

CIVIL AVIATION AUTHORITY



FOR PUBLICATION

**CIVIL AVIATION AUTHORITY
MINUTES OF 432nd BOARD MEETING HELD ON
WEDNESDAY 23 JUNE 2010 AT 10.30 AM**

Present:

Dame Deirdre Hutton

Mr A Haines

Dr C Bell

Ms G Burrett

Dr H Bush

Mr D Gray

Mr R T R Jackson

Miss C Jesnick

Mr M Medlicott

Mr R P Mountford

AVM B North

Mr M Swan

Capt R O Whitefield

Mr R J Britton

In Attendance:

Mr R Abramson

Tower Watson

Mr S Baker

Head of Finance and Corporate Services

Mrs N Hastings

Head of Human Resources

Ms A Craker

CAA Development Programme Director

Mrs A-M Hopcroft

Minute Taker

Chair

Chief Executive

(for items II-XIV)

(for items I-V)

Secretary & Legal Adviser

(for item I)

(for item IV-V)

(for item VII)

(for item VII)

I. CAA Pension Scheme Valuation – Doc 2010-83 by Miss Jesnick

1. A number of declarations of interest were declared by Board Members:
 - Mr Mountford, as Chairman of the Trustees of the CAA Pension Scheme (CAAPS), did not attend the Board meeting for this item.
 - Messrs Jackson and Britton also declared an interest given their roles as Trustees of CAAPS.
2. The dual Board Member / Trustee role was discussed and it was noted that, whilst it may not be commonplace, the guidance provided by The Pensions Regulator does allow for this dual role but highlights the need for robust conflict management procedures particularly where the Chair of the Trustees or the Finance Director of a company has this dual role. These procedures have been complied with by Mr Mountford's absence from the Board meeting for this item.
3. The paper set out the proposals and options for how to negotiate with the Trustees following receipt of the draft results from the December 2009 valuation of the CAA Pensions Scheme. When presenting the paper, Miss Jesnick highlighted the need to set the paper against the recent announcement on the establishment of an independent Public Service Pensions Commission, chaired by Lord Hutton, and also the CAA's work to develop a CAA People Strategy. Mr Abramson outlined the likely timescales and outputs of the Commission, which will undertake a fundamental structural review of public service pension provision. It was noted that, whilst CAAPS was outside the scope of the review, the outcome of the review was likely to change the context in which the Scheme operates.
4. The provision for the contingency fund established on separation of NATS was discussed and it was agreed that retention of the contingency fund at current levels given other needs was not justifiable. The employer's contribution level was also discussed and it was recognised that any significant increase in contributions would be reflected in charges to industry, which is already facing difficult economic conditions.
5. The increase in cost of administering CAAPS was highlighted but it was noted that assurances had been sought that the costs were being kept to a minimum and that these were low when compared with other Pension Schemes.
6. Following discussion the Board agreed the approach that should be taken with the Trustees with regard to the draft valuation results, in particular with respect to the level of contingency fund. It was recognised that, given the forthcoming work of the Public Services Pensions Commission and the CAA People Strategy, that both of these issues would need to be considered in moving the pension provision forward. It was also agreed that any further proposals relating to the pension provision should be presented to the Board later this year.

II. Minutes of the Board Meeting held on 19 May 2010

7. Following the discussion on item I, Mr Mountford rejoined the Board Meeting.

8. The minutes of the previous meeting were approved and signed.

III. Chair's Opening Remarks

9. The Chair thanked Board Members for their contributions to the Awayday and noted the decision to normally restrict the attendance of future Board meetings to Board Members, the Secretary & Legal Advisor, and the Communications Director when appointed as a full time post, although non-Board members would be welcomed to the meeting to present papers.

10. The Chair briefed the Board on recent stakeholder engagement opportunities, including visits to Consumer Focus and Which?, and discussions with CBI and Monarch.

11. The Chair also briefed on attendance at the Better Regulation Steering Group meeting on which the Chair had been invited to sit, chaired by Sir Don Curry. This initiative was further discussed and it was noted that there was a continuing need to ensure that proposed legislation was not overly burdensome and to continue with the identification of existing regulations that could be removed or have their impact reduced. It was also felt that the Steering Group's consideration of Regulatory Impact Assessments would be welcomed. In addition, the Chair reported that she also sat on a cross-Government Corporate Governance Steering Group and outlined forthcoming topics of discussion.

IV. Annual Assessment of Risk and Internal Control – Doc 2010-84 by Miss Jesnick

12. In advance of this paper being discussed, Mr Mountford, in his capacity as Chairman of the Audit Committee, presented the draft minutes of the Audit Committee on 9 June and a summary of that meeting. It was noted that the Audit Committee had reviewed the draft CAA Annual Report & Accounts and the Annual Assessment of Risk and Internal Control. The Committee had also received a report from the external auditors, which highlighted no major issues although it was suggested that the start of the external audit be delayed in future until the financial statements are fully drafted, which could result in potential cost savings. The draft Letter of Representation had also been reviewed by the Audit Committee, which was content to recommend its execution. On behalf of the Audit Committee, Mr Mountford recommended that the CAA Board adopt the CAA Annual Report & Accounts and the Annual Assessment of Risk and Internal Control.

13. In addition to the list of current significant business risks and outline of the CAA's compliance with the Combined Code of Corporate Governance, the Annual Assessment of Risk and Internal Control paper also outlined the work that had been undertaken since the Board Risk Workshop, in particular with regard to the development of a risk management framework and the establishment of a risk planning forum. It was noted that the work would be taken forward at a CAA Executive Committee Awayday in July.

14. In response to a question about whistleblowing, it was clarified that both internal and external

whistleblowing procedures are in place and are published. Whilst there had not been any cases of internal whistleblowing during 2009/10, the procedures are subject to internal audit to ensure they are being used and the recent engagement survey had also been used to assess whether there were any internal issues of concern.

15. The development of the risk management work was further discussed and it was noted the Chair was discussing the merits of organising a cross-industry regulator meeting at which the subject of 'black swan' risk would be discussed. It was felt that external challenge to the risk register could provide benefit and it was agreed that more general discussions with other organisations regarding risk management could be mutually beneficial. It was noted that significant business risks would be contained within the Strategic Plan and a key part of the development of this document would involve stakeholder engagement.

16. Miss Jesnick highlighted the need continually to review the risk process to ensure that it continues to be appropriate and it was felt that there should be more external environment scanning as part of the risk management process.

17. Miss Jesnick drew the Board's attention to the new format of the risk register and it was felt that transformation of the risks to this new format should not take priority but that it would be useful to see the risk treatment strategy being applied to each risk.

18. The Board endorsed the paper as a statement that

- It identifies all known significant risks facing the CAA, and
- The responsibility for managing the risks has been correctly assessed.

V. CAA Annual Report & Accounts 2009/10 – Doc 2010-85 by Miss Jesnick

19. Miss Jesnick presented the Annual Report & Accounts for the year ended 31 March 2010. It was highlighted that the accounts had been prepared in accordance with International Financial Reporting Standards for the first time in 2009/10.

20. During discussion, the increased financial commentary was noted, as was the need to add a further Safety Performance Indicator to the document prior to publication. The Board also noted that correspondence had been received in response to the financial losses incurred as a result of the ash disruption but concluded that no contingent liability was required.

21. The Chair and Chief Executive's Statements for the Annual Report & Accounts were tabled at the meeting and it was agreed that these would be produced at an earlier stage next year with the support of the Corporate Communications Department.

22. The publication of the Annual Report & Accounts was discussed and it was noted that the document will be published on the CAA website but that the only printed copies produced would be those required for laying before each the House of Parliament. It was felt that stakeholders might find a condensed version of the Annual Report & Accounts useful and it was agreed that this would be

considered as part of the future development of the Corporate Plan. It was also noted that the structure of the Annual Report & Accounts was as previously published but would be reviewed over the coming year.

23. It was noted that the accounts are not filed at Companies House and as a result CAAPS may be charged a higher Pension Protection Fund levy. Management was advised to contact the Pension Protection Fund's adviser (Dun & Bradstreet).

Post meeting note: This situation was further discussed outside of the meeting and noted that the accounts cannot be filed at Companies House as the CAA is not a company.

24. Miss Jesnick, and the CAA's Finance team, were congratulated for the excellent work undertaken. The Audit Committee and the Remuneration Committee were also thanked for their role in this process.

25. The Board:

- Adopted the CAA Annual Report and Accounts 2009/10, and
- Authorised the Chief Executive and Chief Operating Officer to sign the Accounts, and the Chief Executive and Secretary to sign the Letter of Representation to the auditor, on behalf of the CAA. A copy of the Letter of Representation is attached to these Minutes.

Action: Mr Haines / Miss Jesnick / Mr Britton

VI. Finance Report – 2 Months Ended 31 May 2010 – Doc 2010-86 by Miss Jesnick

26. Miss Jesnick reported that the operating profit for the two months to 31 May 2010 was £392k compared to the budgeted loss of £321k, primarily due to lower than expected operating costs. It was highlighted that the 2010/11 budget is being reforecast and the results will be presented to the Board in July.

27. It was noted the report contained for the first time, further information about debtors. It was highlighted that EASA was currently the most significant debtor and that this would be the subject of senior level CAA / EASA discussions in the coming weeks. It was also felt that a credit rating against each of the significant debtors would provide useful information for the Board. Following discussion, the Board agreed that it would wish to be advised of any situations where a debt from a single organisation exceeded £1m outside of a 90 day invoice settlement deadline so that it could decide what action should be taken in response.

28. The Board noted the report

VII. CAA Development Programme Update – Doc 2010-87 by Mr Haines

29. The paper provided a report on the progress of the CAA Development Programme and summarised the CAA Development team changes, the output of the Senior Management Conference

and the progress with internal communications and engagement. The paper also outlined the work that had been undertaken on the programme plan and the specific projects together with the governance arrangements, budget, risk and proposed milestones.

30. Ms Craker provided the Board with further detail on the progress that had been made though the volcanic ash situation had impacted the Development Programme. In response to a question about the key challenges, it was noted that there is significant complexity in the projects and many of these are inter-linked, which causes particular difficulties where the outputs of one project could potentially pre judge the output of other projects. It was felt that there were also cultural issues to address and recognised that this was not unusual with such a Programme.

31. The Senior Management Conference was further discussed and it was recognised that there is a need for the Development Programme to build on the success of the Conference and continue this momentum.

32. The need for prioritisation of tasks, clarity with regard to outputs and the use of Key Performance Indicators to measure progress was discussed although it was recognised that the Programme was still at an early stage to deliver this information. The concept of intermediate 'islands', which will be used to drive and gauge progress, and a final 'island' showing what the CAA will look and feel like after 2 years, was discussed and welcomed by the Board. It was felt that external stakeholders would be able to provide a useful gauge on how the organisation was changing over time.

33. The cultural elements of the Programme were further discussed and it was suggested that case studies of cultural change in professional organisations be reviewed for any lessons as to how this can be achieved in a manner that respects the dignity and expertise of staff.

34. The Board acknowledged that both the complexity and the early stage nature of the Programme meant that there was a lack of clarity. It was felt that further development of the 'island' work would help with clarity and that there was a need to ensure that the Programme was communicated in a language that was memorable, arresting and relevant to staff. It was also felt that some early achievements would also better illustrate the progress being made. It was recognised that there was a definite appetite for the Programme but that it would be challenging to maintain momentum.

35. The Strategic Plan development was discussed. It was noted that the Department for Transport was being kept informed of progress and that a framework for the Strategic Plan would be presented to the Board in November, followed by extensive consultation. It was recognised that it would also be beneficial to align this work with the legislative timetable. It was also acknowledged that external stakeholders would want to know the impact on their costs and charges of the CAA's strategy. The need for flexibility to incorporate stakeholder views was highlighted as was the need for the Plan to be reflective of the CAA's risk register. The Board endorsed the approach to the Strategic

Plan.

36. The People Strategy was discussed and it was highlighted that although an HR strategy has been in place for some time, it served as a Strategy for the HR department rather than the CAA as a whole. Also it was developed for a different strategic ambition to that now in place. The People Strategy detailed the People related aspects to the successful delivery of the Strategic Ambition. It was recognised that the organisational change required to deliver the Development Programme presented considerable challenges. In particular, managers would continue to require access to the expertise of HR to help them address difficult cases and this needed to be balanced with a need to place greater emphasis on the roles and responsibilities of managers in people management. It was important to focus attention on improving skills and confidence amongst managers to manage the performance delivery of their people effectively whilst continuing to value and develop technical skills.

37. It was questioned whether there were any early achievements that could be made in the People Strategy workstream so that the benefits could be seen by the organisation, which will help continue the momentum in this area. It was noted that success would be heavily influenced by the behaviours of the senior managers so that they acted as examples of expected organisational behaviours and effectively managed performance, among other things. It was felt that the organisation needed to be clear on the extent to which the people strategy was focussed on managing costs or on managing the skills needed to deliver the Strategic Ambition. It was noted that it would be important to see the people strategy through, accepting that it would take significant time and work to establish the required change in organisational culture. The need to ensure diversity in the workforce in its widest consideration was also highlighted.

38. The Board noted the progress made on the People Strategy and asked to see a further condensed paper, which focuses on the key elements of the strategy.

Action: Mr Haines

VIII. Flight Time Limitations – EASA Rulemaking Group OPS.055 – Doc 2010-88 by Ms Burrett

39. The paper provided a background of the work in Europe to establish a single European flight and duty time limitation scheme and the current activity underway particularly with respect to an EASA Rulemaking Group that has been established to address the outstanding Flight Time Limitation issues and develop material to support the Implementing Rules in this area.

40. Ms Burrett outlined the key areas of difference between the UK 's position and the current proposals, which relate to the lack of limits on operating early or late duties (except for some limits covering 0200-0459) and issues with cumulative fatigue. In terms of how to address the situation, it was noted that the CAA had a number of options for managing this situation some of which are not mutually exclusive. It could seek to continue to influence EASA to consider these issues, make

provisions for additional national requirements in this area or rely on a risk management framework to be added to the requirements. It was recognised that oversight of the latter option could be challenging in terms of resourcing particularly as this would also be reliant on industry having mature Safety Management Systems, which is not felt to be uniformly the case. It was felt that there would need to be a clear set of criteria on which a risk management approach could be assessed.

41. The economic impact on airlines of being subject to different regulations than their competitors was acknowledged and it was agreed that a common set of requirements had benefits. It was noted that industry is being kept informed of the situation through the Flight Operations Liaison Group and a further briefing is due to be provided to this forum in July. It was suggested that the long term risks associated with a risk management approach should be considered and factored into any arrangements especially as business models might come under further pressure from fuel prices in the future..

42. The Board agreed that the CAA should continue to engage EASA and other Member States on the key issues, and in particular should press for an appropriate transition period. It was also agreed that the CAA should pursue the risk management framework option including the development of its own capabilities to be able to manage such an approach effectively.

43. The Board noted the paper.

IX. Decisions Referred to the Board – Doc 2010-89 by Dame Deirdre Hutton

44. At the Board meeting in April, a schedule of decisions that should be reserved for the Board was requested. As the individual decisions taken by the Board can be quite varied, the paper proposed a decision framework within which example decisions were listed by theme. The paper also included the revised CAA financial approvals and authorisations list, which reflected a tightening of financial approval levels at Executive Director level so that significant expenditure is approved collectively at the CAA Executive Committee or Board level.

45. The decision themes were further discussed and it was felt that it was reliant on matters being raised to the Board being correctly identified. It was therefore agreed that a review process would be established to ensure that all appropriate matters were being raised to the Board.

Action: Chair / Chief Executive

46. During discussion, it was felt that the decision framework would benefit from the addition of decisions relating to the people / communication strategy which should be the subject of a report to the Board on a six monthly basis. It was also felt that the financial approvals and authorisation element of the paper might consider a prohibition on derivatives. It was agreed that the paper would be amended to reflect the proposed people / communication strategy decision and re-circulated.

Action: Chair

X. Chief Executive's Report – Doc 2010-90 by Mr Haines

47. Mr Haines provided a verbal update on progress with work arising from the volcanic ash event. The progress on the Airport Economic Regulation Bill was discussed, particularly with respect to any changes to that previously consulted on through the Review of Economic Regulation consultation and the proposals for information powers.

48. The Board noted the report

XI. Directors' Reports

ERG – Doc 2010-91 by Dr Bush

49. Dr Bush drew the Board's attention to the publication of the NATS Price Control proposals on 27 May and the discussions at the Single Sky Committee on 15 June with regard to the revised Charging Regulation. It was noted that one of the main issues is that the Charging Regulation proposals have target prices set in nominal terms with use of Eurostat figures, which are based on the Consumer Price Index and not the Retail Price Index. The implications for the current Price Control proposals are being considered.

50. The Board noted the contents of the paper

CPG – Doc 2010-92 by Mr Jackson

51. Mr Jackson provide further information regarding prospects for ATOL reform legislation, and the work of the airlines to respond to volcanic ash related passenger claims. It was noted that claims involving passengers who self-repatriated were likely to be more complex.

52. It was noted that the Non Executive Directors were visiting Gatwick Airport in the coming weeks and would be asking about innovative solutions that have been implemented by the airport's new management.

53. The Board noted the contents of the paper

SRG – Doc 2010-93 by Ms Burrett

54. Ms Burrett highlighted the launch of the Strategic Review of Safety Regulation and noted that this first phase of the review would complete in September and would identify key priorities to take forward.

55. It was noted that there had been issues regarding the practical implementation of regulation in relation to a number of helicopter related issues and SRG was looking to see how it could improve partnering with EASA to address these issues.

56. The Board noted the contents of the paper

DAP – Doc 2010-94 by Mr Swan

57. Mr Swan drew particular attention to the items in his report relating to Unmanned Aircraft Systems and volcanic ash flight test aircraft.

58. The Board noted the contents of the paper.

XII. Legal Report – Doc 2010-95 by the Secretary

59. The Secretary updated the Board with information relating to CAA v Travel Republic Ltd, and the criminal trials arising from the Air France Concorde and Helios Airways Boeing 737 accidents.

60. The Board noted the contents of the report.

XIII. Report from the Remuneration Committee – Doc 2010-96 by Miss Jesnick

61. Dr Bell presented the report, which reviewed the performance and activity of the Remuneration Committee in 2009/10. It outlined the governance changes, the work undertaken with regard to performance management, remuneration, appointments, induction / development and upcoming work in 2010.

62. It was noted that, particularly in light of public corporations being included in the scope of the Senior Salaries Review Body, senior remuneration is likely to continue to face increasing scrutiny.

63. The Chair thanked Dr Bell for her work in chairing the Remuneration Committee and for the report provided to the Board.

64. The Board noted the contents of the paper.

XIV. Any Other Business

65. None raised.

The next meeting of the Authority will be on Wednesday 21 July 2010 at 09.30 in Conference Rooms 1&2, CAA House