

FOR PUBLICATION

**CIVIL AVIATION AUTHORITY
MINUTES OF 403rd BOARD MEETING HELD ON WEDNESDAY
21 NOVEMBER 2007 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

Mr R P Mountford

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 M Johnson
Economic Policy & International Aviation, ERG For Item I**

I Emissions Trading Update – Presentation by ERG.

1. The meeting opened with a presentation by Mr Johnson, Economic Policy & International Aviation ERG, on EU emissions trading and aviation. The Chairman said that it was important that the CAA form a preliminary view on the administrator role and this should be discussed at EPC in January.

Action: Dr Bush

II Minutes of the Previous Meeting and Matters Arising.

2. The Minutes of the Meeting held on 17 October 2007 were approved and signed.

On the action points arising:

- SESAR – Mr Arscott reported that as the timings had slipped, the list of issues could be deferred.
- Market Related Supplements – included in the HR Report.
- ICAO Audit – Mr Bell confirmed that a presentation on the audit preparation work is programmed for submission to the SRG Policy Committee.
- High Level Group – Mr Arscott confirmed that a further report will be submitted to the Board in January.
- Air Transport White Paper Review – Dr Bush confirmed that there had been a discussion of the approach to benefit:cost ratios at ERPC.

III(i) Chairman's Opening Remarks.

3. The Chairman reported on the following highlights:

- Ministerial Meeting – a meeting had been held with Jim Fitzpatrick MP, the Aviation Minister.
- Meeting with BAA Chairman – the Chairman confirmed that meetings had been held with Mr del Pino and Sir Nigel Rudd.
- New DGCA - the Chairman reported that he had met Peter Griffiths, who had succeeded David McMillan as Director General Civil Aviation.
- DfT Meeting – a meeting is to be arranged with Simon Webb, the Director General International Networks and Environment.
- Ministerial Letters – formal consent to the changes to the ATOL scheme had been received from the Aviation Minister. The Secretary of State had written to the

Chairman to request the CAA's advice and assistance to identify key issues affecting the passenger experience at airports. A plan to respond to this request will be discussed at ERPC in January.

Action: Dr Bush

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

4. The Chairman reported that a Board workshop had been held on 20 November. Mr Brett had updated the Board on progress. Sir Joseph Pilling had spent two days at SRG and had visited Gatwick for a ramp inspection, and BA Engineering at Heathrow. He intends to spend time with the other three Groups before Christmas. It had been noted that the Review Team had requested written evidence from a number of major companies in the industry. However, General Aviation had largely been excluded which needed to be corrected. Further, a view from MoD was also required. A number of work programmes had been put in hand in response to indications from the Review Team. A pen picture of what the CAA might look like in five to ten years time had been prepared. It was recognised that the work programme would have to be prioritised. Sir Joseph intends to visit the Board at its meeting on 19 December. He will be invited to talk about the issues he sees as candidates for key lines of enquiry and to answer questions.

IV Directors' Reports:

ERG – Doc 2007/109 by Dr Bush.

5. Dr Bush reported on the following highlights:
- Airport Regulation – the proposals for the price controls to apply at Heathrow and Gatwick for the five years from 1 April 2008 and to address a public interest finding made by the Competition Commission in relation to security times and queuing was published on 20 November. There will be a two month consultation period followed by oral hearings with the main parties at the end of January 2008. Following consideration of the consultation responses, the final decision will be made.
 - De-designation of Stansted and Manchester Airports – the DfT's consultation ended on 18 October and a decision from the Secretary of State is awaited.
 - Transport Select Committee Inquiry into the Future of BAA – the CAA will be giving oral evidence this afternoon.
6. The Board noted the Report.

CPG – Doc 2007/110 by Mr Jackson.

7. Mr Jackson reported on the following highlights:

- Implementation of APC – the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 had come into force on 14 November. A new set of standard terms attaching to ATOL licences had been sent out for consultation. Responses had been requested by the middle of January. The Aviation Minister had confirmed that the contribution would be £1 per passenger. The planned roadshows had now been started. 600 replies had been received to the e-mail that had been sent out. The first roadshow had gone well. Licence holders were able to spend time with their case officers.

Progress is being made with AIG, the proposed insurer against catastrophic losses.

- Operators – Mr Jackson updated the Board on the latest financial situation.

8. The Board noted the Report.

SRG – Doc 2007/111 by Mr Bell.

9. Mr Bell reported on the following highlights:

- EASA Extension of Scope to Operations and Licensing – the main concern for the CAA is a European Parliament amendment on cabin crew attestation. This would take the form of a qualification rather than a licence. It was important for CAA to become involved in the detailed rulemaking and to try to ensure that there was an appropriate implementation period. There has been a mixed reaction from airlines with some welcoming and others opposing the qualification.
- Safety Assessment of Foreign Aircraft – proposals have been made by the Commission's Air Safety Committee to amend the Directive in early 2008. While there are no substantive concerns, more time will be required to amend national legislation. One UK operator was listed in the bottom 50. The assigned Flight Operations Inspector will investigate the reasons for this so that the necessary action can be taken to raise the operator's performance.
- Trial BA Combined Team Audit – an SRG cross-divisional team combining operational, licensing and airworthiness representatives completed a trial combined audit of BA. The audit was successful and the debrief was attended by BA's Chief Executive and other senior managers.

- Mahan Air – a remedial action plan had been submitted to the Commission. The CAA had provided comments to DfT which is content to agree to a lifting of the ban based on enhanced SAFA checks.
 - Vulcan XH558 – the aircraft carried out its first test flight from Bruntingthorpe under the Marshall Aerospace approval on 18 October. A 34 minute test flight had been achieved with two minor problems recorded.
 - Mobile Phones on Aircraft – SRG has undertaken technical investigations on behalf of EASA which has the certification responsibility. SRG is not involved in setting policies relating to mobile phone use, but previous safety concerns have all been addressed.
10. The Board noted the Report.

DAP – Doc 2007/112 by Mr Arscott.

11. Mr Arscott reported on the following highlights:
- Single European Sky – the November meeting of the Single Sky Committee was cancelled. This was regrettable since this is the forum where States can influence the Commission's work. The next meeting is planned for 22 January. There is some nervousness that Member States' input will be too late to be of influence. Mr Griffiths raised the matter at the Provisional Council but was assured by the Commission that there was nothing to worry about.
 - UK/Ireland FAB – NATS and the Irish Aviation Authority presented options for the FAB to the DfT and the Irish Department for Transport at a meeting on 24 October. A further meeting will be held in January to confirm the arrangements so that they can be announced at the Maastricht Conference in March.
 - SESAR – the Commission is beginning to suggest that it is not necessary to seek approval from the Transport Council. Excom has acknowledged that regulators need to be involved to ensure that they are content by the time Member States are ready to sign any agreements.
 - Project Sustainable Development Heathrow – the consultation document is due to be published on 22 November. Some 200,000 households and businesses will need to be formally consulted.
 - Stansted G1/G2 – the G1 Inquiry has finished and the Inspector is preparing his

report. The timing of the submission of the G2 Planning Application is uncertain. A number of requests under the Freedom of Information Act have been made for all documentation relating to meetings with BAA. Dr Bush requested that he was given sight of any response document before it was sent to ensure it contained appropriate information from ERG.

Action: Mr Arscott

- ANASE – DfT published the Attitudes to Noise from Aviation Sources in England Report on 2 November. Peer reviewers of the report have concerns about its accuracy and reliability.
- Terminal Control South West Airspace Change – NATS have completed their consultation and submitted the change to CAA for decision in accordance with the Airspace Change procedures. An adjournment debate was held in the House of Commons on 19 November. A response to MPs is being prepared. The detail of the debate demonstrated that environmental issues have to be dealt with at a strategic level. Overall, there may be environmental benefits flowing from the change notwithstanding that for certain local communities there will be a disbenefit.
- Eurocontrol Provisional Council – States agreed to a cost-effectiveness target that will see the real unit cost per kilometre being reduced by 3% a year for the next five years; this had been an objective of the Performance Review Commission for many years.

12. The Board noted the Report.

November Audit Committee – Oral Report by Mr Mountford

13. Mr Mountford reported that the Committee had met on 14 November. Discussions had been held with Miss Jesnick about filling the post of Head of Internal Audit now that Henry Irving had left the CAA. It had been agreed to put in place an interim arrangement with Deloitte & Touche whereby they supply a temporary Head of Internal Audit on a part time basis to be supervised at a senior level. Options for the future range from recruiting to outsourcing the function. One solution could be co-heads from Deloitte & Touche and CAA with the latter undertaking a wider job than previously with responsibility for the risk assurance framework. As reported to the meeting, good progress has recently been made on the risk management system and the risk assurance framework. It will be presented to the Board for approval in due course. The external auditors,

PricewaterhouseCoopers, had submitted their fee proposals and audit plan for the forthcoming year which was satisfactory. A presentation had been made by Simon Baker on new IFRS requirements which the CAA must adopt from 2008/09. Some adjustments will need to be made to move from the current reporting standard.

14. The Board noted the report.

V Legal Report – Doc 2007/113 by the Secretary.

Environmental Policy Committee

15. The Board approved the Terms of Reference for the Environmental Policy Committee, a copy of which are attached to these Minutes.

CAAPS – Statement of Investment Principles

16. The Trustees' Statement of Investment Principles as at 1 January 2007 had been submitted to the June meeting of the Board at which Miss Jesnick said that the CAA, as the sponsoring employer, wished to revisit the asset allocation policy relating to CAA active members. A further Statement had been submitted by the Trustees which took account of the revised investment policy concerning the asset backing of the active liabilities within the CAA Section of CAAPS with return seeking assets.

17. The Board noted the revised Statement.

NATS Re-financing

18. Dr Bush had informed the Board at its October meeting that a further re-financing of NATS (En Route) plc was in contemplation. The aim was to pay down Government debt to reduce interest payments. The proposals had been examined for robustness and compliance with the Composition Solution tests.

19. The re-financing was taking some time to achieve but CAA had been informed that completion would be taking place shortly. Subject to notifying the DfT, the Board resolved that the Secretary be authorised to sign and deliver the letters of consent.

Action: Secretary

20. A copy of the Resolution is attached to these Minutes.

VI Finance Report – 7 Months Ended 31 October 2007 – Doc 2007/114 by Miss Jesnick.

Financial Results

21. Miss Jesnick presented the financial results for the 7 months to 31 October 2007. Achieving the 6% rate of return was going to be very difficult this year. SRG employment costs are over budget at present although other Groups were within budget. The problem had been discussed at the Safety Policy Committee. The importance of fully charging work to the EASA contract and to EASA transition would be stressed to staff. Discretionary expenditure should be reduced where possible. It would be possible to put a hold on all new IT projects and defer hardware expenditure relating to the Windows upgrade but this was a last resort option. Further clarity would be obtained as each month passed and the Board will be kept fully informed.

Update on the Review of the Effectiveness of the CAA Board and its Audit and Remuneration Committees

22. In relation to the Board Effectiveness Review and the desire to have external input on a periodic basis, the Chairman commented that it was important to put a plan in place at an early stage to ensure that external speakers were available. Miss Jesnick highlighted the requirement that all Board, Policy and CMC papers must cover as a heading within the papers, Risk and Communications PR issues as appropriate to the paper.

Data Handling

23. In view of the recent embarrassment suffered by the HMRC, Miss Jesnick agreed to produce a short report on the CAA's data handling to the December Board.

Action: Miss Jesnick

24. The Board noted the Report.

VII Human Resources Report – Doc 2007/115 by Mrs Hastings.

25. Mrs Hastings reported on the following highlights:

- Performance Management & Culture – the HR Steering Group had considered the annual review of performance management and agreed that there should be a switch in emphasis from paper work to conversations with staff. Management training would be available to undertake difficult conversations.
- Diversity – a review of retirement practice following the introduction of age discrimination laws had been undertaken. 71% of those who would have been obliged to retire at 60 were now staying on beyond the current CAA retirement age.

- Market Related Supplements – in response to the Board's questions at the October meeting, a Table of market related supplements for Grades 1 to 10 was annexed to the Board Paper. In discussion of the Table, it was noted that the MRS paid to Heavy Flight Operations Training Inspectors was more than the job rate. This indicated that the job rate might be questionable.
 - Employee Forum – the staff position on pensions had been tested. It was apparent that staff valued continuation and prudent management of the Scheme rather than further benefit improvements.
26. The Board noted the Report.

VIII European and International Strategy Report – Doc 2007/116 by Mr Smethers.

27. Mr Smethers reported on the following highlights:

- EASA – the Management Board is required under the Basic Regulation to commission an evaluation of the implementation of the Regulation and the effectiveness of the Agency. The consultants are due to produce their report to the December Management Board but this has now been put back to February.
- French Director General – the new French Director General is M Patrick Gandil. He has previous aviation experience on airports policy. The Chairman said that a meeting should be arranged with him.

Action: Mr Smethers

28. The Board noted the Report.

IX Environmental Policy Committee Quarterly Report – Doc 2007/117 by Mr Keohane.

29. Mr Keohane reported that two meetings had been held. Work had centred on the key task of considering CAA's current and potential roles and responsibilities in relation to the environment including consideration of a new general statutory duty. A presentation putting aviation and environment into context from international, European and UK perspectives had been given by Mr Martin Johnson of ERG which had been well received.

This could be a subject for a Board workshop in 2008. The framework for an environmental communications and influencing strategy was being prepared by Corporate Communications Department with the assistance of the Aviation Environmental Working Group for the presentation to the Committee in April.

X CAAPS Valuation – Doc 2007/118 by Miss Jesnick.

30. Miss Jesnick referred to the triennial valuation as at 31 December 2006 carried out by the Scheme Actuary, Hewitt Bacon & Woodrow. The CAA Pensions Governance Committee had worked closely with the Trustees and the Scheme Actuary throughout the valuation process to ensure that the sponsoring employer's perspective was taken into account.

32. A presentation of the draft results of the valuation had been made to the Trade Unions in July. At the CAA Pensions Committee meeting in September the Trade Unions formally requested a benefit improvement by reducing the CAAPS accrual rate from 1/59th to 1/58th. As Mrs Hastings had previously mentioned, it was not the general wish of the staff to jeopardise the continuing financial viability of the Scheme. The Pensions Governance Committee therefore recommended to the Board that this request be rejected.

33. The Board agreed to the recommendations of the Pensions Governance Committee that –

- the Statement of Investment Principles should be amended to take account of the revised investment policy concerning the asset backing of the active liabilities within the CAA Section of CAAPS with return seeking assets;
- the current employer contribution rate of 6% should continue but that the schedule of contributions should be amended to contain an alleviation for early retirement or redundancy costs of up to £500,000 in any one calendar year. The cost to be funded from the surplus within the Scheme; and
- the Trade Unions' request to improve the current accrual rate from 1/59th to 1/58th should be rejected in light of the future service contribution rate of CAAPS and the desire to keep the Scheme financially sound.

XI Charging Proposals for 2008/09:

ERG – Doc 2007/119 by Dr Bush.

34. Dr Bush presented ERG's proposals for its airline, airport and NATS charges for 2008/09. The air transport licensing charge was shared with CPG and no changes were proposed. In recognition of the increasing amount of work on airports an increase of 12.3% is proposed at designated airports raising the charge from 1.96p per passenger to 2.20p. It had to be assumed at this time that both Manchester and Stansted will be subject to price reviews but should this change, the consultancy costs would not arise.

CPG – Doc 2007/120 by Mr Jackson.

35. A number of changes to the ATOL fees structure to reflect better the work undertaken are being proposed. These include an additional £100 increase on fixed fees for standard ATOL applications and for small business ATOL renewals. A 2.8% inflationary increase on airline and ATOL charges is proposed.

SRG – Doc 2007/121 by Mr Bell.

36. Miss Jesnick said that the proposed charges were based on the work done by the Joint Review Team in 2005, with further reviews undertaken this year to refine the JRT work. The charging principles which had been agreed underpinned these proposals. Progress is being made in the eradication of cross-subsidies. Engineer Licensing was an exception but this involved the transition from one licensing regime to another. The proposals had been submitted in draft to the Finance Advisory Committee and their suggestions had been incorporated into these proposals.

37. Following approval by the respective Policy Committees, the Board approved the charging proposals for 2008/09 for ERG, CPG and SRG as set out in the Board Papers.

XII Any Other Business.

(i) Agenda Plan Update.

38. December 2007 – Board Thinkpiece cancelled. Move Slot Trading Legislation to January 2008.

The next Meeting of the Authority will be at 10.00am on Wednesday 19 December 2007 in Conference Room 1 CAA House