

FOR PUBLICATION

**CIVIL AVIATION AUTHORITY MINUTES OF 429th BOARD MEETING HELD ON
WEDNESDAY**

17th MARCH 2010 AT 10.00 AM

Present:

**Dame Deirdre Hutton
Chair**

**Mr A Haines
Chief Executive**

Dr C Bell

Dr H Bush

Mr R T R Jackson

Miss C Jesnick

Mr M Medicott

Mr R P Mountford

AVM B North

Mr M Swan

Capt R O Whitefield

**Mr R J Britton
Secretary & Legal Adviser**

In Attendance:

Mr P Kelleher
Head of Airworthiness Division, SRG

Ms A Craker
Head of Strategy and Transformation

Ms S Youngman
Acting Head of Corporate Communications

Ms G Burrett
GDSR Designate

Miss H Watson For Item X
Head of Economic Policy & International Aviation
Mr R Bryant For Item X
Deloitte
Mr N Coules For Item X
CEO, CAA International Limited

Mrs N Hastings
Head of Human Resources

Mr S Baker
Minute Taker

I Minutes of Board Meeting held on 17 March 2010.

1. The Minutes of the Board meeting held on 17 February 2010 were approved and signed.

II Chairman's Opening Remarks.

2. The Chair reported that she had been invited by Sir Donald Curry, the new Chair of BRE, to sit on a new strategy group examining regulation. She reported that she and Mr Haines had attended the DfT Aviation Directorate's away day and had taken the opportunity to update the Department on CAA developments. She thanked the Executive Team and all those who had contributed, for the work on the Business Review and commended the quality of the papers which were a good basis for going forward. Miss Jesnick on behalf of the Executive also thanked Ms Craker and her team for the substantial amount of work that she had put into developing and producing these papers.

III CAA Budget 2010/11 – Doc 2010/36 by Miss Jesnick

3. Miss Jesnick asked the Board to note that the budget data had been largely set last year

for the purpose of making the CAA's charging schemes. Therefore, some of the budget figures would need to be re-examined and this exercise would be carried out by Miss Jesnick and Mr Haines in June. The budget did not take account of any exceptional circumstances which might occur in the current volatile economic climate. Many of the projects in the 2010/11 budget were likely to be overtaken by the Business Review developments and it was unlikely that some of the staff number increases budgeted would materialise, as they were too high in the current climate. Miss Jesnick commented that CAA International had performed very well in 2009/10 and were budgeted to produce a similar result in 2010/11. The Finance team are working with consultants on our VAT calculations, with the view to reducing the VAT liability next year by some £250,000.

4. In discussion, Miss Jesnick said that if we produced a revised forecast for 2010/11 in June/July there should be no need to re-consult industry on the charges. However, it would provide a useful basis for moving forward on the 5 year financial projections and would support the new planning cycle. Mr Mountford said that, in relation to the revised CPGs ATOL application and grant fees, the Audit Committee might wish to look at the issue of revenue recognition. Miss Jesnick replied that this matter was connected with the transition from variable to fixed fees and she would look at this point with Mr Jackson. Mr Mountford asked the Board to note that the triennial pension review would take place this year. Miss Jesnick replied that as a planning assumption it was concluded that this would not be a matter for 2010/11. Mr Mountford referred to the balance sheet item for trade debtor accruals and asked whether there needed to be working capital KPIs. Miss Jesnick replied that she was happy to look at the KPIs but the actual figures were significantly different from the budget, as Finance had billed early in March 2009 for approvals, which as it related to the following year i.e. from April 2009, there was then a subsequent increase in the deferred income line. CAA also had a £6 million cash loan from DfT to fund projects which had not yet been utilised, leading to an increase in the cash balance. Replying in question from Dr Bell, Miss Jesnick said that the biggest factor influencing the budget was the underlying state of the economy and its impact on the airlines and these assumptions were built into the budget.

5. The Board approved the budget for 2010/11.

IV CAA Overdraft/Temporary Borrowing Facilities – Doc 2010/37 by Miss Jesnick

6. Miss Jesnick reported that each year the CAA made arrangements for an overdraft facility with its bankers which was underwritten by HM Treasury. The facility is used to fund short term working capital deficiencies that may occur in any one month up to a maximum of £5 million.

No recourse has been made to the facility in the current financial year.

7. The Board unanimously adopted Resolution No 164 to seek the consent of the Secretary of State as required by Section 10 of the Civil Aviation Act 1982 to secure overdraft or temporary loan facilities up to a maximum of £5 million during the period 1 April 2010 to 31 March 2011. A copy of the Resolution is attached to these Minutes.

V Chief Executive's Report – Doc 2010/38 by Mr Haines.

8. Mr Haines reported on highlights on his paper. He noted that the DfT was now preparing instructions for Parliamentary Counsel on the RER Bill. In relation to the pay and bonus discussions with the Trade Unions, Mr Haines said that the results of the ballot were due next Monday and that the Trade Unions were recommending acceptance of the CAA's offer. In relation to the strategic property review, BNP Paribas, Real Estate, (CAA's property advisors) had prepared its first report and a summary would be circulated to the NEDs. Mr Haines said the CMC would develop options around the recommendations in the BNP Paribas report and consider a proposed note to staff at its next meeting.

Action: Mr Haines

VI Director's Reports:

ERG – Doc 2010/39 by Dr Bush.

9. The Board approved the proposed response and its publication on the CAA website and requested an update in six months' time.

Action: Miss Jesnick

V Governance Arrangements for Future Price Control Reviews – Doc 2010/22 by Dr Bush.

10. Dr Bush presented highlights from his Report. In relation to SESII, Dr Bush commented that acceptance of the new legislation was likely to be deferred to May, although the Commission was still sticking on the 2012 deadline for its implementation. On airport regulation, Dr Bush reported that the Competition Commission was seeking leave to appeal the decision of the Competition Appeal Tribunal from the Court of Appeal. On the DfT review of the framework of economic regulation, Dr Bush said that ERG was working on the drafting of the initial airport licences and an industry seminar had been held by CAA on 1 March. On the NERL Price Control Review, the NATS consultation document had been published on 9 February and responses from consultees were due by the end of March, with the next round of consultation, which will include initial price control numbers to take place in May.

11. The Board noted the report.

CPG – Doc 2010/40 by Mr Jackson

12. Mr Mountford declared in interest in relation to the BA-Iberia item of the Report as he represented the LSE as a trustee on the Board of the Society for the Study of Social Sciences in Madrid which was largely funded by Caja Madrid which as a substantial shareholder in Iberia was entitled to appoint directors to the Iberia Board.

13. On passenger rights legislation on denied boarding, Mr Jackson said that a reply to the letter before action from TUI requesting an assurance from CAA that it would not follow the ECJ's Sturgeon decision was being prepared with the Legal Department. On the BA-Iberia merger, CPG had received a reply yesterday from BA in relation to CPG's enquiries. Mr Jackson noted that the matter was moving in the right direction but the key issue remained control of the BA OpCo. The Chair requested Mr Jackson to keep the DfT briefed on the matter. On other airline matters Mr Jackson referred the board to his report. In addition, HMRC had ruled out any deal with Highland Airways and the Scottish Government had declined to provide a loan.

14. The Board noted the report

SRG – Doc 2010/41 by Mr Kelleher

15. Mr Kelleher reported that EASA was preparing an Airworthiness Directive to ensure the removal of any remaining Halon extinguishers. SRG was maintaining daily contact with BA in relation to the possible strike by BA cabin crew to ensure that all BA preparations for the proposed strike maintained proper safety standards. In relation to DfT's helicopter search and rescue PFO contract, Mr Kelleher reported that a meeting would be held in April with Soteria consortium. Soteria intended to form a new company to hold the AOC. On unmanned aerial systems, Mr Kelleher reported on the meeting with the Association of Chief Police Officers' Unmanned Aerial Systems Steering Group. It was clear that Merseyside Police Air Support Unit were aware that CAA permission was required under the Air Navigation Order 2009 even though the relevant operational unit was not. AVM North said that the use of the word "unmanned" in connection with these systems was misleading since they were controlled by personnel from the ground and suggested that whether "remotely controlled" was a more accurate description. Ms Burrett said that freight operations were also looking at these systems and Mr Swan commented that the fire brigade and police had been extensively briefed by DAP on the issue. Mr Kelleher was asked to provide a two page briefing document for the NEDs.

Action: Mr Kelleher

16. The Chair thanked Captain Jones and Mr Kelleher for attending the board meetings

pending the appointment of Ms Burrett as GDSR.

17. The Board noted the Report.

DAP – Doc 2010/42 by Mr Swan

18. Mr Swan reported that the SESAR Joint Undertaking had recently issued proposals for the establishment of a regulatory working group to give regulatory advice to it. Funding would be by the SJU under a T&RE contract. The issue of a contract with a single NSA had therefore been closed.

19. The Board noted the Report

European and International Strategy – Doc 2010/43 by Mr Smethers.

20. Mr Haines presented the Report on behalf of Mr Smethers who was attending an EASA Board Meeting.

21. The Board noted the report.

VII Legal Report – Doc 2010/44 by Mr Britton.

22. Mr Britton reported on the CAA prosecution of Mr Lindquist and on the Helios prosecution taking place in Cyprus.

23. The Board approved the making of the CAA (Navigation Services Charges) Specification 2010 for publication in the London, Belfast and Edinburgh Gazettes under Chapter IV of the Transport Act 2000 as follows –

- To increase charges in connection with London approach services provided by NATS (En Route) Plc (NERL) from £0.08 to £0.09 for each metric tonne and for each fraction of a metric tonne over 100 metric tonnes.
- To reduce the charges payable to NERL by the operator of an aircraft which flies within the Shanwick Oceanic Control Area from £56.18 to £53.20.
- To increase the charge payable to NERL by the operator of a helicopter which flies from any place in the UK to a vessel or an off-shore installation within the area of the Northern North Sea from £263 to £301.
- To reduce the charge payable to NERL by the operator of a helicopter which flies from any place in the UK to a vessel or an off-shore installation within the area of the Southern North Sea from £107 to £72.

24. The Board in its capacity as Principal Employer of CAAPS resolved to re-appoint Nigel Fotherby, Finance Director NATS, as a NATS Management Trustee and Tony Cowell as a CAA Pensioner Member Trustee, on the nomination of the Retired Staff Association, for the period 1 April 2010 to 31 March 2013. A copy of the Resolution is attached to these Minutes.

25. The Board approved the appointment of Mr Medicott to the CAA Remuneration

Committee.

26. The Board noted that the Civil Aviation Authority (Chicago Convention) (Amendment) Directions 2010 had been made by the Secretary of State under section 6 of the Civil Aviation Act 1982. The Directions required CAA to establish a policy on units of measurement for the purposes of Annex 5 of the Chicago Convention and was a corrective action in respect of an ICAO audit finding.

VIII Finance Report – Eleven Months Ended 28 February 2010 – Doc 2010/45 by Miss Jesnick.

27. Miss Jesnick presented highlights from the report, noting that there were a number of areas in which savings had been made against the budget. She was reasonably confident that the year end forecast would be met. Mr Medicott queried whether an aged debt analysis report should be included, given the current economic conditions. Mr Haines said they were looking at the KPIs, which would be made available on line, but agreed to look at this with Miss Jesnick. The Chair said the NEDs should be consulted on the KPIs.

Action: Mr Haines and Miss Jesnick

28. The board noted the Report.

IX(i) Any Other Business.

29. The Chair reported that she and Mr Haines had recently had a meeting with Michael O’Leary of Ryanair.

(ii) Agenda Plan Update.

- May 2010 – add visit by Steve Ridgeway of Virgin Atlantic.
- July 2010 – add visit by Colin Matthews and Emma Gilthorpe of BAA.

X Business Review:

Proposed Approach for Delivering the Environmental Strategic Objective – Doc 2010/46 by Mr Haines and Miss Watson.

30. Miss Watson explained that the paper was a follow up to the paper presented at the January Board Meeting and followed a series of workshops seeking ideas from those not previously involved in the discussions and examined a number of issues. First, it examined what scope the CAA had, in legal terms, in relation to an environmental objective under the current legislative framework. Secondly, it explored the options in relation to whom the environmental objective should be directed at. Thirdly, it explored what was needed to deliver the environmental objective with an outline work plan to develop the individual elements further. Miss Watson said that the paper asked the Board to consider a number of questions and she

sought the Board's guidance on those.

31. The Chair asked for comments from the Board and said that she had discussed the paper with Mr Gray and that whilst he was generally content with the paper, he thought the scale of ambition stated in it should be raised and that the CAA's expectations of industry, which had a key role to play, were slightly underplayed. Mr Mountford said he thought the paper needed to be clearer in distinguishing between duties owed to the public and to industry and that the publication of information was appropriate for citizens who cared about their impact on the environment but there was a duty to help industry prepare itself for meeting emission targets. AVM North said that targets should be set and policed by the regulator but the regulator also needed to encourage industry and inform the public. Capt Whitefield and Dr Bell thought a broader approach was required, taking into account all stakeholders, not just consumers who were interested in the environment. Mr Haines said that the paper had been shaped by what the DfT's expectations were in relation to how it perceived the CAA's role. Dr Bush said that a key issue was where the CAA could add value and that there was little point in duplicating functions performed already by other bodies.

32. The Board noted the conclusions set out in Annex 2 of the paper in relation to the legal scope for the CAA to do more on the environment and the degree of flex in the current legislation. The Board considered that further work needed to be done on the initial conclusions as to whom the objectives should be directed at, with more emphasis on what role the CAA should play in relation to industry and with a range of possible options. Subject to the above the Board agreed with the general thrust of Annexes 4 and 5 and the outline work plan at Annex 6. Mr Haines was requested to present a further paper to the Board in June.

Action: Mr Haines

CAA Communications Policy and Framework – Doc 2010/47 by Ms Youngman.

33. Ms Youngman presented the paper to the Board and asked the Board to endorse the recommendations referred to in the paper.

34. The Board discussed the recommendations and endorsed them recognising that communications (both internal and external) were vital for the CAA to build its reputational capital. The Board also recognised that whilst a new Corporate Communications Director should be able and ready to bring a particular perspective to the development of policy it was important that communications could not be allowed to dictate or unduly influence policy. It was noted that the CAA did not have a completely free hand in external communications because of its relationship with central Government. Ms Youngman planned to develop an

implementation plan by the end of April which the Executive would then consider.

Review of Options for Ci and Proposed Way Forward – Doc 2010/48 by Miss Jesnick and Mr R Bryant, Deloitte.

35. Miss Jesnick introduced Mr Bryant and Mr Coules to the Board. She said that Ci had been established as a result of a previous Board decision and that the paper presented here was predicated on the agreed CAA's ambition that it wished to continue to be a major player nationally in Europe and internationally. Deloitte had been appointed as consultants to look at the potential market and the paper presented a number of options for Ci. Miss Jesnick said it was recognised that any decision on Ci would ultimately depend on the conclusion of the Business Review. The paper therefore contained a number of recommendations for an interim strategy to 2012 –

- that Ci should continue as a niche player to meet a market need and offer regulatory expertise to other regulators and the aviation industry in the UK and overseas as well as services in training and examinations and other matters within the areas of safety regulation, airspace policy, environmental regulation and economic regulation;
- that Ci should develop a pricing model enabling greater flexibility and the ability to win further business, by reviewing relevant internal cross charges and standard mark-ups;
- that in the long term Ci should adopt a partnering/centralised model;
- that the culture of CAA and Ci should be developed to support a commercial, responsive and client focused needs environment;
- that Ci governance should be strengthened by appointing another NED on to the Ci Board in addition to Capt Whitefield, by appointing GDSR and the CE to the Ci Board and by introducing quarterly reporting of Ci's financial performance, manpower utilisation and contract pipeline reports to the CAA Board.

36. The Chair asked for comments. Mr Swan said that he thought it essential for there to be a clear separation between the CAA's regulatory functions and the commercial services offered by the company. Mr Mountford said that he was in favour of retaining the company but cautioned against CAA becoming financially dependent on the contribution from the company and that the Board would want to be satisfied that CAA charge payers were not subsidising the company's commercial activities and any losses incurred by it. In relation to the partnering option suggested in the paper, Mr Mountford asked whether this included joint ventures, noting that these tended to be inherently unstable. Mr Coules explained that at this stage of the

company's development these were not considered as a realistic option to pursue. The company was considering working as part of short-term consortia on specific projects. Mr Medicott supported the aims of the company and thought that the risks which had been identified were manageable but suggested that reputational risk, such as might arise from overpricing, should also be considered. Mr Bryant said that the company's clients did not generally think that the company overcharged for its premium level of services, even if the company's charge out rates were relatively high in comparison to competitors in the market.

37. The Board endorsed the recommendations set out in the paper. Mr Haines said an update would be provided in the first quarterly report to the Board envisaged as one of the paper's recommendations at the April Board meeting.

Action: Miss Jesnick

Findings & Proposals for Change – Doc 2010/49 by Mr Haines

Introduction

38. The Chief Executive gave a brief introduction on the background of the business review, its objectives, main activities undertaken, findings and conclusions. The Board was asked to comment on whether the findings and conclusions looked right and if there were any gaps.

39. In general the Board was content that the review had covered the right ground. Mr Mountford expressed the view that further work would be needed on CAA's future skills requirements for 5 – 10 years out. Other concerns and comments covered

- the need to tread carefully given the huge range of different attitudes of CAA employees on change; the importance of having the right messages to ensure buy-in (Dr Bell)
- achieving the right pace at which change is driven
 - Mr Haines thought there is an art to getting the balance right – change should become business as usual and we know we cannot do everything at once
 - Mr Kelleher thought there are some people who are already very keen for change
- people feeling undervalued

40. The Chair summarised that the Board were pleased with the introduction and found few gaps. She thought that the CAA faced a large challenge in getting people to think in different ways; for example electronic business, which is about much more than putting an "e" in front everything.

Narrative and Ambition Statement – Dr H Bush.

41. Dr Bush presented the CAA narrative and proposed ambition statement aimed at creating

a real sense of the CAA that the staff will recognise rather than change for change's sake.

42. The Chair remarked on the amount of work involved in developing the statement. She also highlighted the need to include in it the ambition to be a "porous" organisation, open to external views, ready to change where appropriate and focussed on working out how to deliver. Mr Mountford thought the statement captured how the organisation has changed whilst remaining a calm safety regulator throughout.

43. Mr Mountford believed there was a need to develop the CAA's self-confidence and thought we could go further than the statement and become a centre of excellence/forum for aviation information and analysis. He saw this as being achieved through Ci; it would bring people from all over the world to the CAA to debate, in Chatham House tradition.

44. The Chair concluded

- the statement on where the CAA wants to be needs more work, with an emphasis on
 - leadership
 - being a listening organisation
 - being relevant
 - the role of Ci e.g. as Chatham House Forum.
- there was some inconsistency as to whether we are talking about incremental change or a burning platform and there needs to be further clarity on this.
- on the need to make sure we are all consistent in our messages and requested a shorter version.

She asked for the work to be developed for further consideration by the Board.

Action: Mr Haines & Executive Directors

Efficiency – Miss C Jesnick.

45. Miss Jesnick introduced the efficiency issue, describing it as urgent. If the Authority does not find money to invest, we will not improve our efficiency or achieve our ambition. A range of areas for potential efficiencies had been investigated as part of the Business Review, and proposals around four targeted areas were out to the Board for approval at this stage.

Action: Mr Haines

46. A number of points were raised during discussion.

- Mr Mountford suggested tapping in to the existing expertise of direct.gov.uk
- Dr Bell highlighted the need to ensure the right priority was given in messages to the organisation, with management support, and that
- "stop it" campaigns were an opportunity to make some local heroes at junior levels

- Mr Medicott stressed the need for hard-nosed KPIs to drive efficiency through reward and recognition. This was in train and it was agreed that developing new KPIs was a priority.

Action: Mr Haines

47. The Chair confirmed the Board's approval on the proposals, with the caveats as highlighted.

People Strategy – Mr R Jackson.

48. Mr Jackson asked the Board to review the proposed high level themes for the people strategy and asked for these to be approved.

49. Mrs Hastings clarified that the Employee Proposition will provide details on what the CAA offers colleagues in terms of role, salary and benefits, and what the CAA expects from them in return. Each employee will receive a copy of the proposition, but she emphasised that these will not replace the contract of employment. Mr Britton advised that this is a subject that must be treated carefully because of the potential overlap between the two.

50. Dr Bell queried whether all the work can be done simultaneously and asked what were the priorities? Mr Haines recognised that there would be a need to prioritise and stressed the need to develop leadership and management skills as a prerequisite for the successful introduction of tackling improved performance management. The Chair said that managing poor performance should be an explicit part of the strategy.

51. Mr Jackson explained that the development of the HR function would enable it to become a focal point where managers can get help and support in tackling sensitive people issues.

52. The Board was content with the high level strategy proposed in the Paper.

CAA Development Programme (PID) – Mr A Haines & Ms A Craker.

53. The Chief Executive outlined the scope of a two-year CAA Development Programme, which is grouped into four key areas: Strategy & Policy Development, Effective Stakeholder Engagement, Business Process Re-engineering and Enablers, and the proposal for a Programme Management and Support team, to co-ordinate the work.

54. Approval was requested for the shape of the programme, setting up the PM&S team and a three-month Initiation Phase.

55. The discussion came back to the narrative and the importance of communications for the programme.

Action: Mr Haines

56. The Chair confirmed the Board's approval for the programme and the principle of the launch. She emphasised that when the Board returned to this in June it would want to see

milestones so that it could hold programmes into account in future.

Action: Mr Haines

CAA Values – Mr Swan.

57. Mr Swan summarised each of the six draft values for the CAA that have emerged from the work of internal focus groups, Executive Directors at their previous workshops, and preferences expressed by Board members at their January meeting. He emphasised that these were not morals, ethics or principles; they described the cultural heartbeat of the CAA as the basis of organisational and personal behaviour which could be challenged both internally (predominantly) and externally. They provided the benchmarks on which we could judge and be judged in our dealings with one another.

58. The Board was asked to check and agree these as a draft set of values to be taken back into the organisation for testing and validation, before finalisation and sign off by the Board in June.

59. The discussion focussed on whether

- these values were hard enough to be used as a performance management tool
- they would resonate externally as well as internally.

60. The Chair expressed some concerns.

61. The Board agreed that the values could be tested with the organisation.

Action: Mr Haines

Governance Review – Doc 2010/50 by Egon Zehnder.

62. Egon Zehnder presented their findings from the recent Governance review, which members of the Board commented on in discussion. The conclusions were to strengthen the current CAA Management Committee and disband Policy Committees.

63. These conclusions were agreed but some risks were highlighted, notably ensuring that rigour was not lost in the process of developing CAA decisions and the depth of scrutiny was not reduced when considering issues.

64. The Chair concluded by recognising the important points made and proposed that, together with the Chief Executive, she produced a paper for discussions in April setting out the way in which the Board and the CA Management Committee might work in future.

Action: Chair & Mr Haines

The next meeting of the Authority will be on Wednesday 21st April 2010 at 10.00 in Conference Room 1, CAA House.