



Civil Aviation Authority

# Corporate Plan

2006/07-2010/11

# CAA Mission, Values and Guiding Principles

The CAA's Mission, Values and Guiding Principles are given below. It should be noted that where reference is made to aviation regulation, advice and policy, it also includes matters relating to air travel and other aviation-related issues.

Our **Mission** is:

'To provide best practice regulation and expert advice that are independent and enable civil aviation to best meet the needs of its users and society in a safe and sustainable manner'.

Our **Values** are:

**Performance.** The regulation and advice we provide must meet the highest standards of professionalism and integrity.

**People.** We believe in maintaining and developing excellence in our people as they are the source of our reputation and success.

**Value for Money.** We must deliver value for money and continually review our activities to ensure that we operate in a cost-effective way.

Through our **Guiding Principles** we will achieve our Mission and Values by:

- Fostering a culture where safety is paramount.
- Operating as a cohesive organisation under the direction of the CAA Board.
- Working together effectively, internally and externally.
- Developing and empowering our staff, and valuing their contribution.
- Continuously improving our performance and processes.
- Playing a full part in the activities of international aviation organisations in support of the UK's needs.
- Implementing an open and fair regulatory regime based on robust principles and processes.

The CAA bases how it undertakes its regulatory role on the 'Principles of Good Regulation', as defined by the Government's Better Regulation Task Force. The CAA is also a signatory to the Government's Enforcement Concordat.

## Chairman's Introduction

The Corporate Plan for 2006/07 to 2010/11 covers a period of challenge and change for both the CAA and the environment within which it operates. The Plan shows how we are preparing to face these changes and how we are developing our organisation to rise to the challenges ahead.

The UK has one of the best aviation safety records in the world, and maintaining the UK's high level of aviation safety remains the top priority for the CAA. This Corporate Plan sets out a number of key safety actions to help us achieve our safety objective. More information and detail of our work in this area is set out in the CAA's Safety Plan.

During 2005 European developments have progressed apace and the next few years will see the continuing impact of the European Aviation Safety Agency (EASA) and Single European Sky (SES) upon the CAA's remit as regulator and upon UK aviation in general. We recognise the increasing importance to the UK aviation industry of international, and particularly European, developments and the need to continue to be at the vanguard of thinking and advice in this arena. In order to strengthen our capability to influence regulatory developments in Europe, the CAA has established a small International and European Strategy unit to further this work. The Edinburgh conference organised by the CAA in November 2005 started the debate on influencing the future institutional structure of aviation regulation across Europe. We look forward to the European Commission's follow-up conference in 2006, which will help take the debate forward.

The Government's Air Transport White Paper has significant implications for aviation. The CAA will be contributing to the Department for Transport's review of progress towards the end of 2006. The environmental impact of aviation featured in the White Paper and continues to be an important issue both within the UK and worldwide. The CAA will continue to pay full regard to the environmental consequences and sustainability of civil aviation. However, in all our work in this area, the CAA will continue to give priority to safety.

We have been asked by the Government to look at reforming the ATOL bonding arrangements. This is not a straightforward task and will require a considerable amount of work. Our aim is to find a solution that brings real deregulatory benefits to licence holders while maintaining financial protection, by the summer of 2006.

The CAA welcomed the opportunity to explain our role, remit and functions to the Transport Select Committee and to hear industry's views. We will be looking to see how we can address any recommendations of the Committee and take forward the transparency and consultation agenda for the future.

We have continued to keep close control over our costs and introduce efficiencies, where appropriate, to minimise the impact on the industry. Over the coming year we will be taking forward our programme of work to review key areas where further efficiencies might be gained with the development of a focused programme of efficiency improvements with quantifiable targets. In tandem we will also be continuing our work in line with Government's Better Regulation initiatives, to which we are fully committed.

The CAA staff remain the source of our reputation and success. During 2005 we obtained CAA-wide Investors in People accreditation. Over the next couple of years we will progress our HR Strategy to help us develop further our staff and organisation to deliver our bedrock, our Mission, Values and Guiding Principles.



Sir Roy McNulty  
Chairman  
April 2006



## Contents

<b>1.</b>	<b>Introduction</b>	<b>1</b>
1.1	Purpose of the Plan	1
1.2	Role and Responsibilities of the CAA	1
<b>2.</b>	<b>Recent Performance</b>	<b>2</b>
<b>3.</b>	<b>Business Environment</b>	<b>3</b>
3.1	Aviation Activity	3
3.2	Safety	4
3.3	Regulation	5
3.4	International Issues	6
3.5	Consumer Issues	9
3.6	Environmental Issues and Sustainable Development	9
<b>4.</b>	<b>Business Risks</b>	<b>10</b>
<b>5.</b>	<b>Challenges Facing the CAA</b>	<b>11</b>
5.1	Safety	11
5.2	The Impact of European Developments	11
5.3	Influencing Aviation Policy and Infrastructure Developments	12
5.4	Consumer Issues	12
5.5	Organisational Excellence	13
<b>6.</b>	<b>CAA Objectives</b>	<b>14</b>
<b>7.</b>	<b>Strategies, Deliverables and Milestones</b>	<b>15</b>
7.1	Safety	15
7.2	Regulation	16
7.3	Policy	17
7.4	International Issues	19
7.5	Consumer Issues	21
7.6	Business Effectiveness	22
7.7	People and Organisation	25
7.8	Environment	26
<b>8.</b>	<b>Resources – People</b>	<b>27</b>
8.1	Staff Numbers	27
8.2	HR Strategy	27
8.3	Equal Opportunities	28
<b>9.</b>	<b>Resources – Financial</b>	<b>29</b>
9.1	Income, Costs and Charges	29
9.2	Rate of Return	30
9.3	Financial and Planning Assumptions	30
9.4	Financing	31
9.5	Financial Forecasts	32
	<b>Appendix 1: Recent Performance 2005/06</b>	<b>35</b>
	Safety Indicators	35
	Service Indicators	38
	Progress Against 2005/06 Corporate Plan Key Actions	39
	<b>Appendix 2: Traffic and Economic Forecasts</b>	<b>43</b>
	<b>Abbreviations</b>	<b>44</b>



# 1. Introduction

## 1.1 PURPOSE OF THE PLAN

The Chairman of the Civil Aviation Authority (CAA) is required by the Secretary of State for Transport to produce a Corporate Plan annually, which has to be submitted to the Government no later than April each year.

This Corporate Plan covers the financial years 2006/07 to 2010/11 and sets out the business environment the CAA operates in and the key challenges it faces. The Plan also sets out the CAA's objectives, and the strategies, forward initiatives and targets to meet them. The Plan provides staff and stakeholders with a clear and coherent picture of the CAA's activities for the next five years, with a focus on the first year.

## 1.2 ROLE AND RESPONSIBILITIES OF THE CAA

The CAA's regulatory role, responsibilities and other tasks are set out in a legal framework. The Mission encapsulates the essence of the CAA's purpose within this framework. The CAA's major specific responsibilities include:

- **Safety regulation** - airworthiness of aircraft and operational aspects, including flight crew, aircraft engineers, air traffic controllers and aerodromes; certification of UK airlines and aircraft; and maintenance of air traffic services standards. The CAA also carries out tasks on behalf of EASA including Type Certification, Continued Airworthiness (Design), Design Organisation Approvals and EASA Certification & Validation Team activities.
- **Economic regulation** – the regulation of NATS, the regulation of designated airport charges, route licensing, and limited regulation of air fares for journeys outside the European Union.
- **Airspace policy and regulation** - planning, developing, approving, promulgating, monitoring and enforcing airspace policies and arrangements for the UK.
- **Consumer protection** – management of ATOL, the UK's air travel insolvency protection scheme, enforcement of airline consumer protection legislation, and airline licensing and financial regulation.

In addition, the CAA advises the Government on aviation issues, conducts economic and scientific research, produces statistical data, and provides consultancy and training services to worldwide aviation organisations.

The CAA also has a number of ancillary bodies, which are independent, sitting outside the CAA's regulatory core functions, but counted in the Corporate Centre for staffing and costs.

- **The Air Transport Users Council (AUC)** which operates independently, whilst being funded through the CAA. It complements and assists the CAA in its duties to further the interests of air travellers.
- **The UK Airprox Board (UKAB)** sponsored jointly by the CAA and the Ministry of Defence (MoD). It is tasked with making an independent assessment of the cause and risk of all Airprox incidents reported within UK airspace.
- **Air Safety Support International (ASSI)**, a subsidiary company of the CAA set up to help regulate the safety of civil aviation in the UK's Overseas Territories. ASSI is a not-for-profit company funded by the Department for Transport (DfT) and its Chairman is appointed by the CAA.

## 2. Recent Performance

Maintaining the UK's high level of aviation safety remains the top priority for the CAA. The CAA has benchmarked the UK's aviation **safety record** against that of both other European Member States and the USA and this has shown that, for the operation of large transport aircraft, the UK's record is among the best within Europe and almost twice as good as the world average. More information on the CAA's safety indicators is shown in Appendix 1.

The CAA has continued to provide support in the ongoing development of **EASA** through numerous working groups and direct assistance to EASA. The CAA has been actively involved in the Advisory Group of National Authorities and the EASA NAA Certification Transition working group meetings. During this period, all of the milestones towards full implementation of EASA Part 21 and Part M have been met.

On the **SES** the CAA has worked closely with the DfT to ensure that the important stages of SES primary legislation are consistent with best practice and the UK's regulatory requirements. The CAA has also continued to influence the outcome of the developing implementing legislation; has made considerable progress on developing a regulatory framework, in conjunction with the Irish Aviation Authority, on Functional Airspace Blocks; and in conjunction with the Safety Regulation Commission, has continued to develop concepts for cross-border safety regulation of SES Air Traffic Management (ATM). In addition, the CAA has engaged with UK Navigation Service Providers to ensure that they are fully aware of their obligations in order to reach certification standards.

The CAA is committed to **reducing regulatory burden** and during 2005 started work in this area with both a Regulatory and a Strategic Review of General Aviation (GA), a review of current regulatory arrangements for light aviation airports and light AOC holders.

The CAA has worked hard at **containing costs** and this has been achieved by **efficiency improvements** and against considerable pressures from external forces which have driven costs in an upward direction. All floors in One Kemble Street and two floors of CAA House were let during 2005. Increases in the CAA's insurance premiums were successfully contained as a consequence of the development of the CAA risk profile with its underwriters. The final report and recommendations for the SRG Costs and Charges Review were issued in April 2005 and after consultation, the revised Charging Schemes came into force on 1 January 2006.

In September 2005, with NATS' agreement, the CAA published the formal **NATS licence modification** to give effect to its proposals and this modification was subsequently made in December 2005.

The Government announced in September 2005 that it had decided to liberalise its policy towards applications for fifth freedom rights from foreign airlines to operate from **UK regional airports** following a detailed CAA study, which advocated such a policy change. This change will create new opportunities for regional airports to attract business, and could bring real benefits for passengers and businesses.

The CAA has been an active member of the cross-Whitehall group looking at options for addressing **aviation's environmental impacts** and has developed many of the design elements of the UK's preferred model for an aviation emissions trading scheme. This work helped to secure the Commission's Communication in September 2005, which supports emissions trading and sets out a programme of work towards implementation.

CAA-wide **Investors in People accreditation** was achieved in 2005. New metrics were developed to measure the impact of Performance Management across the CAA, and employee forums were established to discuss and consult over a wide range of employment related issues.

More information on the CAA's recent performance is contained in Appendix 1.

## 3. Business Environment

### 3.1 AVIATION ACTIVITY

The most significant factor for the **airline industry** over the past year has been the continued rise in oil prices, which reached a record high of almost \$70 per barrel in August 2005 after hurricane Katrina. Some airlines managed the increase in costs by applying fuel surcharges whilst others chose either to bear the cost or increase the basic ticket price. The financial pressure on airlines and the industry as a whole, combined with the competitive nature of the airline industry, means a continued focus on reducing operating costs. However, despite the below-trend UK GDP growth of 1.8% in 2005, fuel surcharges have so far had only a marginal impact on demand and the number of travellers is expected to increase by 5% in the year to March 2006.

The current forecast for 2006 and beyond reflects slightly weaker economic growth than in the recent past and trend demand growth over the period is likely to be lower, although the completion of Heathrow Terminal 5 and the introduction of the A380 could increase UK passenger traffic levels. Additionally, notwithstanding the continuing rise in the price of oil and growing environmental constraints, the European aviation industry is expected to continue growing.

There is now a more optimistic outlook for the UK **full-service airlines** with an increase in the growth of Available Seat Kilometres (ASKs). This reflects a number of positive developments and, although much growth will depend on the expansion of long-haul routes, the further liberalisation of markets such as UK-India and UK-China, and potentially a new and more liberal EU-US deal, could give UK airlines further strong growth opportunities.

In the **no-frills sector**, capacity as measured in ASKs generated by UK airlines, continues to be strong and is forecast to grow by more than 25% in 2005/06. The main UK no-frills carriers all expanded their networks of routes in the UK and Europe and took delivery of additional aircraft and so continued strong growth is expected in this sector. The majority of the other no-frills operators expanded their operations at a faster rate albeit from a much lower base.

Traffic and capacity are both down for the UK **charter market** in 2005/06 and the prospect for 2006/07 generally remains downbeat. Although some growth is expected from smaller independent charters it is not enough to warrant a more optimistic outlook for the sector as a whole.

The UK market continues to be characterised by the rapid growth of services, particularly from **regional airports**. With frequent services to international destinations, especially in Europe, growth at some regional airports has been particularly strong. Many regional airports have been adopting a more commercial approach than in the past, seeking out new business. Increases in passenger numbers have enabled them to improve facilities, price competitively, and thus attract more services.

The business environment described above, with the increase in commercial air traffic and the growth of regional airports has created some pressures on the **General Aviation sector**, as access to airports and airspace becomes more difficult than in the past. The appropriate mode of regulatory oversight of GA is also pertinent. These and other relevant issues are being considered in two GA reviews, one strategic and one regulatory, which are planned for completion in Summer 2006.

**ATOL protected capacity** as at September 2005 showed an overall reduction of 2.6% on the previous year, its lowest level for five years. This compares with an increase in total leisure air travel of 8%. Consequently, as a percentage of total leisure air travel, the proportion of ATOL protected sales has reduced further and now stands at 61%. This represents a decline of 37% since 1997. Following the Government's rejection of the CAA's proposal to extend protection to all air travellers, this decline in ATOL protection is expected

to continue, and at a faster rate, as tour operators seek to level the playing field between themselves and the airlines.

The increase in **independent bookings** accompanies the continuing rise in no-frills capacity and routes. Many airlines, not just the no-frills, have also begun to increase the ancillary services they offer and as such the difference between airlines and tour operators is becoming less distinct, with both developing their web capabilities to permit the booking of linked sales in a “shopping basket”.

The table below shows the likely range of growth for a number of aviation activity measures over the period of the Plan. These forecasts reflect a number of factors: slightly weaker economic growth than in the past; some bounce-back in long-haul markets after the shocks of the recent past; relatively stable inflation and exchange rates but lower interest rates; higher oil prices than previously expected but consumer acceptance so far of fuel surcharges; a still uncertain geo-political climate; strong expansion plans by several of the scheduled UK airlines; and a robust demand in the UK regions despite a static charter market.

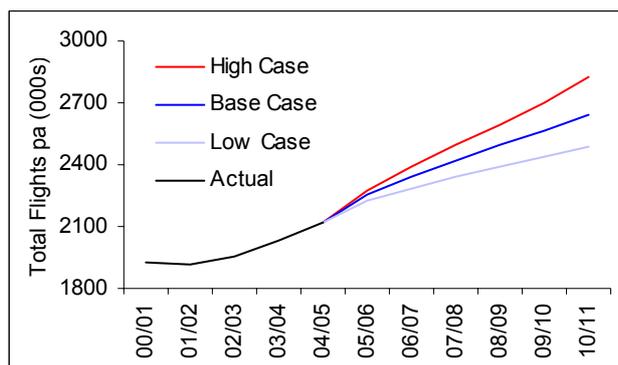
#### GROWTH IN AVIATION ACTIVITY

% Increases on Low – High Forecasts 2005/06 –2010/11			
Terminal Passengers	Commercial Flights	Air Transport Movements	Available Seat Kilometres
17% to 33%	12% to 24%	10% to 18%	16% to 35%

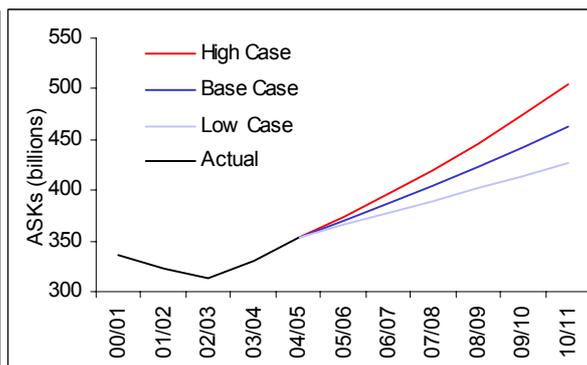
The full set of the CAA’s traffic forecasts are given at Appendix 2. The base case forecasts are used for planning purposes, with sensitivity analysis being conducted using the high and low cases where appropriate. The high and low forecasts in the Corporate Plan reflect what might be termed the “normal” uncertainties around the base case. These forecasts do not take into account other uncertainties such as further terrorist activity, military conflict or health epidemics.

The graph below left – total commercial flights in UK airspace - shows one measure of aviation activity, which counts each civil flight in UK airspace once. The graph below right shows ASKs - the number of seats available for sale for each stage of a flight by stage distance – and summarises the level of UK airlines’ activity.

COMMERCIAL FLIGHTS IN UK AIRSPACE 2000/01-2010/11



AVAILABLE SEAT KILOMETRES 2000/01-2010/11

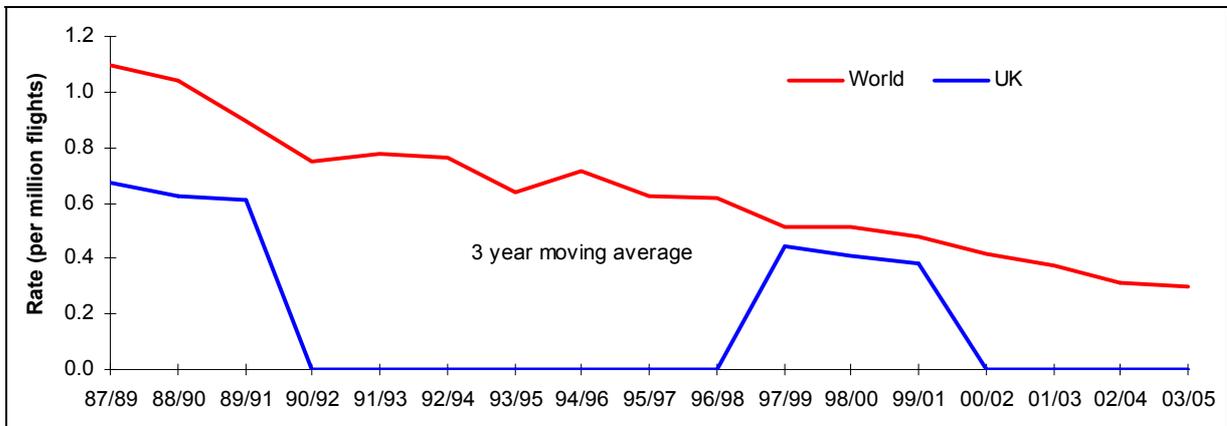


## 3.2 SAFETY

Maintaining the UK’s high level of **aviation safety remains the priority** for the CAA. The civil aviation industry and the environment in which it operates is continually changing, thereby giving rise to new safety issues and concerns. As traffic levels rise, the likelihood of there being more accidents per year also increases unless safety standards are further improved. The CAA works to ensure that high safety standards for UK civil aviation are set and achieved in a co-operative and cost effective manner. The CAA sets and monitors safety targets and detailed information on the method used and the associated forecasts is given in Appendix 1.

The graph below demonstrates the UK's recent safety record and shows the UK's fatal accident rate per million flights for western built jets above 5700kg Maximum Take-off Weight Authorised (MTWA), for all types of revenue operation compared with that of the rest of the world.

FATAL ACCIDENTS PER MILLION FLIGHTS FOR WESTERN BUILT JETS ABOVE 5700KG MTWA



Safety also remains the priority when considering changes to **airspace and airspace management** arrangements. Regulatory oversight to ensure airspace design is compliant contributes to the CAA Safety Objective and this is further strengthened through compliance monitoring.

The provision of **joint and integrated en-route Air Traffic Services in UK airspace** and the development of NATS' evolving corporate structure and operational safety performance will continue to require a robust safety regulatory oversight regime.

The NATS new Prestwick Centre (nPC) will replace the existing Scottish Area Control Centre (domestic but not Oceanic) and the Manchester Area Control Centre. The introduction into service of the nPC forms part of the Commercially Available Systems Promoting Integration Across NATS (CASPIAN) programme. The Programme is intended to deliver the future **common platform for NATS Area Control Centres**, which will be deployed first at nPC in early 2009, followed by the London Area Control Centre in 2011 and the London Terminal Control Centre in 2013. These timescales mean that, in all probability, the UK safety regulatory regime will be further affected during this period should EASA be established as a rulemaking body for ATM and Aerodrome regulations.

The DfT will continue to seek the CAA's support of the **European Safety Assessment of Foreign Aircraft** ramp check programme by requesting a series of spot checks to be carried out on foreign registered aircraft using UK airports.

The **EU-wide operating bans on airlines** that do not meet mandatory safety requirements will have implications for the CAA. Agreement has been reached with the DfT that the CAA's involvement will be sought on a case-by-case basis.

### 3.3 REGULATION

The **price cap review of BAA's designated airports** will be a key issue for the CAA in 2006/07, with a planned reference to the Competition Commission in February 2007. There will also be work on the Manchester review, following somewhat behind the BAA review. The CAA faces a high degree of accountability and scrutiny in these reviews (e.g. from the publication of its proposals, and through the automatic reference to the Competition Commission). This will place a premium on thorough analysis, clear communication and effective process.

Following an announcement by Ferrovial on 8 February 2006 of a possible offer for BAA, the CAA made a statement on 24 February setting out the importance it attached to investment

in BAA's airports and, in particular, the maintenance of credit quality sufficient to ensure cost-effective financing of future investments.

Work on the NATS 2006-2010 price control was successfully concluded at the end of 2005. The CAA therefore expects **NATS regulatory activity** over the next couple of years to be focussed on the enforcement of existing conditions, the licence review and a number of initiatives left over from the price review.

In response to the **Air Transport White Paper** airports have been preparing their master plans and will be looking to progress these in the coming year. In some cases, particularly for the London airports, this may lead to planning inquiries where the CAA may be called upon to give its view. Given the emphasis in the White Paper on mitigating environmental impacts and the aviation industry contributing towards the costs of surface access, the CAA may also be required to comment on the likely composition of the traffic. The Government's commitment to review progress against the White Paper by the end of 2006 will *inter alia* bring a sharp focus to questions of surface access enhancement, the sustainable development of Heathrow, and regional air services, all of which may require input from the CAA. The CAA will also be required to work with Air Navigation Service Providers (ANSPs) and airport operators to progress airspace change proposals that result from new runway developments as and when they occur.

Following the Government's acceptance of the recommendations of Hampton and the BRTF in March 2005, a number of better regulation initiatives have been put in place across government departments. Regulatory bodies including the CAA are expected to review their requirements and assess how they can improve their efficiency and effectiveness with the aim of **reducing the administrative cost of regulation** to the minimum consistent with maintaining the UK's regulatory outcomes. The CAA endorses the objectives of the Hampton Review Report and believes that improved effectiveness and efficiency will be key to achieving that objective.

The **Freedom of Information Act** has been introduced throughout the UK and a new process to ensure compliance with this Act (and the **Environmental Information Regulations**) is now in force. The National Archives is monitoring the CAA's progress towards compliance with the Government's Electronic Records Management initiative (ERM2004). An increasing demand for CAA information is expected and, in the longer term, the ERM Programme will provide systems that will significantly ease the process of locating and disseminating such information.

The **review of SRG's Costs and Charges**, involving representatives from the CAA, DfT and industry, was concluded in September 2005. Underlying the review was the need to provide sufficient funds to meet the costs of SRG's safety regulatory oversight and achieving a balance between transparency, cost relatedness and equity. The pressure from industry for the CAA to continue to eliminate cross subsidisation between charges schemes and to implement changes in the allocation of costs between schemes that reflect the establishment of EASA, is likely to continue even after the implementation of the review's initial findings.

The review of **Wireless Telegraphy Act licences** is now focused on modernising the process and should lead to the formal transfer of aircraft radio licensing to the CAA, allowing the process to be linked to other CAA regulation thereby cutting down the burden on licensees.

### **3.4 INTERNATIONAL ISSUES**

**SES** formally came into force on 20 April 2004 and aims to facilitate an increasingly commercial approach to the provision of ATM services in Europe. As airspace within SES may in future be organised as Functional Airspace Blocks (FABs) and not necessarily decided by national boundaries, there will be a requirement to develop concepts for cross-border safety regulation and an appropriately robust safety regulatory oversight framework.

During 2005/06, SES has progressed from the development and adoption of primary EU legislation to the emergence of proposals for supporting legislation or Implementing Rules

(IRs) that will detail how individual aspects of SES are to be met. These IRs, most of which will impact on the CAA in its role as National Supervisory Authority (NSA), will also result in the need for the Air Navigation Service Provider (ANSP) community to demonstrate compliance. It is proving difficult for the Single Sky Committee (SSC) to reach agreement on a key IR, the Charging Regulation, which seeks to standardise en-route and terminal charges imposed by ANSPs on airspace users. This is critical to UK operations because of its impact on the contestable market for air navigation services at airports and for the future development of FABs.

The Flexible Use of Airspace (FUA) Regulation came into force in January 2006 with the CAA taking on compliance responsibilities. The Common Requirements regulation comes into force in December 2006, by which time all UK ANSPs must be certificated to provide services. Encompassing providers of Air Traffic Services (en-route and airports), Meteorology, Aeronautical Information and Communications, Navigation and Surveillance services, and totalling well over 200 entities, there will be intensive CAA activity throughout 2006 to ensure all ANSPs meet the required standards.

Other IRs on airspace subjects will also be progressed, as will proposals from ANSPs on cross-border FABs. The proposed Ireland/UK FAB is one example that will require supporting regulatory activities by the CAA. Also in progress is the SESAR (SES ATM Research and Development) initiative that aims to provide a plan for a single functional system for European ATM by October 2008. The development phase (2008-2013) will focus on systems design and is estimated at around €300 million per year (the European budget, Eurocontrol and the industry each funding one third). The deployment phase (2014-2020) will be financed by the industry and the system is intended to be installed across Europe and associated countries.

The changes to the European institutional environment for ATM are in place with the SES initiative and its follow-on SESAR. The interaction of **Eurocontrol** with both SES and SESAR potentially increases its risk of conflict of interest and calls into question the viability of its claim of functional separation of service provision and support to regulation. The European Commission is also now proposing to increase the responsibilities of EASA, including the establishment of rule-setting for ATM, while safety oversight is, as yet, the undefined, key component of SES. This will fundamentally impact on Eurocontrol and it is therefore more urgent than ever to secure its reform. This point has been pressed strongly by the CAA and others both in the UK and Europe, in an effort to ensure appropriate participation in all SES activity by safety professionals.

**EASA** has been operational for more than two years and during this period has made progress towards recruiting staff to allow it to internalise its rulemaking and certification activities. EASA has had to rely substantially on the support of NAAs during this period and this was formalised into a contractual relationship in June 2005 when the EASA Fees and Charges Regulation was enacted. At the point the Regulation came into force, NAAs were no longer able to use national mechanisms to charge industry for these activities and became reliant on EASA to reimburse their costs. Because of uncertainty over EASA's budget the contracts between the Agency and the NAAs have been of short duration, presenting NAAs with difficulties in planning their future resource requirements. However, it is probable that EASA will continue to rely on the NAAs until the end of 2007, by which time the Agency plans to achieve its full complement of staff for rulemaking and certification activities. The CAA's working assumption, based on EASA's statement of intent, is that the level of airworthiness certification activities undertaken in support of EASA will have reduced very significantly by the end of 2007.

The CAA has emphasised the need for a close partnership between the Agency and NAAs; the importance of proper governance procedures in the Agency; and the legitimate expectations of the industry that it will receive a cost effective service built on best regulatory practice. With the Commission having already presented a legislative proposal to pass responsibility to EASA for rule making and standardisation, and the prospect of extending this to ATM and aerodromes in the longer term, it is important that EASA quickly achieves credibility as a safety regulator of the highest class.

EASA will continue to have a substantial impact on the CAA's staff numbers and considerable effort will be required to retrain and redeploy approximately 80 staff. The impact of other European initiatives such as SES is also uncertain at the current time and it will be essential to ensure that the CAA's resources are able to meet the challenges generated in the European context.

The Edinburgh conference organised by the CAA in November 2005 launched the emerging debate on influencing the future institutional structure of aviation regulation across Europe. This process will be carried forward by means of a follow-up conference to be organised by the European Commission in the second half of 2006.

The current JAA is scheduled to close at the end of 2006, and on 1 January 2007 a **JAA Transition** will be created. Firstly, a JAA Liaison Office will be set up and will be responsible for liaison with non-European Union ECAC countries until 2010 when it is expected all non-EU ECAC States will have formed a relationship, preferably membership, with EASA. Secondly, a Training Office will be established to service EASA, NAA and industry training. The Cyprus Arrangements will be retained as the framework agreement.

The Government expects the CAA to meet the **UK's obligations to ICAO** in the areas within the CAA's technical competence. The DfT and the CAA are currently in the process of formalising this requirement. In recent years, the adoption of EU Regulations have implemented some ICAO provisions such that the UK no longer needs to take separate action.

Success or otherwise of EU-US negotiations may alter global perspectives on what may be achieved through bilateral **liberalisation**. Depending on the outcome, this could increase the pace of global liberalisation, which may lead to an increased workload in support of the UK Government or the European Commission. It could also raise new issues about the optimal strategy for further liberalisation with countries at different stages of economic development - where the CAA may need to develop its thinking further. Further liberalisation is likely to reduce the need for **tariff intervention**, including on EU-US where a deal would likely involve removal of the sum-of-sector policy.

European Commission decisions on the interface between **regional support and state aid** rules may place further emphasis on CAA analysis of regional air services and support measures.

The European Commission is **reviewing the Third Package** (the legislation that created the single market for European aviation). This could have ramifications for the CAA's role in relation to the licensing of airlines, the regulation of leasing and fares and potentially for wider policy issues such as the imposition of Public Service Obligations. The European Commission's study on the functioning of the internal market for air transport, which also included a review of the lack of insolvency protection for scheduled airlines' passengers, has yet to be published. As part of the review, the Commission will look at the different treatment of insolvency for charter and scheduled air carriers.

As decision-making increasingly moves from London to Brussels, it will be vital for the CAA to influence others, whether in the Commission, the Parliament or the administrations of other Member States. Significant issues include the continued development of EASA, the SES and a number of **new and recent European regulations** aimed at consumers (such as those dealing with the rights of passengers of reduced mobility, passengers' entitlements in the event of denied boarding, cancellation and long delay and requirements on carrier identity). Because its influence has tended to be delayed until the later stages of legislative development, the CAA has not always had sufficient opportunities to ensure that final legislative outcomes strike a proportionate balance between their objectives, their impact on the industry and their practicability of implementation.

The volume and implication of **European and domestic employment legislation** continues at a relatively high level. In particular, Age Discrimination Legislation due to come into force in October 2006, will require a significant review of recruitment and employment practices and policies.

### 3.5 CONSUMER ISSUES

In a bid to compete more effectively with the airlines, ATOL holders have been moving towards **dynamic packaging** and catering for customers' individual needs by offering individual holiday components. The online sector particularly specialises in this and has experienced significant growth in the last eighteen months. This is creating new challenges in regulating them.

Progress has been made towards replenishing the **Air Travel Trust Fund** with the Civil Aviation Bill expected to receive Royal Assent early in 2006. The CAA will implement a levy to replenish the Trust following consultation with the industry, in conjunction with the potential reforms of ATOL bonding.

Aviation health continues to assume greater prominence and the **Aviation Health Unit** established by the DfT within the CAA forms part of the arrangements whereby Government seeks to address the many issues involved.

### 3.6 ENVIRONMENTAL ISSUES AND SUSTAINABLE DEVELOPMENT

The **environmental impact of aviation** continues to be a major challenge. The key impacts are noise, climate change and local air quality. Other issues including tranquillity and visual intrusion also need to be considered. Public concern about aviation's environmental impact has risen in recent years, not least because of the Air Transport White Paper, various judicial reviews and increased action by environmental groups. There is no indication that this concern will abate.

The CAA has been working actively with Government to develop the core design elements of an **emissions trading scheme**, with the aim of including aviation within the existing European scheme by 2008 or as soon as practicable thereafter. During the UK Presidency, the European Commission produced a Communication that stated that emissions trading appears to be the best means of addressing the aviation's contribution to climate change, from both an environmental and economic perspective. The CAA supports this view as a trading scheme that will both stimulate reductions in emissions across sectors and incentivise technological improvements.

The CAA will also continue to **advise Government** on the implications of environmental issues including the maintenance and improvement of safety in relation to environmental measures. Renewable energy initiatives, such as the development of new wind farms, may pose threats to aviation both in terms of physical obstruction and the impact on Communications, Navigation and Surveillance facilities; this will require close monitoring by the CAA.

## 4. Business Risks

The CAA's approach to business risk management is based on the Financial Services Authority Listing Rules including the adoption of the Combined Code of Corporate Governance and the Turnbull Guidance. The CAA's risk management process identifies either CAA-wide risks or risks that fall within one of the Groups or the corporate functions. Risks fall into one of two distinct areas - Operational Risks or Key Impact Areas.

### Operational Risks

Operational risks are those specific to CAA business areas and are reviewed on a regular basis (every six months) by the CAA's Business Risk Panel — and are then recorded on a business risk register. Each of the CAA's Groups maintains its own business risk register and key risks are classified under one of three generic categories:

- Risks resulting from negligent regulation by the CAA.
- Risks resulting from over regulation by the CAA.
- Risks resulting from commercial decisions taken by the CAA.

The CAA's business risk management process is one of continuous improvement and has been designed to manage, rather than totally eliminate, the risk of failing to achieve business objectives. It provides reasonable rather than absolute assurance against material misstatement or loss. The CAA continues to mitigate risks to a residual level either by actions within the business or seeking the appropriate level of insurance coverage. The risks are reviewed on a regular basis taking account of the changing business and regulatory environment. If an operational risk has the potential to make a significant impact upon the CAA as a whole, it may become a Key Impact Area.

### Key Impact Areas

The difficulties experienced by the aviation industry over recent years have highlighted the benefits of the CAA having an efficient and robust business risk management process capable of considering risks at strategic level. The CAA's risk management process considers business risks and in addition to capturing internal operational risks, also considers the top-level risks to the CAA. The Board considers the key risks facing the organisation annually and the importance of maintaining credibility with the Government, the aviation industry and the general public is currently considered to be the most significant issue.

Currently, Key Impact Areas for the CAA include:

- The impact of EASA on the role and responsibilities of the CAA, the potential loss of income and the reduction in staff numbers.
- The CAA's ability to influence the development of SES to achieve the best outcome for the UK.
- Continuing to maintain the viability of the ATOL scheme if there is a major switch by industry to sell airline seats outside of the scheme.
- Its ability to manage successfully the implementation of the ERM system across the CAA while ensuring that it generates efficiencies and introduces the necessary culture change.

During 2005/06, the CAA initiated a review of its business risk methodology to see how the process could be improved, such as through greater integration of business risk within the business planning process, day to day management activities and Board oversight of the CAA's risks. The results will be reported to the Board in 2006.

## 5. Challenges Facing the CAA

The Challenges Facing the CAA represent the key issues that will have the biggest impact on the CAA over the five years of the Plan.

### 5.1 SAFETY

The CAA's key objective is to develop our UK world-class aviation safety environment, in partnership with industry, by driving continuous improvements in aviation safety in the UK and, in partnership with EASA, across Europe. This will require a sustained focus on safety as international developments progress and as new technologies and working methodologies develop in the aviation industry. The evolution of NATS' organisation, management structure and commercial arrangements will require continued monitoring of NATS' safety performance and of the robustness of its safety management systems.

### 5.2 THE IMPACT OF EUROPEAN DEVELOPMENTS

The CAA must continue to adopt a pro-active and co-ordinated approach towards European aviation related issues, as they will have an increasingly significant impact on the UK. European developments are changing the UK's safety regulatory regime and it will be a CAA priority to ensure that UK aviation safety standards are maintained during this period.

The key challenge will be to ensure that the CAA's position and that of the UK aviation sector is reflected in major European developments and that the CAA has the necessary "influencing and policy" skills to be a leader in the debating, design and implementation of international initiatives. The CAA will need to target its resources so as to influence European developments - particularly with regard to the development of future European institutional structures - and ensure that the CAA's agreed principles are applied wherever possible. Key initiatives where the CAA will need to influence include:

- Successfully managing the transition to EASA and supporting its development as fully as possible. In particular the CAA must ensure that:
  - UK safety standards are maintained and that the CAA can fulfil its safety regulatory objective.
  - EASA has the resources and technical capability to take on its allocated roles.
  - There is effective communication between EASA and the CAA, and that income is recovered for work carried out on behalf of EASA.
  - An effective and constructive dialogue is maintained between the CAA and the DfT such that the DfT is provided with appropriate technical advice and the CAA is able to influence policy.
  - The effects on both the organisation and staff are managed and that the CAA is flexible enough to adapt to the changes.
  - The required amendments are made in a timely manner to UK legislation.
- Continuing to assist in both the development of SES and SESAR and also in their successful implementation – leading on the safety, airspace, legal and economic implications and working in the interests of users. In particular the CAA will need to ensure that:
  - It is well placed to take advantage of opportunities to use its expertise and influence as they arise.
  - As SES develops, it continues to meet its original objectives.

- An effective and constructive dialogue is maintained between the CAA and the DfT such that the DfT is provided with appropriate technical advice and the CAA is able to influence policy.
  - Adequate CAA resources continue to be directed towards developing SES.
  - The CAA has an approach to influencing SES regulations which ensures legal obligations are met in the most effective way.
  - The required amendments are made in a timely manner to UK legislation.
- The CAA should increasingly look for new “consultancy” roles and opportunities that arise as SES and EASA develop where these will increase our involvement in and support for European initiatives.

### **5.3 INFLUENCING AVIATION POLICY AND INFRASTRUCTURE DEVELOPMENTS**

The CAA will continue to play an important role in the development of aviation infrastructure in the UK both as regulator and policy advisor. It will need to guard its regulatory independence whilst maintaining an effective working relationship with Government. This will encompass challenges in areas such as:

- Providing assistance to the DfT, where appropriate, in delivering the actions set out in the Air Transport White Paper. In particular the CAA will need to understand the full extent of the environmental impact of infrastructure and airspace developments to ensure that the CAA meets its environmental obligations as laid down and is able to deliver within the agreed timescales.
- Ensuring a transparent process for the quinquennial reviews of airports’ price caps that best meets the CAA’s statutory objective.
- Ensuring that the CAA has a transparent, robust and effective airspace change process.
- Preserving the integrity of the joint and integrated planning, organisation and delivery of airspace management and air navigation services in UK airspace so that civil and military needs continue to be met safely against a background of the changing institutional arrangements in Europe.
- Meeting the technical challenges that will stem from essential international changes to communication, navigation and surveillance requirements or to new technology in these areas.

### **5.4 CONSUMER ISSUES**

In the face of a changing travel industry, the CAA will aim to maintain appropriate levels of consumer protection for UK travellers by both analysing the impact of those changes and also influencing UK and European legislators as to the need for subsequent changes to the legal framework.

Within its existing remit, the CAA will continually improve the efficiency and effectiveness of its operations, and update them as necessary to take account of the changing market, using an approach to risk analysis commensurate with the effect of failure.

In particular the CAA will need to:

- Address any issues that may arise from the work on the future of financial protection, including the outcome of the Civil Aviation Bill and/or fall in income.
- Update the current ATOL system and build a system for the future.
- Consider the implementation of ATOL Regulations following resolution of the Judicial Review by the Association of British Travel Agents.
- Effectively implement and enforce new and existing EC regulations on consumer rights in relation to air travel, such as the Regulation on passengers’ entitlements to care and compensation in the event of denied boarding, cancellation or delay of flights.

Looking ahead, it will be important to ensure that the scope of the protection offered by the CAA is both clearly communicated to consumers and consistent with their expectations as far as possible.

## **5.5 ORGANISATIONAL EXCELLENCE**

### **Efficiency and Effectiveness**

In addition to its own operating efficiency and effectiveness, the CAA will need to consider how its activities impose costs on its stakeholders. In order to address the various initiatives endorsed by Government with regards to effective regulation (e.g. The Hampton Report and the BRTF Report “Less is More”) the CAA will need to develop a programme of improvements in consultation with industry that demonstrate our ongoing commitment to efficiency and effectiveness and becoming a better regulator. The CAA will need to ensure that it continues to build upon this over the period of the Plan and adopts best regulatory practice as appropriate.

### **Controlling Costs and Charges**

The CAA will need to ensure that it carefully controls its costs in order to minimise its charges to those it regulates. Internal financial targets to control costs have been set to help meet the objective of keeping costs within RPI. However, the CAA also needs to re-invest to ensure that it has adequate resources to maintain its high standards and retain its expertise. Some of the key challenges for the CAA over the period of the Plan will include:

- Ensuring a 6% rate of return as set by Treasury is achieved.
- Implementing the agreed outcomes of the SRG Costs and Charges Review and extending the agreed principles across the CAA.
- Achieving value for money – the CAA will need to not only deliver this but also be seen to do so.

### **People and Organisation**

The CAA’s ability to deliver its Corporate Plan and legal duties is primarily dependent on its staff. The CAA’s ability to attract, recruit, align, retain, develop and motivate high quality staff with appropriate skills, knowledge, experience and competencies will determine its success. The delivery of the CAA’s Mission will only take place through its staff; managed and rewarded in a culture which is fully consistent with the CAA’s Values and Guiding Principles.

The CAA believes in maintaining and developing excellence in our people, as they are the source of our reputation. This needs to take place in a culture of high performance, where the CAA meets the highest standards of professionalism and integrity.

Key challenges for the planning period include:

- Making the CAA a high performance organisation - ensuring a rigorous approach to managing performance to achieve goals.
- Ensuring that staff are rewarded appropriately.
- Ensuring that the approach to developing managers of the future delivers high quality candidates for senior jobs.
- Effectively deploying staff to maximise their contribution.

## 6. CAA Objectives

In order to address the challenges facing the CAA and to help the organisation to focus and prioritise on the best ways to deliver the Mission, Values and Guiding Principles the CAA has a set of high-level objectives. These objectives are set out below and the more detailed strategies, action plans and milestones to address them are given in the following section of the Plan. Where reference is made to aviation regulation and policy, this also includes matters relating to air travel.

### **SAFETY**

To develop our UK world-class aviation safety environment, in partnership with industry, by driving continuous improvements in aviation safety in the UK and, in partnership with EASA, across Europe.

### **REGULATION**

To maintain the UK's high standards of aviation regulation through an open and fair regulatory regime, in line with the Principles of Good Regulation.

### **POLICY**

To assist and influence Government in aviation-related policy-making and infrastructure developments.

### **INTERNATIONAL ISSUES**

To influence and, where appropriate, lead international aviation regulatory developments and policy in support of the UK's needs and ensure UK standards are maintained.

### **CONSUMER ISSUES**

To meet the needs of air travellers for consumer protection.

### **BUSINESS EFFECTIVENESS**

To keep the overall increase in the CAA's costs during the planning period to below the rate of inflation through improved efficiency and cost effectiveness.

### **PEOPLE AND ORGANISATION**

To ensure the CAA is a co-ordinated and well-managed organisation, providing a working environment which promotes high performance and provides the necessary resources and support to enable all staff to be effective in their roles and support the MVGP.

### **ENVIRONMENT**

The CAA seeks to encourage civil aviation to mitigate the detrimental impact of the industry on the environment, without compromising safety standards.

## 7. Strategies, Deliverables and Milestones

The strategies, deliverables and milestones to meet the CAA's Objectives are set out in this section of the Plan. Performance against the deliverables and milestones will be monitored and reported on a quarterly basis to the CAA Board.

### 7.1 SAFETY

**Objective: To develop our UK world-class aviation safety environment, in partnership with industry, by driving continuous improvements in aviation safety in the UK and, in partnership with EASA, across Europe.**

To meet this objective, the CAA has established a programme to identify significant safety risks to aviation, along with safety improvement strategies to reduce those risks. All items are identified by specialist panels and Divisional experts, and are reviewed by the Safety Risk Panel. The CAA's Safety Plan covers a five-year planning period and includes the introduction of a top-down risk analysis process. The process starts with the major risks, as evidenced in the available data, and then determines what action the CAA can take to help mitigate those risks. This together with the considerable expertise in the CAA to identify potential safety risks, demonstrates our commitment to achieving our safety objective. A number of key actions in the CAA Safety Plan are summarised below.

Improved Pilot Training - pilot performance is the single most prominent factor in flight safety, and analysis has shown that 60% of fatal worldwide accidents can be attributed to flight crew as a causal factor. Maintaining excellent levels of pilot performance is paramount and is primarily achieved by high standards of initial and recurrent training, effective flight crew working practices and high standards of medical health.

Loss of Control – accidents caused by aircraft departing with ice contamination as a result of adverse weather conditions have occurred at regular intervals. The removal of ice prior to aircraft departure is a ground-handling task with many people and organisations involved, which makes a robust process over many millions of departures difficult to maintain. Many initiatives have been undertaken but there is a need to improve the process further.

Level Busts - more work is required to reduce further the number of level busts by UK Public Transport and corporate operators and achieve continuing improvement in safety performance in this area.

Runway Incursions - there is risk to the safety of aircraft from an increasing number of runway incursion incidents both in the UK and worldwide.

NATS Safety Performance - from the CAA's perspective, an important aspect of the regulatory audit role will be to ensure that the inspection team can respond promptly to all events, whether planned or unexpected. In order to achieve this, an onsite or close proximity CAA presence will be required.

The Safety Management Group, a joint UK Industry/CAA working group, will undertake a review of the application of Safety Management Systems (SMS) within the UK for air transport operations. The intention is to illustrate how SMS could enhance safety and improve business, and provide industry with a useful reference document to assist in establishing SMS within organisations.

The North East Airspace Team (NEAT) Review, jointly sponsored by the CAA and the MoD, produced a number of recommendations that will be implemented through a cross-CAA action plan. The final recommendation was for the creation of a standing CAA/MoD/GA steering group to monitor the implementation of the NEAT recommendations and future trends and events. The CAA Outside Controlled Airspace Steering Group (COCASG) is the -most appropriate body to take this work forward and the MoD seconded personnel within the CAA will be in a position to provide the requisite military input.

Task	Deliverable	Milestone
Improved Pilot Training: Improve methods for training flight handling for pilots of highly automated aeroplanes and determine extent and implications of loss of manual flying skills.	Conduct research trial on improved training for highly automated aircraft.	Mar 07
	Conduct research into loss of manual flying skills.	Jul 07
Loss of Control – Aircraft Departing with Ice Contamination: Investigate a more consistent approach to pre take-off check and aircraft inspection responsibility, and review the effectiveness of oversight of ground de-icing providers	Ground De-icing Effectiveness: form CAA/ industry working group and deliver report to CAA/industry. Agenda for group will be based on systematic analysis performed in 2005.	Oct 07
	Freezing Residues: investigate causes of de-icing fluid residues that may freeze and methods for mitigating them.	Oct 06
Level Busts: reducing the number of level busts made by UK Public Transport and corporate operators.	Report to SRG EC and SPC analysing level bust incident data for periods Feb to July 2005 and Oct to Mar 2006 and ascertain whether a 5% improvement in yearly moving average number (or rate) has been achieved.	Apr 06
Runway Incursions: Continue to support the Runway Incursion Steering Group and implement resulting actions.	Report to SRG EC and SPC indicating resultant change in Runway Incursion rates per movement for period Apr 2005 to Mar 2006, based on the established rate per movement in Apr 2004 to Mar 2005.	Jun 06
Review safety performance of NATS Area Service and major NATS contracted airports.	Report to the CAA Board.	May 06
Audit plan for NATS new Prestwick Centre.	Report on audit progress to SRG EC.	Dec 06
Air Transport Operations: Safety Management Group to review the application of SMS within the UK for air transport operations.	Produce an updated version of CAP 712, SMS for Commercial Air Transport Operations to include practical references on how SMS could enhance safety.	May 07
	Report to SRG EC.	Jul 07
Implementation of North East Airspace Team (NEAT) Action Plan agreed by CAA and MoD.	Define ATSOCAS User Requirements.	Jul 06
	Draft common regulations for ATSOCAS provision.	Oct 06
	Produce a paper for APC on ATSOCAS User Requirements and common regulations for ATSOCAS provision.	Nov 06
	Produce a report and recommendations to COCASG on the Review of HMRs and North Sea Helicopter activity.	Dec 06

## 7.2 REGULATION

**Objective: To maintain the UK's high standards of aviation regulation through an open and fair regulatory regime, in line with the Principles of Good Regulation.**

The CAA is the UK's aviation regulator covering safety regulation, economic regulation, airspace regulation, and consumer protection. This section outlines some of the CAA's key regulatory tasks over the period of the Plan. It should be noted that a number of other regulatory tasks are included in this Plan under different objectives such as Safety, International and Consumer Issues.

One of the key tasks over the period will be the development of effective proposals for the price caps on BAA's and Manchester's airport price controls. The strategy for taking this forward involves considerable consultation with, and feedback from, the airports, airlines and other interested parties. The CAA will need to keep under review the impact on the timetable and the substance of any bid for BAA.

Task	Deliverable	Milestone
Assess responses to initial consultation on BAA airport price control review.	Produce a review of responses for publication.	May 06
Assess outputs from constructive engagement at BAA's designated airports, synthesize with CAA's analysis into proposals for price controls at each of BAA's London airports.	Produce initial proposals for BAA airports review.	Sep 06

Assess responses to initial consultation on Manchester airport price control review.	Produce a review of responses for publication.	Apr 07
Assess outputs from engagement at Manchester airport, and synthesize with CAA's own analysis into proposals for price control.	Produce initial proposals for Manchester airport review.	Jun 07
Take full account of airline/airport views in preparing BAA reference to Competition Commission.	Refer BAA airport review to Competition Commission.	Feb 07
Take full account of airline/airport views in preparing Manchester reference to Competition Commission.	Refer Manchester airport review to Competition Commission.	Nov 07
Review NATS' August 2006 audit of its Supply Chain Management processes and a selection of NATS' post-implementation reviews	Publish the results of the review of the audit and the post-implementation reviews.	Dec 06
Implementation of common requirements legislation.	Processes in place within ERG to handle requests for certification from air navigation service providers.	May 06
Influence any future proposals by the European Commission to review "Third Package" legislation concerning fares and leasing.	Advice to Government/European Commission when proposals released.	TBA

In line with the initiative to conduct a CAA Strategic Review of GA in the UK, it was agreed that a simultaneous Regulatory Review would also take place. The Regulatory Review is a comprehensive assessment of the CAA's approach to the GA sector and includes industry representation. The Strategic Review looks more broadly at the main trends in GA and in aviation generally and considers the main policy items that are relevant to the GA sector.

Task	Deliverable	Milestone
Regulatory Review of General Aviation.	Recommendations to the SRG EC.	May 06
	Report to SPC and CAA Board.	Jun 06
	Implementation of recommendations.	TBA
Strategic Review of General Aviation	Strategic Review completed.	May 06
	Report to CAA Board.	Jun 06
	Implementation of recommendations.	TBA

Work continues with the development and implementation of the various and often interlinked European Airspace and CNS Strategies into UK airspace.

Task	Deliverable	Milestone
Implementation of ECAC Airspace Strategy – Operational Improvement-1A into UK FIRs.	Introduction of a Division Flight Level (DFL) of FL195 into UK FIR.	Mar 07
Implementation of ECAC Airspace Strategy - Operational Improvement-2A into UK FIRs.	Introduce Class C airspace into the airway structure on an opportunity basis below FL195.	As appropriate
Implementation of ECAC Communication Strategy 8.33kHz Expansion above FL195.	Implement the regulatory framework for Mandatory Carriage above FL-195.	Mar 07
Facilitate the introduction of P-RNAV.	Develop and publish CAA RNAV Policy.	Dec 06
	Develop and publish UK RNAV Strategy.	Dec 06
Implementation of Mode S Elementary Surveillance for 31 Mar 2008.	Publish AIC Update.	Dec 06
	Implement the regulatory framework for mandatory carriage above FL195	Mar 07

## 7.3 POLICY

**Objective: To assist and influence Government in aviation-related policy-making and infrastructure developments.**

The CAA provides expert advice to the Government, and more generally, on aviation-related issues with the aim of influencing policy-making both in the UK and internationally. The CAA sees it as essential to better influence Government and EU decisions on policies and legislation before they are put in place. This will require improved co-ordination across the CAA and improved access to Government and the EU.

Task	Deliverable	Milestone
Lobby effectively US and European decision-makers on the net benefits of greater liberalisation.	Advice to Government/European Commission as negotiations and a liberal Open Aviation Area agreement between US and EU develops.	Ongoing
Engage Commission to help prevent a sub-optimal outcome on EU/US to detriment of UK interests.	Meaningful change on ownership and control liberalisation.	Ongoing
Carry out broader analyses of market liberalisation.	Disseminate findings of CAA paper on ownership and control via publication.	Jul 06
Evaluation of liberalisation in the India market.	Produce paper on findings for ERPC.	Dec 06
Significant liberalisation of new and existing Air Service Agreements (ASA).	Liberalised agreements struck in key strategic markets e.g. China, India, South Africa, Russia, Singapore, Australia etc. Successful outcome of ASA negotiations.	As they occur
Support to enhance Government negotiations on bilateral ASAs. Ensure full picture is presented in discussions, including representation of consumer as well as industry effects and include market analysis in addition to raw data.	Produce high quality analysis of relevant markets for Government. Advise Government on policy approach to take in markets where there are barriers to free competition e.g. state aid.	As required
Develop links with EU counterparts by initiating meetings with Commission, interested MEPs and other aviation authorities on consumer-related issues.	Regular progress reports to CPPC.	Jul 06 and ongoing
Improve understanding of wider consumer protection developments and consider how to apply to air travel.	Reports to Group Director and CPPC.	Oct 06 & Mar 07

The CAA will consider the potential for new spectrum-management initiatives for aviation bandwidths. However the opportunity for trading is extremely limited and whilst increased sharing will be considered, stringent safety tests will need to be applied.

Task	Deliverable	Milestone
Modernisation of Licensing, aviation policy on incentive pricing.	Produce Impact Assessment of Government response to Cave Report.	Apr 06
	Develop Action Plan in conjunction with DfT, DTI, Ofcom, and MoD.	Oct 06
	With Ofcom, formalise proposals and action plan for transfer of licensing task to CAA.	Oct 06
	With Ofcom, develop detailed proposals for implementation of initial application of AIP for aeronautical spectrum.	Mar 07

### White Paper and Airspace Change Proposals

The Air Transport White Paper puts forward a strategic framework for the development of airport capacity in the UK over the next 30 years and indicates support for a number of significant and ambitious developments, which will require considerable input from the CAA. The CAA will be prepared to provide assistance and expert advice where required. In particular the CAA will need to ensure it is able to keep track of changing priorities within the White Paper, that it is flexible in its approach and ensure that it can provide the required resources and input. The CAA will also need to understand the full extent of the environmental impact of infrastructure and airspace developments to ensure that it meets its environmental obligations and is able to deliver within the agreed timescales.

Work relating to the Stansted Runway 2 Project will focus on actions necessary to prepare for a Planning Inquiry arising from the BAA application for a second runway at Stansted. With the Government's overarching objectives to maximise the use of existing resources and to make more use of the Regional Airports, the CAA will be engaged with airports and ANSPs in offering advice during the development of their airspace change proposals. As with all airspace changes, the CAA will, wherever possible, balance the needs of all users and society, particularly given the greater public focus on aviation and the environment.

## 7.4 INTERNATIONAL ISSUES

**Objective: To influence and, where appropriate, lead international aviation regulatory developments and policy in support of the UK's needs and ensure UK standards are maintained.**

The CAA aims to influence international aviation regulatory developments and policy in support of the UK's needs. The CAA also advises the Government and provides expert advice on aviation-related issues with the aim of influencing the setting of international standards.

### European and International Strategy

In response to the increasing importance to the UK aviation industry of international, and particularly European, developments such as EASA and SES, the CAA has established at a corporate level a new European and International Strategy function, led at Director level. The aim of the new unit will be to articulate a strategic vision of the Authority's role in Europe, and to strengthen its capability to influence regulatory and policy development, continuing to work closely alongside the DfT.

Task	Deliverable	Milestone
Develop a vision for CAA's involvement in Europe.	First draft strategy paper for CAA Board.	Jul 06
Maintain regular contact with key players (DfT, member states, Community institutions etc). Monitor and follow-up on key issues in Europe.	Co-ordinated approach to European contact. Production of regular briefing material. CAA 'European' intranet pages.	Aug 06 onwards

### EASA

The UK member of the EASA Management Board (and currently Deputy Chairman) is the Director of the CAA's new European and International Strategy function, and will work closely with the DfT to monitor, and where necessary influence EASA activities as its implementation progresses. The CAA will continue its active involvement in the Advisory Group of National Authorities and the EASA NAA Certification Transition working group meetings. The EASA Transition Working Group will continue to provide a forum for the co-ordination on EASA Transition issues. Transitional assurance is the oversight of the management of the transition of those safety regulatory tasks that are being assumed by EASA. The intent is to ensure that the transition is efficiently and effectively managed so as to compromise neither UK safety levels, nor EASA's ability to meet the objectives stated in Article 2 of the Regulation. It is envisaged that this transitional assurance activity will be continued until the DfT has indicated that it is satisfied that EASA, and the overall framework in which it operates, has met or is likely to meet not only the objectives stated in Article 2 of the Regulation, but also the wider objective of ranking among the best aviation safety regulators in the world.

EASA needs to develop into a world-leading regulator in order to set and maintain a high uniform standard of safety. The CAA will retain the capability to assess EASA's plans and actions and ensure that the rules developed are consistent with maintaining the UK's high safety standards, and do not adversely impact EASA's development into a world-leading regulator. In order to gain wider support, the CAA will continue to improve its partnership with the DfT in progressing identified concerns, and develop a framework through which it can form a coalition with other regulators in support of a common strategy and approach to European Regulatory matters. The framework will consider identification and timely reaction to EASA proposals, collation of factual evidence and consideration of the European context in which the issue is to be pursued.

Task	Deliverable	Milestone
Oversee management of transfer of tasks to EASA and manage any findings that have potential to compromise either UK safety or achievements of objectives stated in Article 2.	Review process established to oversee management of transfer of tasks.	Apr 06
	Further development of the process for wider application in readiness for Operations & Licensing.	Nov 06

## SINGLE EUROPEAN SKY

The CAA will support the development of the UK's position on emerging SES supporting legislation. The CAA will, where appropriate, engage in more bilaterals and endeavour to influence Member States and regulators towards best practice, and reinforce the UK positions through its participation in the Eurocontrol technical and decision-making groups. The CAA will, through the Safety Regulation Commission (SRC), progress the development of common Eurocontrol Safety Regulatory Requirements (ESARRs) in a form suitable for transposition into legally binding SES Common Requirements (European Commission Directives).

The EU-adopted Common Requirements (CRs) under the Single European Sky Air Navigation Services Provision Regulation cover Air Traffic Management systems, including ATM Services' personnel and requirements for ATM Engineering and Technical personnel. Compliance with the SES Common Requirements for Air Navigation Service Providers (ANSPs) requires the CAA to achieve certification of all ANSPs by the end of 2006. The CAA will adopt Common Requirements in a manner consistent with currently applied regulatory principles, minimising the burden to the UK Air Traffic industry, and ensuring that existing UK levels of safety are not eroded. Similarly, the CAA will assume some regulatory responsibilities under the SES Interoperability Regulation. As Implementing Rules for particular technical standards and procedures are adopted, the CAA will need to ensure they are recognised and complied with.

Task	Deliverable	Milestone
SES: To deploy relevant CAA expertise in all relevant UK policy-making and European fora with the aim of achieving the agreed UK policy objectives for SES, EASA, SESAR and Eurocontrol.	Implement the Common Requirement Regulation by certifying Met and AIS.	Dec 06
	Respond to consultation on Interoperability IR on Mode S Interrogator Code Allocation.	Jan 07
	Respond to consultation on Interoperability IR on Surveillance Performance and Interoperability Requirements.	Apr 07
Improving relations with European Commission, European Parliament & Member States, including: Across all areas, develop a programme for influencing European institution decision makers and interest groups, learning lessons from EU/US, Single European Sky and other institutions.	Paper to ERPC.	Jul 06
Influencing development of SES initiative including leading UK response to charging reform.	Produce policy advice to Government on emerging European regulations from SES initiative.	Ongoing
Active involvement in cross Government Policy Committee (EAPC) providing specialist advice on the impact of the SES initiative.	Attendance and preparation of papers for EAPC.	Ongoing
Monitor progress towards developing FABs and in particular Anglo/Irish functional airspace block and implications for CAA economic regulation of NATS.	Develop analysis of impact of different FAB models on ERG's economic regulation role.	During 06
Securing regulatory change at EU level to give Member States the ability to use market mechanisms when dealing with allocation of slots at congested airports.	Meetings/presentations to relevant decision makers to influence development of legislation on slot trading developed to allow for implementation of formalised secondary market in the UK, leveraging from joint analysis with OFT and building links to DG COMP as well as DG TREN.	During 06
	Develop options for primary allocation.	Jul 06
Influence Commission's proposals on EU level regulation of airports charging and capacity. Provide CAA's response to any Directive on Airport Charges.	Present findings from airport competition work as appropriate and develop response to Commission proposals.	As required
In conjunction with SRC develop concepts for cross-border safety regulation of SES ATM.	Through SESWG, draft UK proposals for safety regulation procedures for SES cross-border ATS provision.	Dec 06
Common Requirements: Introduction of a Community ATC Licence.	Commence UK implementation.	Dec 06
Certification of all UK ANSPs.	UK ANSPs in compliance with SES CR Regulations.	Jun 07

## ICAO

The CAA is fully committed to support ICAO in its work. As the “technically competent national aviation body”, the CAA works with the DfT to ensure appropriate representation on major international fora such as ICAO panels and Eurocontrol working groups.

Task	Deliverable	Milestone
Agree with DfT, Government’s expectations of CAA with respect to meeting UK’s obligations to ICAO with particular reference to SES developments and EASA’s growing legal competence in other technical areas.	Agreement reached with DfT on Secretary of State Direction to be issued to CAA on ICAO obligations.	Sep 06

## Other Developments

The CAA will support and advise the DfT at the Eurocontrol Enlarged Committee for Route Charges and the Chief of Staff will attend Eurocontrol Provisional Council’s Standing Committee on Finance as the UK’s national representative bringing influence to bear on Eurocontrol’s costs and efficiency, and on matters concerning Eurocontrol finances, in order to secure the best possible position for UK industry.

The CAA will market international consultancy and training in order to assist international aviation regulatory developments and policy in compliance with ICAO Standards and Recommended Practices (SARPS).

Task	Deliverable	Milestone
Produce a marketing plan which will identify and focus the International Services business strategy both in UK and overseas.	Marketing plan produced.	Apr 06
Review the current range of open training courses and assess the potential for new courses to meet market demand.	Produce and market 2007/08 training course schedules.	May 06
Analyse financial results for 2005/06 in order to identify key areas of profit for the refinement of the business strategy and the Business Plan.	Updated International Services Business Plan.	Jun 06

## 7.5 CONSUMER ISSUES

### Objective: To meet the needs of air travellers for consumer protection.

Following the Government’s decision on the CAA’s proposal to extend financial protection, the DfT has asked the CAA to consider whether the system of ATOL bonds could be replaced with a less burdensome means of meeting tour operators’ financial protection obligations to air travellers. This has concentrated on whether the administrative burden for ATOL holders can be reduced through the abolition of bonding in favour of a levy. Preliminary work is underway with CPG expecting to have identified a solution for reforming ATOL bonding and agreed it with the DfT early in the 2006/07. This will involve a full consultation with the industry.

If agreement is reached with the Government and the industry on the high level proposals, CPG will need to formulate more detailed plans on the methods to achieve them. This will involve agreeing transitional arrangements that need to be in place until the appropriate fund level is reached and obtaining advice on how best to manage this fund. Consideration will also need to be given on whether enhanced financial checks will be required for ATOL holders in lieu of those previously undertaken by bond obligors. Once full plans have been finalised, designing the implementation process will begin. Although this would be expected to commence in August 2006, actual implementation of the new system would not be expected until at least Spring 2007.

Task	Deliverable	Milestone
Finalise proposals for reform of bonding.	Board Approval.	May 06
Develop plans on transitional arrangements required until appropriate fund level reached.	Report to CPPC.	Jul 06
Design implementation process for new bonding arrangements.	Regular reports to CPG Group Director. Complete Implementation.	Aug 06 Sept 07

## Passenger Health

The Aviation Health Unit will act as a focal point for aviation health issues offering information and advice. It will ensure that the health concerns of passengers and crew regarding the cabin environment are properly addressed, and that areas of concern are evaluated based on existing and future research in a co-operative and cost-effective manner. When the Civil Aviation Bill receives Royal Assent, the Unit will become a statutory function of the CAA and will become funded by charges on industry rather than by the DfT as it is currently. It is anticipated that charging schemes will include this funding from April 2007 at the earliest.

## Air Transport Users Council

The CAA supports and works with the Air Transport Users Council (AUC), whose activities are complementary to those of the CAA. The AUC's overall purpose is to act as the independent representative of air passengers and to complement and assist the CAA in its duties to further the reasonable interests of such passengers.

## 7.6 BUSINESS EFFECTIVENESS

**Objective: To keep the overall increase in the CAA's costs during the planning period to below the rate of inflation through improved efficiency and cost effectiveness.**

The CAA has set itself a demanding business effectiveness objective; it has a programme of initiatives aimed at meeting this objective and a selection is presented below. These initiatives aim to improve performance, maintain high standards and deliver value for money; a number are also aimed at improving regulatory processes. Generally, the business effectiveness initiatives operate across the CAA; the exception is the SRG Regulatory and Organisation Reviews, which focus solely on the Safety Regulation Group.

### Improving Regulation

The CAA is committed to reducing the regulatory burden in line with the Government's Better Regulation initiatives. Where Better Regulation Action Plans have not yet been produced by each operational Group, they will be developed to demonstrate initiatives that are already meeting the objectives outlined in the Hampton Review report and the Better Regulation Task Force (BRTF) report, and will include further priorities to be addressed in improving the effectiveness of regulatory processes. The CAA will continue to support the Admin Burdens Reduction project and output from all this work will feature in the DfT's Simplification Plan. The CAA will also work with the DfT to address practical proposals for regulatory simplification put forward by businesses via the Better Regulation Executive's (BRE) 'Better Regulation Portal'.

Task	Deliverable	Milestone
<b>Hampton &amp; BRTF</b>		
Produce Better Regulation Action Plans.	All Groups present reports to relevant PC's. Co-ordinated by F&CS.	Aug 06
Ensure DAP's Policies and Procedures are reviewed and take account of changing regulatory climate (incl. recommendations stemming from reports by Hampton and the BRTF).	Reviews and deliverables achieved in accordance to rolling schedule.	As per schedule
Maintain high performance and improve cost efficiency of ATOL licensing.	Identify and implement measures. Progress report to CPPC.	Apr 06 Sep 06
Review whether airline licensing and monitoring processes can be improved in terms of efficiency, effectiveness and risk management.	Report to CPG Group Director.	Aug 06
Enforce the Working Time Regulations, taking account of the BRE requirements.	Revised enforcement procedures meeting recommendations of Hampton & BRTF reports, and any requirements from BRE.	Mar 07
Implement the Action Plan resulting from the completed DAP Review.	Deliverables achieved as per Action Plan schedule.	Mar 07
Providing timely, accurate outputs relating to CAA's statutory duties on fares, noise and leasing issues.	Implement the outcome of the review of policy on regulating air fares.	Dec 06

<b>Other Initiatives</b>		
Develop and maintain contingency plans for ATOL failures.	Major failure contingency plan agreed by CPG Group Director.	Jun 06
Develop an action plan in conjunction with DfT to address accepted recommendations of the Transport Select Committee's (TSC) report.	Timetabled plan presented to the Board, to address all accepted recommendations of the TSC.	Within four months of TSC report

## Reviewing Working Practices

As part of its ongoing programme aimed at improving efficiency, cost effectiveness and increasing transparency the CAA will continue to develop and review working practices across the organisation.

Task	Deliverable	Milestone
Continuous Improvement Programme for IT: assure value for money aspects of service delivery and application projects.	Deliver improvements to IT services in terms of efficiency, effectiveness and resilience.	Apr 06
Implement new CAA risk management process that integrates more closely business planning, day-to-day management activities and Board oversight of CAA's risks.	Report to Board.	Sep 06
Develop and implement a new approach for identifying business requirements for CAA projects and a new methodology for managing CAA projects.	New process agreed by ExCo and incorporated into CAA's Management System.	Jun 06
Develop CAA's approach to continuous improvement with the aim of increasing staff participation.	Report to ExCo with recommendations on how staff participation could be increased.	Nov 06
Review the implementation of common regulatory processes and identify additional candidate processes for incorporation in Management System.	Report to ExCo on status and effectiveness of CAA Management System.	Jun 07
Implement programme of quality audits to provide assurance that regulatory and business requirements of CAA's Management System are being implemented effectively.	Report to ExCo.	Mar 07
Implement the programme of detailed reviews of processes as agreed by ExCo.	Report to ExCo on findings of reviews with recommendations for improvements.	Mar 07
Review and identify changes required to align CPG and ERG charges schemes with charging principles developed by SRG costs & charges review.	Make recommendations to CPG and ERG respectively.	Jun 07
Improve transparency on the CAA's key service and performance indicators.	Publish indicators on the CAA website on a regular basis.	Jun 06 onwards

Following the SRG Costs and Charges Review, SRG has re-examined its working practices in order to increase efficiencies and reduce overall costs. As EASA assumes more responsibilities and functions, and as part of SRG's transition plans, staffing levels will reduce to the level required to carry out the core tasks that will remain part of the CAA's statutory responsibilities. The CAA will monitor staff levels against workload and will predict any shortfall against resource and plan to increase non-Statutory contract activities or consider staff re-deployment.

Task	Deliverable	Milestone
Regional Office Review - review the potential of a change to Luton and North East and Midlands Regional Offices.	Evaluate current location, forecast workload and distribution of regulated companies. Report to SRG EC.	Jun 07
Changes to the Regional Office organisation.	Consolidation of Gatwick and Heathrow regional offices at Aviation House on expiry of Heathrow lease.	2008
Ensure that Airworthiness Division (AWD) capability is maintained to resource all core tasks including cover as necessary.	Maintain plan for AWD transition to its target size and structure. Review and update on 6 monthly basis, reports to SPC.	Sep 06 & Mar 07
Consolidate AWD into new functions.	All functions and staff integrated under four Departments.	Apr 10
Light Aviation Airport Study. Review of changes to current regulatory arrangements, and associated legislative issues, for light aviation airports.	Begin the introduction of regulatory oversight appropriate to light aviation airports.	Mar 07

Continue to implement charging arrangements with EASA.	Update charging arrangements.	Jun 06
Further review of charges schemes in light of Costs and Charges Review recommendations.	Changes implemented following outcome of consultation.	Apr 07

## Value for Money

The CAA recognises that it must deliver Value for Money, and will continually review its activities to ensure that it operates in a cost effective way. Initiatives can be specific to an individual Group, or can encompass processes across the entire organisation. The table below includes a selection of such initiatives; in particular highlighting actions planned by the CAA's Finance, Procurement and Estate Services functions.

Task	Deliverable	Milestone
Develop a more cost-effective promotion of ATOL.	Report to CPPC within six months of a resolution on the Judicial Review (JR).	Dependent upon JR
Maximise efficiency of procurement systems and processes - Improve procurement forward planning.	New process for agreeing annual procurement plans with budget holders incorporated into Management System.	Apr 07
Manage CAA leased estate to ensure that leased property costs are commensurate with CAA's accommodation needs.	Manchester Regional Office – renew or re-provide on expiry of existing lease. Explore options for use of accommodation becoming vacant within Aviation House.	Dec 06 Mar 07
Demonstrate on-going value for money in delivery of Estate & Support Services.	Ensure costs of consumable services apportioned on basis of actual use.	Apr 06
	Annual review of space usage with groups.	Sep 06
	Carry out support service survey.	Feb 07
	Produce annual external benchmarking report for GD F&CS.	Mar 07
Produce accurate and timely finance information – Upon endorsement of feasibility study of current finance systems produce specification and selection criteria for new integrated finance system.	Specification and selection criteria for new integrated finance system agreed by Project Board.	Jul 06
Strengthen financial control environment - conduct review of financial processes undertaken throughout CAA to enable the most effective deployment of resources and collection of information.	Report to GD F&CS detailing options for improvement.	Oct 06

## Information Technology and Information Management

The CAA's IT services are outsourced and costs and service levels are monitored to ensure value for money. The CAA will continue to ensure the delivery of a cost effective Information Technology service that meets its business needs. The CAA's Information Services Programme is reviewed on a regular basis and takes into account changing business priorities and requirements. A number of key projects from the Information Services Programme are included below, all of which will bring efficiency savings for either the CAA or those it regulates. The CAA will continue to ensure that clear information management (IM) policies exist and that IM requirements across the CAA are met through a cost effective balance of electronic and paper-based information systems that also satisfies Government initiatives.

Task	Deliverable	Milestone
<b>Information Technology</b>		
Implementation of Aircraft Information System Project.	Consolidated replacement for Aircraft Register, Aircraft Equipment Approvals and Flight Manual Systems.	Jul 06
PIMS/MARS (PLD/Medical) Programme.	Completion of Authorised Medical Examiners On-Line deployments.	Dec 06
Consumer Protection Group: CPG Application Support and Development.	Establishment of programme for ATOL Licensing and other projects.	May 06
Air Transport Users Council: Complaints System.	Implement new AUC Complaints System.	Apr 06
IS/IT Strategy Review.	ExCo approved High-level IS/IT Strategy.	Sep 06
Implementation of Regulated Organisation Programme.	SRG Regulated Organisation Core IT System into Flight Operations Department.	Mar 07

Finance and Corporate Services: Finance and Human Resources Programme.	Replacement or upgraded Finance, Procurement and HR Systems.	Mar 08
<b>Information Management</b>		
ERM Programme: Phase 1 CAA-wide ERM deployment. Phase 2 CAA-wide EDRM deployment.	Phase 1 ERM: Implement Policies & Principles. Design a Records System. Develop and run a Technical Prototype. Test the Proof of Concept. Full Business Case approved by Board. Build and configure new system. Deploy ERM across the CAA. Phase 2 EDRM: To be implemented on a department-by-department basis.	Apr 06 to Apr 07          2007 onwards

## 7.7 PEOPLE AND ORGANISATION

**Objective: To ensure the CAA is a co-ordinated and well-managed organisation, providing a working environment which promotes high performance and provides the necessary resources and support to enable all staff to be effective in their roles and support the MVGP.**

The CAA has a programme of actions that aims to develop staff and improve organisational excellence to meet the CAA's Mission, Values and Guiding Principles. Along with this the CAA is broadening the focus of its HR policies from the traditional measures and considering new approaches to performance management, pay and reward. Further details on the CAA's HR Strategy are included in Section 9 – Resources: People.

Task	Deliverable	Milestone
Identify and take appropriate steps to assist CAA in becoming a High Performance Organisation (HPO) on the basis of accepted characteristics of HPOs.	Using metrics developed during 2005 where available, report findings to HR Steering Group.	Oct 06
Reward Strategy fully implemented in respect of personal contract staff.	Reward Strategy implemented, contractual changes achieved as appropriate.	Jul 06
Implement agreed CAA-wide grading structure.	All staff covered by one grading structure.	Dec 06
Ensure CAA-wide pay and performance pay structures reflect equal pay principles.	Plans implemented.	Dec 06
Review existing performance bonus schemes and implement one, CAA-wide performance bonus scheme for CAA staff covered by collective bargaining arrangements.	Revised arrangements agreed with Trade Unions.	Mar 07
In support of succession planning, introduce associated talent management activities.	Review of effectiveness of talent management activities.	Oct 06
Introduce revised management development programme incorporating management competencies.	Programmes and competencies reviewed and revised as appropriate.	Dec 06
Review arrangements for supporting employees who leave to join EASA to ensure that barriers are overcome where appropriate.	Revised arrangements introduced where appropriate.	Mar 07
Undertake a review of recruitment and employment practices to ensure readiness for age discrimination legislation to take effect from Oct 2006.	Changes implemented.	Oct 06
Through Equality and Diversity monitoring, develop plans and potentially targets, to ensure inappropriate barriers to equality and diversity are overcome.	Monitoring arrangements regularly reviewed and Plans developed.	Ongoing
Conduct 2006 staff survey.	Conduct survey on basis of plans agreed by HR Steering Group (Mar 06).	Sep 06

## 7.8 ENVIRONMENT

**Objective: In support of the Government’s objectives for sustainable development, and the principle that aviation should fully meet its environmental costs and obligations, the CAA seeks to encourage civil aviation to mitigate the detrimental impact of the industry on the environment, without compromising safety standards.**

The CAA has specific responsibilities in environmental matters related to aviation and these match the Government’s aim of sustainable development - “to meet the needs of the present without compromising the ability of future generations to meet their own needs”. The CAA has significant roles in assisting the development of Government policy, and developing and implementing international standards relevant to aviation.

The DfT's guidance to the CAA on environmental objectives relating to the CAA's air navigation functions recognises that the CAA must give priority to maintaining a high level of safety (and to ensuring an efficient use of airspace) and provides a framework for the CAA to discharge its responsibilities. It also identifies aspects that must be taken into consideration, such as: sustainable development, guidance to local planning authorities, and reduction of greenhouse gas emissions, local air pollution and noise.

The CAA will work towards developing a sustainable economic framework for aviation. In support of this the CAA will seek to persuade the industry and policymakers of the value of aligning costs and revenues to provide robust structures for the future, that generate strong competition and a sound basis for investment decisions.

The increase in air traffic and the growing public profile of aviation’s impact on the environment means that the efforts already underway in the UK and in Europe to ensure aviation meets its environmental costs and obligations need to be intensified. The CAA remains closely involved in discussions with the European Commission, Government and industry as to how best to achieve this.

The CAA continues its work in revising the Airspace Change Process. Following consultation with key stakeholders, it is envisaged that the revised arrangements will be implemented during Summer 2006 and will include enhanced guidance to airspace change sponsors on environmental assessment.

Task	Deliverable	Milestone
Defining and delivering a coherent CAA position on a broader vision of sustainability	Publish papers/articles/speeches to develop consequences of sustainability principle in other policy areas.	During 2006
Providing high quality economic and policy advice to the Government on global and local environmental issues and participate in cross-Governmental steering group	Develop detail of emissions trading scheme and consider distributional impacts through development of relevant economic models.	During 2006
Provide policy advice on options for mitigating local environmental impacts, especially regarding project for sustainable development of Heathrow.	Provide papers to Government on policy options following receipt of outputs from project Heathrow NO <sub>x</sub> modelling in run-up to White Paper progress report.	Dec 06
Providing technical advice to inform Government policy.	Produce inputs for DfT report on progress towards White Paper objectives.	Dec 06
Providing technical advice to stakeholders in implementing policy established in the White Paper.	Produce inputs for a planning application to be submitted by BAA for a second runway at Stansted.	Spring 07

## 8. Resources – People

### 8.1 STAFF NUMBERS

The table below shows CAA staff numbers by Group as full time equivalents.

CAA STAFF NUMBERS BY GROUP (FULL TIME EQUIVALENT)

	2005/06 Budget	2005/06 Forecast	2006/07	2007/08	2008/09	2009/10	2010/11
SRG	649.9	597.3	592.3	577.0	561.3	535.3	531.3
ERG*	42.5	41.1	45.3	45.3	45.3	44.3	44.3
ERG Survey Field Force**	25.5	34.7	36.2	27.0	27.0	27.0	27.0
CPG	85.8	71.8	83.2	83.2	83.2	83.2	83.2
DAP (Civil)	60.0	66.0	73.0	73.0	73.0	73.0	73.0
Corporate Centre	149.2	155.9	151.9	149.9	149.7	146.7	144.7
Ancillary Groups	52.6	51.8	54.4	54.0	53.0	53.0	53.0
<b>Total Staff 2006</b>	<b>1065.5</b>	<b>1018.6</b>	<b>1036.3</b>	<b>1009.4</b>	<b>992.5</b>	<b>962.5</b>	<b>956.5</b>
Corporate Plan 2005 Forecast	1065.5	1065.5	1047.5	1029.0	1013.0	993.0	-
Change	0.0	-46.9	-11.2	-19.6	-20.5	-30.5	-

Full Time Equivalent = any person during a particular month who receives any portion of basic pay, sick pay, or maternity pay (recorded at a proportion of their contracted hours for that month divided by 35 and rounded to one decimal place). \*Excludes one ERG staff member on secondment from CAA. \*\*Represents part-time continuous and regional survey field force displayed as full time equivalents.

Overall SRG staff numbers are expected to reduce by 66.0 FTE, to 531.3 by 2010/11, a decrease of 11%. An estimate of the implications of EASA on staff numbers has been included although there are still many uncertainties at this time. An assessment has been made of the number of staff that will be required to carry out EASA contract work and non-chargeable work that is related to the transition to EASA. ERG's headquarters staff numbers are forecast to increase to a high of 45.3 in 2006/07 to allow for additional internal resource on the airports' reviews and additional support staff. Staff numbers for CPG show a reduction of 2.6 posts compared with the budget for 2005/06. This has been made possible by the streamlining of ATOL licensing procedures, the appointment of claims agencies for ATOL failures and the anticipation that CPG will be improving its procedures further to ensure maximum efficiency. DAP staff numbers increase by 7 to 73 from the 2005/06 forecast as a result of the findings of the DAP Review; savings will be sought in order to mitigate the additional costs.

Corporate Centre staff comprise all of the CAA's corporate and support functions (Board, Legal, Human Resources, Finance etc). Reductions in Corporate Centre staff numbers will be achieved throughout the Plan period principally within the HR and Finance functions. However, these are offset by an increase of one in the newly established European Strategy function and four posts in International Services as a result of the renewed contracts for overseas offices. The additional costs resulting from the increase in staff will be recovered by the income generated from these contracts. The Ancillary Groups (AUC, UKAB, Pensions and ASSI) sit outside the CAA's regulatory core functions and are independent. ASSI staff numbers include the Chief Executive and staff overseas but do not include the ASSI Board members that are also CAA staff.

### 8.2 HR STRATEGY

The CAA's ability to deliver its Corporate Plan is dependant on the capability and quality of its staff. The CAA believes in maintaining and developing excellence in its staff, as they are the source of its reputation and success. This needs to take place in a culture of high

performance, where the highest standards of professionalism and integrity are met, and in a culture where value for money is proactively pursued.

### **Achievement of HR Strategy during 2005/06**

The level of activity with regard to the HR Strategy and related tasks in 2005/06 has been substantial. As a consequence a dedicated Steering Group was created in August 2005 with the specific aim of reviewing the HR Strategy and the priorities and actions arising from it.

### **HR Strategy for 2006/07**

The main areas of activity for 2006/07 are set out below and reflect work done in 2005/06 and how this will be built upon. The related key tasks, deliverables and milestones from the HR Strategy are set out in the Strategies and Deliverables section of this Plan.

**Performance Management.** The CAA is committed to enhancing further its performance management arrangements to meet best practice standards with the aim of developing a robust evidence base to support other managerial processes. The development of the performance management culture is vital in ensuring that the CAA becomes a High Performance Organisation.

**Reward Strategy.** The CAA recognises that its reward strategies must be supportive of the CAA's aims and objectives and of the need to recruit, retain and motivate the right people with the right skills. The CAA reviewed its reward strategies and developed detailed plans for a more market and performance driven approach to reward which will be implemented during the period of this Plan.

**Learning and Development.** The CAA must have a robust, business needs-driven process for both staff development and succession planning which optimises managers' contributions and develops high quality candidates for key management jobs. Progress has been made in enhancing management and employee development and succession planning arrangements and this will continue. The Groups will continue to provide their own technical training supported by their training co-ordinators.

**Resourcing.** The CAA recognises that its staff are its most important resource. It is therefore essential to ensure that recruitment and retention arrangements meet the CAA's requirements. The CAA will continue to ensure that its resourcing arrangements measure up to best practice standards and that the CAA takes all reasonable steps to encourage UK representation in EASA.

**Culture Development.** Organisational culture will play an increasingly important role in recruitment and retention as employees look equally at the intangible aspects of employment as to tangible aspects such as pay.

**Investors in People.** The CAA is proud to be an 'Investor in People' and will continue working with this recognised standard to demonstrate that, against a demanding national benchmark, it is delivering coherent people strategies, initiatives and processes which in turn are capable of delivering the CAA's Mission, Values and Guiding Principles.

## **8.3 EQUAL OPPORTUNITIES**

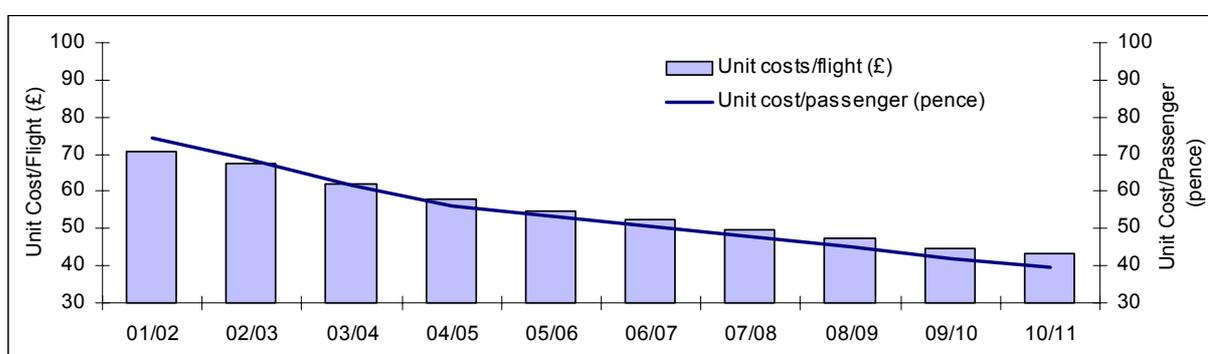
The CAA is committed to ensuring equality of opportunity and will ensure that all activities and reviews take full and proper account of the tests of equality, the particular need to promote racial equality and aim to achieve an employee profile more reflective of the labour markets in which the CAA operates. It is our policy to treat all employees and job applicants fairly and equally regardless of their sex, sexual orientation, marital status, disability, race, colour, nationality, ethnic or national origin, religion or belief. During the period of this Plan the CAA will take steps to ensure that 'age' is also included within this list. In respect of recruitment, career progression and development, the CAA will ensure that no requirement or condition will be imposed without justification that could disadvantage an individual on any of the above grounds.

## 9. Resources – Financial

### 9.1 INCOME, COSTS AND CHARGES

All of the CAA's costs are recovered from those that it regulates (the regulatory sector) via statutory schemes of charges, or in the case of air navigation services, from the UK's share of route charges payable to Eurocontrol. The CAA is unique in Europe in having to recover all of its costs, including a return on capital employed, from the aviation industry. Through its charges consultation process, the CAA ensures that activities and costs are subject to regular scrutiny by regulatees. This method of funding aviation regulation in the UK, and the resulting scrutiny it generates, ensures that the CAA continues to drive for efficiency and cost effectiveness. The CAA will continue to face considerable challenges managing its workload and projects within its limited financial resources and all efforts will be made to ensure that expenditure is kept to a minimum.

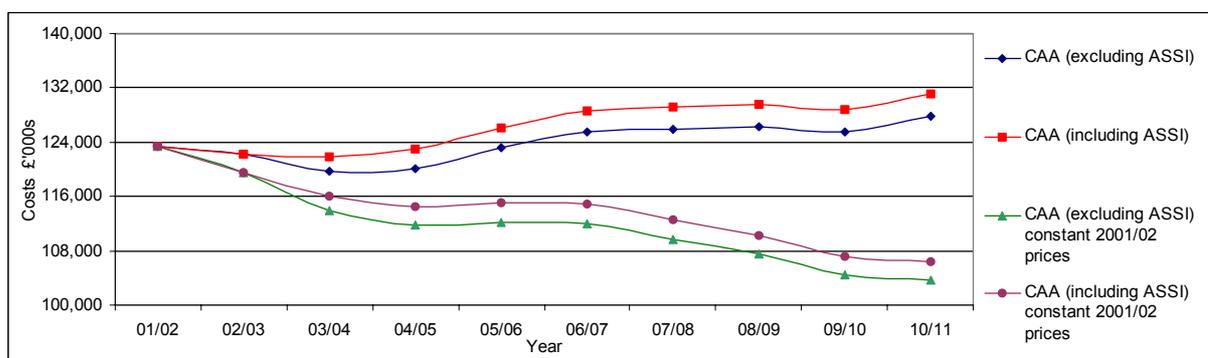
CAA UNIT COST INDICATOR (£2005/06)



This graph excludes London property provision movements, contributions to DfT for the running of Eurocontrol, Income Equalisation Provision movements, the depreciation on One Kemble Street and EASA transition and ASSI costs.

The graph above shows the trend in two important unit cost indicators for the CAA – unit cost per flight and unit cost per passenger. The graph has been compiled using the CAA costs for the Plan period with all costs adjusted for inflation to show 2005/06 outturn costs. The forecast for flights uses the CAA's base case traffic forecast for commercial flights while the forecast for passengers uses the CAA's base case traffic forecast for terminal passengers. The graph shows a steady decline in unit costs over the period of the Plan with the total cost of all of the CAA's activities amounting to 40 pence per passenger by the end of the period.

CAA OPERATING COSTS



This graph excludes London property provision movements, contributions to DfT for the running of Eurocontrol, Income Equalisation Provision movements, the depreciation on One Kemble Street and EASA transition costs.

The graph above shows an alternative view to the unit cost trends. At constant 2001/02 prices, despite increased insurance costs, the CAA has been extremely effective at reducing overall operating costs. The CAA has made considerable efforts to improve the efficiency and effectiveness of its operation, particularly since the events of 11 September 2001. The CAA's operating costs, excluding ASSI, have fallen by over £3m (2.6%) which in real terms

equates to a reduction of more than 9% compared to inflation. Much of this efficiency has been generated through close scrutiny of accommodation costs, actively engaging staff on improving CAA processes, and by moving to more electronic means of interchange with industry, including publishing documents on the Internet rather than traditional printing.

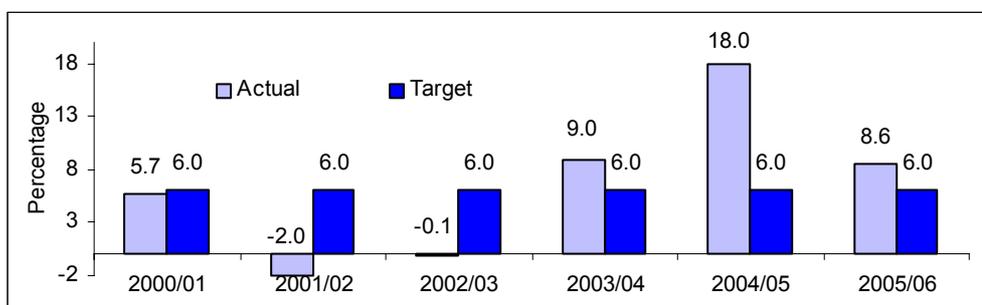
#### CAA COSTS

Forecast 2005/06	Budget 2005/06	£m	2006/07	2007/08	2008/09	2009/10	2010/11
57.3	58.1	Employment Costs	59.0	59.4	60.7	60.9	62.5
10.5	10.1	Property Costs	10.5	10.5	10.3	10.4	10.7
5.3	5.4	Computer Services (IT)	6.8	6.3	5.7	5.7	5.8
4.8	6.7	Professional Fees	7.1	7.0	6.5	6.8	6.5
1.7	2.0	Insurance	1.7	1.8	1.8	1.8	1.9
24.7	26.9	Other Costs	25.6	25.4	24.9	24.4	24.5
<b>104.3</b>	<b>109.2</b>	<b>Sub-total</b>	<b>110.7</b>	<b>110.4</b>	<b>109.9</b>	<b>110.0</b>	<b>111.9</b>
25.9	26.0	Meteorological Costs	26.8	27.7	28.7	29.7	30.7
44.9	45.6	ATS DfT Admin Costs	45.5	46.9	47.7	49.1	50.3
<b>175.1</b>	<b>180.8</b>	<b>Total Operating Costs</b>	<b>183.0</b>	<b>185.0</b>	<b>186.3</b>	<b>188.8</b>	<b>192.9</b>

## 9.2 RATE OF RETURN

The Government sets a financial target for the CAA's regulatory sector (comprising safety regulation, economic regulation and consumer protection) to levy charges to recover the costs of its regulatory and ATS activities and to achieve an annual rate of return of 6% – or break-even after tax and interest if this is greater. The graph below shows that the regulatory sector is forecast to achieve an estimated 8.6% return in 2005/06. The budget assumes that a 6% return will be recovered from 2006/07 onwards. However, it is likely that during 2006 the Treasury will review the rate of return.

#### RATE OF RETURN



## 9.3 FINANCIAL AND PLANNING ASSUMPTIONS

Over the period of the Plan there are a number of financial issues which are significant for the future financing of the CAA. At the time of writing, the outcome of these issues remains uncertain. For planning purposes the following assumptions have been made and the consequences of these changing could have a significant impact on the CAA's financial position. These issues are detailed below.

**SRG Income, Costs and Charges.** Although the CAA consistently fulfils its statutory objective of recovering its costs from those it regulates, it became increasingly clear that some sectors of the industry have been paying more than their fair share of SRG costs. In 2004, the CAA Board appointed a Joint Review Team (JRT) comprising representatives from different parts of the industry, the CAA and the Government to take a thorough look at the system and make recommendations for improvement. The aim of the review was to achieve charging mechanisms that were more cost-related, fair and reasonable, which minimised cross-subsidies between and within Charges Schemes, and improved the transparency of SRG's charges overall. As a result of the review, proposals were developed for revisions to the Charges Schemes that could, over a period of five years, have a significant impact on

charges to certain sectors of the aviation industry. The Board modified the JRT's final proposals and, in May 2005, gave final agreement to charges covering an initial 15-month period. The CAA then conducted an extensive public consultation. It is the CAA's intention to phase in the modifications to the charges structure in order to alleviate the financial impact on the smaller operators and is seeking to minimise as far as possible the impact that the proposed increased charges would have on general aviation. The transition arrangements will also allow several further reviews of SRG's regulatory approaches to be undertaken.

**EASA.** One major area of uncertainty relates to income from EASA that was previously sourced through the Airworthiness Scheme. EASA implemented its own fees and charges regulation with effect from 1 June 2005. Once this regulation came into force, SRG was not able to charge the customer directly for activities that EASA was responsible for, but recovered its costs directly from EASA through a service contract. The airworthiness work of the CAA in its capacity as the UK Competent Authority for carrying out non-EASA airworthiness responsibilities will continue to be charged to customers under the Scheme.

**Traffic and Economic Forecasts.** The traffic and economic forecasts used across the CAA for budgeting and planning purposes are given at Appendix 2. The traffic forecasts used in the Corporate Plan do not however take into account the prospect of "exceptional" events such as acts of terrorism, military conflict or health epidemics.

**Pension Scheme.** The Plan assumes an average employer's pension contribution rate of 6% per annum to the CAA Pension Scheme. In order to ensure that it can meet future funding requirements, the CAA is committed to undertake regular interim assessments throughout the planning period. From 1 April 2005, the Corporate Plan Balance Sheet accounts for pensions under Financial Reporting Standards 17 – Retirement Benefits. A pension fund asset of £255.8m has been included within the balance sheet in 2006/07 with a consequent increase in CAA reserves.

**ERM Project.** In order to comply with new legislation regarding the management of information and improved efficiency and effectiveness £862k is included within the 2006/07 budget for the ERM project.

**Taxation.** The Plan assumes that the CAA will not be required to pay corporation tax over the five-year period if planned operating results are realised. In respect of indirect taxation, the CAA continues to suffer significant amounts of irrecoverable VAT. The partial exemption calculation is currently being reviewed in an attempt to maintain savings at these levels, although the likely final outcome will not become clear until late 2006.

**Air Safety Support International Limited (ASSI).** ASSI, a subsidiary undertaking of the CAA, commenced operations in 2003 and provides regulatory advice to the Overseas Territories. The DfT currently funds this activity in its entirety.

## 9.4 FINANCING

The Plan assumes that the CAA will be a net repayer of loan capital to the National Loans Fund throughout the Plan period. It is anticipated that the loan capital will be repaid within 14 years. The average interest rate on the outstanding loans is 5.9%. The CAA's capital investment plans are detailed in the table below. The capital expenditure programme includes expenditure on essential IT related projects and leasehold improvements on One Kemble Street and CAA House on Kingsway.

CAA CAPITAL INVESTMENT

2005/06 Forecast	2005/06 Budget	£m	2006/07	2007/08	2008/09	2009/10	2010/11
1.0	1.1	SRG	1.1	1.0	0.9	0.9	0.9
0.3	0.1	Corporate Centre	0.1	0.1	0.1	0.1	0.1
3.6	6.2	One Kemble Street Improvements	0.0	0.0	0.0	0.0	0.0
0.0	0.9	CAA House Kingsway Improvements	0.0	0.0	0.0	0.0	0.0
<b>4.9</b>	<b>8.3</b>	<b>Total Capital Expenditure</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

## 9.5 FINANCIAL FORECASTS

### CAA PROFIT AND LOSS STATEMENT (CONSOLIDATED)

2005/06 Forecast	2005/06 Budget	£m	2006/07	2007/08	2008/09	2009/10	2010/11
<b>CAA Income</b>							
63.2	64.2	Safety Regulation Group	62.7	61.9	61.0	59.0	59.2
5.5	5.4	Economic Regulation Group	7.5	6.8	6.1	6.6	6.3
6.1	6.2	Consumer Protection Group	6.5	6.6	6.8	6.9	7.1
2.5	2.6	Directorate of Airspace Policy	3.1	2.9	2.9	3.0	3.1
77.7	79.5	En Route	80.9	84.8	87.3	89.3	91.7
17.1	22.6	Other Income	18.1	19.1	19.4	19.8	20.4
<b>172.1</b>	<b>180.5</b>	<b>Total CAA Income</b>	<b>178.8</b>	<b>182.1</b>	<b>183.5</b>	<b>184.6</b>	<b>187.8</b>
<b>Expenditure</b>							
57.3	58.1	Employment Costs	59.0	59.4	60.7	60.9	62.5
46.1	45.5	Services and Materials	48.7	49.2	49.4	50.6	52.1
3.4	2.5	Repairs and Maintenance	2.4	2.4	2.3	2.3	2.3
1.2	1.2	Research and Development	1.0	0.6	0.5	0.4	0.3
2.6	3.9	Depreciation	3.1	3.4	3.3	3.0	3.1
2.1	3.0	Irrecoverable VAT	2.9	2.7	2.6	2.6	2.6
62.4	66.6	Other Operating and General	65.9	67.3	67.5	69.0	70.0
<b>175.1</b>	<b>180.8</b>	<b>TOTAL OPERATING COSTS</b>	<b>183.0</b>	<b>185.0</b>	<b>186.3</b>	<b>188.8</b>	<b>192.9</b>
1.9	2.1	Income Equalisation	2.0	0.7	0.0	0.0	0.0
2.4	1.2	Kingsway Provision	0.2	0.2	0.2	0.1	0.0
<b>1.3</b>	<b>3.0</b>	<b>TOTAL OPERATING PROFIT</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.6)</b>	<b>(4.1)</b>	<b>(5.1)</b>
0.1	(0.4)	Net Cost of Borrowing	(0.4)	(0.6)	(0.6)	(0.7)	(0.8)
(0.9)	(1.2)	Taxation	0.0	0.0	0.0	0.0	0.0
<b>0.5</b>	<b>1.4</b>	<b>PROFIT/(LOSS)</b>	<b>(2.4)</b>	<b>(2.6)</b>	<b>(3.2)</b>	<b>(4.8)</b>	<b>(5.9)</b>

An analysis of the CAA's main costs is shown in the table at Section 9.1.

**UK ATS – En Route Income.** The 2006/07 increase is a result of a rise in the cost of meteorological services, additional One Kemble Street depreciation, and an increase in costs charged from DAP.

**Research and Development Expenditure.** Costs are expected to decrease over the period of the Plan as it is the industry's expectation that more research work will be carried out in the European environment.

**Other Operating and General Costs.** The increase between 2005/06 and 2006/07 relates largely to increases in:

- Professional fees for the ERG airports review (£0.3m in 2005/06; £1.8m in 2006/07)
- Payment to DfT for Eurocontrol contributions (£44.9m in 2005/06; £45.5m in 2006/07)
- Fund managers fees within the Pension Dept. (£1.2m in 2005/06; £2.3m in 2006/07)

**CAA BALANCE SHEET (CONSOLIDATED)**

<b>2005/06 Forecast</b>	<b>2005/06 Budget</b>	<b>£m</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
		<b>Tangible Fixed Assets</b>					
29.9	34.8	Tangible Fixed Assets	27.8	25.4	23.0	20.7	18.4
<b>29.9</b>	<b>34.8</b>		<b>27.8</b>	<b>25.4</b>	<b>23.0</b>	<b>20.7</b>	<b>18.4</b>
		<b>Current Assets</b>					
25.5	25.9	Debtors	25.9	26.6	27.1	27.4	28.0
0.0	0.0	Income Equalisation debtor<1year	0.9	0.0	0.0	0.0	0.0
10.8	10.3	Cash at Bank	4.4	2.0	(0.9)	(5.3)	(10.9)
<b>36.3</b>	<b>36.2</b>		<b>31.2</b>	<b>28.6</b>	<b>26.2</b>	<b>22.1</b>	<b>17.1</b>
		<b>Creditors: due within one year</b>					
(34.2)	(33.1)	Creditors & Deferred Income	(31.4)	(31.5)	(30.9)	(30.5)	(29.9)
(2.3)	(1.8)	Income Equalisation Creditor	(0.4)	0.0	0.0	0.0	0.0
(0.9)	(1.3)	NLF Loans repayable within one year	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)
<b>(37.4)</b>	<b>(36.2)</b>		<b>(32.8)</b>	<b>(32.5)</b>	<b>(31.9)</b>	<b>(31.5)</b>	<b>(31.0)</b>
<b>(1.1)</b>	<b>0.0</b>	<b>Net Current Assets</b>	<b>(1.6)</b>	<b>(3.9)</b>	<b>(5.7)</b>	<b>(9.4)</b>	<b>(13.9)</b>
<b>28.8</b>	<b>34.8</b>	<b>Total Assets less Current Liabilities</b>	<b>26.2</b>	<b>21.5</b>	<b>17.3</b>	<b>11.3</b>	<b>4.5</b>
		<b>Creditors: due after one year</b>					
(0.4)	0.0	Income Equalisation Creditor	(1.2)	0.0	0.0	0.0	0.0
(1.1)	(1.7)	Accruals and Deferred Income	(1.1)	(1.2)	(1.2)	(1.2)	(1.3)
(0.9)	(0.8)	Other Creditors	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)
		<b>Provision for Liabilities &amp; Charges</b>					
(0.7)	(1.5)	Other Provisions	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
<b>25.7</b>	<b>30.8</b>	<b>Net Assets Excluding Pension Assets</b>	<b>22.3</b>	<b>18.7</b>	<b>14.5</b>	<b>8.6</b>	<b>1.7</b>
261.0	261.0	Pension Fund Asset	255.8	250.6	245.6	240.7	235.9
<b>286.7</b>	<b>291.8</b>	<b>NET ASSETS</b>	<b>278.1</b>	<b>269.3</b>	<b>260.1</b>	<b>249.3</b>	<b>237.6</b>
		<b>Capital, Loans and Reserves</b>					
10.1	14.3	Loan Capital	9.1	8.1	7.1	6.0	5.0
276.1	276.1	Retained Profit	271.4	263.8	256.2	248.1	238.5
0.5	1.4	Current Year Profit	(2.4)	(2.6)	(3.2)	(4.8)	(5.9)
<b>286.7</b>	<b>291.8</b>	<b>TOTAL FINANCING</b>	<b>278.1</b>	<b>269.3</b>	<b>260.1</b>	<b>249.3</b>	<b>237.6</b>

Significant items included in the balance sheet are:

**Fixed Assets.** 2005/06 includes additions of £3.6m for the final costs of One Kemble Street refurbishment expenditure.

**Loan Capital.** The draw down of a £4m loan from the National Loans Fund in 2005/06.

**Pension Fund Asset.** This asset, valued in accordance with Financial Reporting Standard 17, is forecast to be £255.8m at the end of 2006/07.

**CAA CASH FLOW (CONSOLIDATED)**

<b>2005/06 Forecast</b>	<b>2005/06 Budget</b>	<b>£m</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
1.3	3.0	<b>Operating Profit</b>	(2.0)	(2.0)	(2.6)	(4.1)	(5.1)
2.6	3.9	Depreciation Charges	3.1	3.4	3.3	3.0	3.1
(1.9)	(2.1)	Income Equalisation	(2.0)	(0.7)	0.0	0.0	0.0
<b>2.0</b>	<b>4.8</b>		<b>(0.9)</b>	<b>0.7</b>	<b>0.7</b>	<b>(1.1)</b>	<b>(2.0)</b>
7.4	1.4	(Increase)/Decrease in Debtors	(1.2)	0.2	(0.5)	(0.4)	(0.5)
2.6	0.0	Increase/(Decrease) in Creditors	(1.8)	(0.6)	(0.5)	(0.3)	(0.3)
(8.7)	(1.5)	Increase/(Decrease) in Provisions	0.0	0.0	(0.1)	0.0	0.0
<b>3.3</b>	<b>4.7</b>	<b>Net Cash Inflow from Operating Activities</b>	<b>(3.9)</b>	<b>0.3</b>	<b>(0.4)</b>	<b>(1.8)</b>	<b>(2.8)</b>
0.1	(0.5)	Net Interest Paid	(0.5)	(0.6)	(0.6)	(0.7)	(0.9)
(4.9)	(8.4)	Capital Expenditure (net of grants received)	(1.1)	(1.1)	(0.9)	(0.9)	(0.9)
0.0	0.0	Asset Sales and VAT Reclaim	0.0	0.0	0.0	0.0	0.0
(1.0)	(2.3)	Taxation	0.0	0.0	0.0	0.0	0.0
<b>(2.5)</b>	<b>(6.5)</b>	<b>Net Cash Inflow/(Outflow) Prior to Loan Repayments</b>	<b>(5.5)</b>	<b>(1.4)</b>	<b>(1.9)</b>	<b>(3.4)</b>	<b>(4.6)</b>
(0.6)	(1.1)	Loan Repayments to NLF	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)
4.0	8.0	New Borrowings	0.0	0.0	0.0	0.0	0.0
<b>3.4</b>	<b>6.9</b>	<b>Net Loan Repayments</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(1.0)</b>
<b>0.9</b>	<b>0.4</b>	<b>Increase/(Decrease) in Cash</b>	<b>(6.4)</b>	<b>(2.4)</b>	<b>(2.9)</b>	<b>(4.4)</b>	<b>(5.6)</b>
<b>9.9</b>	<b>9.9</b>	<b>Opening Cash Balance</b>	<b>10.8</b>	<b>4.4</b>	<b>2.0</b>	<b>(0.9)</b>	<b>(5.3)</b>
<b>10.8</b>	<b>10.3</b>	<b>Closing Cash Balance</b>	<b>4.4</b>	<b>2.0</b>	<b>(0.9)</b>	<b>(5.3)</b>	<b>(10.9)</b>

**DEBTOR DAYS**

<b>2005/06 Forecast</b>	<b>2005/06 Budget</b>		<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
28	30	Debtor Days	28	28	28	28	28

# Appendix 1: Recent Performance 2005/06

## SAFETY INDICATORS

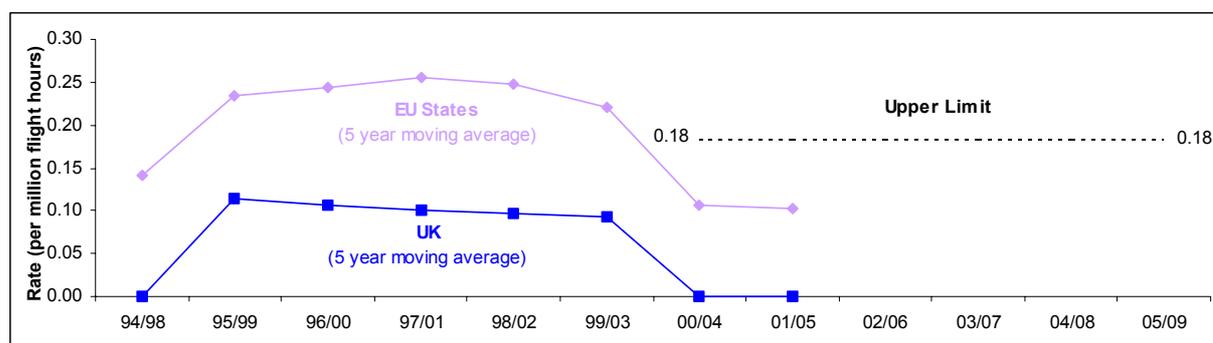
### Safety Performance Indicators

The CAA uses a method of setting and then monitoring future safety forecasts in support of one of the key objectives for safety improvement, namely to ensure that the frequency of fatal accidents does not increase in line with forecast growth in traffic. This method uses past safety performance to set forecasts. It also takes account of the difficult problem of monitoring 'low number statistics'. This is especially a problem where there are only one or two accidents over several years. To cater for this, upper limits have been defined, either using statistical confidence limits or judgement and these provide an indication of the statistical variation that might be expected.

Five sectors have been selected to best represent the UK aviation industry. These are large passenger aircraft, large freighter aircraft, small public transport aircraft, large public transport helicopters and general aviation.

The method, therefore, proposes two principal measures of safety for each sector. They are the forecast (shown as a red solid line with the exception of the general aviation chart) based on a projection of past data, and an upper limit (shown as a black dotted line). By setting two measures, it enables the UK safety performance to be monitored more objectively in the future. These measures were set in 2004, for the time period 2004 – 2009, and are kept constant. In this way the performance of each industry sector is being considered against a fixed measure.

#### UK REGISTERED/AOC FIXED WING PASSENGER AIRCRAFT ABOVE 5700KG MTWA FATAL ACCIDENT RATE



The graph above relates to large public transport passenger operations and shows the UK operators' five-year moving average fatal accident rate (in blue) compared with the fatal accident rate of operators in European Union states (in purple).

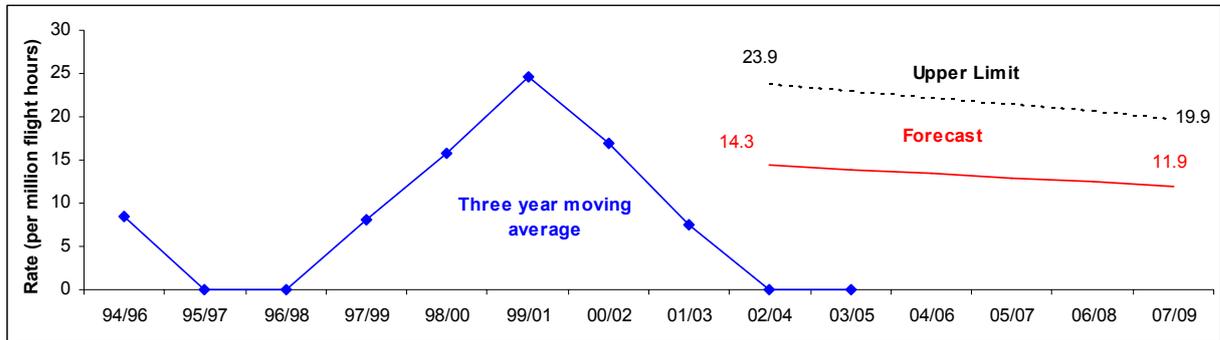
In previous years, the UK's performance on large public transport passenger operations has been compared to that of the JAA. However, since EASA was formed in September 2003, it is now more appropriate to compare the safety performance of the UK against all European Union states rather than JAA states.

The only fatal accident suffered by UK operators occurred in 1999, in Spain, where an aircraft broke into three pieces, following a heavy landing in a severe rainstorm. A passenger who died five days after the accident was subsequently found, on receipt of the final accident report, to have died as a result of the accident. As it is very rare to have a fatal accident within this sector, it is difficult to set a realistic forecast. However, it is possible to define an upper limit. To do this, UK operators' safety performance is compared with that of operators in all EU states. By using a fatal accident rate per million flight hours and a five-year moving average, a meaningful comparison can be made between EU and UK rates.

From the EU operator data, the projected fatal accident rate for 2005 was 0.18 per million flight hours, remaining stable until 2009, as shown in the above chart. This accident rate is

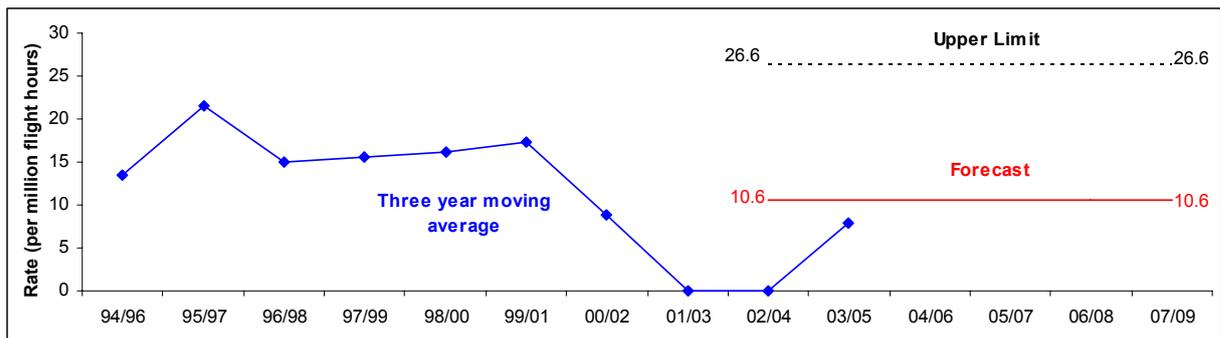
one of the lowest in the developed world and has, therefore, been used as the upper limit for the UK. Data from 2005 has shown that the EU fatal accident rate has decreased to 0.10 per million flight hours while the UK fatal accident rate has remained at zero.

**UK REGISTERED/AOC FIXED WING FREIGHTER AIRCRAFT ABOVE 5700KG MTWA FATAL ACCIDENT RATE**



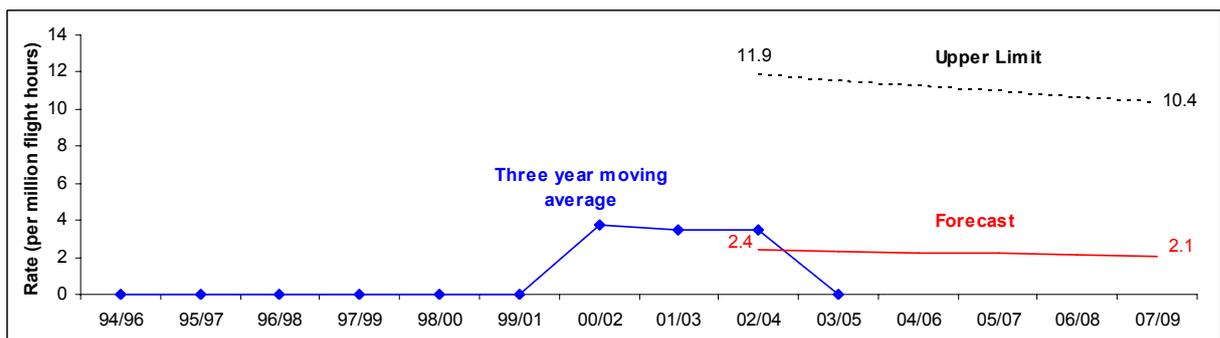
The graph above shows the three-year moving average fatal accident rate for large UK public transport freighter operations. A three-year moving average has been chosen to account for the frequency of accidents (in the last five years there has only been one fatal accident) and the need to have a responsive measure. Based on the UK data for this sector, the forecast for 2005 was 13.9 fatal accidents per million flight hours falling to 11.9 in 2009, with an upper limit of 23.1 falling to 19.9 in 2009. There were no fatal accidents in 2005, which has allowed the fatal accident rate of this sector to remain at zero.

**UK REGISTERED/AOC FIXED WING PUBLIC TRANSPORT AIRCRAFT BELOW 5700KG MTWA FATAL ACCIDENT RATE**



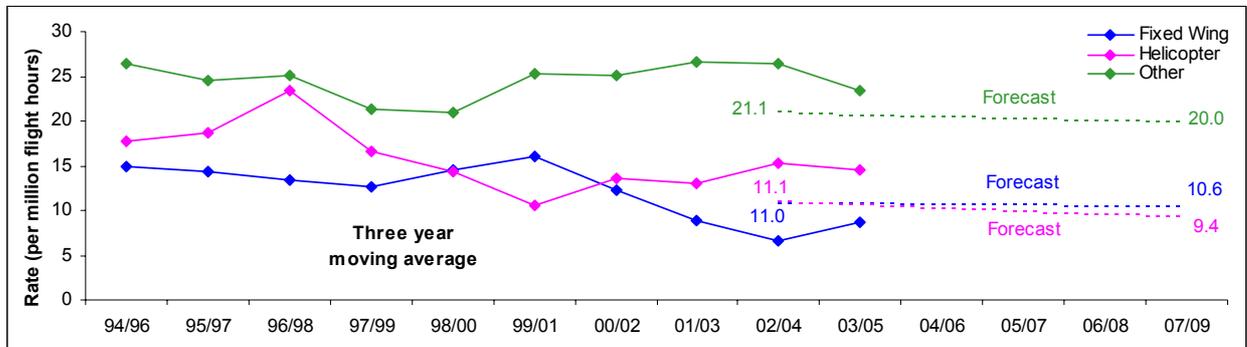
The graph above shows the three-year moving average fatal accident rate for small UK public transport aircraft, engaged in passenger, freight, ambulance, police or search and rescue operations. In the last five years, there has only been one fatal accident. Based on the UK data for this sector, the forecast for 2005 was 10.6 fatal accidents per million flight hours remaining constant until 2009, with an upper limit of 26.6. There has been a single fatal accident in 2005 in this sector, which has resulted in the fatal accident rate increasing to 7.9 per million flight hours. The 2005 fatal accident occurred in March and involved an Islander on an ambulance flight, which crashed in the sea while on approach to Campbeltown, Scotland resulting in two fatalities.

**UK REGISTERED/AOC PUBLIC TRANSPORT HELICOPTERS ABOVE 2730KG MTWA FATAL ACCIDENT RATE**



The graph above shows the three-year moving average fatal accident rate for all UK public transport helicopters above 2730kg MTWA, engaged in revenue operations. Over the last five years there has been one fatal accident. Based on the UK data for this sector, the forecast for 2005 was 2.3 fatal accidents per million flight hours falling to 2.1 in 2009, with an upper limit of 11.6 in 2005 falling to 10.4 in 2009. The last fatal accident occurred in July 2002 when a Sikorsky S76 crashed into the sea, off Norfolk, following a failure of the main rotor blade, resulting in 11 fatalities. The fatal accident rate for 2005 has reduced to zero.

**UK GENERAL AVIATION BELOW 5700KG MTWA FATAL ACCIDENT RATE**

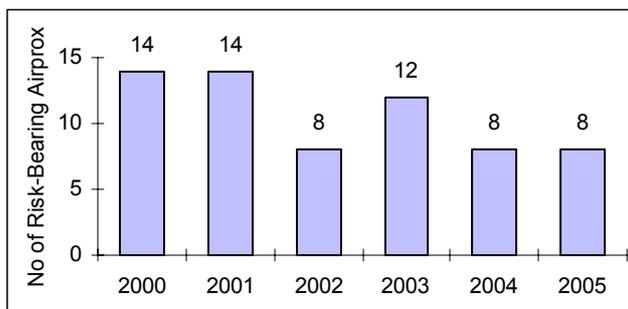


The graph above shows the fatal accident rates for UK general aviation aircraft. The aircraft are divided into aeroplanes, helicopters and 'other' aircraft, such as gliders, microlights, gyroplanes, airships and balloons on non-public transport activities. It can be seen that the fatal accident rate for aeroplanes has been showing a general downward trend. In 2005, general aviation aeroplanes were involved in 11 fatal accidents and the resulting fatal accident rate was 8.7 per million flight hours, compared to a forecast of 10.9. The fatal accident rate for helicopters has been showing a stable trend and in 2005 they were involved in two fatal accidents, resulting in a fatal accident rate of 14.5 per million flight hours. This compares to a forecast of 10.8 per million flight hours. The 'other' aircraft fatal accident rate has been consistently higher than that for aeroplanes and helicopters. In 2005, 'other' general aviation aircraft were involved in two fatal accidents, resulting in a fatal accident rate of 23.4 per million flight hours compared to a forecast of 20.8.

**Airprox**

A key indicator of air traffic safety is the number of risk-bearing Airprox. Risk Category A incidents involve an actual risk of collision while Risk Category B cases are those where aircraft safety has been otherwise compromised. Taken together the number of such cases indicates the effectiveness of air traffic separation measures. The CAA monitors Airprox and the graph below shows the number of risk-bearing Airprox occurring in UK airspace and involving at least one commercial air transport aircraft over the last six years.

**TOTAL RISK-BEARING AIRPROX INVOLVING COMMERCIAL AIR TRANSPORT**



An estimate is shown for 2005 due to the time required for each investigation.

The UK Airprox Board, working closely with the CAA, MoD and other aviation safety organisations, is responsible for assessing all Airprox in UK airspace, as filed by pilots and controllers. Cause(s) and Risk are identified and, where appropriate, safety recommendations are made aimed at reducing the likelihood of a recurrence of any given Airprox event. Findings are published and distributed widely throughout the aviation

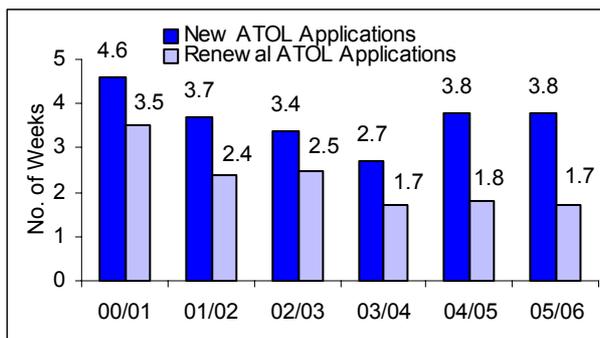
community and on the internet both to ensure that lessons are identified and to promote improvements in flight safety.

## SERVICE INDICATORS

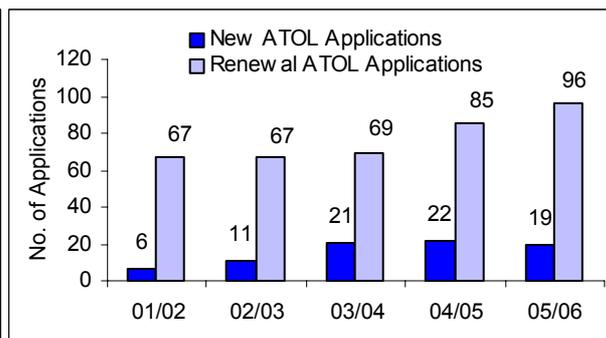
The CAA uses a number of indicators to monitor its service and performance and there are several codes of practice and service standards in place across the organisation. For example, as part of its consumer protection role, the CAA manages the ATOL scheme which licenses air travel organisers and ensures consumers are financially protected. There is a published Code of Practice for the ATOL scheme that sets out its principles of service and commitments for service levels, which has been approved by the Cabinet Office's Regulatory Impact Unit.

The 'time to decision' indicator (below left) reflects the CAA's performance on making ATOL decisions. The Code of Practice targets are decisions within an average of eight weeks of receiving necessary information for both new applicants and renewals. Both of these targets have been consistently met. Similar to 2004/05, there was an increase in new applicant ATOL applications in 2005/06, principally due to the number of applications suddenly doubling following the signing of a third party agreement with the Travel Trust Association. The other indicator (below right) shows the number of decisions taken per staff member, and this reflects a steady upward trend, particularly over the last three years.

**NEW ATOL & RENEWAL ATOL APPLICATIONS:  
AVERAGE TIME TO DECISION**



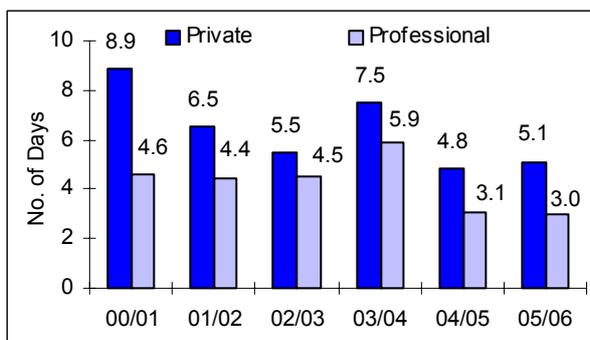
**NEW ATOL & RENEWAL ATOL APPLICATIONS:  
NUMBER OF DECISIONS PER STAFF MEMBER**



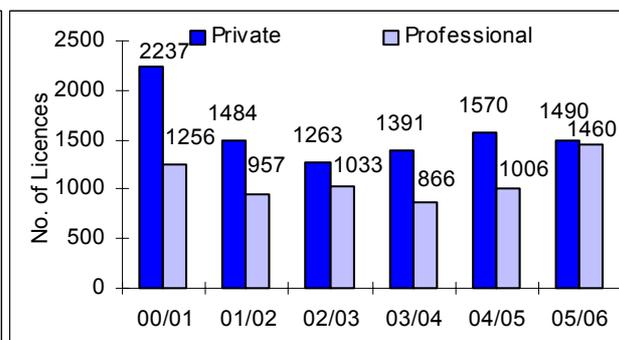
Figures for 2005/06 are estimates in both graphs.

In exercising its primary responsibility for the safety regulation of UK registered aircraft, one of the CAA's important tasks is the granting and issue of flight crew licences and associated ratings. The performance indicator (below left) shows the average number of days taken to grant and issue flight crew licences and associated ratings for professional and private licences and shows output being maintained in 2005/06. The other indicator (below right) shows the number of licences issued per staff member and reflects a general increasing trend, particularly for professional licences.

**PROFESSIONAL & PRIVATE LICENCES:  
AVERAGE TIME TO ISSUE**



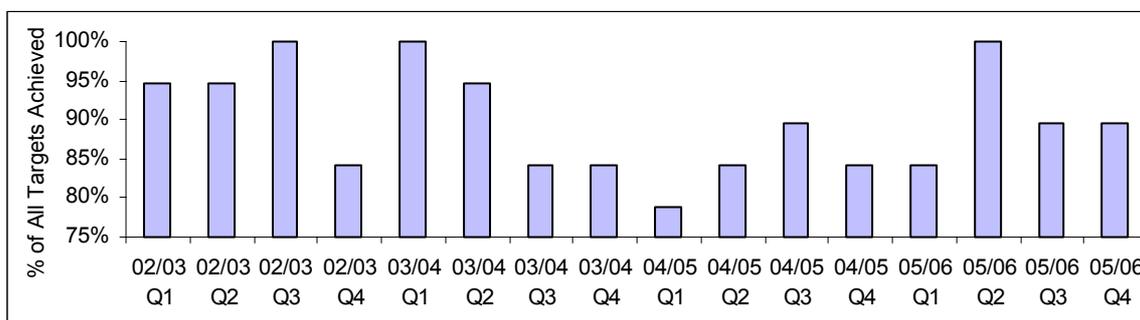
**PROFESSIONAL & PRIVATE LICENCES:  
NUMBER OF LICENCES PER STAFF MEMBER**



Figures for 2005/06 are estimates in both graphs.

For safety regulation there is a Code of Practice which provides a basis for measurement against the Regulatory Impact Unit's Enforcement Concordat. The graph below shows performance against the 19 separate service standards in SRG's Code of Practice.

**SAFETY REGULATION SERVICE STANDARDS: OVERALL PERFORMANCE**



The 2005/06 Q4 figure is an estimate.

## PROGRESS AGAINST 2005/06 CORPORATE PLAN KEY ACTIONS

The most significant actions from last year's Corporate Plan are shown below with a summary of progress during 2005/06. Of the 60 actions shown, 40 were met in full and on time, and three were completed though not on time. Work continues on 14 of the remaining actions, which were delayed mainly due to lack of resources and greater priorities, and to a lesser extent due to external factors. Three actions were not completed, as they were no longer required.

SRG KEY ACTIONS FOR 2005/06	STATUS
Further Reduce the Number of Level Busts by UK Public Transport: Set up CAA industry working group (as part of regulatory oversight process) to determine best practice. The results will be used to enhance existing regulation through improved operating procedures and more comprehensive training guidance with a report to SRG EC in Sept 2005 and SPC in October 2005. A further paper will be presented to SRG EC in March 2006 outlining the effect of the action taken.	Recommendations from a CAA/industry working group were agreed in October 2005. The review concluded that the majority of publications continue to be relevant, and where required, documentation amendments would be actioned. The analysis of level bust data to determine if the targeted improvement in the rate of level busts has been achieved will be collated in March and presented to SRG EC in April 2006.
Improving Radiotelephony (RT) Discipline: SRG RT Standards WG, which includes industry representation, will identify the best means to educate pilots from UK and non-UK operators on correct RT usage. A report with recommendations will be produced for SRG EC in August and SPC in September 2005 with an end of year assessment of results, with input from NATS, reported to SRG EC and SPC in April 2006.	A paper identifying recommendations was accepted by SPC in September 2005. Emphasis will be placed on issuing a FODCOM on proper RT usage and associated guidance material, and updating advice to examiners. Wider promotion of the need for correct RT usage will be addressed through published articles in relevant magazines and journals.
Runway Incursions: Following on from the publication of guidance material to increase the aviation industry's awareness of the risk of runway incursions and to maximise reporting of runway incursion incidents, a report will be provided to SRG EC and SPC in April 2006 indicating the resultant change in runway incursion rates per movement for the period April 2005 to March 2006, based on the established rate per movement in April 2004 to March 2005.	The data, indicating the resultant change in Runway Incursion rates will be collated from March 2006 and a report will be provided to SRG EC and SPC in June 2006.
Organisational Review: Review Operating Standards Division functions to seek greater efficiency within the Division and with associated cost reductions, without adversely affecting safety oversight. A report to SRG EC in December 2005.	A paper was presented to SRG EC in November 2005 and the SPC in December 2005. Staff were advised of changes in December, and changes to the divisional structure were implemented on 1 April 2006.
EASA: Continue to provide support and advice to the DfT as the EASA implementation progresses. Monitor the evolving Agency and regulatory environment, via the SRG EASA Transition Working Group, highlighting changes identified and implemented in SRG procedures and providing periodic reports to SPC. Additionally, a process will be established by April 2005 to oversee the management of the transfer of those tasks to EASA,	SRG has continued to support and monitor the development of EASA. SRG has provided advice to industry and support for DfT at EASA Management Board meetings, and through numerous working groups and direct assistance to EASA. SRG has been actively involved in the Advisory Group of National Authorities and the EASA NAA Certification Transition working group meetings. Reports summarising the transition to EASA

which the Agency assumed under EC Regulation 1592/2002, in order to ensure that transition is efficiently and effectively managed so that neither UK safety levels nor ability of EASA to meet the objectives stated in Article 2 of the Regulation are compromised.	and the Agency's evolution, and highlighting changes identified and implemented have been presented to SPC and the CAA Board. A process to oversee transfer of tasks to EASA was established. This generates a monthly Transition Assurance Report on critical areas regarding the transfer of tasks and is used to support CAA/DfT monthly meetings.
Single European Sky: In conjunction with the SRC, SRG will continue to develop concepts for cross-border safety regulation of SES ATM, drafting proposals for safety regulation procedures for SES cross-border ATS provision. SRG will also continue to work through the SRC to develop ESARRs as a foundation for SES Common Requirements.	Through the SES Working Group, the UK will draft proposals for safety regulation procedures for SES cross-border ATS provision by December 2006. The EU-adopted SES CRs cover ATM, including ATM Services' personnel and requirements for ATM Engineering and Technical personnel. The CRs transferred the competence requirements from ESARR 5 (Sections 1 and 3) into EU law in 2005. The successful introduction of ESARR 5 in the UK was confirmed in June 2005. Introduction of ESARR 1 is scheduled for April 2006.
SRG will also continue to actively participate and, where possible, influence the debate on the content of the Implementing Rules (IR) for Operations and Licensing.	During 2006, the European Parliament and Council of Ministers will agree the ER for Operations and Licensing, making EASA largely responsible for rulemaking for aircraft operations and licensing. SRG will continue its active participation and will seek to influence the debate on the content and development of the ERs and IRs.
<b>ERG KEY ACTIONS FOR 2005/06</b>	<b>STATUS</b>
Promoting Effective Economic Structures for UK and European Aviation: Throughout 2005/06, ERG will seek to influence the development of the Single European Sky (SES) initiative. Work will include policy advice to Government on emerging European regulations from the SES initiative, ensuring that industry is kept informed of SES proposals, active involvement in the cross-Government Policy Committee (EAPC) and providing specialist advice on the impact of SES initiative. ERG will also lead on the CAA response to charging reform, will produce CAA discussion papers on SES issues and actively participate in UK stakeholder workshops as well as with Eurocontrol and European Commission officials and with other Member States.	A number of outputs have addressed this action: <ul style="list-style-type: none"> <li>▪ Ongoing specialist advice given to Government through active participation at EAPC.</li> <li>▪ A consultation undertaken on how economic aspects of CRs regulation should be implemented. An initial consultation document was published in September. The process included holding two workshops with industry as well as receiving written responses. The CAA's response to the consultation was published in December.</li> <li>▪ Active participation at the SSC meetings on the Commission's draft charging regulation.</li> <li>▪ At the February SESWG CAA presented the UK's arguments for a contestability test to be incorporated within the regulation and circulated a paper on the same issue to the SSC. The issue remains unresolved.</li> </ul>
A Sustainable Economic Framework for Aviation: ERG will provide high quality economic and policy advice to the Government on the White Paper follow-up and on environmental issues in general throughout 2005/06. This work will include policy advice to Government on global environmental issues (including the inclusion of aviation in a European emissions trading scheme in 2008), an outline of emissions trading scheme for aviation during UK presidency in second half of 2005, meetings with a cross-Governmental steering group to develop policy proposals and providing policy advice to Government on the local environmental issues (particularly surrounding the development of Heathrow Airport).	A number of outputs have addressed this action: <ul style="list-style-type: none"> <li>▪ Ongoing advice given to Government and active involvement in cross-Government steering group on environment.</li> <li>▪ Commission communication on aviation and the environment issued at end 2005, supporting aviation's entry to EU emissions trading scheme.</li> <li>▪ CAA work on various design elements, and modelling work on potential impact on airlines submitted to cross-Government steering group during 2005/06.</li> </ul> Work on Project Heathrow delayed awaiting information from the air quality modelling work. Likely to form part of CAA input prior to Progress Report at end of 2006.
NATS Price Control: The CAA's final formal decision will be published by December 2005.	A formal decision was published in December 2005.
Review of Airport Price Controls: A decision on the process for the next review will be published by July 2005.	Decision document published in May 2005. In addition, a consultation document on process issues was published in October 2005 building on lessons learnt from the assessment of previous airports review and setting out the processes by which CAA will consult stakeholders and reach its decisions.
Passenger Survey: Complete the fieldwork for the 2005 Regional Departing Passenger Survey by Dec 2005.	Fieldwork completed by end of December 2005.
<b>DAP KEY ACTIONS FOR 2005/06</b>	<b>STATUS</b>
Implementation of ECAC Airspace Strategy: In order to implement OI-1A into UK FIRs, DFL of FL195 will be	DFL of FL195 was introduced into UK FIR in March 2006. Implementation measures for OI-2A were endorsed in

introduced into UK FIR by March 2006. DAP will also seek to influence the development of OI-2A to meet the UK's requirements. This will entail the development of OI-2A implementation measures acceptable to the UK by June 2005, and then the identification of airspace where classification between DFL and the surface can be harmonised with ECAC Strategy OI-2A requirements by March 2006.	March 2005 except the "Unknown Environment" where the UK reserved its position in respect of UK use of Class F airspace. The airspace where classification between DFL and the surface can be harmonised with ECAC Strategy OI-2A requirements was identified in March 2006.
Implementation of ECAC Communication Strategy: DAP will work towards implementation of 8.33kHz Expansion above FL195. A final RIA will be prepared by July 2005 followed by the Internal Consultation and Letter of Intent by August 2005 and the DAP Approval and Letter of Intent by October 2005. The AIC and AIP amendments will be prepared by January 2006.	An RIA was prepared in July 2005 and the Internal Consultation & Letter of Intent were completed in August 2005. The DAP Approval and Letter of Intent were finalised and sent to DfT in January 2006. However, the AIC and AIP amendments are waiting for the DfT.
Implementation of ECAC Navigation Strategy: DAP will facilitate the introduction of P-RNAV and Regulatory Guidance Material will be published by July 2005.	Work has commenced to scope the Guidance Material, which has a revised target of December 2006.
Implementation of ECAC Surveillance Strategy: The implementation of Phase 2 of the ECAC ACAS II mandate will include a number of stages: DAP will monitor compliance of Phase 2 exemption approvals against affected aircraft on UK register by July 2005; owners of non-compliant aircraft will be informed of the exemption approval requirement by August 2005 and an AIC to replace 70/2004 (Yellow 142) incorporating Phase 2 carriage exemption approval mechanisms will be drafted by February 2006. Finally, by March 2006, Eurocontrol will be notified of UK carriage exemption approvals, carriage exemption approval mechanisms will be aligned to Eurocontrol requirements, the AIC detailing Phase 2 implementation arrangements will be cancelled and the replacement to AIC 70/2004 will be published.	The process to monitor exemptions was defined and implemented in October 2005. A record of affected aircraft has been established and is being maintained, and the notification process is currently being defined. Anticipated completion in March 2006. The AIC to replace 70/2004 (Yellow 142) incorporating Phase 2 carriage exemption approval mechanisms is no longer required. It is anticipated that Eurocontrol will be notified of UK carriage exemption approvals in March 2006. Carriage exemption approval mechanisms were aligned to Eurocontrol requirements in November 2005. It is anticipated that the AIC detailing Phase 2 implementation arrangements will be cancelled in March 2006. The replacement to AIC 70/2004 has been completed but has a revised target date of May 2006 for publication.
Implementation of ECAC Surveillance Strategy: As part of the longer-term work to implement Mode S Elementary Surveillance, DAP will initiate a RIA and a 'hearts & minds' consultation by September 2005.	RIA and a 'hearts & minds' consultation was completed on time.
Transfer of IAP design to Industry: DAP will formulate IFP design approval mechanisms by April 2005 with the IFP design approval mechanisms published as an AIC by June 2005. The RIA consultation process will be completed by July 2005 and the charges scheme will be notified as an AIC by August 2005. Finally, the Regulatory Requirements document will be published as a CAP by December 2005.	Design approval mechanisms completed and included in RIA Consultation in March 2005. The RIA consultation process was completed on time in July 2005. The following elements are currently ongoing, delayed due to higher priorities, all have a revised target dates of June 2006. <ul style="list-style-type: none"> <li>▪ The publication of IFP design approval mechanisms as an AIC.</li> <li>▪ The notification of the charges scheme as an AIC.</li> <li>▪ The publication of the Regulatory Requirements document as a CAP.</li> </ul>
DAP Review: A report will be submitted to the APC to agree an action plan by July 2005.	The report and action plan were agreed by the APC in June 2005.
<b>CPG KEY ACTIONS FOR 2005/06</b>	<b>STATUS</b>
Insolvency Protection for Air Travel: In addition to completing a partial Regulatory Impact Assessment by April 2005 and a full Regulatory Impact Assessment by September 2005, CPG will continue to assist the DfT in drafting legislation, developing a working system, and implementing interim measures as directed by Government.	An approved draft of the partial RIA was sent to the DfT in April 2005 and then the CAA submitted and published an Advice to Government in September 2005, which incorporated the regulatory impact assessment. However, because the Government did not accept the CAA's advice on the future scope of financial protection for air travel, the tasks relating to implementation became redundant. The CAA's efforts in that regard have focused on meeting the Government's direction to review bonding instead.
Alternatives to ATOL Bonds: A paper assessing continuing adequacy of bonds as a primary instrument for funding tour organiser failure management will be submitted to CPPC by July 2005. If necessary, a proposal will be submitted to CPPC by November 2005	This objective was set in the context of a serious shortage of bond capacity; this has since eased, removing any urgency for change. The objective is still being pursued as part of the wider review on a reform of ATOL bonding, requested by Government. Terms of Reference for the

in order to decide whether an alternative mechanism to bonding should be introduced within existing legislation.	review of ATOL bonding were agreed with DfT in November 2005. Following informal discussions with stakeholders a formal consultation paper is planned for publication in March 2006.
Third Party Arrangements: A report reviewing streamlining and third party measures taken in conjunction with October 2003 amendment to ATOL Regulations, and assessing whether expansion would be appropriate, to be submitted to CPPC by November 2005. If approved, changes implemented by March 2006.	A review of the Small Business ATOL approach to licensing was presented to CPPC in November 2005. The streamlined approach has been a success but the principal conclusion was not to widen the scope of licence holders impacted at this stage pending the completion of the review on reform of ATOL bonding. No changes were implemented as none were required.
Enforcement of ATOL Regulations: Following October 2003 amendment to ATOL Regulations, the CAA published advice on the definition of a package holiday. Subject to the outcome of any legal challenge, the CAA will enforce the Regulations on the basis of this definition and will therefore reach decisions on whether ATOLs are required for known cases by June 2005.	The exercise has been deferred pending resolution of ABTA's judicial review on the definition of a package. The judgment resulting from ABTA's judicial review of the CAA guidance on the package definition was not clear and CPG is seeking permission to appeal this judgment.
Compliance with New Airline Regulations: Report on compliance with new Insurance Regulation, for airlines for which the CAA is responsible, to be submitted to CPPC by June 2005. A report reviewing the extent of compliance with the Regulation on Cancellation, Delay and Denied Boarding Compensation and assistance to air passengers and the adequacy of CAA resources will be submitted to CPG's GD by February 2006.	A paper on compliance by airlines for which CAA is responsible was submitted to CPPC in May 2005. A report on Denied Boarding Compensation was submitted on time and the CAA will be considering how to take this forward in the context of the European Commission's review of the Regulation due in January 2007.
<b>CAA-WIDE KEY ACTIONS FOR 2005/06</b>	<b>STATUS</b>
SRG Charging Arrangements: CAA will undertake a further review of SRG charges schemes in light of recommendations made by Joint Review Team (JRT) and implement charging arrangements with EASA by October 2005, following the outcome of JRT.	Industry consultation concluded on 5 September 2005 for the proposed revision to the Scheme following the completion of the Costs and Charges Review. A further review will be undertaken once the regulatory reviews within SRG are complete. Processes in place and invoices raised to EASA by October 2005.
Programme of Efficiency Improvements: Develop a CAA programme of efficiency improvements resulting in a first draft of improvements and identified quantifiable benefits by October 2005, followed by relevant efficiency improvements included in each business plan for 2006/07 and beyond.	Subsumed into recommendations from the Continuous Improvement Working Group. This task has been integrated with a review of Business Planning and a report will be provided to ExCo in August 2006.
Regulation Efficiency Improvements: Development and implementation of a Regulatory Management System by December 2005, followed by development of a programme of regulation efficiency improvements across CAA by March 2006.	Development and implementation of the Regulatory Management System will be completed in August 2006. This task has been integrated with a review of Business Planning and a report will be provided to ExCo in August 2006.
Performance Management System: Enhance the PM System to meet best practice standards and then measure the impact of performance management process across the CAA and develop metrics by June 2005. Subsequently monitor the returns and quality of individual performance management reports, compiling findings for the ExCo by October 2005.	Metrics developed. Agreed at April 2005 ExCo. Deliverable complete. Discussed and agreed at HR Steering Group in October 2005.
ERM Programme: Phase 1 (Design and Build) of programme will begin in April 2005 and be completed in September 2005, when Phase 2 (Initial Deployment) will then begin.	Design & Build stage not yet completed for various reasons, noticeably problems with software testing. ERM Programme is still on target to meet revised target date.
Reward Strategy: Continue the implementation of the revised reward strategy, ensuring that the strategy deliverables are achieved by March 2006.	All due deliverables achieved in April & October 2005 and briefing sessions were held January to March 2006.
Management Development: A set of management competencies and behaviours agreed by the ExCo and then associated development activities launched, with the first set delivered, by March 2006.	Management & leadership competencies agreed by HR Steering Group in February and were incorporated within the Management Excellence Programme and Performance Management Process by March 2006.

## Appendix 2: Traffic and Economic Forecasts

### Summary of Traffic Forecasts

<b>BASE CASE</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Average 04/05-10/11</b>
Total Terminal PAX (millions)	219.1	231.2	241.8	252.0	263.1	274.9	287.3	
% Annual growth		5.5	4.6	4.2	4.4	4.5	4.5	4.6
Commercial flights (000s)	2,115.2	2,252.3	2,340.9	2,419.3	2,495.8	2,567.3	2,643.2	
% Annual growth		6.5	3.9	3.4	3.2	2.9	3.0	3.8
Total ATMs (000s)	2,298.6	2,431.7	2,516.8	2,587.2	2,649.3	2,710.3	2,769.9	
% Annual growth		5.8	3.5	2.8	2.4	2.3	2.2	3.2
Available seat Kms (Billions)	352.1	370.5	387.5	404.2	422.4	441.8	462.1	
% Annual growth		5.2	4.6	4.3	4.5	4.6	4.6	4.6
<b>LOW CASE</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Average 04/05-10/11</b>
Total Terminal PAX (millions)	219.1	228.3	236.3	243.6	251.5	259.3	267.6	
% Annual growth		4.2	3.5	3.1	3.2	3.1	3.2	3.4
Commercial flights (000s)	2,115.2	2,224.6	2,287.4	2,344.0	2,394.2	2,436.4	2,484.8	
% Annual growth		5.2	2.8	2.5	2.1	1.8	2.0	2.7
Total ATMs (000s)	2,298.6	2,409.0	2,474.1	2,530.3	2,574.6	2,612.7	2,653.9	
% Annual growth		4.8	2.7	2.3	1.8	1.5	1.6	2.4
Available seat Kms (Billions)	352.1	366.2	377.8	389.7	402.1	413.9	426.4	
% Annual growth		4.0	3.2	3.1	3.2	2.9	3.0	3.2
<b>HIGH CASE</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Average 04/05-10/11</b>
Total Terminal PAX (millions)	219.1	233.5	247.8	261.2	276.8	293.6	310.8	
% Annual growth		6.6	6.1	5.4	6.0	6.1	5.9	6.0
Commercial flights (000s)	2,115.2	2,278.2	2,390.2	2,495.5	2,590.9	2,702.0	2,821.9	
% Annual growth		7.7	4.9	4.4	3.8	4.3	4.4	4.9
Total ATMs (000s)	2,298.6	2,452.6	2,554.9	2,643.0	2,715.7	2,805.9	2,898.8	
% Annual growth		6.7	4.2	3.4	2.7	3.3	3.3	3.9
Available seat Kms (Billions)	352.1	374.3	396.8	419.1	445.6	474.2	503.8	
% Annual growth		6.3	6.0	5.6	6.3	6.4	6.3	6.2

ASK figures are based on Table 3 of the CAA's ADU Monthly Airline Statistics which include operations conducted with both the airlines' own aircraft and aircraft wet leased but exclude air taxi sole use charter flights utilising aircraft of less than 15 tonnes MTWA. Terminal Passengers and ATMs are based on Table 2.2 of the CAA's ADU Monthly Airport Statistics which include all reporting UK airports apart from the Channel Islands airports. ATM figures include both air taxi operations and cargo flights. The definition of Commercial Flights includes overflights, passenger and cargo ATMs (including air taxis at all reporting UK airports except for Channel Islands airports); domestic flights are counted only once. These forecasts were drawn up in October 2005 and were reviewed in February 2006.

### UK Economic Forecasts – Base Case – Financial Year % Growth rates

<b>Financial Year</b>	<b>GDP Growth (%)</b>	<b>Household Consumption (%)</b>	<b>RPI (%)<sup>1</sup></b>	<b>Interest Rates (%)<sup>2</sup></b>
2005/06	2.46	2.18	2.18	4.82
2006/07	2.26	2.08	2.14	4.94
2007/08	2.02	1.90	2.32	5.08
2008/09	1.74	1.54	2.40	4.96
2009/10	1.94	1.72	2.42	4.80
2010/11	2.12	1.88	2.50	4.80

Source: 2005/06 Consensus Forecasts, May 2005 issue; 2006/07 – 2010/11 Consensus Forecasts, April 2005 issue, adjusted by CAA-ERG for financial year. <sup>1</sup>Underlying (ex-MIPs) rates. <sup>2</sup>Based on the 10-year Treasury bond yield (end period).

# Abbreviations

AIC	Aeronautical Information Circular	FL	Flight Level
AIP	Aeronautical Information Publication (The Air Pilot)	FTE	Full Time Equivalent
AIS	Aeronautical Information Services	FUA	Flexible Use of Airspace
AOC	Air Operators Certificate	GA	General Aviation
ANSP	Air Navigation Service Provider	GD	Group Director
ASA	Air Service Agreement	GDP	Gross Domestic Product
ASK	Available Seat Kilometres	HMR	Helicopter Main Routes
ASSI	Air Safety Support International Limited	HR	Human Resources
ATC	Air Traffic Control	IAP	Instrument Approach Procedure
ATM	Air Traffic Management	ICAO	International Civil Aviation Organisation
APC	Airspace Policy Committee	IFP	Instrument Flight Procedures
ATL	Air Transport Licences	liP	Investors in People
ATOL	Air Travel Organiser's Licence	IR	Implementing Rule
ATS	Air Traffic Services	JAA	Joint Aviation Authorities
ATSOCAS	Air Traffic Services Outside Controlled Airspace	JRT	Joint Review Team
AUC	Air Transport Users Council	MoD	Ministry of Defence
BRTF	Better Regulation Task Force	MTWA	Maximum Take-off Weight Authorised
CNS	Communication, Navigation and Surveillance	MVGP	Mission, Values and Guiding Principles
CO <sub>2</sub>	Carbon Dioxide	NAAAs	National Aviation Authorities
COCASG	CAA Outside Controlled Airspace Steering Group	NATS	National Air Traffic Services Ltd
CPG	Consumer Protection Group	NEAT	North East Airspace Team
CPPC	Consumer Protection Policy Committee	NLF	National Loans Fund
CR	Common Requirements	NO <sub>x</sub>	Nitrogen Oxides
DAP	Directorate of Airspace Policy	nPC	new Prestwick Centre (NATS)
DFL	Division Flight Level	NSA	National Supervisory Authority
DfT	Department for Transport	OAA	Open Aviation Area
DG COMP	Directorate for Competition	OFT	Office of Fair Trading
DG TREN	Directorate for Transport and Energy	Pax	Passengers
DTI	Department of Trade and Industry	P-RNAV	Precision Area Navigation
EASA	European Aviation Safety Authority	RIA	Regulatory Impact Assessment
EC	European Council	RNAV	Area Navigation
ECAC	European Civil Aviation Conference	RPI	Retail Price Index
EDRM	Electronic Documents and Records Management	RT	Radiotelephony
ERPC	Economic Regulation Policy Committee	SSC	Single Sky Committee
ERG	Economic Regulation Group	SES	Single European Sky
ERM	Electronic Records Management	SESAR	SES ATM Research and Development
ESARRs	Eurocontrol Safety Regulatory Requirements	SESWG	SES Working Group
EU	European Union	SMS	Safety Management System
ExCo	CAA Executive Committee	SPC	SRG Policy Committee
F&CS	Finance and Corporate Services	SRC	Safety Regulation Commission
FAB	Functional Airspace Block	SRG	Safety Regulation Group
FIR	Flight Information Region	SRG EC	SRG Executive Committee
		SSR	Secondary Surveillance Radar
		TSC	Transport Select Committee
		TMA	Terminal Manoeuvring Area
		UKAB	United Kingdom Airprox Board

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If you require further information about the Corporate Plan  
Please contact Adrian Brett:

Tel: 020 7453 6015 or 01293 573946  
E-mail: [adrian.brett@caa.co.uk](mailto:adrian.brett@caa.co.uk)