

CAA Statutory Charges 2019-20: Consultation on Charges CAA Response Document

CAP 1755



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Contents

Contents	1
Executive summary	2
Chapter 1	4
Consultation submissions	4
Chapter 2	5
Our responses to the consultation submissions	5
General 2.4% increase in prices for 2019/20	5
Brexit cost recovery	6
De-risking of CAA International Ltd (CAAi) Profit Contribution to CAA	7
Air Operator Certification Scheme of Charges	8
Balloon Operator Declarations	8
Airspace Scheme of Charges	9
Airspace Change Process (ACP) and Airspace Modernisation Strategy (AMS)	9
Aviation Security Scheme of Charges	10
Cyber funding	10
General Aviation Scheme of Charges	11
Unmanned Aircraft Systems	11
Personnel Licensing Scheme of Charges	13
Declared Training Organisations	13
Medical system replacement programme	14
Private Pilot Licence Examination Papers – Update	15
Regulation of Airports Scheme of Charges	15
Development Consent Order (DCO)	15
Economic Regulation of Airports variable charge	16
Heathrow Airport Price Control Conditions (H7) and Additional Runway Capacity (R3)	17
Gatwick Airport Future Regulation (G7 Review)	17
Chapter 3	19
Conclusion	19

Executive summary

On 22 November 2018, we set out proposals for our Schemes of Charges due to come into effect from 1 April 2019 ([CAP1720 – Statutory charges 2019/20](#): Consultation document refers). As a cost recovery body, not funded by the tax payer, the cost of our activities must be recovered from those we regulate.

As detailed in the consultation document, over the past eight years the general increase in our charges was only 7.9% while in the same period UK CPI inflation was 20.2%.

The key proposals under this consultation were:

- **A general price increase** of 2.4% across all Schemes of Charges in 2019/20.
- New specific charges to cover our costs in the following three areas where we are undertaking new or expanded activities:
 - **Brexit** – we have based our charge proposals on the basis of needing to be prepared for a range of scenarios, including one in which the UK departs from the EASA system of safety regulation on 29 March 2019 or that the Withdrawal Agreement is agreed and the CAA needs to undertake significant work to prepare for the different scenarios for UK aviation regulation that might occur at the end of the transition period. The Government has not agreed to fund any Brexit specific costs in 2019/20 and therefore these costs will be absorbed by the CAA's statutory schemes of charges.
 - **Cyber Programme** – an additional cost of £274k in 2019/20 to fund additional resources to undertake active oversight as set out under the statutory obligations of the EU's Network and Information Security (NIS) Directive and to continue to develop an appropriate and proportionate performance-based oversight regime in respect of aviation safety. This cost is to be shared equally by each of the 12 operators designated under the NIS Regulation;
 - **Airspace Change Process (ACP) & Airspace Modernisation Strategy (AMS) Programme** – An increase in ACP resources at a cost of £416k in

2019/20 is required to manage this new level of demand and additional requirements placed on the CAA to be funded by airports and the National Air Traffic Services En Route PLC (NERL) for the period to 31 December 2019. Thereafter, the associated costs will be recovered from the UK Eurocontrol En Route unit rate.

An increase in AMS resources at a cost of £416k in 2019/20 is required to deliver new sponsorship and the delivery monitoring and oversight tasks required of the CAA by the UK Government under revised Directions.

These costs to be funded from April to December 50:50 by the DfT and by airports and NERL, and thereafter via the UK Eurocontrol En Route unit rate. Therefore, the AMS costs to be recovered via the Scheme of Charges in 2019/20 will be £208k.

The consultation ended on 7 February 2019, by which time we had received 29 submissions. The main concerns have been highlighted under chapter 2 of this document.

Having discussed the comments received, and due consideration having been given by the CAA Board to the points detailed below, we propose to implement the charges outlined in the consultation document for the period commencing 1 April 2019 without further amendment.

We continue to remain committed to controlling our costs while securing the people we need to deliver our often-changing statutory remit, maintaining the financial robustness of the CAA and investing in new processes, systems and skills.

Chapter 1

Consultation submissions

1.1 A total number of 29 respondents provided submissions through the consultation exercise. The respondent type is broken down as follows:

Submissions	No.
Representative Organisations	8
Airports	5
Airlines	3
Personnel Licensing	3
Unmanned Aircraft Systems	3
Air Displays	1
NATS	1
Other	5
Total	29

1.2 The eight representative trade organisations that responded were:

- Aircraft Owners & Pilots Association (AOPA)
- Airlines UK (AUK)
- Airport Operators Association (AOA)
- Association of Aviation Medical Examiners (AAME)
- British Association of Balloon Operators (BABO)
- British Gliders Association (BGA)
- Historic Aircraft Association (HAA)
- Independent Flight Examiners' Association (IFEA)

1.3 Chapter 2 of the document has focused on providing a summary of the main issues raised by the respondents.

Chapter 2

Our responses to the consultation submissions

General 2.4% increase in prices for 2019/20

A few respondents commented that the CAA charges are already too high and do not match the level of work undertaken in some areas – no, to a general price increase

- 2.1 As detailed in the Statutory Charges 2019/20 consultation document, over the past eight years the general increase in our charges was only 7.9% while in the same period UK CPI inflation was 20.2%. This is because we have worked hard to reduce our operating costs over the same period and are proud of this achievement.
- 2.2 Following the receipt of responses received we have reviewed the impact of the additional activities undertaken on charges. This incorporates the transfer of the Aviation Security function in 2014/15 and more recently the new activities undertaken, including Cyber Security regulation, UAS regulation, Airspace Change Process & the Airspace Modernisation Strategy Programme.
- 2.3 Excluding those charges relating to the rebalancing of the Economic Regulation cross subsidy from 2011/12 to 2013/14, the total price increase for Regulatory charges over a 10-year period to 2019/20 was 21.6% against a CPI inflation of 23.1%. If the costs relating to transfer of the Aviation Security function from the DfT in 2014/15 and the forthcoming Brexit costs were excluded the increase in regulator charges would equate to 12.2%.
- 2.4 The decision to apply a general price increase of 2.4% was not taken lightly even though it is in line with UK CPI inflation expectations, however the CAA feels that this is proportionate and justified.

On respondent commented that there is some confusion as to whether the prices quoted in CAP1720 include or exclude the 2.4% increase.

- 2.5 Generally, the prices quoted in CAP1720 exclude the 2.4% increase and the prices quoted in the corresponding Scheme Enclosures include the 2.4% increase. However, in order for some prices in CAP1720 to be clear we have shown and annotated those prices that do include the 2.4% increase. For example, on page 18 of CAP1720 under the heading 'Pricing Proposals', we have stated that 'the 2019/20 unit rates are proposed as follows' and shown '2.57 pence (2018/19: 2.38 pence)'.

Brexit cost recovery

There were strong feelings expressed by four respondents that the UK Government should continue to fund CAA Brexit costs rather than cost recover from Industry

- 2.6 The CAA continues to plan for a range of scenarios, including one in which the UK departs from the EASA system of safety regulation on 29 March 2019 or that the Withdrawal Agreement is agreed and the CAA needs to undertake significant work to prepare for the different scenarios for UK aviation regulation that might occur at the end of that transition period.
- 2.7 In the event that the deal agreed between the Government and the EU is eventually agreed by the UK Parliament, the UK will continue to abide by the EU aviation acquis for a time limited period.
- 2.8 The CAA will need therefore to continue to plan and prepare to regulate UK aviation from outside the European framework should that be the outcome that occurs at the end of the transition period.
- 2.9 In both scenarios, we would anticipate incurring some on-going Brexit programme costs (covering policy, legal, communications, human resources planning and to sustain the UK's international aviation

regulation profile) and these have been factored into these charging proposals.

- 2.10 We note the comments from a number of stakeholders about funding of incremental programme costs in 2019/20. We have shared the consultation responses with the Department for Transport and asked whether they would be willing to fund these incremental costs. We understand that the Government's assumption remains that the CAA's charge payers will fund these incremental costs.

A couple of respondents suggested that the Government uses the money raised from the increased Air Passenger Duty tax to fund the CAA Brexit costs in 2019/20

- 2.11 The Air Passenger Duty is a tax levied by the Government: the CAA has no influence on its generation or use.

One respondent commented that should the UK Government agree a Brexit deal with the EU post March 2019 the CAA should refund the revenue gained from the 5.4% increase in prices related to a Brexit no deal.

- 2.12 As detailed in the consultation document (CAP 1720), where incremental costs are lower than those proposed, the variable charges will be adjusted as appropriate in year or a refund will be provided at the year end.

De-risking of CAA International Ltd (CAAi) Profit Contribution to CAA

One respondent enquired as to why industry should subsidise the commercial arm of the CAA

- 2.13 The UK industry does not subsidise the work of CAAi since its inception over 10 years ago; the situation is the opposite to that contained in the statement. The CAAi's profits have in fact been used to reduce charges to the CAA's charge payers. This year's proposal is for a modest reduction in the cash contribution to recognise the challenging operating

environment for CAAi and to allow the company to invest in future products and services. It also starts to reduce the CAA's reliance on CAAi's activities, which is important for the CAA's own financial stability; the CAA strategy is for further reductions over time in line with the 'user pays' principle.

- 2.14 As well as the financial contribution, CAAi's activities have other benefits to CAA and 'UK plc': CAA has a bigger pool of experts to call on and CAA expert regulators are able to expand their experience base, to the benefit of their work in the UK. CAAi's mission as a registered social enterprise is to raise aviation standards across the world and profits in excess of the cash contribution to CAA have been invested in programmes such as ICAO's 'No Country Left Behind', improving aviation standards and supporting the UK's reputation with ICAO.

Air Operator Certification Scheme of Charges

Balloon Operator Declarations

The British Association of Balloon Operators is concerned that it was not consulted on these proposals and may be introducing such changes without due assessment of their impact.

- 2.15 The only difference in charges between the current Balloon AOC and the proposed Balloon Operator Declaration relates to the transition charge of £60 and a much reduced initial balloon operator declaration charge of £317. The variation and the annual charges are largely the same apart from the 2.4% price increase. The CAA uses the charges consultation to gather comments from industry including those from the representative organisation such as the BABO.

Airspace Scheme of Charges

Airspace Change Process (ACP) and Airspace Modernisation Strategy (AMS)

The main concerns were received from the larger UK airports which are having to bear the major funding for these increased costs to reflect the development of this regulatory area required by the UK Government together with dealing with a significant increase in the volume of airspace change applications.

- 2.16 The recovery of ACP/AMS costs through the Schemes of Charges will be for a short time period only and with effect from 1 January 2020 they will be recovered from the UK Eurocontrol en route unit rate. This has been factored into the 2019/20 funding requirements.
- 2.17 We note comments from one respondent challenging the level of additional resources required for airspace modernisation and from another about the equity of the funding mechanism for the costs of airspace modernisation.
- 2.18 Under the new governance arrangements for the UK's Airspace Modernisation Strategy, the CAA has a new role providing challenge and oversight of industry's modernisation plans. Given the importance of modernisation and the CAA's role, we believe it is justified to recruit a small number of people with the skills to undertake this oversight and monitoring role.
- 2.19 The CAA believes that these costs should be covered through the established funding mechanism in the first 9 months of 2019/20, with an exceptional contribution to these costs from DfT in 2019/20 and then through the long established en route mechanism from January 2020 onwards.
- 2.20 On the wider funding mechanism question, we note the comments made by the respondent. The long established approach is that airspace change costs are covered either through the UK Eurocontrol en route rate, paid by

all commercial airlines using UK airspace, or by airports, where the changes relate to airspace controlled by that local airport. Any changes to this long established mechanism would require a wider review of airspace funding that is outside the scope of this charging consultation.

Accordingly, we plan to implement the changes to charges relating to airspace modernisation as set out in the consultation.

Aviation Security Scheme of Charges

Cyber funding

One respondent pointed out that the funding of £274k for an additional 3 FTEs in 2019/20 is proposed to be recovered directly from the 12 UK entities that are subject to the NIS Directive and enquired as to who these entities were?

One respondent commented that Cyber is a risk already managed by ANSPs therefore those airports operating their own ATC in-house will be paying twice for the same outcome.

2.21 The CAA is required to build on its established core cyber expertise within the CAA to provide, finalise and implement oversight of the aviation sector's cyber security. This team is responsible for:

- Establishing relevant standards;
- Accrediting competent third party auditors;
- Reviewing self-assessment and third party audit reports;
- Discussing findings with entities and agreeing action plans;
- Linking this activity as far as practicable with existing safety processes.

2.22 The nature of the above work is such that it is required to be carried out in respect of airport operations and for ATC operations in isolation of each as each has their own respective regulatory oversight requirements. Therefore, we conclude that no double charging is evident for an airport that also undertakes its own ANSP service.

General Aviation Scheme of Charges

Unmanned Aircraft Systems

The main industry concerns

A couple of respondents stated that higher charges will drive UAV operators to run the risk of operating without a Permit for Commercial Operations (PfCO).

2.23 The charge for a Non-Standard UAS (20 kg mass or less without fuel) exemption is now proposed to move from a fixed charge to one that is a fixed charge but subject to excess hour charges at £253 per hour up to a maximum of £14,600 per year or part of a year. This charge will only apply to the rare applications involving very complex operational safety cases, with multiple platforms, which will take longer than seven hours to assess. The cost of our services are not being increased this year, we are simply making sure that these unique, longer more complex cases have an appropriate cost recovery mechanism.

One respondent pointed out that communications on changes to UAV Ops Manuals will reduce the number of application errors. Fees for application rejection by the CAA seem rather high.

2.24 The UAS department does publish a frequently asked question document on our website which will outline changes to terminology and the ANO. This, alongside our guidance document CAP 722 and our NQE infrastructure, should provide the basis for operators to submit an Operations manual to a standard that can be approved. We agree that any further guidance is always beneficial and is something we actively review to see where we can improve.

One respondent asked who governs the UAS team and how would industry appeal against a CAA decision?

2.25 The process for an Operating Safety Case (OSC) assessment always involves a peer review to ensure any feedback provided is proportionate and accurate. Where there is a difference in opinion with the applicant the

CAA will always give its rationale and see if this can be addressed with the applicant either by a phone call or face to face meeting. If, however, the CAA cannot accept the safety argument then there is a final review process as outlined in CAP 1048 known as a Regulation 6 process. The UAS applications team is based within the CAA's Shared Service Centre. However, any complex applications may be escalated to the UAS team within SARG to determine relevant policy.

One respondent suggested that the CAA should improve engagement with NQEs concerning identifying sources of rework so that better advice can be given to NQE candidates.

2.26 We agree that when an application has been through an NQE we expect a higher standard of Operations manual. Whilst the industry is maturing we will keep a secondary check on this material to ensure the highest levels of safety. We believe there is scope for increasing the responsibility of NQEs in the future, which is why we now have a dedicated resource that works directly with this community while we scope out potential changes.

A couple of respondents commented that the hourly rate for technical support is indefensible and that the CAA should be using the EASA SORA methodology.

2.27 This charge will only apply to the rare applications involving very complex operational safety cases, with multiple platforms, which will take longer than seven hours to assess. The cost of our services is not being increased this year, we are simply making sure that these unique, longer more complex cases have an appropriate cost recovery mechanism. We have been asked not to use the Specific Operations Risk Assessment (SORA) methodology by EASA as the methodology is not yet complete. As soon as this methodology is released we will start working on embedding it within the UK.

One respondent enquired as to what the regulatory work difference is for a fixed wing model aircraft and a fixed wing UAS as the charges are significantly different.

- 2.28 In broad terms the regulatory structure for model aircraft is well established and linked to a membership of a model aircraft club or event with established procedures and safety culture requiring minimum input from the CAA to ensure compliance with the regulatory framework and the issued permission. A fixed wing model aircraft goes through a process with the Large Model Association (LMA) to be checked for airworthiness. In general, the fixed wing model aircraft is not used over or within a congested area where people are involved and are generally used at model flying clubs.
- 2.29 UAS applications are normally for individuals without the supporting framework, requiring much greater CAA involvement and the higher charge to cover the cost of regulation which the CAA has to recover from those it regulates. A fixed wing UAS does not go through an airworthiness process with the LMA and is generally used for commercial operations. These applications can be complex involving Extended Visual Line of Sight or Beyond Visual Line of Sight. They are also often used over or within a congested area so the operating safety case is more complex and takes time to assess.

Personnel Licensing Scheme of Charges

Declared Training Organisations

One respondent commented that the DTO variation and annual proposed charges seem high as compared with the initial declarations charge – why?

- 2.30 Although the work requirement for an initial application is relatively small the charge represents the cost of a desk top review only. Should a site visit become required due to the CAA's risk analysis then this would be encompassed within the annual charge. The other charges align with the

average time required to ensure that the CAA's regulatory obligations are carried out. We have done all we can to minimise the DTO charges and there is no scope to reduce further.

One respondent pointed out that the proposed DTO prices within CAP1720 are not the same as quoted in the Personnel Licensing Scheme Enclosure – why?

2.31 The prices quoted within CAP1720 are excluding the 2.4% increase, whereas the prices within the Personnel Licensing Scheme Enclosure include the 2.4% price increase. The exception to this relates to the additional site charge at £100 which we proposed should remain at £100 during 2019/20.

The British Gliding Association (BGA) suggested that as it advises the CAA on sailplane issues the charges associated with its DTO should be reduced.

2.32 We recognise the expert knowledge and long-standing virtues of the BGA concerning sailplanes in its much valued co-operation with the CAA. The annual charge will have a cap on the number of additional sites that should be charged – in line with Note 16 under Table 48 of the current Personnel Licensing Scheme of Charges relating to ATOs, which acknowledges the mutual benefit of working so closely together. Therefore, the annual charge for the BGA will be £1,136 which relates to 6.25 work hours per annum which is justifiable and proportionate.

Medical system replacement programme

A couple of respondents enquired as to the Cellma delay in implementation

2.33 We have worked to introduce a new online medical records system, Cellma, which will replace the existing the Medical Administration & Reporting System (MARS) and AME Online (AOL) systems. These are very old legacy systems which use technology that is no longer supported and are increasingly becoming unfit for purpose. Cellma will be accessed through an online portal and changes the way in which applicants apply for medicate certificates replacing existing manual processes. By

introducing Cellma, we can provide greater accessibility, efficiency and transparency for our customers and the CAA.

- 2.34 Cellma was planned to be introduced by 1st April 2019 but, with the exceptional demands on available resources caused by Brexit associated work, we have taken the decision to defer its introduction to the Summer 2019. This decision has not been taken lightly and does not mean all activity will cease, we are working closely with our supplier RioMed to deliver in a timeframe that is acceptable for both organisations. Our Communications Department will ensure that industry is updated on the effective date for the introduction of Cellma.

Private Pilot Licence Examination Papers – Update

CAA correction on the introduction of e-exams for the PPL student

- 2.35 CAP1720 informed that the project to deliver e-exams for the PPL student was planned to be introduced by 1 April 2019. The CAA is continuing its work to move the ground exams for the Private Pilot Licence into an online system. We will absolutely involve the training industry in the development work for this during 2019 and keep the wider GA community informed of significant developments.

Regulation of Airports Scheme of Charges

Development Consent Order (DCO)

One respondent commented that the proposed DCO charges are entirely unreasonable and inequitable.

- 2.36 We consider that where the CAA is required to carry out work as a result of it being a statutory consultee to a Development Consent Order (DCO) application, it is fair and reasonable that the applicant is responsible for the costs incurred by the CAA in fulfilling its statutory consultee role. This will include, inter alia, pre-application engagement, considering whether there is any impediment to the applicant's development proposals that

relate to the areas where the CAA is the regulator and providing assistance to the Planning Inspectorate. The principle of recovering CAA charges from the DCO applicant will be applied in an equal and non-discriminatory manner.

- 2.37 The proposed up-front charge of £50,000 is a payment in advance for work that will be carried out during that charging year. The £350,000 is a cap on the total amount that the CAA can charge an individual DCO applicant in the financial year. The £50,000 up front charge is included in the £350,000 cap. The proposed charges are intended to capture DCO applications of varying scale so it is difficult to be too specific about the likely time and resource that will be required by the CAA to resource its role as a statutory consultee, particularly when at this time we may have almost no detail of a potential application.
- 2.38 As stated in the consultation document, charges will be paid for any work carried out by the CAA both during the pre-application stage and once any DCO application has been made. Apart from the up-front charge, the CAA will be charging retrospectively for its time spent in dealing with a DCO application and we will be open and transparent in providing applicants with granularity of actual time and costs incurred.
- 2.39 The respondent to the consultation raises a number of broader points which we have considered. In response, we reiterate that we consider our approach to charging the DCO applicant for work done by the CAA as a result of that application to be fair, reasonable and non-discriminatory.

Economic Regulation of Airports variable charge

CAA correction on the variable charge mechanism

- 2.40 In CAP1720, we incorrectly showed the variable unit rates as being based on 'per 1,000 passenger-kilometres flown and 1,000 cargo tonne-kilometres flown by that aircraft'. This should have read 'per arriving passenger' in both cases. The corresponding Scheme Enclosure showed

the correct variable unit rate basis which reflects the current basis which has been in operation for many years.

Heathrow Airport Price Control Conditions (H7) and Additional Runway Capacity (R3)

Heathrow Airport Limited (HAL) pointed out that the H7 and R3 proposed charges are proposed to be combined – this split is required by HAL.

2.41 The significant majority of the costs under Price Control Conditions (H7) and Additional Runway Capacity (R3) for Heathrow Airport will relate to the airport expansion work. In addition, as there will be some costs incurred that will not be meaningfully split between H7 and R3 due to the nature and relevance to both tasks of the regulatory work to be undertaken, it would seem reasonable that Heathrow should allocate the H7 and R3 costs to the Heathrow Expansion project for 2019/20.

Gatwick Airport Future Regulation (G7 Review)

Gatwick Airport Limited (GAL) suggested that the difference in the charges that have been paid by GAL and the actual regulatory activity in monitoring Gatwick should be more than sufficient to cover any external costs the CAA may incur.

2.42 We note comments regarding the change in Gatwick's charge over time. The structure of the scheme is very simple, being based only on one of two flat rates per passenger. Differences in different airports' charges over any given period will reflect relative growth in each airport's passenger numbers and may also be influenced by whether airports move between the different charging bands. It is not intended to reflect closely the amount of resource put to each charge payer in any given year, but over time is expected broadly to be fair, accepting that in any given year there may be winners and losers. This approach has the advantage of being very inexpensive to implement. The second element of the charging scheme, the recovery of external costs, is wholly targeted on the airport in respect of which the costs are being incurred. We have

considered Gatwick Airport's suggestion as to how the schemes could be recast with interest, but at present we are not minded to introduce any changes.

Chapter 3

Conclusion

- 3.1 We would like to thank all 29 respondents for their comments to the charging proposals.
- 3.2 Having discussed the comments received, and due consideration having been given by the CAA Board to the points detailed above, we propose to implement the charges outlined in the consultation document for the period commencing 1 April 2019 without further amendment.