

**MINUTES OF 405th BOARD MEETING
HELD ON WEDNESDAY 23 JANUARY 2008 AT 10.00 AM**

Present:

Sir Roy McNulty Chairman

AVM Anderson

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

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 N Fincham
Director Economic Regulation & Competition Policy For Item I

Apologies for absence were received from Mr R P Mountford.

I Presentation on Stansted Price Control by ERG.

1. Mr Fincham, Director Economic Regulation & Competition Policy ERG, gave a presentation on the options for the future economic regulation of Stansted airport following the Secretary of State's decision not to de-designate it. Mr Fincham outlined the key stages in the process leading to the imposition of new price controls from 1 April 2009. The key messages were set out together with possible stakeholder reaction.
2. A copy of the presentation was handed to Members.

II Minutes of the Previous Meeting and Matters Arising.

3. The Minutes of the Meeting held on 19 December 2007 were approved and signed. On the action points arising:
 - CAA Strategic Review – the Chairman confirmed that senior management would attend stakeholder dialogues being arranged by Sir Joseph Pilling.
 - EASA Extension of Scope to ATM and Aerodromes – Mr Smethers confirmed that the draft response to the consultation had been discussed with DfT.
 - SESAR – Mr Arscott reported that the JU Director was now looking for regulatory input. A National Supervisory Authority workshop is being arranged during March.
 - Administrative Incentive Pricing – the Chairman confirmed that he had discussed this matter with Mr Griffiths who was now seized of the problem. The Ofcom consultation is being published in February.
 - Charges for Air Services – Mr Britton confirmed that the Specifications had been published in the Gazettes.
 - CAA's Health & Safety and Responsibility – Agenda Item.
 - Business Plans – Mr Bell confirmed that he had produced a note on simulator evaluations.
 - ASSI – Mr Britton confirmed that the Company's Business Plan and Budget 2008/09 had been submitted to the Secretary of State as required and approval had been given.

III(i) Chairman's Opening Remarks.

4. The Chairman reported on the following highlights:
 - Meeting with Secretary of State – in addition to the Stansted de-designation issue, the Secretary of State had expressed interest in SESAR, Single European Sky and the environment.
 - Meeting with DGCA – as reported above, the spectrum issue had been discussed with Mr

Griffiths. DfT were keen to progress the Neve report which sought to achieve clarity on the demarcation of functions between CAA and DfT before the conclusion of the Strategic Review.

- High Level Group – the work was now reaching an interesting stage and it would be useful to have a report to the Board in March.

Action: Mr Arscott

- Better Regulation Commission – the Chairman had been informed that the Better Regulation Commission is replaced by the Risk and Regulation Advisory Council.

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

5. The Chairman reported that the next Board workshop is arranged for 29 January. The Review team had now received written evidence. Sir Joseph Pilling would be visiting M Goudou this week. The Review seems to be on course with key lines of enquiry emerging by March. Sir Joseph remains confident that the Review will be completed by the summer.

IV Directors' Reports:

ERG – Doc 2008/1 by Dr Bush.

6. Dr Bush reported on the following highlights:

- EU Directive on Airport Charges – following the European Parliament vote, the Commission is to produce a further text seeking to reconcile the Council and Parliament approaches. The general approach which was broadly satisfactory for the UK is not yet secured.
- Airport Regulation – the final consultation period for the Heathrow and Gatwick price control reviews ended on 21 January. Hearings will be held next week. A further report will be made to the Board at the end of February which will set out the Panel's final views.
- Competition Commission's Market Inquiry into BAA – the Competition Commission has invited the CAA to submit a paper setting out its views on the future regulatory regime within the next few weeks.

7. The Board noted the Report.

CPG – Doc 2008/2 by Mr Jackson.

8. Mr Jackson reported on the following highlights:

- Implementation of APC – the various workstreams to complete the documentation are on course. A meeting is arranged with AIG on Friday as part of its due diligence on the major tour operators. Negotiations with Barclays on the wording of the facility documentation should be completed by the end of the month.
- BERR Guidance on the Definition of a Package – Ministers have now approved the

Guidance for publication. This will be very low key.

- New BA Airline – an application has been received from BA in respect of its new subsidiary, OpenSkies, which will commence services from Paris and Brussels to New York from June.
- UK International Airlines – the company voluntarily ceased operations on 24 December as a result of the departure of its Director of Flight Operations and other technical staff and crew. Substantial sums of money appear to have been lost. Meetings have been held with the airline's potential administrator.
- White Eagle/Fly Whoosh – this Polish carrier operating scheduled services from Dundee to Birmingham and Belfast withdrew services with minimal notice on 6 December affecting some 1,800 passengers who were booked to travel. CPG is investigating the withdrawal with a view to establishing responsibility for compensation payments.

9. The Board noted the Report.

SRG – Doc 2008/3 by Mr Bell.

10. Mr Bell reported on the following highlights:

- BA 777 Accident at Heathrow 17 January 2008 – the aircraft had an uneventful flight from Beijing and was established on the ILS approach to Runway 27L at Heathrow. The approach was progressing normally with autopilot and auto throttle engaged until the aircraft was at a height of approximately 600ft and two miles from touchdown. The aircraft descended rapidly and struck the ground some 1,000ft short of the paved runway surface. Fortunately there were only minor injuries. AAIB had issued a first preliminary report on Friday 18 January. Work is continuing on all fronts to identify why neither engine responded to throttle lever inputs during the final approach. It is not yet determined whether the problem related to the individual aircraft or whether it is a fleet-wide problem. The AAIB investigation is focusing on technical rather than operational issues. Fortunately, all components are available to the investigators. It seems clear that the pilots performed admirably. Fleet-wide grounding of aircraft is comparatively rare, the only large transport examples from recent history being the DC-10 in 1980 and Concorde in 2000. However, neither EASA nor the CAA have received evidence that the fleet should be grounded. An initial report update is expected from AAIB later in the week.
- Simulator Approvals – EASA becomes legally competent for flight simulators at the end of January 2008. Implementing Rules will be developed for delivery in 2009 and these will set out how simulator inspections will be carried out and certificates issued. Until the Rules are in place, EASA has agreed to continue with existing arrangements. It is anticipated that

from February EASA will contract overseas simulator approvals to States with the necessary expertise. This would be a good business opportunity for CAA International.

- Flyglobespan – the company had voluntarily surrendered its ETOPS approval. A very detailed audit will be undertaken before the approval can be reinstated.
- Dr Tony Evans – the former Chief Medical Officer now ICAO's Chief Medical Officer, has been awarded an Honorary Degree for work in developing new methods of testing vision for licence applicants. The colour vision test is currently being reviewed by CAA International for possible commercialisation.

11. The Board noted the Report.

DAP – Doc 2008/4 by Mr Arscott.

12. Mr Arscott reported on the following highlights:

- Single European Sky – the Single Sky Committee had discussed concerns on the process and scope for the EASA Notice of Proposed Amendment for ATM/ANS. The Commission expressed the view that the extension of EASA's competence into ATM must be overseen by the SSC.

Operational arrangements for the UK/Irish FAB were received in December. Regulators have yet to be asked to formally assess the proposals.

- SESAR – Patrick Ky, the SESAR JU Executive Director, indicated to the Single Sky Committee that he was awaiting the outcome of the implementation plan before deciding on a mechanism to ensure regulatory involvement in the development phase. He was keen to visit the UK to discuss the project.
- Air Transport White Paper – DfT are holding consultations on Heathrow with a public roadshow programme starting on 14 January. So far, the exhibitions have not been particularly contentious or well attended.
- Commission Conference – David McMillan had made his first presentation on Eurocontrol's future which had been well received. There was increasing co-operation between Eurocontrol and the Commission.

13. The Board noted the Report.

V Legal Report – Doc 2008/5 by the Secretary.

European Air Traffic Management Steering Group

14. The Terms of Reference for the Steering Group were approved by the Board.

CAA's Health and Safety Policy and Responsibility

15. The Board noted the amended health and safety accountabilities and endorsed the revised CAA health and safety policy.

VI CAA Quarterly Performance Report – Doc 2008/6 by Miss Jesnick.

16. Miss Jesnick presented the CAA Quarterly Performance Report for the period October to December 2007. The Report was in a new form including Finance, HR, Corporate Plan, Continuous Improvement and Corporate Communications. The key points to note were –

- Finance – there was a significant risk to achieving the target rate of return with the possibility of income and operating costs not achieving forecast, in particular within SRG. All possible actions are being taken to enable the required rate of return to be achieved. The business case on IT spend which is being prepared for the CAA Management Committee and then the Board, has been put back. An issue has arisen in that suppliers are increasingly putting resources offshore where there is no means of vetting people. This risk might be acceptable on a development project but not for mainstream systems such as the HR and Finance system. The consequence would be an increase in the cost of the project for employing onshore resources which could be security cleared. In discussion, the recent downturn in the economy and its possible impact on air travel and CAA's volume charges was noted. The Chairman asked Miss Jesnick to prepare a contingency plan in relation to the 2008/09 budget to present to the Board in February.

Action: Miss Jesnick

- Human Resources – the HR strategic priorities for 2008-2012 had been reviewed to ensure that resourcing was appropriately covered. The EASA schooling issue had been resolved. The Commission had agreed that EASA could enter into contracts with schools in Cologne which would be free of charge for the staff member who would forego any education allowance. The Chairman requested feedback to the Board on the diversity review currently taking place in respect of live recruitment campaigns.

Action: Mrs Hastings

On the skills audit, the Chairman asked the HR Steering Group to look at the skills audit in general, in particular the balance of generalist and technical representation in Europe. The Strategic Review may well have recommendations to make on this point.

Action: Mrs Hastings

17. Members commented that the new form of presentation was very helpful and in particular allowed non-executives to survey the CAA's activities and attain more information more easily.

18. The Board noted the Report.

VII European and International Strategy Report – Doc 2008/7 by Mr Smethers.

19. The Chairman commended the review of EASA in 2008 set out in the Annex to the Board Paper.

20. The Board noted the Report.

VIII Update on Developments in Slot Policy – Doc 2008/8 by Dr Bush.

21. This item was deferred.

IX Assessment of Risk and Internal Control – Doc 2008/9 by Miss Jesnick.

22. Miss Jesnick reported that over the past nine years the CAA had been developing a process whereby the Combined Code of Corporate Governance requirements on controls and risk management systems could be complied with. The latest version of the Code which came into force on 1 November 2006, had caused the CAA to refresh its approach to the business risk management process. Following the Board Risk Workshop in May 2007, the Board had identified 16 high level risk statements. In addition, the CAA Groups had identified their high and medium level risks along with those risks associated with potentially high profile events. The Board Paper had been produced before the BA 777 accident. As the cause is currently unknown, mitigations cannot be taken. Airworthiness responsibility had now transferred to EASA, although the CAA was vulnerable to a reputational risk. In view of this transition it was important that Ministers did not ask CAA to undertake actions it no longer had powers for. It would be sensible to seek agreement in advance with DfT on this.

Action: Chairman

23. Miss Jesnick said that the Board Thinkpiece in March would be on risk.

24. The Board endorsed the Paper as a statement that:

- It identifies the CAA's significant risks at this stage.
- The responsibility for managing the risks has been correctly assessed.

X Draft Corporate Plan – Doc 2008/10 by Miss Jesnick.

25. Miss Jesnick reported that the draft Corporate Plan had been presented to the CAA Management Committee in December. The draft had been amended to include the latest updates on items carried forward from the current Plan and comments received from CMC members. The Plan was in a new form to provide the reader with a document that is easy to follow. In discussion, it was pointed out that some of the CAA wide balanced objectives did not

have individual objectives which linked back to the text. There needed to be further mention of the consumer and environment issues.

26. The Chairman said that the section on EASA should refer to the priority objectives which Mr Smethers had set out in his Paper. The draft Plan was a substantial improvement over its predecessor. Detailed comments should be submitted to Miss Jesnick by 6 February.

27. The final version of the Plan will be presented to the Board at its March meeting.

Action: Miss Jesnick

XI Any Other Business.

(i) Agenda Plan Update.

28. March 2008 – add High Level Group, Slot Trading Policy Update, Consumer Policy.

June 2008 – add BAA Competition Commission Inquiry.

(ii) SRG Scheme of Charges 2008/09.

29. Following approval by the Board of the SRG Scheme of Charges in November 2007 further consideration had been given to the consultation responses and the following amendments were proposed –

- the proposed annual charges for stand alone Flight Information Service (FIS) units and stand alone Communication, Navigation and Surveillance (CNS) Air Navigation Service Providers (ANSPs) will be phased-in over a five-year period in accordance with Charging Principle 8. The 2008/09 annual charge for both stand alone ANSP types will be set at £200 (the original consultation proposed £1,000);
- where a maintenance organisation holds a Part-145 or a Part-M Subpart G or a Part-M Subpart F approval as well as a BCAR M3 approval then there will be no annual charge levied for the M3 approval;
- where a maintenance organisation holds a Part-145 or a Part-M Subpart G or a Part-M Subpart F approval as well as a BCAR B1 approval then there will be no annual charge levied for the B1 approval;
- the charge for low flying exemptions in respect of aerial work flights operated other than by a holder of an AOC or AAC, shall increase by inflation only to a fixed fee of £103 pending further investigation for a possible amendment in 2009/10.

30. The Board approved the amendments.

Board Thinkpiece on the Environment.

A copy of the presentation given by Peter Griffiths, Director General Civil Aviation and Martin

Capstick, Head of Aviation Environmental Division DfT, is attached to these Minutes.

The next Meeting of the Authority will be at 10.00am on Wednesday 20 February 2008 in Conference Room 1, CAA House