

**MINUTES OF 406<sup>th</sup> BOARD MEETING HELD ON WEDNESDAY  
20 FEBRUARY 2008 AT 10.00 AM**

**Present:**

**Sir Roy McNulty      Chairman**

**AVM Anderson**

**Mr J R D Arscott**

**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**

**Mrs N Hastings, Head of HR**

**Mr M Smethers, Director European & International Strategy**

**Mr D Storey, Head, Airport Price Controls, ERG      For Item I**

**Mr R Burden, Manager, Quality & Standards, SRG      For Item X**

**Mr A Sayce, Head, Safety Investigation and Data Dept, SRG      For Item XI**

**Apologies for absence were received from Dr C Bell.**

## **I Presentation on Q5 Price Control Review for Heathrow and Gatwick Airports by ERG.**

1. Mr Storey, Head of Airport Price Controls ERG, gave a presentation on the emerging decisions for Heathrow and Gatwick price controls to ensure that the Board was kept fully abreast of the Panel's thinking. The Panel is meeting weekly and expects to make the final decision on Tuesday 11 March to enable the new price controls to come into force on 1 April. The price controls are being set in conformance with the CAA's statutory duties.
2. The Board noted the presentation, a copy of which was handed to Members.

## **II Minutes of the Previous Meeting and Matters Arising.**

3. The Minutes of the Meeting held on 23 January 2008 were approved and signed. On the action points arising:
  - High Level Group – Mr Arscott confirmed that a report will be made to the Board in March.
  - Finance – Miss Jesnick confirmed that a contingency plan in relation to the 2008/09 budget would be presented to the next meeting of CMC and brought to the Board in March.
  - HR Diversity – Mrs Hastings reported that the item is to be put to the HR Steering Group in May.
  - Skills Audit – Mrs Hastings confirmed that this was a Business Plan deliverable for HR.
  - Draft Corporate Plan – Miss Jesnick confirmed that the final version of the Plan will be presented to the Board in March.

## **III(i) Chairman's Opening Remarks.**

4. The Chairman reported on the following highlights:
  - European Air Traffic Management – this was entering into an interesting phase. A workshop had been held with DfT and further talks are planned with the Commission and Eurocontrol.
  - Economic Regulation – there was clearly a head of steam building on CAA's economic regulatory activities although this was not unusual at this stage of the price control process. The Strategic Review was proving to be an outlet for airlines' complaints.

**(ii) CAA Strategic Review – Oral Update by the Chairman.**

5. The Chairman reported that Miss Jesnick had circulated a note of the meeting with Sir Joseph Pilling and his team on 6 February. Subsequently, Sir Joseph has had meetings with the industry and these will continue until Easter. The key lines of inquiry should be emerging during April. Europe and the environment will certainly be included. A Board Workshop is arranged for 27 February.

**IV Directors' Reports:****ERG – Doc 2008/11 by Dr Bush.**

6. Dr Bush reported on the following highlights:

- Single European Sky – the main findings from the contestability assessment were presented to a DfT workshop on the Charging Regulation attended by the industry on 1 February. The key messages were well received.

**Action: Chairman**

- Manchester Airport – an “exit” meeting has been arranged with Manchester Airport for 22 February. Fortunately all the current mandatory conditions expire on 31 March 2009 – the date when legal de-designation takes effect.
  - Stansted Airport – an industry seminar was held on 6 February as part of the consultation process.
  - Competition Commission's Market Inquiry into BAA – a paper discussing the appropriate regulatory framework for UK airports is shortly to be delivered to the Commission. The Commission's emerging thinking is expected to be published by April.
7. The Board noted the Report.

**CPG – Doc 2008/12 by Mr Jackson.**

8. Mr Jackson reported on the following highlights:

- ATT Financial Restructuring – the preparation of the documentation is proceeding. There have been frequent drafting meetings with both AIG on the insurance agreement and with Barclays on the credit facility. The guarantee amounts have been agreed with the Treasury.
- Silverjet – Mr Jackson reported the company's latest financial position to the Board.
- DBC Guidelines – the final version is shortly to be released by the Commission. Regrettably, it has not been shown to Member States.

- Consumer Policy – Mr Jackson confirmed that a paper will be presented to the March meeting of the Board. This will correspond with a letter to Sir Joseph Pilling on this matter.

**Action: Mr Jackson**

9. The Board noted the Report.

**SRG – Doc 2008/13 by Mr Bell.**

10. Mr Bell reported on the following highlights:

- EASA:

*Extension of Scope to Operations and Licensing* – there are major concerns on this regarding format and content of the draft regulatory material.

*Proposed Extension of Scope to ATM* – CAA is working with EASA on the 1200 responses to the Notice of Proposed Amendment. A comments response document is due to be published by the end of February. Unfortunately the proposals are being driven by the timescale rather than the substance of the responses.

- Air Safety Committee – the UK has managed to insert an additional clause into the Directive for the purpose of recognising that current Airworthiness and Flight Operations inspecting staff will retain their qualifications for SAFA ramp checks, thereby minimising the impact on our training requirements.

- Commercial Air Transport:

*Flyglobespan* – the company has moved its maintenance base to proper facilities at Manchester. The ETOPS approval remains suspended. An application to revive it will be treated as an ab initio application.

*BA B777 Accident at Heathrow* – AAIB published a Special Bulletin this week. One Safety Recommendation was made whereby Boeing should notify all B777 operators of the necessity to operate the fuel control switch to cut-off prior to operation of the fire handle. No evidence has so far emerged from the accident investigation to justify regulatory action by CAA. AAIB are undertaking a comprehensive examination of the entire aircraft and engine fuel system. One aspect of the flight from Beijing was that the aircraft was operating in particularly cold temperatures.

- Airports:

*A380 Operations* – Singapore Airlines will commence A380 operations into Heathrow on 9 March.

*T5* – the opening of T5 represents a major change to ground operations at Heathrow

which will need careful scrutiny by ASD.

- Contract with MoD – MoD has accepted a technical proposal from CAA International and SRG whereby SRG will provide surveillance of 55 MoD design organisations. MoD is keen to have the contract in place early in the forthcoming financial year.

11. The Board noted the Report.

**DAP – Doc 2008/14 by Mr Arscott.**

12. Mr Arscott reported on the following highlights:

- Single European Sky – there is increasing focus on performance from the Commission. A meeting has been arranged with RICBAN to discuss performance and economic regulation on 19 February. A collegiate view is forming on how the package will work.

Revised operational proposals for the UK/Irish FAB had been submitted by the ANSPs to Government in early February. This will be worked on at the appropriate Governmental and regulatory interfaces.

- SESAR – deliverable D4 was accepted by Eurocontrol on 1 February and presented at a stakeholder forum on 11 February in Slovenia. The draft of the D5 deliverable (the ATM Master Plan) will be issued for comment to SESAR consortium members including CAA on 18 February.

- Airspace Changes:

*NATS' Terminal Control South West Airspace Change* – the decision has now been promulgated and will come into effect on 10 April. This was a relatively small airspace change. Nevertheless, 30 MPs were engaged and an adjournment debate was held in the House of Commons. The airspace change process is sufficiently robust to deal with these pressures.

*NATS' Terminal control North Airspace Change Consultation* – NATS are expected to launch their public consultation during the third week of February. This is a significant and complex Airspace Change Proposal designed to improve capacity to meet current demands at Stansted and Luton. It has the potential to impact on some 8 million people.

- Competition Commission Inquiry into BAA Airports – DAP had furnished information to the Commission on airspace aspects.
- Windfarms – DAP is continuing to work with BERR in resolving the conflict between wind turbines and aviation. AVM Anderson commented that the Government had a

very aggressive timescale for renewable energy. MoD was having to look at over 1,000 applications for wind turbines and conflicts were bound to arise.

- Administrative Incentive Pricing –meetings had been held with Ofcom, DfT and other Government departments to prepare for the introduction of AIP. The impact across all transport modes was not presently connected. The Treasury will no doubt wish to extract as much as possible from this exercise.

13. The Board noted the Report.

#### **Audit Committee – Oral Report by Mr Mountford.**

14. Mr Mountford drew the Board's attention to three matters which had been considered by the Audit Committee at its meeting last week –

1. The annual review of whistleblowing arrangements had been presented to the Committee. It was recommended that questions of ethical behaviour be added to the next staff survey.
2. The Internal Audit plan for the coming year had been reviewed. Mr Alsop, the Head of Internal Audit who was on secondment from Deloitte, was working with quality auditors in DAP and SRG. Other Group Directors had agreed to have staff trained for this function.
3. The Committee discussed more permanent arrangements for Internal Audit. The interim arrangements with Deloitte have been extended to September. The arrangement was working well and one approach might be to establish a joint role with Deloitte which will provide an opportunity for CAA staff to gain experience.

15. The Board noted the Report.

#### **V Legal Report – Doc 2008/15 by the Secretary.**

##### *CAA Pension Scheme – Appointment of Trustee*

16. The Board, in its capacity as Principal Employer of CAAPS, therefore resolved to transfer Rupert Britton to this position and further resolved to appoint Richard Jackson, Group Director CPG, to be a CAA Management Trustee for the period 1 April 2008 to 31 March 2011.

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

##### *CAA's Pension Scheme - Gibraltar*

18. NATS Services Limited has been awarded a contract to provide air traffic services at

Gibraltar Airport. To ensure continuation of pension provision for employees working in Gibraltar, the NATS Section of CAAPS needs to be registered in Gibraltar to comply with local tax regulations. The CAA, as Principal Employer, is required to consent to the registration. The Deed has no effect whatsoever on the CAA Section of CAAPS or the CAA.

19. The Board agreed to execute the Deed of Amendment NATS Section (Gibraltar Members).

#### *Charges for Air Services*

20. A request had been received from NATS Services Limited to increase the aerodrome charge at Heathrow, Gatwick and Stansted Airports in order to recoup under-recoveries in respect of services provided by NSL in 2006/07 and 2007/08 before the Order de-designating these Airports for direct charging purposes came into force on 1 April 2008. The amounts of under-recovery at Edinburgh, Glasgow and Aberdeen Airports were substantially greater. Following discussions, the DfT had agreed to postpone the de-designation of the three Scottish airports for the time being. NSL had consulted users who were of course opposed to the increase. NSL is not economically regulated by CAA and CAA's role in specifying charges was an administrative one. The increase requested had now reduced to £286k. As part of the transition from direct charging by NSL to indirect charging by the airport, the request did not appear on its face to be evidently unreasonable or unfair.

21. The Board approved an amendment to the CAA (Navigation Services Charges) Specification 2007 so as to –

- Increase the charge per tonne up to 100 tonnes by 8p to £1.42
- Increase the charge per tonne over 100 tonnes by 3p to £0.57.

22. The Board noted the Report.

#### **VI Finance Report – 10 Months Ended 31 January 2008 – Doc 2008/16 by Miss Jesnick.**

23. Miss Jesnick drew the Board's attention to the forecast results for the year to 31 March 2008. The operating loss is forecast to be £120k as compared to the budgeted loss of £299k. The current regulatory operating profit is forecast to be £1,774k which represents a 4.7% rate of return. However, with very tight management, it might be possible to increase the rate of return to the required 6%. However, there was little scope for manoeuvre. SPC had discussed the spend for the HR/Finance IT project. It had been agreed that Miss Jesnick should go ahead and acquire some of the hardware associated with the project in

this financial year as capital expenditure. Debtor days had increased recently but this was essentially due to EASA and NATS being slow payers.

24. The Board noted the Report.

#### **VII European and International Strategy Report – Doc 2008/17 by Mr Smethers.**

25. Mr Smethers reported on the following highlights:

- EASA Management Board – the Board met on 13 February. Unfortunately, it was unable to appoint a new Rulemaking Director to succeed the existing post holder who retires in the summer.
- BA 777 Accident at Heathrow – EASA had been informed that it had no unconditional entitlement to attend the accident investigation meetings.

26. The Board noted the Report.

#### **VIII Environmental Policy Committee Quarterly Report – Doc 2008/18 by Mr Keohane.**

27. Mr Keohane reported on the following highlights:

- Strategic Review – a presentation had been made to the Strategic Review team. Sir Joseph had commented that while there was a need for Government to set an overarching framework, it was not a solution simply to give the CAA a statutory duty.
- DfT Presentation Follow Up – Mr Keohane referred to his letter of 11 February to the DGCA attached to the Board Paper. The letter set out the need to have a clear idea of the key workstreams and potential outputs by April/May so as to inform the Strategic Review. While acknowledging that DfT's resources were limited, it was important that this deadline be met. The Chairman agreed to take the matter up with Mr Griffiths.

**Action: Chairman**

#### **IX Air Transport White Paper – Doc 2008/19 by Dr Bush.**

28. Dr Bush presented the latest update on progress relating to the work plan set out in the 2003 White Paper. The main events since the last report in October 2007 had been the publication of a consultation on expanding Heathrow and the Government decision to retain designation of Stansted for economic regulation.

29. It had been decided that it would be inappropriate for the CAA to respond formally to the Heathrow consultation since the CAA was charged with taking a number of regulatory decisions consequent upon the outcome.

**Action: Chairman**

30. The Chairman pointed out that the DfT frequently referred to the Eddington Report. The Strategic Review Team will certainly have looked at it. It would therefore be helpful to present a report to the April meeting of the Board drawing attention to those matters of relevance to CAA.

**Action: Dr Bush**

31. Mr Arscott referred to the Planning Reform Bill and the proposal that major applications for nationally significant projects will be dealt with by an Independent Planning Commission. The position of airspace changes in any new regime needed to be clarified with DfT. The Chairman said that he will discuss this with Mr Griffiths.

**Action: Chairman**

32. The Board agreed that the Legal Adviser should instruct planning Counsel for the Stansted G2 Planning Inquiry.

**Action: Mr Britton**

33. The Board noted the Report.

#### **X ASSI Audit Report – Doc 2008/20 by Mr Bell.**

34. Mr Bell presented the audit report of ASSI which was a requirement under the CAA (Overseas Territories) Directions 2003 to undertake at least on an annual basis. Mr Burden, Manager Quality & Standards SRG, who undertook the audit, presented its findings to the Board. This year's audit focused on operations and airworthiness activities. In particular it looked at aviation activity in the Falkland Islands which involved the Falkland Islands Government Air Service and British Antarctic Survey aircraft. The Falkland Islands present a very different regulatory environment to that of the UK. Their remoteness makes access difficult and ASSI inherited a number of significant issues that demanded considerable effort to overcome. Seven recommendations were made to assist the company in delivering its regulatory responsibilities. No findings were made that would compromise the designation for Annex 6 and 8 activities.

35. Mr Whitefield, as Chairman of ASSI, confirmed that the company's Board accepted the recommendations which were both fair and helpful. The necessary corrective actions were being put in place.

36. The Board noted the Report.

**XI Progress Report on SRG's Management of the ICAO Required State's Safety Programme – Doc 2008/21 by Mr Bell.**

37. Mr Sayce, Head of Safety Investigation and Data Department SRG, referred to a new ICAO standard set in November 2006 requiring States to establish a State's Safety Programme in order to achieve an acceptable level of safety. ICAO describe the SSP as "an integrated set of Regulations and activities aimed at improving safety". A UK co-ordination team comprising representatives from DfT, CAA and AAIB has been set up for this purpose. The main deliverable will be a UK SSP document which will be published electronically as a Civil Aviation Publication. The aim is to complete the task by September 2008. It is important to complete the task before the ICAO audit in February 2009 so as to eliminate the need for any differences to be filed with ICAO. EASA takes the view that there should be a common plan for Europe but the obligation is placed on Contracting States. France and Italy have already produced plans.

38. The Board noted the Report which had been approved by the SRG Policy Committee at its January meeting.

**XII Suspension of an Approval or Certificate – Doc 2008/22 by Mr Bell.**

39. Mr Bell introduced the Paper which set out the process to be used within SRG when suspending an approval or certificate is considered necessary. CAA can lose confidence in an approval or certificate holder for a variety of reasons. CAA's practice is to demand a plan from the operator that addresses the issues of concern. The plan sets specific timescales for delivering remedial actions. Operators are informed that they are "on notice" and that a failure to deliver or adhere to agreed timescales will result in regulatory action. If the operator is no longer able to maintain the required high standards, a proposal to suspend or revoke will become necessary.

40. The Chairman commented that this was a helpful Paper and the process was much clearer than before.

41. The Board noted the Report.

**XIII APC – Doc 2008/24 by Mr Jackson.**

42. Mr Jackson presented the Paper which outlined to the Board the structure of the arrangements for funding refund and repatriation costs arising from licence holder failures under the new APC scheme and set out the principal agreements which will need to be entered into by the CAA and the Trustees of the Air Travel Trust to give effect to the new scheme.

43. There are five principal agreements to be entered into, namely –

- An agreement between the CAA and the ATT setting out the respective roles and responsibilities of the parties. The agreement will include an indemnity from the CAA to the four individual Trustees.
- A new agreement between the credit card companies, the CAA and ATT to allocate liability in the event of a failure of a licence holder.
- An insurance contract with AIG.
- A facilities agreement with Barclays Bank.
- A revised Trust Deed.

The Secretary of State will need to make an Order authorising the variations to the Deed which are required to provide for the new scheme.

44. Work is in hand on all the above documents. Mr Jackson proposed that the Board appoint a Panel of Members to approve the documents on behalf of the CAA.

45. The Board appointed a Panel comprising Mr Keohane, Mr Mountford, Mr Jackson and the Legal Adviser for this purpose.

46. The Board noted the Report.

**XIV ATT Bank Account – Doc 2008/24 by Miss Jesnick.**

47. Miss Jesnick presented the Paper to inform the Board of the new Air Travel Trust bank accounts that are being set up as a result of the reform of ATOL bonding arrangements and the implementation of the ATOL Protection Contribution as from 1 April 2008.

48. The Board noted the Report.

**XV Any Other Business.****(i) Agenda Plan Update.**

49. April 2008 – add Eddington Report.

September 2008 – would Members please note that the Board meeting **has been moved to Thursday 18 September.**

**The next Meeting of the Authority will be at 10.00am on Wednesday 19 March 2008 in Conference Room 1, CAA House.**