

**CIVIL AVIATION AUTHORITY**  
**MINUTES OF THE 556<sup>th</sup> BOARD MEETING HELD ON**  
**WEDNESDAY 15 SEPTEMBER 2021, 10:00, Aviation House**

**Present:**

Sir Stephen Hillier                      Chair  
Richard Moriarty  
Rob Bishton  
Katherine Corich                      (via Teams)  
AVM Simon Edwards  
Marykay Fuller  
Jane Hanson  
Anne Lambert  
Paul Smith  
Kate Staples                              Secretary and General Counsel  
Chris Tingle

**Apologies:**

Garry Copeland

**In Attendance:**

Ben Alcott  
Jane Cosgrove  
Peter Drissell  
Tim Johnson  
Alex Kaufman

Philip Clarke  
Barbara Perata-Smith                      Minute-taker

Rob Toal                                      for item 4  
Andrew Walker                              for item 4 and 8  
Angela Cooke                                for item 5  
Russell Veale                                for item 5  
Stewart Carter                                for item 8

**I. APOLOGIES AND INTRODUCTIONS**

1. Apologies were received from Garry Copeland. The Chair introduced Jane Hanson, who had joined the CAA Board as a new Non-Executive Director.

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

2. No new conflicts of interest were declared.
3. The minutes from the previous Board meeting were approved with some minor amendments and would be published on the CAA website in due course.
4. The matters arising were reviewed.

## **III. CHAIR'S REPORT (DOC 2021-68) BY SIR STEPHEN HILLIER**

5. The Chair asked the Strategy and Policy Director to provide an overview of the previous day's Board awayday, which had focused on the environment and had explored the CAA's role and priorities on this subject.
6. The key themes would be captured in a brief paper which would be included in the October Board pack. Going forward, once the initial write-up had been shared at the October Board, the team would organise a PIE discussion in November to further explore the initial strategic framework for the environment strategy, which needed to be flexible and agile as per the CAA's wider strategy. The draft strategy would then be presented for further discussion and approval at the Board early next year.
7. The team would also continue to engage with government as its own thinking about decarbonisation developed and how the CAA could play a full role supporting government established objectives.
8. The Board noted the update.

## **IV. H7 INITIAL PROPOSALS (DOC 2021-69) BY PAUL SMITH**

9. The Board welcomed Rob Toal and Andrew Walker to the meeting.
10. The Director of Consumers and Markets set out a number of framing points for the discussion and these were as follows.
  - a. The request for the Board was to approve the Initial Proposals for the next Heathrow H7 airport charge control for consultation, and the delegation of finalising the consultation document. The team would return to the Board in early 2022 with Final Proposals, having considered the representations received from stakeholders and the evolving information on the actual and expected position with respect to the recovery in passenger traffic, and recovery of the aviation sector.
  - b. The slide pack submitted for today's discussion set out the work the team had carried out to develop the proposals, but it was also informed by previous conversations the Board had had on the topic, including the

decision at the March meeting on the RAB re-opener request and, more recently, the July PIE, where the detailed feedback had now been taken into account.

- c. The Initial Proposals were developed in a period of significant uncertainty about the path of recovery for aviation: Heathrow airport's traffic volumes and how the pandemic might affect passenger's habits, which would impact, for example, commercial revenues. For this reason, the proposals included a risk-sharing mechanism, which was designed to mitigate the impact of uncertainty, but it remained plausible that when setting a price control there would be a greater risk of the outcome differing materially from any central case than would ordinarily be expected. As such, ranges rather than point estimates of future charges had been included in the proposals, with a view to narrowing down the position by the time of the Final Proposals, informed by such things as updated volume forecasts following any change to Government travel restrictions.
- d. The team had suggested setting a five-year price control, as the present path of the recovery in passenger traffic indicated that this would be consistent with the CAA's primary statutory duty to protect consumers, by allowing an appropriate degree of price smoothing and also allowing HAL to finance its existing RAB and new investment (assuming a notional level of gearing). A five-year price control would also be consistent with what Heathrow and airlines preferred and would allow the proposal to seek to smooth prices over five years. Nonetheless, the team would need to carefully monitor the recovery in passenger traffic over the coming months and expectations for the future. There remained a risk if the recovery faltered or was expected to falter that it may not be practicable or desirable to try and proceed with a five-year price control and that we would need to consider a shorter term price control. However, a short price control also presented difficulties, particularly higher prices in the early years, so it was not the CAA's preferred option.
- e. Even if the recovery were to continue in line with expectations, a key aim for this price control review would be to best serve consumers' interests, including through affordable charges, while recognising that consumers also benefitted from an airport that was able to finance its activities cost effectively. Economic regulation would not be able to fully mitigate or take away the financeability risk that Heathrow airport faced due to low traffic volumes, nor rule out a downgrade by a credit agency (either because the

actual company had a higher level of debt and/or because rating agencies changed their views on the level of underlying business risk). However, the team thought the latter would be unlikely if the document was framed appropriately, recognising that they were still Initial Proposals. As such, the consultation would set out the advantages, disadvantages and risks of different parts of our range, including the risks for financeability.

- f. The team expected Heathrow and airlines to be concerned about various aspects of our proposals: the former might query the failure to provide any further RAB adjustment in response to its re-opening request, the latter any possible price increase. However, the team had put in place quality assurance arrangements, designed to ensure that a robust approach to policy and the quantification of new price control arrangements was produced. The team would continue to work on quality assurance in the run up to publishing initial proposals and beyond.
11. A question was raised on the rationale for not allowing the RAB adjustment. The team explained that the request was driven by the belief that a RAB adjustment related to the period 2020 and 2021 would lower the risk to financeability for the airport, however, the detailed analysis that was conducted by the economic regulation team had not indicated this to be the case. And while uncertainty was still high, the risk-sharing mechanisms between the regulated entity and airlines included in the proposals were intended to address it.
12. The Chair asked the Board to confirm it was satisfied that the decision it had made at the March meeting not to allow a higher RAB re-opener was still the correct one, in light of the evidence gathered and presented at this meeting and over the past months. The Board confirmed that was the case. The Chair added that, while the Board had agreed the evidence base was robust at this point, the analysis would need time to mature as the Initial Proposals developed to Final Proposals.
13. An observation was made on the need to set out a clear narrative to explain the rationale for our decisions, from first consideration to these proposals, and refer to the precedent set by other regulatory regimes, with which our approach to capex is aligned. The Chair agreed that well-designed communications could help to drive home the message.

**ACTION:** Alex Kaufman
14. The team confirmed that a comprehensive stakeholder engagement plan had been put together.
15. There were no further comments, so the Board confirmed it was content with the Initial Proposals and was assured that the team had followed a robust process by

engaging with the Board at monthly meetings but also by their work with a number of the Non-Executive Directors outside of Board meetings.

16. The Chair asked about the delegation arrangements for the final version of the consultation document. The Board confirmed it approved the proposed delegation to the Director of Consumers and Markets and the Chief Economist, but instructed the team to return if no agreement could be reached with the airport on a range position.
17. The Board noted the report.

#### **V. DIVERSITY AND INCLUSION STRATEGY: ALL ARE INCLUDED (DOC 2021-70) BY JANE COSGROVE AND PAUL SMITH**

18. The Board welcomed Angela Cooke and Russell Veale to the meeting.
19. The Director of Consumers and Markets, as Chair of the D&I Board introduced the paper and said that the team had made progress and had developed the strategy following a cross-organisational approach. There was still work to do to embed the new proposals and ensure that the existing ones were applied consistently, for example in the recruitment process, which did not always make full use of the tools available to promote diversity.
20. The strategy included proposed targets that were deemed ambitious but achievable for the CAA and that would ensure outcomes were measured. It also focused on emphasising diversity was a matter for everybody in the organisation. The next steps would see the strategy published, together with the gender pay gap report and shared with colleagues.
21. A question was asked about how the CAA compared with other regulators on this issue. The team explained that it was difficult to compare the CAA as its functions and labour markets from which it recruits are generally much broader than most other regulators. However, the leadership ambition of the CAA was commensurate with others and the strategy would help to cement some of the inconsistent behaviours that were still taking place.
22. A discussion took place on whether the strategy was ambitious enough and if there were more specific activities we could deliver, particularly on recruitment. The team commented that the strategy contained high level deliverables that, on the face of it, may look straight forward but were time consuming and ambitious pieces of work. The CAA was able to learn from those organisations who were further ahead on the D&I journey. We were now introducing initiatives such as our Respect programme with Respect Ambassadors together with the associated training. A key aim was also to build confidence the recruitment process was fair,

as perception with colleagues was important to create a culture where good judgement was valued as much as technical skills.

23. A question was raised with regard to the governance for the strategy. The CEO commented that the proposal would be for the D&I Board to lead the work, as part of the People Strategy, with ultimate ownership resting with the Board.
24. The Chair summarised the discussion and said that our ambition had to be seen in the context of where the organisation had come from and was well calibrated at this point in the CAA's evolution. There had been much activity taking place at operational level to set the foundation for the work to continue developing, which helped ensure that the strategy was appropriate and timely. The Board endorsed the D&I strategy.
25. The Board noted the report.

## **VI. CHIEF EXECUTIVE REPORT (DOC 2021-67) BY RICHARD MORIARTY**

### **Approvals**

26. The CEO asked the Board to approve three items, as follows.
27. First, the appointment of Gary Franklin, NATS Director of Group Business Finance, as an employer nominated trustee (NATS) of CAAPS for the period commencing on 1 October 2021 and ending on 30 September 2024. Mr Franklin would replace Guy Evans, who was stepping down from the NATS Board. The Board approved the request.
28. Second, the appointment of Ross MacDonald and Lea Ann Smith as NATS Section Member-Nominated Directors of CAAPS with effect from 1 October 2021, each for a three-year term. Mr MacDonald and Ms Smith would replace Catriona Johnson and Ross MacDonald who would reach the end of their second term as NATS Section Member Nominated Directors on 30 September. The Board approved the request.
29. Third, in preparation for Kate Staples' departure, the Board was requested to authorise by way of resolution that the fixing of the common Seal of the Authority may be authenticated by the signature of Laura Milton, Deputy General Counsel. The Board approved the request.

### **Live issues**

30. Covid recovery and response: there was an expectation that the current testing requirements may become less restrictive, bringing the UK in line with a number of other European countries. Although this would improve consumer confidence and bookings for the Autumn, there were risks associated with increasing the pace

of the recovery arrangements and the Board would be kept fully informed as these were progressing.

31. Arrival queues at Heathrow Airport were often still significant and although the CAA did not have a role in border control, the team had been engaging with the airport to ensure queuing passengers were well looked after. If the queues built up, the airport might have to restrict incoming traffic, but this would bring other issues and the situation was not yet at that point.
32. With regard to the Passenger Locator Form, the team was continuing to check compliance by airlines and had served a very small number of prosecution papers to airlines that had failed to engage effectively on the matter.
33. An update was provided on ATOL renewals, noting that the situation was being closely monitored on this and other related issues.
34. ICCAN: the CEO provided an update on discussions with Government about the CAA taking on some additional noise advisory functions. Ultimately, decisions about policy outcomes and priorities was a matter for an elected Government and Parliament. The CAA could provide some research and advice that would help Government with its work on this issue. The Board would receive further information as the precise scope of work was developed.
35. Shoreham incident: a verbal update was provided on the latest developments related to the Shoreham incident.

#### **Internal issues**

36. The CEO noted that a recent colleague pulse survey had shown an improvement in the score related to whether ExCo had a well formulated mission and strategy, which was now 77% (an increase of 17%). Colleagues were also engaging well with the Future Ways of Working programme, with the latest communication issued on returning to the office and the proposals to reconfigure Aviation House to be more conducive to meetings and collaboration. Colleagues were busy clearing up old documents prior to the interior works commencing. The Chair urged caution to ensure all documents were disposed in line with the appropriate processes and was reassured that this had been done.
37. There were one or two areas in the organisation that were running hot and, although the CELLMA implementation was now moving in the right direction, it was going to take a while yet before all the issues were resolved.
38. Preparations for the ICAO audit were also taking place and progressing well enough to downgrade the risk to amber, thanks to some excellent cooperation between the SARG and CAAi teams. A more detailed update would be provided nearer the time.

39. Afghanistan: The SARG Director provided an overview of the position, operational activities and next steps on the situation in Afghanistan. The team had been working hard issuing permits and providing safety briefings to COBR meetings to support military operations, and had contributed to scenario planning in a joint safety session. There had been renewed efforts to work behind the scenes, although the issue was now more regional and related to overflight and secondary inbounds by other operators, coupled with instability of border countries. The safety team was continuing to work with government on all of the above and the aviation security team had been supporting Manchester and Heathrow airports in their preparation for these operations.
40. The Chair expressed his and the Board's thanks for all the work done, providing a prompt response and showing resilience in the face of a difficult and challenging situation.
41. It was briefed that CHIRP (Confidential Reporting Programme for Aviation and Maritime) had now agreed to their new role and commented it would hopefully be a good step for aviation.
42. The Board noted the report.

## **VII. FINANCE REPORT FOR THE TWO MONTHS TO 31 JULY 2021 (DOC 2021-71) BY CHRIS TINGLE**

43. The COO provided an update on the financial results for the current year, the Comprehensive Spending Review (CSR) and the response from the Financial Advisory Committee (FAC) on the proposal for future funding models.
44. Financial results: the results for July were adverse to budget with a small loss posted, due to having made the decision not to accrue the s12 grant. The overall results were still tracking positively compared to budget, with the income ahead of budget. The updated passenger forecasts from DfT were likely to be released in the next few weeks, which would in turn be used as the basis for updating CAA's budget forecast. In the meantime the budget assumption would continue to follow the previous mid-case scenario. The Chair enquired whether there was coherence between the different forecasts adopted by different CAA teams. He was reassured that these had been recently reconciled and were broadly aligned. Costs were continuing to be managed well, with headcount increasing, although not yet as per budget.
45. Overall, there was confidence the budget could be achieved and confirmation of the S.12 status for next year should be available by mid-November.



46. CSR: the bid for the CSR was submitted in mid-August, split between business as usual items, space and s.16 ambition items. The Treasury-led negotiation process with lead departments was continuing and the outcome was likely to be known in early November. Once the outcome was known, the CAA would consider the implications and whether any changes were required to the commitments CAA made to either Government or the sector, and the way in which the CAA undertook its activities.
47. Future funding models: the FAC had provided positive feedback to the team's initial views about the key characteristics of potential future funding models. A workshop would take place towards the end of September with stakeholders would help the team to identify the key elements to focus on as the work continued. The team was encouraged to provide an insight into the wider context of why a new funding model was required, rather than only focus on the details, and to include a wide range of stakeholders in the debate.
48. The Board noted the report.

### **VIII. CHANGES TO NERL LICENCE PRICE CONTROL CONDITION FOR 2022 (DOC 2021-73) BY PAUL SMITH**

48. The Board welcomed Stewart Carter to the meeting.
49. The Director of Consumers and Markets introduced the paper and noted that the matter had already been raised with ExCo and the Board. He explained that the NERL licence had a condition for a built-in traffic risk-sharing mechanism, which would allow under-recovery of revenues in 2020 to be recovered in 2022: considering the significant increase in charges that would arise, the team believed that it would be realistic and sensible to spread the cost recovery over a longer period of time. In order to be able to do this, we would need to suspend the traffic risk-sharing licence condition. The proposal was well understood by airlines, some of which have been reasonably supportive of spreading costs over a longer period, within the context of concerns about paying higher air navigation charges, which could be increasing cumulatively across Europe.
50. Board approval was requested for the licence change to suspend traffic risk-sharing, as well as delegation to the Director of Consumers and Markets and the Chief Economist to approve the consultation and final set of licence modifications, subject to any material developments being discussed further with the Board.
51. A question was raised, asking to explain the difference in approach between NERL and HAL. The team commented that NERL had an existing automatic mechanism built into its licence to recover these revenues. HAL did not have an automatic

- mechanism in its licence and the initial proposals for the H7 price control review reflected HAL's existing regulatory framework and the CAA's statutory duties, as discussed in item 4 of this meeting.
52. The Board noted the report, confirmed it was assured that the correct approach had been applied in each case and understood the reason for the difference in approach between NERL and HAL. The Board approved the formal consultation and the delegation requested, but asked the team to return if any material or controversial points arise during the consultation.
53. The Board noted the report.

#### **IX. SARG MONTHLY SAFETY ISSUES REPORT (DOC 2021-74) BY ROB BISHTON**

54. The SARG Director provided an overview of safety assurance, and commented that the team continued to respond to the EU exit issue from a policy perspective, engaging with other parts of the CAA on the future challenge, and had got better at managing trade-offs, through the PPB.
55. A suggestion was made to the Board that the top 10 risks dashboard could be balanced with a discussion on a specific domain activity and then a deep dive on each sector. This approach would help to broaden understanding of the challenge in the aviation system: the top 10 risks focused on large, passenger, fixed-wing, commercial operators and the 'Most significant seven' programme had now been evolved into work on key areas, across all domains, in a more systemic way.
56. Outside the top risks, there were two particular areas to consider: crew fatigue leading to degraded performance and the egress from the S92 helicopters. The former related to the mental health and wellbeing issues that were being caused by operational challenges and uncertainty and the team had planned a high-level comms piece on safety culture and reporting that would be published shortly. The latter was one of the ongoing workstreams that had come from the Offshore Review, tackling existing issues in the offshore and onshore environments.
57. A question was raised asking which was the most impactful challenge and how the team was managing it. The SARG Director replied that the traditionally stable, but flexible aviation system was being challenged by the erratic momentum of the recovery, with stops and starts affecting suppliers, consumer confidence and general operations in a market that was still lower in traffic than its European counterparts. The team had been busy analysing the issues to a great detail, but also raising these with the Senior Leadership of the key entities, to emphasise that safe operations started in the boardroom and should not be confined to other areas of the organisation.

58. The methodology of the risk analysis looked at the full aviation activity, thematically, to encourage prevention rather than prediction. This approach facilitated an integrated, cross-domain insight, rather isolated conversations.
59. The Chair commented that the risk targets had been helpful to highlight that the lack of recovery was keeping risks high, however, he observed that the team needed to ensure risk mitigations and timelines were realistic. The SARG Director added that discussion at the quarterly Safety Leadership Group had concentrated on understanding whether the focus was on the right activities and to generate impatience in the actions, including asking entities to quantify their challenges in a more probing way. He extended the invite to attend the SLG to the other Board members and Non-Executive Directors and agreed to follow up offline.

**ACTION:** Rob Bishton

60. On safety assurance, a concern had been raised on the way oversight was adopted, as safety culture dictated that oversight should be fully effective even during remote working. However, the evidence that had been required to demonstrate compliance in the audit trail had now been provided and the SARG Director confirmed the concern had been satisfactorily addressed.
61. The Board noted the report.

#### **X. FORWARD AGENDA INCLUDING DRAFT OCTOBER BOARD AGENDA**

58. The Board was briefed on the content of upcoming meetings, including an update on space regulation and a session to discuss progress on the draft Target Operating Model (TOM).
59. The Board was invited to attend a stakeholder session with HAL to discuss the H7 proposals, which was scheduled for the November PIE.

#### **XI. AOB**

60. A question was raised in relation to the office tidy-up that was taking place at Aviation House, enquiring whether the old documents could be preserved by one of the local universities as part of their library material, as it could be useful for those studying the history of aviation. The COO commented that, when a similar tidy-up was carried out five years ago, the documents had gone to the National Archives, so it was likely the same principle would apply in this case.

**Date and Time of Next Meetings:**

**Wednesday 20 October 2021, 11:00 hours, at Westferry / Microsoft Teams**