

FOR PUBLICATION

**CIVIL AVIATION AUTHORITY
MINUTES OF 399th BOARD MEETING HELD ON WEDNESDAY
21 JUNE 2007 AT 10.30 AM**

Present:

Sir Roy McNulty

Chairman

Mr J R D Arscott

Dr C Bell

Mr M J Bell

Dr H Bush

Mr R T R Jackson

Miss C Jesnick

Mr J Keohane

Mr R P Mountford

Capt R O Whitefield

Mr R J Britton

Secretary & Legal Adviser

In Attendance:

**Miss C Brown
Director Corporate Communications**

**Mr R Townsend
HR Director**

**Mr S Baker
Head of Finance
For Item I**

Apologies for absence were received from AVM Anderson and Mr M Smethers.

I Finance:

Annual Assessment of Risk and Internal Control for the Year Ended 31 March 2007 – Doc

2007/59 by Miss Jesnick.

1. Miss Jesnick introduced the review of internal controls for the year to 31 March 2007. The DfT had directed the CAA to comply with the FSA Listing Rules which include the adopted of the Combined Code of Corporate Governance. The Code requires an annual review by the Board of the effectiveness of the CAA's system of internal controls including financial, operational and compliance controls and risk management systems. The Paper had been reviewed by the CAA's Audit and Executive Committees. Sign-off reports by Group Directors and Heads of Department had been included with the Paper this year. The Head of Internal Audit had confirmed that the process was compliant with the Combined Code.
2. In discussion, Members commented that some of the risks, in the light of the recent Workshop, needed further updating. The Chairman said that the cure for the problem would be to time the Risk Workshop for the end of the financial year to ensure that the control statement reflected the very latest thinking. The assessment could also be improved by adding an emergent risks category.
3. The Board endorsed the Paper as a statement that –
 - It identifies all known significant risks facing the CAA, and
 - The responsibility for managing the risks has been correctly assessed.

Board Effectiveness Review – Oral Report by Miss Jesnick.

4. Miss Jesnick tabled a note of the review of the effectiveness of the CAA Board and its Audit and Remuneration Committees which had taken place at the Board Away Day earlier in the week. Mr Mountford commented that the Audit Committee wished to receive reports on the CAA Management System and the risk framework to check that progress was being made but this was not an executive function. Further, sufficient time should be allowed at Audit Committee meetings for Members to raise concerns outwith the papers. It would also be of assistance to all Members if important calendar dates for Board meetings, Policy Committees etc could be set 18 months in advance. In discussion of the Board's effectiveness, Dr Bell stressed the need for time to be set aside for discussion of big issues of policy which should be set well in advance.
5. The Board noted the action plan set out in the review, the implementation of which will be the responsibility of the Finance & Corporate Services Director in conjunction with the Chairmen of the Board's Committees.

Minutes of June Audit Committee – Oral Report by Mr Mountford.

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6. Mr Mountford referred to an extract of the minutes of the Audit Committee held on 12 June which had considered the draft Accounts of the CAA and its two subsidiaries. Subject to approval of ASSI's Accounts by its Board, the Audit Committee had agreed to recommend to the CAA Board that the CAA Annual Report & Accounts and Representation Letters be adopted.

7. The Board noted the Report.

CAA Annual Report & Accounts 2006/07 – Doc 2007/60 by Miss Jesnick.

8. Mr Baker presented the Annual Report & Accounts for the year ended 31 March 2007. The external auditor, Janet Eilbeck of PricewaterhouseCoopers, had confirmed that she is content to sign the Accounts as being true and fair. There were no issues to clear with the external auditor. A significant change during the year was that with effect from 1 January 2007 payments from Eurocontrol to the Met Office and DfT ceased to be passed through the CAA and were received direct from Eurocontrol. CAA had decided to adopt early the amendments to FRS17 relating to the use of a bid price rather than mid-market price for the valuation of pension scheme assets. The rate of return for the year was 6.9% for the regulatory sector and 9.3% for en-route activities. DfT had agreed that EASA transition costs incurred within the year of £2.8 million should be funded by existing CAA reserves rather than charged to the UK industry.

9. A number of detailed amendments were made to the text of the Chairman's statement and the financial and regulatory review.

10. Mr Baker confirmed that the subsidiary Boards of Air Safety Support International Limited and CAA International Limited had signed their Accounts prior to the Board meeting.

11. Miss Jesnick confirmed that she was content with the Letter of Representation.

12. The Chairman thanked Miss Jesnick and her team for their efforts in preparing the Annual Report & Accounts.

13. The Board –

- Adopted the 2006/07 Annual Report & Accounts, and
- Authorised the Chairman and Miss Jesnick to sign the Accounts and the Chairman and Secretary to sign the Letter of Representation to the auditor on behalf of the CAA. A copy of the Letter of Representation is attached to these Minutes.

Action: Chairman, Miss Jesnick, Mr Britton

Financial Report – 2 Months Ended 31 May 2007 – Doc 2007/61 by Miss Jesnick.

14. Miss Jesnick reported that the CAA's net profit for the first two months was £1,426k as compared to a budgeted profit of £11k. While income for the first two months of the year was

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good there were trends, particularly in income, indicating that this could be a difficult year.

15. The Board noted the Report.

Financial Approvals and Authorisations – Doc 2007/62 by Miss Jesnick.

16. Miss Jesnick said that the financial approvals had last been set by the Board in July 2001 and it was time to update them. In order to improve controls, where a Group Director, the Finance & Corporate Services Director or the Head of Procurement has given both financial and purchasing approval to a contract, that contract must be notified subsequently to the appropriate Policy Committee or the CAA Board.

17. In discussion of the financial approval limits, it was agreed to align the revenue limit for the Group Directors for ERG and CPG to that of all other Group Directors from £200k to £500k.

18. Subject to the above amendment, the Board approved the contents of the Paper.

II Minutes of the Previous Meeting and Matters Arising.

19. The Minutes of the Meeting held on 16 May 2007 were approved and signed. On the action points arising:

- Aviation Environmental Policy Committee Chairmanship – the Chairman proposed that Mr Keohane chair the Committee and that he and Dr Bell be members of it. The meetings would be fixed every two months or so for the present but this would be kept under review. The Board agreed to the proposal.
- JANSC Report – Mr Arscott confirmed that the Report had been submitted to the DfT and MoD.
- CAA Working Group on Organisation – the Chairman confirmed that the draft terms of reference had been circulated.
- Public Attitudes to Noise Survey – Mr Arscott confirmed that the final draft had been circulated to the non-executive Members and the letter had been dispatched to the DfT. There had been no response so far.
- Review of the Safety Performance of NATS – Mr Bell confirmed that the Report had been submitted to DfT.

III(i) Chairman's Opening Remarks.

20. The Chairman reported on the following highlights:

- Commission Meeting – the Chairman and Mr Smethers had met Mr Calleja, Director Air

Transport Directorate and Mr Ruete, DG TREN. The continuing need for pressure on EASA to improve was discussed.

- Meeting with the Secretary of State – this had been a low-key meeting.
- Ferrovial Meeting – a meeting is arranged in early July with Mr del Pino of Ferrovial. The poor level of service standards at Heathrow is becoming a national media issue. Queuing for security and immigration is likely to deteriorate further during the summer.

Action: Dr Bush

The statistics on queue delays frequently do not correspond with reality. If anything goes wrong, it goes badly wrong. BAA needed to grip these issues. However, queues for immigration were also lengthening and this is not BAA's responsibility.

(ii) CAA Working Group on Organisation/Strategic Review – Oral Update by the Chairman.

21. The Chairman said that there had been a good discussion at the Board Away Day earlier in the week. A number of points had been made to the draft terms of reference which would be picked up. The Chairman circulated a note on the Board transition plan 2007-2009. There was a close conjunction of term expiry dates for Members in this period. Some unusually important business issues also needed to be dealt with during the next two years including the strategic review, the airports review, implementation of the SRG costs and charges review, the change from ATOL bonds to a levy scheme and the need to develop and implement a road map for EASA.

22. The Board endorsed the proposal.

IV Directors' Reports:

ERG – Doc 2007/63 by Dr Bush.

23. Dr Bush reported on the following highlights:

- Air Fares – The DfT will write to the US DOT indicating the UK's intention to drop the regulation of air fares on UK-US routes. DfT will then formally request Ministers to end fares regulation.
- Competition Commission Airports Market Study – the CAA is due to appear before the Competition Commission at a formal hearing on the market investigation on 28 June. Dr Bush will lead the CAA's team. The issues arising out of the study are not yet clear.
- EU Directive on Airport Charging – ERG and DfT have secured a meeting with the

Transport Committee Rapporteur. A meeting of other Member States' regulators is being arranged.

- Airports Price Reviews – the current focus is on preparing advice for the Secretary of State on the de-designation of Manchester and Stansted.
- House of Lords Committee on Regulators – Dr Bush attended a round table discussion at the Committee on 12 June together with other sector regulators. The point was made that there was likely to be a review of overlaps of the boundaries between CAA and DfT. However, this would not extend the overall scope of regulation.

24. In discussion of the Paper, Mr Bell commented in relation to Air Passenger Duty, that proposals to categorise the APD rate according to seat pitch could be very difficult to regulate as safety experience showed that airline measurements of seat pitch are variable.

25. The Board noted the Report.

CPG – Doc 2007/64 by Mr Jackson.

26. Mr Jackson reported on the following highlights:

- Reform of Bonding
- DTI Guidance on the Meaning of Package – this might be published next week.

27. The Board noted the Report.

SRG – Doc 2007/65 by Mr Bell.

28. Mr Bell reported on the following highlights:

- Flight Time Limitation Meeting with EASA – SRG staff presented the FTL System for Aircrew Fatigue Evaluation model to EASA flight standards staff. EASA staff were briefed on the current CAA use of the SAFE model in assessing the FTL variations and as a risk assessment tool. The UK's policy in this field is world leading.
- City of Derry Airport – the Airport had consistently failed to implement CAA's findings following inspections. The situation became so severe that it was decided on 24 May to provisionally suspend the aerodrome licence due to concerns over the safety management of the Airport. The provisional suspension action galvanised the Airport which made enormous efforts to remedy a substantial number of defects. As a result, the provisional suspension was lifted on 27 May. Since then, Inspectors from the Aerodrome Standards Department have worked with the Airport's management to improve the position. Derry City Council's Airport Committee have appointed Mr Peter Hampson of Airport Solutions Limited to conduct an independent inquiry of the events leading to the provisional

suspension of the Airport licence. The CAA will offer assistance to the Inquiry.

- House of Lords Follow Up Inquiry on Air Travel and Health – Dr Ray Johnston, Head of the Aviation Health Unit, accompanied the Minister to an evidence session. A joint Memorandum with DfT and the Department of Health is being prepared. Seat pitch and cockpit fumes are likely to be issues. Sample monitoring of cockpit and cabin air quality is to be undertaken by the end of the year. The results will be shared with the FAA.

29. The Board noted the Report.

DAP – Doc 2007/66 by Mr Arscott.

30. Mr Arscott reported on the following highlights:

- Single European Sky – a presentation on behalf of the UK is to be made to the Commission at their workshop on the technical difficulties of extending airspace classifications below FL195 together with other airspace issues. Such an extension would have a serious impact on both military and General Aviation.
- SESAR – the Transport Council has adopted a Resolution requesting the Commission to submit a report for the endorsement of the ATM master plan. Work on the development of a concept of operations is facing difficulties due to lack of consensus. CAA and DfT representatives will meet with the Eurocontrol Director responsible for SESAR to express concerns.
- Airspace and Safety Initiative – NATS are developing proposals to provide a radar service outside controlled airspace in the London area. This engagement by NATS in the provision of LARs represents a change of policy which is to be welcomed.
- Air Transport White Paper Issues – the Heathrow R3 study has been received from NATS and is being evaluated. While a number of matters remain to be answered, it is an important component of the material underpinning the Government's consultation on Mixed Mode and R3 due to be published later this year. DfT have indicated that they are proposing an amendment to the CAA (Air Navigation) Directions to address the situation when an airspace change proposal includes a change to noise preferential routes from airports designated by the Secretary of State pursuant to Section 78 of the Civil Aviation Act 1982.
- Airspace Changes – good progress is being made on a number of airspace changes including London City airspace and Terminal Control South West airspace.
- Mode S – the proposed phased implementation for SSR Mode S was published on 21 May

2007.

- Wind Farms – Kyle Planning Inquiry – the conflict between aviation and renewable energy needs to be resolved. Considerable time has been spent by DAP and Legal staff dealing with the Kyle Planning Inquiry.
- Coventry Airport Planning Inquiry – the Secretary of State’s decision letter had been received dismissing Coventry Airport’s appeal and refusing planning permission for a passenger terminal and expansion of the aircraft apron. The Secretaries of State had agreed with the Inspector that the Air Transport White Paper offered no specific support for a passenger terminal of any size at Coventry Airport. A further important factor weighing against the proposal was the loss of amenity for local residents of increased aircraft noise particularly at unsocial hours.

31. The Board noted the Report.

V Legal Report – Doc 2007/67 by the Secretary.

Air Safety Support International Limited – Appointment

32. The Board, in its capacity as sole shareholder of Air Safety Support International Limited, resolved to appoint Ron Elder, Head of Licensing Standards Division, to be a director of the company for the period 1 July 2007 to 31 December 2007.

33. A copy of the Resolution is attached to these minutes.

CAA International Limited

34. Guidelines to ensure the proper corporate governance of this subsidiary company of the CAA had been produced. The draft Guidelines had been considered by the CI Board which was content.

35. The Board approved the Guidelines.

CAAPS – Statement of Investment Principles

36. The Trustees of a Pension Scheme are required under the Pensions Acts 1995 and 2004 to consult with the Scheme’s employers on the principles governing decisions about investments for the purposes of the Scheme. The Trustees of CAAPS have prepared a Statement of Investment Principles as at 1 January 2007 for this purpose.

37. Miss Jesnick as Chairman of the Pensions Governance Committee, said that the CAA, as the sponsoring employer wished to revisit the asset allocation policy relating to CAA active members.

38. The Board noted the Statement.

CAAPS – New Trust Deed and Rules

39. In order to consolidate the Deeds of Amendment dated 21 December 2005, 6 April and 1 December 2006 which introduced a number of legislative changes, a Consolidated Deed had been prepared by the Trustees. The CAA, as Principal Employer of CAAPS, resolved to enter into the Supplemental Deed (Governing Instrument) dated 6 April 2006.

Action: Mr Britton

40. A copy of the Resolution is attached to these Minutes.

41. The Board noted the Report.

VI Human Resources Report – Doc 2007/68 by Mr Townsend.

42. Mr Townsend reported that on 11 May the HR Steering Group had met to calibrate performance bonus recommendations for both Personal Contract Staff and those covered by the collective contract. This was the first time that a CAA-wide calibration exercise had been undertaken.

43. The Board noted the Report.

VII European and International Strategy Report – Doc 2007/69 by Mr Smethers.

44. On behalf of Mr Smethers, Mr Bell presented the notes of the EASA Management Board meeting on 13 June. The highlights were agreement to the terms of reference of the Budget Committee and adoption of the amended 2007 Budget which should give sufficient cover for all NAA outsourcing needs. The high level group on the future of European aviation regulation had favoured proposals for extending the Agency's scope into ATM safety to be brought forward at the same time as aerodrome safety. The Agency will be discussing the liability issue further with the Commission. Recognition of liability issues was an important step forward for EASA.

45. The Board noted the Report.

VIII Any Other Business.

(i) Agenda Plan Update.

27. July 2007 – add ERG presentation on EU emissions trading.

September 2007 – add results of bond to levy consultation.

The Chairman noted that this was the last meeting of the Board to be attended by Dick Townsend, Director of Human Resources. The Chairman thanked Dick for developing the CAA's HR strategy and introducing the changes flowing from it. The CAA's HR performance had considerably improved during his period of office.

The next Meeting of the Authority will be at 10.30am on Wednesday 18 July 2007 in Conference Room 1 CAA House