

FOR PUBLICATION

CIVIL AVIATION AUTHORITY
MINUTES OF 394TH MEETING HELD ON WEDNESDAY
24 JANUARY 2007 AT 10.30 AM

Present:

Sir Roy McNulty

Chairman

Mr J R Arscott

Dr C Bell

Mr M J Bell

Dr H Bush

Mr R T R Jackson

Miss C Jesnick

Mr J Keohane

AVM Moran

Mr R P Mountford

Capt R O Whitefield

Mr R J Britton

Secretary & Legal Adviser

In Attendance:

Mr M Smethers

Director European & International Strategy

Mr R Townsend

HR Director

Mr A Brett

Head of Corporate Services

For Item X

I Minutes of the Previous Meeting and Matters Arising.

1. The Minutes of the Meeting held on 20 December 2006 were approved and signed. On the action points arising:

- [CAA's Response to DfT on the Future Holiday Protection System](#) – the submission to the Board will be presented to the February meeting.

Action: Mr Jackson

- [Airspace Policy Committee](#) – an extraordinary meeting will be held in February on Mode S.
- [Charges for Services](#) – Mr Britton confirmed that the Specifications had been published in the London, Belfast and Edinburgh Gazettes.
- [UK Unit Rate](#) – a paper will be presented by Miss Jesnick and Dr Bush to the February Board.

Action: Miss Jesnick and Dr Bush

- [Transport Select Committee Report](#) – a copy of the Secretary of State's letter to Mrs Gwyneth Dunwoody MP had been circulated.

Action: Miss Jesnick

II Revised CAA Objectives and Strategies – Doc 2006/120 by Miss Jesnick.

2. Miss Jesnick said that the paper contained the final draft of the objectives and strategies which had been developed during Summer 2006 and endorsed in principle by the Board in July. The CAA's Corporate Plan is currently being drafted on the basis of these objectives and strategies. Members were invited to send any further comments to her as soon as possible. The Chairman commented that the European Section had previously referred to identifying suitable UK candidates for top posts. Mr Smethers confirmed that the point had not been lost but this was intended to be a high level rather than a detailed statement.

III Business Plans:

ERG – Doc 2006/127 by Dr Bush.

CPG – Doc 2006/128 by Mr Jackson.

SRG – Doc 2006/129 by Mr Bell.

DAP – Doc 2006/130 by Mr Arscott.

3. The Business Plans, which had been deferred from the December meeting, were presented by the Group Directors.

For ERG Dr Bush said that while there were some marginal changes in ERG's finances as the Quinquennial Reviews progress the real resource line was flat. The principal areas of activity for ERG would be –

- The Airport Reviews which were the kernel of ERG's work. The Competition Commission

process is about to begin which brings its own dynamics and pressures. In addition there was a possible change to the regulatory boundaries which might emerge from the de-designation proposals for Manchester and Stansted. On European matters there would be work on the contestability of aerodrome ANSPs.

- Industry studies by ERG had been very well received. The long haul study will be completed. Following on from this and the no frills review it would be useful to review the charter sector. The Regional Airports work will be updated.
- ERG's main risk is staffing as the key individuals were highly mobile.
- 4. For CPG Mr Jackson said that the principal activities would be –
 - The move from bonds to the levy. The current arrangements will not survive in the long term. The Treasury is keen to remove the guarantee for the ATT's borrowing as soon as possible.
 - The risk based approach to licensing will be extended to cover all licensees. In particular oversight of the second tier of operators needs to increase as failures in this sector represent a considerable financial risk. Current staff will be trained for this.
 - The implications of the ABTA Judicial Review Judgment continue. The DTI is intending to issue fresh guidance on the meaning of a package.
 - On Europe the review of the Third Package is under way. The UK's approach is shared with France and Germany.
 - IT systems have been a particular problem for CPG. The new system needs to be properly developed.
 - CPG's key risk is containing the shrinking of the ATOL system of protection.
- 5. For SRG Mr Bell confirmed that the Business Plan complied with the planning guidelines.

The principal activities for SRG would be –

- Maintaining UK safety levels. This was paramount for SRG.
- SRG staff needed to be more outward looking towards Europe. This will require a change in the attitude of some staff. The outcomes of the staff survey would also be taken into account.
- Better Regulation Initiatives are improving. Work is under way to ensure that there is an electronic interface at all levels. ERM is already bringing a significant reduction in paperwork.
- Work will continue supporting DfT on the Air Transport White Paper.
- A runway incursion steering group had been set up. This is a particular concern. An

increasing number of incursions reported in the US had been noted. More publicity will be given to this area of risk.

- ICAO have agreed an implementation document for Safety Management Systems. These are already in place for airports and ANSPs and will be extended to AOC holders.
6. For DAP Mr Arscott confirmed that the APC had approved the draft Business Plan. The main areas of activity for DAP would be –
- Europe was a major factor. Very big issues would be coming to the fore over the next twelve months on SES, SESAR and EASA. It was important for the UK to get the right results.
 - Airspace matters arising out of the Air Transport White Paper in respect of which the environmental impact is becoming increasingly important. Project Sustainable Development Heathrow and Stansted Developments are key to this. Appearances at the Planning Inquiries will be a major task during the plan period.
 - DAP's track record on delivering airspace changes is good. Changes have been delivered in accordance with NATS' programme.
 - Lowering of SES into lower airspace has fundamental issues for both MoD and GA.
 - Mode S. The safety benefits should help drive the programme forward. The benefits from the Airspace Safety Initiative need to be delivered. This is principally for NATS and MoD to tackle ATSOCCAS. The growth of traffic from regional airports will need to be accommodated.
 - RNAV. There is a need to obtain better navigation capability so as to increase capacity.
 - South East Airspace Review. This needs to be a CAA rather than DfT led activity since it is essentially technical in nature.
7. The Board endorsed the 2007/8-2011/12 Business Plans of the four Groups.

IV Chairman's Opening Remarks.

8. The Chairman reported on the following matters:
- The Chairman and David MacMillan have signed a joint letter to Mr Kazatsay, Deputy Director General of DG Tren, confirming that Ministers had been advised to lift the General Reserve on the proposal to extend the scope of the functions of EASA into the fields of flight operations and personnel licensing.
 - Robert Devereux has been appointed to succeed Sir David Rowlands as the next Permanent Secretary of DfT.
 - The DfT Report on the interface with CAA should now be ready next month. The two CAA

Working Groups will align their work accordingly. The Chairman plans to have discussions with David MacMillan in the second half of February.

- The Chairman's Acting Chairmanship of the ODA will now continue until at least the end of May.

V Directors' Reports:

ERG – Doc 2007/1 by Dr Bush.

9. Dr Bush reported on the following highlights:

- EU/US – there is now little prospect of fresh proposals for market access coming forward from the US Administration. A key opponent of the NPRM on ownership and control has been elected as Chairman of the House Committee on Transportation and Infrastructure. The EU's vision of a Common Aviation Area now looks unlikely to happen in the near future. However there may be a combination of concessions. ERG is refreshing its study of two years ago.
- Manchester Airport Price Review – a preliminary document setting out the broad scope of the review is to be published on 31 January.

10. The Board noted the Report.

CPG – Doc 2007/2 by Mr Jackson.

11. Mr Jackson reported on the following highlights:

- Reform of Bonding – meetings have been held with the DTI and the Better Regulation Executive. The BRE are content with the proposals. A meeting is fixed for 1 February at which the CAA and DfT supported by PricewaterhouseCoopers will present the results of the analysis to the Treasury and DTI.
- British Mediterranean – Mr Jackson updated the Board on the latest developments.

12. The Board noted the Report.

SRG – Doc 2007/3 by Mr Bell.

13. Mr Bell reported on the following highlights:

- Fatal Accident to Dauphin Helicopter G-BLUN Operated by CHC Scotia on 27 December 2006 – the Flight Data Recorder has been recovered. The early indications are that there was no mechanical failure.
- DfT Exercise – the DfT ran an exercise in which a foreign registered aircraft crashed near Gatwick. David Chapman, Head of Flight Operations Division, participated. The Secretary

of State took a personal interest in the safety of foreign aircraft situation. CAA has plans for such an emergency which are kept under review.

- Gliders – these are defined as EASA aircraft requiring EASA certificates of airworthiness. The compliance date for pre 2003 gliders is 28 March 2007. EASA plans to use the British Gliding Association system for approving glider airworthiness. The BGA is currently being assessed. Once approved the BGA will make recommendations to allow CAA to issue a non-expiring C of A and an initial Airworthiness Review Certificate to each eligible glider. This will add some 2500 gliders to the UK register. The timetable involved is very tight.
- Ex-Military Aircraft and Ejection Seats – following an accident to a Lockheed T33 in September 2006, which crashed on take-off from Duxford injuring the two occupants, the CAA's policy set out in CAP 632 on ejection seats for UK registered ex military permit to fly aircraft was reviewed. In the previous case involving an accident to an L39 ex military aircraft the pilot who ejected was killed. The policy that in an emergency ejection is generally the quickest and most reliable means of escape was supported without reservation.
- Bristol Airport Runway Resurfacing – this matter aroused considerable media interest when easyJet, followed by a number of other operators, removed their operations to Cardiff citing slippery runway conditions following resurfacing. The underlying issue was in fact crosswind restrictions which easyJet wished to avoid for both safety and commercial reasons. Other operators such as Ryanair were prepared to accept the restrictions. The runway remained safe for use by public transport aircraft at all times. Nevertheless the airport operator decided to groove temporary surfaces to improve drainage characteristics.

Action: Mr Bell and Miss Brown

14. The Board noted the Report.

DAP – Doc 2007/4 by Mr Arscott.

15. Mr Arscott reported on the following highlights:

- Group Captain Wragg had also attended the DfT exercise.
- European Issues – CAA is helping David MacMillan to prepare for future meetings of the High Level Group which is developing proposals for reform of European arrangements for the regulation of aviation.
- Air Transport White Paper Issues – meetings have been held with senior BAA planning staff on the Airspace Change Process. Stansted G2 proposals may be published at the end of this month.

- Mode S RIA – the CAA response to consultees was published on the website in late December. A special APC will be held in February to consider the proposed implementation in the light of the consultation. A series of meetings are planned with GA.
16. The Board noted the Report.

VI Legal Report – Doc 2007/5 by the Secretary.

International Services

17. Mr Britton reported that the Secretary of State had now confirmed the necessary consents under Section 20(1)(b) of the Civil Aviation Act 1982 to activate its dormant subsidiary CAA Facilities Limited to be the vehicle for International Services consultancy purposes. The Secretary of State had further given consent to the CAA giving a guarantee for the benefit of the subsidiary in the sum of £500,000.

18. For the purposes of activation –

- In its capacity as sole shareholder of CAA Facilities Limited the Board, in an Extraordinary General Meeting of the Company, passed a Special Resolution to change the name of the Company to CAA International Limited and authorised the Secretary to sign the same and make the necessary application to Companies House.

Action: Mr Britton

- Sir Roy McNulty confirmed that he resigned as Chairman and Director of CAA Facilities Limited.
- The Board as sole shareholder resolved to appoint Miss Jesnick to be Chairman of CAA Facilities Limited.
- The Board as sole shareholder resolved to appoint the following persons to be Directors of the Company until 31 March 2010 or on ceasing to be a Member or employee of CAA, whichever is the sooner –
Simon Baker – Finance Director.
Nigel Coules – Commercial Director
Roger Whitefield – Non-Executive Director
Ron Elder – Non-Executive Director

A copy of the Resolution is attached to these Minutes.

VII Finance Report – 9 Months Ended 31 December 2007 – Doc 2007/6 by

Miss Jesnick.

Financial Commentary

19. Miss Jesnick reported that the operating profit for the 9 months to 31 December 2006 was £6,180K as compared to the budgeted loss of £446k. The CAA's net profit was £6,287K as compared to a budgeted loss of £858k. However a number of activities planned for February and March will diminish the profit margin. Provided that the Groups were not planning to increase expenditure over the next two months it might be possible to undertake a minor refurbishment of certain floors in CAA House which received adverse comment in the staff survey.

20. HMRC had completed their PAYE audit of CAA. There were no major points arising and indeed CAA should receive a small refund. The designation of the DfT and the Met Office for receipt of Eurocontrol monies direct from the CRCO rather than through the CAA will have an adverse impact on CAA's VAT treatment. The reduction in money flows through the CAA's accounts will result an increase in VAT payments of some £400k pa.

Progress against Corporate Plan Objectives 2006-07

22. Miss Jesnick referred to the Table for Q3 October to December 2006. The deliverables which were dependent on other organisations had been taken out.

SRG Schemes of Charges Proposals 2007-08

23. Following the 12 week consultation period which ended on 15 December some minor amendments had been made to the Charges Schemes proposals as set out in the Board Paper. There had been only 36 responses to the Consultation mainly from Police AOC holders. DfT officials had indicated that the Minister would like some indicative numbers from certain schemes which were being worked on. Confirmation from Gillian Merron MP that the Schemes of Charges may be published on 30 January to meet the statutory 60 day dead period before coming into force on 1 April is awaited.

24. The Board approved the amendments to the charging proposals as set out in the paper.

25. The Board noted the Report.

VIII Human Resources Report – Doc 2007/7 by Mr Townsend.

26. Mr Townsend reported on the following highlights:

- Employee Survey – there was a perception of lack of fairness in reward and recognition. In fact the process was now much more transparent than in the past. Nevertheless the HR

Steering Group will review the issue.

- Pay – Mr Townsend updated the Board on the 2007 pay bargaining round.

27. The Board noted the Report.

IX European and International Strategy Report – Doc 2007/8 by Mr Smethers

28. Mr Smethers reported on the following highlights:

- Review of the Third Package – the German Presidency clearly hoped to make rapid progress with the review. The Commission has accepted the withdrawal of the most damaging element in its original proposal that a Member State should no longer be able to insist that an operator it licences should have to keep its aircraft on the home register. This review will be followed by airport charging under the next Presidency followed possibly by a review of slots legislation.
- Future Regulatory Structures in Europe – the high level group whose origins can be traced back to the Edinburgh conference has met twice. It aims to produce a preliminary report in April and a final report in June. The future of Eurocontrol is a particularly sensitive issue for the group. Eurocontrol does not have enforcement powers and it does not seem sensible to have two competing international organisations dealing with the same issues.

29. The Board noted the Report.

X Assessment of Risk and Control – 6 Months to 30 September 2006 – Doc 2007/9 by Miss Jesnick.

30. Miss Jesnick introduced the paper and thanked the non-executive Members for their input. As a Public Corporation the CAA has been directed by the DfT to comply with the Financial Services Authority listing rules which include the adoption of the Combined Code of Corporate Governance. In compliance with this direction the CAA has developed a risk management system over the last 9 years to provide an assurance to the Board that business risks are being properly identified and controlled. Mr Brett said that the CAA has identified and tracked 129 operational risks rated 4 and above together with 9 strategic risks which are being addressed in the Business Plans. However risks are constantly changing and the new reporting system should provide a better indication of CAA's inherent risks. Risks are rated on a scale of 1 to 4 for both severity and likelihood. Risks rated as 4 and above are collected centrally and analysed. It is proposed to modify the current Risk Report System to ensure that the risk owners are fully aware of the risks

and their mitigations. In future it is proposed that the Report will be reviewed and endorsed as follows –

- ExCo – to endorse that the Report identifies all known significant risks facing CAA.
- Audit Committee – to endorse that the CAA has a robust and defensible risk management process.
- The Board – approval of the report.

31. Mr Mountford as Chairman of the Audit Committee welcomed the clarity that the presentation gave to the risk management process. The Combined Code placed a responsibility on the Audit Committee to review the risk management system rather than the risks themselves. Mr Mountford noted that the SPC reviewed SRG's risks and recommended that the other Policy Committees follow SPC's lead. The strategic risk overview made reference to the CAA Pension Scheme becoming untenable or under funded. Mr Mountford informed the Board that CAAPS is establishing a risk management system for the scheme for the first time.

32. Mr Bell commented that a number of SRG certification risks had been transferred to EASA on 28 September 2003. However so far EASA had not acknowledged this although there were signs that it was at last taking some interest in the subject.

33. The Board –

- Approved the new format for the paper and the amended reporting process.
- Endorsed that the Report identifies all known significant risks facing CAA and that CAA has a robust and defensible risk management process.

XI Any Other Business.

(i) Agenda Plan Update.

34. February 2007 – add Future Holiday Protection System and UK Unit Rate.

(ii) Board Workshop.

35. Miss Jesnick reported that ExCo had considered subjects for discussion. How CAA assures itself that regulatees are performing safely was recommended for discussion. The Board endorsed the recommendation.

The next Meeting of the Authority will be at 10.30am on Wednesday 21st February 2007 in Conference Room 1 CAA House