, which it estimates will cost an additional \$3.5 million annually.

INTRODUCTION

CAYMAN AIRWAYS LIMITED (CAL) IS WHOLLY OWNED BY THE GOVERNMENT

1. Cayman Airways Limited (CAL) was established in August 1968 after the Government purchased 51 per cent of Cayman Brac Airways from LACSA (the Costa Rican flag carrier). In 1977, the Government acquired full ownership of CAL and designated it the National Flag Carrier.
2. CAL is a government company and a corporation registered in the Cayman Islands.³ As a government company, CAL is subject to the Cayman Islands' laws and regulations, including the *Companies Act*, *Public Management and Finance Act (PMFA)*, Financial Regulations, the *Procurement Act* and Procurement Regulations and the *Public Authorities Act (PAA)*. CAL is also subject to the laws and regulations of the countries it flies to.
3. CAL is governed by a board of directors (the board) in line with the PAA. The Chief Executive Officer heads up the management team and oversees the operations of CAL. CAL had 360 staff as at December 2022.
4. CAL's principal activity is providing scheduled passenger and cargo transport to, from and within the Cayman Islands. As at December 2023, CAL operated non-stop services between Grand Cayman and five major US destinations (Miami, Tampa, New York, Denver and Los Angeles) and six regional destinations (Kingston and Montego Bay, Jamaica; Havana, Cuba; Bridgetown, Barbados; Panama City, Panama; and La Ceiba, Honduras). CAL launched the service to Los Angeles in 2022 and the services to Barbados and Panama in 2023. CAL has a wholly-owned subsidiary, Cayman Airways Express, that operates daily flights between Grand Cayman and the Sister Islands of Cayman Brac and Little Cayman.
5. CAL's primary revenue sources are passengers, cargo and ground-handling fees, and revenue funding from the Government for providing air services (known as output payments). The PMFA defines outputs as the goods or services produced by an entity. CAL also provides handling services to other airlines at the Owen Roberts International Airport in Grand Cayman.
6. CAL has a fleet of eight aircraft comprising:

³ The *Public Management and Finance Act (2020 Revision)* defines a government company as one in which the Government has a controlling interest.

- four leased Boeing 737-8 MAX aircraft, which it uses for international flights and the service to Cayman Brac;
- two Saab 340 aircraft that CAL owns, which provide the service between Grand Cayman and Cayman Brac;⁴ and
- two Twin Otter aircraft, which CAL owns through its subsidiary, Cayman Express Limited, which provide the service between Grand Cayman and the Sister Islands.

CAL WORKS WITH THE GOVERNMENT AND OTHER PUBLIC BODIES

7. CAL works with a range of public bodies, including the Government. Exhibit 1 shows the public bodies that CAL works with primarily. CAL is governed by the *Civil Aviation Authority Act (2015 Revision)*. Section 27 of this act requires CAL to comply with the directions of the Director-General of the Civil Aviation Authority of the Cayman Islands (CAACI) about parking, landing and take-off. It also requires CAL to pay fees determined by CAACI. In addition to CAACI, CAL works with other government-owned entities in its regular course of business.

⁴ CAL stated in evidence on its 2024-25 budget to Parliament's Finance Committee in December 2023 that it plans to replace the current Saab aircraft.

Exhibit 1 – Public bodies that CAL works with primarily

Entity	Role
Ministry of Tourism and Ports (MTP)	The MTP provides strategic guidance and direction to the tourism and hospitality sectors through developing policies and legislation aimed at promoting the sectors' sustainable growth and development. It also works with CAL to agree on its budget and outputs.
Cayman Islands Department of Tourism (CIDOT)	CIDOT is a government department with the short- and medium-term responsibility for strategic planning and general destination management – including marketing – for the Cayman Islands' tourism industry. CAL works with CIDOT to maximise benefits from CIDOT's marketing efforts by aligning its operations with the demand generated from CIDOT's efforts.
Cayman Islands Airports Authority (CIAA)	The CIAA owns and operates Cayman's airport facilities, which consist of two international aerodromes, Owen Roberts International Airport in Grand Cayman and Charles Kirkconnell International Airport in Cayman Brac.
Cayman Islands Air Transport Licensing Authority	The Cayman Islands Air Transport Licensing Authority provides licences authorising CAL to provide passenger and cargo services domestically and internationally.
Civil Aviation Authority of the Cayman Islands (CAACI)	CAACI is responsible for regulating the aviation industry in the Cayman Islands. CAL is required to obtain certificates of airworthiness from CAACI to conduct the air transport business. CAL is subject to regulatory inspections or audits from CAACI.

Source: OAG analysis of the respective entities' websites.

THE AIRLIFT FRAMEWORK IS THE BASIS FOR GOVERNMENT FUNDING TO CAL

- In 2009, CAL established an "Airlift Framework" to serve as the basis for the strategic planning, costing and allocation of government output payments. The framework aimed to better define CAL's roles and accountability for the operations it undertakes for the Cayman Islands' benefit. It also provides CAL's overarching funding model. We discuss this later in the report in the **Financial Performance** chapter. Exhibit 2 summarises the four categories of the framework. CAL operated 16 flight routes under each of these categories between 2018 and 2022.

Exhibit 2 – CAL’s Airlift Framework

Category	Description	Routes
Core	Routes and flights where CAL has a primary or dominant market share and an established history of successful service. CAL aims to operate core routes profitably or break even with a government subsidy. The core category also includes any other profit-oriented services such as cargo operations.	Miami (GCM/MIA) Tampa Kingston Havana La Ceiba Roatan Miami CYB (CYB/MIA) Kingston and Montego Bay Montego Bay
Strategic Domestic	The Government uses CAL to support the national priorities for domestic air services between Grand Cayman, Cayman Brac and Little Cayman. Flights in this category are purchased by and operated on the Government’s behalf under “CAL 1: Strategic Domestic Air Services”.	Cayman Brac Little Cayman
Strategic Tourism	CAL provides direct air services to strategic US and regional gateways that the Government identifies as key source markets for expanding the country’s tourism base and supporting economic development. This category also includes flights to support tourism in the Sister Islands. Flights in this category are also purchased by and operated on the Government’s behalf as “CAL 2: Strategic Tourism, Regional and Core Air Services”.	Miami New York Chicago (until August 2019) Denver Los Angeles Panama (from June 2023)
Surplus Airlift	CAL may use any surplus capacity to generate profit through charter flights or provide other short-term services after fully servicing the other three categories. In all instances, flights in the surplus category should be profitable.	Barbados (from October 2023)

Source: OAG analysis of the Airlift Framework.

Note: The flights to Panama and Barbados that were introduced in 2023 are outside the scope of our audit but are included in the table for completeness. Our audit covers the 16 routes in the five years from 2018 to 2022. For the purposes of our audit we have counted each flight route operated in each year individually. Using this approach, CAL operated 69 individual flight routes in the five-year period. For example, CAL’s New York route (see Exhibit 2) is one of 16 routes. CAL flew to New York in each of the five years from 2018 to 2022. Therefore, in analysing the performance of all routes, we count these as five individual routes. We refer to both 16 flight routes and 69 individual flight routes throughout the report.

- The Government purchases flights from CAL through output payments, which are set out in purchase agreements signed between CAL and the Government. The outputs are grouped into the following two categories:

- “CAL 1: Strategic Domestic Air Services”, for the provision of air services between Grand Cayman and the Sister Islands of Cayman Brac and Little Cayman.
- “CAL 2: Strategic Tourism, Regional and Core Air Services”, for the provision of direct air services to strategic US and regional gateways identified as key source markets for expanding the Cayman Islands’ tourism base and facilitating the Cayman Islands’ economic development.

10. The Government funds CAL’s Strategic Domestic and Strategic Tourism operations because it considers them critical for the Cayman Islands, even when they may not be profitable. In some instances, for example after hurricanes and during pandemics, the Government may also purchase additional Core operations from CAL.

ABOUT THE AUDIT

11. The objective of the audit was to assess CAL’s efficiency and effectiveness. It sought to answer the following questions:

- How effective is CAL’s strategic direction and governance?
- How efficiently and effectively does CAL use its resources?
- Does CAL monitor and report its performance effectively?

12. The report is structured into four chapters:

- Strategic direction and governance.
- Financial performance.
- Workforce planning and management.
- Performance.

13. The audit covered CAL’s governance, oversight, performance and use of resources for the five years from 2018 to 2022. However, we considered 2023 data and information where relevant to ensure our findings are current. It also assessed the high-level direction the Ministry of Tourism and Ports (MTP) and the Cayman Islands Department of Tourism (CIDOT) give CAL. The audit evaluated the impact of the Edward Bodden Airfield in Little Cayman being certified for small aircraft only on CAL’s financial performance. However, the audit did not assess the Government’s plans – and progress against them – to get the Edward Bodden Airfield certified for larger aircraft. The audit did not assess the selection process for the new Grand Cayman to Barbados route.

14. The audit drew on a range of evidence to inform our findings and conclusions. This included the following:

- Interviewing key stakeholders, including CAL’s Board of Directors, senior management, MTP, CIDOT, CAACI and the CIAA.
 - Reviewing documents, including legislation, budget documents, financial reports and statements, strategic plans, minutes of board meetings, financial metrics and staffing information.
 - Analysing and recalculating financial and performance information.
 - Comparing the frameworks, processes and practices in use against good practice.
 - Analysing audit evidence and assessing it against agreed criteria to develop findings, conclusions and recommendations.
 - Providing a draft report to CAL officials so they could review its factual accuracy and respond to the report’s recommendations (see Appendix 2).
 - Presenting a final report about the audit to the Parliament.
15. More information about the audit, including the audit criteria, approach and methodology, can be found in Appendix 1 of this report.

STRATEGIC DIRECTION AND GOVERNANCE

16. Strategic planning is an essential process in determining an organisation’s direction and priorities as well as in identifying, managing and reducing risks. The United Nations Strategic Planning Guide for Managers says “Strategic planning is about understanding the challenges, trends and issues; understanding who are the key stakeholders and what they need; and determining the most effective and efficient way possible to achieve the mandate. A good strategy drives focus, accountability, and results.”⁵
17. Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The responsibilities of the board include setting a company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day-to-day operational management of the company by full-time executives. Many academic studies conclude that well-governed companies perform better in commercial terms.⁶
18. This chapter covers the strategic direction provided to CAL by the Government, MTP, CIDOT and the CAL Board. It also covers governance and oversight by the CAL Board.

THE MINISTRY OF TOURISM AND PORTS PROVIDES STRATEGIC DIRECTION BUT CAN IMPROVE OVERSIGHT

19. Previous governments have set a strategic broad outcome to have a strong economy. One of the activities to support this outcome was to implement the National Tourism Plan. The current Government’s Strategic Policy Statement (SPS) for 2024–26 has the following two specific outcomes that relate to CAL:
- Improve our tourism, as an industry, product and economic driver.
 - Maintain a market/commercial leading edge in financial, maritime and aviation services.

⁵ *Strategic Planning Guide for Managers*, United Nations, 2019.

⁶ Institute of Chartered Accountants in England and Wales website: <https://www.icaew.com/technical/corporate-governance/principles/principles-articles/does-corporate-governance-matter#:~:text=of%20the%20company.-,Corporate%20governance%20is%20the%20system%20by%20which%20companies%20are%20directed,governance%20structure%20is%20in%20place> (accessed 23 January 2024).

20. These two specific outcomes contribute to broad outcome 2 – Enhance competitiveness while meeting international standards. However, we noted that CAL is not mentioned in the SPS as one of the public bodies expected to contribute to these outcomes.
21. MTP provides strategic direction and guidance to the tourism and hospitality sectors through developing policies and legislation aimed at promoting the sectors’ growth and development. CAL has an integral role in the tourism sector.

THE GOVERNMENT AND CAL AGREED ON 12 STRATEGIC OWNERSHIP GOALS

22. As part of the 2018-19 budgeting process, CAL and the Government agreed on 12 Strategic Ownership Goals. These were set out in the 2018 and 2019 Ownership Agreements and have remained the same in all Ownership Agreements since. The 12 goals are set out in Exhibit 3.

Exhibit 3 – CAL’s 12 Strategic Ownership Goals

- 1 Be the premier choice for safe, reliable and enjoyable air services to all markets it serves, in the Cayman Islands’ best interests.

- 2 Strive to attract and develop the best and brightest Caymanian talent.

- 3 Continue the process of restructuring and operational reform to increase revenue, reduce costs and achieve maximum efficiency.

- 4 Using the Airlift Framework as a funding model, ensure that CAL is adequately funded to undertake the Core and Strategic roles defined in the framework.

- 5 Refinance debt to improve cash flow and provide enough working capital.

- 6 Promptly inform the Government if circumstances that may require supplementary funding from the Government arise.

- 7 Contribute directly and indirectly to the economy through employment and purchasing goods and services in the Cayman Islands. In addition, drive economic activity, particularly in the tourism industry, by guaranteeing airlift and a competitive market environment.

- 8 Operate at peak efficiency while maximising economic impact and contribution.

- 9 Maximise efficiency and reduce dependence on government funding.

- 10 Pursue alternatives to minimise the cost of fuel, CAL’s most unpredictable and volatile cost.

- 11 Implement technological advances to improve operating and financial performance.

- 12 Explore commercial agreements with select international carriers, comprising connected websites and full codeshare agreements.

Source: CAL’s Ownership Agreement.

23. These 12 Strategic Ownership Goals meet some, but not all, elements of the SMART – specific, measurable, achievable, relevant and time-bound – principles. All 12 goals are specific, achievable and relevant, but not all are measurable or time-bound. Therefore, this makes it difficult to effectively measure performance against them. Where possible, we assess CAL’s performance against these goals later in the report.

Recommendation 1: The Government and Cayman Airways Limited should revise the Strategic Ownership Goals to ensure that they are specific, measurable, achievable, relevant and time-bound (SMART).

CAL HELPS IN DELIVERING THE NATIONAL TOURISM PLAN 2019–2023

24. In 2019, CIDOT developed the National Tourism Plan 2019–2023 and tabled it in Parliament in January 2020. The plan aimed to provide a comprehensive framework for sustainable tourism development and management. It also aimed to share both a long-term vision and medium-term objectives to help the tourism sector thrive and prosper while conserving the Cayman Islands’ natural resources and cultural heritage. For example, the plan highlights increased airlift as one of the priority issues for tourism. It also highlighted the need for direct flights to the west coast of the United States and Europe. CAL started a direct air service to Los Angeles, a city on the west coast of the United States, in November 2022.
25. As a result of the COVID-19 pandemic and the closure of the borders, the Government developed RB5 – The Road Back to 500k Air Arrivals in July 2020. RB5 stated that CIDOT planned to partner with CAL and other regional airlines to service markets such as Latin America, including Argentina, Mexico and Brazil. CAL started a direct air service to Panama in June 2023. Panama is a key air connectivity hub for travel to South America.
26. We noted that the National Tourism Plan expired at the end of 2023. MTP and CIDOT told us that they intend to roll the plan forward while developing a new one. A new national tourism plan must be prepared and published as soon as possible to provide high-level strategic direction to CAL.

Recommendation 2: The Ministry of Tourism and Ports and the Department of Tourism should develop and publish a new National Tourism Plan as soon as possible.

CAL AND THE GOVERNMENT HAVE AGREED ON “SMART” OUTPUTS BUT FUNDING IS NOT BASED ON THE OUTPUTS DELIVERED

27. Every two years, as part of the budgeting process, CAL signs an Ownership Agreement and Purchase Agreement with the Cabinet. The Ownership Agreement sets out CAL’s ownership performance goals for those two years. The Purchase Agreement sets out the outputs CAL will deliver for the two years.
28. CAL’s outputs in its Purchase Agreements from 2018 to 2022 are SMART. We assess CAL’s performance against the agreed outputs later in this report.
29. CAL’s funding is linked to the outputs in its Purchase Agreement. CAL submits invoices to the MTP monthly requesting its annual output funding in equal instalments. The invoices contain data about

the outputs CAL produced in the month, but MTP approves, and the Cabinet pays them irrespective of the outputs produced. Therefore, it is unclear how effectively MTP holds CAL to account for producing its budgeted outputs.

MTP AND CIDOT OFFICIALS DO NOT ALWAYS ATTEND CAL'S BOARD MEETINGS

30. MTP's Chief Officer and CIDOT's Director are ex officio members of CAL's Board of Directors. We noted that they do not always attend board meetings or send representatives to board meetings that they miss. This may hamper their effectiveness in providing oversight to CAL, including having input into its strategic decisions. Between them, they missed 25 meetings out of 59 (42 per cent) and there were 12 meetings (20 per cent) that neither of them attended between 2018 and 2022.

CAL'S STRATEGIC PLANS ALIGN WITH GOVERNMENT PRIORITIES AND GOOD PRACTICE BUT COULD BE IMPROVED

31. CAL has had three strategic plans since 2018 – the Business Plan 2015–2020, a 2021 update to the Business Plan 2015–2020 and the Business Plan 2023–2028. The Board approved the last one in May 2023. The previous two strategic plans were developed in collaboration with the Board but were not formally approved. Therefore, there was no approved strategy or plan for the period covered by our audit and for part of 2023. Despite these plans not being approved, CAL used them to guide its operations. Therefore, we assessed these plans against good practice.

32. The strategic plans align with government strategies and priorities such as the National Tourism Plan 2019–2023 and the Government's SPSs, and with CAL's Airlift Framework, its output agreement and strategic ownership goals. For example, the strategic plans align with:

- The Government's goal to serve domestic and tourist markets.
- The National Tourism Plan's goal to increase airlift.

33. CAL's strategic plans also align with good practice but have some gaps. Exhibit 4 shows our assessment of CAL's strategic plans against good practice.

Exhibit 4 – Assessment of CAL’s strategic plans against good practice

Features of a good strategic plan	Business Plan 2015–2020	Business Plan 2021 update	Business Plan 2023–2028
Sets out the organisation's vision, goals and objectives	Yes	Yes	Yes
Identifies relevant changes in its environment and details how it will respond to them	Yes	Yes	Yes
Has clear baselines describing its current state of affairs	Yes	No	No
Identifies success measures, including outcomes	Yes	Yes	Yes
Links to financial plans to demonstrate affordability and to workforce plans to guide human resources	No	No	No
Identifies its stakeholders and sets out how it plans to effectively engage them	No	No	No

Source: OAG analysis of CAL’s strategic plans.

34. Our analysis shows that all three plans set out a vision, goals and objectives, and identified success measures. However, none of the plans links to financial plans to demonstrate affordability or to workforce plans to demonstrate staffing levels needed to deliver the goals and objectives. The most recent plan, for 2023–2028, does not set clear baselines.
35. CAL’s 2023–2028 Business Plan does not set out how CAL will achieve the following four of the 12 Strategic Ownership Goals:
- Continuing the process of restructuring and operational reform to increase revenue, reduce costs and achieve maximum efficiency.
 - Contributing directly and indirectly to the economy through employment and purchasing goods and services in the Cayman Islands.
 - Refinancing debt to improve its cash flow and provide enough working capital.
 - Exploring commercial agreements with select international carriers, comprising connected websites and full codeshare agreements.

36. As part of its strategic planning, CAL should identify its stakeholders and set out how it plans to effectively engage with them. However, we noted that CAL does not have a stakeholder engagement policy. A stakeholder engagement policy would help CAL proactively consider the needs of its internal and external stakeholders and determine how to manage these based on the stakeholders' power and interest.

Recommendation 3: Cayman Airways Limited should ensure that its strategic plans:

- **are approved by the Board;**
- **align with all elements of international good practice;**
- **set out how CAL will achieve all of its Strategic Ownership Goals; and**
- **include a stakeholder analysis and use the results to develop and adopt a stakeholder engagement policy.**

CAL'S STRATEGIC PLAN IDENTIFIES TEN KEY ROLES

37. CAL's recent strategic plans, the Business Plan 2015–2020 and the Business Plan 2023–2028, identify ten key roles that the airline plays for the Cayman Islands. According to CAL, these roles justify its existence and continued government funding. Exhibit 5 shows CAL's ten key roles. We assess CAL's performance against these ten roles later in the report. The key roles are not clearly linked to the Strategic Ownership Goals. As reported earlier, CAL's Board did not approve CAL's strategic plans prior to May 2023. Therefore, it is unclear if the MTP had agreed on CAL's ten roles before then.

Exhibit 5 – CAL’s ten key roles

- 1 CAL is a lever for strategic tourism and economic development. CAL is tasked with bringing tourists to the Islands. It works closely with the Cayman Islands Department of Tourism to jointly promote the Cayman Islands in existing and potential new gateways.
- 2 CAL provides an essential inter-island air bridge across Grand Cayman and the Sister Islands. An air link is necessary because the Cayman Islands are comprised of three islands.
- 3 CAL guarantees an air service independent of foreign carrier priorities.
- 4 CAL provides disaster relief before and after events.
- 5 CAL ensures tourists can be evacuated when necessary.
- 6 CAL ensures a competitive fare structure from foreign carriers.
- 7 CAL prevents foreign carrier monopolies.
- 8 CAL provides community support from corporate citizenship.
- 9 CAL contributes over US\$200 million annually to the Cayman Islands’ economy.
- 10 CAL employs at least 325 people in the Cayman Islands.

Source: CAL’s Business Plan 2015–2020 and Business Plan 2023–2028.

THE LOS ANGELES ROUTE SELECTION PROCESS WAS EFFECTIVE

38. CAL launches new routes in consultation with MTP and CIDOT. Between 2018 and 2022, CAL launched two new routes, one to Denver and the other to Los Angeles (LAX).
39. In performing our audit, we assessed the selection process for the weekly LAX route. The route selection process considered relevant data such as brand surveys, assumptions about load factors and the route’s expected financial performance. Load factor is defined as the percentage of available seats on a flight filled by passengers. CAL, MTP and CIDOT also collaborated effectively in identifying options for additional routes and selecting the LAX route as the best option. CAL’s Board approved the route in March 2022 and it started in November of the same year. We assessed the route selection process as effective.

40. CIDOT is responsible for general destination management, including marketing, for the Cayman Islands' tourism industry. CAL works with CIDOT to get the maximum benefit from CIDOT's marketing efforts by aligning its operations with the demand generated from CIDOT's efforts. We were told that CIDOT holds regular marketing meetings with CAL to discuss how it will feature CAL in its marketing drives. However, we did not receive any evidence to support this.
41. We assessed CIDOT and CAL's collaboration in marketing the LAX route as effective. Both entities marketed the route on their websites and social media platforms.
42. CAL launched a second weekly flight to Los Angeles in November 2023. CAL indicated that less than half of the people who travel on this route complete a return journey and that passengers use other airlines to return mid-week. To grow the Los Angeles market and provide additional flight options, it introduced the extra flight. We did not assess the selection process for this second flight.
43. In 2023, CAL launched a new route to Panama under the Strategic Tourism category. We did not assess the selection process for this route because it was outside the scope of our audit, which covers the five years from 2018 to 2022. However, we understand that the Panama route was assessed using the same process as was used to select the LAX route.

CAL STARTED AN AIR SERVICE TO BARBADOS IN 2023 UNDER THE SURPLUS CATEGORY IN THE AIRLIFT FRAMEWORK

44. In 2023, CAL launched a new route to Barbados under the Surplus category in its Airlift Framework. CAL considered the Barbados route at the Barbados Tourism Marketing Inc.'s (BTMI) request and accepted it because it expects the route to be profitable. Therefore, CAL did not assess the Barbados route using the process used for the LAX route. We did not assess the selection process for this route because it was outside the scope of our audit. Based on an agreement signed between CAL and BTMI in July 2023:
 - CAL will operate the route for an initial one-year period, effective as of October 2023.
 - CAL will provide an air service to Barbados twice weekly, on Wednesdays and Thursdays, during the one-year period.
 - If ticket sales, minus government taxes and fees, do not meet a set "Minimum Revenue" threshold in any financial quarter, BTMI will pay CAL the shortfall.
45. CAL told us that it determined the minimum revenue threshold based on the minimum it needs to operate the route profitably. CAL's Board approved the Barbados route in July 2023.

CAL'S BOARD OPERATES EFFECTIVELY BUT COULD BE FURTHER IMPROVED

46. The Independent Commission on Good Governance in Public Services states that “good governance leads to good management, good performance, good stewardship of public money, good public engagement, and ultimately, good outcomes.” It identifies the following six principles of good governance, which we have used to assess CAL’s governance framework:⁷

- focusing on results;
- performing effectively in clearly defined functions and roles;
- promoting values and ethics and ensuring that they are followed;
- making informed, transparent decisions and managing risk;
- developing capacity and capability of the governing body; and
- engaging stakeholders.

47. In December 2013, the OAG issued two reports about the governance of statutory authorities and government companies (SAGCs) in the Cayman Islands.^{8,9} The reports identified weaknesses in governance arrangements and the accountability relationships within SAGCs. As part of the audits, the OAG prepared a separate report for each SAGC containing specific recommendations for improvement. The separate report on CAL made 15 recommendations. Among other things, we recommended that:

- CAL prepares a position description that sets out the roles and responsibilities of board members and reflects the reporting relationship between the board and the Cabinet.
- CAL considers the skill set and experience required to be an effective board member and includes this information in the position description for a board member. CAL could then use the position description to inform the Cabinet of the desired qualities when the Cabinet considers new appointments to CAL’s Board.
- CAL’s Board evaluates the performance of the President and Chief Executive Officer (CEO) on an annual basis.

⁷ *The Good Governance Standard for Public Services*, Independent Commission on Good Governance in Public Services, 2004.

⁸ *The Accountability of Statutory Authorities and Government Companies*, Office of the Auditor General, December 2013.

⁹ *A Survey of Statutory Authorities and Government Company Governance*, Office of the Auditor General, December 2013.

- CAL develops a formal orientation programme to ensure that new board members receive the necessary information to become effective in their new roles as quickly as possible. This programme should include the roles and responsibilities of a board member, as set out in the position description, the mandate and functions of CAL, and CAL's strategic plan and business risks.
- CAL adopts a policy for ongoing governance training for its board members.

48. In July 2017, we published a follow-up report looking specifically at governance of the Cayman Islands' three aviation bodies.¹⁰ That report provided an update on CAL's progress with implementing the 15 recommendations and further actions it had planned. It is worth noting that, at the time of the 2017 report, the PAA had only recently been introduced. As part of this chapter, we follow up on CAL's progress with implementing the recommendations made in 2013.

CAL IS GOVERNED BY A BOARD OF DIRECTORS

49. CAL's Board comprises 12 directors appointed by the Cabinet. Four of these are ex officio members, meaning they do not have voting power. According to the PAA, the board is responsible for CAL's governance, including the general administration and oversight of its affairs and business. Sections 15 and 16 of the PAA set out the board's responsibilities in more detail.

50. Section 51 of the PAA requires the Chief Officers of responsible ministries to ensure that public authorities comply with their purchase and ownership agreements. MTP is responsible for overseeing CAL according to the requirements of section 51 of the PAA. As reported earlier, CIDOT is responsible for the National Tourism Plan and works with CAL in selecting and marketing new routes. MTP's Chief Officer and CIDOT's Director are ex officio members of CAL's Board.

CAL'S BOARD COLLECTIVELY HAS THE SKILLS AND EXPERIENCE TO OPERATE EFFECTIVELY BUT IT DOES NOT HAVE A SKILLS MATRIX

51. As reported previously, in 2013 we recommended that CAL prepare a position description that sets out the roles and responsibilities of board members and reflects the reporting relationship between the board and the Cabinet. CAL could then use the position description to inform the Cabinet of the desired qualities when the Cabinet considers new appointments to CAL's Board.

52. Section 9(4)(a) of the PAA requires the Cabinet to satisfy itself that individuals it appoints to boards have the skills, knowledge and integrity to carry out their duties. Section 9(5) of the PAA requires

¹⁰ *Governance in Aviation Bodies: Summary of Key Findings*, Office of the Auditor General, July 2017.

the Cabinet to ensure that board members have, among them, adequate knowledge, experience and understanding of:

- corporate governance;
- strategic and financial management;
- the scope of the business, outputs and operations of the public authority concerned.

53. In August 2021, the Cabinet appointed a new CAL Board for a two-year term. In doing so, the Cabinet replaced all eight non-ex officio members of CAL’s previous board. The Cabinet appointed one more person to the Board in September 2022 after the Chairman resigned in August 2022. In August 2023, the Cabinet extended the new board’s term for another two years.

54. We reviewed the profiles of CAL board members and compared these with the requirements of the PAA. Our analysis shows that CAL’s Board collectively meets the requirements of sections 9(4)(a) and 9(5). However, it is worth noting that all of the board members appointed in 2021 were new, which reduces their individual and collective experience as a board. Exhibit 6 summarises board members’ experience.

Exhibit 6 – Assessment of board members’ experience against PAA requirements

Experience required by section 9(5) of the PAA	CAL board members’ experience
Corporate governance	<p>The Chairman is a board member of several other bodies. These include Proven, Indigo Insurance, Universal Hydrogen, the NASA Advisory Council (Chair of the Aeronautics Committee) and the North America, Central American and Caribbean Development Commission (Chair).</p> <p>One board member was previously Board Secretary.</p>
Strategic and financial management	<p>Two board members had significant financial management experience.</p> <p>The former Chairman was an Audit Partner at EY Cayman and one board member was previously the Finance Minister of the Cayman Islands.</p>
Scope of business, outputs and operations of the public authority	<p>Three board members have experience in the airline business. One was previously a pilot and two were former CAL employees.</p>

Source: OAG assessment of board members’ experience against PAA requirements.

55. CAL told us that the MTP consults them before recommending nominees to CAL's Board to the Cabinet. However, CAL has not developed a skills matrix showing the desired skills and competencies for its board members. Although the Cabinet has the sole authority to appoint board members, a skills matrix would guide it in making those appointments – a useful tool, considering that CAL operates in a specialised industry.
56. Section 11(2) of the PAA states that the Cabinet cannot replace more than two-thirds of a public authority's board members unless special circumstances arise. In August 2021, the Cabinet appointed a new CAL board for a two-year term. In doing so, the Cabinet replaced all eight non-ex officio members of CAL's board. Replacing all non-executive board members at the same time creates a continuity risk. We will explore this further in our ongoing performance audit of *Governance in SAGCs*.
57. Section 9(6)(c) of the PAA states that board members who are public servants are not entitled to vote. This means that the CAL board member with financial management skills is not entitled to vote because he is a public servant in another public entity. This could limit his influence and the board's capacity to oversee CAL's finances, although we were told that this does not happen in practice. We will further explore the impact of this section of the PAA in our ongoing performance audit of *Governance in SAGCs*.

Recommendation 4: Cayman Airways Limited should develop a skills matrix showing the desired skills and competencies for members of its Board of Directors, and should share the matrix with the Ministry of Tourism and Ports and the Cabinet to help inform their appointments to its board.

CAL PROVIDES TRAINING FOR NEW BOARD MEMBERS

58. In 2013, we recommended that CAL develop a formal orientation programme to ensure new board members receive the necessary information to become effective in their new roles as quickly as possible. This programme should include the roles and responsibilities of a board member as set out in the position description, the mandate and functions of CAL, and CAL's strategic plan and business risks. We also recommended that CAL adopt a policy for ongoing governance training for its board members.
59. Since then, CAL has developed orientation training for its board members. As stated previously, CAL's current board was appointed in August 2021. In September 2021, management provided the board with orientation training. The training set out an overview of CAL and key operational aspects. In September 2022, the Cabinet appointed another member to CAL's Board. CAL provided this member with orientation training in January 2023.

60. CAL's orientation training covers some aspects of governance but more governance training for Board members is needed. In July 2023, the Office of the Deputy Governor started providing governance training to members of boards of SAGCs. The training covers board governance and the law; promoting and maintaining integrity; and improving effectiveness, including through collective decision-making, asking important questions and dealing with conflict. By November 2023, two of CAL's board members had attended the training.

Recommendation 5: The Cayman Airways Limited Board should ensure all of its members attend the governance training provided by the Office of the Deputy Governor.

THE BOARD HAS RECENTLY APPROVED A CHARTER BUT THIS HAS GAPS AND IT DOES NOT HAVE A CODE OF CONDUCT

61. CAL's Board did not have a charter to guide how it functions until March 2023, when the board approved one. CAL's adoption of a Board Charter will improve how the board operates. However, our assessment of the charter identified that it does not cover the following elements of good practice:

- the skills required to be a board member;
- hospitality and gifts;
- board committee evaluations;
- the role of individual directors;
- the retention of board papers; and
- director protection.

62. Before the development of the charter, CAL used the PAA as the principal guiding document for the board's roles and responsibilities. However, the PAA does not cover all elements of international governance-related good practice. For example, the PAA does not set out or specify:

- Guidelines about accepting gifts and hospitality, although it does highlight the need to avoid conflicts of interest.
- Requirements for continuing professional development for board members.
- How long board papers should be retained for.
- Information-seeking protocols for the board.
- Guidelines about how boards can access professional advice when needed.
- The extent of board access to company data and information.

63. The CAL Board does not have a Code of Conduct highlighting the importance of and requirements for ethical conduct in its operations. We did not identify any instances of the board discussing ethics and corporate values. CAL has an employee handbook that outlines its commitment to

professionalism, employee conduct and avoiding conflicts of interest. A Code of Conduct for board members could be incorporated into the Board Charter.

Recommendation 6: The Cayman Airways Limited Board should review and enhance its Board Charter to ensure that it aligns with all international good practice.

THE BOARD DID NOT FORMALLY ASSESS ITS PERFORMANCE OR THAT OF THE CHIEF EXECUTIVE OFFICER BETWEEN 2018 AND 2022

64. In 2013 we recommended that the Board evaluate the performance of the President and CEO on an annual basis. The Board did not formally assess the performance of the CEO between 2018 and 2022. Therefore, it is unclear how the Board holds the CEO accountable for CAL's performance. CAL told us that the Board started the CEO's assessment in 2023 but had yet to finish this.

65. As reported previously, regular board evaluations are considered good practice. We found that the Board did not assess its performance between 2018 and 2022. CAL told us that the Board started to do this in 2023 but had yet to finish the evaluation.

Recommendation 7: The Cayman Airways Limited Board should complete its evaluations of the Chief Executive Officer's and board's performance as soon as possible and ensure that it does this annually.

THE BOARD PROVIDES GOOD STRATEGIC DIRECTION AND MAKES INFORMED, TRANSPARENT DECISIONS

66. Overall, the Board gives good strategic direction and oversees CAL to ensure that it delivers on its mandate. For example:

- It meets monthly and makes key strategic decisions. For example, it approved CAL's Fleet Modernisation Plan, which is discussed later in this report. It also approved all new and discontinued routes between 2018 and 2022.
- It approved a new strategic plan in May 2023, the Business Plan 2023–2028.
- It approved new key performance indicators (KPIs) in April 2022. It replaced these in 2023. We assess these KPIs in the **Performance** chapter.

67. The Board's strategic direction is based on data, risks and information. CAL's management gives the Board the right information to make informed decisions, allowing it to monitor finances, performance and risks. The information is contained in board packs that management sends to board members before they meet. However, it is unclear whether the Board has specified the level of detail it needs and the format it needs to be in.

FINANCIAL PERFORMANCE

68. Financial performance is a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue and overall profitability. It is measured through various business-related formulas that allow users to calculate details regarding a company's performance.¹¹ This chapter assesses CAL's financial performance from 2018 to 2022.

CAL INCURRED LOSSES FROM 2018 TO 2022 AND HAS AN OVERALL DEFICIT

69. CAL's annual financial performance is based on its income and expenses each year, resulting in a profit or loss. The financial position considers assets, liabilities and equity.

CAL INCURRED LOSSES IN EACH OF THE FIVE YEARS FROM 2018 TO 2022

70. CAL reported deficits in each of the five years from 2018 to 2022; it had budgeted for deficits in three of these years (2020 to 2022). Overall, CAL budgeted for losses of \$19.0 million over the five years and lost \$34.0 million. Actual losses ranged from \$465,000 in 2020 to \$11.6 million in 2018. Exhibit 7 shows CAL's actual and budgeted performance from 2018 to 2022.

¹¹ Corporate Finance Institute website: <https://corporatefinanceinstitute.com> (accessed 19 January 2024).

Exhibit 7 – CAL’s actual and budgeted financial performance, 2018–2022

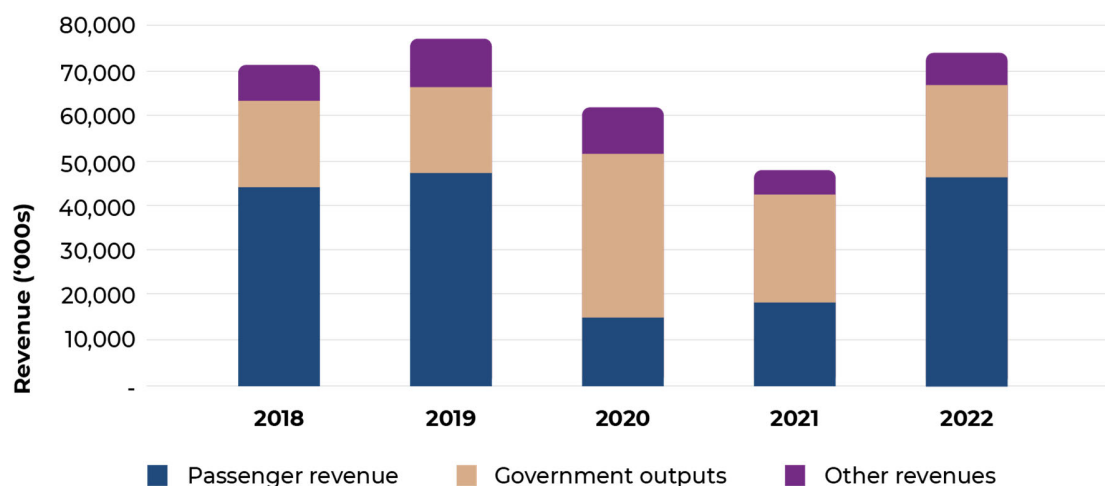
	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s	2022 \$000s	Total \$000s
Budgeted						
Revenue	70,563	72,364	75,441	76,558	73,846	368,772
Expenses	(70,517)	(71,425)	(82,551)	(82,297)	(81,004)	(387,794)
Net profit/ (loss)	46	939	(7,110)	(5,739)	(7,158)	(19,022)
Actual						
Revenue	70,725	76,663	60,952	47,908	73,607	329,855
Expenses	(82,377)	(83,214)	(61,417)	(52,124)	(84,682)	(363,814)
Net (loss)	(11,652)	(6,551)	(465)	(4,216)	(11,075)	(33,959)

Source: OAG analysis of CAL’s financial statements from 2018 to 2022, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

71. CAL’s financial performance was affected by the COVID-19 pandemic. In March 2020, the first COVID-19 case was reported in the Cayman Islands. In response, the Government took several actions to suppress and control the spread of COVID-19. One of these was closing the border in March 2020 to all airlines and cruise ships. The Government reopened the border to airlines in November 2021 and to cruise ships in January 2022.
72. Exhibit 7 shows a significant reduction in revenue and expenses in 2020 and 2021, compared with the budget and the previous year. This is mainly attributed to the border closure. For example, CAL told us that it cancelled about 8,500 flights between March 2020 and January 2021. CAL did not plan to operate any flights during 2021 because of the COVID-19 pandemic and the border closure. As a result of reduced operations during the pandemic, CAL also incurred lower costs. CAL expects the impact of the COVID-19 pandemic to affect its operations for a few years. For example, CAL told us that it expected revenues to reach 70 per cent of pre-pandemic levels in 2023.
73. Exhibit 8 analyses the trends in CAL’s revenue by category from 2018 to 2022. This further highlights the impact of border closures and travel restrictions during the COVID-19 pandemic on CAL’s revenue in 2020 and 2021. Specifically:

- Passenger revenue decreased by \$32.7 million from 2019 to 2020, mainly because of the border closure and travel restrictions.
- Government output revenue increased by about \$17.0 million over the same period because the Government provided more output funding to CAL to cover its fixed costs.

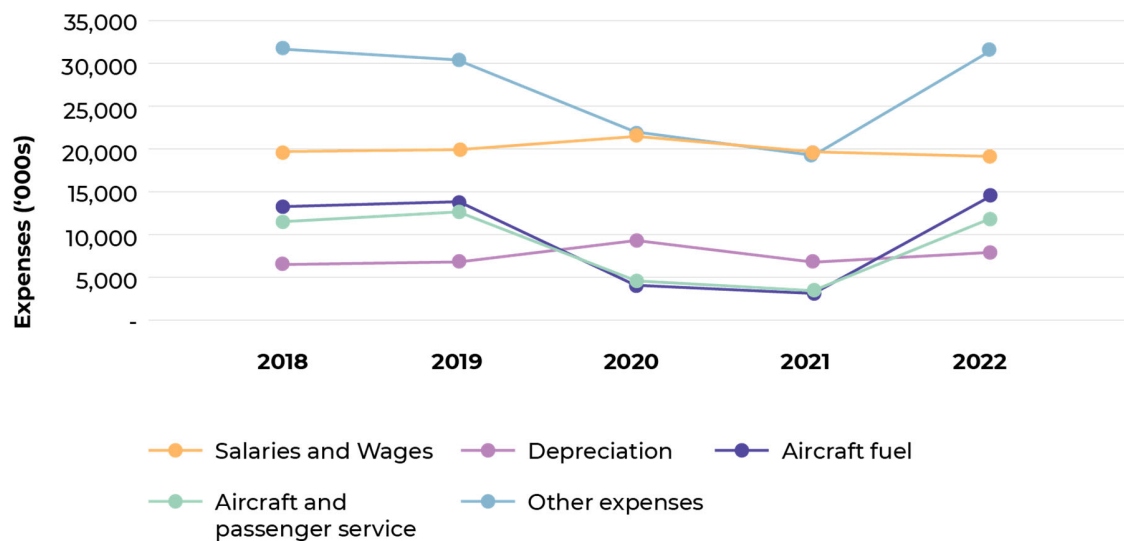
Exhibit 8 – CAL revenue trends by category, 2018–2022



Source: OAG analysis of CAL’s 2018–2022 financial statement, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

74. Exhibit 8 also shows that other revenues were higher in 2019 and 2020. Other revenues comprise mainly cargo revenue and handling revenue; they also comprise compensation revenue of about \$9.3 million. The United States Federal Aviation Administration and CAACI grounded the Boeing 737-8 MAX aircraft between March 2019 and January 2021 after two crashes involving the aircraft in Indonesia and Ethiopia. CAL was the first airline in the world to ground its Boeing 737-8 MAX aircraft after the crashes. CAL subsequently negotiated compensation from Boeing for the period the aircraft were grounded.
75. Over the same period, CAL’s expenses fluctuated, generally in line with its revenues. CAL’s main categories of expenditure are salaries and wages, aircraft fuel, aircraft and passenger services, other expenses and depreciation. Aircraft and passenger services include expenditure on handling, security and immigration expenses. Other expenses include maintenance, materials and repair costs, aircraft lease expenses, landing and parking fees, and administrative expenses. Exhibit 9 shows CAL’s expenses by category over the five years from 2018 to 2022.

Exhibit 9 – CAL expense trends by category, 2018–2022



Source: OAG analysis of CAL’s 2018–2022 financial statement, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

76. Our analysis shows that staff costs remained relatively constant and depreciation increased over the five years. The cost of aircraft fuel, aircraft and passenger services, and other expenses reduced significantly during 2020 and 2021 because of limited flight operations during the COVID-19 pandemic. We also noted the following:

- Salaries and wages accounted for \$19.2 million in 2022. Salaries and wages were generally consistent across all five years, although there was a slight increase in 2020. The reasons for this are twofold. In 2020, CAL paid approximately \$0.9 million in severance payments to 23 employees, when it offered voluntary separation agreements to staff wishing to terminate their employment in response to the COVID-19 pandemic. In addition, the Cabinet approved a 5 per cent cost of living salary adjustment, awarded to all staff and effective from 1 January 2020. Salaries and wages reduced by \$2.0 million from 2020 to 2021, mainly because of the reduction in CAL’s employee headcount.
- Aircraft fuel and aircraft and passenger services costs are directly related to flight operations. Combined, these accounted for \$26.2 million in 2022. These costs were reduced significantly in 2020 and 2021 because CAL’s operations were limited because of the border closures and travel restrictions. According to CAL’s 2021 annual report, the new fleet of Boeing 737-8 MAX aircraft delivered up to 25 per cent fuel savings compared with the retired B737-300 jet service. The first full year that CAL benefited from the Boeing 737-8 MAX aircraft’s fuel efficiency was 2022. Aircraft fuel and aircraft and passenger services

costs increased sharply in 2022, the first full year of uninterrupted operation after the border reopened in November 2021. Aircraft fuel costs increased in 2022 despite one of the benefits of CAL’s Fleet Modernisation Plan being fuel savings. Fuel costs increased because of higher fuel prices; for example, jet fuel prices increased by 77 per cent over the 2018 to 2022 period.

- Other expenses also reduced significantly in 2020 and 2021 because of the COVID-19 pandemic. In 2022, other expenses increased sharply because it was the first full year of uninterrupted operation after the pandemic.
- Depreciation is directly related to CAL’s fleet of aircraft. Depreciation increased in 2020 because CAL accelerated the depreciation of its Boeing 737-300 aircraft to align with its Fleet Modernisation Plan. Depreciation reduced in 2021 following the sale of a Boeing 737-300 aircraft but then increased in 2022 because CAL received the fourth of its leased aircraft in January that year.

CAL’S OVERALL FINANCIAL POSITION IS A \$25.0 MILLION DEFICIT

77. As reported earlier, CAL made losses in each of the five years from 2018 to 2022. These losses have adversely affected CAL’s net worth (or financial position), which worsened from a deficit of \$24.0 million to a deficit of \$25.0 million over the same period. Net worth is the value of an entity’s assets minus its liabilities. The net worth could have been worse but was supported by the Government providing \$34.0 million in equity injections during the period. Equity injections are funding, usually in cash, to cover the acquisition of capital assets or an operational subsidy. Exhibit 10 shows CAL’s assets, liabilities and net worth from 2018 to 2022.

Exhibit 10 – CAL’s assets, liabilities and net worth, 2018–2022

	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s	2022 \$000s
Assets	31,289	47,867	38,403	44,020	53,044
Liabilities	55,307	73,336	60,944	67,018	78,016
Net worth	(24,018)	(25,468)	(22,541)	(22,999)	(24,973)

Source: OAG analysis of CAL’s 2018–2022 financial statement, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

78. CAL's assets increased by about \$21.8 million in the five years to 31 December 2022 to \$53.0 million. However, the asset value fluctuated during the five years. The increase is attributed mainly to increases of \$11.0 million in cash on hand and \$10.5 million in property, plant and equipment. Cash on hand increased largely because of equity injections from the Government of about \$33.9 million. The value of aircraft and engines (within property, plant and equipment) increased by around \$13.9 million; this is attributed to CAL leasing new Boeing 737 MAX aircraft. CAL received the first new aircraft in November 2018 and the other three in March 2019, March 2021 and January 2022.
79. Over the same period, CAL's liabilities increased by about \$22.7 million to \$78.0 million. This increase was largely due to a change in accounting standards from 1 January 2019, which changed the way that CAL had to account for leased assets.¹² CAL's new Boeing 737-8 MAX aircraft were leased, which created a lease liability obligation of \$24.2 million as of December 2022. Over the same period, CAL reduced its bank overdrafts by converting \$2.5 million into a long-term loan, which is guaranteed by the Government. At the end of 2022, CAL's debt was about \$17.2 million.
80. CAL's net worth remained relatively constant over the five years. The negative net worth is because CAL made accumulated losses of \$34.0 million over these five years. The Government provided equity injections of about \$33.9 million over the same period, which partly offset these losses. Exhibit 11 shows the total equity the Government injected into CAL between 2018 and 2022.

Exhibit 11 – Government equity injections into CAL from January 2018 to December 2022

	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s	2022 \$000s	Total \$000s
Equity Injections	12,600	5,100	3,393	3,757	9,100	33,949

Source: OAG analysis of CAL's 2018–2022 financial statement, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

¹² International Financial Reporting Standards (IFRS) 16 – Leases. IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

CAL'S FUNDING MODEL IS UNCLEAR

81. As reported earlier, the Government pays CAL for certain routes under the Airlift Framework, i.e. the Government funds CAL for Strategic Domestic, Strategic Tourism and some Core routes. Flights in the Strategic Domestic and Strategic Tourism categories are purchased by and operated on behalf of the Government. These are included in CAL's Purchase Agreement as CAL 1 and CAL 2, respectively. CAL 1 (Strategic Domestic Air Services) covers air services between Grand Cayman and the Sister Islands of Cayman Brac and Little Cayman. CAL 2 (Strategic Tourism, Regional and Core Air Service) covers air services to the United States and regional gateways that the Government considers strategic to expanding the country's tourism base and aiding economic development. CAL aims to operate Core routes profitably or break even with government funding.
82. The Airlift Framework does not clearly state what costs the Government's funding should cover. In other words, it does not state whether the government funding is aimed at covering CAL's fixed costs, variable costs or a combination of the two. Fixed costs do not change when business activities increase or decrease. Variable costs are dependent on the level of business activity. Therefore, we could not assess whether or not the Government adequately funds CAL's operations.

CAL'S OPERATING REVENUES USUALLY COVER THE VARIABLE COSTS OF FLIGHTS

83. CAL told us that it aims to generate enough operating revenue to cover variable costs and some of its fixed costs. CAL's operating revenues include income from passenger fees, cargo, handling charges and all other revenues. It does not include revenue received from the Government for outputs, i.e. CAL 1 and CAL 2.
84. Our analysis of CAL's financial information from 2018 to 2022 found that total revenue minus variable costs was about \$67.1 million. Exhibit 12 compares CAL's total operating revenue and variable costs from 2018 to 2022 by route category.

Exhibit 12 – CAL’s total operating revenue and variable costs by route category, 2018–2022

	Core \$000s	Strategic Domestic \$000s	Strategic Tourism \$000s	Surplus Airlift \$000s	Total
Operating revenue	140,285	23,777	41,566	2,440	208,068
Variable costs	(78,089)	(21,021)	(41,726)	(121)	(140,956)
Gross profit/(loss)	62,197	2,756	(160)	2,319	67,111

Source: OAG analysis of CAL’s route profitability reports, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

85. Exhibit 12 shows that all route categories other than Strategic Tourism generated a gross profit for the five years. Our review of annual information identified that the Strategic Tourism category made a gross loss of \$1.3 million in 2020 owing to limited operations during the COVID-19 pandemic. It also incurred a \$468,000 gross loss in 2022.
86. Exhibit 2 shows the 16 routes CAL operated between 2018 and 2022. For the purposes of this report, we counted each route flown in a year to be unique resulting in CAL operating a total of 69 individual routes between 2018 and 2022. For example, CAL’s New York route is one of 16 routes. CAL flew to New York in each of the five years from 2018 to 2022. Therefore, in analysing the performance of all routes, we count these as five individual routes. We analysed the financial performance of the 69 individual routes over the five years from 2018 to 2022. We found that 57 (83 per cent) routes generated a gross profit and 12 (17 per cent) incurred a gross loss. Two of the 16 routes CAL operated between 2018 and 2022 consistently operated at a loss and some individual routes made losses in other years. CAL provided us with reasonable explanations for the loss-making routes. For example, some routes are deemed essential for boosting tourism, which is consistent with the aims of air services purchased by the Government under CAL 2.

CAL’S OPERATING REVENUES DO NOT COVER THE TOTAL COSTS OF MOST ROUTES

87. CAL’s Route Profitability Reports allocate the Government funding by route category, not by individual routes, so we cannot tell which routes generate a profit when the funding is considered. Therefore, we compared CAL’s operating revenues against its fixed and variable costs for each of the route categories.
88. As previously stated, the Airlift Framework requires CAL to provide only profitable flights under the Surplus category. All routes under the Surplus category were profitable in the five years. Excluding

these, our analysis found that only seven out of the 69 (10 per cent) individual routes generated a net profit. No routes made a net profit in 2020 and 2021. However, this is to be expected because the borders were closed for most of that time due to the COVID-19 pandemic.

GOVERNMENT FUNDING DOES NOT COVER THE TOTAL COSTS OF ROUTES

89. We analysed CAL’s total costs (fixed costs and variable costs) and total revenues (CAL operating revenues and government funding) for routes. We found that all route categories, other than Surplus, incurred a loss from 2018 to 2022. Exhibit 13 shows the net profit or loss by route category from 2018 to 2022. The government funding in Exhibit 13 does not include \$4.5 million of funding that was allocated directly to interest payments.

Exhibit 13 – Net profit/(loss) by route category, 2018–2022

	Core \$000s	Strategic Domestic \$000s	Strategic Tourism \$000s	Surplus \$000s	Total \$000s
Gross profit/ (loss) before government funding	(43,550)	(25,952)	(79,964)	2,319	147,147
Government funding	27,856	17,470	68,975	–	114,301
Net profit/(loss) after government funding	(15,694)	(8,482)	(10,989)	2,319	(32,846)

Source: OAG analysis of CAL’s route profitability reports from 2018 to 2022, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

Note: Government funding does not include \$4.5 million specifically allocated to interest payments.

90. Exhibit 13 shows that Core, Strategic Domestic and Strategic Tourism routes made losses after government funding. As reported earlier, routes in these categories are purchased and operated on behalf of the Government. We acknowledge that the Government cannot fully fund international flights in the Strategic Tourism category as this would give CAL a competitive advantage against other airlines. However, flights operated in the Strategic Domestic category provide essential lifeline services across the three islands for Caymanians. It is unlikely that another airline would operate these flights. Therefore, it is unclear why these are not fully funded by the Government.

GOVERNMENT FUNDING DOES NOT COVER CAL'S FIXED COSTS

91. Our analysis of financial information for the five years from 2018 to 2022 shows that the Government gave CAL \$114.3 million in output funding. Over the same period, CAL's fixed costs were about \$214.3 million. The difference between government funding and fixed costs is about \$100.0 million. Exhibit 14 compares CAL's fixed costs and government funding from 2018 to 2022.

Exhibit 14 – Comparison of government funding and CAL's fixed costs, 2018–2022

	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s	2022 \$000s	Total \$000s
Government funding	16,974	18,471	35,401	23,917	19,538	114,301
Fixed costs	(46,161)	(43,458)	(44,415)	(37,302)	(42,922)	(214,258)
Net loss	(29,187)	(24,987)	(9,014)	(13,385)	(23,384)	(99,957)

Source: OAG analysis of CAL's route profitability reports, with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

Note: Government funding does not include \$4.5 million specifically allocated to interest payments.

92. Based on our analysis of financial information, it is unclear what government funding is intended to cover. Total government funding for CAL 1 and CAL 2 does not cover the total costs of the routes that are operated within these categories. Neither does it cover CAL's fixed costs. Therefore, the Airlift Framework and funding model are unclear.

Recommendation 8: Cayman Airways Limited and the Government should revise the Airlift Framework to make clear what the Government's funding is intended to cover.

THE GOVERNMENT COVERS CAL'S REVENUE BUDGET SHORTFALLS WITH EQUITY INJECTIONS

93. Occasionally, the Cabinet and Parliament approve supplementary funding for entities, including CAL, over and above the output funding approved by Parliament. The supplementary funding, approved under sections 11 or 12 of the PMFA, is generally provided to enable government entities to meet the costs of unforeseen circumstances. For example, in July 2021, Parliament approved an additional \$7 million for CAL to mitigate the impact of its revenue shortfall caused by the COVID-19 pandemic and the resulting closure of the Cayman Islands' borders.

94. Our analysis of budgets found that between 2018 and 2022, the Government approved original funding of \$129.0 million for CAL. This included \$15.7 million for Strategic Domestic Air Services (CAL 1); \$75.8 million for Strategic Tourism, Regional and Core Air Services (CAL 2); and \$37.5 million in equity injections. Over the same period, the Government approved additional supplementary funding for CAL of \$23.8 million. Therefore, the Government gave CAL total funding of \$152.8 million over five years. Exhibit 15 shows the Government’s original, supplementary and total funding to CAL from 2018 to 2022.

Exhibit 15 – The Government’s original, supplementary and total funding to CAL, 2018–2022

	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s	2022 \$000s	Total \$000s
Original budget	23,063	23,063	27,623	27,555	27,669	128,973
Supplementary appropriations	9,250	1,310	12,170	120	969	23,819
Total funding	32,313	24,373	39,793	27,675	28,638	152,792

Source: OAG analysis of CAL’s 2018–2022 budget information.

95. We assessed CAL’s supplementary appropriation requests and found that these were justified. Between 2018 and 2022, CAL used this additional funding mainly to mitigate the impact of the COVID-19 pandemic and to pay for the costs of launching new routes. It also used the funding to reduce its debt and secure temporary aircraft to mitigate the impact of the grounding of its Boeing 737-8 MAX aircraft.
96. However, we noted that CAL’s total approved budgets were less than its requested funding during the five years. Exhibit 16 compares CAL’s requested and approved funding from 2018 to 2022.

Exhibit 16 – CAL’s requested and approved funding, 2018–2022

Year	CAL 1			CAL 2			Equity injections		
	Requested amount \$000s	Approved amount \$000s	Variance \$000s	Requested amount \$000s	Approved amount \$000s	Variance \$000s	Requested amount \$000s	Approved amount \$000s	Variance \$000s
2018	3,134	3,134	–	15,829	14,829	1,000	10,100	5,100	5,000
2019	3,134	3,134	–	15,829	14,829	1,000	5,100	5,100	–
2020	3,134	3,134	–	15,829	15,389	441	5,100	9,100	(4,000)
2021	3,134	3,134	–	15,829	15,321	508	5,100	9,100	(4,000)
2022	3,134	3,134	–	21,535	15,435	6,100	3,000	9,100	(6,100)
Total	15,670	15,670	–	84,851	75,803	9,049	28,400	37,500	(9,100)

Source: OAG analysis of CAL’s 2018–2022 budget requests and Purchase Agreements from 2018 to 2022.

97. Our analysis shows that CAL consistently requested higher budgets for CAL 2, i.e. for Strategic Tourism, Regional and Core air services, but the approved budgets were lower. Over the five years, the difference between the budget requested and received for CAL 2 was \$9.0 million. However, our analysis also shows that CAL received \$9.1 million more in equity injections than it requested. It is unclear why this happened. Output funding is an expense for the Government, impacting its profit or loss, but equity injections are investments and do not impact the income statement.
98. We also noted that CAL requests the same amount of funding every year, even though it consistently incurred losses from 2018 to 2022 (see Exhibit 7). Because CAL’s budgets are based on prior-year budgets instead of operational needs, and because the Government provides less output funding than CAL requests, CAL’s budgets are unrealistic. This results in consistently high losses. CAL told us that it involves the Government in discussing price changes for Strategic Domestic routes. CAL also told us these routes are subsidised essential services, so there is a reluctance to impose additional costs. This position is reasonable, but it makes it unclear why CAL continues to request budgets for CAL 1 that will result in losses.

Recommendation 9: Cayman Airways Limited and the Government should set realistic budgets, particularly for strategic domestic routes, to allow adequate monitoring and measuring of CAL’s financial performance.

CAL HAS TAKEN SOME MEASURES TO IMPROVE ITS FINANCIAL PERFORMANCE BUT DOES NOT HAVE A DOCUMENTED PLAN FOR DOING THIS

99. The CAL Board tracks the budget to actual results monthly. CAL told us that the Board discusses financial variances and agrees on plans to address these. However, the board discussions and decisions are not documented in the board packs or board minutes. Some of these costs, such as staff costs and fuel, are outside of CAL's control. However, CAL does not have a documented plan to improve its financial performance. CAL's strategies contain plans to improve financial performance, but these are not sufficiently detailed.

100. We noted that CAL has implemented some ad hoc plans that should result in improved financial performance. For example:

- In May 2018, CAL's Board resolved to introduce checked baggage fees of \$20 for the first two bags. The Board resolved to increase those fees from \$20 to \$25 in October 2022. The fee change resulted in increased baggage fees on some routes and a reduction on others to arrive at a standardised fee structure.
- CAL has stopped operating some routes that it determined were no longer producing the desired results, e.g. the Chicago route in 2019. It also cancelled some flights during the operation period because of sluggish bookings.
- In June 2022, CAL's Board instructed management to identify opportunities to increase revenue and reduce expenses.
- CAL plans to introduce additional optional fees and expects to generate about \$750,000 from these annually.

101. We found that CAL's cargo rates have not changed since October 2017 and noted that the rates are significantly cheaper than those charged by other airlines. However, management told us that it also competes with ocean freight companies because the frequency of shipments is similar. We understand that ocean freight companies charge significantly less than airlines for cargo. However, CAL has not formally reassessed its cargo rates for reasonableness in more than six years.

Recommendation 10: Cayman Airways Limited should develop and adopt a plan to improve its financial performance. This should include reassessing its cargo rates in light of current market conditions.

102. CAL's management prepares Route Profitability Reports monthly. The reports show the revenue, fixed and variable costs and surplus generated from each route and category in the Airlift Framework.¹³ They also show some performance metrics such as cost per available seat mile, flight load factors and average passenger yield. Cost per available seat mile is the cost an airline incurs to fly one seat one mile. The flight load factor is the percentage of aeroplane seats that are filled with passengers. Average passenger yield is the average amount of revenue received for each passenger per mile flown. CAL's Board reviews the reports monthly.

103. The reports show several loss-making routes under the Core, Strategic Domestic and Strategic Tourism categories. As previously stated, the Government purchases Strategic Tourism and Strategic Domestic routes from CAL. In addition, CAL may continue servicing some loss-making Core routes, e.g. to prevent foreign carrier monopolies and to keep ticket prices reasonable. However, it is unclear whether management and the Board routinely assess underperforming routes to decide whether to continue or discontinue them.

Recommendation 11: Cayman Airways Limited, the Ministry of Tourism and Ports, and the Cayman Islands Department of Tourism should formally and regularly assess the costs and benefits of CAL's routes and use this to inform decisions about routes.

CAL INCURS ADDITIONAL COSTS BECAUSE THE AIRFIELD IN LITTLE CAYMAN IS CERTIFIED FOR SMALL AIRCRAFT ONLY

104. CAL is expected to provide a regular service between Grand Cayman and Little Cayman that provides essential lifeline services for the residents of Little Cayman. This service is purchased by the Government under CAL 1 – Strategic Domestic Air Services.

105. The International Civil Aviation Organization's Annex 14 to the Convention on International Civil Aviation, Aerodromes: Volume I – Aerodrome Design and Operations, requires aerodromes to be certified. The Edward Bodden Airfield in Little Cayman is not operated by the Cayman Islands Airports Authority and there is no designated aerodrome operator to ensure safe operations at the airfield. Instead, CAL manages it.

106. The airfield is only certified for aircraft with 19 seats or fewer. Therefore, CAL needs to have a fleet of small aircraft (Twin Otters) and requires a special temporary CAACI waiver to fly the Twin Otters

¹³ We define fixed and variable costs earlier in the report, at paragraph 82.

to Little Cayman. If CAACI did not grant the waiver, CAL would have to cease operations to Little Cayman. We were told that, in some circumstances, a waiver had been granted for less than 12 months, requiring more frequent applications.

107. To obtain the waiver, CAL has been required to take on quasi-airport operator responsibilities, including:

- Developing a version of an aerodrome operator's manual.
- Managing and coordinating activities of the aerodrome, including oversight and maintenance of the landing strip, ensuring that firefighting, rescue and medical services are available, ensuring perimeter security, and conducting routine audits, inspections and emergency drills.
- Justifying why certain infrastructure improvements required by CAACI have not been made over the years and providing compelling mitigating safety measures to maintain the waiver.

CAL has not assessed the cost of these operator responsibilities.

108. The Twin Otters date back to the 1970s and therefore may need more maintenance. A standard measure for the maintenance cost of different aircraft is the maintenance cost per segment - the average maintenance cost incurred per flight. Using this measure, the Twin Otters cost significantly more to maintain than CAL's other planes, which are larger aircraft. For example, the maintenance cost per segment for the Twin Otter is eight times higher than for the SAAB 340 and five times higher than for the Boeing 737-8 MAX.

109. We were told that, at times, the Little Cayman route is serviced by only one plane if the other is away for maintenance. Because of this, CAL has decided that a third Twin Otter plane is needed. CAL plans to purchase a third Twin Otter at an estimated cost of about \$3.8 million. The Government has committed to covering \$2.9 million of this cost.

110. CAL told us it is impractical to use the same crew and maintenance staff for different aircraft types. Therefore, it incurs additional costs to retain pilots, engineers and maintenance personnel for three aircraft types than for two.

WORKFORCE PLANNING AND MANAGEMENT

111. The size and structure of the workforce should be shaped by the organisation's current and future strategic objectives; the needs of service users and potential users; the amount and sources of funding available; and the wider policy and legislative environment in which the organisation operates.

112. Workforce planning helps ensure that the right number of people with the right skills are employed in the right place at the right time to deliver an organisation's short- and long-term service delivery and legislative and regulatory objectives. It should be linked to strategic objectives and priorities and viewed as an important part of the strategic business planning process. Workforce planning can be challenging and involves thinking about what is needed now and in the future.

113. Workforce management is a set of integrated processes that aims to maximise the productivity and performance of an organisation and its employees. It includes a range of human resource policies and systems, such as recruitment and reward, training and development, and performance appraisal.¹⁴

114. This chapter covers CAL's workforce planning and management.

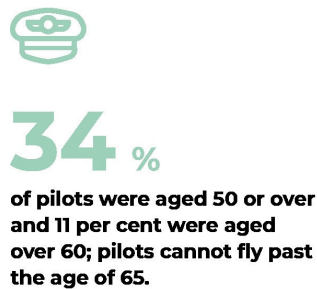
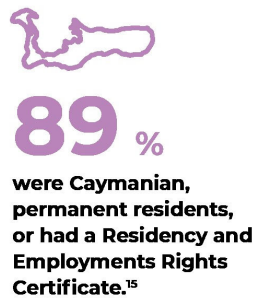
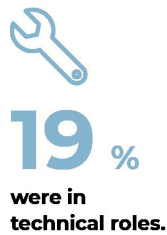
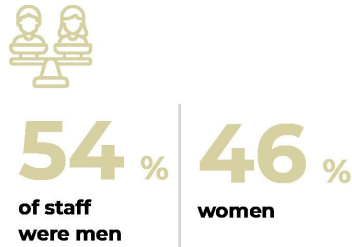
CAL EMPLOYS 360 STAFF

115. Consistent with the PAA, the Board appoints CAL's CEO. The CEO heads the organisation and senior management.

116. As part of its response to the COVID-19 pandemic, CAL reduced its staffing levels through a mix of natural turnover and voluntary severance. As previously stated, CAL paid approximately \$1.1 million in severance payments to 23 employees who left in 2020 and 2021. CAL had 345 employees as at February 2022, a reduction of about 20 per cent compared with its pre-pandemic staffing levels. CAL's headcount has started to increase again as it resumes full operations post COVID. As at December 2022, CAL had 360 staff. Exhibit 17 summarises our analysis of CAL's staffing profile at December 2022.

¹⁴ *Workforce Planning and Management in the Cayman Islands Government*, Office of the Auditor General, April 2018.

Exhibit 17 – CAL’s staffing profile as at December 2022



Source: OAG analysis of CAL’s employment listing as at December 2022. Note: ¹⁵

117. One of CAL’s key roles is to employ at least 325 people in the Cayman Islands. As at 31 December 2022, 341 of CAL’s staff were employed in the Cayman Islands. Of the five years covered by our audit, the only year that CAL did not fulfil this key role was in 2021, when it employed only 314

¹⁵ Under the *Immigration Act (2022 Revision)* and the *Immigration Regulations (2019 Revision)*, Permanent Residency with the Right to Work is given to expatriates based on a successful application made after eight years of living in Cayman, being the spouse or child of a Permanent Resident or being the spouse of a Caymanian. The dependent spouse of a Permanent Resident or Caymanian can apply for a Residency and Employments Rights Certificate.

people in the Cayman Islands. As stated above, CAL reduced its staffing in response to the COVID-19 pandemic.

CAL RESTRUCTURED MANAGEMENT ROLES IN 2022 BUT DOES NOT HAVE A WORKFORCE PLAN

118. Our analysis of CAL’s workforce shows that it has a fairly equal gender balance and is mainly Caymanian. However, the workforce is ageing; around two-fifths of the entire workforce is aged 50 or over and over one-third of pilots are aged 50 or over. CAL does not have a comprehensive workforce plan that considers the workforce size, skills and capabilities that are needed to achieve its overall strategy.

119. In the absence of a workforce plan, it is unclear how well CAL is managing the risk of an ageing workforce. CAL’s strategic plans contain elements of workforce management, but it does not have supporting plans with “SMART” goals and objectives to enable measuring, monitoring and reporting progress against them. CAL told us that it started developing a workforce plan in 2020 but the development was interrupted by the COVID-19 pandemic.

Recommendation 12: Cayman Airways Limited should develop and adopt a workforce plan to ensure that it has the human resources it needs to deliver its long-term strategic objectives. The plan should include strategies to address the risks of its ageing workforce.

CAL RESTRUCTURED ITS SENIOR MANAGEMENT ROLES IN 2022

120. In April 2022, CAL’s Board of Directors approved a restructuring of senior management roles. The restructure aimed to:

- more evenly distribute responsibility and accountability;
- better define and assign roles and responsibilities;
- achieve better integration between CAL and Cayman Airways Express (as previously stated, Cayman Airways Express is CAL’s subsidiary);
- establish a Customer Experience department; and
- improve the environment for job relief and progression planning.

121. The management restructure had clear goals. In addition, even though the restructuring was completed before CAL’s Business Plan 2023–2028 was approved in May 2023, it aligns with this business plan. Senior management roles and responsibilities under the restructuring are clearly defined.

CAL RECRUITS STAFF EFFECTIVELY BUT IT IS UNCLEAR HOW IT USES WORKFORCE DATA TO INFORM DECISIONS

122. We reviewed some of CAL's workforce management arrangements, including recruitment, retention and training plans.

CAL EFFECTIVELY RECRUITS AND RETAINS STAFF IN SPECIALISED ROLES

123. Our review of recruitment data found that six people turned down job offers from CAL between 2018 and 2022.

124. Some roles in the airline industry, such as pilots and maintenance engineers, are highly specialised and competitive. Between 2018 and 2022, 22 pilots and 20 maintenance staff left CAL but CAL has been able to replace them all. We did not note any instances where a pilot turned down a job offer during these five years. However, a job offer for Deputy Manager, Engineering was turned down.

125. In April 2023, CAL agreed on a separate salary scale with the Cayman Airline Pilots' Association (CAPA).¹⁶ The Cabinet approved the salary scale in May 2023. Agreeing on a salary scale with CAPA should make it easier for CAL to recruit pilots in the Cayman Islands and retain them. The new salary scale was backdated to December 2022.

CAL'S AVERAGE EMPLOYEE TURNOVER IS 11 PER CENT BUT CAL DOES NOT COLLECT OR MONITOR THIS INFORMATION

126. CAL did not give us information about employee turnover rates from 2018 to 2022 because it did not have the information readily available. Therefore, it is unclear how well CAL monitors human resource statistics and uses them for decision-making.

127. Based on our calculations, 44 employees left CAL between 2018 and 2022, representing an average turnover of about 11 per cent over the period. The annual turnover rate was between 7 and 13 per cent. However, more than half of these 44 employees were staff in entry-level positions. Exhibit 18 shows CAL's turnover rate from 2018 to 2022.

¹⁶ According to CAPA's website, it is a not-for-profit entity representing more than 80 per cent of professional pilots in the Cayman Islands. [About CAPA – Cayman Airline Pilots' Association | CAPA | Grand Cayman Islands](#) (accessed 23 January 2024).

Exhibit 18 – CAL’s employee turnover rate, 2018–2022

	2018	2019	2020	2021	2022	Average
Number of leavers	53	54	50	35	27	44
Turnover rate	13%	13%	13%	10%	7%	11%

Source: OAG analysis of CAL’s employee and leavers listings.

Recommendation 13: Cayman Airways Limited should regularly collect key human resources data and statistics and use these to inform decision-making.

CAL DOES NOT HAVE A COMPANY-WIDE TRAINING PLAN

128. Learning and development are key elements of workforce management. A training plan is an outline of different strategies, objectives and other resources that a business can use to train employees and ensure that they understand their roles within the company. This plan typically includes comprehensive details about everything an employee might want to know to enable them to perform their job.¹⁷

129. CAL does not have a company-wide training plan but instead has department-level training plans. CAL told us that training plans are prepared at the department level because many of its roles, like pilots and engineers, are specialised.

THE COST OF IMPLEMENTING SECTION 47 OF THE PUBLIC AUTHORITIES ACT IS SIGNIFICANT

130. Section 47 of the PAA requires public authorities to adjust their staff’s terms and conditions and remuneration to align with the salary grades for comparable roles in the Civil Service. This came into force on 1 June 2019. To assist public authorities with implementing this requirement, the Portfolio of the Civil Service undertook a salary evaluation exercise for all of them, including CAL. The Portfolio of the Civil Service provided CAL with the job evaluation results in September 2021. CAL implemented the revised salaries from the job evaluation, effective from 1 December 2022.

¹⁷ *Training plan template (with tips on how to create one)*, Indeed, <https://uk.indeed.com/career-advice/career-development/training-plan-template> (accessed 1 December 2023).

131. During 2023, CAL started to implement other elements of section 47. These included contributing 75 per cent of employees' health insurance and picking up employees' 5 per cent pension contributions. By the end of 2023, CAL had paid \$2.6 million in additional costs to implement section 47 of the PAA. CAL plans to fully implement section 47 in the future, subject to affordability. CAL would incur an additional \$3.5 million annually if it did. Exhibit 19 shows CAL's estimated cost of fully implementing section 47 of the PAA.

Exhibit 19 – CAL's estimated cost of implementing section 47 of the PAA

	Effective date	Cost (\$)
Elements CAL has implemented to date		
Salary adjustments under PAA, excluding pilots, who have a separate salary scale	December 2022	562,507
Pilots' salary adjustments (see paragraph 125)	December 2022	608,507
Health insurance contributions at 75 per cent ¹⁸	July 2023	603,162
Additional pension contributions ¹⁹	July 2023	853,701
Subtotal		2,627,877
Elements CAL has not yet implemented		
100 per cent health insurance CAL aims to align its health insurance contributions with those of the civil service.	To be determined	2,161,922
100 per cent employer pension contributions, with CAL contributing 12 per cent of pensionable earnings	To be determined	1,293,798
Subtotal		3,455,720
Total cost of elements CAL has implemented and not yet implemented		6,083,597

Source: CAL's estimate of the financial impact of implementing section 47 of the PAA. Notes:^{18,19}

¹⁸ CAL started contributing 75 per cent of employees' health insurance in July 2023, a 25 per cent shortfall in comparison to the civil service's 100 per cent contributions.

¹⁹ Under the *Labour Act 2021 (Revision)*, CAL contributed 5 per cent of employees' pensionable earnings and employees contributed 5 per cent of their pensionable earnings, making a total of 10 per cent. From July 2023, CAL started contributing 10 per cent of pensionable earnings because the civil service does the same for civil servants. However, the civil service contributes 12 per cent of pensionable earnings. CAL aims to start matching this, subject to affordability.

132. CAL paid for the \$2.6 million of elements it has already implemented using existing cash reserves. As part of the 2024–2025 budgeting cycle, CAL has requested additional government funding to cover the \$3.5 million of elements it has not yet implemented.

PERFORMANCE

133. CAL plays a key role in helping deliver the Cayman Islands' tourism and economic development strategies. Therefore, its performance cannot be assessed by looking at its financial results alone. As previously reported, the Government and CAL agreed on 12 Strategic Ownership Goals as part of the budgeting process, which are set out in CAL's Ownership Agreement. The Government and CAL also agree on outputs as part of the budgeting process. These are set out in CAL's Purchase Agreement. The Government gave CAL about \$114.3 million between 2018 and 2022 to provide these outputs. In addition, CAL has identified ten key roles in its strategic plans and developed a set of internal KPIs. This chapter assesses how well CAL performed against each of these.

CAL'S 12 STRATEGIC OWNERSHIP GOALS ARE NOT "SMART" AND PERFORMANCE AGAINST THEM IS MIXED

134. As reported earlier, the Government and CAL agreed on 12 Strategic Ownership Goals (see Exhibit 3), but these are not SMART. This makes assessing performance against them difficult. We were not able to assess performance against four of them because they were not SMART. Our assessment of the remaining eight shows that CAL has achieved six, partly met one and did not meet the other. Exhibit 20 summarises our assessment of CAL's performance against the 12 Strategic Ownership Goals.

Exhibit 20 – CAL’s performance against the 12 Strategic Ownership Goals

Strategic Ownership Goals	Achieved	Commentary
1. Be the premier choice for safe, reliable and enjoyable air services to all markets it serves	–	This goal is not SMART. We are unable to assess performance against it.
2. Strive to attract and develop the best and brightest Caymanian talent	–	This goal is not SMART. We are unable to assess it. However, CAL is usually able to recruit staff. See ‘Workforce planning and management’.
3. Continue the process of restructuring and operational reform	Partly	CAL completed a management restructure in 2022. However, CAL makes losses and does not have a formal plan to improve its financial performance. See ‘Workforce planning and management’.
4. Use the Airlift Framework as a funding model	Yes	The Airlift Framework is used as a funding model.
5. Refinance debt to increase cash flow	Yes	CAL refinanced its debt in 2021.
6. Promptly inform the Government if supplementary funding is needed	Yes	The Government provides supplementary appropriations to CAL. See ‘Financial performance’.
7. Contribute to the Cayman Islands’ economy	Yes	CAL contributed \$186 million to the economy in 2022. See later in this chapter for more information.
8. Operate at peak efficiency	–	This goal is not SMART. We are unable to assess performance against it.
9. Maximise efficiency and reduce dependence on government funding	No	CAL’s Fleet Modernisation Plan should improve efficiency but it is too early to tell. CAL makes losses and does not have a formal plan to improve its financial performance. See ‘Financial performance’.
10. Pursue alternatives to minimise the cost of fuel	Yes	CAL replaced its fleet, which resulted in reduced fuel usage.
11. Implement technological advances	–	This goal is not SMART. We are unable to assess performance against it.
12. Explore commercial agreements with select international carriers	Yes	Based on the 2022 annual report, CAL has various interline agreements with various foreign carriers.

Source: OAG’s assessment is based on a range of evidence.

Note: Achievement is assessed as Yes, No or Partly met. A dash (-) indicates that we were unable to assess performance as the goal is not SMART. See Exhibit 3 for the full wording of the Strategic Ownership Goals.

CAL IS FULFILLING ITS TEN KEY ROLES

135. We reported earlier that CAL had identified ten key roles. As part of our audit, we assessed performance against these. Our assessment shows that CAL has fulfilled all of these, with one minor exception in 2021. Our assessment is summarised in Exhibit 21.

Exhibit 21 – CAL’s performance against its ten key roles

Key role	Achieved (2018–2022)	Commentary
CAL is a lever for strategic tourism and economic development. CAL is tasked with bringing tourists to the Islands. It works closely with CIDOT to jointly promote the Cayman Islands in existing and potential new gateways.	Yes	Evidenced by the tourism routes that CAL operates. See Exhibit 2.
CAL provides an essential inter-island air bridge across Grand Cayman and the Sister Islands. An air link is necessary because the Cayman Islands are comprised of three islands.	Yes	CAL operates air services between Grand Cayman and the Sister Islands as part of its Ownership Agreement with the Government. Evidenced by the domestic routes that CAL operates. See Exhibit 2.
CAL guarantees an air service independent of foreign carrier priorities.	Yes	Evidenced by the core, tourism and domestic routes that CAL operates. See Exhibit 2.
CAL provides disaster relief before and after events.	Yes	There were no disasters between 2018 and 2022. However, CAL operated repatriation flights during the COVID-19 pandemic. See paragraphs 136 – 137.
CAL ensures tourists can be evacuated when necessary.	Yes	CAL operated repatriation flights during the COVID-19 pandemic. See paragraphs 136 – 137.
CAL ensures a competitive fare structure from foreign carriers.	Yes	Revenue for one route does not cover variable costs. CAL indicated that this route is flown to keep other carrier prices competitive.
CAL prevents foreign carrier monopolies.	Yes	CAL operates a range of core and tourism and domestic routes to prevent monopolies. Evidenced by the fact that the airline is loss-making but is still mandated by the Government to fly.
CAL provides community support from corporate citizenship.	Yes	CAL’s Annual Report provides information on a range of charitable gifts, humanitarian assistance and sponsorship.
CAL contributes over US\$200 million annually to the Cayman Islands economy.	Yes	Before the COVID-19 pandemic in 2018 and 2019, CAL contributed \$236.1 million (US\$ 281.1 million) and \$260.5 million (US\$310.1 million) respectively. See Exhibit 22.
CAL employs at least 325 people in the Cayman Islands.	Yes (except in 2021)	Evidenced by analysing the staff listing. See Exhibit 17.

Source: OAG’s assessment of available evidence.

CAL PLAYED A CRUCIAL ROLE DURING THE COVID-19 PANDEMIC

136. Two of CAL's ten key roles are to provide disaster relief before and after events and ensure tourists can be evacuated when necessary. The Cayman Islands did not experience any major disasters during the period of our review, 2018 to 2022. However, during this period the Cayman Islands, along with the rest of the world, experienced the COVID-19 pandemic.
137. As reported earlier, the Government closed the border to all airlines in March 2020 in response to the COVID-19 pandemic. The border was reopened in November 2021. During the pandemic, the Government organised several repatriation flights to ensure that residents were able to return home to the Cayman Islands, to help people get back to their home countries and to allow for some essential travel, for example, medical treatment. Some people needed urgent medical care overseas. Others were expatriates who had lost their jobs, and the Government might have had to pay stipends to them if they could not be repatriated. CAL estimates that it transported about 37,000 passengers on the repatriation flights.

CAL CONTRIBUTES ABOUT \$228 MILLION TO THE ECONOMY ANNUALLY

138. One of CAL's key roles is to contribute over US\$200 million (\$168 million) annually to the Cayman Islands economy. In 2005, consultancy firm Deloitte prepared a report about CAL's economic impact. Deloitte estimated that CAL contributed about \$200 million annually to the economy between 1997 and 2004 – about 13 per cent of gross domestic product (GDP) at the time.²⁰ In 2011, Deloitte prepared an updated assessment, estimating that CAL contributed about \$710 million to the economy between 2005 and 2010. Deloitte estimated that this amounted to about 5 per cent of GDP. That report was the last full assessment.
139. CAL estimates that from 2018 to 2022, its local spending and the passengers it flew to the Islands contributed \$840.0 million to the economy. CAL calculates its economic contribution by estimating the spending of the passengers that it carries and adding its local expenditure. It then applies a multiplier to estimate the total economic contribution. The indirect expenditure is the total contribution minus the total direct spending. Adding CAL's local spending, which includes expenditure at local businesses and staff remuneration, increases its total contribution. For example, in 2022, CAL's passengers contributed \$72.6 million to the economy. CAL spent

²⁰ The World Bank defines GDP as the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.

\$43.0 million locally. Therefore, its estimated total economic contribution for that year was \$186.2 million, implying an indirect contribution of \$70.5 million.

140. Exhibit 22 shows CAL’s estimate of its passengers’ contribution to the economy for each of the five years 2018 to 2022. The contribution in 2020 and 2021 is lower, which is attributed mainly to the impact of the COVID-19 pandemic. Therefore, using CAL’s 2018, 2019 and 2022 figures, we estimated that its passengers contributed about \$228 million to the economy annually.

Exhibit 22 – CAL’s estimate of passenger contribution to the Cayman Islands economy, 2018–2022

	2018 CI\$ '000s	2019 CI\$ '000s	2020 CI\$ '000s	2021 CI\$ '000s	2022 CI\$ '000s	Total \$'000
Contribution by CAL's passengers	100,900	112,999	17,900	7,999	72,600	312,398
CAL's local spending	45,766	48,793	37,267	34,535	43,022	209,383
Total direct spending	146,666	161,792	55,167	42,534	115,622	521,781
Multiplier	1.61	1.61	1.61	1.61	1.61	1.61
Total indirect spending	89,466	98,694	33,652	25,946	70,530	318,288
Total contribution	236,132	260,486	88,819	68,480	186,152	840,069

Source: OAG analysis of information provided by CAL with US\$ values converted to CI\$ using a rate of CI\$0.84 per US\$.

CAL’S PERFORMANCE AGAINST OUTPUT TARGETS FROM 2018 TO 2022 WAS MIXED

141. As previously stated, CAL’s Purchase Agreement states its performance targets in the form of outputs, not outcomes. CAL’s output targets in 2020 and 2021 were set as part of the budgeting process in 2019. These were not adjusted to reflect the impact of the COVID-19 pandemic. Therefore, it is unlikely that CAL could have delivered these outputs with limited operations.

142. Exhibit 23 shows CAL’s performance against its output targets from 2018 to 2022. CAL only started measuring on-time performance for CAL 1 in 2022. Therefore, there is no related data before 2022. Excluding 2020 and 2021, the exhibit shows that CAL met most output targets for CAL 1 but did not meet any for CAL 2. CAL operated a total of 43,403 flights between 2018 and 2022, of which 29,922 were domestic flights (CAL 1) and 13,481 international flights (CAL 2).

Exhibit 23 – CAL’s performance against its output targets, 2018–2022

Output	Output target	2018	2019	2020	2021	2022
CAL 1: Strategic Domestic Air Services (percentage of target achieved)						
One-way flights between Grand Cayman and Cayman Brac or Little Cayman	4,000 from 2018 to 2022	100%	100%	67%	96%	100%
One-way flights between Cayman Brac or Little Cayman	1,800 from 2018 to 2022	100%	95%	49%	74%	75%
One-way passengers carried	78,000 from 2018 to 2021; 70,000 in 2022	100%	100%	68%	100%	100%
On-time performance (departure and arrival within 15 minutes of schedule)	80% from 2018 to 2022	Not tracked	Not tracked	Not tracked	Not tracked	81%
CAL 2: Strategic Tourism, Regional and Core Service (percentage of target achieved)						
Output	Output target	2018	2019	2020	2021	2022
Number of direct, one-way flights per annum	4,400 from 2018 to 2022	94%	95%	24%	17%	77%
Number of one-way passengers carried	340,000 from 2018 to 2021; 300,000 in 2022	85%	93%	19%	17%	84%
On-time performance (departure and arrival within 15 minutes of schedule)	100% from 2018 to 2021; 80% in 2022	65%	63%	66%	62%	68%

Source: CAL’s Purchase Agreements, On-Time Performance and Route Profitability reports from 2018 to 2022.

Note: CAL’s operations were affected during 2020 and 2021 because of the COVID-19 pandemic. Its output targets for those two years were not adjusted.

IT IS DIFFICULT TO MEASURE CAL’S PERFORMANCE OVER TIME BECAUSE ITS KEY PERFORMANCE INDICATORS HAVE CHANGED AND ARE NOT “SMART”

143. Before April 2022, CAL did not have formal KPIs to assess its performance against, including any to measure progress against the Business Plan 2015–2020. In April 2022, CAL’s Board adopted a set of KPIs covering four broad areas – commercial performance, customer service, safety and priority routes. However, the use of these KPIs had the following limitations:

- CAL did not set benchmarks against which it could measure and monitor performance using the KPIs. In addition, in reviewing subsequent minutes of board meetings, we noted that

CAL did not consistently measure progress against all KPIs. CAL's Board replaced these KPIs in May 2023 and now has set suitable targets for the achievement of its objectives.

- The KPIs did not include any metrics to measure the performance of several departments, such as Flight Operations, Cargo, Maintenance and Engineering, Airports, Human Resources, Finance and Information Technology.

144. As previously stated, the Board reviews CAL's financial performance and other operational matters monthly. In monitoring these, the Board considers a report from management, the Operating Statistics report. The report shows CAL's performance against metrics such as load factors, on-time performance and average passenger yield.²¹ The operating statistics do not have benchmarks and show only the trends for each metric. Therefore, we could not assess CAL's performance against these. In addition, the operating statistics do not include measures for safety or customer service.

145. CAL's 2022 KPIs also did not include measures for nine of its 12 Strategic Ownership Goals. CAL has KPIs to measure only the following three ownership goals:

- Be the premier choice for safe, reliable and enjoyable air services to all markets it serves, in the Cayman Islands' best interests.
- Using the Airlift Framework as a funding model, ensure that CAL is adequately funded to undertake the Core and Strategic roles defined in this framework.
- Contribute directly and indirectly to the economy through employment and purchasing goods and services in the Cayman Islands. In addition, drive economic activity, particularly in the tourism industry, by guaranteeing airlift and a competitive market environment.

146. An assessment of whether CAL's Ownership Goals are SMART is presented in Exhibit 20.

147. As reported earlier, CAL approved a new strategy for 2023–2028 in May 2023. The plan sets key results and measures for each of its five strategic objectives. These measures are better as they are SMART and should allow CAL to measure its performance and demonstrate its delivery of the strategic plan. Some measures require comparisons with similar airlines. CAL provided evidence that it has started measuring performance against other similar airlines. In July 2023, CAL measured against United States Department of Transportation statistics for arrival time, flight cancellation rate and mishandled baggage.

²¹ We define these metrics earlier in the report, at paragraph 102.

CAL HAS IMPROVED ITS FLEET, WHICH SHOULD IMPROVE ITS PERFORMANCE

148. In 2016, the Government approved CAL's Fleet Modernisation Plan. The plan would result in CAL's fleet of four Boeing 737-300 aircraft being fully retired and replaced with an equal number of new Boeing 737-8 MAX aircraft. CAL's 737-300 aircraft had to be replaced because they were close to the end of their useful lives, having flown for 24 of 25 years. CAL completed the procurement in June 2016, receiving the first new aircraft in November 2018. It received the other three in March 2019, March 2021 and January 2022. This was later than planned, partly because of the grounding of the Boeing 737-8 MAX previously mentioned.
149. In leasing the aircraft, CAL received favourable terms, including the lease price and its duration, from its preferred bidder compared with the other bidders. Procuring the leases for the Boeing 737-8 MAX aircraft started in April 2016, before the *Procurement Act (2016)* and the Procurement Regulations, 2018 were in effect.²²
150. CAL outlined nine benefits that it expected to achieve from the Fleet Modernisation Plan but has not yet formally assessed progress against these anticipated benefits. Our assessment indicates that CAL has achieved all nine benefits. Exhibit 24 shows CAL's progress against the benefits anticipated from the Fleet Modernisation Plan.

²² The *Procurement Act (2016)* became effective on 1 May 2018. The latest version of this act is the *Procurement Act (2023 Revision)*. The Procurement Regulations, 2018, became effective from 2 May 2018. The latest version of these regulations is the Procurement Regulations (2022 Revision).

Exhibit 24 – CAL’s progress against benefits anticipated from the Fleet Modernisation Plan

Anticipated benefits of new aircraft	Achieved	Comment
Provide more baggage capacity	Yes	The baggage capacity for a 737-300 is 1,068 ft ³ and for a 737-8 MAX is 1,540 ft ³ . This is 44.2% more volume.
Allow CAL to carry more cargo	Yes	See above; the increased baggage capacity of the new aircraft allows for more cargo.
Give CAL the opportunity to reduce dedicated freighter flights	Yes	See above; the increased baggage capacity of the new aircraft allows for more cargo. This should reduce the number of dedicated freighter flights.
Give CAL the opportunity to grow excess baggage revenue	Yes	See above; the increased baggage capacity of the new aircraft allows for more baggage.
Allow CAL to capture lost revenue opportunities on high-demand flights	Yes	CAL provided information showing that, in some instances, flight loads were exceeded in the old fleet. The excess could be accommodated by the new fleet.
Provide more seats at much lower operating costs	Yes	The 737-8 MAX has 200 seats compared with 149 seats on the 737-300 aircraft. Maintenance costs and fuel costs are less after the fleet modernisation.
Allow CAL to fulfil the growing need for airlift to the Cayman Islands	Yes	Information provided by CAL shows that visitor arrivals grew by 30% between 2015 and 2019.
Result in significant fuel cost savings	Yes	The new fleet burns between 15% and 23% less fuel.
Result in significant maintenance savings	Yes	Two maintenance checks for two 737-300 cost \$2.4 million in 2018 and 2020 collectively, vs \$431,000 for two 737-8 MAX in 2022.

Source: OAG assessment of CAL’s progress against benefits anticipated from the Fleet Modernisation Plan.

CAL DOES NOT REPORT ON ITS PERFORMANCE EFFECTIVELY

151. Management reports CAL’s financial performance to the Board monthly and to Parliament and the public annually through its annual report. However, CAL only started reporting its performance against the output targets in its 2022 annual report. These are highlighted in Exhibit 23. Therefore, from 2018 to 2021, Parliament and the public could not assess whether CAL was meeting its performance targets. CAL does not report its performance against the ten key roles or its KPIs in its Annual Reports.

152. CAL’s annual reports contain a summary of the actual to budget variances for CAL’s main financial statement line items, with supporting explanations. However, the reasons for the budget variances could be more comprehensive.

Recommendation 14: Cayman Airways Limited should report its performance using the output targets and other measures in its Annual Reports.

CONCLUSION

153. It is pleasing to note that CAL has consistently fulfilled all of the ten key roles it set out in its strategic plans. In particular, CAL provides an essential inter-island air bridge across the three islands, contributes over \$200 million annually to the economy and played a crucial role during the COVID-19 pandemic. However, it is difficult to measure CAL's performance against its goals, measures and key performance indicators because they are not SMART—specific, measurable, achievable, relevant and time-bound. In addition, where they can be measured, performance against them is mixed. CAL reports its financial performance to the public through its annual reports. However, despite having a range of goals and performance measures, CAL does not report on its performance against these to the public effectively. I encourage CAL to do more.
154. CAL receives government funding through the Airlift Framework which specifies four route categories. However, it is unclear what government funding is intended to cover and it is impossible to assess the adequacy of the funding. CAL makes losses on three of the four route categories, making profits on the Surplus airlift category only. The Surplus category included only charter flights in the period that we reviewed. It is unclear why CAL is not fully funded for Strategic Domestic routes that provide essential lifeline services between the three islands. CAL and the Government should urgently revise the Airlift Framework to make clear what the Government's funding is intended to cover.
155. In addition, CAL does not usually receive the funding it requests as part of the budgeting process and often receives supplementary appropriations. It is disappointing that CAL and the Government do not set realistic budgets, particularly for strategic domestic routes. I encourage CAL and the Government to set realistic budgets to allow adequate monitoring and measuring of CAL's financial performance.
156. Combined, the funding model and budgeting process may contribute to CAL's financial performance. CAL reported deficits in each of the five years from 2018 to 2022, losing about \$34 million. As at December 2022, CAL's net worth was a deficit position of \$25 million. In other words, CAL's liabilities exceeded its assets by \$25 million. CAL has implemented some measures to improve its financial performance, but these are ad hoc. I therefore urge CAL to develop and implement a plan to improve its financial performance.
157. The Government approved CAL's plan to replace its four larger aircraft with an equal number of new ones in 2016. It is pleasing to note that CAL received favourable terms for the lease price and its duration from the preferred bidder. In addition, CAL has realised all of the benefits it expected from

modernising its fleet. This is commendable. CAL can further build on the opportunities the new aircraft offer, such as increasing baggage revenue from the increased capacity.

158. CAL is implementing section 47 of the PAA, which aims to bring Statutory Authorities and Government Companies' (SAGCs) staff's terms and conditions in line with the civil service. CAL implemented parts of section 47 in December 2022 and others in July 2023. By December 2023, CAL had spent \$2.6 million implementing the PAA. CAL plans to fully implement section 47 in the future, subject to affordability. CAL estimates that fully implementing section 47 will cost an additional \$3.5 million annually. I have previously reported that it was unclear if the financial consequences of fully implementing section 47 of the PAA were adequately considered and budgeted for by the Government. Therefore, I recommended that the Government estimate and consider the cost implications of section 47 of the PAA for all SAGCs before further implementing it. I am disappointed that the Government has not actioned this important recommendation almost three years later.
159. It is pleasing to note that the Ministry of Tourism and Ports, Cayman Islands Department of Tourism and CAL collaborated effectively in selecting and marketing the Los Angeles route. CAL launched a new route to Barbados in October 2023 but did not assess it in the same way because it is categorised as Surplus within the Airlift Framework. CAL agreed a minimum revenue guarantee with the Barbados Tourism Marketing Inc., and expects this route to be profitable.
160. I am pleased to note that progress has been made since my Office last reported on CAL's governance arrangements in 2013 and 2017. Some recommendations made in 2013 are still being implemented and I encourage CAL's board of directors to fully implement these as soon as possible.
161. Overall, we make 14 recommendations in this report, covering CAL's funding model, financial and non-financial performance, strategic direction, governance, and workforce planning and management. In our view, the most important recommendations are those on the funding model and financial performance, including budgeting. CAL cannot implement the most important recommendations alone and so I urge the Government and CAL to work together to implement these recommendations as soon as possible.
162. We gratefully acknowledge the assistance and cooperation that we received from officials in Cayman Airways Limited and the Government in all phases of the audit. Without their help, the audit could not have been completed.



Sue Winspear, CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

1 March 2024

APPENDIX 1 – ABOUT THE AUDIT

OBJECTIVE

1. The objective of the audit was to assess the efficiency and effectiveness of Cayman Airways Limited (CAL).
2. The audit sought to answer the following questions:
 - How effective is CAL’s strategic direction and governance?
 - How efficiently and effectively does CAL use its resources?
 - Does CAL monitor and report its performance effectively?

CRITERIA

3. Audit criteria set out the expectations or standards against which an audit can assess observed performance to develop findings, make recommendations as appropriate and conclude on audit objectives.
4. We developed 14 audit criteria for the audit. These criteria are based on international good practice and the requirements of Cayman Islands’ legislation. The audit criteria are as follows:
 1. CAL has an up-to-date strategic plan that aligns with good practice and is clearly linked to overarching government strategies and plans.
 2. The Ministry of Tourism and Ports and Cayman Islands Department of Tourism give good strategic direction and effectively oversee CAL to ensure that it delivers on its mandate.
 3. MTT, CAL and CIDOT have a robust route selection and promotion process.
 4. CAL’s Board gives good strategic direction and oversees CAL effectively to ensure that it delivers on its mandate.
 5. CAL’s Board of Directors makes informed, transparent decisions free from any conflict of interest.
 6. CAL’s budget and funding is robust.
 7. CAL effectively utilises the funding it receives from the Government.
 8. CAL has a good understanding of its financial performance and has strategies in place to improve it.
 9. CAL effectively plans for, manages and utilises its workforce.
 10. CAL collects sufficient information to support workforce planning and management.
 11. CAL uses its fleet effectively to support its strategic objectives.
 12. CAL achieved value for money in the procurement of its new Boeing 737-8 MAX aircraft.
 13. CAL measures and monitors and its performance effectively.
 14. CAL reports its performance to key stakeholders effectively.

5. We shared the audit criteria with CAL and the Ministry of Tourism and Ports (MTP) after the planning phase of the audit.

AUDIT SCOPE AND APPROACH

6. The audit covered CAL's governance, oversight, performance and use of resources during the five years from 2018 to 2022. However, we considered 2023 data and information where relevant to ensure our findings are current. It also assessed the high-level direction MTP and the Cayman Islands Department of Tourism (CIDOT) give CAL. The audit evaluated the impact of the Edward Bodden Airfield in Little Cayman being certified for small aircraft only on CAL's financial performance. However, the audit did not assess the Government's plans – and progress against them – to get the Edward Bodden Airfield certified as an aerodrome. The audit did not assess the effectiveness of the Barbados route selection process.
7. The audit was conducted in line with International Standards of Supreme Audit Institutions. The audit drew on a range of evidence to inform our findings and conclusion. This process included:
 - Interviewing key stakeholders, including CAL's Board of Directors, senior management, MTP, CIDOT, the Civil Aviation Authority of the Cayman Islands and the Cayman Islands Airports Authority.
 - Reviewing documents, including legislation, budget documents, financial reports and statements, strategic plans, minutes of board meetings, financial metrics and staffing information.
 - Analysing and recalculating financial and performance information.
 - Comparing the frameworks, processes and practices in use against good practice.
 - Analysing audit evidence and assessing it against agreed criteria to develop findings, recommendations and a conclusion on the audit objective.
 - Providing a draft report to CAL officials so they could review its factual accuracy and respond to the report's recommendations (see Appendix 2).
 - Presenting a final report about the audit to Parliament.

AUDIT STAFF

8. The audit was carried out under the direction of Angela Cullen, Deputy Auditor General (Performance Audit), assisted by Adrian Murenzi, Audit Manager (Performance Audit) and Kevin Bradfield (Audit Project Leader).

APPENDIX 2 – RECOMMENDATIONS

Recommendation	Management response	Responsibility	Date of planned implementation
1. The Government and Cayman Airways Limited should revise the Strategic Ownership Goals to ensure that they are specific, measurable, achievable, relevant and time-bound (SMART).	The recommendation is endorsed by Cayman Airways and will be implemented in collaboration with the Ministry of Tourism and Ports to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways in collaboration with the Ministry of Tourism and Ports	To be incorporated into the next Ownership Agreement (2026-2027 budget cycle)
2. The Ministry of Tourism and Ports and the Department of Tourism should develop and publish a new National Tourism Plan as soon as possible.	The Ministry of Tourism and Ports is in support of this recommendation. The company will support the Ministry of Tourism and Ports with this recommendation by contributing its input to a new National Tourism Plan.	Ministry of Tourism and Ports	December 31 st , 2025
3. Cayman Airways Limited should ensure that its strategic plans: <ul style="list-style-type: none"> • are approved by the Board; • align with all elements of international good practice; • set out how CAL will achieve all of its Strategic Ownership Goals; and • include a stakeholder analysis and use the results to develop 	The recommendation is endorsed by Cayman Airways and will be implemented to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways	December 31, 2024 (to be included in the next Strategic Plan update)

Recommendation	Management response	Responsibility	Date of planned implementation
and adopt a stakeholder engagement policy.			
4. Cayman Airways Limited should develop a skills matrix showing the desired skills and competencies for members of its Board of Directors, and should share the matrix with the Ministry of Tourism and Ports and the Cabinet to help inform their appointments to its board.	The recommendation is endorsed by Cayman Airways and will be implemented in collaboration with the Ministry of Tourism and Ports to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways in collaboration with the Ministry of Tourism and Ports	December 31, 2024
5. The Cayman Airways Limited Board should ensure all of its members attend the governance training provided by the Office of the Deputy Governor.	The recommendation is endorsed by Cayman Airways and the company will work with the Ministry of Tourism and Ports to assist and/or facilitate board members participating in the training offered by the Office of the Deputy Governor.	Ministry of Tourism and Ports in collaboration with Cayman Airways	December 31, 2024 (subject to availability of the training offered by the Office of the Deputy Governor)
6. The Cayman Airways Limited Board should review and enhance its Board Charter to ensure that it aligns with all international good practice.	The recommendation is endorsed by Cayman Airways and will be implemented in collaboration with the Ministry of Tourism and Ports to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways Board in collaboration with the Ministry of Tourism and Ports	June 30, 2024

Recommendation	Management response	Responsibility	Date of planned implementation
7. The Cayman Airways Limited Board should complete its evaluations of the Chief Executive Officer's and board's performance as soon as possible and ensure that it does this annually.	The recommendation is endorsed by Cayman Airways and will be implemented to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways Board	April 30, 2024
8. Cayman Airways Limited and the Government should revise the Airlift Framework to make clear what the Government's funding is intended to cover.	The recommendation is endorsed by Cayman Airways and will be implemented in collaboration with the Ministry of Tourism and Ports to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways in collaboration with the Ministry of Tourism and Ports	To be incorporated into the next Budget Documents (2026-2027 budget cycle)
9. Cayman Airways Limited and the Government should set realistic budgets, particularly for strategic domestic routes, to allow adequate monitoring and measuring of CAL's financial performance.	The recommendation is endorsed by Cayman Airways and will be implemented in collaboration with the Ministry of Tourism and Ports to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways in collaboration with the Ministry of Tourism and Ports	To be incorporated into the next Budget Documents (2026-2027 budget cycle)
10. Cayman Airways Limited should develop and adopt a plan to improve its financial performance. This should include reassessing its cargo rates in light of current market conditions.	The recommendation is endorsed by Cayman Airways and will be implemented to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways	December 31, 2024 (to be incorporated into the next Strategic Plan update)

Recommendation	Management response	Responsibility	Date of planned implementation
11. Cayman Airways Limited, the Ministry of Tourism and Ports, and the Cayman Islands Department of Tourism should formally and regularly assess the costs and benefits of CAL's routes and use this to inform decisions about routes.	The recommendation is endorsed by Cayman Airways and the company will work with the Ministry of Tourism and Ports and the Department of Tourism to satisfy the suggestions from the Office of the Auditor General. While already in practice, a more formalized recording of the process will be implemented in order to provide the necessary audit evidence.	Cayman Airways in collaboration with the Ministry of Tourism and Ports (inclusive of the Department of Tourism)	June 30, 2024
12. Cayman Airways Limited should develop and adopt a workforce plan to ensure that it has the human resources it needs to deliver its long-term strategic objectives. The plan should include strategies to address the risks of its ageing workforce.	The recommendation is endorsed by Cayman Airways and will be implemented to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways	June 30, 2024
13. Cayman Airways Limited should regularly collect key human resources data and statistics and use these to inform decision-making.	The recommendation is endorsed by Cayman Airways and will be implemented to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways	June 30, 2024
14. Cayman Airways Limited should report its performance using the output targets and other measures in its Annual Reports.	The recommendation is endorsed by Cayman Airways and will be implemented to align with the best practices suggested by the Office of the Auditor General.	Cayman Airways	June 30, 2024

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March 2024