

Statutory charges 2019/20: Consultation document

CAP 1720

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Chapter 1

Introduction

This consultation document explains our proposals for revisions to the existing CAA Charges Schemes, due to take effect from 1 April 2019.

We believe our proposals represent a fair and balanced approach to charging and we look forward to receiving feedback on these proposals, in particular from those regulated by us.

We welcome comments on all aspects of the proposals, including the charges structure and the level of the charges. Please could you use the CAA Statutory Charge 2019/20 Consultation online submission form (CAA Consultation web page link). The consultation closes on 7 February 2019.

It should be noted that the CAA is continuing discussions with the DfT on the best way to introduce the Drone Registration Service together with Remote Pilot Competency education for introduction with effect from 30 November 2019. A separate charges consultation will be undertaken early in 2019 in relation to this. The exact timing of the charges consultation is yet to be finalised but the proposed charges will be planned to be implemented with effect from 1 October 2019 when registration applications will start to be accepted.

Overview of our proposals

As a body that is directly funded by charges paid by those we regulate we fully understand the difficulties the industry continues to face. This is one of our primary considerations when we set our charges.

Over the past eight years the increase in our charges was only 7.9% while in the same period UK inflation¹ was 20.2%. This is because we have worked hard to reduce our operating costs over the same period.

However, we continue to face significant financial pressures, with increases in our cost base as well as the need to make crucial investment in modernising our systems. The Project Delivery (Transformation Programme) has and will continue to deliver efficiencies and better customer service. As such we are committed to controlling the costs of making these improvements.

¹ CPI

Given these current cost pressures, we propose that there should be an increase of 2.4% across all Charges Schemes in 2019/20, in line with the current CPI² rate of inflation.

In addition, we are proposing specific charges to cover our costs in the three areas where we are undertaking new or expanded activities:

1. **Brexit:** The CAA has been undertaking contingency planning for two different Brexit Scenarios:

A: the first is that the UK remains a member of the EASA system of safety regulation for the whole of 2019/20;

B: the second is that the UK departs the EASA system of safety regulation on 29 March 2019, and at that point, and for the duration of 2019/20, the arrangements set out in the [Technical Notices published by the UK Government on 24 September 2018](#) prevail.

During 2018/19, the CAA has been preparing to implement Scenario B on a contingency basis and by the end of 2018/19 will have recruited up to 55 FTEs to carry out the necessary tasks that are required both in 2018/19 and from 2019/20. Up to £2.7m of its costs incurred in 2018/19 in preparing for this scenario have been funded by the Government. However, the CAA is working on the basis that the Government will not fund any incremental Brexit costs in 2019/20 and therefore any additional costs will be absorbed by the CAA's statutory scheme of charges.

Further information regarding the implication of these two scenarios are outlined in chapter three of this document.

2. **Cyber Programme:** In 2018/19 the Scheme of Charges uplift of £0.5m enabled the CAA's core regulatory function to become established and commence the new oversight regime for cyber security. There was a recognition that this funding uplift would fulfil part of the requirement and the CAA has set-up a core cyber team that has progressed with the implementation of the CAA's cyber oversight strategy.

The EU's Network and Information Security (NIS) Directive was transposed into UK law in May 2018 which designated the CAA as co-competent authority with the DfT for the 12 organisations that fell within scope in the aviation sector. These operators of essential services (OES) have been designated under NIS having met the thresholds based on the level of

² ONS October 2018 CPI rate.

economic or societal impact which could result from disruption to the services they provide.

Clarity has been gained this year on the requirements for both the CAA and Industry as the roll out of the NIS Regulation has progressed. However, to meet the statutory obligations, set out under NIS and take on the full remit under EU legislation for safety, we estimate an uplift for the next financial year to be £274k to enable a growth in team size of an additional 3 resources. This will enable the CAA to develop from the information gathering and set-up phase into active oversight with respect of NIS, and to continue to develop an appropriate and proportionate performance-based oversight regime in respect of aviation safety. The additional cost will be charged equally to each of the 12 operators designated under the NIS Regulation.

3. **Airspace Change Process & Airspace Modernisation Strategy**

Programme: Relating to the Airspace Change Process the CAA's new CAP1616 Airspace Change Process places additional requirements on the CAA, particularly with new review gateways. In addition, there has been a significant increase in the volume of airspace change applications (in 2015 we received 7 change requests and in 2018 so far that number had risen to over 70). We propose two phases of resource increases to manage this new level of demand and requirements for the process: in 2019/20, we propose increasing the FTE resources by 9 at a cost of £416k with a phased introduction over the course of 2019, funded from April to December 2019 by airports and National Air Traffic Services En Route PLC (NERL) and thereafter via the UK Eurocontrol En Route unit rate i.e. outside of the Schemes of Charges. We propose a further increase of 7 FTEs in 2020/21 funded through the UK Eurocontrol En Route unit rate and depending on demand we may need further FTE increases in future years.

This proposal concerning the Airspace Modernisation Strategy Programme covers new resources to deliver new sponsorship and the delivery monitoring and oversight tasks required of the CAA by the UK Government under revised Directions. We propose to increase resources by 9 FTEs to deliver these new tasks with a phased introduction over the course of 2019, 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. The costs to the CAA Airspace charging scheme in 2019/20 will be £208k. We propose a further increase of 4 FTEs in 2020/21 funded through the UK Eurocontrol En Route unit rate and depending on demand we may need further FTE increases in future years.

Unless otherwise indicated all prices shown in this document are exclusive of the proposed 2.4% general price increase.

Chapter 2

Key Updates

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

As stated in the CAAi Annual Report and Financial Statement for FY17/18, the company operates in a highly competitive environment. Economic conditions have become more challenging in recent years and the future presents some uncertainty. This is driven by: the decline of oil prices from 2015 driving down demand in the Middle East which has yet to return, in spite of some oil price recovery; strong competition from other consultancies with a far lower cost base; foreign Government bodies offering services but with external funding; and, most recently Brexit.

Brexit, and in particular a 'No Deal' Brexit, is a major threat to CAAi. Initial impacts on revenues are estimated at a reduction of £7.5m, approximately 50%. This is made up of projects that directly depend on our EU Member State status and our membership of the EASA system, as well as indirect impacts related to services offered to 3rd countries where EASA alignment is part of the client's requirements. The current uncertainty has already had an impact on training and exam revenues and it is clear EASA are making decisions now to manage their own exposure no matter what the Brexit outcome, further increasing risks to future revenues.

This uncertainty about CAAi future profits is not simply a threat to CAAi, it represents a significant risk to CAA's overall financial position and must be managed if CAA is to fulfil its statutory obligations.

Over the last five years, we have used the cash profits from our commercial activities to reduce the fees and charges paid by stakeholders; this has amounted to approximately £2.5m cash per annum over the last 5 years, or approximately 3.5% of charges reduction, across the schemes supporting SARG. We are committed to the gradual reduction of CAA's reliance on this cash contribution over the coming years so that the risks to CAA finances noted above are mitigated and profits can be retained by CAAi for reinvestment, buffering their own risk and making targeted interventions aimed at benefiting the UK consumer flying overseas. This change is consistent with the general principles that regulation should be cost-reflective and that commercial risk from operations should not be carried by our regulatory charge-payers.

The current cash contribution to CAA absorbs nearly all of the cash profit possible from the current revenues, restricting the ability to invest and therefore reducing the opportunity for growth. This puts at risk not just the cash contribution to CAA

finances, but the total contribution from CAAi to CAA, the benefit of which is felt as a reduction in fees and charges: this includes overheads levied on each Full Time Equivalent purchased by CAAi from CAA and the company charges paid by CAAi to CAA. The total CAAi contribution to CAA including manpower costs is approximately £6m p.a. and excluding the manpower costs this amounts to approximately £4.7m p.a. in direct contribution to CAA finances; a failure of CAAi will have wider implications than the cash contribution.

A failure to develop the company's product propositions and pricing strategy in line with changing market dynamics and expectations could further erode the company's competitive position. To grow (or even to stand still) CAAi needs to invest in new and refreshed products and services, including investment in specific key future competencies in CAA where use of current charging schemes would not be appropriate. In addition, CAAi is now an accredited Social Enterprise, committed to using profits to improve aviation standards across the globe, to the benefit of both UK consumers and UK industry. Recent contracts with Thailand (a significant UK consumer destination) have helped them remove their ICAO issued 'Significant Safety Concern', and we have worked with growing aviation states such as Kuwait to restructure their regulatory framework and increase inspector competence. In line with our social enterprise agenda we have then used some of these profits, where in excess of the contribution, to invest in our purpose, for example fully funding two Aerodrome Certification courses, one in Africa and one in South East Asia in partnership with ICAO, as well as offering training places to ICAO as part of their 'No Country Left Behind' agenda. CAAi is also underwriting a specialist post in Wildlife Hazard Management for our State Safety Partnership Team, to be able to work with overseas NAAs and UK industry to help address birdstrike hotspots; a recent project in partnership with a UK carrier has made a significant impact on birdstrike risk in the Gambia. This is raising UK's profile and reputation around the world and particularly within ICAO.

Considering the risks to CAA finances being carried by the high level of uncertainty surrounding market conditions in general and Brexit in particular, it is now time to reduce the dependency on CAAi's cash contribution in line with the CAA strategy and to support CAAi's overall contribution to the CAA's purpose. However, we are also cognisant of the other Brexit related costs included in this year's consultation; we are therefore proposing that the 2019/20 cash contribution is limited to £2.25m, a reduction of £250k. Further reduction in CAAi profits may be considered in future years.

Project Delivery (Transformation Programme)

Over the last year, we have integrated the delivery of the Transformation Programme into the Portfolio Delivery business department – a permanent function that has

enabled the more effective delivery of projects required to support significant change happening across the business. Over this period, we have continued to deliver on the Transformation Programme, and completed the Aviation Statistics and the Entity Performance Tool projects.

Aviation Statistics – Project Closed

Following the delivery of the Aviation Statistics project in May 2016, which implemented a new IT system for the management of data collected from airlines and airports, the project delivered three more software releases to improve the functionality and further enhance the system. The final release of Aviation Statistics was delivered in December 2017.

The Entity Performance Tool (EPT) into Performance Based Regulation (PBR) – Project Closed

The Entity Performance Tool (EPT) captures information about risks and supports our Performance Based Regulation approach. After the successful delivery of Phase 1 in August 2015 and Phase 2 in August 2016 the third and final software release was delivered early in February 2018. This represents an evolution of the current tool and a step closer towards a fully integrated system to support Performance Based Oversight which improves the CAA's ability to allocate resources to areas with the greatest potential to enhance safety.

The Customer Relationship Management and Portal

Following the successful delivery of a more stabilised Portal platform in January 2016, we have focused on the following initiatives across the project.

- *Resource Scheduling*
This benefits internal productivity by improving the way we schedule the work of surveyors and inspectors, to ensure we optimise the use of our resources. We plan to conclude and close as a Transformation Programme project in Q1 2019.
- *E-licensing for commercial pilots*
This is an online service which enables our commercial pilots to apply for licenses and ratings through a personal portal account. This was launched in December 2017 and we have since made further improvements based on stakeholder feedback through software releases every 2-4 weeks which we aim to complete in March 2019. We are reviewing how we expand e-licensing to other licence holders (for example, private pilots, engineers).

ATOL Licensing Phase 4 – November 2018

The ATOL Licensing project has delivered 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 replaced the paper-based system to enable us to provide a quicker service to the travel industry. The project successfully launched the system with four ATOL holders in June 2017 followed by the roll-out to 268 ATOL holders in January 2018. The system then went live and was available to all ATOL holders in June 2018. Since then further enhancements have been made to the system and we expect to close this as a Transformation Programme project in December 2018.

Stakeholder Management & Engagement

Following the successful delivery of our new website in December 2015, we have established an in-house website team to allow us to be more responsive to changes required, such as developing a reusable microsite which is being used for Brexit. The project also designed and implemented a more strategic approach across the organisation to stakeholder management and engagement. We expect the project to conclude as a Transformation Programme project in March 2019.

Information Strategy

The objective of this project is to improve how the CAA shares consistent and accurate data so that the right information is available in the right format and of the right quality, enabling us to make decisions that support optimal outcomes. This is achieved through delivering the appropriate governance and technology. An Information Governance Framework was released in 2016 followed by the delivery of Microsoft Office 2016, Skype and OneDrive across the organisation which concluded in February 2018. In March 2018, remote working connectivity tokens were replaced with improved methods to connect to our network in support of our Smarter Working strategy and in September 2018 the organisation wide roll out of Azure Information Protection was completed, improving the way we classify and handle information. The focus of the project is now the continued roll-out of SharePoint Online which will be the corporate content management system and has been delivered to 3 business areas to date.

Corporate Services Improvement (CSI)

The aim of the CSI project is to update our ageing finance, procurement and HR IT systems implementing a modern, integrated solution. Following consideration of a joint initiative, working with other Regulators the CAA decided to proceed separately with the project. A feasibility study was completed in February 2018 which led to solution option being agreed (SAP Business by Design and Success factors). Procurement concluded in September 2018 and the delivery partner is onboard with project mobilisation underway.

Chapter 3

Main charge proposals

General price increase

We have made every effort either to keep charges at the previous year's level or to increase charges at a rate no more than inflation. Over the past eight years, the charge increase was 7.9% compared to a UK inflation of 20.2% for the same period. We have achieved this by making efficiency savings as we implement major changes to the way we operate.

With the backdrop of the current CPI level being 2.4%, we are proposing to make a general price increase of 2.4% for 2019/20. This will ensure that we can continue our programme of further efficiency improvements, and that we continue to meet our statutory regulatory requirements.

Please see the enclosures in chapter five for the changes to individual charges.

Brexit cost recovery

Brexit is an important issue for aviation, as it is for other sectors of the economy. In this charging consultation, we have included two different Brexit scenarios:

- **A:** the first is that the UK remains a member of the EASA system of safety regulation for the whole of 2019/20;
- **B:** the second is that the UK departs the EASA system of safety regulation on 29 March 2019, and at that point, and for the duration of 2019/20, the arrangements set out in the [Technical Notices published by the UK Government on 24 September 2018](#) prevail. In this scenario, the CAA would have to undertake various additional tasks in order to minimise potential disruption to the travelling passengers and the industry that enables them to travel.

In both cases, we are assuming that certainty about the outcome will occur close to the end of 2018/19 and therefore the CAA will continue to plan for scenario B above until that point.

During 2018/19, the CAA has been actively preparing and implementing plans for Scenario B and by the end of the year will have recruited up 55 FTEs to carry out the necessary tasks. Up to £2.7m of its costs incurred in 2018/19 in preparing for this scenario have been funded by the Government. The CAA is working on the assumption that the Government will not be funding any incremental CAA Brexit

costs in 2019/20 and therefore any additional costs will be absorbed by the CAA's statutory scheme of charges.

The implications of these two scenarios is set out below.

Scenario A: the UK remains part of the EASA system

In this scenario, the no deal Brexit contingency plan would not need to be implemented beyond the point that it had already reached, and there would be a scaling back of this activity to minimise unnecessary costs.

On the basis that there is certainty no later than the end of March 2019, the CAA estimates that it would incur approximately £0.4m of costs in 2019/20 as the team that has been recruited to develop and implement the no deal Brexit contingency plan is efficiently managed down to reflect the change in workload.

We would propose recovering these costs by increasing the variable charge unit rates by 1.2% within the following schemes:

- Air Operators Certification;
- Aerodrome Licensing and Aerodrome Air Traffic Services Regulation;
- Air Transport Licensing;
- Regulation of Airports;
- Aviation Security.

It is possible that there will be certainty about the UK's long-term membership of EASA before the end of the current financial year. As soon as sufficient certainty is realised, the CAA will minimise its financial exposure and adjust the charges appropriately to reflect the relevant costs in the following year.

Scenario B: the UK leaves the EASA system in March 2019

This is the scenario which the CAA has been preparing for during 2018/19. In doing so, the CAA's objective has been to minimise potential disruption to passengers and the aviation industry from such a scenario. The CAA's preparations for this and the additional activities it would take on are set out on our dedicated website. In total, in this scenario, we estimate that our statutory charges would increase by a total of £3.6m. These costs would be recovered as follows:

a) New activities for which there is an associated income stream:

- ICAO State of Design Approvals, including Design Organisation and Production Organisation Approval. We estimate this will require an additional 19 FTEs at a cost of £1.8m. Cost recovery would be via the Airworthiness Scheme of Charges.
- Airline licencing, including foreign operator permits. This would cost an estimated £0.1m.

- Aviation security would be undertaking the additional work to assess EU country air carriers to recommend to the DfT for approval of third country operators to fly cargo into the UK. An additional 2 FTEs at a cost of £0.1m are required and the cost would be recovered by increasing the aerodrome variable charge unit rate in the Aviation Security Scheme.
- b) Activities recovered through an adjustment to CAA's variable charging schemes:
- Some of the incremental activities are not related to specific charging mechanisms and, therefore, we propose to increase each of the variable charges (Air Operators Certification, Aerodrome Licensing and Aerodrome Air Traffic Services Regulation, Air Transport Licensing, Regulation of Airports and Aviation Security) by 5.4% to recover the estimated costs of £1.6m and CAAi's reduced profit contribution (£250k).

These incremental activities are spread across a range of CAA's functions and includes:

- Increase in activity in CAA's Shared Service Centre managing new licencing processes;
- Increase policy and legal capability to review and consider potential changes to UK aviation legislation at the end of the 2-year period set out in the proposed secondary legislation (and as detailed in the Technical Notices);
- A programme team to ensure that the new responsibilities the CAA is taking on are being professionally managed;
- Communicating changes to the aviation system to the industry and passengers, and responding to a significant number of additional public queries;
- Contingency for costs that can't currently be foreseen;
- Reduction in the cash contributed from CAAi reflecting the assumption that EASA would no longer be contracting work to CAAi.

More information and regular updates can be found on the [CAA's EU Exit microsite](#).

Cyber Programme Cost Recovery

Throughout 2018, the proliferation of worldwide cyber-attacks continues to cause concern with the aviation industry now being targeted alongside other industries. This goes to underline the requirement for the CAA's approach of a robust regulatory framework to be in place as soon as possible.

Additionally, the EU Network and Information Security (NIS) Directive gives the CAA additional responsibilities for the economic security of critical national infrastructure.