

CIVIL AVIATION AUTHORITY
MINUTES OF THE 556th 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