

CAA statutory charges 2016/17 consultation document (excluding air display and low flying permission proposed charges)

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Chapter 1

Foreword

As a body funded directly by charges paid by those we regulate we fully understand the difficulties the industry continues to face and recognise this when setting our charges. The CAA faces significant cost pressures - pay and non-pay increases in our cost base and a need to invest to modernise our systems and ways of doing business. We are determined to deliver long-term efficiencies and better customer service by improving our management structure, modernising the way we manage and carry out our activities, and interacting more collaboratively with the industry we regulate. Over the last 10 years we have reduced our operating costs in real terms by more than 35% and FTEs in the Regulatory sector by 29%¹.

Employment costs represent 58% of our total costs. Therefore they must be a primary source of efficiencies if we are to deliver an acceptable outcome. As part of the CAA's five year strategic plan, which covers the financial years 2011/12 to 2015/16, we set ourselves stretching financial targets which included substantially containing the growth in employment costs, including ongoing pension costs. We set a financial target that we will save at least £16m in employment costs over the 5 year plan period. By 31 March 2015, we had achieved £14.8m savings, which is ahead of target.

We are committed to controlling costs while investing to deliver savings and improvements in the medium to long-term. Two work streams in particular, Performance Based Regulation and the Transformation Programme, are intended to add value and efficiency to the CAA.

As such the target for 2016/17 has been set so that operating costs are held at 2015/16 budgeted levels, which will enable charges to remain at current levels overall. Where additional activities are required in relation to the Pricing Review of London Heathrow Airport and the New London Runway, specific charging mechanisms have been incorporated to recover the costs.

¹ Excluding the effect of Aviation Security's move from the DfT to the CAA

However, the UK implementation of the European Alternative Dispute Resolution (ADR) Directive has resulted in changes to the CAA's approach to consumer complaint handling. Consequently, the costs relating to the Passenger Advice and Compliant Team (PACT) which were previously recovered from the variable charges within the Air Transport Licensing (ATL) Scheme and Regulation of Airports Scheme are now recovered by a new per compliant charge, leading to reductions in the variable charge of the ATL Scheme and Licenced and Non-Licenced airports, within the Regulation of Airports Scheme. There are also a number of individual structural changes resulting from changes to European Aviation Safety Agency (EASA) / Air Navigation Order (ANO) regulations that are described under sections 5.1 to 5.3.

The CAA continues to be required by the UK Government to fully recover its costs from industry in accordance with section 11 of the Civil Aviation Act 1982 and additionally, for the Regulatory Sector, to achieve annually the highest of a 3.5% rate of return on the current cost of capital employed or break-even after interest and tax.

The CAA Board has determined the best pricing policy for 2016/17 and although there was great pressure to increase charges, it has been able to ensure that prices remain unchanged from 2015/16 levels subject to the exceptions referred to above. However, this period of consideration has resulted in the proposed revisions being implemented with effect from 1 June 2016. Each current Scheme of Charges will remain in force until formally revoked by the implementation of a revised Scheme. As a result, charges that are due on 1 April 2016 will remain unchanged from 2015/16 levels.

However, due to the recent publication of the UK CAA Civil Air Display Review report, a separate charges consultation regarding the proposed amendments to Air Display and Low Flying Permission charges within the General Aviation Scheme has been produced. Therefore this document excludes proposed amendments to Air Display and Low Flying Permission charges.

We believe the charging proposals included within this document represent a fair and balanced approach to charging and look forward to receiving feedback on these proposals from industry.

Chapter 2

Introduction

The purpose of this consultation document is to advise the aviation industry of the CAA proposals for revisions to the existing CAA Charges Schemes, due to take effect from 1 June 2016.

We welcome comments on all aspects of the proposals, including the charges structure and the level or amount of the charges.

We request that your comments on the charge proposals relating to Air Displays and Low Flying Permission charges contained within the CAA General Aviation Scheme of Charges are made directly to the Air Displays and Low Flying Permission Charges Consultation which also commences on the 1 February 2016 and completes on 29 February 2016.

Chapter 3

Development activities

Transformation programme

In April 2014, the Board approved the Transformation Programme (TP) Business Case with the first of the TP projects due to be delivered this year, and the remainder successively over the next two to three years. However, while some key capabilities have been delivered, progress in some parts of the programme has not been as quick as had been planned. As a consequence, the programme has undergone a 6-week review exercise which involved looking at the status of each project and, where necessary, strengthening our plans. In September 2015, a revised strategy for the Transformation Programme – Set up for success - with new milestones, based on deliverables and metrics which will provide quantifiable evidence of progress was produced. The programme plan has been re-structured in the following way:

- **Entity Performance Tool (EPT) into Performance Based Regulation (PBR) – Delivered in August 2015**

The Entity Performance Tool (EPT) captures information about risks. It supports the PBR approach. It ensures that we capture the right safety-related data and judgements, by the right people in the right way. It complements the Q-Pulse system, which is the tool we use to schedule and track our audit activities. The Entity Performance Tool (EPT) tool will be rolled out to all areas of the Safety & Airspace Regulation Group (SARG).

- **Stakeholder Management (Phase 1) – Delivered in December 2015**

Phase 1 of this project will deliver our new website. Information from our current website is being transferred across to the new site. The tool that sits behind the new website (the 'Content Management System') will enable us to manage and maintain our website more easily than the current system in use. Once complete, this will allow us to deliver further improvements in how we interact with our customers in follow-on phases of this project.

- **Aviation Statistics – Planned delivery in Spring 2016**

The Aviation Statistics project will deliver a new IT system for the management of data collected from airlines and airports. It will make it easier for us and for people outside the CAA to use the data. Data submitted will be automatically validated and the system will improve our ability to provide tailored reports. We will also be able to make changes to the system to expand range types of data we gather and report on.

- **ATOL Licensing – 2016/17**

The ATOL Licensing project will deliver a new online self-service system for travel businesses to apply for, amend or renew their ATOL licence and by which they can track their licence applications. This system will replace the current paper-based system, which relies on Microsoft Excel, and will enable us to provide a quicker service to the travel industry.

Other elements of the programme will be reviewed and re-planned in order to create joined-up approaches to online services and information management. The three inter-connected projects within the programme that will work closely together are:

- **Information Strategy**

Delivering a single solution for how we all create, store, share, protect and retrieve our information.

- **Customer Relationship Management and Portal**

Delivering online forms and an online portal to enable customers to submit applications, supported by a CRM system that enable us to manage our interactions with our customers.

- **Stakeholder Management (Follow-on phase)**

Taking advantage of the functionality the new website provides so that we can improve how we interact with, and provide information to, our stakeholders.

In addition, the programme will provide a support service to help further embed and develop the PBR and Service Optimisation approaches as they transition into 'business as usual'. PBR and Service Optimisation are the two key business

transformation approaches which have delivered, and will continue to deliver, changes to the way we do business.

And finally:

- **Corporate Services Improvement (CSI)**

The aim of the CSI project is to update our ageing Finance, Procurement and Human Resources (HR) IT systems, so it is an important project to get right. Although extensive initial work has already been undertaken, we have taken time out to reflect on the benefits that we wish to secure and as a result this project has been planned to resume in 2016.

Performance based regulation

The UK's excellent aviation safety record is underpinned by a prescriptive system of rules, regulations and standards for those organisations providing aviation products and services. As the prescriptive system has matured, its potential to deliver further safety improvements has become limited. The UK Government's Better Regulation Principles require regulators to reduce the burden associated with existing rules and to regulate only when necessary in a way that is targeted, proportionate, and informed by a comprehensive assessment of risk.

As with many regulated sectors, the evolution of standards and rules often lags behind developments in technology, business models and consumer trends, making them less and less fit for purpose. With the number of commercial flights forecast to rise and the pace of change across the aviation industry set to increase, safety regulation must also evolve to remain relevant, effective and deliver the required safety outcomes.

PBR oversees and improves aviation safety. It is changing the way we carry out our oversight responsibilities and collect, analyse and use safety information. This approach aims to strengthen and standardise many of our existing regulatory processes and functions and can be grouped into five areas:

1. Consistently gathering and analysing safety risk information about all parts of an organisation's operations and capturing them as a single regulated entity.

2. Assessing the performance of each entity to manage their safety risks and agreeing with the Accountable Manager the actions that are needed to uphold standards and further enhance safety.
3. Grouping safety risk information about entities into sectors of the industry with similar types of operation for example, small aerodromes, offshore helicopters, large airlines, to create a better understanding of the top risks and good practice approaches to managing them.
4. Making more informed decisions about the safety outcomes that we and the industry should aim to deliver to better manage the top risks across the sectors - and setting out the actions required of different stakeholder groups for example, entities, sectors, EASA, International Civil Aviation Organisation (ICAO), to achieve them.
5. Directing regulatory resources proportionately to oversight activity and safety improvement projects that focus our attention on the entities and sectors where standards are not being upheld, or where there is the significant potential to enhance safety.

We expect these changes to improve the performance of the industry to manage safety risks, and the performance of the CAA to oversee them effectively. It will improve our ability to allocate regulatory resources to areas with the greatest potential to enhance safety, as well as deliver efficiency in the way our core oversight processes are carried out.

The PBR Industry Group, launched in February 2015 in response to the feedback to the 2014 PBR conference, has gone from strength to strength in collaborating with the CAA in its transformation to a Performance Based Regulator. Engagement with EASA has continued and the Agency is fully supportive of the CAA's approach; briefings have been provided at Director-level every 6 months and the results can be seen in the positive feedback from the Agency during recent standardisation audits as well as in the content of EASA publications on the subject.

The second conference was delivered in October 2015 with over 100 industry attendees. A further consultation (Civil Aviation Publication (CAP) 1345), via a CAA Business Engagement Assessment in line with Government guidelines, commenced

in October 2015 with responses requested from industry by 31 December 2015. No negative feedback was obtained and the CAA has concluded that the PBR principles are broadly accepted.

PBR will become fully implemented for the Airworthiness sector from April 2016 and thereafter it is desired to further embed and mature the PBR principles over a two-year phase and broaden its horizons to capture other regulatory areas within the CAA. From the established solid foundations and together with continued close industry participation, PBR will enable industry, as well as CAA benefits, to be achieved.

General aviation (GA) programme

It is now over two years since we published the CAA Response to the [Government's GA Red Tape Challenge](#) (CAP 1123) and set up the GA Unit as part of our key approach to the proportionate and risk-based regulation of GA. The CAA GA Unit broadly covers the non-commercial private use of aircraft so is very much focused on the sport and recreational end of the GA sector. As we committed to, the GA Unit is ensuring that the regulatory regime for the GA sector is taking a different path and is becoming less onerous than that applied to the commercial aviation sector.

Over the coming year and beyond we will continue to apply our principles for the regulation of GA namely:

- Only regulate directly when necessary and do so proportionately;
- Deregulate where we can;
- Delegate where appropriate;
- Do not gold-plate and quickly and efficiently remove gold-plating that already exists.

We have achieved a lot during the last two years, much of which is set out in the GA Unit's [Annual Report](#) issued earlier this year but there still remains much that needs to be done, both for the nationally regulated aircraft fleet and the Europe-wide EASA fleet. Of course there are areas where we have not gone far enough or quickly

enough for some stakeholders but equally we have made some changes that have surprised some stakeholders. More detail of what we have done and updates as more is completed are available on the CAA website at: <http://www.caa.co.uk/ga>. Domestically we have been able to make changes that have had a real effect and we are equally committed to working with our colleagues in EASA and other states to improve GA regulation Europe-wide. EASA is also committed to proportionate and risk-based regulations and this will be ever more important as we continue progress in 2016 and onwards. Over the coming months we will be considering our strategy for the GA sector and our GA Unit for the next 5 years to ensure we stay true to our principles and continue to deliver a proportionate risk-based regulatory regime, with appropriate charges, for the GA Sector.

Alternative dispute resolution (ADR)

Following the UK implementation of the European Alternative Dispute Resolution (ADR) Directive, the CAA's policy is to incentivise voluntary participation by airlines in private ADR arrangements ([CAP 1286](#) refers). For passengers travelling with airlines who do not sign up to ADR for the resolution of disputes relating to Regulation (EC) 261/2004 and Regulation (EC) 1007/2006 (where the CAA is designated as a body to which passengers can complain), the CAA will provide a residual complaints service. For 2016/17, this residual service will be provided by the CAA's existing Passenger Advice and Complaints Team (PACT). For April and May 2016, the existing charges within the Air Transport Licensing Scheme and the Regulation of Airports Scheme will be recovering these costs as currently. However, with effect from 1 June 2016 the CAA proposes to introduce a new complaints-based charge which will reflect the actual demand placed on the residual service by airlines that do not voluntarily sign up to ADR.

Airspace change process (ACP)

Under Section 70(1) of the Transport Act 2000, the CAA has a statutory function to maintain a high standard of safety on the provision of UK air traffic services.

Following a major review of the ACP that was commissioned by the CAA, extra requirements were recommended for implementation to improve the overall process. As a result, the CAA will be consulting industry on the implementation of these recommendations in February 2016 and therefore will not be part of this Charges Consultation.

Chapter 4

Financial position

The CAA has made some significant improvements to its operating efficiencies in recent years while continuing to meet our regulatory responsibilities. The CAA's operating budget has reduced in real terms by 35% in the last 10 years. This is the result of reforms to the CAA's pension scheme, control of pay and operating efficiencies across all CAA activities.

However, like many other public sector organisations, the CAA is under pressure to reduce budgets still further while continuing to deliver on its core regulatory duties effectively, and in some cases take on new activities.

The target budget, on which the charging proposals have been based, has been set so that operating costs are held at 2015/16 budgeted levels², which will enable charges to remain at current levels overall. Holding the 2016/17 budget at these expenditure levels provides the CAA with a significant number of challenges which we are committed to overcome.

² Except where additional activities are required (e.g Review of London Heathrow Airport & New Runway activities)