

FOR PUBLICATION

CIVIL AVIATION AUTHORITY

MINUTES OF 375TH BOARD MEETING HELD ON WEDNESDAY

6 APRIL 2005 AT 10.30 AM

Present:

Sir Roy McNulty
Chairman

Mr J Arscott

Mr M Bell

Dr H Bush

Mr R T R Jackson

Miss C Jesnick

Mr J Keohane

Mr R P Mountford

Mr R Swainson

AVM Walker

Capt R O Whitefield

Mr R J Britton

Secretary & Legal Adviser

In Attendance:

Miss C Brown
Director Corporate Communications

Mr R Townsend
HR Director

Miss S Hill
Head of Corporate Strategy & Planning for Item IX

Gp Capt Stenson
AD/AP2
for Item XI

<p>Mr M Roper Head of Information Services for Item XII</p>
<p>I Minutes of the Previous Meeting and Matters Arising.</p>
<p>1. The Minutes of the Meeting held on 2 March 2005 were approved and signed. On the action points arising:</p>
<ul style="list-style-type: none"> • EASA – the presentations had been circulated to Members.
<ul style="list-style-type: none"> •
<ul style="list-style-type: none"> • Regional Office Review – Mr Bell confirmed that the plan is being presented to the April meeting of SPC.
<ul style="list-style-type: none"> •
<ul style="list-style-type: none"> • Final Advice to Government on Financial Protection – Mr Jackson confirmed that this is to be the subject of a special meeting of CPPC later in the day.
<ul style="list-style-type: none"> • ASSI Audit – Mr Bell confirmed that this is now in hand.
<p>II Chairman’s Opening Remarks.</p>
<p>2. The Chairman reported on the following matters:</p>
<ul style="list-style-type: none"> • David Lusher – a retirement dinner for David Lusher was arranged for the evening.
<ul style="list-style-type: none"> • Consumer Issues – shortly before the Chancellor’s Budget speech DfT had informed CAA that there were proposals to amalgamate a number of bodies with consumer responsibilities.
<ul style="list-style-type: none"> • Hampton Review and Better Regulation Task Force Report – the climate in which regulators operate is changing. The Government seems keen on introducing new measures for best practice, policy co-ordination and common databases. These will no doubt impact on CAA. If there is time, the subject could be discussed at the Away Day.
<p>Action: Miss Jesnick</p>
<ul style="list-style-type: none"> • Conference on Aviation Regulation in Europe – this is to be held under the auspices of the UK Presidency. The likely dates are 17 and 18 November in Edinburgh. Final confirmation is awaited from the Commission.
<ul style="list-style-type: none"> • Board Away Day in June – if Members have topics they particularly wish to have discussed, they should let Miss Jesnick know by the end of the month.
<p>III Directors’ Reports:</p>
<p>ERG – Doc 2005/23 by Dr Bush.</p>
<p>3. Dr Bush reported on the following highlights:</p>
<ul style="list-style-type: none"> • Scarce Capacity Procedures – Annex 8 of the guidance to licensees which sets out the methodology and processes for judging the economic efficiency of each applicant’s case is to be

reviewed following the experience gained in the recent India hearing.
<ul style="list-style-type: none"> • <u>Regional Air Services Study</u> – further positive media coverage has appeared.
<ul style="list-style-type: none"> • <u>Slots</u> – ERG has been working with OFT in drafting a joint competition paper which will be presented to the Commission in late April.
<ul style="list-style-type: none"> • <u>Airports Quinquennial Reviews</u> – discussions have been held with BAA and Manchester Airport about the process for the next review.
<ul style="list-style-type: none"> • <u>NATS Price Cap Review</u> – oral hearings have been held with NATS, BA, bmi, Virgin, ELFAA and IATA on 17 and 18 March. Compliments have been received about the conduct of the hearings. The next step is to publish the final proposals towards the end of May. A presentation will be made to the Board at its May meeting.
Action: Dr Bush
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4. The Board noted the Report.
CPG – Doc 2005/24 by Mr Jackson.
5. Mr Jackson reported on the following highlights:
<ul style="list-style-type: none"> • <u>Denied Boarding Compensation</u> – initial indications are that there is considerable confusion on the part of airlines and their passengers as to the circumstances in which compensation is payable. The AUC is now receiving up to 50 letters a day on the subject. The Commission is to call a meeting of all regulators on DBC issues in May.
<ul style="list-style-type: none"> • <u>ATOL Guidance Note 26</u> – service of Judicial Review proceedings by ABTA is awaited.
6. The Board noted the Report.
SRG – Doc 2005/25 by Mr Bell.
7. Mr Bell reported on the following highlights:
<ul style="list-style-type: none"> • <u>EASA NAA Certification Transition Working Group</u> – the first meeting was held on 10 March in Cologne. Its purpose is to develop a strategy for managing the transition of tasks and personnel from NAAs to EASA. The group intends to report back to the EASA Management Board in June. However progress on the issues is very slow and it seems unlikely that the deadline will be met.
<ul style="list-style-type: none"> • <u>Fuel Tank Safety</u> – following the 1996 loss of the TWA B747 and two other accidents due to fuel tank explosions, the CAA led European activity to find a solution involving ignition suppression and flammability reduction. Prompt implementation of enhanced maintenance and inspection regimes were part of the solution. However in February EASA changed its position without any involvement by CAA specialist members of the team, so as to harmonise with the FAA. Retrospective fitment of systems is required which will impose huge costs on the industry. CAA has written to EASA declining continued leadership of the fuel tank safety team and explaining its objections.
<ul style="list-style-type: none"> • <u>BA B747 Engine Failure</u> – SRG has issued a position statement to the media stating that there are no grounds for believing that the Denied Boarding Compensation Regulation presented a new threat to safety. Following damaging publicity to BA in North America Mr Eddington had been to see the FAA Administrator. It now seems likely that US political interest in the matter will wane.

8. In response to the Chairman's question about the positive comments about EASA implementation in SRG's business plan, Mr Bell said that such positive comments could be made since SRG had intervened to protect UK industry and safeguard the airworthiness of the UK fleet during the transition period.
9. The Board noted the Report.
DAP – Doc 2005/26 by Mr Arscott.
10. Mr Arscott reported on the following highlights:
<ul style="list-style-type: none"> • <u>Single European Sky</u> – the Single Sky Committee approved the Common Requirements on 17 March. The Regulation will come into force in early 2007. The Charging and Flexible Use of Airspace Rules were withdrawn from the March meeting of the Committee. David McMillan had confirmed that DfT remains committed to cost-effective pricing. There has been an exchange of letters with the ATA to involve the CAA in the regulatory aspects of the SESAME work programme. • <u>Clacton Judicial Review</u> – the grounds of resistance submitted by NATS and the Secretary of State have now been filed with the Administrative Court. • <u>Windfarms</u> – the Whitelees Wind Turbine Development near Glasgow is continuing to attract high level political interest. Mr Arscott is to chair a meeting to try to find a solution. However it is optimistic to expect BAA and NATS to withdraw their objections at this stage. • <u>Stakeholder Survey</u> – the Directorate's level of service had been rated at 86% in contrast to 72% three years ago.
11. The Board noted the Report.
IV Legal Report – Doc 2005/27 by the Secretary.
12. Mr Britton reported that NATS' proposals to increase North Sea helicopter charges from 1 May had been considered by NLMCC. While the new charges had just been received within the one month deadline set out in Condition 23 of the Licence, it was not clear to the Committee that there had been appropriate consultation. The request for the Specification was therefore being withdrawn. The licence manager will take up the non-compliance with NERL.
13. The Board noted the Report.
V Financial Report – 11 Months Ended 28 February 2005 – Doc 2005/28 by Miss Jesnick.
14. Miss Jesnick reported on the following highlights:
<ul style="list-style-type: none"> • <u>Financial Commentary</u> – the operating profit for the 11 months to 28 February was £11,384k as compared to the budget of £3005k. After tax and borrowing costs the CAA's net profit was £8,301k as compared to a budget of £1,080k. The operating profit for the year to 31 March 2005 is forecast to be £10,031k as compared to the budget of £2,978k. The rate of return on the CAA regulatory sector is forecast to be 18% on the current costs of capital employed as opposed to the target of 6%. This will enable the rate of return "lost" in the financial years from 1999/2000 to 2002/2003 to be fully recovered.

- One Kemble Street – the project remains on plan and under budget. . The refurbishment of K Block is going well. Miss Jesnick reported that she had signed off a small business case for the refurbishment of the lifts which are in a poor state.

15. The Board noted the Report.

VI Human Resources Report – Doc 2005/29 by Mr Townsend.

16. Mr Townsend gave a report to the Board on pay talks 2005.

17. The Board noted the Report.

VII SRG Costs and Charges Review: Oral Report by Miss Jesnick.

18. Miss Jesnick reported to the Board. The next step is for the Safety Policy Committee to see the entire JRT paper and the draft report to the Board, before the report goes to the SRFAC. The CAA was keen to reflect the principles of proportionality and transparency. .

19. The Commission Regulation on Fees and Charges to be levied by EASA had been promulgated on 21 March. The recitals to the Regulation included a statement that “The fees levied by the Agency should not jeopardise the competitiveness of the European industries concerned. Furthermore, they should be established on a basis which takes due account of the ability of small undertakings to pay.”. The conclusions of the Hampton review on regulation needed to be taken into account.

20.

22. Once SPC have considered the report, it will be circulated to Board Members as soon as possible in advance of the usual circulation date.

Action: Miss Jesnick

VIII North East Airspace Team Review – Doc 2005/31 by Mr Arscott and Mr Bell.

23. Mr Arscott presented the CAA’s response to the review which had been jointly sponsored by CAA and MoD to review the risk of collision in Class F and G airspace between military fast jets and commercial air transport aircraft in the North East. The review had been triggered by an AAIB Report on an Airprox involving a Dash 8 airliner and two RN Sea Harriers in April 2002. DAP’s air navigation

<p>functions and SRG's safety regulatory functions were both involved. Annex A to the Paper set out the actions taken by MoD to reduce the risk of collision. Annex B to the Paper set out the CAA's action plan to mitigate the risk to commercial air transport outside of controlled airspace. Progress on achieving targets for implementing the various measures will be reported to the CAA Board at six monthly intervals.</p>
<p>Action: Mr Arscott</p>
<p>The required fitment of transponders by 2008 to civil aircraft will enable the risk to be reduced. AVM Walker commented that technology is not yet sufficiently advanced for TCAS to cope with fast jet dynamics.</p>
<p>24. Mr Bell confirmed that he supported the Paper and SRG had been working closely with DAP on the recommendations.</p>
<p>25. The next step is for the Chairman to meet with the Chief of the Air Staff following which the NEAT report will be published and a joint statement issued.</p>
<p>26. The Board –</p>
<ul style="list-style-type: none"> • Noted the contents of the report.
<ul style="list-style-type: none"> • Endorsed all six NEAT recommendations.
<ul style="list-style-type: none"> • Endorsed the NEAT conclusion.
<ul style="list-style-type: none"> • Endorsed the outline action plan at Annex B.
<p>IX CAA Consolidated Corporate Plan – Doc 2005/32 by Miss S Hill.</p>
<p>27. Miss Hill presented the latest version of the Corporate Plan for 2005/06 to 2009/10 which incorporated the comments made by Members at the March meeting. The financial tables were now included. The staff numbers reflected the impact of EASA on SRG.</p>
<p>28. Miss Jesnick referred to the need to adjust the section relating to the section on the Pension Scheme and the FRS 17 treatment of the pension fund asset needed to be checked. Miss Hill confirmed that the Plan has to be submitted to DfT before the end of April. The deadline for any final comments is Tuesday 12 April.</p>
<p>29. The Board approved the Plan for submission to DfT.</p>
<p>Action: Miss Jesnick</p>
<p>X CAA Budget 2005/06 – Doc 2005/33 by Miss Jesnick.</p>
<p>30. Miss Jesnick introduced the Paper setting out the CAA's budget proposals for the 12 months to 31 March 2006. There were an unusual number of uncertainties for the forthcoming year, in particular –</p>
<ul style="list-style-type: none"> • The treatment of transition costs for EASA
<ul style="list-style-type: none"> • The extent of contract work for EASA is unknown
<ul style="list-style-type: none"> • The report of the Joint Review Team for SRG's costs and charges has yet to report to the Board.

- The regional office review results have yet to be included.

These uncertainties relate primarily to SRG and not the other Groups. Continuing pressure needs to be kept on costs.

31. Miss Jesnick drew attention to the appearance in the balance sheet of £241 million which shows the FRS 17 treatment of pensions. This figure completely distorts the real position. The Pension Scheme figures suggest that the CAA has money to spare which it certainly has not. For all sensible purposes, pensions treatment has to be removed from the Accounts. However the Government will not permit public authorities to continue to treat pensions under SAP 24.

32. The Board approved the 2005/06 budget.

XI Aviation Environmental Policy – Doc 2005/34 by Miss Jesnick.

33. Gp Capt Stenson presented the Paper on behalf of Miss Jesnick. The group was set up following the Board Away Day in June 2004 to review, monitor and co-ordinate CAA's environmental policies on a cross-CAA basis. Aviation environmental matters were increasingly important. The CAA (Air Navigation) Directions 2001 require the CAA to take, and encourage others to take, measures that will help reduce the environmental impact of aviation. Gp Capt Stenson presented the group's proposed Terms of Reference, work plan for 2004-05 and a re-drafted sustainable development and aviation environmental policy.

34. Dr Bush pointed out that while functions carried out under the Transport Act had express statutory environmental objectives, functions carried out under the Airports Act did not.

35. The Chairman said that the group presented an opportunity for the CAA to get a joined up view on environmental issues which can but increase in prominence in future.

36. The Board –

- Endorsed the group's Terms of Reference and membership.
- Noted the work plan for 2004/05.
- Adopted the re-drafted CAA sustainable development and environmental policy.
- Requested the group to report to the Board on an annual basis to start with. The first such report should be presented in October.

XII ERM Business Case – Doc 2005/35 by Dr Bush and Mr M Roper.

37. Dr Bush introduced the Paper which had been previously approved by the Executive Committee. The CAA needed to improve its records management which was of varying quality throughout the organisation. The new strategy –

- Has user friendly technology which is easy to assimilate.
- Can be implemented in different ways in different parts of the business.
- Will enable staff to undertake records management from their desks.
- Will give more clarity to records management processes.
- Will assist the achievement of FOI objectives.
- Will enable some records management processes to be automated later on.

38. In summary, this was a relatively cautious but credible project which would bring benefits to the CAA.

39. Mr Roper confirmed that implementing the technology would be relatively easy. However cultural changes on the part of users would be required. In answer to Mr Swainson's question, Mr Roper confirmed that other organisations who had implemented ERM had been visited. Steria have done very well so far and Mr Roper said he had confidence in their new account manager. Open Text was a reputable organisation with a good track record servicing Government.

40. The Board approved the ERM business case presented with the Paper.

XIII Any Other Business.

(i) Agenda Plan Update.

41. May 2005 – add JRT Report. Move Health & Safety and Environmental Report to July.

October 2005 – add NEAT Review, Aviation Environmental Policy Working Group Report.

This was the final meeting of the Board attended by AVM Walker. David Walker had been the national security nominee since October 2003. The Chairman thanked him for his contribution to the work of the Board.

The next Meeting of the Authority will be held at 10.00am on Wednesday 4 May 2005 in Conference Room 1