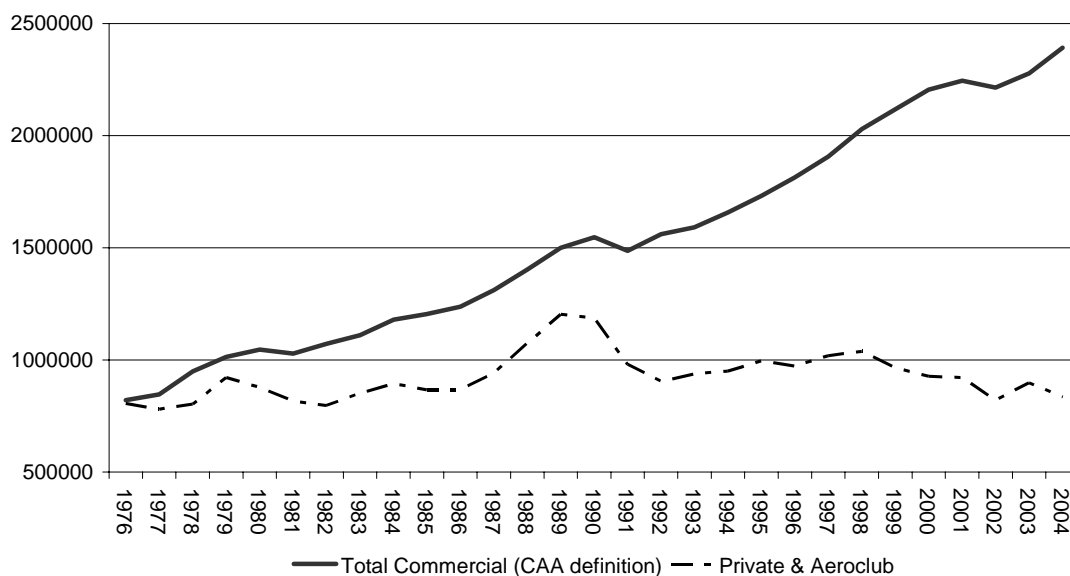


Position Review and Statement on:
Final Report of the Joint Review Team to the CAA Board
dated April 2005
and
Consultation Document on SRG Charges 10th June 2005

KEY POINTS:

- 1) The Joint Review Team looking at the impact of EASA on SRG activity and charges was convened without full representation of GA, Sport & Recreational Aviation.
- 2) The GA, Sport & Recreational Aviation representation that was included, the BBGA, disagreed sufficiently with the JRT report to file a minority report.
- 3) The JRT process provides major cost savings to airlines and larger airports which have expanded dramatically in the last 30 years, while GA, Sport & Recreational Aviation pilots and smaller airfields will have to pay more, exacerbating the downward trend for GA activity seen since 1990.

Commercial and Private Movements at UK Airports
Source: UK CAA Table 2.4 Movements at UK Airports by Purpose 1976 - 2004



- 4) The JRT report includes no data to show either how the desired cost structure compares to historic costs (rather than 2005/6 Budget) or trends in SRG charges for users over the past decade. There is also no assessment of any economic or social impact of the changes on the user groups.
- 5) The current regulatory environment is one designed for Commercial activities and is over-specified for General Aviation. Despite the terms of reference suggesting that the report would look for efficiency savings, none have been identified in the report

and no efficiency savings are passed on in future charges. Indeed, the “cost-plus” solution adopted by the CAA and the airlines encourages inefficiency.

6) An impact statement is said not to be required, as there is no change in actual regulation. This is simply unacceptable with such a significant change and would in any case be part of good regulation given the extent of the JRT work

6) The introduction of any changes to SRG charges should not go ahead until after the recently announced proposed review of General Aviation by the CAA.

7) The final report of the JRT Issue 1 is called up by the consultation document. The report itself relies on various annexes, which are not published. It is of note that many issues damaging to sport and recreational aviation are only detailed in the annexes.

The Stated Objectives of the Report:

The review of the CAA Safety Regulation Group (SRG) costs and charges structure was initiated in March 2004 by CAA Chairman, Sir Roy McNulty.

The Joint Review Team (JRT) was established, and co-chaired by the CAA and British Air Transport Association (BATA) with representatives from Society of British Aerospace Companies (SBAC), Airport Operators Association (AOA), National Air Traffic Services, Department for Transport (DfT) and the British Business and General Aviation Association (BBGA). (See Appendix A).

The JRT was tasked with reaching **a consensus** on the impact of European Aviation Safety Agency (EASA) on SRG in the period to the end of financial year 2007/08.

It was also tasked with reviewing the following objectives raised by the industry and that had been debated over a number of years in the Safety Regulation Finance Advisory Committee (SRFAC) before making appropriate recommendations for their resolution:

1. ***Reach consensus on the impact of EASA.***
Does not seem to have been fully addressed.
2. ***Resolve cross subsidies.***
Addressed but we disagree.
2. ***Seek opportunities to increase regulatory efficiency.***
This does not seem to have been adequately addressed.
3. ***Seek opportunities to reduce regulatory activity.***
This does not seem to have been adequately addressed.
4. ***Improve charges consultation.***
This does not seem to have been adequately addressed.

The target was to present the recommendations to SRG on costs and charges, and on the charges consultation process, to the Trade Associations, the Safety Regulation Group Policy Committee and the CAA Board by mid-October 2004, with priority given to the impact for the charges scheme for 2005/6.

The report was finally published on June 10th 2005. It is important to note that the sole representative of General Aviation, the BBGA, was not in agreement with the conclusions of the JRT and submitted a minority report.

Charging Scheme Principles

To progress the review the team “agreed” a set of 11 charging principles (See Appendix B) based on the need to recover costs (plus Treasury 6% return on capital equivalent to 3% profit), efficiency and cost regulation; cost allocation and cost recovery; cross subsidies and pricing; work performed for Government and cost working for EASA including transition costs. Key aspects for Recreational flying was an emphasis on recovering costs “properly allocated to the scheme” and “where costs cannot be related to a particular organisation or individual, charges shall be fairly and equitably distributed between those who benefit...”

There has clearly been some inconsistency of logic here. In particular a split of GAD policy and advice activity costs has been based on numbers of individual charge payers in each scheme – even though in some cases an organisation is one (e.g. British Airways) and in others an individual is one (a private individual with a permit to fly). Also AOC holders were content with seat kilometres when allocating costs among themselves but not when applied to GA.

Most concerning in the GA section is the comment “...after much debate even JRT was unable to reach consensus on a list of the sectors benefiting from GA activities.” Perhaps not surprising as there was no recognised GA, Sporting & Recreational representative on the team. Seemingly there is no recognition that GA and Recreational Aviation are disadvantaged by commercial activities that require such regulation.

Report recommendations/conclusions

The CAA plans to raise AOC charges of sub 15 tonne aircraft to offset the claimed cross subsidy from below 15 tonnes. The heavier AOC holders (airlines) will see a significant (£14.9m p.a.) cost reduction, some of which will be replaced by EASA charges, with under 15 tonnes AOC holders' charges rising by £2 M p.a. GA charges are set to rise by 108%. Smaller licensed aerodrome operators are also hard-hit.

Restructuring of the charges to generally take place over a 2 ½ year period (some longer) based on the 2005/6 budget are as follows. This includes the target income of 3% to give a Treasury requirement for a 6% return on capital. (shown separately):

CAA Safety Regulation Group 2005/06 Budget	Costs £000's	Profit 3% £000's	Target Income £000's	Required Income Change £000's & %	
Safety Regulation Activities					
AOC Scheme	21,437	643	22,080	(14,932)	(40.3%)
Airworthiness Scheme	9,488	285	9,773	2,508	34.5%
Personal Licensing Scheme	11,046	331	11,377	2,248	24.6%
Aerodrome Licensing Scheme En Route ATS Regulation Scheme And ATCO Licensing	10,601	318	10,919	(78)	(2.1%)
General Aviation Scheme and Aerial certificates Scheme	383	12	395	207	107.9%
Total Safety Regulation	52,955	1,589	54,544	(10,049)	(15.6%)
Other activities/contract					
EASA activities/contract	12,482	374	12,856	12,856	-
Other	3,345	100	3,445	(284)	(7.6%)
Total Other Activities	15,827	474	16,301	12,572	337.2%
Total Safety Regulation Group	68,782	2,064	70,845	2,524	3.7%

The table demonstrates a 40% reduction in AOC (Aircraft Operators Certificate) charges with significant increases for Airworthiness, Personnel licensing and especially General Aviation and Aerial Application Certificates Scheme (108%).

The proposals are said to have created more “cost-related charges, which are “fair and reasonable” and have “minimised/removed cross subsidies between and within charging schemes”.

AOC (Aircraft Operators Certificate) sees a 40% reduction. Within this figure there is a substantial reallocation from the above to below 15 tonne operators who have already suffered increases of 20% and 30% during 2003/4 and 2005/5 – they now have to face a further increase. To ease the burden, capping on an annual basis is to be applied during the phase-in. The report acknowledges the proposals will have a significant effect on smaller operators and seemingly takes no account of loss of revenues if operators go out of business.

Airworthiness scheme (relates to Series & Exports C of A's, C of A renewals, CAA Permits to fly and Approval of Persons). Some of the C of A cost transfers to EASA. A major increase falls on CAA Permits to Fly where increases phased over 4 ½ years including 23% pa for each of the first 3 years. At the end of only 3 years charges ranging £135 to £331 rise to £252 to £617. The second major increase here is Approved Persons (those recommending issue of certificates) where charges of £1,292 to £5,168 rise by nearly 30% in each of the first two years.

Personnel Licensing Scheme. Covering Professional and Private pilot’s licences as well as Simulator Approvals and Aircraft Maintenance Engineer licensing. Average for this across the area is 8.4% for each of the 3 years of implementation. Over the 3 years a 5-year Professional Pilots licence rises from £194 to £248, and a renewal from £110 to £140. A 5 year Private Pilots Licence rises from £149 to £181 and the renewal from £59 to £72.

Aerodrome Licensing Scheme and ATS Regulation, En Route Air Traffic regulation and ATCO (Air Traffic Control) Licensing. These are considered together there being no significant issues of these cross subsidising other schemes. There are though, various structural changes to the charging system. Most significant are new banded annual charges and a variable charge based on passengers or 200 kg of cargo movement. These proposals have a significant impact on small and medium size aerodromes which will not benefit from the fixed/variable charge restructuring. Detailed effects are not to hand – however earlier analysis (Annexes leaked with earlier documents but not provided with the consultation set) showed changes such as: Oxford for example rising from £4K to £19K, Lasham zero to £4K and the smallest licensed aerodrome from £776 to £3860

General Aviation Scheme and Aerial certificates Scheme. This relates to Flying Displays, Parachuting, Permissions and Exemptions and Aerial Application Certificates and the plan is to phase the increases over 2 ½ years. The target income of £395K is achieved in 3 steps - £211K, £286K and then £395K. All areas except Parachuting (with no increase) increase by 8.4% in the first year. Though a review of the actual structure is promised – which is unlikely to change the overall target revenue which is an increase of 108%

Has the JRT achieved the stated objectives?

1 Reach consensus on the impact of SES

This is not addressed in the Consultation document on SRG charges though is in the JRT report. The JRT report notes there was “consensus on overall impact” but difference of view as to rate of change. It is unclear as to how the integrated cost efficiency of both organisations will be achieved with the report focused almost entirely on cost transfer/allocation.

2 Reduce cross subsidies between and within schemes

The bulk of the report deals with this issue and the outcomes are outlined above. Indeed it is noted that the other stated objectives are treated in a very minor way in the report. However, the cross subsidies are only identified using a methodology that to quote page 9 of the JRT report, “*However, the CAA cautioned members against drawing conclusions from what was a one-off exercise, with future costs being allocated on the basis of past data.*”

3 Opportunities to increase efficiency in regulation processes

Only one section, just two pages (74-75) of the 79 page main report deal with this issue, via a “Benchmarking Study” by Compass Management Consultants.

The benchmarking was conducted against civil aviation authorities in Germany, Sweden, Italy and Spain as well as against commercial operations. It should be noted that a comparison with the FAA was not attempted. The JRT report suggests that the exercise yielded “encouraging reports” with CAA matching or exceeding 23 out of 41 Performance indicators. A further study is commissioned to look at IT as scope here was “narrow” and there was lack of inter department integration. Reference is made to “a number of improvements”.

It should be noted that despite a commitment to “continuous improvement”, this is not quantified anywhere in the report and no requirement for savings generated from this is written into the financial plans. Typically, in an industrial/commercial organisation the required saving would be of the order of 5 to 7% compound before inflation. Similarly, most privatised utilities are forced by their regulator to adopt a ‘RPI Minus’ cost and charges formula to ensure efficiency gains from oligopolistic operators.

4 Other opportunities for reduction of regulatory activity

There is little reported here other than CAA responded to issues raised where appropriate and matters left to CAA to progress and provide reports to Industry. No reference is made to Sports and Recreational aviation in this regard. However, subsequently the CAA has announced a review of General Aviation activities and, within 12 months, an associated comprehensive review of its regulatory approach to the GA sector. This in turn may question in the sense in implementing changes, effectively, “pre-judging” any review.

5 The need to improve charges consultation process

Most of the work is said to be focused on SRFAC membership – though few details are given. The proposals are said to be developed. Enhanced consultation in respect of the Charging proposals is not itself enhanced other than by extending the consultation period. It is still very short, given the scale of the changes planned and the time taken by the JRT to deliver the report and is also being limited to a Web Based consultation process. There is no quantification of where the conclusions will be published.

Implementation Process & Consultation

With the report now issued the implementation (the normal SRG process) is: -

Consultation period starts 10 June 2005 to 5 September 2005

Review Responses

Publish Summary Responses 14 October 2005

Request Ministers blessing

Publish charges (60 day dead period)

Implement 1 Jan 2006 (Charges up to 31 March 2007)

Position points

- 1 **GA, Sporting and Recreational Aviation decline and burden:** The increased cost burden to GA, Sport & Recreational Aviation, arguably with the highest costs sector in the world, further increased via the new charging structure, is likely to inflict major economic hardship, to both industry and recreational activity. This is evidenced by the ongoing decline of activity at GA airfields as shown by CAA figures with a fall in private movements of 30% since 1997 recorded at airfields with above 10,000 private movements. Example: Biggin Hill total movements between 1998 and 2004 are down 23%. Similarly there is a marked decline in PPL licences issued down between 1990 and 2000 from near 4,700 to 3,100 (nearly 50%) – with ATPLs doubling from 900 to close to 1800 during the same period. Without a strong GA sector insufficient ATPLs are likely to be provided for the CAT sector.
- 2 **Impact Assessment.** The JRT only examined the cost implications to the CAA. There was no economic impact assessment of the “ability to pay” across the various sectors impacted by the changes. The paper has failed to pull together its different sections to attempt an impact assessment on the payer (e.g. aerodromes are also affected by GAD costs, a further impact on pilots). An impact statement is said not to be required, as there is no change in actual regulation. With such an inevitable impact and with the magnitude of changes an impact statement on Aviation sectors – especially GA, Sporting and Recreational Aviation – should be done which includes all current domestic and European changes and proposals. Such an impact statement should also consider economic, social, safety and cross interest effects. It is not unreasonable to expect the Government, through DfT and CAA, to lead on that in the interest of the British aviation communities.
- 3 **Strategic Review of GA in UK and Comprehensive Review of Regulatory approach to GA.** The fact that the CAA has announced this review should halt the changes in the charges scheme in order to allow an assessment of the pressures facing GA before any changes are introduced. This review needs to specifically include a focus on Sport & Recreational Aviation.
- 4 **GA/Sporting and Recreational Aviation representation.** The lack of GA, Sporting and Recreational Aviation representation on JRT is crucial. Equally there was no representation from licence holders or flying instructors despite the “principle criteria ... to have a broad spectrum of aviation interests involved”. The fact that only GAMTA (now BBGA), which essentially covers the commercial GA industry, was on the body, (and even they could not agree with the final proposals) should highlight that the objective of improving the consultation charges regime failed at the first hurdle. AOPA were refused a seat on JRT. It appears no other GA, Recreational or Sporting Aviation bodies were approached to ensure even reasonable representation. This would seem to be at variance not only on the moral grounds in respect of good consultation but arguably to not be in accord with the formal DfT Sponsorship Statement for CAA or with the

Principles of Good Regulation as published by the Cabinet Office (Better Regulation Task Force 1988 revised 2000).

- 5 **Cost Restructuring exercise only.** It appears clear that this was a cost restructuring exercise by the regulator and the larger industry bodies without consideration of the smaller players. Of course it is the business of Industry to reduce its costs by whatever legal means is at its disposal. But it is the duty of the regulator to ensure that “charges shall be cost related, fair and reasonable” (para 3 Charging Principle 3). By presenting this report to its board, the regulator has singularly failed in this duty.
- 6 **Failure to meet objectives – commitment to cost savings.** Suggestions in respect of stated objectives (2 & 3) covering efficiency improvements represent a minor section of the report and are incomplete or inadequate. Proposals to set “stretching targets” and “benchmark best practice” are not made and there is no commitment in the budget forecasts to ongoing cost improvement by showing anticipated efficiency cost savings.
- 7 **“User Pays or “Beneficiary Pays” argument.** The terms of reference based on “user pays” amounts to a “cost-plus” pricing regime, with no consideration as to the needs, or the ability to pay, of the user or the effect one group imposes on another. The concept of “beneficiary pays” has thus not been properly applied.
- 8 **Cost Base Reference.** A feature of the document is that all the charge increases are benchmarked to Budgeted 2005-6 costs. At no point in the document is it clearly laid out what the charges for each area of SRG, and each user group, will be between 2005-6 to 2007-8, in comparison to each year from 2000-2004.
- 9 **Equity of the cost allocation,** even if that were acceptable, is flawed, despite some attempt to create a “beneficiary model”. Section 5.2.4 sets out how GA Policy and advice cost are to be divided the focus being according to the number of charge payers, regardless of how many beneficiaries they represent. Each airline is considered to be one payer, as is each individual Permit to Fly holder. So an individual with a CAA permit to fly aircraft pays the same share of costs as does British Airways PLC; hardly a beneficiary model! Agreement to use Available Seat Kilometres within the AOC scheme was abandoned when looking at GAD – this would transfer costs to the AOC holders!
- 10 **CAA SRG largely for the Commercial Operators.** Safety regulation is significantly driven by commercial, not Sporting and Recreational Aviation interests, a relationship not considered in this approach or in this report. Indeed, 70% of all airport movements recorded by the CAA in 2004 were for commercial operations, only 7% of movements related to “private” flying.
- 11 **Commercial Profitability from Regulation.** It is the regulatory environment that allows airlines to extract an economic profit from UK airspace. In 2003 CAA figures show UK airlines generating £484.1m of profit (before tax).

The report presents no evidence as to the proportion of total costs that the SRG charges relate to each user group, nor does it relate those charges to the profit that each user group extracts from the safety provided.

- 12 **Effect of SRG costs on demand.** There is no underlying data provided in the JRT document providing any evidence about how the current SRG charging structure and the alleged “cross-subsidisation” has influenced activity. Indeed, since 1982 CAA data shows that commercial movements at UK airports have increased two fold, while UK private and aeroclub flying has fallen back to levels not seen since 1982 (with the exception of in the wake of 9/11). This suggests that there is no evidence of cross-subsidisation holding back the growth of commercial aviation in the UK; see table on page 1
- 13 **Level Playing Field.** The level playing field argument requires consistency –if this is implemented there is no remaining argument for GA not to have the beneficial tax arrangements (specifically on fuel) enjoyed by commercial operators. GA pays £5m p.a. in fuel taxes and the airlines save £800m by not having to pay such taxes (per Government figures).
- 14 **Profit on Safety.** Cost allocation includes a 6% return on capital to the Treasury (equates to 3% surcharge on invoices), why is safety for non-commercial activities expected to make a “commercial return”? UK CAA is the only such authority in Europe which is not subsidised, let alone being required to make a rate of return. This for commercial operators is effectively unfair competition, and for recreational flying an indecent burden.

Roger Hopkinson
Wednesday, June 29, 2005

Appendix A: Consultation and JRT membership

JRT Membership is

Industry	Danny Bernstein	Joint Chair
CAA	Padhric Kelleher	Joint Chair
BATA	Wayne Jenner	
SBAC	Richard Smith – substituted by John Hughes	
GAMTA	Mark Wilson (note GAMTA has become BBGA)	
AOA	David Thomas	
NATS	John Perry	
DfT	Dorothy Parkin	
DfT	Pat Ricketts (for EASA matters)	
CAA	Chris Jesnick	
CAA	Ron Elder	
CAA	Peter Hunt – substituted by David Chapman	
CAA	Simon Baker	
In attendance: other CAA reps.	Adrian Brett	
	Mike Pool (Secretary)	

Meetings started 1 March 2004.

Appendix B – The Charging Principles

A key element of the Joint Review Team's work was developing 11 charging principles. They were endorsed by the CAA Board and form the basis of the current charging proposals. They are:

- 1: The CAA is required by the Civil Aviation Act to fully recover costs associated with discharging its regulatory functions, and it is also required to achieve a rate of return defined by the Treasury
- 2: The CAA shall continuously seek to minimise the cost of regulation by improving efficiency and effectiveness
- 3: SRG shall recover costs from those it regulates, and charges for a particular scheme will recover the costs properly attributed to that scheme
- 4: The CAA shall recover fully the costs of non-statutory activities from those on whose behalf they are carried out, including all directly attributable costs
- 5: Industry and the CAA shall use their best endeavours to remove material cross-subsidies between and within schemes
- 6: Direct and support costs of a scheme or activity shall be allocated to it and where indirect and overhead costs can be attributed specifically they shall be allocated accordingly
- 7: The CAA shall provide adequate transparency to provide clear cost information in relation to the allocation and apportionment of costs between, and within, schemes

8: The CAA shall seek to keep annual increases in charges for any scheme within inflation and where step changes are required they shall be phased over a maximum of five years

9: Costs associated with advising and providing assistance required by the Secretary of State in connection with civil aviation functions shall be recovered from the Government

10: For work performed under contract to EASA, the CAA shall seek to fully recover its costs under that contract

11: The cost of transition to new European institutional arrangements will need to be supported.