



House of Commons
Transport Committee

**The work of the Civil
Aviation Authority:
Government Response
to the Committee's
Thirteenth Report of
Session 2005–06**

**Fifth Special Report of Session 2006–
07**

*Ordered by The House of Commons
to be printed 7 March 2007*

HC 371
Published on 13 March 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Transport and its associated public bodies.

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The current staff of the Committee are Tom Healey (Clerk), Annette Toft (Second Clerk), Clare Maltby (Committee Specialist), Louise Butcher (Inquiry Manager), Tony Catinella (Committee Assistant), Ronnie Jefferson (Secretary), Henry Ayi-Hyde (Senior Office Clerk) and Laura Kibby (Media Officer).

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Fifth Special Report

The Committee published its Thirteenth Report of Session 2005–06 on 8 November 2006. The response from the Department for Transport was received in the form of a memorandum dated 1 March 2007, and is published as an Appendix to this report.

Appendix

Introduction

The Government response to the Transport Committee report into the work of the Civil Aviation Authority, published on 8 November 2006, is below. This response has been prepared and agreed by the Department for Transport and the Civil Aviation Authority. In each case the Transport Committee's recommendation is published followed by the Government response to it, as necessary.

Management of the CAA

1. The Government has been negligent in its failure to undertake strategic reviews of the role, remit and objectives of the CAA as required by the Sponsorship Statement. We recommend that the Department for Transport carry out a root and branch review to examine the continuing need for the CAA and the extent to which its functions could be more effectively undertaken in other ways. (Paragraph 5)

Government response

In evidence to the Committee on 1 February 2006, Aviation Minister Karen Buck MP indicated that the CAA would look different in years to come because of the rapid change in the regulatory framework which exists in the EU with the creation of the European Aviation Safety Agency and the expansion of the Single European Sky. The Government therefore accepts this Recommendation. In view of its substantive nature, the Government would aim to conclude a strategic review of the CAA during 2008.

The Government nevertheless does not accept the criticism by the Committee that it has been negligent. There is continual monitoring of the CAA through established corporate processes including the CAA's Annual Report and Accounts, its annual updated Corporate Plan, the Sponsorship Statement with the Department (which was revised and renewed in May 2006), and strategic issues are discussed regularly in senior level meetings between the Chairman of the CAA and the Secretary of State and with the Director General of Civil Aviation.

2. It is highly unlikely that the CAA, with its four major functions of ensuring safety, determining airspace policy, economic regulation of aviation and licensing of air travel organisers, would be created in its current form, as a single Authority, today. It is a tribute to the professionalism of the CAA's current staff that the potential conflicts inherent in the Authority's structure have been avoided. Nonetheless, the potential for conflict remains and the Government should keep the CAA's structure under review.

We recommend no changes in the present organisational structure. However, we recommend that the CAA, in formulating its policy and communicating its instructions, should seek to deepen the level of co-operation between its different regulatory groups, to ensure that the message it delivers to those it regulates is consistent and clearly conveys the primacy of safety considerations. (Paragraph 17)

Government response

The review will consider the functions and structure of the CAA. We consider the CAA has made much progress in ensuring that its four regulatory Groups work effectively and co-operatively together where it is necessary. Co-operation has been further enhanced by ensuring that at least two of the CAA's five Non Executive Members sit on each of the Groups' Policy Committees on a rotational basis. Recent examples of effective co-operation, at both working and executive levels, include NATS Licence Management, the development of policy and implementation of the Single European Sky regulation and the Airspace and Safety Initiative. Nevertheless, the CAA remains mindful of the need to ensure that such co-operation continues and that the primacy of safety is safeguarded; and will continue to keep the situation under review.

3. We do not recommend any widening of the CAA's remit to include a duty to promote enterprise and innovation in the aviation industry. We agree with the CAA that this role is better filled in the UK by the Department for Transport and the Department of Trade and Industry. (Paragraph 20)

4. There is a perception of a lack of clarity about the role and status of CAA advice in policy-making within the Department. We recommend that the critical review we have suggested the Department undertake should give consideration to the Department's channels and processes for communicating with the CAA to ensure greater transparency about the expected role of the CAA in policy-making. (Paragraph 26)

Government response

The Government places high value on the policy advice it receives from the CAA. However, as part of the Government's acceptance of Recommendation 1 and the strategic review that will flow from it, the Government will look again at the role of the CAA in policy making. The Department and the CAA have already agreed and made public a revised and renewed Sponsorship Statement governing the relationship between them which was published on 17 May 2006. The Sponsorship Statement arrangements will continue to be reviewed regularly.

European Aviation Safety Agency

5. We are emphatically opposed to any diminution in safety standards in the UK in the name of harmonisation. We are favourably disposed to the principle of European cooperation to create joint safety standards and enforcement only if it genuinely assists all European Union countries in matching the highest aviation safety standards. (Paragraph 32)

6. It is with dismay that we have learnt of the chaotic state of the European Aviation Safety Agency (EASA), which at this time is not able to fulfil its declared purpose. EASA is an accident waiting to happen—if its problems are left unchecked, we believe it has the potential to put aviation safety in the UK and the rest of Europe at risk at some point in the future. (Paragraph 36)

7. The United Kingdom cannot and must not transfer any further powers from the CAA to EASA until the Government is assured that the serious problems of governance, management and resources at EASA have been resolved. We welcome the Minister's assurances on this. (Paragraph 38)

Government response

A genuine European single market in air transport services calls for common safety rules and harmonised standards of implementation. The Government has supported the development of a comprehensive European regulatory system, centred on an effective European Aviation Safety Agency, as part of its commitment to establishing and maintaining a high, uniform level of aviation safety across Europe. To this end the Government has played a leading role in improving the performance of the EASA and will continue to take steps to ensure that the Agency is firmly established as a properly resourced and high performing safety regulator. Considerable progress has been made in the last year. In particular there have been improvements to the Agency's business planning; budgeting; the functioning of the Management Board; and partnerships with national aviation authorities, such as the Civil Aviation Authority. The Government will continue to monitor progress in all aspects of the Agency's work to ensure that the progress we have made continues and that aviation safety levels in the UK are not compromised.

The Government and the CAA believe that the Agency is now on track to take on additional responsibilities when the relevant amendments to the Community legislation, currently under negotiation, and the subsequent detailed implementing rules, are adopted. It is not appropriate to set down a specific timetable, but in practice the Agency is unlikely to assume its new responsibilities until 2008 at the earliest. The Government will continue to work closely with the CAA to ensure that by that time, the improvements under way in the Agency will have reached fruition.

In December 2005 when the European Commission published its proposals for the extension of the role of EASA to cover rule-making and standardisation of flight operations and personnel licensing the Government wished to send a clear message that it had serious concerns about the capacity of EASA to undertake these additional tasks. At the same time the Government stressed that the UK was committed to the principle of establishing a comprehensive European regulatory system, and took the lead in helping the Agency to improve. The UK reserve was lifted in late November 2006 in recognition of the considerable progress made by the Agency over the preceding twelve months. Nevertheless, further progress is required and the lifting of the reserve reinforces the commitment by the UK Government and Civil Aviation Authority to continue working in partnership with the Agency, the European Commission and our partners in Europe to deliver further improvements in order to ensure that high levels of aviation safety are maintained.

8. We are concerned that the operational difficulties within EASA mean that a knowledge gap is developing which has the potential to undermine safety innovation in the aviation industry. We recommend that the Government make representations to the European Commission to ensure that action is taken to remedy this gap. The CAA must resume the research it has so far curtailed. There should be no further closure of CAA departments and functions before the Government is absolutely satisfied that the comparable departments and functions at EASA are fully operational. (Paragraph 43)

Government response

It is the aim of both the Department and the CAA to avoid any perceived “knowledge gaps” and we are reviewing these issues with EASA in order to agree a way forward. It is for the CAA and the aviation industry to decide what research is necessary and the CAA will utilise its EASA transition fund if required.

9. We welcome the representations made by the UK to EASA’s Management Board and to the European Commission about the Agency’s present ineffectiveness, and we are encouraged to note that the CAA has observed some improvement in the situation over the year. It is clear that there is much still to be done, however. We recommend that the Government continue to make the strongest possible representations in order to ensure that urgent and decisive action is taken to make EASA fit for purpose within no more than two years. (Paragraph 48)

Government response

Please see the response to Recommendation 7.

10. We understand that the ability of the CAA and the Government to relate information to industry regarding the transfer of responsibilities to EASA has been hampered by the delays and uncertainties experienced by EASA itself. (Paragraph 52)

11. We are concerned that many organisations remain uncertain about what is happening and how the transfer is being handled. We therefore recommend that the CAA make this information more readily available via its website, with a clear description of powers already transferred and those that will follow, along with details of the impact on the CAA’s costs and charges. (Paragraph 52)

Government response

The CAA agrees there is a need for more information to be made available to industry and is seeking to address this point. During 2006, the CAA held seven regional workshops on EASA regulations to provide information and guidance on the impact of the regulations and transitional arrangements. A further example is the new IN FOCUS leaflet on EASA that the CAA produced for the General Aviation Conference it held in November 2006. This leaflet was extremely well received. The CAA will continue to work to keep the industry informed of EASA developments, utilising its web site whenever it is appropriate to do so.

12. We are concerned by indications of low morale among CAA staff as a result of uncertainties over the transfer of responsibilities from the CAA to EASA, and by the associated loss of experienced staff from the aviation regulation industry. (Paragraph 57)

13. We recommend that the CAA work with the Department for Transport to draw up a detailed assessment of the speed and scope of the transfer of responsibilities to EASA as soon as circumstances within EASA allow, and that it should ensure that staff are kept fully informed about this process. We are encouraged to hear that the situation has improved in recent months, with more UK staff being recruited by EASA. (Paragraph 57)

Government response

The CAA believes that the issue of staff morale was not accurately represented to the Committee. Staff surveys in 2004 and 2006 have shown that staff are very committed to the CAA, have excellent clarity about their role and are for the most part content with the type and level of information to which they have access. Additionally, they are confident about their relationship with managers and feel they are listened to and encouraged to come forward with ideas and to raise issues.

EASA's responsibilities can be extended only by amendment to the basic EU Regulation governing its activities, requiring agreement by the Council of Ministers and the European Parliament. This is a lengthy and infrequent process. The UK Government, advised by the CAA, would give its consent to any extension of scope of EASA only after thorough analysis of how this would work in practice, and careful assessment of where the UK's safety interests lie.

The CAA and the Department work together to track closely progress in EASA in a number of areas where improvement is needed, with regular reports to senior management. One area of particular concern has been the potential loss of experienced staff from the European regulatory system as a whole as tasks have been transferred to the Agency. The UK Member of the EASA Management Board has chaired jointly with the Agency a committee to oversee the manpower planning and risk management over the Agency's transitional period which has greatly improved the management of the EASA transitional process. This has enabled the CAA to plan its own future staffing requirements better and contributed to its processes for informing staff.

The CAA's Safety Regulation Group continues to keep its staff informed on EASA's transitional phases, by using a variety of communication formats. Management briefings allow for information to be cascaded throughout each part of the organisation in a structured manner, and one of the most popular and well attended forums has been a regular briefing session which is open to all staff. There have been four such sessions in 2006, the latest of which included presentations by the CAA's Director of European and International Strategy on EASA generally, by a representative of the Airworthiness Division on the current aircraft certification and maintenance requirements interface with EASA, and by a member of the Flight Operations Division on the progress towards the inclusion of operations and licensing.

Performance of the CAA

14. The CAA offers, on the whole, a good service, and has proper regard for its own efficiency. (Paragraph 62)

15. We recommend that in future, when publishing assessments of its performance, the CAA include details of the level of influence its activities have had on the recorded outcome, the lessons it has learnt in conducting the exercise and the action it plans to take to improve performance further. (Paragraph 62)

Government response

The CAA acknowledges the Committee's recommendation and will investigate ways to improve assessments of performance and communication of those assessments in the future.

16. It is important that the CAA ensure it has in place effective systems for receiving feedback from those it regulates about which parts of its service could be improved, and that it responds to any complaints or suggestions in a timely manner and reports on these issues in an acceptable way. (Paragraph 64)

Government response

The CAA already has many mechanisms in place across its regulatory functions for receiving and responding to feedback from those it regulates. For example, the Directorate of Airspace Policy conducts customer surveys every two years and the two that have been conducted to date have been very positive. The Consumer Protection Group receives feedback on matters relating to the protection of air travellers against insolvency through the Air Travel Insolvency Protection Advisory Committee (ATIPAC). The Economic Regulation Group holds annual challenge sessions with airports, airlines and NATS, during which the industry representatives are given the opportunity to provide feedback on the Group's plans and deliverables. The Safety Regulation Group has established the General Aviation Issues Log, which is a formal process for receiving feedback and providing responses back to the sector's representatives on any issues that are raised. In addition, the Safety Regulation Finance Advisory Committee provides an effective mechanism for industry to record costs and charges issues and for subsequent CAA responses. The CAA also holds regular Industry Policy Forum meetings. However, the CAA will review existing mechanisms to see how feedback, and the CAA's response to it, may be improved.

17. The CAA is not making proper use of targets as a means of focusing activity and driving improvements in performance. We recommend that the CAA review its performance indicators regularly and consider the value of establishing targets for those indicators currently without them. In addition, we recommend that the CAA review those targets already in place to make sure they are realistic and challenging enough to ensure the organisation and its staff are motivated to seek improvement. (Paragraph 69)

Government response

The CAA does not accept that it is not making proper use of targets as a means of focusing its activity and driving improvements in performance, although it recognises that targets can always be improved. A number of CAA indicators have been made available on its web site to improve accessibility. In addition, the CAA is currently reviewing its Corporate Planning process and the value and appropriateness of current performance targets are being considered as part of the review.

18. There is an opportunity to improve the administrative efficiency of the CAA through electronic means. We recommend that the CAA monitor closely the progress of the Electronic Document and Records Management System and take action as necessary to ensure that it does not fall behind its completion schedule of December 2007. (Paragraph 72)

Government response

The CAA shares the Committee's view of the importance of the Electronic Document and Records Management System and monitors its progress closely. However, EDRM is not the only means by which the CAA continues to pursue administrative efficiency. Between April and October 2006, it has carried out a thorough review of its Information Technology Strategy and has recently presented an updated Strategy to its Executive Committee. The IT Strategy for the next five years is focused on the following three overarching objectives:

- Enabling the move towards achieving a common regulatory approach to industry, including the sharing of organisation oversight information across the CAA;
- Modernisation of interfaces with industry and customers using processes that allow electronic applications and renewals, and the sharing of data and systems owned by the CAA and industry;
- Modernisation of internal administrative processes in order to improve efficiency, and facilitate the timely delivery of accurate information to CAA management and staff.

19. In order to ensure that the CAA is accountable for its performance, not only to those it regulates but also to those on whose behalf it is regulating, we recommend that it enter into discussion with all its stakeholders about what information they would find useful and relevant, and that it publish this information in an appropriate and accessible way, providing a justification for any information which it considers it inappropriate to publish. (Paragraph 76)

Government response

Partly because the CAA is a public authority under the Freedom of Information Act, it is already providing more information than ever before, and most of it is accessible via the CAA web site. The CAA will continue to strive to improve dialogue with stakeholders, while at the same time recognising the need to balance stakeholders' information needs with the universal desire to maintain a downward pressure on the CAA's costs.

20. The lack of an accessible system for appealing the CAA's decisions is a source of concern for a number of organisations. We recommend that the Government conduct a consultation on the merits of establishing an independent authority, along the lines of the Office of the Telecommunications Ombudsman, to which appeals about the CAA's decisions can be directed. (Paragraph 79)

Government response

We do not accept that the system for appealing the CAA's decisions is inaccessible. However, we do recognise the (necessarily) different routes to appeal for the CAA's different regulatory functions and we accept that this may be less than ideal for a number of those subject to the CAA's regulation. The CAA will examine the feasibility of implementing a single 'appeals portal' through which any person wishing to appeal a CAA decision can be guided down the route appropriate to the circumstances of a particular case and via which the appellant can obtain appropriate advice and guidance.

Details of the appeals mechanisms across the CAA's functions are set out below. All regulatory decisions of the CAA are subject to the judicial review jurisdiction of the High Court and Court of Session. In addition, all decisions of the CAA are subject to the jurisdiction of the Parliamentary and Health Service Ombudsman.

SRG's technical divisions have a comprehensive procedure, with accompanying guidance material, which sets out the steps which need to be taken when considering action to remove a licence or an approval, or to revoke an operator's certificate. All these procedures are based on Article 92 of the Air Navigation Order 2005 *Revocation, Suspension and Variation of a Certificate, Licences and other documents*.

The procedures are multi-layered in that they require a number of steps with increasingly higher levels of authorisation before an approval, licence or certificate may be revoked. These generally include consultation between the specialist recommending the action and his/her manager, followed by a review by the Head of Department, and then consultation with the Head of Division.

An individual or organisation subject to regulatory action of this type, i.e. revocation of certificates, licences etc. will be informed of the right to appeal, under Regulation 6 of the Civil Aviation Authority Regulations 1991, at the earliest opportunity in the CAA's process of gathering information and evidence. The right of appeal is to a panel of members of the CAA who are appointed by the Secretary of State for Transport. The process will include advice from the CAA's Legal Department to ensure that it is satisfied with the grounds for the action. All those involved must be satisfied that the proposed action is fully justifiable before proceeding, and the licence or certificate holder is kept informed of the process taking place and given the opportunity to take remedial action, with advice from the relevant specialists and an agreed timescale, to meet the acceptable standard and thus avoid the need for the removal/revocation to take place.

The CAA, of course, appreciates the extent of the possible consequences for individuals and organisations alike and great care is exercised to ensure that such decisions are taken after appropriate consideration and for sound safety reasons. Each reason will be carefully and comprehensively documented in order that the rationale is readily available should the

action lead to a Regulation 6 appeal. If the decision is made to refuse to grant or to revoke a licence on grounds of fitness of character, there is a statutory right of appeal to the County Court or Sheriff Court in Scotland

The CAA has made the formal Guidance document in relation to Regulation 6 appeals available on its web site. It is called “Guidance on requesting a review of adverse decisions or proposals made by CAA SRG”.

Similar appeal provisions to the Members of the CAA exist in respect of the refusal to grant or revoke an Air Travel Organisers Licence by the Consumer Protection Group. Again, if such a decision is based on grounds of fitness of character, there is a statutory right of appeal to the County Court or Sheriff Court in Scotland. If the Consumer Protection Group of the CAA takes the decision to refuse an application for an Operating Licence or to revoke or suspend an Operating licence granted under Council Regulation 2407/92, the applicant for or the holder of the licence has a statutory right of appeal to the Secretary of State.

There are certain statutory rights of appeal against certain decisions of the CAA’s Economic Regulation Group. If an airport operator notifies the CAA that he objects to its proposals to impose discretionary conditions under Section 41 of the Airports Act 1986, the CAA must not proceed with the implementation of the proposal but may make a reference to the Competition Commission. In the case of certain decisions on airport ground handling the statutory right of appeal lies to the Secretary of State.

As pointed out at Recommendation 34, the institutional model for the economic regulation of airports is anomalous in that the CAA reaches its airport price control decisions after the reference to the Competition Commission. This means that, in effect, the CAA’s proposed price control decisions are automatically appealed to the Competition Commission. The position is different in the case of the price control decision for air traffic service licence holders. If there is no agreement with the licence holder to make the required modification to the licence to implement the new charges, Section 12 of the Transport Act 2000 provides that the CAA may make a reference to the Competition Commission.

The Transport Act 2000 requires the Director of Airspace Policy to determine policy for the use of UK airspace, and consultation on changes is widespread, exhaustive, detailed and transparent. DAP is responsive to any concerns expressed by stakeholders who may apply for Judicial Review if necessary.

21. We note that the CAA seeks to follow the five principles of good regulation and that it recognises the need to continue improving its regulatory performance. We are encouraged that it is willing to engage with the Better Regulation Commission and the Department for Transport in order to achieve better ways of working. We expect to see evidence that the CAA continues to lend its experience to the development of the Government’s better regulation agenda. (Paragraph 84)

Government response

The CAA continues to engage with the Better Regulation Commission, the Better Regulation Executive and the Department for Transport’s Better Regulation Unit. In recent

months it has contributed to the H M Treasury and BRE update on the Hampton report, and the Davidson and Macrory reviews. The CAA has developed a number of simplification measures for inclusion in the Department for Transport's Simplification Plan. Identifying measures to simplify and reduce administrative burdens is now integral to CAA business and corporate planning processes.

22. As yet, no organisation appears to have evaluated any of the CAA's Regulatory Impact Assessment processes. We therefore recommend that the Government, or the CAA itself, arrange for a selection of the CAA's existing RIAs to be reviewed as a matter of urgency by the National Audit Office or a similarly independent body, and that any lessons learnt are fed into future assessments. (Paragraph 87)

Government response

The CAA does not agree that none of its Regulatory Impact Assessment processes have been independently reviewed. For example, in order for the CAA to finalise an amendment to the Air Navigation Order, the full RIA has to be submitted, via the CAA's Legal Department, to the Department for Transport's Better Regulation Unit (BRU) for scrutiny. It is only when any issues raised by the BRU have been resolved that the RIA is forwarded to the Secretary of State. Recent Air Navigation Order amendments include Articles 62, 155 and 129 in connection with vibration and health monitoring requirements and Articles 155, Schedule 4 and Schedule 8 in connection with revised weather minima for helicopter operations.

Looking to the future, the CAA has responded to the BRE's recent consultation on a new Impact Assessment process and is currently awaiting the consultation on, and ultimate publication of new Cabinet Office guidance material. The new guidance will provide a timely opportunity to review the assessment process.

The Government and the CAA do not see a role for the NAO in exercising an evaluation function.

23. We recommend that the CAA consider the merits of conducting an RIA whenever policy changes are proposed, even in instances not strictly stipulated by Government guidance. Where the CAA subsequently decides not to produce an RIA it is essential that it offer an explanation for this and enter into dialogue with its stakeholders to ensure they understand, if not agree, with this reasoning. (Paragraph 90)

Government response

The CAA will consider the Committee's advice on the use of RIAs and will continue to follow Government guidelines. It will of course also continue to enter into explanatory dialogue with its stakeholders.

The CAA's resources

24. We recommend that the Government and the CAA publish a justification of the funding model to ensure that the rationale is well understood by all those who must meet the costs of the CAA. We further recommend that the CAA clearly demonstrate to

those it regulates and those on whose behalf it regulates that it is avoiding the potential problems associated with this form of funding identified by the Better Regulation Commission: namely failing to keep its costs to a minimum, gold-plating, and failing to withdraw from unnecessary regulatory areas. (Paragraph 95)

Government response

The CAA continues to demonstrate that it is avoiding the potential problems that may be associated with its funding model. The Committee was provided with evidence demonstrating the extent to which it has kept costs under tight control and the extraordinary measures it has taken when world events have placed the aviation industry under severe financial pressure. The SRG Costs and Charges Joint Review Team was able to examine costs and income by regulatory activity to demonstrate that the CAA has the necessary information available to fully understand its cost profiles.

The CAA's systems of internal control, supported by active participation of its independent non-Executive Directors, provide those it regulates with an additional level of confidence in the CAA's ability properly to manage the industry's funding of the CAA's regulatory functions.

The CAA also continues to demonstrate its commitment to avoiding over-regulation wherever possible within the constraints of European and international obligations. The CAA's engagement with the Government's better regulation agenda has been fruitful. The proposed deregulation of single-seat microlight aircraft, the reduction in periodicity of certain classes of commercial pilot medical examinations, the recommendations of the Light Aviation Aerodrome Study Group and the phased withdrawal from the regulation of air fares are good examples of recent progress in this regard. The better regulation action plans set out in the CAA's Group Business and Corporate plans, combined with its Continuous Improvement Programme, establish a commitment to continue this work.

25. We recommend that the NAO be granted access to the CAA to conduct value for money and efficiency studies consistent with those carried out for other regulators. (Paragraph 101)

Government response

The Government does not accept this recommendation. The CAA is not funded by public money and the Government and the CAA believe that sufficient measures are in place to ensure its efficiency and effectiveness.

Examples include:

- Internal audits, which routinely include value for money analysis. Recent examples include audits of the NATS price cap process and the Business Management System;
- Independent review of the Internal Audit function by PricewaterhouseCoopers;
- Regulatory standardisation under which other regulatory bodies (ICAO, JAA, EASA) review and report on the CAA's processes against common standards;

- SRG Costs and Charges Review conducted jointly with industry and Government;
- General Aviation Strategic and Regulatory Reviews;
- Periodic benchmarking of regulatory and support functions, such as those previously described in the CAA's evidence to the Committee; and
- Routine ERG business plan challenge sessions.

The Committee is aware that the Secretary of State appoints the CAA's external auditors (currently PricewaterhouseCoopers). The Government does not regard access to the CAA by the NAO as necessary, but will consider, as part of the strategic review, whether further measures are necessary.

26. The changes to the Safety Regulation Group's charges are likely to have a significant impact on members of the general aviation community and we are concerned by the suggestion that some pilots may choose to fly "outside the law". We therefore recommend that the Government and the CAA carefully monitor the impact of these changes, and take action where necessary to ensure that charges are fair and equitable and that operators in the general aviation sector are not unduly affected. (Paragraph 105)

Government response

The CAA is carefully monitoring the impact of its Safety Regulation charges on operators in the general aviation sector. In addition to the CAA Board action to modify the recommendations of the Joint Review Team in 2005 and 2006, the CAA is continuing to review its regulatory activity, and associated costs, in respect of the GA sector. We have seen no evidence that SRG's charges are causing pilots to choose to fly "outside the law".

27. We welcome the Government's promise to reconsider the level of the CAA's required return on capital employed and recommend that, once complete, it should publish a detailed explanation of this review process and a justification of the level settled on. We recommend further that the level be kept under regular review to ensure that it remains at the lowest level necessary to allow the CAA to function effectively and provide a fair, not asset-sweating, return to the Exchequer. (Paragraph 109)

Government response

The Government accepts the recommendation to reconsider the level of the CAA's required rate of return on capital employed.

28. We recommend that the CAA publish more detailed information about its financial management processes and more data relating to its performance in this area. We welcome the CAA's move to producing quantifiable targets for efficiencies as part of its 2006/07 Continuous Improvement Programme. We recommend that progress against these targets is subsequently reported in sufficient detail in the CAA's annual reports and corporate plans, with clear reconciliation between targeted and achieved efficiency gains, to allow the CAA's stakeholders, including Parliament, to scrutinise the Authority's performance effectively. (Paragraph 112)

Government response

The CAA has made significant progress on measures to ensure delivery of value for money in recent times. The CAA fully supports the need for continuous improvement and will look further at what additional relevant material can be published in the future.

29. We are concerned by the evidence we have heard about the CAA’s ability to recruit and retain appropriately qualified and experienced staff in the face of limited resources and competition from private sector organisations such as National Air Traffic Services. (Paragraph 116)

Government response

The Safety Regulation Group currently has 36 (6%) vacant posts of which 25 are technical specialists and 11 are support roles. This is out of a budgeted complement of 599. Sixteen of the 36 vacancies are, at the time of writing, ‘under offer’. Although the situation is improved compared to a year ago, the CAA continues to monitor its recruitment and retention performance.

30. We recommend that the Government review the effectiveness of market supplements as a means of bridging salary disparities. We further recommend that the CAA and the Government consider non-financial incentives for making careers with the CAA more attractive, including provisions for flexible working, training and personal development. (Paragraph 116)

Government response

The CAA uses market supplements extensively and continuously reviews its policy on incentives and benefits. Provisions are in place that allow for flexible working, and training and personal development remains a priority. These remain matters for the CAA.

Economic regulation of airports

31. We accept the CAA’s argument that its flexibility is somewhat constrained by the framework within which it must conduct its economic regulation of airports. We therefore believe that the Government should review the whole process of price control. (Paragraph 123)

32. We recommend that the Government review the continuing need for the designation of airports subject to economic regulation by the CAA as a matter of principle, and that it publish an assessment of the relative merits of this approach compared to the use of standard competition legislation to regulate the abuse of dominant position by airports. The Government should consider de-designating Manchester and Stansted as a first step. (Paragraph 128)

33. If the Government decides to retain the principle of designation, we recommend that it further consider whether designation is best conducted by the Secretary of State, or whether the flexibility of the CAA would be improved if it were allowed to designate which airports should be subject to price controls. (Paragraph 128)

34. The institutional model for the economic regulation of airports is anomalous. We recommend that, as of the next price control review, the Government implement its own 1998 proposals to make CAA airport review decisions subject to the standard regulatory model, in which the CAA reaches airport price control decisions based on its own review and the airports, as the regulated organisations, subsequently have the right of appeal to the Competition Commission. (Paragraph 133)

35. We welcome the introduction by the CAA in its current airport price control review of the concept of ‘constructive engagement’. (Paragraph 140)

36. We recommend that the CAA conduct an assessment of the use of constructive engagement in relation to the current price control review at each of the designated airports, to identify good practice and areas requiring further attention. In particular, the CAA should ensure that the burden placed by the process on the resources of smaller airlines does not prohibit their involvement. (Paragraph 140)

37. We remain of the opinion that the BAA monopoly should be broken up. We are pleased to note that the Office of Fair Trading has launched an investigation into the UK airports market and we hope it will report its conclusions sooner rather than later. (Paragraph 142)

Government response

The Office of Fair Trading (OFT) report into the supply of airport services by BAA was published on 12 December 2006. The Government will be responding to its recommendations in due course.

Economic regulation should be appropriate and proportionate, and in large part depends upon the nature of the market failure that it is designed to address. The airports market could be significantly altered by the outcome of any Competition Commission reference (if indeed the OFT do refer the matter to them). Consequently it would not be appropriate to respond to the Committee’s Recommendations on regulatory change at this time.

Recommendation 36 is accepted. The CAA undertook an initial assessment of the progress made by Constructive Engagement at each of the BAA designated airports in November 2005, following its introduction in May 2005. On the basis of this assessment the process was ended at Stansted, but in the light of the good progress made at Heathrow and Gatwick the process remained in place and has delivered useful inputs into the review. The CAA conducted a similar review of Constructive Engagement at Manchester Airport in December 2006. In its January 2007 consultation paper for the Manchester Airport price control review, the CAA identified that good progress had been made to date and that there was the prospect of substantial contributions from Constructive Engagement to a broad range of regulatory outcomes.

Constructive Engagement is designed to be a continuous process and to last beyond the point of completion of price reviews. The CAA believes that further assessment of the process should be conducted following the conclusion of the current price control reviews.

Airspace regulation and aviation sustainability

38. It is of paramount importance that the CAA should give top priority at all times to matters of safety. (Paragraph 152)

Government response

Safety is at the heart of the CAA's culture; the CAA and the Government at all time give priority to matters of safety.

39. We recommend that, as a minimum, the CAA be required to consult more widely, more openly and at an earlier stage of the process with local authorities, interest groups and individuals concerned about the environmental impact of airspace changes. We recommend further that the CAA should be required to make clear the reasons for its decisions as a matter of course. (Paragraph 152)

Government response

The CAA accepts this recommendation and advises the Committee that the Airspace Change Process is to be extended in Spring 2007 to embrace a wider range of stakeholders including environmental interest groups.

40. To assist the CAA in giving proper consideration to environmental concerns, we recommend that the Government amend its Guidance on Economic Objectives to make it clear to the CAA and other stakeholders what balance it expects to be struck between commercial and public benefit and environmental impact. (Paragraph 157)

Government response

We assume the Committee's recommendation is intended to refer to the Government's guidance on environmental objectives.

The Government keeps its guidance under review and will update it as necessary. We consider that the guidance is fit for purpose and continues to set out the Government's key environmental priorities in the handling of airspace changes. However, it is for the CAA to ensure that, in making decisions on airspace changes - and taking account of its statutory obligations and Government guidance - they strike the appropriate balance between factors. Airspace changes need to be approved by Ministers if they involve significantly detrimental environmental effect but otherwise the Director of Airspace Policy has the ultimate decision.

The Committee recommends that the Government should specify the balance it wishes to see between environmental and other factors. However, we could not realistically do that for two main reasons. First, as paragraph 17 of the CAA's second supplementary memorandum makes clear, the CAA would not wish to see its statutory obligations fettered. Second, we cannot be unduly prescriptive when dealing with airspace changes which can involve a wide range of factors specific to the area concerned. We would not therefore propose to update the guidance in the precise terms proposed by the Committee.

General aviation

41. We heard a wide range of concerns raised by members of the general aviation community in relation to over-regulation by the CAA and bias towards the commercial aviation sector. We therefore welcome the completion and publication by the CAA of both its Strategic Review of General Aviation in the UK and its Regulatory Review of General Aviation in the UK, and we support the recommendations they make. (Paragraph 167)

42. We are concerned to note the findings of the CAA's Strategic Review in relation to future potential skilled labour shortages in aviation, and we urge the Government and the CAA to work with the general aviation sector to help it continue to contribute to future skilled labour supply. (Paragraph 167)

Government response

The Government welcomes the contribution of the general aviation sector to the outcomes of the GA strategic review. The CAA has confirmed its support for the general aviation sector and, in taking forward the outcomes of both GA reviews, will liaise with the sector on many issues, including labour supply.