

FOR PUBLICATION

**CIVIL AVIATION AUTHORITY
MINUTES OF 388TH BOARD MEETING HELD IN HASLEMERE ON THURSDAY
22 JUNE 2006 AT 1.00 PM**

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

Mr R P Mountford

Capt R O Whitefield

Mr R J Britton Secretary & Legal Adviser

In Attendance:

Miss C Brown Director Corporate Communications

Mr M Smethers Director European & International Strategy

Mr R Townsend HR Director

Mr S Baker Head of Finance For Item I

Mr D Chapman Head of Flight Operations Division, SRG For Items IX and X

Mr A Plant Head of International Aviation Policy, ERG For Items IX and X

I. Finance:

Board Effectiveness Review – Oral Report by Miss Jesnick.

1. Miss Jesnick reported that the Audit Committee had recommended that the Board review its effectiveness. The purpose of the review was to ensure that Members had the right competences and that appropriate structures were in place to support the Board. These included financial structures and delivery of information to the Board. In discussion, Mr Mountford said that training was as important for non-executives as for management. Miss Jesnick confirmed the need to make sufficient time in Board Agendas to discuss important issues including, for example, the environment. In discussion of risk, Mr Mountford said that the current framework needs a top-down look. Dr Bush commented that the CAA needed to have the organisational flexibility to deal with surprise events such as the Ferrovial bid for BAA plc. Overall, Members were satisfied with the current standards of governance although there was always scope for improvement. In relation to this, it was noted that the corporate planning and business processes were being refreshed.

Action: Chairman

Annual Assessment of Risk and Internal Control for the Year Ended 31 March 2006 – Doc 2006/54 by Miss Jesnick.

2. Miss Jesnick introduced the review of internal controls for the year to 31 March 2006. The DfT had directed the CAA to comply with the FSA Listing Rules which include the adoption of the Combined Code of Corporate Governance. The Code requires an annual review by the Board of the effectiveness of the CAA's system of internal controls including financial, operational and compliance controls and risk management systems. The key Board level risks facing the CAA were set out in the Table in the Paper. With regard to the item on new ownership of BAA, the industry needed to be added to the list of stakeholders.
3. With the above amendments, the Board endorsed the Paper as a statement that:
- it identifies all known significant risks facing the CAA, and
 - the responsibility for managing the risks has been correctly assessed.

Minutes of June Audit Committee – Report by Mr Mountford.

4. Mr Mountford presented an extract from the Minutes of the Audit Committee held on 14 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. It was a completely clear audit. The external auditor's regulatory letter to the DfT was clear of issues other than the usual

difficulties with the Home Office as the payroll provider.

5. The Board noted the Report.

CAA Annual Report & Accounts 2005/06 – Doc 2006/55 by Miss Jesnick.

6. Miss Jesnick presented the Annual Report & Accounts for the year ended 31 March 2006. 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. The Secretary of State had now confirmed Members' bonuses for the financial year and these had been included in the signing sets. In accordance with FRS17, the pension fund asset had been included in the balance sheet for the first time. Formerly it had been in a Note to the Accounts. The consequence was the inclusion of a £298 million asset. The 6% target rate of return did not apply to the FRS17 figure. The regulatory sector comprising the activities of SRG, ERG and CPG achieved a return of 9.1% while the en-route activities achieved a return of 8.8%. EASA transition costs for the year were £1.3 million. The DfT has agreed that to finance these transition activities, the associated costs should be funded by existing CAA reserves rather than charged to UK industry. £7 million has been received during the year from DfT in respect of the One Kemble Street refurbishment. The provision in the 2005 Accounts is therefore no longer required.

Letter of Representation

7. Miss Jesnick confirmed that she was content with the Letter.

8. The Chairman thanked Miss Jesnick and her team for their efforts in preparing the Annual Report & Accounts.

9. The Board:

- adopted the 2005/06 Annual Report & 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 2006 – Doc 2006/56 by Miss Jesnick.

10. Miss Jesnick reported that the CAA's net profit for the first two months was £1907k as compared to a budgeted loss of £450k. Income performance for the first two months was good. Airworthiness income was above budget due to the issue of certificates of airworthiness for two A340s. Operating costs were £1752k below the budgeted level of £29,797k. Savings

were continually being sought. The results will be helpful for the forthcoming review of costs and charges for 2007/08.

11. The Chairman asked for further details on the reasons for actual manpower being lower than budget to date.

Action: Miss Jesnick

12. The Board noted the Report.

II Minutes of the Previous Meeting and Matters Arising.

13. The Minutes of the Meeting held on 24 May 2006 were approved and signed. On the action points arising:

- Emerald Airways – Mr Britton reported that the Joint Administrators have now withdrawn their request for a hearing under Regulation 6 of the CAA Regulations 1991 as completion of the sale of the business is imminent.
- Financial Information – Miss Jesnick confirmed that the information is being made available to SPC.
- EASA – Miss Jesnick reported that she had spoken to M Goudou about his request to CAA to help operate EASA's fees and charges regime. It was agreed that CAA is prepared to second a member from Financial Services for six months. It is proposed that he will work alongside EASA's consultants.
- Review of the Safety Performance of NATS – Mr Bell confirmed that the Report had been submitted to DfT.
- Sponsorship Statement – Miss Jesnick confirmed that the new Sponsorship Statement and rules of engagement had been published on CAA's website.

III Chairman's Opening Remarks.

14. The Chairman reported on the following matters:

- Ministerial Meetings – the Chairman and Dr Bush had met The Rt Hon Douglas Alexander MP, the new Secretary of State for Transport and Gillian Merron MP the new Aviation Minister.
- DGAC Meeting – the Chairman, three Group Directors and Mr Smethers had met Michel Wachenheim, Head of DGAC.
- EASA Forum – the RAeS is holding a half day seminar on EASA. M Goudou and the

other three EASA Directors will be speaking. All members of the Board were welcome to attend.

IV Directors' Reports:

ERG – Doc 2006/57 by Dr Bush.

15. Dr Bush reported on the following highlights:

- Airports Regulation – Ferrovial's takeover of BAA plc on 26 June looks certain. The implications for the quinquennial review timetable are not clear. Submission of BAA's business plans has been deferred from the end of June. Various scenarios for the review are being considered. Meetings are to be held with both the OFT and the Competition Commission next week. These are very early days in understanding the implications of the takeover.
- NATS/AENA – Dr Bush referred to the issue of consents under Condition 5 of NERL's licence to allow the joint venture with AENA to develop a new operating system for NATS to proceed to its next stage.

16. The Board noted the Report.

CPG – Doc 2006/58 by Mr Jackson.

17. Mr Jackson reported on the following highlights:

- ABTA Judicial Review Appeal – the CAA's appeal against the Judgment of Mr Justice Goldring will be heard by the Court of Appeal starting on 26 June.
- FlyJet – a proposal to revoke FlyJet's operating licence on grounds of finances and nationality of control had been made. Following the approval of the Audit Committee, PricewaterhouseCoopers had been instructed to investigate the company's finances.
- British International Helicopters – the financial restructuring had been completed.

18. The Board noted the Report.

SRG – Doc 2006/59 by Mr Bell.

19. Mr Bell reported on the following highlights:

- Meeting of National Aviation Security Committee – the meeting was chaired by the new Secretary of State.
- EASA/NAA Directors' High-Level Meeting – M Goudou had taken up the UK initiative that he seek a greater partnership relationship with NAAs and a meeting has been set up for 5 July.

- Future Strategic Regulation of GA in Europe – EASA has setup a working group on this matter. The CAA's significant experience in the use of industry standards and bodies has been recognised by EASA. Graham Forbes will be the CAA's representative on the group. His GAMTA experience will be particularly valuable.
- BA268 – the AAIB have now published their Bulletin. One of the safety recommendations is that the CAA and the FAA should review the policy on flight continuation for public transport aircraft operations following an in-flight shut-down of an engine in order to provide clear guidance to operators.

20. The Board noted the Report.

DAP – Doc 2006/60 by Mr Arscott.

21. Mr Arscott reported on the following highlights:

- Future European Aviation Regulatory Structures – a joint meeting of the SES Steering Group and EASA Steering Group took place on 7 June. The joint group reviewed the current CAA position on this matter. A meeting will be held with DfT on 3 July.
- Heathrow Mixed Mode – following the tripartite meeting between CAA, DfT and BAA on 12 May, CAA is now carrying out a full evaluation of the concept of operations.
- Airspace and Safety Review Initiative – following discussions between the Chairman, the Chief Executive of NATS and the Assistant Chief of the Air Staff, work has now commenced in all four areas.
- Mode S RIA – the RIA was formally released on 3 June for a 12 week consultation period following Cabinet Office approval.
- London Assembly Helicopter Noise Investigation – the London Assembly's Environmental Committee has invited DAP to submit written evidence to their investigation of helicopter noise in London. Oral evidence will be heard on 13 July.

22. The Board noted the Report.

V Legal Report – Doc 2006/61 by the Secretary.

Air Safety Support International Limited - Appointments

23. The Board, in its capacity as sole shareholder of Air Safety Support International Limited, resolved –

- To appoint Helen Nellthorp, as the nominee of the Foreign Secretary, to be a director of the company for the period 1 August 2006 to 31 July 2009.

- Subject to approval of the Secretary of State, to appoint Roger Whitefield to be Chairman of the company in succession to Roy Swainson from 1 November 2006.

Action: Mr Britton

A copy of the Resolution is attached to these Minutes.

24. The Board noted the Report.

VI Human Resources Report – Doc 2006/62 by Mr Townsend.

25. Mr Townsend reported on the following highlights:

- Personal Contract Staff – salary and bonus arrangements have been agreed for 2006/07.
- Attendance and Absence – managers' guidelines for managing attendance have now been published.

26. The Board noted the Report.

VII European and International Strategy Report – Doc 2006/63 by Mr Smethers.

27. Mr Smethers reported on the following highlights:

- EU Aviation Developments – at a meeting of the Transport Council the UK, supported by Germany, stressed the need for a new US rule on control of airlines to offer EU investors proper opportunities. However, publication of the rule by the US is uncertain as feelings in the US Congress on this matter are very high. The forthcoming Finnish Presidency of the EU is determined to conclude this matter in the autumn.

28. The Board noted the Report.

VIII Reform of ATOL Bonding – Doc 2006/64 by Mr Jackson.

29. Mr Jackson presented the Paper which showed the results of the informal consultation completed in May. Mr Jackson reminded the Board that the review came out of the Government's rejection of the £1 levy proposal. The travel trade had complained to DfT about the costs of bonding and the CAA had been asked by the Secretary of State to review the existing ATOL bonding arrangements. CPG had worked closely with the industry. Meetings had been held with the top ten licence holders who covered 60% of the industry by volume. Six of the seven largest groups had expressed support. Similarly, the principal trade associations FTO, ABTA, AITO and AAC supported the proposals. Further, there was overwhelming support from small business respondents with 80% in favour. Of those against the proposals the most prominent were the Association of British Insurers and Expedia, the on-line provider. Nevertheless CAA can properly represent to DfT that the proposal is well supported. However a number of influential respondents pointed out that they considered the proposals as merely a step in the right direction. The regulatory imbalance between tour operators and airlines remains. Competitive pressures will therefore force the largest integrated operators to consider ways to reorganise their business outside the ATOL scheme.

30. Discussions had been held with DfT about how a levy would be structured.

31. The next step is to submit the recommendations to DfT and seek approval to proceed with the proposed reform. Once the Civil Aviation Bill has been enacted the next steps will be to draft the necessary secondary legislation and Regulatory Impact Assessment.

32. The Board approved the submission of the draft recommendation to DfT.

IX Strategic Review of GA – Doc 2006/65 by Mr A Plant – Head of International Aviation Policy, ERG.

X Regulatory Review of GA – Doc 2006/66 by Mr D Chapman – Head of Flight Operations Division, SRG

33. The reviews were presented jointly by Mr Plant and Mr Chapman. During the course of each review they had kept in close contact throughout the process and there had been common membership drawn from GA and the CAA across the two teams to ensure consistency. The strategic review set out an analysis of the main trends in GA activity and highlighted the economic and social benefits that GA brought to the UK. The problems of the declining infrastructure available to GA and the impact of regulation and taxation, including foreign registered aircraft, were considered. The reviews highlighted the diverse range of aviation activities ranging from personal recreation to corporate jets. Many sectors were thriving. However the sector represented by AOPA was in decline. Both reviews made a number of recommendations including enhancing the status of SRG's General Aviation Consultative Committee to include DfT and other CAA Groups and the creation of an issues log in which GA could register its concerns. Mr Chapman noted the EASA working groups on general aviation and pointed out that the UK was in a strong position to influence this. Miss Jesnick said that there was nothing in the reviews which showed that SRG's charges had an adverse impact. Mr Whitefield said that the shrinkage of uncontrolled airspace and the loss of airfields to developers was much more serious to GA. The Chairman said that recovering the costs of regulation from users rather than from general taxation was an irritant to GA but EASA was moving in the same direction.

34. The reviews would be sent to the Parliamentary Aviation Committee. The Chairman would arrange a meeting with the Committee after the Summer Recess.

Action: Chairman

35. The Board -

- Endorsed the recommendations set out in the Strategic Review and Regulatory Review.
- Agreed that the reports should be published together but not as a formal CAA publication.
- Agreed in principal to releasing a statement indicating endorsement of the recommendations and committing to an action plan to take them forward.
- Agreed that the GA Review Steering Group should oversee the implementation of the recommendations.
- Supported the next steps as set out in the Board Paper.

36. A copy of the joint presentation is attached to these Minutes.

XI Any Other Business.

(i) Agenda Plan Update.

37. July 2006 – add GA Strategic Review. The Risk Review would be run directly following

the July Board meeting. Delete Airports Review.

October 2006 – add Airports Review if situation is clearer.

**The next Meeting of the Authority will be at 10.30am on Wednesday 19 July 2006 in
Conference Room 1 CAA House**