

CIVIL AVIATION AUTHORITY



FOR PUBLICATION

**CIVIL AVIATION AUTHORITY
MINUTES OF 439th BOARD MEETING HELD ON WEDNESDAY 16 FEBRUARY 2011 AT 11.30 AM**

Present:

Dame Deirdre Hutton

Chair

Mr A Haines

Chief Executive

Dr C Bell

Ms G Burrett

Mr D Gray

Mr R T R Jackson

Miss C Jesnick

Mr M Medicott

Mr R P Mountford

Mr I Osborne

Mr M Swan

Capt R Whitefield

Mrs K Staples

Secretary & Legal Adviser

In Attendance:

Dr S Rooney

Director of Corporate Communications

Mr W Merricks CBE

(for item III)

Mr J R K Emly

CAA Pension Scheme Investment Director

(for item IV)

Mr N J Perry

CAA Pension Scheme Secretary

(for items IV)

Mr R Krammer

Senior Financial Analyst

(for items V)

Mr H Westaway

Assistant Director International ATM Policy

(for item VIII)

Mrs A-M Hopcroft

Minute Taker

I. Minutes of the Board Meeting held on 19 January 2011

1. The minutes of this meeting were approved and signed.

II. Chair's Opening Remarks

2. The Chair briefed the Board on a number of recent constructive and interesting meetings, including those with the Secretary of State, Minister of State, and Shadow Secretary of State. In addition, the Chair briefed on a number of useful and helpful dialogues with representatives from Gatwick Airport, London City Airport and Ryanair.

III. Review of Large Failure Claims Handling– Doc 2011-17 by Mr Jackson

3. Mr Walter Merricks presented the independent review he had undertaken of the CAA's claims handling procedures. The review had resulted in a number of recommendations and Mr Merricks recognised both the interim measures that had been taken by the CAA in response to the report, and the reform of the Air Travel Organisers' Licence (ATOL) system. Mr Merricks also highlighted the support provided by the CAA during his review.

4. Mr Merricks outlined the key findings of the review, which related to the CAA becoming more consumer focused when dealing with claimants. Mr Merricks felt that this would primarily require both a cultural change and an investment in resources, recognising that this would need to be framed within the CAA's overall strategy and be cost effective. However, Mr Merricks emphasised that he did not feel that the tone and style of the department at present was consistent with an objective of placing consumers at the centre of the CAA's thinking. The prioritisation of the recommendations was discussed and it was felt that the CAA need to address both cultural and legal issues.

5. Mr Jackson highlighted that the CAA accepted the majority of the recommendations made as a result of the Review and noted that many of the recommendations would either be implemented over the coming months or as a result of ATOL reform in 2012.

6. It was noted that the recommendations relating to Air Travel Trust (ATT) refunds and investment in IT provided greater difficulties. With regard to the latter, the Board felt that this should be considered as part of the CAA's overall IT Strategy. The ATT refund recommendation was further discussed and it was noted that the model used for the ATT did not lend itself to a more flexible payment structure because the Trustees were constrained by the powers available to them and the overriding purpose of the trust fund. In addition, there can be a lack of clarity over the status of the transactions made during holiday bookings, which leads to legal uncertainty.

7. The relationship with the claims handling firms used by the CAA was discussed and it was noted that the CAA works with these organisations to, where possible, address issues raised and will be implementing a number of actions to improve the claims handling process. However, it was recognised that further consideration should be given to providing claims handling firms with greater clarity as to the CAA's requirements.

8. In response to a question about potential parallels with other organisations, it was noted that it is difficult to make direct comparisons but that the Review had resulted in stronger links between the CAA and the Financial Services Compensation Scheme. In response to a separate question regarding the

percentage of claims ultimately made by the CAA, it was noted that approximately 95% of claims are paid but that these can take some time to process.

9. The publication of the Review report and the CAA's response was further discussed and it was agreed that, prior to publication, the Board should approve an action plan to address the Review's recommendations.

Action: Mr Jackson

10. The Board thanked Mr Merricks for undertaking the Review and approved the publication of the Review and the CAA Response, subject to the actions requested at the meeting.

IV. CAA Pension Scheme Trustees Presentation

11. Messrs Mountford, Emly and Perry provided an annual update to the Board which outlined the Scheme's membership, its funding, investments, the NATS section and the governance and administration of the Scheme. It was highlighted that although the Trustees consider both the NATS and CAA sections of the Pension Scheme, the CAA Board was only responsible for the CAA section.

12. The Board thanked the team for a very helpful and clear presentation.

V. Review of Small Regional Airports – Doc 2011-18 by Mr Jackson

13. The paper provided an overview of the financial position of the lower end of mid-sized regional airports in England and Wales. The review was based on an analysis of publicly available information.

14. Mr Krammer outlined the findings of the analysis, which related to the liquidity levels of the airports and, in some cases, their dependence upon low cost carriers.

15. The Board recognised the potential impact of financial stress on safety and organisational behaviour and discussed the leading indicators that the CAA has at its disposal to address this. The approach taken by the CAA to monitor the safety of aerodromes in these circumstances, including the potential impact of the associated costs, was further discussed. The economic policy implications of this analysis were also discussed and it was agreed that the results should be shared with the Department for Transport (DfT).

16. The Board welcomed the cross-CAA approach that had resulted from this work and were keen to understand the steps that should be taken. It was felt that consideration should be given to how this work could be further developed to better inform the CAA and enhance its usefulness in a strategic context. It was highlighted that an integrated suite of Key Performance Indicators should be produced to consider safety, consumer, economic and airspace issues. It was suggested that the analysis could be further enhanced by adding the opportunity costs of exiting the market.

17. The Board endorsed the recommendation to adopt a multidisciplinary approach to the ongoing monitoring of these airports and an annual review to the Board.

Action: Mr Osborne

VI. Air Safety Support International (ASSI)

Business Plan 2011/12-2015/16 – Doc 2011-19 by Capt Whitefield

18. The Business Plan for 2011/12-2015/16 outlined the business environment, challenges and associated risks facing ASSI as well as the budget for the five year period.

19. Capt Whitefield presented the Business Plan to the Board. Capt Whitefield highlighted the difficulties of producing a Business Plan given the future uncertainty related to the model used to fund ASSI given that the DfT had reduced the grant to £2m, the 33% shortfall to be provided from cost recovery from the Overseas Territories (OTs).

20. The Board raised concerns about the implications of the funding issue given that ASSI is a wholly owned subsidiary of the CAA. Of key concern was the ability of ASSI to remain a 'going concern' should the OTs be unwilling or unable to pay the contributions required. Should the OTs fail to pay, there was a limit to the support available from ASSI's reserves. Moreover, it was highlighted that there are no mechanisms by which the CAA could lawfully pass the cost of ASSI to its charge payers or the enroute charge. In that context, the potential impact on the ability of the ASSI Board to sign off the Annual Report and Accounts was

discussed. Additionally, the CAA Board would not wish to be in a position where a subsidiary company was unable to trade properly. The Board agreed that this issue should be

- raised with the DfT

Action: Chair / Chief Executive

- further discussed at the Board in the Summer.

Action: Capt Whitefield

21. The Board took the opportunity to highlight their appreciation for the work undertaken by Capt Whitefield, Ms Boyle and the ASSI team.

22. The Board accepted the ASSI Business Plan subject to the concerns discussed at the meeting and the need to raise these concerns with the DfT.

CAA Oversight Report on ASSI – Doc 2011-20 by Ms Burrett

23. The paper provided a report of the most recent audit of ASSI and provided proposals for a long term oversight programme.

24. Ms Burrett provided the Board with the background of the CAA's oversight of ASSI and the need to ensure that this provides a coherent, risk based, safety outcome focused approach.

25. The Board approved the proposals for the future CAA oversight of ASSI.

VII. Annual External Relations Review – Doc 2011-21 by Mr Rooney

26. The paper provided an overview of the CAA's engagement with external stakeholders in the last 12 months, progress made against the Communications Policy and Framework, the challenges faced, new initiatives and objectives for 2011/12.

27. The Board discussed the priorities for the communications strategy and the role of CAA colleagues in this strategy. It was noted that a number of communications elements are dispersed across the CAA and that a more effective and efficient approach would be to provide a more centralised function. It was also noted that there was a project underway, through the CAA Development Programme, to generate a more consistent and coherent approach to the way in which CAA colleagues communicated with external stakeholders, either face to face or via published material.

28. The organisation's preparedness to respond to crisis events from a communications standpoint was discussed and it was noted that there had been improvements in resilience. The use of external agencies was being considered but it was highlighted that it may not be cost effective to retain such organisations. The potential for reaching audiences outside of the UK was discussed and it was felt that this could be achieved through the use of web-based material. It was also felt that having pre-prepared material available would be of particular benefit. The Board recognised the importance of media training and having an established network of individuals to respond to media requests. In addition, the importance was noted of liaising with other organisations when developing positions to take.

29. The Board noted the contents of the paper.

VIII. National Performance Plan – Doc 2011-22 by Mr Swan

30. Mr Westaway provided the Board with a presentation outlining the background to the National Performance Plan and its targets and performance indicators. The risks, mitigations and next steps were also provided.

31. The difficulties of apportioning the capacity target between European States was highlighted and it was noted that the UK had established a target through the NATS CP3 price control process that differed from the EU proposed target for the UK. It was felt that the target produced through CP3 had been established using a reasonable and robust process and the difference would be discussed with Eurocontrol.

32. The cost efficiency target was further discussed. It was noted that the EU target rate was challenging and did not reflect a number of key issues faced by the UK, including legacy pension costs and complexity of UK airspace. It was highlighted that this is being raised with the DfT, Eurocontrol and the European Commission.

33. The Board were content with the approach outlined but were keen to understand the outcome of the European discussions before the National Performance Plan consultation was published. As a result, it was agreed that, if necessary, the consultation period could be reduced.

Action: Mr Swan

IX. Interim Assessment of Risk and Internal Report – Doc 2011-23 by Miss Jesnick

34. The paper outlined the significant current operational business risks. The paper also provided an update on the current operational business risk management process and planned developments.

35. Miss Jesnick highlighted that the work underway by the Board's Ad Hoc Risk Group would be likely to influence how this paper is presented to the Board in future. It was also noted that work was underway to contact other organisations to learn about their approaches to risk.

36. The Board felt that the risk register should be reviewed to consider the risks posed to the CAA by its subsidiary companies. Consideration should also be given to the risks posed to the CAA by delegating authority and by legislative changes. The importance was noted of ensuring the ongoing appropriateness and effectiveness of mitigation activities.

37. The new 'comply or explain' provisions from The Corporate Governance Code (June 2010) were discussed and it was agreed that the provision relating to the Chair agreeing and reviewing Directors' development plans would, in the case of Executive Directors, be taken forward in collaboration with the Chief Executive. It was agreed that the revised code allowed for this approach.

38. The Board, subject to the comments made at the meeting, endorsed the paper as identifying significant CAA operational business risks and agreed that the responsibility for managing these risks had been correctly assessed.

X. Chief Executive's Report – Doc 2011-24 by Mr Haines

39. Mr Haines updated the Board on recent developments with the Public Bodies Bill and Localism Bill. Updates were also provided on the transfer of Transec activities to the CAA, Trade Union discussions, passenger representation and work underway to support the development of the Aviation Policy Framework. It was agreed that further information on the Aviation Policy Framework would be circulated in due course to Board Members.

Action Mr Haines

40. The item relating to the EU Safety Strategy Conference was further discussed and the role played by the CAA to initiate, and support the production of, a European Safety Plan was commended by the Board.

41. The ability to communicate with AOC holders in response to any future ash event was discussed and it was noted that there were a number of mechanisms available.

42. The Board noted the report.

XI. Directors' Reports

Finance Report – 10 Months Ended 31 January 2011 – Doc 2011-25 by Miss Jesnick

43. This paper provided monthly financial results for the 10 months to 31 January 2011. The operating profit for CAA for this period was £2,997k compared to the budgeted loss of £1,349k. After accounting for net borrowing costs, the profit was £2,596k compared with a budgeted loss of £1,770k.

44. The Board commended Miss Jesnick and the Finance team for the efforts made to recover a significant amount of VAT from HM Revenue and Customs.

45. The Board noted the report.

CPG – Doc 2011-26 by Mr Jackson

46. Mr Jackson provided an update on the situation regarding Goldtrail claims and the work underway in this area.

47. The Board noted the report.

ERG – Doc 2011-27 by Mr Osborne

49. Mr Osborne drew the Board's attention to a complaint received about Heathrow's revised structure of charges and updated the Board on developments in a number of cases relating to pricing transparency. It was also noted that approximately 500 responses had been received from the recent snow information gathering exercise.

50. The Board were also provided an update regarding recent developments on the Civil Aviation Bill.

51. The Board noted the report.

SRG – Doc 2011-28 by Ms Burrett

52. Ms Burrett briefed the Board on the recent Manx2 fatal accident in Cork, Ireland and issues arising from this accident. It was highlighted that the CAA would be providing support as necessary to the Irish and Isle of Man authorities but it was emphasised that the CAA has no accountability with respect to this accident. The Board were keen to be kept informed of progress.

Action: Ms Burrett

53. Ms Burrett also reported on the grounding of a US fleet of Boeing 757s as a result of non-compliance with Airworthiness Directives, but noted that this did not impact the UK fleet. Ms Burrett also briefed on an incident which it was noted did not have an impact of safety levels.

54. The Board noted the report.

DAP – Doc 2011-29 by Mr Swan

55. Mr Swan updated the Board on the Future Airspace Strategy consultation, which had received approximately 100 responses.

56. Mr Swan also briefed the Board on a decision to reject an Airspace Change Proposal relating to a windfarm development in Scotland. It was noted that the decision was based on the Proposal presenting a greater hazard than the threat it was intended to mitigate. The implications of this rejection were discussed and it was agreed that the decision would be discussed with the key stakeholders involved.

57. The Board noted the report.

XII. Legal Report – Doc 2011-30 by Mrs Staples

58. The paper provided a litigation update.

59. The Board noted the report.

XIII. Any Other Business

60. Correspondence Papers- It was noted that the Board had considered the following papers by correspondence and would circulate any comments on these papers to other Board Members:

- i) Governance of Price Controls and Consumer Enforcement
- ii) CAA Development Programme Progress Report
- iii) London 2012 Olympic and Paralympic Games – Update on Airspace Security and Risk to CAA

The next meeting of the Authority will be on Wednesday 16 March 2011 at 2.00pm at Denham Aerodrome.