

**CIVIL AVIATION AUTHORITY  
MINUTES OF THE 492<sup>nd</sup> BOARD MEETING HELD ON  
WEDNESDAY 16<sup>th</sup> DECEMBER 2015,  
CAA HOUSE, LONDON**

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**Present:**

|                             |  |
|-----------------------------|--|
| <b>Dame Deirdre Hutton</b>  | <b>Chair</b>                           |
| <b>Mr Andrew Haines</b>     |  |
| <b>Mr David Gray</b>        |  |
| <b>Mr Richard Jackson</b>   |  |
| <b>Miss Chris Jesnick</b>   |  |
| <b>Mr David King</b>        |  |
| <b>AVM Richard Knighton</b> |  |
| <b>Dr Ashley Steel</b>      |  |
| <b>Mr Mark Swan</b>         |  |
| <b>Mr Graham Ward</b>       |  |
| <b>Mrs Kate Staples</b>     | <b>Secretary &amp; General Counsel</b> |

**In Attendance:**

|                                  |                      |
|----------------------------------|----------------------|
| <b>Ms Manisha Aatkar</b>         |                      |
| <b>Mr Peter Drissell</b>         |                      |
| <b>Mr Tim Johnson</b>            |                      |
| <b>Mr Richard Stephenson</b>     |                      |
| <b>Mr Peter Mee</b>              | <b>Minute taker</b>  |
| <b>Dr Rebecca Roberts-Hughes</b> | <b>for item V</b>    |
| <b>Mr Simon Froome</b>           | <b>for item VI</b>   |
| <b>Mr Reiner Krammer</b>         | <b>for item VI</b>   |
| <b>Mr David Bourne</b>           | <b>for item VI</b>   |
| <b>Ms Maria Boyle</b>            | <b>for item VIII</b> |
| <b>Mr Joji Waites</b>            | <b>for item IX</b>   |

## **I Apologies**

1. Apologies were received from Mr Michael Medicott.

## **II Previous Minutes and Matters Arising**

2. The minutes of the November Board meeting were approved.
3. Mr Haines informed the Board that Action 3, relating to the importance of maintaining independence and preventing 'regulatory capture', was not included in the December CEO Report but work was in hand.

## **III Chair's Update – by Dame Deirdre Hutton**

4. The Chair informed the Board of her recent meetings. She had held a productive meeting with Lucy Chadwick, Director General International, Security and Environment for the Department for Transport (DfT). There was agreement on the importance of policy guidance for airspace change issues.
5. The Chair discussed with Paul Golby, Chairman of NATS, the potential sale of the Government share in NATS, as well as opportunities for more effective working relationships between the CAA and NATS on airspace change issues.
6. The Chair also met with Philip Rutnam, DfT Permanent Secretary, and discussed issues relating to airspace change and new runway capacity.
7. Finally, the Chair and Mr Haines met with David Currie and Alex Chisholm of the Competition & Markets Authority, and discussed the functions of the competition issues.

## **IV Chief Executive's Report - Doc 2015-146 by Andrew Haines**

8. Mr Haines noted following key items of his report: approval of the three specifications for charges for air navigation services; Vauxhall inquest; Spending Review; BIS announcement on the Competition Plan; NATS potential sale; an announcement on a new runway; and the new CAA website and strategic plan.
9. The Board approved the following Specifications: *The CAA (Denmark and Iceland) Specification 2016*; *The CAA (Eurocontrol Charges) Specification 2016*; *The CAA (Navigation Services Charges) Specification 2016*.

10. Mr Haines noted the air quality issues concerning any Heathrow runway expansion, and the need for further work to address this. There was no indication as yet as to what work the DfT will be doing on this.
11. The Vauxhall inquest had concluded, and the jury had concluded that each death was accidental whilst highlighting the poor decisions made by the pilot. The CAA had three witnesses at the inquest, who acquitted themselves well in providing clarity to the Coroner on the rules around helicopter operations and the planning and safeguarding regimes. The CAA would undertake a 'lessons learned' exercise on this process for future inquests. Notwithstanding the outcome of the inquest, it is expected that legal action taken against the CAA by the insurers will continue. The Board thanked the CAA witnesses and Mrs Staples and Mr Stephenson for their work on this issue.
12. There had been no further communication from the Treasury since the Chancellor's 25 November statement, which we were taking as tacit approval of our previously discussed spending plans.
13. Mr Haines drew the Board's attention to the note in Annex A of his report regarding a potential sale of NATS, which had been prepared by Mr Johnson. This was not the first time the issue had been raised in recent years. Financing and pension issues relating to NATS might make a sale complicated. The regulatory model for NATS was now governed by European regulations and thus, to some extent, was outside the direct control of the CAA. The Board requested a copy of the view previously expressed by the CAA in respect of any proposed or actual sale of NATS.

**Action: Mr Johnson**

14. The Board also requested a note on the role of 'golden shares' in any privatisation of NATS.

**Action: Mr Johnson**

15. On the Competition Plan ('A better deal') and Star Chamber sessions, it is possible that the CAA will fall off the agenda completely, or be considered in a joint session with the ORR. The CAA had already pursued a number of deregulatory initiatives in recent years and, if necessary, this should be emphasised.
16. Mr Haines informed the Board that, despite the CAA's suspension of the Air Operator Certificate (AOC) for LinksAir, the airline had been awarded funding

for another domestic air route between Oxford and Edinburgh. The DfT had been informed as to the status of LinksAir before the funding award which had also been widely reported in the media. He noted that Czech operator Van Air had taken up some of the lapsed services.

17. Mr Haines highlighted the recent launch of the new CAA website. Stakeholder feedback had been good. The new website was built on a flexible platform that made content upgrades much easier. As part of this launch, the draft CAA Strategic Plan had been published for consultation.
18. The Board received an update on Shoreham; the coroner's inquest had been opened just after the accident, and the AAIB and police investigations continued. Mrs Staples noted that it was too early to draw conclusions, but drawing on other recent accidents, such as Vauxhall, legal action against the CAA remained a possibility.
19. The Board noted that the absence on sick leave of a key CGI Project Manager had delayed the ATOL project again. The lack of continuity was unhelpful, but a lot of quality work had been completed up to this point and a replacement was being recruited.
20. The Board noted Mr Haines' report.

## **V Consulting on Reform of the Airspace Process – Doc 2015-147 by Tim Johnson**

21. The Board welcomed Dr Roberts-Hughes to the meeting, who introduced the paper. Dr Roberts-Hughes provided a summary of the key points of the paper, which requests Board approval to consult on a number of proposals to improve the airspace change proposal (ACP) process. These proposals were based on those recommended by an independent report on the current ACP prepared by consultants Helios, with some modifications by the CAA to improve the overall proposal. Dr Roberts-Hughes noted that, if adopted, the new process of this nature would be more intensive than the previous, but would deliver greater transparency benefits and should produce more robust final decisions. She emphasised that the focus of these proposals was on the *process*, and that there was still a requirement for the DfT to clarify the policy framework for airspace change. Originally this consultation on the ACP process was to run in

parallel with a DfT consultation on airspace policy, but the latter had been delayed until summer 2016.

22. The Board queried whether there was greater clarity on defining the potential duties of an Independent Aviation Noise Authority (IANA) in the ACP process. Dr Roberts-Hughes explained that recent discussions with DfT suggested that IANA could take an advisory role on relevant steps in the new process, to be agreed between the CAA and DfT. This could potentially be as a member of the proposed Oversight Committee, if that specific proposal were taken forward.
23. The Board expressed some concern that the proposed process appeared potentially quite onerous, complex and bureaucratic. It might increase the opportunities for challenge of final decisions, with greater overall cost and community dissatisfaction. The Board queried whether other substantive options for the ACP process had been assessed.
24. In discussion the Board acknowledged, however, that the current ACP process had come under increasing scrutiny in relation to recent proposals for airspace changes, with greater community and political interest, and a perception of a lack of transparency and genuine engagement with all community stakeholders. It was anticipated that an improved ACP process would permit greater community engagement and transparency, and also increased certainty via 'gateways' in the process for CAA oversight, leading to more robust and legally defensible final decisions. Dr Roberts-Hughes noted that Helios proposed these gateways in the process to provide greater certainty, in response to feedback from stakeholders. It was noted that an increased risk of challenge during an ACP might result, but that it was preferable to resolve procedural issues swiftly, ensuring that the final decision and any review of it could focus on matters of substance.
25. It was emphasised that the whole ACP process was scalable; less complex change proposals would require a less complex process. This would be clearly signalled at the start of the process, with guidance material provided on the criteria for this decision.
26. The Board agreed that the ACP process was only one part of the wider airspace change picture, and that a clear policy framework was a necessity. This was the responsibility of the DfT. Ideally, the new ACP process would help

final decisions to be reached that are based on substantive policy questions, such as the tradeoffs of economic efficiency gains and environmental impact.

27. The Board considered that the Helios proposed 'appeal' process would be very difficult to achieve and preferred a mechanism by which substantive conclusions could be reviewed before being finalised. The Board also emphasised that consultation on the proposed ACP process could not include the content of the impact assessments to be introduced into the process, as the content of these would be determined by DfT's airspace policy, which had to be developed before the CAA could produce relevant guidance.
28. The Board considered the resource implications of the new ACP process, and how this might be funded. HMT had accepted that this work was ring-fenced from the Spending Challenge. A specific charge may be required and this would be considered further. The Board also emphasised that the CAA's analysis of the potential regulatory burden of a new ACP process, and the potential positives for economic growth, should be robust before any submission to the Regulatory Policy Committee.
29. The Board agreed that an improved ACP process, would offer greater public confidence in the process; more legally robust final decisions; and clarity concerning the separation between the change *process* and airspace *policy*. The consultation should emphasise these points, as well as the scalability of the process and the most appropriate means of reviewing a decision.
30. The Board approved the request for a revised ACP process to be subject to public consultation.

## **VI CPG Annual Review 2014/15 – Doc 2015-148 by Richard Jackson**

31. The Board welcomed Mr Froome, Mr Krammer, and Mr Bourne to the meeting. Mr Jackson introduced the paper and noted that overall he was pleased with the last year. Project Luther had been completed, with good performance from staff, including junior managers. The Air Travel Trust (ATT) also appeared more resilient. Conversely, the delay in updating IT systems had been disappointing, as it prevented full utilisation of industry data. There would be also a need to implement the revised Package Travel Directive (PTD), which required an appropriate focus on risk and risk management rather than on the level of Government's exposure.

32. Mr Krammer provided an overview of the travel industry macro-environment. Overall the economic environment was positive, with good forecast GDP growth, improved consumer confidence, and a strong pound. All of these should drive improved growth in the travel market. The travel market is currently experiencing a reshaping of the competitive environment largely driven by the changing face of the online travel space. Existing travel firms will have to content themselves with rising brand costs, higher investments in technology and increased competition from global non-travel online firms. Airlines were increasing their seat capacity, but there was a question about vulnerability to geo-political uncertainties. On the latter, recent terrorist activity had highlighted airline exposure to this risk, and that travel operators may have to accept low margins or identify alternative destinations. Turkey was a particular concern, given its proximity to Syria and the number of UK companies exposed to this market.
33. Mr Froome added two key points on the CPG roundup: first, that the Jan-March booking period was very important (making up 40% of all annual bookings) and the impact of geo-political concerns of consumers may impact upon this; and secondly, that ensuring a sufficient level of RMD skills in CPG was an on-going issue, especially given the competition with financial services for people with these skills.
34. The Board considered how the CAA's RMD work related to the ATT, and the importance of demonstrating where the CAA adds value. The role of Private Equity companies in the travel operator market was also considered, and whether different legislative/regulatory tools were required to address this issue. Mr Jackson noted the role of the team in influencing travel operators decision-making, which had improved the ATT. Private equity did often have the benefit of encouraging financial discipline.
35. The Board queried what impact the changing nature of online booking might have on the CAA. Mr Jackson explained that even the best travel operator licence-holders functioned on low margins, and a change in the market dynamic could have a big impact. Mr Bourne added that PTD coverage might extend to non-traditional travel booking companies such as Google, which would put the CAA in a novel and unusual regulatory role. The Board requested a more

detailed discussion of this particular issue in a Policy & Information Exchange session in Spring 2016.

**Action: Mr Jackson**

36. The Board considered whether the increasingly healthy ATT funding position raised any policy questions. It was noted that the current ATT reserve was insufficient to deal with a major failure but that with insurance and Accredited Body Funds, a meaningful reserve had now been collected. Mr Jackson emphasised that the market could be unpredictable, and that the objective of the ATT had traditionally been to have enough funds to handle the failure of one major tour operator. In that context, the reform of the PTD was relevant, as was the DfT's keen interest in the government's exposure.
37. The Board noted the report.

## **VII Finance Report – Doc 2015-149 by Chris Jesnick**

38. The Finance report outlined the financial results for the 7 months to 31 October 2015. Miss Jesnick informed the Board that income continued to be below budget, with the report highlighting each component of CAA Group results. This had been offset somewhat by a reduction in costs and CAAi taking on two new contracts. The forecast loss is anticipated to be £3,556k, but with cost saving measures this could reduce to £1,856k by financial year-end.
39. In addressing the cost challenge, ExCo had considered a number of options and changes to CAA operations, to bring the financial situation back to a sustainable level for 2016/17 and beyond. Ms Aatkar noted that most changes related to 'people issues', focusing on three initiatives: contractors; vacancies; and severance. On contractors, the CAA was reviewing requirements, looking at changing terms, or making staff permanent or fixed term.
40. In all, this was expected to lead to circa £5.3m year-on-year savings, and up to 100 FTE of savings, including 21 (plus 6 cash-equivalent) already expected in the financial year under the Transformation Programme. The costs of these initiatives were primarily the severance pay, contingency, and of rehiring where appropriate. The cost of severance, approx £2.1m, would also affect CAA cash reserves, as these would be largely cash drawings. The cost of any potential rehiring would be charged to the 2016/17 budget.

41. Ms Aatkar noted that the benefits were not simply financial, but would lead to improvements in organisation culture. This process would also allow rising talent within the organisation to take up new opportunities.
42. The Board recognised the opportunities to align capabilities closer to the vision of CAA employees being professional regulators; however, it expressed a concern about the potential availability of skills in the market to replace those who would leave. Ms Aatkar explained that HR and Group Directors would consider whether any role or individual was business critical and that the terms on which a colleague might depart, would be by mutual agreement to mitigate any risks. There was sufficient financial contingency to manage any short-term shortfall in anticipated savings.
43. Taking into account other savings activity, the 'people' initiatives were estimated to leave a final position of £2.9m loss in 2015/16, with a range from £2.3m – £3.7m depending on the level of severance payment. This range did not make any allowance for any costs associated with litigation.
44. These initiatives will contribute to reducing our funding gap. However, the actual saving figures are difficult to quantify at this stage, and therefore there is no guarantee of these figures.
45. The Board queried the possibility of a continued fall in SARG income. Miss Jesnick noted that revisions had been made to forecasts on the back of industry research. There was some genuine uncertainty about licensing and G-series income. The Board noted that some of these issues would need to be discussed during the preparation of the Annual Report and Accounts as part of the revised 'going concern' reporting requirements.

**Action: Miss Jesnick**

46. The Board endorsed the outlined programme, noting the risks highlighted. It requested a monthly update to be provided to them via the Chief Executive's Report.

**Action: Mr Haines**

#### **VIII ASSI Update Paper and Strategy 2020 and Business Plan 2016-17– Doc 2015-152 by Kate Staples**

47. The Board welcomed Ms Boyle to the meeting. She noted that her paper was a combination of the ASSI annual update, and a forward look.

48. ASSI activity had expanded with the addition of aviation security responsibilities from DfT. Overseas Territory (OT) Governors are holding responsibility for this now, with ASSI auditing first airports, then carriers in the future. Ms Boyle noted that some OT's are doing well, others less so. Funding for equipment was a challenge, and there had been some pushback on screening for officials.
49. On St Helena airport, Ms Boyle noted this was a completely new construction. While the construction to date had been good, it was not ready for operation, in particular, the navigational aids were not yet fully operational.
50. Regarding the Business Plan, Ms Boyle explained that the ASSI Board had been looking to improve the longer-term planning of the organisation. Six priority areas had been identified, drawing on the approach the CAA had taken. In meeting Annex 19 requirements, Ms Boyle noted that performance based regulation (PBR) would look different in the OTs. The PBR assessment tool showed that the OTs needed to focus on safety risk management, data management, and maturity of their industry. Updating the IT systems and enhancing skills were two priority areas for ASSI.
51. The Board queried whether the scale of operations in the OTs would justify an improved data management capability. Ms Boyle noted that some OTs such as Bermuda had bigger operations, and thus a richer data picture, while improved data management would also allow comparison with regulators in other regions. Ultimately, this was necessary to comply with Annex 19 requirements, while recognising that it should be proportionate.
52. The Board asked whether there was a risk of non-payment of contributions by OTs to the funding of ASSI. Ms Boyle explained that the OTs had contributed to ASSI in recent years as requested, but that DfT had previously committed to funding any shortfall that might arise as a result of non-payment.
53. The Board asked Ms Boyle to look again at some of the language in the Risk Appetite Statement, and to provide some additional information on the reasoning and context behind each risk classification. Ms Boyle noted that this was a draft document, subject to further ASSI Board discussion. She agreed the language could be refined and further explanation given.
54. Subject to these changes being made, the Board endorsed the Strategy and noted the annual update. It congratulated Ms Boyle on the work of ASSI, which had been completed with limited resource.

## **IX Safety and Airspace Regulation Group Safety Issues Report – Doc 2015-153 by Mark Swan**

55. The Board welcomed Mr Waites to the meeting. Mr Swan explained that Mr Waites would provide a Safety Performance Overview of the UK Small Fixed-Wing Commercial Air Transport (CAT) Aeroplanes sector.
56. Mr Waites informed the Board that this sector was small aircraft weighing no more than 5700kg MTOW. They flew far fewer flights than the UK Large CAT Aeroplanes, as they were a much smaller sector. Fatal accidents were rare, as were incidents, when compared to Large CAT. When factoring in hours flown, however, the Small CAT incident rate was much higher. The types of events were not very different to Large CAT, but the precursors could be: for airspace conflict events, for example, the majority of Small CAT events occurred outside controlled airspace, whereas for Large CAT it was usually inside. The recently implemented EC regulation on occurrence reporting would be most effective in this sector. Data could be fed into oversight teams, as well as other initiatives such as the Mid-Air Collision Programme.
57. The Board queried how the difference in accident/incident rates for UK Small and Large CAT aircraft compared to other countries. Mr Waites explained that there wasn't a full picture, but that for selected states with a good reporting culture, the trend was the same. Mr Swan noted that reporting on more incidents only involving General Aviation aircraft had helped with the data picture.
58. The Board also considered whether the type of aircraft was a key factor in accidents/incidents, rather than the event type. Mr Waites agreed that aircraft in this sector tend to be older, with well-known failures. The type of flying is also different to Large CAT, being more 'hands-on' and in different conditions such as at lower altitudes in more difficult weather.
59. The Board thanked Mr Waites for another good report.
60. Mr Swan provided the next SARG Capability Team Update, this time on the General Aviation (GA) unit. Mr Swan explained that the unit was created as part of the CAA's response to the GA Red Tape Challenge. GA was a complex sector which required a considerable resource commitment, and one serious incident (such as Shoreham) could have a significant impact on the work programme. CAA resource was fully committed, so business planning would be

a key task for 2016. The Board agreed that people management in the GA Unit was important, to ensure the most effective use of resource.

61. The implementation of PBR was a harder challenge in GA than in the wider aviation sector. Stakeholder management skills were essential, as the GA sector was diverse and sensitive to regulatory changes, especially in airspace.
62. The Board queried how work had been prioritised.. Mr Swan noted that some GA projects were dependent on EASA work, but nothing essential to safety had been delayed. Much of the work of the GA unit was focused on opportunities for deregulation, but Mr Swan advised the Board that he was comfortable that this had created no safety issues.
63. The Board queried whether there was a reference point for the GA sector by which to measure the impact, positive or otherwise, of the GA unit. Mr Haines noted that there was good anecdotal evidence from GA representative groups. That said, those operating EASA-regulated aircraft will have less appreciation of the work the GA unit has been doing.
64. The Board noted the report.

**X Report from the Remuneration Committee – Doc 2015-155 by David Gray**

65. The Board noted the report.

**XI Report from Nominations Committee – Doc 2015-156 by Deirdre Hutton**

66. The Board noted the report.

**XI Live issues and monthly reports**

MCG *Live Issues* – Doc 2015-157 by Stephen Gifford, Will Webster and Matt Buffey

67. The Board noted the report.

PPT *Live Issues* – Doc 2015-158 by Mr Johnson

68. The Board noted the report.

CPG *Live Issues* – Doc 2015-159 by Mr Jackson

69. The Board noted the report.

CCD *Live Issues* – Doc 2015-160 by Mr Stephenson

70. Mr Stephenson highlighted the launch of the new CAA website, which had received good stakeholder feedback. He also drew the Board's attention to

new apps developed by CCD: Skywise for general CAA communications and SkyBoard for Board updates.

71. The Board noted the report.

*AvSec Live Issues* – Doc 2015-161 by Mr Drissell

72. The Board noted the report.

## **XII Any other Business & Forward Planning**

73. The Board expressed their heartfelt thanks to Mr Jackson for his many years of service to the CAA and Board, to which he had made an extraordinary contribution. The Chair highlighted some of Mr Jackson's notable achievements including the rebalancing of ATOL and the ATT fund, and the greater clarity in the travel operator market.

**Date and Time of Next Board Meeting: 20 January 2016, at 09:30am, K5 Earhart Room, CAA House, London**