

FOR PUBLICATION

CIVIL AVIATION AUTHORITY

MINUTES OF 377TH BOARD MEETING HELD ON WEDNESDAY

22 JUNE 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

AVM Moran

Mr R P Mountford

Mr R Swainson

Capt R O Whitefield

Mr R J Britton
Secretary & Legal Adviser

In Attendance:

The Chairman welcomed AVM Moran to his first meeting of the Board.

I Finance:

Annual Assessment of Risk and Internal Control for the Year Ended 31 March 2005 – Doc 2005/46 by Miss Jesnick.

1. Mr Baker introduced the review of internal controls for the year to 31 March 2005. The review was a requirement of the new Combined Code of Corporate Governance which the CAA was required to adopt where possible in accordance with the Accounts Direction given to it by the Secretary of State. As required, the review covered financial, operational and compliance controls and risk management systems. The review set out a description of the business risk

management process, the significant operational business risks facing the CAA and a Board level risk review. The Board level risk review was unchanged. It was recommended that the Board undertake a review of risk management to refresh the last exercise performed in 2002.

2. The Board agreed to this recommendation.

Action: Miss Jesnick

3. With regard to the CAA's compliance with the Combined Code, Miss Jesnick confirmed that the CAA can properly declare that it is compliant. Those requirements with which CAA cannot comply because it is a statutory public corporation rather than a public limited company are declared. These primarily relate to the statutory appointment of Board Members by the Secretary of State and the determination of their remuneration by the Secretary of State with the consent of the Treasury.

4. The report included a review of the effectiveness of the Board, the Audit Committee and the Remuneration Committee.

5. The Board endorsed the annual assessment of risk and internal controls for the year ended 31 March 2005.

Minutes of June Audit Committee – Report by Mr Mountford.

6. Mr Mountford presented the minutes of the Audit Committee held on 8 June to the Board. Nothing had emerged from the Committee's review of the Annual Report & Accounts which needed to be drawn to the Board's attention.

7. The Board noted the minutes.

CAA Annual Report and Accounts 2004/2005 – Doc 2005/47 by Miss Jesnick.

8. Miss Jesnick and Mr Baker presented the Annual Report and Accounts for the year ended 31 March 2005. The external auditor, Janet Eilbeck of PricewaterhouseCoopers, had confirmed that she would be content to sign the Accounts as being true and fair. There were no issues to clear with the external auditor. The management letter had confirmed that they were a good set of Accounts.

9. Mr Baker said that the Accounts were consolidated Accounts for the CAA and its two subsidiaries, Air Safety Support International Limited and CAA Facilities Limited. The results were similar to those presented to the May meeting of the Board.

-
-
-

10. Miss Jesnick reported that the rate of return on the regulatory sector had been 18%. Accordingly all the "lost" rate of return since the events of 11 September 2001 had now been recovered. The rate of return will now revert to 6%. Pension commitments had been included in the Accounts for the purposes of SSAP 24. During the year the CAA contributed to the Scheme at an average rate of 6.4%. Disclosure under FRS17 was set out in Note 20 to the Accounts.

Letter of Representation.
11. Miss Jesnick confirmed that she was content with the letter.
12. The Chairman thanked Miss Jesnick and her team for their efforts in preparing the Annual Report and Accounts.
13. The Board:
<ul style="list-style-type: none"> • Adopted the 2004/2005 Annual Report and Accounts, and • Authorised the Chairman and Miss Jesnick to sign the Accounts and the Chairman 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.
Financial Report – 2 Months Ended 31 May 2005 – Doc 2005/48 by Miss Jesnick.
14. Miss Jesnick reported that the operating profit for the first two months was £1460k as compared to the budget of £910k.
Property Matters.
15. The Tower Block refurbishment work had been completed on time. The agreement for a lease of the first floor of the Tower Block, link bridge and CAA House had been exchanged with the Council for Architecture and the Built Environment.
16. The Board noted the Report.
II Minutes of the Previous Meeting and Matters Arising.
17. The Minutes of the Meeting held on 4 May 2005 were approved and signed. On the action points arising:
<ul style="list-style-type: none"> • <u>North East Airspace Team Review</u> – Mr Arscott confirmed that the draft had been sent to the Chief of the Air Staff. • <u>Functional Airspace Blocks</u> – Mr Arscott had circulated the relevant papers to the Board. • <u>Human Resources Report</u> – Mr Townsend confirmed that guidance for managers on the winter break had been circulated. • <u>JANSC Report</u> – Mr Arscott confirmed that the Report had been submitted to the DfT and MoD. • <u>Joint Review of SRG Costs and Charges</u> – Miss Jesnick confirmed that the formal consultation with industry had been sent out on 10 June. Presentations had been given to the media and the industry. • <u>Review of the Safety Performance of NATS</u> – Mr Bell confirmed that the Report had been submitted to DfT.
III Chairman's Opening Remarks.
18. The Chairman reported on the following matters:
<ul style="list-style-type: none"> • <u>Ministerial Meeting</u> – two meetings had been held with the Secretary of State. The items

<p>for discussion included the governance of EASA, the NATS price cap proposals, the Air Transport White Paper including surface access to Stansted and financial protection for air passengers.</p>
<ul style="list-style-type: none"> • EASA Meeting – the Chairman is due to meet M Goudou on 24 June. The need for certainty after August when the current Purchase Orders run out will be stressed.
<ul style="list-style-type: none"> • DG TREN Meeting – a meeting is to be arranged with Mr Calleja.
<ul style="list-style-type: none"> • Board Members' Remuneration – the Secretary of State and the Treasury have agreed the Remuneration Committee's bonus proposals for 2004/05 and salaries for 2005/06. The work done by Mr Keohane and Mr Townsend had been most useful.
<p>IV Directors' Reports:</p>
<p>ERG – Doc 2005/49 by Dr Bush.</p>
<p>19. Dr Bush reported on the following highlights:</p>
<ul style="list-style-type: none"> • Fifth Freedom Services from Regional Airports – the consultation ended on 13 May and was followed by a meeting with industry representatives. The responses from both the airlines and airports were generally positive and supported the CAA's proposal to adopt a policy presumption of granting regional fifth freedom applications. The paper was submitted formally to the DfT on 15 June. The Department's response is awaited.
<ul style="list-style-type: none"> • Slots – the joint text for the competition and slots paper was agreed with OFT and submitted to the Commission.
<ul style="list-style-type: none"> • Commission Airport Charging Directive – Dr Bush has sent a letter to DG TREN setting out CAA's views on how the Directive could be framed to take into account the market conditions faced by airports. The draft Directive is expected to be issued later this year.
<ul style="list-style-type: none"> • NATS Price Control – the proposals were published on 24 May as planned. The reaction from users had so far been muted. NATS has until 29 July to confirm that it is prepared to accept the proposals before CAA has to make a reference to the Competition Commission under the Transport Act.
<ul style="list-style-type: none"> • Airport Regulation Paper – the consultation paper was published on 20 May setting out the process of airport/airline engagement for the next airport reviews. The airlines wish to get involved but have pointed out the difficulties. CAA's role is merely to facilitate discussions and not to participate in them.
<p>20. The Board noted the Report.</p>
<p>CPG – Doc 2005/50 by Mr Jackson.</p>
<p>21. Mr Jackson reported on the following highlights:</p>
<ul style="list-style-type: none"> • Future of Holiday Protection – support for the CAA's proposals has come from industry bodies, key MPs, the Chair of the All Party Aviation Group and a member of the Transport Select Committee. Considerable media coverage has been obtained. The RIA has been

<p>amended to highlight that the key objective is to ensure financial protection for all UK originating air passengers and to emphasise the deregulatory benefits from the abolition of bonding which are estimated at £80 million-£100 million.</p>
<ul style="list-style-type: none"> • <u>Proposed EU Regulation on Rights of Persons of Reduced Mobility</u> – DfT’s consultation on the proposals concludes on 14 August. The main obligation for providing seamless assistance to PRMs is to fall on airports. It is not yet clear whether the obligation is to be limited to commercial air transport airports only. DFT will be carrying out a separate consultation on enforcement. It is likely that the CAA will be designated as the enforcement authority.
<ul style="list-style-type: none"> • <u>Insurance: Historic Aircraft</u> – the particular problem with the B17 has been resolved and the aircraft will be able to participate in the VE/VJ Day celebrations. The Commission were unsympathetic to special provision being made for historic aircraft but they may be prepared to reconsider the need for war risk cover for such aircraft.
<p>22. The Board noted the Report.</p>
<p>SRG – Doc 2005/51 by Mr Bell.</p>
<p>23. Mr Bell reported on the following highlights:</p>
<ul style="list-style-type: none"> • <u>EASA:</u>
<p><i>Contract</i> – EASA and CAA have signed a three year contract for CAA to supply regulatory support to EASA. The detailed work is specified in three Purchase Orders. However these will only cover the period to August 2005.</p>
<p><i>Transition Working Group Activity</i> – the final planned meeting was held on 24 May in Cologne. A report was drawn up and presented to the EASA Management Board on 14 June. Although EASA had indicated that it would fundamentally oppose the paper and its recommendations, it was accepted by the Board.</p>
<p><i>Management Board Meeting 14 June</i> – Mr Smethers has said that he will reconvene the EASA NAA Transition Working Group to monitor EASA’s discussions with individual NAAs.</p>
<ul style="list-style-type: none"> • <u>SRG Costs and Charges Industry and Media Briefings</u> – these were held in London on 10 June. The attendees were exclusively from the GA sector which is trying to muster Parliamentary support.
<ul style="list-style-type: none"> •
<ul style="list-style-type: none"> • <u>General Aviation Safety Awards</u> – this successful event was held on 10 May and achieved considerable media interest.
<p>24. The Board noted the Report.</p>
<p>DAP – Doc 2005/52 by Mr Arscott.</p>

25. Mr Arscott reported on the following highlights:
<ul style="list-style-type: none"> • <u>Single European Sky:</u>
<i>Charging Regulation</i> – the Commission seem determined to include airports in the Regulation. Some progress has been made in obtaining greater recognition for independent economic regulation. DfT is seeking reassurance that the Commission does not intend the Regulation to undermine the UK's incentive based economic regulation.
<i>Flexible Use of Airspace</i> – the Commission acknowledges its lack of competence on military issues but is pressing States to change the way in which they handle civil/military co-operation. The problem of military airspace in France continues.
<i>Common Requirements Regulation</i> – the CAA has published an industry consultation document setting out the proposed methodology for certificating and designating air navigation service providers.
<i>Edinburgh Conference</i> – Mr Arscott stressed the importance of the Edinburgh conference to set out the UK's position on Single European Sky matters.
<ul style="list-style-type: none"> • <u>ATSOCAS Review Phase 2</u> – the consultation process with airspace users was launched in May.
<ul style="list-style-type: none"> • <u>Coventry (West Midlands International) Airport Planning Application</u> – the Inspector had requested a Rule 6 statement from the CAA dealing with the likely impact of additional passenger air transport movements on the airspace in the vicinity of Coventry and Birmingham Airports.
26. The Board noted the Report.
V Legal Report – Doc 2005/53 by the Secretary.
<i>Board Committee Appointments</i>
27. The Board appointed Roger Whitefield to be a member of both the Audit and Remuneration Committees with immediate effect.
Action: Secretary
<i>Air Safety Support International Limited</i>

29. Pursuant to paragraph 6 of the CAA (Overseas Territories) Directions 2003, the Board confirmed the continuation of the appointment of Mr Dean as Chief Executive of ASSI from 1 July 2006 to 30 June 2008 with a possible extension to 26 June 2009. This appointment is subject to both requirement for the post and satisfactory performance. The approval of the Secretary of State is also required.

Action: Secretary

30. The Board noted the Report.

VI Human Resources Report – Doc 2005/54 by Mr Townsend.

31. Mr Townsend reported on redeployment and support arrangements for staff impacted by EASA. ExCo had concluded that the redeployment arrangements in place were working well. However, the current arrangement whereby SRG vacancies are published first within DPSD will be extended to cover all CAA vacancies. ExCo had also confirmed that the support package to encourage employees to pursue and accept jobs with EASA be extended for a further year.

32. The Board noted the Report.

VII EASA Progress Report – Presentation by Mr Padhraic Kelleher.

33. A copy of Mr Kelleher's presentation is attached to these Minutes.

VIII Any Other Business.

(i) Agenda Plan Update.

34. November 2005 – add Update on Airport Regulation (Dr Bush).

(ii) Draft Agenda for July meeting.

35. Add paper on Future European Aviation Regulatory Structures (P Roberts)