

FOR PUBLICATION

**CIVIL AVIATION AUTHORITY
MINUTES OF 396th BOARD MEETING HELD ON WEDNESDAY
21 MARCH 2007 AT 10.30 AM**

Present:

**Sir Roy McNulty
Chairman**

Mr J R 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 Whitefield

**Mr R J Britton
Secretary & Legal Adviser**

In Attendance:

Miss C Brown
Director Corporate Communications

Mr M Smethers
Director European & International Strategy

Mr R Townsend
HR Director

Mr D Storey
Head Airport Price Controls
For Item X

Mr A Brett
Head of Corporate Services
For Item XI

I Presentation.

1. The meeting opened with a pensions presentation by Mr Mountford, Chairman of Trustees, Mr Emly, CAAPS Investment Director and Mr Perry, CAAPS Scheme Secretary. A copy of the presentation is attached to these Minutes.

II Minutes of the Previous Meeting and Matters Arising.

2. The Minutes of the Meeting held on 21 February 2007 were approved and signed. On the action points arising:

- Working Group on CAA – a further session will take place following the Board meeting.
- EU/US – the Chairman had written to the Secretary of State and had discussed the issues with him yesterday. A copy of the Chairman's letter had been sent to the Clerk to the Transport Select Committee at the Committee's request. The CAA's analysis will be placed on the CAA's website after the Transport Council meeting.
- Airports Price Control Review – Agenda item.
- EASA R&D – the Chairman confirmed that the matter had been discussed at SPC. The CAA would ensure that appropriate research would be continued and would be charged to transition costs. Mr Bell commented that EASA viewed some research work as support to rulemaking.
- Mode S – Mr Arscott confirmed that a further round of informal discussions would be held

with General Aviation. This would encompass phasing proposals, obtaining commercial interest in the equipment and R&D. The results would be reported to the Board in May.

Action: Mr Arscott

- Functional Airspace Blocks – Mr Arscott confirmed that NATS had been asked to produce the necessary documentation to inform the NATS/DAP/ERG debate. The Commission had published an interim review of FABs which will be debated at the Single European Sky Committee in the Summer.
- CAA Aviation Environmental Policy Committee – Agenda item.

III Chairman's Opening Remarks.

3. The Chairman reported on the following matters:

- Working Group on CAA – the interim report of the Working Group will be presented to Board Members following this meeting. A new element is the DfT's acceptance of the Transport Select Committee's recommendation that a strategic review of the CAA be carried out. The review will probably start this Autumn and finish in Spring 2008.
- Transport Select Committee – the Government's response to the Committee's report had been agreed and had now been published. Miss Jesnick will co-ordinate the actions arising and report progress back to the Board in June.

Action: Miss Jesnick

- Meeting with Secretary of State – the discussions included EU/US negotiations, the DfT consultation on de-designation criteria, the airspace and safety review and EASA.
- April Board – as the Chairman is required to attend a meeting of the Greater London Assembly that morning, Mr Keohane will chair the start of the meeting.
- June Away Day – the Transport Select Committee Inquiry into the Passenger Experience has fixed an evidence session on the same date which will involve some Members of the Board. It will therefore be necessary to rearrange the date of the June Away Day.
- HR Department – the Chairman informed the Board that the HR agenda was moving from setting the strategy to its operational delivery. As a consequence, Mr Townsend will progressively hand over his responsibilities to Norma Hastings who, from 1 July, will be appointed as Head of Operational and Strategic Human Resources reporting to Miss Jesnick. Mr Townsend will then retire from CAA.

IV Directors' Reports:

ERG – Doc 2007/21 by Dr Bush.

4. Dr Bush reported on the following highlights:

- EU/US – the CAA has provided advice to the Department on the deal which must now be approved by the European Council and the US Senate. The majority of Member States, industry associations and the Commission are positioning themselves firmly behind the agreement.
- Environment – ERG is continuing to work closely with Government to assess the Commission's proposals for a Directive on aviation and emissions trading.
- OFT Airports Market Study – OFT's consultation on a proposed reference to the Competition Commission of BAA's ownership of seven UK airports closed on 8 February. An announcement is anticipated in April.
- EU Directive on Airport Charging – DfT will publish a consultation paper on the proposed Directive at the end of March. ERG is working with DfT on proposals for an effective negotiating/influencing strategy. The Chairman asked Dr Bush to present a paper to the next ERPC setting out the acceptable and unacceptable parts of the Directive.

Action: Dr Bush

- BAA Airports Regulation – the statutory reference to the Competition Commission of Heathrow and Gatwick will be made on 30 March. Dr Bush had given a speech at the Chatham House Aviation Conference on Airports Regulation. Some remarks on the problems of security queuing at Heathrow and Gatwick had attracted media coverage. BAA had complained about this and CAA had responded appropriately in writing.
- DfT review of Airport Designation for Price Control – DfT published its consultation on its proposed set of criteria for the designation and de-designation of airports on 26 February. The consultation closes on 20 April. DfT has announced that once the criteria are established, it will then consult on the individual cases of Manchester and Stansted Airports. DfT has asked CAA to collect written evidence for this second stage.

5. The Board noted the Report.

CPG – Doc 2007/22 by Mr Jackson.

6. Mr Jackson reported on the following highlights:

- Reform of Bonding – a merger of TUI and First Choice had been announced on 19 March following the recent MyTravel/Thomas Cook merger. This further consolidation of the

tour operator industry had consequences for the levy model. The maximum exposure for the ATT would now increase to some £400 million. Nevertheless, the principles for the reform of bonding are unaffected. Consolidation probably decreases the risk of default. DfT has obtained Ministerial agreement to proceed with the consultation subject to clearance from other Departments. CPG aims to publish the consultation jointly with DfT on 2 April which will enable a decision in principle to be reached prior to the September renewal of ATOL licences.

- Guidance on the Definition of a Package – there have been lengthy discussions with DTI, DfT and OFT on draft guidance.

7. The Board noted the Report.

SRG – Doc 2007/23 by Mr Bell.

8. Mr Bell reported on the following highlights:

- Metrication Directive – the Directive has been in place since 1979. In December 2006 DG Enterprise and Industry launched a consultation on possible further updates to the Directive including whether the exemption for air transport should continue. After consulting DAP, SRG submitted a response setting out the reasons why the air transport exemption permitting non-metric measurements should be continued. The opportunity for confusion between imperial and metric units of measurement was enormous. It had already led to accidents.
- Airbus Restructuring – a meeting with Airbus UK's senior management is arranged for 4 April. Some 1,600 jobs are to be lost in the UK over the next four to five years. Broughton has been confirmed as the UK centre for A350 wing production.
- Future UK Search and Rescue Helicopter Contract – the Government wish to replace the UK SAR helicopter fleet with a PFI contract lasting 20-30 years due to commence in mid-2012. A meeting was held on 26 February to discuss issues from preferred bidders who are concerned about an unstable regulatory environment.
- Safety Assessment of Foreign Aircraft Contract – eight pre-qualification questionnaires had been returned and evaluated against the criteria and a shortlist of four applicants had been compiled.
- BBGA Annual Conference – the Conference was opened by the Aviation Minister, Gillian Merron MP. The two CAA GA reviews were praised.
- Aviation Health Unit – the provisions of the Civil Aviation Act 2006, giving the CAA a new

statutory function in respect of the health of persons on board aircraft, had been brought into force on 1 March.

9. The Board noted the Report.

DAP – Doc 2007/24 by Mr Arscott.

10. Mr Arscott reported on the following highlights:

- Single European Sky – the role of the UK in the proposed Europe Central FAB is unclear and some States are regarding the UK as having observer status only. Some States apparently fear the spread of the UK model of privatised air navigation service providers. The UK's role will be addressed at a meeting of DGCA's in March. The Chairman asked Mr Arscott to report further on this matter at the April Board.

Action: Mr Arscott

- SESAR – the Chairman attended a meeting of the consortium's executive committee on 7 March. It had been a very successful meeting at which the differing expectations across industry and the complexities and risks to the project had at last been recognised. A key objective is to achieve greater involvement by ANSPs.
- Commission High Level Group – David McMillan is working very hard on this. The role and obligations of the States and the reform of Eurocontrol are crucial issues. The Chairman asked Mr Arscott for a report on the Group's work at the May meeting of the Board.

Action: Mr Arscott

- South East Airspace Study – a useful meeting had been held with NATS. Work is still being carried out on the submission to Ministers.
- Airspace Change Process – CAP 725 setting out guidance on the airspace change process will be published on 30 March. The new guidance will give greater clarity to the process.
- Mode S – in discussion, the Chairman commented that to progress research and development, sources of financing should be explored.

Action: Chairman

11. The Board noted the Report.

V Legal Report – Doc 2007/25 by the Secretary.

Charges for Air Services

12. The Board approved the making of the CAA (Air Navigation Services) Specification 2007

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 £56.01 to £55.68 payable to NATS (En Route) plc in accordance with the price cap for 2007/08.
- Reduces Southern North Sea helicopter charges payable to NATS (En Route) plc from £117 to £78.

The Specification will be published in the London, Edinburgh and Belfast Gazettes as required by the Transport Act 2000.

Action: Mr Britton

13. The Board noted the Report.

VI Finance:

11 Months Ended 28 February 2007 – Doc 2007/26 by Miss Jesnick.

Financial Commentary

14. Miss Jesnick presented the financial results for the 11 months ended 28 February 2007. The cash balance of £22,194k at the end of February was £9,708k greater than budget. This favourable variance is primarily due to the termination of the Meteorological Office contract on 31 December 2006 leading to a reduction in costs of £4896k and Eurocontrol's administration costs payable to the DfT of £3743k. In addition, there has been a VAT refund of £540k following a successful outcome of recent negotiations with HMR&C. The rate of return for the CAA regulatory sector is 9.8% though this is likely to reduce by the year end.

Steria

15. Miss Jesnick had met Mr John Torrie, Steria's Chief Executive Officer, to discuss performance. The Steria contract expires in August 2008. A paper on contract renewal will be presented to ExCo in April/May and to the Board in June.

Action: Miss Jesnick

16. The Board noted the Report.

Treasury Policy – Doc 2007/27 by Miss Jesnick.

17. Miss Jesnick presented the Paper setting out CAA Treasury policy, principles and procedures. The Paper contained a list of the current CAA bank accounts, signatories and authorisation levels. The Paper also set out a Table of loans from the National Loans Fund. In response to questions, Miss Jesnick said that penalties were imposed by HM Treasury for

early repayment of some of the high interest loans.

18. The Board noted the Report.

CAA Overdraft/Temporary Borrowing Facilities – Doc 2007/28 by Miss Jesnick.

19. 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 £5 million. No recourse had been made to the facility in the current financial year.

20. The Board unanimously adopted Resolution No 139 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 2007 to 31 March 2008. A copy of the Resolution is attached to these Minutes.

CAA International Limited Bank Account – Doc 2007/29 by Miss Jesnick.

21. Miss Jesnick reported that CAA International Limited will require a bank account to commence trading. The account will be controlled by the CAA Finance Department. The account will be included within the CAA Group's offset arrangements whereby all surplus funds are invested on the overnight money market.

22. The Board unanimously resolved to instruct the Royal Bank of Scotland plc, as bankers to the CAA, to open a Sterling bank account designated as the *CAA International Limited Current Account* at the Bank's Bloomsbury Parr's branch at 214 High Holborn, London WC1V 7BX. A copy of the Resolution is attached to these Minutes.

US\$ Bank Account – Doc 2007/30 by Miss Jesnick.

23. Miss Jesnick reported that the CAA currently remits approximately £30,000 monthly to the Antiguan office of Air Safety Support International Limited to cover the costs of providing accommodation and living allowances for staff, local staff salaries, office expenditure and travel and related expenditure. The funding from the UK is transferred in US\$ and then translated into Eastern Caribbean dollars locally. The US\$ are purchased via the CAA's bankers on the day the transfer is required but this does not provide an optimum exchange rate facility. A more preferential rate of exchange could be achieved by purchasing US\$ at the Royal Bank of Scotland money market rate which requires a US\$ account to be opened.

24. The Board unanimously resolved to instruct the Royal Bank of Scotland plc, as bankers to the CAA, to open a US\$ bank account designated as the *Civil Aviation Authority US Dollar Account* at the Bank's Bloomsbury Parrs Branch at 214 High Holborn, London WC1V 7BX. A

copy of the Resolution is attached to these Minutes.

CAA Budget 2007/08 – Doc 2007/31 by Miss Jesnick.

25. Miss Jesnick presented the CAA budget proposals for the 12 months to 31 March 2008. The budget set out the financial objectives and constraints in the forthcoming budget year and sought general approval from the Board of management's intentions for the forthcoming year, specific approval of the budgets and authorisation to proceed with the underlying plans.
26. Miss Jesnick said that the removal of the Meteorological Office and DfT elements from Eurocontrol income made comparisons between the current and forthcoming financial years difficult. The closing numbers for 2006/07 would be re-stated taking out these two elements. The 2007/08 budget for the regulatory sector is £2.8 million less than for 2006/07.
27. The Board approved the 2007/08 budget.

VII Human Resources Report – Doc 2007/32 by Mr Townsend.

28. Mr Townsend reported on the following highlights:

- Pay Settlement for 2007/08 – the Trade Unions have accepted the pay deal at 3.8%.
- Consultation Forums – the forums had been reasonably successful and the Trade Unions were prepared to work with them. However, more energy is required to ensure that the arrangement continues to work well.
- Perceptions of Fairness – this was an outcome from the recent employee survey. There was a commitment to advertise jobs across the CAA where appropriate. Mr Townsend undertook to report to the Board the exact number.

Action: Mr Townsend

29. The Board noted the Report.

VIII European and International Strategy Report – Doc 2007/33 by Mr Smethers

30. Mr Smethers reported on the following highlights:

- Third Package Review – a meeting is to be held with Olivier Onidi who is leading the review next month.
- Study of the EU Regulatory Agencies – the Better Regulation Commission has embarked on a study of EU regulatory agencies. It wishes to explore the extent to which better regulation principles are embedded in the way the agencies operate and will look at their involvement in the Better Regulation agenda. The Commission will work with

organisations from other Member States to explore how the new agencies interact with their national equivalents.

31. The Board noted the Report.

IX Aviation Environmental Policy Committee – Doc 2007/35 by Miss Jesnick.

32. Miss Jesnick presented the Paper which had been updated to reflect the outcome of the discussions at the February Board. In discussion, Dr Bell suggested that the Terms of Reference should include a review of the relevant statutory duties. Dr Bush commented that climate change was not the only environmental issue affecting aviation and the Terms of Reference should reflect this. The Chairman said that these points would be taken into account. Miss Jesnick confirmed that the Terms of Reference would be brought back to the Board for formal approval once the Committee was established. The Chairman said that he would consider who should chair the Committee.

Action: Chairman

X Q5 Price Control for Heathrow and Gatwick Airports.

33. Mr Storey, Head Airport Price Controls ERG, gave a presentation to the Board on the CAA's recommendations to the Competition Commission which are to be submitted at the end of March.

34. A copy of the presentation is attached to these Minutes.

XI CAA Corporate Plan – Doc 2007/36 by Mr Brett.

35. Mr Brett, Head of Corporate Services, presented the latest draft of the Corporate Plan 2007/08. The Plan was based on the new set of balanced objectives and six key strategies which had been agreed by the Board in July 2006. While further information had been given on the role of the CAA, a large amount of detailed material had been taken out of the Plan and made available by links to the CAA website.

36 In discussion, Members commented that the Plan was a substantial improvement on its predecessors. It gave greater clarity and felt more modern. Dr Bell commented that there should be some reference to the environment in the box setting out the main functions of the CAA. It was agreed that it could be coupled with airspace utilisation. Mr Mountford said that a note on the importance of the Pension Scheme to staff would be helpful. The Chairman said

that a further look should be taken at the future increases in staff numbers. The descriptions of risk facing the CAA should also be reviewed. Further detailed comments on the draft should be given to Mr Brett by 26 March.

37. Subject to the incorporation of the above amendments and any comments, the Board approved the submission of the CAA Corporate Plan 2007/08 to the DfT by the Chairman.

Action: Chairman

XII Any Other Business.

(i) Agenda Plan Update.

38. April 2007 – add Single European Sky.

May 2007 – add High Level Group Report, Mode S, Transport Select Committee – progress on actions.

June 2007 – add Steria Contract Renewal.