

CIVIL AVIATION AUTHORITY



FOR PUBLICATION

MINUTES OF 433rd BOARD MEETING HELD ON WEDNESDAY 21 JULY 2010 AT 09.30 AM**Present:**

Dame Deirdre Hutton

Chair

Mr A Haines

Chief Executive

Dr C Bell

Ms G Burrett

Dr H Bush

Mr D Gray

Mr R T R Jackson

Miss C Jesnick

Mr M Medicott

Mr R P Mountford

(for items I-III and and IX-

XVII)

Mr M Swan

Capt R O Whitefield

Mr R J Britton

Secretary & Legal Adviser

In Attendance:

Mr C Matthews

(for item I)

Chief Executive, BAA

Ms E Gilthorpe

(for item I)

Director of Regulation, BAA

Mr T Williams

(for item VI)

Head of Health, Safety & Environment

Ms S Kaur

(for item VII)

Head of Organisation Development

Mr M Smethers

(for item VIII)

Director of European & International Strategy

Mr L Murtagh

(for item XII)

Head of Information Services

Ms S Youngman
Acting Head of Corporate Communications

Mrs A-M Hopcroft
Minute Taker

Apologies for absence were received from AVM North. Mr Mountford also extended apologies but would have to miss sections of the Board meeting to attend to other matters.

I. Presentation from BAA

1. The Chair welcomed Mr Matthews and Ms Gilthorpe to the meeting as the first of a new programme of external stakeholders presenting to the Board and highlighted the keenness of the Board to become more outward facing and seek stakeholder input.

2. Mr Matthews' presentation focused particularly on Heathrow, highlighting that it services a large number of long haul destinations, has significant transfer traffic and has no low cost carriers. The strategy for Heathrow was outlined as were the priorities for the short, medium and long term.

3. In terms of short term priorities, it was felt that a collaborative approach by the airport and its resident airlines was key to improving punctuality. The improvements in customer service at Heathrow were noted. Mr Matthews also noted that focusing on the 'soft aspects' of customer service such as staff being helpful and courteous has been shown to have a significant impact on passenger experience.

4. The medium term priorities relating to infrastructure improvements were discussed and it was highlighted that this is often a difficult and complex area on which to consult stakeholders.

5. Mr Matthews highlighted a number of long term strategic issues relating to capacity, regulation and ownership. With regard to regulation, it was felt that this should encourage a collaborative approach. Mr Matthews also felt that the preservation of a UK hub was key to protecting customer choice.

6. Ms Gilthorpe outlined to the Board a number of issues relating to the Heathrow price control, particularly concerns that there were few incentives remaining in the model. She highlighted the BAA view that the returns were not adequate to fund ongoing investment and that a high risk – low return framework had developed, which needed to be addressed before the price control for Q6 was set. It was noted that other models existed and the example of the volume risk-sharing model used in the NATS Price Control was cited. A number of strategic and practical issues, and opportunities, associated with Q6 were outlined.

7. Due to the time constraints on Mr Matthews, the Board did not have the opportunity to pose questions to Mr Matthews and Ms Gilthorpe but it was agreed that they would be invited back to a future Board meeting so that the issues raised during their presentation could be further explored.

Action: Chair

8. On behalf of the Board, the Chair thanked Mr Matthews and Ms Gilthorpe for the presentation provided. Mr Matthews extended an invitation to Board Members to visit Heathrow if the opportunity arose and invited the CAA to present to the BAA Board on a future occasion.

II. Minutes of the Board Meeting held on 23 June 2010

9. The minutes of the previous meeting were approved, with a minor editorial change, and signed.

III. Chair's Opening Remarks

10. The Chair outlined a number of joint visits undertaken with the Chief Executive. In particular, their visit to Flybe was discussed and it was noted that, while many of the Flybe Board Members had no previous aviation experience, the different perspectives that these Board Members brought had been cited as a significant factor in helping the airline to expand and be resilient to difficult financial conditions.

11. The Chair also took the opportunity of his retirement, both personally, and on behalf of the Board, formally to thank Mr Britton for his contribution to the CAA. This was the 180th Board meeting Mr Britton had attended as Secretary & Legal Adviser and Board Members were deeply grateful for his contributions both to the Board, and the CAA as a whole.

IV. Future Airspace Strategy– Doc 2010-97 by Mr Swan

12. The paper provided the executive summary of the latest draft of the Future Airspace Strategy (FAS) report and the FAS Challenge Team's final report, which had been produced following the Team's independent review of the draft FAS document. The paper also outlined the key issues and risks associated with FAS.

13. Mr Swan summarised some of key issues to the Board, including the emphasis on safety as the primary goal of FAS and that while airport capacity was not considered as part of the scope, the FAS work could inform future airport strategy. It was noted that delivery of FAS would be dependent on a collaborative approach being taken by Air Navigation Service Providers (ANSP), airlines and airports and European developments would affect the longer-term outcomes. The significant number of deliverables outside of the CAA's direct control was highlighted and it was noted that there are also a large number that are common to all three of the Airspace Demand Scenarios that were modelled to test the future airspace structure. Given that many of the outcomes were not within the CAA's gift to deliver, managing expectation as to what the strategy set out to achieve would have to be carefully managed. It was agreed that Board Members would be provided copies of the FAS master and operational plans.

Action: Mr Swan

14. The key priority attached to safety was welcomed by the Board but there was concern that this would cause conflicts with proposed environmental improvements and it was not clear from where guidance to allow the CAA to strike the balance between environmental trade off considerations would be derived. It was recognised that there was still a strong environmental driver and it was accepted that FAS would have to sit within the 37 million tonne aviation CO₂ emission Government target for 2050. It was noted that there should be reference to the fuel savings already achieved and it was stressed that the report itself should be explicit in all of these areas.

15. The investment required to take the FAS work forward was discussed. It was noted that the

operational deliverables for the first five-year period up to 2015 were already accounted for within the NATS Master Plan and this would provide some early benefits. It was noted that beyond 2015, there would be further industry investment required. It was highlighted that approximately 95% of airlines at London Heathrow Airport for example, are already equipped to benefit from FAS developments, but it was acknowledged that safety issues could arise if equipment was not consistent across the industry.

16. In response to a question about industry using FAS as a platform to improve safety, it was noted that potential capacity improvements were likely to be a key motivation for industry but that keeping safety as the primary goal would provide assurance of safety improvements. It was also noted that the improvements in the Air Traffic Management (ATM) system would provide resilience and performance improvements.

17. The issue of capacity having a limiting effect on demand was further discussed. It was noted that the FAS work had deliberately tried not to impinge on any Government policy issues and highlighted that FAS was focused on producing an airspace strategy that could respond to policy decisions relating to demand. It was recognised that limiting demand could result in it being diverted outside of the UK. It was felt that the report would benefit from being clear in this regard but also that this was one of a number of contextual areas that could be explored through a short 'plain English' summary document.

Action: Mr Swan / Ms Youngman

18. It was noted that there were key risks associated with the Single European Sky ATM Research initiative and both the UK / Ireland Functional Airspace Block (FAB) and FAB Europe Central (FABEC). It was felt to be important for the UK / Ireland FAB to have a clear vision focused in the broader European context.

19. The next steps in terms of consultation were discussed. It was agreed that a full public consultation would not be required but there was a clear need to consult with industry, Europe and the US. It was also agreed that the 'plain English' summary document previously referenced could be a useful method of explaining FAS to the wider community, acknowledging that the "Airspace for Tomorrow" series of documents was already seeking to address.

20. The Board were keen to see how this work developed and highlighted the importance of a clear communications strategy to take it forward, particularly relating to the benefits and risks to the delivery of FAS. It was agreed that the Board would be provided with an update in November with the final report scheduled for presentation in January 2011. In the longer term, there would not be any critical decisions required for a few years.

21. The Board recognised the work undertaken to move this work forward and congratulated the FAS team in this regard. The value of using a Challenge Team was recognised and welcomed by the Board. The Board approved the FAS industry engagement process scheduled for Summer 2010 and re-emphasised the need to have safety as a key priority for FAS.

V. Volcanic Ash Progress Report – Doc 2010-98 by Mr Haines

22. The paper updated the Board on the current position on various issues relating to the volcanic ash crisis.

23. It was noted that progress against a number of the volcanic ash workstreams had slowed and the reasons behind this were explored, including the multi agency focus of some of the workstreams. It was noted that this work would be further discussed with the Department for Transport (DfT), and that the DfT would be provided with a weekly update of progress. It was felt that the CAA could not be held responsible for delivering actions that were outside of its control. It was agreed that a schedule of workstreams, including accountabilities would be circulated to Board Members and a clear statement produced of what was expected of other responsible parties.

Action: Mr Haines

24. The Board discussed a number of strategic issues resulting from the volcanic ash crisis such as the retention of expertise, corporate communications, flight and engine testing, crisis management and the potential for sharing high level risk registers with other key stakeholders. With particular regard to crisis management, it was noted that the Board would be briefed on an evaluation of the updated crisis management arrangements in the first half of 2011.

25. Engine testing was further discussed. It was noted that the existing certification criteria in respect of ash are that ash should be avoided. EASA are working towards further developing these criteria but this is likely to take some time. It was agreed that the CAA should continue to push for engine manufacturers to carry out testing so as to establish more accurate ash tolerances.

26. The easyJet AVOID (ash detection) system was discussed. This appears to be the only ash detection initiative under development and the inventor of this system is presenting the concept to an ICAO Volcanic Ash Task Force meeting in the coming weeks.

27. It was noted that work was underway to develop a framework to facilitate a more consistent approach to decision making across Europe based on standard risk management techniques. It was highlighted that the EU Transport Council had agreed the need for a standard framework and that flight crews should not solely be responsible for deciding the action to take when ash is present.

28. The Board noted the contents of the paper.

VI. Health & Safety Quarterly Report – Doc 2010-99 by Mr Swan

29. The paper provided the Board with a summary of CAA annual incident statistics, monthly incident statistics, fleet vehicle road traffic incidents, Health & Safety (H&S) Committee recommendations from its meeting on 8 June, progress on the H&S Audit Programme, significant H&S risks and H&S Key Performance Indicators (KPIs). A summary of a recent benchmarking exercise was also provided.

30. Following a request from the Board at the presentation of the previous H&S Quarterly Report, a summary had been provided outlining the key points of the report and actions undertaken. In particular, this outlined the work underway with regard to management H&S visits, which are due to start in September, and also the progress made toward resolving the risks associated with

contractors. It was suggested that it would be beneficial to promote a positive Health & Safety culture.

31. In response to a question regarding stress management, it was noted that the output from the stress related questions in the colleague engagement survey was being analysed and benchmarked against other organisations. It was highlighted that this is a difficult area to analyse, particularly with respect to identifying stress that is specifically related to the work environment. The Board recognised that the organisation is subject to a significant amount of external and internal change, and it was felt important to try to establish appropriate metrics to measure the impact of these changes on staff.

32. It was noted that the Chief Executive would become the Director responsible for Health & Safety at the end of 2010.

33. The Board noted the content of the paper and welcomed the new summary page.

VII. Values & Behaviours Framework – Doc 2010-100 by Mr Haines

34. The paper provided background information on the Values & Behaviours Framework, development and testing of the framework, risks in introducing the framework and planned next steps.

35. Ms Kaur outlined how the framework would be integrated into the CAA's processes, for example induction, recruitment etc., and the work that would be undertaken within the organisation with regard to demonstrating the values and behaviours both internally and externally. It was noted that the framework would be piloted in a number of areas for the October performance management mid-year review process. It was highlighted that managers would be expected to address any displays of poor behaviour.

36. It was felt that the framework could be perceived as being too internally focused and it was agreed that this would be addressed. It was also agreed that the values be associated with clear guidance as to the appropriate related behaviours so that there could be no misperception as to the meaning of the values.

Action: Mr Haines

37. The external testing of the framework was discussed and it was noted that the external view was that the correct values had been chosen although there were differing views about the extent to which the CAA already displayed these values. It was questioned whether the CAA would use 360 degree feedback incorporating external views but it was recognised that there could be potential issues regarding anonymity. It was also suggested that a prioritised approach be taken to the embedding of the values and behaviours but it was acknowledged that the organisation also need to display a balanced set of behaviours.

38. The Board approved the value & behaviour framework and endorsed the next steps to embed this within the organisation.

VIII. European & International Strategy Quarterly Report – Doc 2010-107 by Mr Haines

39. The paper provided briefing on the Transport Council meeting on 24 June, Single Sky, EASA and ICAO.

40. It was noted that the CAA was well placed to respond to and influence the Single Sky initiative, particularly with respect to the ANSP performance regime. The risk associated with the potential conflict between European targets and those set through NATS price control process was discussed but it was felt that the situation would become clearer over the coming months.

41. It was recognised that EASA would not become fully mature until all of the Implementing Rules are in place and that there was significant opportunity for CAA to support EASA as it matured although it would require the CAA to have both sufficient capability and flexibility. The work carried out by CAA International (CAAI) on behalf of EASA was further discussed. It was recognised that EASA is subject to complex EU rules regarding budgeting and it was reported that further discussions were being held on this subject. It was felt that a more in depth discussion should be held on the relationship between the CAA and EASA and agreed that this would be scheduled.

Action: Mr Haines

42. The work being taken forward by EASA and European Commission with regard to volcanic ash was discussed and it was agreed that DfT support was required.

43. It was noted that Chief Executive and Ms Burrett were attending the ICAO Assembly in September and that an ICAO Volcanic Ash Task Force was meeting in late July.

44. The Board noted the contents of the report.

IX. Progress Update on CAA 'Significant Seven' Task Forces – Doc 2010-103 by Ms Burrett

45. The paper provided a summary of the output of the Task Forces that were set up following the 2009 Safety Conference to address the seven top safety risks identified by the CAA safety risk analysis process. In particular, the paper outlined the main desired outcomes and success measurements for each of the safety risks, and the next steps.

46. Ms Burrett also highlighted the work underway to produce the UK State Safety Programme for April 2011 and the possibility of offering this as a template for a European Safety Programme.

47. It was highlighted that industry may have a view on whether the significant seven safety risks are the most appropriate and this was a clear reason to consult on the work.

48. It was noted that the CAA has previously produced CAA Safety Plans outlining actions being undertaken by the organisation to address safety risks. It was felt that there should now be a move, in collaboration with industry, towards a UK Safety Plan. This could be the subject of discussion at a CAA / industry safety conference later in the year.

49. In response to a question about how this work aligned with the Strategic Review of Safety Regulation, it was noted that the Review was likely to recognise the need for a risk reduction process and that the Significant Seven work would form a key element of this process. It was also noted that any issues identified through the Significant Seven work, for example the need to collaborate with industry, would provide input to the Review. It was highlighted that the Board would be briefed in

more detail on the Review in November.

50. The next steps for the Significant Seven work were discussed and it was noted that the work would be taken forward with industry and develop a more dynamic nature. In addition, it was noted the Significant Seven work would be integrated with the National Performance Plan and Future Airspace Strategy tasks.

51. The Board endorsed the move towards a UK Safety Plan with greater collaboration with industry, and looked forward to hearing more about the Strategic Review of Safety Regulation later in the year.

X. Quarterly Key Performance Indicator Report – Doc 2010-104 by Mr Haines

52. The paper outlined a selection of industry trend, business delivery, stakeholder and people KPIs. It was emphasised that the paper was still in development and further work would be carried out particularly with respect to the work being undertaken on the CAA's Strategic Plan, KPIs for the Development Programme and Engagement Pulse Survey.

53. It was felt that the KPIs should provide a mechanism for measuring the efficiency of the organisation and therefore should reflect areas that the CAA controlled. It was agreed that the industry trend data provided contextual information but should not be considered KPIs. It was also suggested that greater use of leading indicators would be of interest to the Board.

54. Introducing a KPI linked to the engagement pulse survey was further discussed. It was felt that a quarterly pulse survey KPI would provide a useful monitoring tool as to whether improvements were being made.

55. A number of proposed KPIs were suggested, particularly relating to employee diversity, resolution of complaints, time from application to end product, media coverage, website access and external engagement. It was felt that the business delivery KPI section in particular needed further work and that KPIs reflecting the value added by the organisation would be of interest.

56. It was agreed that there was a need to provide a small set of KPIs for the Board, which provided a strategic overview of the organisation and provided assurance that more detailed KPIs were being monitored by the organisation. It was felt that once the Board level KPIs had reached a level of stability and maturity, consideration should be given to publishing these providing this did not compromise their usefulness to the Board.

57. The Board noted the contents of the report.

XI. Annual CPG Review – Doc 2010-105 by Mr Jackson

58. This was the first of a new series of papers, which will review different aspects of the organisation, providing Non Executive Directors in particular, with greater oversight of the individual business functions.

59. Mr Jackson highlighted that since April 2010, CPG had received over 1400 written enquiries and dealt with approximately 600 telephone enquiries per month. Although it was difficult to generate a quantitative measure of customer satisfaction, it was generally felt that the CPG team provided a reassuring, authoritative response that is appreciated.

60. The Air Travel Trust (ATT) insurance policy was further discussed and it was highlighted that the Board would be kept informed of the renegotiation process through the CPG monthly report.

61. The passenger experience work at Heathrow was further discussed and it was questioned whether similar work would be undertaken at Gatwick although noted that it may be more appropriate for the lessons learnt from the Heathrow work to be applied to Gatwick rather than re-running the exercise as a whole.

62. The Board also discussed the delay in the Consumer Protection System (CPS) and resourcing issues. Mr Jackson highlighted that the main challenges for CPG related to ATOL Reform and the structuring of the ATT.

63. The application of the lessons learned from the XL failure was discussed. It was noted that, whilst failures tend to be individual in nature, there have been lessons learned that have been applied to improve the process although it is difficult to collect statistics to measure this improvement.

64. The content of Review papers in general was discussed. It was felt that future Review papers could outline key responses against the objectives that will be contained in the CAA Strategic Plan.

Further suggestions for additions to future papers were:

- a 'cost per function' metric
- an indication of how the business function would look like in five years time
- an indication of the most significant challenges both now and in the future, the level of ambition to address these and the risks to the CAA.

65. The Board noted the content of the paper.

XII. IT Quarterly Report – Doc 2010-106 by Miss Jesnick

66. The paper provides the Board with an update of current progress on IT programmes and projects.

67. Mr Murtagh briefed the Board in more detail on the current status of key programmes and projects. It was noted that, for some projects, the existing IT equipment / software was reaching its end of life. It was also noted that there are a number of concerns with legacy systems. However, it was highlighted that lessons had been learned from the CPS project, which would improve the management of future projects.

68. It was recognised that the organisation was undergoing a significant amount of change and highlighted that the IT programme had to be flexible and pragmatic to support this change.

Governance changes to the overview of the IT projects / programmes were outlined, which had been put in place in order to ensure that the projects / programmes were prioritised to deliver the most benefit to the business. It was highlighted that not all benefits would be IT driven as some would be process improvements identified by the organisation, which may be supported by IT.

69. The strategic nature of the IT programme, particular in terms of how it would contribute to the overall efficiency of the organisation and how it could be balanced against other resources, was further discussed. It was noted that this would be included in the Strategic Plan at a high level but that detailed discussions and decisions would be made at the CAA Executive Committee. However, it was suggested that the Board be kept informed of significant cross-CAA projects, such as the Financial Information and Resource Management project.

70. In response to a question regarding project reviews, it was noted that the projects are reviewed particularly with respect to risk assessment and appropriate contingency funding.

71. It was agreed that future versions of the paper would benefit from the inclusion of the benefits realisation of each project / programme, although it was recognised that this may include improved effectiveness rather than efficiency savings. In addition, further information regarding the risks and urgency for each project would be useful.

72. The Board noted the contents of the paper and requested a further update in September.

XIII. Finance Report – 3 Months Ended 30 June 2010 – Doc 2010-102 by Miss Jesnick

73. This paper provided financial results for the 3 months to 30 June 2010, a revised forecast for 2010/11 and a financial report for CAAi for the 3 months to 30 June 2010.

74. For the first quarter for 2010/11, the CAA's operating profit, after accounting for net borrowing costs, was £1,793k compared with a budgeted loss of £129k.

75. It was noted that there had been a significant reduction in operating costs, primarily due to a decrease in employment costs, and that resourcing requirements were being regularly reviewed at a senior level. The improvement in the trade deliverables was also recognised.

76. The CAAi financial report was further discussed and it was noted that some of the anticipated work had been slower to grow than expected but it was felt that this would be resolved as the year progressed. It was highlighted that CAAi were looking at benchmarking and KPI, which would be incorporated in future Quarterly Reports to the Board.

77. The Board noted the contents of the report.

XIV. Chief Executive's Report – Doc 2010-108 by Mr Haines

78. Mr Haines drew the Board's attention to the ministerial statement on the Economic Regulation of Airports, which had been released during the Board meeting. The engagement survey results were also discussed.

79. The Board noted the report

XV. Directors' Reports

ERG – Doc 2010-109 by Dr Bush

80. Dr Bush briefed the Board on the NATS Price Control proposals (published in May 2010), which have been updated to reflect the Single European Sky II Revised Charging Regulation. The updated document is scheduled to be published by the end of July.

81. In response to a notification from the Secretary of State of scarce bilateral capacity on the route between London and Cairo and/or Alexandria, the Board appointed a Panel to conduct a hearing. The Panel will be chaired by Dr Bush and will comprise Messrs Jackson and Medicott.

82. Dr Bush also highlighted that there were working arrangements in place to support the DfT with the Airport Economic Regulation Bill, and that the web-based Airport Coordination Ltd slot service would provide greater transparency. It was also noted that the Government's South East Airport Task Force had met for the first time on 14 July and the next steps for this Task Force would be discussed with the DfT.

83. The Board noted the contents of the paper

SRG – Doc 2010-110 by Ms Burrett

84. Ms Burrett drew the Board's attention to an issue that had arisen through the work relating to the Standardised European Rules of the Air, which could impact the UK's ability to file differences with ICAO.

85. Ms Burrett also briefed the Board on concerns with Elstree aerodrome, which had resulted in its licence being provisionally suspended. The background to this situation was discussed and it was agreed that further information would be sought regarding the Elstree's last inspection and also the scheduling of audits at smaller aerodromes.

Action: Ms Burrett

86. The Board noted the contents of the paper

DAP – Doc 2010-111 by Mr Swan

87. Mr Swan drew the Board's attention to the Unmanned Aircraft System update in the report and highlighted that the CAA should recognise the political aspect associated with the airspace change request, which is being monitored closely.

88. The Board noted the contents of the paper.

XVI. Legal Report – Doc 2010-112 by the Secretary

89. As a result of his retirement, Mr Britton requested that the Board make the following appointments for Ms Staples, who will be taking up post as the CAA's Secretary & Legal Adviser from 1 September:

- Trustee of the Air Travel Trust
- Company Secretary of Air Safety Support International Ltd
- Company Secretary of CAA International Ltd

90. The Board endorsed all of these appointments.

91. The Board noted the contents of the report.

XVII. Any Other Business

92. Mr Jackson briefed the Board on the background of the Goldtrail failure and the steps being taken to address the situation.

The next meeting of the Authority will be on Wednesday 15 September 2010 at 09.30 in Room K705, CAA House