

FOR PUBLICATION

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CIVIL AVIATION AUTHORITY
MINUTES OF 385TH BOARD MEETING HELD ON WEDNESDAY
15 MARCH 2006 AT 10.30 AM

Present:

Sir Roy McNulty Chairman

Mr J R Arscott

Mr M J Bell

Dr H Bush

Mr R T R Jackson

Miss C Jesnick

Mr J Keohane

AVM Moran

Mr R P Mountford

Mr R Swainson

Mr R J Britton Secretary & Legal Adviser

In Attendance:

Dr C Bell

Miss C Brown Director Corporate Communications

Mr M Smethers Director European & International Strategy

Mr R Townsend HR Director

Miss S Hill Head of Corporate Strategy & Planning For Item IX

I Minutes of the Previous Meeting and Matters Arising.

1. The Minutes of the Meeting held on 15 February 2006 were approved and signed. On the action points arising:

- ATC Maastricht Conference – the notes are being circulated.
- One Kemble Street – Agenda item.
- International Services – following further discussion at the Safety Policy Committee, Miss Jesnick will bring the Paper back to the Board in May.

II Chairman's Opening Remarks.

2. The Chairman reported on the following matters:

- Transport Select Committee Inquiry – a Supplementary Memorandum had been submitted to the Committee on 28 February. As the Committee pressed the view that safety and economic regulation should be separated, the Memorandum dealt first with supporting the current structure of the CAA. Other matters covered were safety research, making a success of the EASA system, accountability and the National Audit Office and CAA's environmental remit. The principle of CAA being funded by industry is likely to feature in the Report. There is a mistaken belief that this makes CAA beholden to its regulatees. It is understood that the Committee aims to publish its Report by Easter but indications are that the timetable is slipping.
- EASA – the Chairman had dinner with Thilo Schmidt and M Goudou. It was clear that EASA's budget crisis was the most important issue for them. However the principle of establishing a programme to deal with EASA's initial problems, based on more effective partnership between NAAs and EASA appeared to be accepted.
- AOA Dinner – in his speech, Mr O'Leary of Ryanair launched a diatribe against CAA and BAA. Notwithstanding this Mr O'Leary has invited the Chairman to lunch.
- Meeting with Chairman of Better Regulation Commission – the Commission's evidence to the Transport Select Committee had been reasonably helpful. Accordingly, the Groups' Business Plans had been scrutinised with a view to identifying where the CAA was endeavouring to reduce the regulatory burden. It would be helpful if the Better Regulation Executive could understand industry's requirements. CAA's approach to this matter had been portrayed as obstructive by senior officials in the Cabinet Office.

III Directors' Reports:

ERG – Doc 2006/19 by Dr Bush.

3. Dr Bush reported on the following highlights:

- Possible Bid for BAA plc – on 8 February, Grupo Ferrovial SA announced that it was at a preliminary stage of considering whether to make an offer for BAA plc. On 24 February CAA published a statement referring to the consultation document published in December 2005 setting out CAA's current thinking on the price control review for BAA's three designated airports. The statement confirmed that CAA would set caps on airport charges in accordance with its statutory duties and not in order to accommodate any particular financing arrangements adopted. The statement also referred to CAA's obligation to ask the Competition Commission to consider whether an airport operator has pursued a course of conduct that operates or might be expected to operate against the public interest. Such a statement was in line with the approach taken by other regulators and seems to have been well received. There have been no publicly announced developments since then. There are rumours that another consortium is considering making a bid. The opportunity has been taken to carry out preparatory work. An Advisory Group has been set up chaired by Dr Bush with Mr Mountford, Mr Jackson and Mr Keohane. Ernst & Young have been appointed as financial advisers.

4. The Board noted the Report.

CPG – Doc 2006/20 by Mr Jackson.

5. Mr Jackson reported on the following highlights:

- March Renewals – CPG was starting to see medium sized tour operators cutting back on licensable business following the quashing of Guidance Note 26.
- Air Wales

6. The Board noted the Report.

SRG – Doc 2006/21 by Mr Bell.

7. Mr Bell reported on the following highlights:

- EASA:

Accreditation Surveillance Audit – the audit was undertaken in mid-February on the Part 21 design activity undertaken by CAA on behalf of EASA. The UK system was found to be appropriate. The FAA were in attendance throughout.

Proposal to Amend EC Regulation 1592/2002 – a Steering Group has been set up to co-ordinate

the DfT/SRG position. The main workstreams will involve Community air operations, pilot licensing, third country operations and governance including the Management Board.

European Regulation of Aerodromes – an SRG staff member has been seconded to the JAA group drafting essential requirements on behalf of EASA.

Air Traffic Controller Licence Directive – the European Parliament has accepted the text of the Directive. Member States have two years to transpose its requirements into national legislation.

European Safety Plan – the Plan was launched on 28 February at Eurocontrol. It aims to focus safety enhancements across five main areas.

- Operational Issues:

ATC Lasham – the company failed to correctly perform a winglet modification on a number of Dutch and Swedish registered Boeing 737s satisfactorily. AMSD has notified the appropriate authorities of these States. The approval aspects of the matter are being reviewed.

Shuttleworth Collection Update – the Chief Engineer has been replaced. The company is reviewing the maintenance requirements to enable the suspension of permits to fly to be lifted.

- SRG Divisional Titles – from 1 April 2006 SRG's technical divisions will be Airworthiness Division, Flight Operations Division and Licensing Standards Division.

8. The Board noted the Report.

DAP – Doc 2006/22 by Mr Arscott.

9. Mr Arscott reported on the following highlights:

- Single European Sky:

Draft Charging Regulation – some improvement has been made in that there will not initially be a requirement for a single en-route charge per functional airspace block. Less helpful has been the change in IATA's position at the industry consultation body from one of supporting the UK position arguing against airports' inclusion within the common charging scheme to preferring regulation. It is uncertain how far this reflects the views of the airlines. Dr Bush said that the Performance Review Commission would be considering how the Single European Sky was meeting its objectives and whether it migrated from them.

SESAR – the CAA needs to be more involved in the project definition phase.

- Clacton Judicial Review – it would appear that the Claimants' attempt to vary the Costs Order to secure payment of costs to Mr Hill has failed. Since he was apparently liable for all the costs of the action, it would appear that the CAA will not now be liable for any of the Claimants' costs.

- NATS' Proposal for High Level Review of Airspace and Safety – the first meeting is arranged for the end of April. The reason for NATS' proposal is not yet clear. There is a concern about the narrow membership (CAA, MoD and NATS) of the JANSC which is established under the CAA (Air Navigation) Directions 2001. To widen its scope, there might be benefits in adding other bodies as observers.
- Luton Airspace Change Proposal – the decision to create additional Class D controlled areas to the north west of London Luton Airport was published on 3 March. Complaints are starting to be received from local anti-noise groups.

10. The Board noted the Report.

Audit Committee

11. Mr Mountford drew the Board's attention to the minutes of the February meeting of the Committee which had been circulated for information.

V Legal Report – Doc 2006/23 by the Secretary.

Committee Appointments

12. The Board appointed Dr Catherine Bell to be a member of the Audit, Remuneration, Economic Regulation, Consumer Protection and Airspace Policy Committees with effect from 1 April.

Quinquennial Review of BAA South East Airports

13. The Board agreed to extend the scope of the Terms of Reference of the Board Panel appointed at the September 2005 meeting to include taking any decisions that may be required in connection with a possible bid for BAA plc in consultation with the Chairman and the Advisory Group that has been formed.

Charges for Air Services

14. The Board approved the making of the CAA (Air Navigation Services) Specification 2006 which –

- Introduces revised aerodrome navigation charges at Heathrow, Gatwick, Stansted, Aberdeen, Edinburgh and Glasgow Airports payable to NATS (Services) Limited.
- Reduces the Shanwick Oceanic Control Area charge from £56.44 to £56.01 payable to NATS (En Route) Limited in accordance with the price cap for 2006/07.
- Reduces North Sea helicopter charges payable to NATS (En Route) Limited.

The Specification will be published in the London, Edinburgh and Belfast Gazettes as required by

the Transport Act 2000.

Action: Mr Britton

CAAPS – Appointment of Trustees

15. The Board, in its capacity as Principal Employer of CAAPS, resolved to make the following Trustee reappointments for a period of three years from 1 April 2006 to 31 March 2009:

- Roger Mountford – Chairman of CAAPS and CAA Management Trustee
- Rupert Britton – CAA Management Trustee
- Tony Marx – CAA Pensioner Management Trustee
- Tony Mander – NATS Member Trustee.

A copy of the Resolution is attached to these Minutes.

16. The Board noted the Report.

V Finance Report – 11 Months Ended 28 February 2006 – Doc 2006/24 by

Miss Jesnick.

Financial Commentary

17. The operating profit for the 11 months to 28 February 2006 was £4,944k as compared to the budgeted profit of £3,288k. The cumulative income at £155,536k was £6,872k below budget.

Corporate Centre income was below budget by £3,143k for the period to date. This is primarily due to the reclassification of budgeted EASA transition income from SRG regulatory accounts.

The forecast for the year end is £1,381k as compared to the budgeted profit of £3,055k.

One Kemble Street

18. The refurbishing and sub-letting of One Kemble Street has now been completed. The detailed final financial report was set out in the Board Paper.

19. The Board congratulated Miss Jesnick and her team for successfully resolving this very difficult problem which had been left with the CAA following separation of NATS.

20. The Board noted the Report.

VI Human Resources Report – Doc 2006/25 by Mr Townsend.

21. Mr Townsend reported to the Board on the outcome of the Personal Contract Staff calibration meetings. A much more realistic approach had been taken to performance. Miss Jesnick, who had chaired the meetings, confirmed that the process had gone very well.

22. The Board noted the Report.

VII European and International Strategy Report – Doc 2006/26 by Mr Smethers.

23. EASA faces an immediate financial crisis with the 2006 budget likely to be exhausted soon. An urgent study by Deloitte of the Agency's financial and managerial processes had been commissioned. IT systems in particular need some capital investment. The Fees and Charges Regulation was not fit for purpose and cannot produce the revenue required for the Agency to function properly. The strategy of an enhanced partnership between EASA and the NAAs will be vigorously pursued.
24. The Board noted the Report.

VIII Progress Report on Air Transport White Paper – Doc 2006/27 by Dr Bush.

25. Dr Bush reported that the DfT is planning to publish a progress report on the Air Transport White Paper at the end of the year. A substantial contribution from CAA will be required. The Paper recommended that a working level group be established to co-ordinate the CAA's input. It was proposed that Chris Gadsden from ERG act as the co-ordinator and co-ordinate the CAA brief for the Chairman at the Air Transport White Paper Programme Board.
26. The Board –
- Approved the setting up of a co-ordinating group to oversee the CAA's input into the progress report.
 - Noted the importance of the DfT reaching clear conclusions on the environmental work at Heathrow.
 - Agreed to take a detailed paper outlining the CAA's proposed input on this issue later in the year.

Action: Dr Bush

IX CAA Corporate Plan 2006/07 – Doc 2006/28 by Miss Hill.

27. Miss Hill reported that she had discussed the latest draft of the Corporate Plan with the Department. They were content with the outline of the Plan. It was recognised that the Plan had to be finalised before the Committee's Report would be ready. The latest draft of the Plan contained changes to the strategies and actions section to improve the text dealing with Better Regulation. Some lower level items had been removed.
- 28.

Action: Miss Jesnick

29. Subject to the incorporation of the above amendments, the Board approved the submission of the CAA Corporate Plan 2006/07 to the Department for Transport by the Chairman.

Action: Chairman

X CAA Budget 2006/07 – Doc 2006/29 by Miss Jesnick.

30. Miss Jesnick presented the Budget proposals for the 12 months to 31 March 2007. The budgets for the Groups had been agreed by their respective Policy Committees. Particular points to note were –

- The Corporate Centre loss is due to the reclassification of EASA transition costs from SRG to enable the loss to be written off against reserves. The effect of the continued development of EASA on staff numbers, income levels and cost base remains uncertain. Due to these uncertainties, the CAA's cash position will inevitably deteriorate over the coming year. If necessary, the overdraft facility will be used rather than entering into a long-term loan.
 - SRG's charges are based on the Charges Schemes which came into force on 1 January 2006 and will continue to 31 March 2007.
 - In accordance with FRS17, the balance sheet shows a Pension Fund asset of £255 million.
31. The Board approved the 2006/07 Budget.

XI CAA Overdraft/Temporary Borrowing Facilities – Resolution No 130 – Doc 2006/30 by Miss Jesnick.

32. Miss Jesnick reported that each year the CAA made arrangements for an overdraft facility with its Bankers which was underwritten by HM Treasury. The facility is used to fund short-term working capital deficiencies that may occur in any one month up to a maximum of £5 million. No recourse had been made to the facility in the current financial year.

33. The Board unanimously adopted Resolution No 130 to seek the consent of the Secretary of State as required by Section 10 of the Civil Aviation Act 1982 to secure overdraft or temporary loan facilities up to a maximum of £5 million during the period 1 April 2006 to 31 March 2007. A copy of the Resolution is attached to these Minutes.

XII Any Other Business.

(i) Agenda Plan Update.

34. June 2006 – add European Strategy Paper (Mr Smethers).

This was the final meeting of the Board attended by Roy Swainson, who had been a non-executive Member since July 1999. The Chairman paid tribute to his wide ranging contribution to the Board and in particular to his chairmanship of ASSI. The CAA was very grateful for his services over the last seven years.