

**CIVIL AVIATION AUTHORITY**  
**MINUTES OF THE 535<sup>th</sup> BOARD MEETING HELD ON**  
**WEDNESDAY 20 NOVEMBER 2019, WESTFERRY (CANARY WHARF)**

**Present:**

Dame Deirdre Hutton	Chair
Mr Richard Moriarty	
Mr Rob Bishton	
Ms Katherine Corich	
Ms Marykay Fuller	
AVM Ian Gale	
Mr David King	
Ms Anne Lambert	
Mr Michael Medlicott	
Mr Paul Smith	
Ms Kate Staples	Secretary and General Counsel
Mr Chris Tingle	
Mr Graham Ward	

**Apologies:**

None

**In Attendance:**

Mr Peter Drissell	
Mr Tim Johnson	
Mr Richard Stephenson	
Mr Philip Clarke	
Ms Barbara Perata-Smith	Minute taker
Ms Julie Bryer	for items 5 and 6
Ms Louise Stone	for item 5 and 6
Mr Andrew Walker	for items 7 and 8
Ms Anna Bowles	for items 7 and 8
Mr Jay Hoon	for items 7 and 8
Mr Dan Rock	for items 7 and 8
Mr Rob Toal	for items 7 and 8
Ms Jane Cosgrove	for item 10

Mr Graham French                      for item 11

Mr Darren Rhodes                      for item 11

## **I. APOLOGIES AND INTRODUCTIONS**

1. There were no apologies.
2. The Chair welcomed Mr Bishton to his first Board meeting since taking up his appointment as Group Director of the Safety and Airspace Regulation Group on 6 November 2019.

## **II. CONFLICTS OF INTEREST, PREVIOUS MINUTES AND MATTERS ARISING**

3. No new conflicts of interest were declared.
4. Action 1: Mr Ward requested that the timetable for the Financial Reporting Council's (FRC) Governance Code be clarified, to ensure that the action is completed so as to allow changes to be made before the conclusion of the CAA's next Annual Report and Accounts.
5. The previous minutes for the September and October Board meetings were agreed with minor typographical changes.
6. The Chair requested that the process for review and sign-off the minutes is clarified.

**ACTION:** Mr Clarke

## **III. CHAIR'S UPDATE**

6. The Chair gave an update of recent meetings and events she had attended.
7. These included meetings with Bernadette Kelly, Permanent Secretary at DfT, and Gareth Davies, Director General for Brexit, Security, Aviation and Maritime at DfT. The discussion with the former covered several topics: Heathrow expansion, and the interaction with the implementation of the Airspace Modernisation Strategy; the Western rail development; airline insolvency reform strategy; and the Secretary of State's requests regarding General Aviation. The conversation with Mr Davies had covered similar ground.
8. The Chair, with Mr Moriarty, also met with the Chair of the Office for Nuclear Regulation. They discussed the internal governance for safety decisions. The Chair had attended the UK Regulators Network Chairs meeting, which largely covered the National Infrastructure Commission's review of Ofwat, Ofgem and Ofcom. The review had recommended an independent Chair for the Network.
9. Lastly, the Chair had met with Robert Light, Chair of the Independent Commission for Civil Aviation Noise (ICCAN). Mr Light will also attend the Board meeting on 22 January 2020 to discuss the development of ICCAN and noise policy.

10. The Board noted the update.

#### IV. CHIEF EXECUTIVE REPORT (DOC 2019-077) BY RICHARD MORIARTY

##### Key live issues

11. Mr Moriarty noted that a dedicated CAA programme had been set up to organise and govern the various requests for work from the Secretary of State (SoS), which had been broadly divided into new opportunities, projects that had been in the pipeline but that had now been expedited, work that needed rescoping and anything new. The programme had been allocated resource, but inevitably that had had a displacement effect on other areas. The work was feasible, albeit with some stretch being generated. In response to a question, Mr Moriarty said that the General Election would not change or lower our focus on these policies. He said that they comprised Government priorities until such a time as they are changed or further developed in the future.
12. Mr King asked if the pressure these additional tasks would put on our people would impact safety. Ms Staples said that nothing in the recent guidance, directions or policies from the SoS could undermine our primary duty with regard to safety, albeit it was for the CAA to prioritise its resources against risks as it considered most appropriate. Mr Bishton said that he would keep the Board informed if any material risks to safety arose as a result of diverted resources. Mr Moriarty noted that the SoS had been receptive to the CAA's requests for DfT to provide some funding to support delivery of the SoS's priorities. Mr Johnson gave some examples of Global Navigation Satellite Systems (GNSS) approaches, electronic conspicuity and the airfield development fund.
13. Ms Lambert suggested that all the letters from the SoS should be publicly available on the CAA website. Mr Stephenson said that the plan was to publish the exchange of letters with the SoS after the General Election restricted period.
14. Boeing - Mr Moriarty commented that there had been a lot of press recently on issues identified with Boeing 737 NG and 787 aircraft. Mr Bishton reassured the Board that his team would address diligently any issues brought to their attention and investigate further if new issues emerged, working closely with EASA.
15. Boeing 737 Max 8 – Mr Bishton provided an overview of progress for the Return to Service of the aircraft, saying that CAA had an open dialogue with EASA and regular conversation with the FAA. The CAA was content that EASA was working in a competent and thorough manner and would need to consider the various reports that had been recently issued. Continued alignment between the FAA and EASA on progress was critical.

16. Mr King enquired about recertification and retraining for the crew. Mr Bishton commented that he planned to be involved in EASA's decision-making process and would be attending an EASA meeting later this month. If EASA were to specify training requirements for the aircraft, the timescales for implementation and rollout would be determined by the availability of simulators, which was currently limited. AVM Gale stated that it was difficult to train a pilot on a technical solution that did not exist, but Mr Bishton reassured the Board that EASA and the FAA were reviewing the entire flight control system, rather than just the Manoeuvring Characteristics Augmentation System (MCAS).
17. Ms Corich expressed concern on the amount of publicly available information and suggested CAA should have a plan to address this potential issue. Mr Stephenson commented that consumer confidence would be considered and that the CAA had formed a working group, of which Mr Bishton was a member, to discuss. The response would be dependent on the scenario and on whether our thinking was aligned with other organisations.
18. Shoreham incident – Ms Staples provided a brief summary of progress.
19. N264DB Accident – Ms Staples provided a brief summary of progress.
20. Thomas Cook refunds – Mr Smith confirmed the refunds were still on track and within the 60-day commitment (active from the day the individual's request had been approved). However, due to data quality issues and the importance of making sure the correct monies are paid to the correct people, a large number of Thomas Cook customers have had to be contacted to request further information before the claim could be validated. The auditors had confirmed that the process in place was satisfactory.
21. EasyJet Holidays – Mr Smith stated that easyJet was in the process of applying for an ATOL for its holiday business, aspiring quickly to become the UK's third biggest tour operator, after TUI and Jet2.
22. Drone Registration and Education Scheme (DRES) – Mr Johnson confirmed the scheme had been successfully launched and that registration volumes were broadly in line with our assumptions.
23. ICAO Audit – Mr Moriarty commented that the CAA had recently been approached by ICAO with a request to schedule its periodic audit of the UK's aviation system in 2021. He said that the team was already putting resource in place to ensure it was successfully conducted. The Board supported Mr Moriarty's recommendation on the timing of the audit, and to approach DfT on this basis.
24. Innovation Hub – Mr Johnson commented that the Innovation Hub had been making good progress since it was established in April 2019. He said that a funding

mechanism was being put in place for the core capability to ensure its continuation once the Government's Regulator Pioneer funding expires in March 2020.

**Other issues**

25. Mr Moriarty informed the Board that the revised Business Plan (BP) 2019/20, which had been reviewed following Matterhorn, would be circulated after the meeting and that comments were welcome. He also said that time for a discussion about the BP would be made at the December 2019 Board meeting
26. Mr Ward enquired whether there would be any risks for CAA if the work on electronic conspicuity was going to be accelerated following the Secretary of State's (SoS) interest in the issue. Mr Moriarty explained that the SoS's view that some type of electronic visibility to other pilots was better than nothing, particularly where there was no air traffic control provision, had given the project more focus on alternative technical options. He said that whatever solution or solutions are developed it would always be important to ensure that pilots know not to rely fully on any system; looking out of the cockpit was equally, if not more, important.
27. Mr Bishton added that the CAA was keen to develop a solution that worked for all those who use UK airspace, which is getting increasingly congested.
28. The Board noted the report.

**V. TARGET BUDGET (DOC 2019-078) BY CHRIS TINGLE**

29. The Board welcomed Ms Bryer and Ms Stone to the meeting.
30. Mr Tingle set out the proposals the Board should consider, particularly whether the paper accurately represented the strategic principles that had been agreed at a previous Board meeting. He said that if the target budget was agreed, it would form the basis of the cost base used in the Scheme of Charges for 2020/21, due to go out for consultation in December 2019. Mr Tingle then briefly talked about the operating profit target and the proposal for Scheme of Charges changes, which included changes to address cyber security, funding our work on innovation, reflecting some airspace costs in the RP3 en route rate and a CPI increase.
31. Ms Stone then explained the proposals in more detail including an overview of revenue streams; the risks to be considered in relation to next year, such as the balance between capital and revenue projects and the impact of the reduction of CAAi revenue as a result of reduced EASA work; the additional costs to be factored in, for example the Innovation Hub – whose core role would be funded through the charging schemes with some future elements of its activity being funded through a user pays model, and risk/opportunity areas, such as the Drone and Model Aircraft

Registration and Education Scheme (DMARES) income, Brexit, spaceplanes, GA activity, etc.

32. With regard to the Innovation Hub, Mr Johnson added that the proposal was that core team would be funded through a general change in the Scheme of Charges, and that it had been agreed that applicants would be accepted into the Sandbox only if the CAA could share the learnings for the benefit of others. This would mean the Sandbox was potentially open to the widest set of innovators, not just those with an ability to pay. Mr Ward expressed support for this model as it prevented conflict of interests. Ms Corich observed that CAA should reflect on what sort of innovation it wanted to promote. She suggested that the CAA might want to consider sustainable, conditional factors such as growth, rather than encouraging all innovation at all costs. Mr Moriarty suggested that this issue should be included in the review of the Innovation Hub's work due to take place in 2020.

**ACTION:** Mr Johnson

33. Mr Tingle returned to the proposals and asked for the Board's endorsement. The Board approved all six key decisions, as set out in slide 4 of the paper. The Chair said that it would be useful to have a training session on how the charging schemes worked, perhaps through a PIE.

**ACTION:** Mr Tingle

34. The Board noted the paper.

## **VI. 2020/21 CAA CHARGES CONSULTATION (DOC 2019-088) BY CHRIS TINGLE**

35. Mr Tingle set out the aim of the paper, which was to seek the Board's endorsement of the proposed changes to the Scheme of Charges, as discussed in the previous item, before these were shared with external stakeholders via the Finance Advisory Committee and then published for consultation.
36. Mr Tingle added that originally the consultation would have started in early December 2019, but that this would have to change because of the General Election restricted period. The consultation period would be reduced to eight weeks. If the election resulted in a hung Parliament, Mr Stephenson would provide further advice on publication dates.
37. The Board approved the proposal to publish the consultation on 13 December 2019 and revert if the election resulted in a hung Parliament.
38. The Board noted the paper.

## **VII. ECONOMIC REGULATION OF HEATHROW AIRPORT LIMITED (HAL): UPDATING OUR APPROACH TO FINANCEABILITY (DOC 2019-079) BY PAUL SMITH**

39. The Board welcomed Mr Walker, Ms Bowles, Mr Hoon, Mr Rock and Mr Toal to the meeting.
40. Mr Smith set the scene, explaining that the expansion of Heathrow Airport was one of the biggest infrastructure projects in the UK. HAL would need to raise both equity as well as significant amounts of debt, which would require access to a broad set of financial markets. As such, the team had designed a nuanced approach, focused around a number of key points. First, a regulatory arrangement structured to support and preserve an A- credit rating. This was required to ensure access to global capital markets for the length of the project and through potential financial stresses. Second, clarity that the expansion would benefit customers and that it could be delivered through sustainable financing mechanisms. Third, reassurance that incentives on delivery and capital expenditure would be in place.
41. Mr Walker brought the Board's attention to a summary of the proposals and added that the intention would be to publish the proposed approach after General Election restricted period but before Christmas 2019.
42. The Chair enquired about the risks to and implications for CAA in committing to ensure Heathrow kept its A- credit rating in a project with such long-term significance. Mr Smith replied that the team had considered this issue but that it may be difficult for Heathrow to raise the required capital unless the credit rating remained A-. Mr Moriarty sought reassurance that the CAA would not become hostage to credit agencies who might want to increase the cost of capital due to Heathrow's high gearing.
43. Mr Medlicott asked whether shareholders had any appetite for injecting equity, which would be disadvantageous for consumers in terms of being at higher cost. Mr Smith replied that an appropriate amount of equity would not be worse for consumers and that Centrus (the CAA's advisors) were engaging directly with shareholders to discuss this and other elements of the financing. Furthermore, Mr Smith observed that while shareholders' motivations varied they were all committed to the project and engaged in understanding the regulatory arrangements proposed.
44. Ms Fuller enquired about the possibility of applying a corridor to the rating. Ms Fuller noted that it was unlikely a BBB rating would close access to markets. The Chair added that the flexibility of a corridor-rating could bring some benefits and invited Mr Smith to consider this in the consultation.

**ACTION:** Mr Smith, Mr Walker

45. Ms Lambert urged the team to consider carefully the tone of the consultation so as to emphasise the independence of the regulator proposing these measures.
46. The Chair asked the Board to endorse the following:
- a) The development of the overall approach to financeability that will involve assumptions consistent with realistic, but efficient financing arrangements.
  - b) The scope of the discussion on these matters which should encompass access to debt markets, cost of debt finance and indexation, calibrating a balanced package of efficiency incentives, adopting an integrated approach to estimating the cost of equity and consideration of longer-term commitments on the cost equity.
  - c) Delegated authority for Andrew Walker and Paul Smith to sign off on drafting of the consultation and update document on the basis summarised in this paper and Richard Moriarty to sign off the key messages in the executive summary.
47. The Board endorsed: a) subject to the team considering the feedback received on a corridor to the rating and gearing; b) without comment; and c) subject to Ms Lambert being consulted on the tone of the consultation and Ms Fuller on the rating types.
48. The Board noted the paper.

#### **VIII. ECONOMIC REGULATION OF HEATHROW AIRPORT: UPDATE ON EARLY COSTS (DOC 2019-080) BY PAUL SMITH**

49. Mr Smith summarised the paper and said that, although the topic had already been presented at PIE, the NEDs had requested the team discuss the topic with stakeholders and report the feedback received back to the Board. The team reported that stakeholders' view ranged across all three scenarios and had fallen largely as had been expected.
50. Mr Smith added that although the consultation would not be published until after the General Election restricted period, the team would consider whether it was possible or appropriate to share it in confidence with a number of stakeholders to allow them to progress their own work. The team will liaise with Mr Stephenson to agree an appropriate approach.

**ACTION:** Mr Smith, Mr Stephenson

51. Mr Walker summarised the elements of scenario 2a, which the Board had indicated as its preferred approach, and noted the benefits to consumers, wider stakeholder support and less capital requirements in earlier stages. Mr Walker added that early costs were difficult to benchmark due to the lack of supporting information on efficiency, but that we tended to set the outcomes that should be achieved rather



- than specify the process, which was generally seen as best practice in economic regulation.
52. Furthermore, early costs was not an easy area to set ex-ante incentives for, however, the team carried out reviews which would highlight if costs escalated.
53. The Chair asked the Board to endorse the following:
- a) Confirm that it wished to retain the view that scenario 2a was the preferred one for consumers, in light of this and previous PIE discussions and additional stakeholders' feedback provided today;
  - b) Confirm it was content with the regulatory approach to Cat B and C costs provided at the Board meeting; and
  - c) Delegate authority for Paul Smith and Andrew Walker to sign off on drafting of the consultation and update document and Richard Moriarty to sign off the key messages in the executive summary.
54. The Board endorsed all the above requests.
55. The Board noted the paper.

**IX. Development Consent Order (DCO) UPDATE (DOC 2019-087) BY KATE STAPLES**

56. Ms Staples introduced the paper, which provided a progress update on the four active DCO applications.
57. Ms Staples focused on three key points. First, the timeline, which indicated that the DCOs would be examined in parallel. Second, the difficulty in managing expectations of the applicants and of the Planning Inspectorate (PINS), who were interested in economic regulation and airspace issues, and which we managed with regular trilateral sessions between CAA, HMG and PINS. Third, the challenge of articulation, requiring us to be careful about what we say and that our meaning was clear.
58. Mr Ward noted that confidentiality of commercial information is crucial in this context and asked whether it was appropriately secured. He expressed a concern on the confidentiality of data exchanged between parties. Ms Staples confirmed the need to be vigilant in this context, using equipment, assets and system in the way they were supposed to be used. Ms Staples also emphasised the fact that colleagues in this area were used to protecting the commercial confidences of stakeholders. Mr Ward requested that some additional protection on data security was explored.

**ACTION:** Ms Staples, Mr Smith

59. The Board noted the update.

**X. HUMAN RESOURCES ANNUAL REPORT (DOC 2019-081) BY JANE COSGROVE**

60. The Board welcomed Ms Cosgrove to the meeting.
61. Ms Cosgrove provided an overview of the successes, priorities and challenges for HR over the last 12 months, across three principle workstreams: strategy, projects and operations. She stressed that there would be a separate update early next year that would focus specifically on people and capabilities.
62. Ms Cosgrove added that the workforce planning strategy was in the portfolio of work. Workforce planning was aided by the SuccessFactors HR system, which allowed colleagues to record their own skills (e.g. languages). Such information would be useful for managers. The easier availability of data enabled the movement of people between departments, whilst still maintaining the organisation's governance and controls.
63. Mr King commented that in order to decide what future skills and capability the CAA required, it would be important first to define what sort of organisation the CAA needed/wanted to be. Ms Cosgrove replied that this conversation had been started at the Board's June 2019 Awayday and work was now in progress. There were colleagues who wished to develop professionally, so the CAA should lay a path to enable this.
64. Board members were particularly keen that the HR Strategy should explore how to capture the energy and spirit that had been generated by Project Matterhorn. The CAA had planned to do this after Project Olympia (Monarch) but the "day job" had prevented it. A PIE discussion is scheduled for early 2020 which would be informed by data being collected from lessons-learned sessions and interviews with those who had been involved in Project Matterhorn. The concern was that some of the energy and initiative demonstrated by colleagues during Project Matterhorn will have been context-specific as it had taken place during a crisis. All involved had had a common objective that encouraged people to take big decisions which may be difficult to replicate in "normal" times, as decisions were taken in a governance structure. Mr King commented that we would not be able to capture that spirit as a whole but that perhaps we could harness elements of it.
65. Mr Bishton added that the organisation needed to explore the skills of its people in their entirety, rather than pigeon-hole its workforce based on their individual roles. SuccessFactors could help to identify these additional skills, but a talent management programme also needed to be in place, linked to the concept of the future CAA. Ms Cosgrove agreed and said that this was part of the strategy.
66. The Chair summarised the discussion, highlighting the potential of the new system in providing coherent and consistent data, which would inform later conversations on the future skills and competences that the CAA needs.

67. The Board noted the report.

## **XI. NOISE MODELLING REQUIREMENTS CONSULTATION (DOC 2019-086) BY TIM JOHNSON**

68. The Board welcomed Mr French and Mr Rhodes to the meeting.

69. Mr Johnson introduced the paper, which set out the CAA's proposed consultation on guidance on appropriate noise measurement methodologies for stakeholders to use in the requests for regulatory approvals (e.g. airspace changes). Mr Johnson added that the proposed guidance was designed to fill a gap as there was currently no clarity on what was required.

70. Mr French explained that there were six categories, which had been designed to achieve a proportionate approach, with more sophistication required the more local residents were affected by aviation noise. The highest Category A was for the three designated airports (Heathrow, Gatwick and Stansted), and Category E being the lowest, reserved for smaller aerodromes. The categories were set according to the number of people in the Lowest Observable Adverse Effects Level (LOAEL) 51 decibel (dB) contour, which was the LOAEL when communities living near airports started to say they are being impacted by aircraft noise. This followed existing government policy on aviation noise.

71. The higher the category, the more informative and specific the noise information gathered had to be, so while airports in the lower categories could use ICAO standardised noise data with no amendments, with larger airports required to have increased sophistication, including targeted noise contours, noise monitors and noise track keeping systems. As such, the driving elements for the proposals were numbers of people affected by noise, proportionality and cost.

72. Board members questioned the differences between certain airports in terms of where they were placed within the categories and the measures they needed to take in relation to noise monitoring. The Board felt that some adjustments and improved articulation was required so that the proposal was transparent, logical and comprehensible as possible.

73. Mr French explained that the proposal was designed to encourage a minimum model for noise measuring that airports would be expected to undertake and emphasise that nobody should reduce their level of noise-management and monitoring.

74. Mr Moriarty summarised the discussion saying that the motivation for the work was correct, as noise modelling was a requirement of the airspace change and other regulatory processes, but that there was an issue on how the criteria had been

- articulated which needed to be clearer and defensible with stakeholders. The Chair added that night noise should also be considered as it might help to clarify matters.
75. Mr Moriarty agreed that the team would refine the proposals before consultation and return to the Board after the consultation for a final decision.

**ACTION:** Mr French, Mr Rhodes

76. The Board noted the paper.

**XII. FINANCIAL REPORT FOR SIX MONTHS TO 30 SEPTEMBER 2019 (DOC 2019-084)  
BY CHRIS TINGLE**

77. Mr Tingle provided an overview of the financial results for the six months to 30 September 2019, highlighting a few key points for the Board.
78. The budget showed an operating profit with a favourable variance, despite having to write off a bad debt relating to Thomas Cook's failure. Mr Tingle reiterated the need to ensure balance between operating costs, reserves and cash.
79. The Board noted the report.

**XIII. SARG MONTHLY SAFETY ISSUES REPORT (DOC 2019-085) BY ROB BISHTON**

80. Mr Bishton provided an overview of the key current challenges in SARG, including: competency work, airspace and general aviation. The first was particularly focused on activities to improve safety. The second was focused on shaping the organisation, the regulatory system and then the capabilities to be able to manage new incoming priorities, such as space regulation and cyber. The team was developing thinking for both the short and longer-term in these areas and working with HR on a people strategy. The third had been brought to the fore by the new Secretary of State, including drones, space flight and general aviation which required input from others, including CSP and DfT.
81. Mr Bishton explained that all of the above issues required careful consideration, with a big culture-related element in them. Mr Moriarty added that it would be beneficial to hear from the CAA's Medical Team as a capability focus. Mr Bishton said that he was working with the new head of the team to ensure that the positive working relationships that had been nurtured by Dr Evans continued, including maintaining the CAA's international influence that she had developed.
82. Mr Medlicott enquired about recruitment challenges. Mr Bishton replied that within airworthiness, the requirements were dependent on CAAi contracts and Brexit, and that vacancies could be difficult to fill because of a lack of large numbers of qualified and suitable personnel.

83. The Chair commented that it might be an opportune moment to reflect on whether there were any cultural risks that had arisen from the risk-based regulatory approach which had now been in place for some five years. Mr Bishton agreed that this was any issue to be explored and confirmed he would be looking at how Performance Based Oversight could be developed.

**ACTION:** Mr Bishton

84. Mr Bishton commented that he had been working with Ms Corich to review the SARG Board report and that he would provide an update on progress at the next meeting. Board members were supportive and welcomed the level of detail provided in the current report. They agreed that the SARG report had developed well over the last few years and that the detailed information gave them a very good overview of notable safety issues and risks. These were then given depth and context through the perspectives of those on the frontline. The Chair was keen to ensure that those colleagues understood the Board's "risk appetite", that they had the required data to make good decisions and that they fed those back through the established systems and processes.

85. Ms Corich pointed out that there was a need to ask bigger questions about issues beyond the technical. The details in the report would be preserved, but we would try to bring together the collective knowledge that provided reassurance that the right decisions are being made. Mr King commented that the Board needed to have the right data and perspective to challenge the decision-making process rather than the technical expertise, as safety decisions were large, often enduring and sometimes done very quickly, so the new report would need to be able to reflect all these elements.

86. Mr Bishton and Ms Corich will review the report and consider all the feedback.

**ACTION:** Mr Bishton, Ms Corich

87. The Board noted the report.

#### **XIV. FORWARD AGENDA AND ANY OTHER BUSINESS**

88. Mr Moriarty ran through the Forward Agenda.

89. There was no other business.

**Date and Time of Next Board Meeting:  
11 December 2019, 12:00 hours, Westferry**