

FOR PUBLICATION

CIVIL AVIATION AUTHORITY
MINUTES OF 387TH BOARD MEETING HELD ON WEDNESDAY
24 MAY 2006 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

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 Elder Head of Licensing Standards Division, SRG For Item VIII

Mr N Coules Head of Commercial Services For Item XI

I Minutes of the Previous Meeting and Matters Arising.

1. The Minutes of the Meeting held on 26 April 2006 were approved and signed. On the action points arising:

- Quinquennial Review – Dr Bush confirmed that the document was published on 15 May.
- SPC Terms of Reference – Mr Bell confirmed that revised Terms of Reference are to be considered at the next meeting of SPC.
- Recruitment and Selection – Mr Townsend confirmed that this matter will be discussed at the HR Steering Group.
- Corporate Plan Objectives – Miss Jesnick confirmed that the format for monitoring progress is being introduced for the Policy Committees.
- JANSC Report – Mr Arscott confirmed that the Report had been submitted to the DfT and the Chief of the Air Staff.
- Tall Buildings Policy – Mr Arscott reported that consultees are still being identified.
- June Agenda – Miss Jesnick confirmed that the June Board and Away Day Agendas had been determined.

II Chairman's Opening Remarks.

2. The Chairman reported on the following matters:

- Brussels Visit – the Chairman reported that he had met various MEPs including Jorg Liechfried, the Rapporteur on changes to the EASA Regulation who had agreed to visit the UK. The Chairman also met Zoltan Kazatsay, Deputy DG TREN who is responsible for Commission Agencies including EASA.
- Ministerial Meetings – the Chairman is due to meet The Rt Hon Douglas Alexander MP, the new Secretary of State for Transport in the next two weeks. He will also meet Gillian Merron MP, the new Aviation Minister.
- Meetings with Opposition Spokesmen – the Chairman reported that he had met both Chris Grayling MP, the Conservative transport spokesman and Alistair Carmichael MP, the Liberal Democrat transport spokesman.

III Directors' Reports:

ERG – Doc 2006/42 by Dr Bush.

3. Dr Bush reported on the following highlights:

- Slots – ERG had presented a paper to the DfT Slots Project Board setting out the implications of alternative airport and Government slot ownership options. ERG's preference is that ownership should remain with the aviation sector.
- Bid for BAA plc – the Ferrovial consortium issued its formal offer to BAA shareholders on 20 April. On 3 May BAA issued its initial defence document. Under the Takeover Panel timetable BAA has until 29 May to issue any further defence statements. The Ferrovial consortium has until 5 June to revise its offer. There is still time for another bid to be made. CAA had decided to consolidate its February statement. A section on ownership and financing of BAA's price controlled airports had been added to the Price Control Review Policy Update published on 15 May. The CAA had made it clear to all parties that while the choice of financing arrangements fell to the owner of the airports, working within the regulatory framework set by the CAA in accordance with its statutory duties, the risks associated with those arrangements should be borne by shareholders and lenders and not by users. A number of issues with Ferrovial's proposed financing had been identified including the total level of indebtedness and restrictions on capex. The bid advisory group had considered the most appropriate way of communicating CAA's concerns to the Ferrovial consortium. As agreed with the group, Dr Bush had telephoned Mr Juan Bejar, the Ferrovial director leading the consortium to set out CAA's concerns. A similar telephone call was made to Citigroup who are acting for the consortium. CAA's concerns had also been explained to DfT who are due to meet Ferrovial today. Ferrovial maintain that they are keen on investment at the airports and will put in equity as required. CAA was very well aware of the need to be even-handed with BAA plc.
- Airports Price Control Review – Dr Bush confirmed that constructive engagement is working well at Heathrow and Gatwick.

4. The Board noted the Report.

CPG – Doc 2006/43 by Mr Jackson.

5. Mr Jackson reported on the following highlights:

- Reform of ATOL Bonding – the deadline for the informal consultation was 19 May. The responses indicate support for the move from bonds to a levy. Support is particularly strong from the small operators. The four major operators have rather clouded their support by pursuing their own agendas. The on-line sector was equally divided on the

issue.

6. The Board noted the Report.

SRG – Doc 2006/44 by Mr Bell.

7. Mr Bell reported on the following highlights:

- Single European Sky Certification – six air navigation service providers have now completed the necessary Common Requirements compliance documents and the process is going well.
- EASA – subject to three minor corrective actions, the EASA production organisation approvals standardisation team concluded that the CAA had been successful in satisfying the provisions for accreditation and standardisation of POA organisations in the UK and overseas.
- SAFA Ramp Check Programme – from 1 January 2007, EASA will take over the SAFA database from the JAA and will co-ordinate SAFA matters on behalf of the EU.
- Emerald Airways – on 4 May the CAA had provisionally suspended the Air Operator's Certificate issued to Emerald Airways Limited for the reason that it was no longer satisfied that the operator was competent to operate safely and meet the requirements necessary for the retention of the AOC. A formal proposal to suspend the AOC was also made on that date. The company is now in administration and the Joint Administrators have requested a hearing under Regulation 6 of the CAA Regulations 1991 which Legal Department will arrange.

Action: Mr Britton

8. The Board noted the Report.

DAP – Doc 2006/45 by Mr Arscott.

9. Mr Arscott reported on the following highlights:

- SESAR – COREPER is preparing a draft Council Regulation for the SESAR Joint Undertaking. The UK line to take at the Transport Council is still under discussion. However it would appear that the UK and Denmark are the only Member States with issues on this matter.
- Air Transport White Paper – a meeting took place on 12 May between CAA, DfT and BAA.
- Mode S – the Prime Minister's Panel for Regulatory Accountability has now cleared the proposal for formal consultation. The consultation document will be published on 3 June.

10. The Board noted the Report.

V Legal Report – Doc 2006/46 by the Secretary.

11. The draft minutes of the Board meeting of Air Safety Support International Limited held on 28 April were noted.

12. The Board noted the Report.

V Finance Report – Year Ended 31 March 2006 – Doc 2006/47 by Miss Jesnick.

Financial Commentary

13. The draft operating profit for the 12 months to 31 March 2006 was £2,352k as compared to the budgeted profit of £3,069k. The net profit after accounting for tax and borrowing costs was £1,324k as compared to a budgeted profit of £1,424k. Airworthiness income was £2,164k above budget for the year which was due to the delay in implementation of the EASA Fees and Charges Regulation resulting in income being received directly from operators. EASA contract income was under budget by £4,014k as a result of the commencement of the EASA contract being delayed from 1 April 2005 to 1 June 2005. Operating costs were £5,732k below the budgeted level of £177,721k. This was primarily due to reduced staff numbers which currently stand at 91.2% of the funded level.

14. The Chairman said that it would be helpful if the 2005/06 outturns on the Charging Schemes could be shown to the Safety Policy Committee. Miss Jesnick confirmed that this information was being given to the Finance Advisory Committee and will be made available to SPC.

Action: Miss Jesnick

15. The Board noted the Report.

VI Human Resources Report – Doc 2006/48 by Mr Townsend.

16. Mr Townsend reported on the following highlights:

- The Premature Retirement Compensation Scheme, which set out compensation levels based on age, was being reviewed in the light of the forthcoming age discrimination legislation.
- The job evaluation and calibration exercise for the New CAA grading structure has gone well and the task is almost complete. Discussions are continuing with the Trade Unions

about detailed arrangements for moving staff to the new single pay structure.

17. The Board noted the Report.

VII European and International Strategy Report – Doc 2006/49 by Mr Smethers.

18. Mr Smethers reported on the following highlights:

- EU Aviation Developments – the US DOT has issued a Supplemental Notice of Proposed Rule Making on foreign ownership and control of US airlines to allow more time for consultation. The immediate effect of this is to delay a final decision on an EU-US deal until October at the earliest.
- EASA – the Management Board unanimously endorsed the thrust of a paper drafted by the UK and co-sponsored with the Netherlands, Poland and Sweden on strengthening partnership between EASA and the NAAs but not the specific proposals in the paper. The Management Board is also considering a draft action plan responding to the Deloitte & Touche report on the Agency's managerial and financial processes.

Action: Miss Jesnick

19. The Board noted the Report.

VIII Review of the Safety Performance of NATS – Doc 2006/50 by Mr Bell.

20. Mr Bell introduced the fourth annual review of the safety performance of NATS area services and major NATS contracted airports since PPP. Mr Elder presented the Paper which concluded that NATS continued during 2005 to maintain a positive safety performance. Mr Elder drew the Board's attention to the following points –

- The continuing change to the NATS corporate structure which will need to be monitored closely.
- The Swanwick Centre was working well but there is not much spare capacity.
- NATS is continuing to face a number of challenges including the reduction of centres from four to two, the joint venture with AENA of Spain for the new Prestwick Centre and the Irish FAB.

23. The Board endorsed the Report and authorised Mr Bell to submit it to DfT.

Action: Mr Bell

IX Proposed Enhancements to CAA's Corporate and Business Planning Processes –

Doc 2006/51 by Miss Jesnick.

24. Miss Jesnick introduced the Paper which set out proposals to develop and further improve the CAA's approach to corporate and business planning. The principal aim of the proposals was to aim to focus on the next five years to enhance the strategic emphasis of the plan rather than concentrate on the next 12 months. A new team was in place and the current approach needed to be refreshed.

25. Mr Brett tabled a revised set of balanced objectives encapsulating the CAA's strategic direction over the next five years. The items shown were critical to the success of the CAA. The objectives tried to emphasise five year strategies which could drive the Group business plans. By this means, the Board would be assisted on focusing on the critical strategies.

26. Dr Bush said that he was supportive of the changes to the Corporate Plan. However, the objectives needed to capture preserving and enhancing CAA's reputation as part of its strategy. Loss of reputation was an ever-present risk for regulators.

27. The Chairman said that the new approach that was being proposed was conceptually correct. The comments made by Board Members on the balanced objectives should be taken into account.

28. The Board agreed:

- the balanced objectives incorporating the comments made by Members,
- the new structure for the Corporate Plan,
- the new process for Corporate and Business Planning, and
- the application of these proposals by ASSI, AUC and UKAB for their business planning processes.

X Risk Review – Doc 2006/52 by Miss Jesnick.

29. Miss Jesnick introduced the Paper which set out proposals to address some shortcomings in the current approach to risk management which had been identified. Risk identification had not always identified strategic risks facing the CAA and risk management had not always been fully integrated with business and corporate planning. The approach to risk review needed refreshing.

30. Mr Brett said that the current rather broad categories of risk provided only a limited assurance that all risk areas had been considered. This was a consequence from a bottom-up approach. Accordingly, it was proposed that a strategic risk identification process be included.

An annual CAA Board workshop was proposed to identify the events or changes to the CAA's environment that could impact on CAA. The annual Board strategy Away Day would be a convenient forum for this purpose. However this year, due to timing, it was proposed that the workshop would be held in July. Tactical risk identification of short term and immediate risks would be continued. However, the reporting mechanism would be simplified.

31. The Chairman said that the Board had a responsibility for identifying and managing risks. The current system lacked a more strategic dimension which CAA needed to improve upon.

32. The Board agreed the new risk process set out in the Paper.

XI International Services – Doc 2006/53 by Miss Jesnick.

33. Miss Jesnick introduced the Paper, the purpose of which was to respond to the questions raised by the Board on issues of structure, skills and co-operation at its February 2006 meeting.

34. Mr Coules, Head of Commercial Services, referred to three main questions –

- The relationship with ASSI and whether the two activities could be combined. Following consultation with Mr Swainson and Mr Baker, it had been decided that this would not be appropriate at present. However, it was a dynamic situation which could be reviewed in due course.
- The proposed structure for an International Services Company. It was proposed that CAA's dormant company, CAA (Facilities) Limited, be used as the vehicle for this purpose. The consent of the Secretary of State would be required for this in accordance with Section 20(1)(b) of the Civil Aviation Act 1982. A smaller Board than ASSI was proposed as set out in the Paper.
- Resourcing requirements: the current number of full-time equivalents employed on International Services work was 18. It was proposed to increase this number to 36 at the end of Year 5. The disciplines currently in highest demand are Flight Operations, Airworthiness Surveyor, Aerodrome Standards and Personnel Licensing.

35. In discussion, Dr Bush commented on the risk to CAA from this activity. Miss Jesnick said that most of the contracts were for training purposes and were low risk.

36. The Board agreed:

- (1) That the Secretary of State's permission be sought to establish International Services as a global advisory service using CAA's dormant company, CAA (Facilities) Limited.
- (2) That close links are developed with ASSI at the strategic, executive and working levels in

order to realise the potential benefits of collaborative working.

The strategy and business plan to develop International Services Department into a global advisory business is approved.

XI Any Other Business.

(i) Agenda Plan Update.

37. June 2006 – add Bond to Levy Consultation.

July 2006 – add DGCA presentation.

(ii) Sponsorship Statement.

38. Miss Jesnick reported that the second version of the Sponsorship Statement had been signed by David McMillan, DGCA and the Chairman on 17 May. The document replaced the Sponsorship Statement dated 30 November 2002. In addition, separate rules of engagement for international business had been agreed. The new Sponsorship Statement and rules of engagement will be published on the CAA's website.

Action: Miss Jesnick