

CIVIL AVIATION AUTHORITY



FOR PUBLICATION

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MINUTES OF THE 458th BOARD MEETING HELD ON WEDNESDAY 21 NOVEMBER at 9.00 am

Present:

Dame Deirdre Hutton

Chair

Mr Andrew Haines

Chief Executive

Dr Catherine Bell

Mr David Gray

Mrs Gretchen Haskins

Mr Richard Jackson

Miss Chris Jesnick

Mr Michael Medicott

Mr Roger Mountford

Mr Iain Osborne

Mr Mark Swan

Capt Roger Whitefield

Mrs Kate Staples

Secretary & General Counsel

In Attendance:

Mr David Owen

Director, Human Resources

Dr Stephen Rooney

Director, Corporate Communications

Mrs Anne-Marie Hopcroft

Minute Taker

I. Apologies

1. Apologies were received from AVM North.

II. Minutes of Previous Meetings and Matters Arising

2. The minutes of the Board meeting held on 17 October were approved and signed.

III. Chair's Update

3. The Chair welcomed the reappointments of Mr Gray and Mr Medicott for a further three years until 15 November 2015 and 31 January 2016 respectively.

4. The Chair also briefed the Board on a recent visit by the European Commission's Director-General for Energy and Transport, Mr Reute and Director of Air Transport, Mr Baldwin to Heathrow Airport that had been arranged by the CAA in collaboration with Department for Transport (DfT), NATS and BAA.

IV. Chief Executive's Report – Doc-2012-142 by Mr Andrew Haines

5. Mr Haines briefed the Board on the latest developments with the Civil Aviation Bill, highlighting that it was due to receive Royal Assent in mid-December. The Board conveyed their thanks to all those that had contributed to Bill related activity.

6. Mr Haines highlighted the item in his report related to wet leasing, in particular noting that the CAA has no regulatory oversight where the lessor is a non-UK airline, even if the lessee is a UK airline. It was noted that this was an issue being further considered by a DfT funded secondee who was looking at non UK safety issues. It was also noted that, although consumers have to be informed that they are travelling on an aircraft operated by the lessor, this is not typically very explicit and the ticket, aircraft etc. is normally branded in the colours of the lessee. The Board expressed concern about this potential lack of transparency.

7. The Airport Commission was discussed. It was noted that the CAA is exploring how best to support the Commission and therefore it would be useful to establish terms of engagement.

Action: Mr Osborne

8. Mr Haines updated the Board on latest developments in respect of pay and grading. It was noted that Trade Unions were balloting members on the pay and reward arrangements, which provided the organisation with greater control over salary costs and provides a more performance based approach to pay and reward. It was recognised that CAA colleagues were experiencing conflicting emotions about the arrangements and the Board acknowledged that there would need to be robust processes in place to ensure a fair performance system. It was also noted that contingency plans were being explored should there be a 'no' vote in the ballot. It was agreed that the result of the ballot would be emailed to the Non Executive Directors.

Action: Mr Haines

9. The Board noted the report.

V. Pensions– Doc 2012-143 by Miss Chris Jesnick

10. Mr Mountford and Mr Jackson left the Board for the discussion of this item due to the conflict of interest arising from their roles as CAA Pension Scheme (CAAPS) Chair and Trustee, respectively.

11. Miss Jesnick briefed the Board on the proposals contained within the CAAPS consultation and

a summary of the responses received.

12. It was noted that proposal 1, relating to the closure of the scheme to new entrants, had received few comments and it was therefore recommended to the Board that this proposal was implemented. It was reported that proposal 3, which would make a number of pay elements non-pensionable, had received a number of negative comments during the consultation. It was recognised that the savings associated with proposal 3 were small compared with the complexity and administrative burden of implementation and it was therefore recommended that this proposal be rejected. In terms of proposal 4, related to ceasing the option for CAAPS members to withdraw pension whilst still working for the CAA, it was noted that although a number of questions had been raised during the consultation, there had been few concerns. It was therefore recommended that proposal 4 was accepted by the Board.

13. Miss Jesnick reported that proposal 2, relating to the cap on contributions, had received the most comments and concern, particularly relating to the disproportional impact this may have on younger colleagues. The Board did however recognise that without a cap on the existing pension scheme, a significant gap would result between the benefit offered by this scheme and the new Defined Contribution (DC) scheme. As a result, it was proposed that the cap was introduced but that members of the existing scheme would also be able to put actual earnings over Capped pensionable earnings in the new DC scheme and run these in parallel. The Board noted that similar solutions had been implemented in other pension schemes and that the CAA Finance Advisory Committee had indicated support for this proposal.

14. In addition to the four proposals outlined above, the consultation had also sought views on areas of the pension scheme that were within the gift of the Trustees to implement. It was noted that few comments had been received regarding changing the calculation of Additional Voluntary Contributions (AVC) and transfers-in. However, the proposed change to the use of Consumer Price Index (CPI) rather than Retail Price Index (RPI) to calculate pension increases had received significant comment. The Board were supportive for there to be engagement with the Trustees on these matters.

15. In terms of the new DC scheme, Miss Jesnick reminded the Board that the options available had been discussed in the Board's discussion on this subject in October 2011. It was noted that the proposed DC package compared well with market options and would align with the CAA's recruitment and retention strategy. It was noted that oversight of the DC scheme would be carried out through the CAA's Reward and Pension Committee. It was also noted that default funds would be available for those colleagues who did not want to establish their own portfolio. It was highlighted that new entrants to the scheme would be automatically enrolled at a 3% contribution, in line with new pension legislation, but that there would be flexibility to move between different contribution levels. It was noted that Board approval was not required for the details of the DC package.

16. Mrs Staples confirmed that she was content that the CAA had met its legal obligations under the Pensions Act 2008 with respect to the consultation. It was noted that the Trade Unions had said they were considering balloting members on the outcome of the consultation although this was not a matter for formal negotiation.

17. The Board approved:

- Proposal 1 - the closure of the CAA section of CAAPS to new entrants from 30 November 2012.
- Proposal 2 - the introduction of a cap on increases in pensionable earnings at the level of inflation from 1 April 2013 and allow actual earnings over the Capped pensionable earning for inclusion in the new employer DC scheme.
- Proposal 3 – not to pursue the changes to pensionable pay, as outlined in the proposal.
- Proposal 4 – changes to flexible retirement to be introduced from 1 April 2013
- engagement with the Trustees in relation to changes to AVCs, transfers into CAAPS and the CPI vs RPI issue.

VI. Q6 Progress Update– Doc 2012 – 144 by Mr Iain Osborne

18. Mr Osborne updated the Board on the progress that had been made with the Q6 process at Heathrow, Gatwick and Stansted Airports.

19. The Board reflected on the complex communications strategy involved in Q6 and the need to ensure coherence of message. It was noted that, whilst the economic regulation team had sufficient resource for Q6, there were resilience challenges. The Board was keen to support any additional resource should this be appropriate. In order to ensure that stakeholders were being engaged at an appropriate level, Mr Osborne and his Director, Economic Regulation, Mr Moriarty, were leading the engagement. The Board also felt it important to keep DfT abreast of developments. It was questioned whether any early decisions on airport capacity in the South East would impact on Q6 but it was felt that this would not be the case.

20. The Board considered the risks associated with the Q6 process. In particular, the late submission of information by stakeholders was discussed. It was noted that a high barrier had been set for the acceptance of any late submissions. It was highlighted that the new licensing regime would allow reopening of price controls on the basis of material submissions.

21. The situation at Stansted was further discussed by the Board in particular considering the Regulatory Asset Base (RAB) concept. The Board were aware that airline representatives at Stansted were keen to see the RAB significantly reduced but acknowledged that this would raise wider issues of regulatory approach. It was highlighted that the CAA had indicated, during Q5, the potential for a move away from RAB-based regulation and the Board considered, for transparency purposes, that it was important to make stakeholders aware of this as part of the Q6 process. It was also agreed that going forward there would need to be robust rationale about what is included within a RAB.

22. The Board thanked Mr Osborne for the update in respect of market power assessment and requested that the next presentation to the Board include further information about competition thresholds. The Board were content with the direction of travel with regard to the Q6 work and for the level of briefing being received to enable it to take these important economic regulation decisions.

VII. Current Safety Issues – Doc 2012 – 145 by Mrs Gretchen Haskins and Mr Mark Swan

23. Mrs Haskins briefed the Board on the recent ditching of a Eurocopter EC225 helicopter in the North Sea. It was noted that the failure mode involved in this event had been identified and could be detected by the helicopter's Vibration Health Monitoring System although regular inspections were necessary. It was highlighted that EASA had been focused on addressing the airworthiness aspect of the failure through an increased inspection regime but the CAA had felt that an operational intervention was also necessary, particularly where helicopters were operating in hostile environments such as the North Sea. As a result, the CAA issued an Operational Directive, a step that was welcomed by industry and has subsequently been mirrored by the Norwegian CAA. The Board supported the unilateral steps that had been taken by the CAA and recognised that, to address this issue longer term, a design solution was likely to be required.

24. The Board recognised that EASA were still building capability in the areas for which it had responsibility and were keen for the CAA to support the Agency build a more robust system to address operational and continued airworthiness issues, increase information flows and increase clarity regarding roles and responsibilities. The Board considered it important for EASA to be able to draw on the support and capabilities of a number of National Aviation Authorities in order to provide this more robust framework.

25. The Board also considered the communications aspects of the work that EASA and the CAA had taken in response to the ditching event. It was noted that whilst there had been strong communication at a working level, escalated contact may have been appropriate when it became apparent that the CAA would be taking unilateral action. It was agreed that the communication processes would be further reviewed.

Action: Mrs Haskins

VIII. Finance Report – 7 months ended 31 October 2012 – Doc – 2012 – 146 by Miss Chris Jesnick

26. Miss Jesnick presented highlights from her report, which also included the 2013/14 charging proposals. It was noted that the majority of proposed charges were either unchanged at 2012/13 levels or reduced. Miss Jesnick explained that any proposed increases were largely as a result of the continued commitment to reduce cross subsidies.

27. The Board noted the report and approved the 2013/14 charging proposals for consultation with industry.

IX. Report from the Remuneration Committee – Doc 2012 – 147 by Dr Catherine Bell

28. Dr Bell briefed the Board on the Remuneration Committee (RemCo) activity at its July and October meetings, which had focussed on Reward Principles and the implications on RemCo of the Civil Aviation Bill. In particular, it was noted that RemCo will move from 4 to 3 meetings per year from January 2013.

29. The Board noted the report.

X. Live issues – Directors’ Reports and HR Quarterly Report

30. *Regulatory Policy Group – Doc 2012 – 148 by Mr Iain Osborne*

Mr Osborne updated the Board on developments with recent hearings under the Groundhandling Regulations 1997 and Civil Aviation (Allocation of Scarce Capacity) Regulations 2007.

31. *Consumer Protection Group – Doc 2012 – 149 by Mr Richard Jackson*

The Board noted with interest the queries being received in respect of the possibility of other European Operating Licence holders considering relocating their business to the UK.

32. *HR Quarterly Report– Doc 2012 – 153 by Mr David Owen*

The Board commended the HR team for the progress that had been made against the People Strategy.

Date of next Board meeting: Wednesday, 12 December 2012 in CAA House