

CAA Charges Consultation - CAA Response

Executive Summary

- The formal consultation with charge payers began on 10 June 2005 with a press and industry conference that provided the main elements of the proposals together with, for the first time, the consultation documentation being available on the CAA web site. The consultation period closed on 5 September 2005.
- The consultation concluded with some 219 replies.
- The analysis of the consultation responses has been undertaken in accordance with the Cabinet Office “Code of Practice on Written Consultations” Criterion 4.
- The main issues identified by the respondents to the consultation process can be summarised as follows:
 - There would be a significant impact on the GA community;
 - The membership of the Joint Review Team did not reflect the interests of the GA community;
 - Cross-subsidies should not be totally eliminated;
 - The whole level of CAA efficiency needs reviewing – increasing charges is not the answer;
 - The charges proposals consulted upon should not be implemented until the findings from the various General Aviation reviews have been concluded;
 - The Government should provide more funding for additional costs of the CAA transferring responsibilities to EASA;
 - The Government should determine a level playing field within the UK aviation industry (between commercial operations and the GA community) and between the UK and the rest of Europe;
 - The transitional arrangements included in the CAA proposals result in long and, in some cases indefinite periods of implementation.
- In considering its response to the consultation, the CAA has paid particular attention to the strength of feeling amongst its charge payers and the further evidence of the associated impacts that these proposals will have on them.
- Following due consideration by the CAA Board, the CAA proposes to implement the charges outlined in the consultation document for the period commencing 1 January 2006 and concluding on 31 March 2007, with the following amendments:
 - Charges for Permits to Fly within the Airworthiness Scheme will increase by 10% (previously 23.1%).
 - Charges for the General Aviation Scheme will increase by 3% (previously 8.4%) with the exception of parachuting whose charges will remain at the previous years’ level.
 - Aerial Application Certificates Scheme charges will increase by 3% (previously 8.4%).

1 Introduction

- 1.1 On 10 June 2005, the CAA published its charging proposals for the 15 month period ending 31 March 2007.
- 1.2 The proposals were based upon the extensive review of SRG Costs and Charges. Early in 2004, the CAA set up the Joint Review Team (JRT), which was comprised of representatives from the UK aviation industry, the Department for Transport (DfT) and the CAA. The work undertaken by the JRT formed the basis of the approach to the charges, which was laid out in the consultation documents.
- 1.3 Prior to 2004 and throughout the early 1990's, the Safety Regulation Finance Advisory Committee (SRFAC) placed even greater demands on CAA to analyse costs and to explain charges. In 1990, the SRFAC considered that a major review of the AOC scheme should be undertaken which should, in particular, focus on the balance of income derived from fixed and variable charges and from 'light' and 'heavy' operators. In 1991, the AOC Charges Working Group, a sub-committee of the SRFAC, was formed. The Working Group concluded that there was indeed a significant imbalance between the costs of regulating the 'light' operators and the regulatory charges that they paid. However, the SRFAC could not reach agreement on how to remedy the cross subsidy situation and the Working Group continued to study the issues. In the meantime, SRG implemented a 20% price increase in the variable charge for 'light' operators in 1993 and implemented successive 20% increases in 1994, 1995 and 1996. All other factors being equal, continuation of a 20% increase may have taken 13 years to address the imbalance. The SRFAC continued to debate the cross subsidy issue and with the introduction of a Group-wide time recording system in 1997 led to the development of the cost allocation model in 2002 and subsequently the review of SRG's Costs and Charges.
- 1.4 The consultation began on the 10 June 2005 with a press and industry conference that provided the main elements of the proposals together with, for the first time, the consultation documentation being available on the CAA web site. Due to the significance of the proposals, the CAA Board provided a 12-week consultation period to obtain industry comments rather than the usual 5-week consultation period.
- 1.5 The purpose of the SRG Charges consultation process was to enable all industry representatives to comment on the Proposals, via e-mail, letter, websites or the media.
- 1.6 The consultation period closed on 5 September 2005.
- 1.7 This document summarises the responses to consultation and provides a summary of the CAA's response to those comments.

CAA Charges Consultation - CAA Response

1.8 The analysis of the consultation has been undertaken in accordance with the Cabinet Office “Code of Practice on Written Consultations” Criterion 4. This guideline requires that responses should be carefully analysed, with particular reference to:

- Possible new approaches to the questions consulted on;
- Further evidence of the impact of the proposals and;
- Levels of support among particular groups.

2 The number of responses to the consultation document

2.1 Number of responses

A total number of 219 respondents provided submissions through the consultation exercise. The respondent type can be broken down as follows:

Originator	No.	%
General Aviation community	184	84
Representative Organisations	18	8
Airline companies	10	5
Airports	5	2
Other	2	1
Total	219	100

2.2 The Representative Organisations that responded included:

Air Display Association (Europe)
Aircraft Owners and Pilots Association
Association of Licensed Aircraft Engineers (1981)
British Aerobatic Association
British Air Transport Association
British Airline Pilots Association
British Business and General Aviation Association
British Gliding Association
British Helicopter Advisory Board
British Microlight Aircraft Association
GA Alliance
General Aviation Awareness Council
General Aviation Safety Council
Guild of Air Pilots and Air Navigators
Helicopter Club of Great Britain
Historic Aircraft Association
Popular Flying Association
PPL/IR Europe
Royal Aero Club

2.3 The larger airlines formed the majority of the 10 airline respondents.

CAA Charges Consultation - CAA Response

- 2.4 Gerald Howarth MP also provided a submission and this was co-signed by Lembit Opik MP and Lord Rotherwick on behalf of the Parliamentary Aviators Club.

3 Consultation responses

- 3.1 All the comments received to the consultation have been summarised and are detailed within **Appendix 1**.
- 3.2 The main areas of response to the consultation process can be summarised as follows:
- 3.2.1 There would be a significant impact on the GA community with some small organisations, airfields and pilots withdrawing from the industry and consequently the CAA should have conducted a formal Regulatory Impact Assessment. *(CAA response 4.1.1)*
- 3.2.2 The membership of the Joint Review Team (JRT) did not reflect the interests of the GA community – “no taxation without representation”. *(CAA response 4.1.2)*
- 3.2.3 Cross-subsidies should not be totally eliminated – a way of life in any form of ‘taxation’. *(CAA response 4.1.3)*
- 3.2.4 The whole level of CAA efficiency needs reviewing – increasing charges is not the answer. *(CAA response 4.1.4)*
- 3.2.5 The charges proposals consulted upon should not be implemented until the findings from the various General Aviation reviews have been concluded. *(CAA response 4.1.5)*
- 3.2.6 The Government should provide more funding towards the additional costs resulting from the transfer of responsibilities to EASA. If EASA is taking over responsibilities, why are Airworthiness and Personnel Licensing charges still rising? *(CAA response 4.1.6)*
- 3.2.7 The Government should determine a level playing field within the UK aviation industry (between commercial operators and the GA community) and between the UK and the rest of Europe. In particular, the severe imbalance caused by the price of commercial aviation fuel not including duty or VAT whereas duty and tax is added to GA fuel. In addition, the requirement for the CAA to achieve a rate of return was inappropriate – why is safety for non-commercial activities expected to make any ‘commercial return’? To have any rate of return puts industry operators at a disadvantage competitively with the rest of Europe. *(CAA response 4.1.7 and CAA response 4.1.4)*
- 3.2.8 A passenger levy charge should be introduced so that the beneficiary pays for the regulatory costs incurred. *(CAA response 4.1.7)*

CAA Charges Consultation - CAA Response

3.2.9 The transitional arrangements included in the CAA proposals result in long and, in some cases indefinite periods of implementation. The consequence being that the larger AOC holders will continue to support the GA community. (CAA response 4.1.8)

3.3 In addition to these general areas of response there were also a number of Scheme specific issues identified. These are summarised below:

- Air Operator Certificate Scheme (CAA response 4.1.9)
The proposed banding structure is unfair and should be restructured.
The proposed banding structure does not allow diverse fleet aircraft weight compositions.
Significant increases for operators of aircraft below 15 tonne will damage their financial viability.
- Airworthiness Scheme (CAA response 4.1.10)
Charges for Permit to Fly renewals represent poor value for money.
Charges to historic aircraft should be reduced or eliminated.
Large increases for Approved Organisations will be passed onto their customers who may seek alternative services in Europe.
- Personnel Licensing Scheme (CAA response 4.1.11)
Significant administration activities associated with licence renewals should be eliminated to keep charges as low as possible – why not use the more efficient and cheaper FAA model? To increase charges just before EASA take over the responsibility seems perverse.
- Aerodrome Licensing Scheme (CAA response 4.1.12)
Large increases in aerodrome licensing charges will put smaller aerodromes out of business.
- General Aviation Scheme (CAA response 4.1.13)
Increased GA costs will make it more difficult for airlines to obtain pilots without them having to pay/contribute to the cost of training.
Increased charges for air displays will reduce the number of smaller air shows and associated professions.
Explanation is required on how the Flying Displays increases have been calculated.
Why are there no increases in the Parachuting charges?
GAD costs are now paid by heavy AOC Ops, surely the DfT should pay this – the JRT “beneficiary model” is flawed.
It was felt that the cost of policy work leading to legislative changes carried out, within GAD should be charged out to the DfT, otherwise they would have to duplicate the expertise in SRG.
- Aircraft Registration and Mortgages Scheme (CAA response 4.1.14)
With an increase proposal of 20%, it was felt that the DfT should bear these costs since it is their legislation that has given rise to them.
BGA have offered to manage the glider registration more economically.

No comments were received in respect of the Aerial Application Certification Scheme or the En Route ATS Regulation Scheme.

- 3.4 Helios Technology – Review of CAA SRG charges proposals
AOPA, BBGA and BHAB commissioned Helios Technology to undertake a review of the CAA proposals as part of their response to consultation.

While the CAA welcomed the report it was unfortunate that, given the consultation process commenced on 10 June 2005 for a full twelve week period, the consultants were not appointed by the industry group until 13 August 2005. The executive summary of the report refers to it being a 'quick independent review'. The CAA believes that, given the scope of the work that lead to the charging proposals, the timescales given to the consultants were not likely to be adequate for a complete critique to be developed.

4 CAA's response to consultation

- 4.1 The CAA was pleased to see the level of response to the consultation process. The consultation concluded with some 219 replies. A complete summary of the consultation responses is included within **Appendix 1**. The responses to the consultation followed a number of common themes and CAA responses to these points are detailed below:

4.1.1 *Regulatory Impact Assessment and SRG Charging Proposals*

The CAA did not undertake a formal Regulatory Impact Assessment (RIA) as prescribed by the Cabinet Office in the Better Policy Making: A guide to Regulatory Impact Assessment because:

- There is no change in or new regulation being proposed.
- There is no change in policy relating to cost recovery. The policy has been in place for a number of years as highlighted in the Safety Regulation Finance Advisory Committee (SRFAC) minutes of 17 October 1996 which states that 'The Authority intended to continue with its long standing policy that each major activity should be self-supporting and to eliminate within the constraints imposed by activity variations and pricing limitations, cross subsidisations between charges schemes.'
- The process of change had been initiated over a number of years via the SRFAC, with significant amendments being made to the Charges Schemes over many years, particularly in the last two years.
- The CAA's fees have always been constructed by way of consultation with industry, taking into account industry volumes, changes in CAA's cost base, the need to remove cross subsidies and emerging issues such as EASA. They have never been constructed on a predetermined formula; rather the rates of charge for individual schemes are constructed having regard to the issues described above.

CAA Charges Consultation - CAA Response

- The proposals were made principally as a consequence of the Joint Review Team (JRT). The work of the JRT covered a 15 month period and was comprised of representatives that covered all sectors of the aviation industry. In addition, the CAA approached the JRT process in an open and transparent manner and during the 15 month period the CAA finances and efficiencies were subject to close scrutiny by all sectors of the aviation industry.
- Based upon the work undertaken by the SRFAC and more recently by the JRT, the CAA firmly believes that it has complied with the principle that supports the RIA process, namely that of evidence-based policy making.
- The Better Regulation Task Force's publication on Independent Regulators (2003) mentions that "in line with the principle of 'comply or explain', independent regulators should explain why particular aspects of the RIA process do not apply to them." The publication recommends to independent regulators that the Cabinet Office guide to better policy making is a useful starting point. In establishing the Cost & Charges Joint Review Team, and by providing a 12 week consultation period for industry comment it is considered that the CAA has explained the proposed changes to the cost recovery process in sufficient detail so as not to require in addition a formal RIA.

For the past seven years, SRG has fully conformed to Cabinet Office Guidelines for best practice in this area and Regulatory Impact Assessments are routinely carried out for all new Regulations. RIA's are regarded as an essential component of the safety regulation process and SRG has taken the lead in initiating this process within the Joint Aviation Authorities (JAA) and thence to EASA.

In addition, as part of the development of the Charging proposals, the CAA was always cognisant of the impact the proposals would have on the aviation industry. Consequently it undertook impact analyses for the proposed charges covering the operators and organisations within the following regulatory areas:

- Air Operator Certification
- Aerodrome Licensing
- Maintenance organisation approvals

The analyses were compiled with an emphasis on identifying the impact on the smaller organisations. The analyses compared the current and proposed regulatory charges as a percentage of organisations' total operating costs.

- AOC Scheme

The analysis performed in 2004 has been updated to take account of actual AOC charges paid in the 2004/05 financial year. It is important to note that this analysis considered those operators for which financial information is publicly available. For operators of aircraft under 15 tonnes, this highlighted that current AOC charges represent, on average,

approximately 0.3% of turnover (results ranged from less than 0.1% to 1.4%¹). This will increase to an average of 0.4% of turnover when the AOC proposals are implemented (ie an increase of 25%). These percentages are broadly consistent with those for AOC holders operating aircraft over 15 tonnes, where current AOC charges represent, on average, 0.2% of turnover (results ranged from less than 0.1% to 2.9%²).

- **Aerodrome Licensing**

The analysis takes account of annual aerodrome licensing charges paid for the 2005/06 financial year. The analysis considered those operators for which (a) financial information is publicly available; and (b) the principal activity appears to be the operation of an airfield/aerodrome/airport. For the eight smallest aerodromes (all with turnover below £2m), current charges represented, on average, 0.1% of turnover (results ranged from 0.1% to 0.2%). This does not change significantly for these operators when the revised pricing structure is introduced.

- **Maintenance Organisations**

The analysis takes account of charges paid by a Part-145 approved maintenance organisation for the 2005/06 financial year. The analysis considered those operators for which (a) financial information is publicly available; and (b) the principal activity appears to be maintenance. The scheme currently provides concessions for organisations with low turnover (less than £1,680,000). For these organisations, our analysis determined current charges represent, on average, 0.3% of turnover (results ranged from less than 0.1% to just under 1.0%). This will increase to an average of 0.4% of turnover when our proposals are implemented.

4.1.2 *Industry representation on the Joint Review Team (JRT)*

The 13 person JRT was comprised of Joint Chairs being CAA (Head of Design and Production Standards Division) and Industry (BATA Chairman) plus one member each from BATA, SBAC, BBGA, AOA and NATS and two representatives from the DfT and four from the CAA. The composition and representation of the team was structured having regard to efficiency in terms of the size of the group, and the desire to have a spectrum of aviation interests represented. The representation was balanced across all sectors and more than fairly represented GA in terms of costs passed to and income generated from that sector. The General Aviation scheme contributes £0.2m - 0.3% of CAA's income, whereas the large AOC operators contribute £27m, nearly 40% of CAA's income. At the outset of the review it was agreed that BBGA liaise with and brief the GA community.

¹ Note to avoid possible anomalies in the data, the average excludes the highest and lowest two results, though it should be noted that these exclusions do not have a significant impact on the calculation.

² Note to avoid possible anomalies in the data, the average excludes the highest and lowest two results, which has the effect of slightly reducing the average percentage.

4.1.3 *Misconceptions in respect of treatment of cross subsidies*

It must be stressed that £4m is **not** being moved to the GA community. Most of the £4m relates to AOC holders who are operating aircraft for commercial gain, most of whom each have an annual turnover ranging between £1m and £145m. It should also be noted that whether an operator is a major flag carrier or an operator at the smaller end of the industry sector, SRG's AOC charges represent on average 0.3% of the organisation's turnover.

For the General Aviation charges scheme, the modified proposals for the next charging period provide for increases of 3.0% and this results in additional income of just £7,000 spread over all the charge payers. It should be noted that no price increases were applied to this Scheme during the last charging period.

The current proposals represent a very small step towards a position where the GA community pays its share of the cost of safety regulation, a position that GA has been aware of for many years. The CAA has ensured and will continue to ensure that the proposals will not place an unmanageable burden on the GA community.

Neither the CAA nor the major airlines are seeking to remove all the cross-subsidies from within SRG's charges. The CAA has retained variable charge mechanisms across the AOC and Aerodrome Licensing Charges Schemes, which by their very nature direct costs towards operators with most activity.

A number of SRG's charges include a turnover reduction that recognises the effect of some of its charges on small organisations. These have been retained following consideration by the CAA Board.

4.1.4 *CAA efficiency and Financial Performance*

In addition to the review of Costs and Charges, the JRT undertook a benchmarking exercise to compare the regulatory and business support activities of the CAA with other European Regulators and industry counterparts. The performance of the CAA was compared against other National Aviation Authorities (NAAs). The NAAs used for comparison were Germany, Italy, Spain and Sweden.

The findings from the study were as follows:

- Only the CAA had a proactive safety regulatory management system.
- The CAA's customer service ethos was more developed than the other NAAs.
- The UK's cooperative approach to safety requires a higher level of interaction with industry.
- The CAA's utilisation of staffing levels compared favourably with the other NAAs.

CAA Charges Consultation - CAA Response

- The CAA handled 50% more approved organisations per inspector/surveyor than any other NAA.
- The CAA is using the most efficient combination of technical and support staff – particularly important when considering the safety performance achieved in the UK.
- Opportunities for improvement were identified in the areas of personnel licensing and IT support systems. In particular, the policy of delegating all flight examinations to approved examiners and outsourcing of the process of written examinations for personnel licensing was predominant among the European NAAs. Greater use of on-line applications such as bookings for examinations was another avenue for the CAA to pursue.
- Additionally, it was noted that no other European NAA was required to recover 100% of its safety regulatory costs. The highest level of recovery via Fees and Charges was by the Swedish NAA, at 70% with the balance from airport user charges. However, following the separation of airport services in 2005, the Swedish NAA is to recover the balance from the Swedish AOC holders. The German and Italian NAAs recover 33% and 30% respectively. The percentage applicable to the Spanish NAA could not be obtained.

Overall, the CAA compared very favourably with the four European NAAs reviewed.

As part of the same benchmarking exercise a need was identified to understand the effectiveness of the support functions within the CAA. A firm of Consultants was employed by the CAA to undertake an independent benchmarking exercise to establish relative efficiency, and hence value for money. The areas covered by this exercise were Facilities, Finance, IT, Human Resources and Procurement. The reference group used for the comparative analysis was made up of a variety of best performer organisations from different sectors, which included large FTSE 100 companies, a small number of airlines and public utility companies.

The results showed that the CAA support functions provided an efficient and high quality service. The Finance and Procurement functions were shown to represent good value for money and **exceptional performance** was reported for all of the functions in at least 30% of the activities included in the review. The CAA matched or exceeded best group performers in 23 out of the 41 performance indicators reported, in some cases by a considerable margin. For example, the Accounts Payable area was between 50% and 80% above the reference group mean. Areas for improvement were highlighted with regard to the better integration of IT systems and the limited availability of management information. It was recognised that the CAA's ability to reduce costs within the HR function was limited because of the economy of scale issues and complexity, particularly with regard to recruitment.

The CAA is a self-financing Public Corporation and its financial environment is governed by the Civil Aviation Act 1982 and guidance from HM Treasury. The Act requires the CAA to set its charges to recover the costs that it incurs in undertaking its regulatory functions. In addition, HM

CAA Charges Consultation - CAA Response

Treasury imposes an additional demand in so far that the CAA is required to achieve the greater of a 6% rate of return on the current cost of capital employed on all activities before interest and corporation tax charges, or break even after interest and corporation tax charges. The return, which has been a target for over twenty years is set in order that the CAA can repay its commitments to the National Loans Fund in the form of loan interest and the assessment made by the Inland Revenue in respect of Corporation Tax

In respect of the CAA's financial performance, the CAA Board reviews the financial results of the Authority on a monthly basis and undertakes a rigorous annual budgeting process and five year planning process. The CAA Board's aim is to achieve a high level of regulatory performance while containing / reducing the cost base within current levels.

The table below summarises the financial performance of SRG over the last eight years:

Financial year	SRG operating costs £'000
1997/98	63,902
1998/99	66,861
1999/00	69,275
2000/01	68,932
2001/02	67,662
2002/03	66,105
2003/04	66,060
2004/05	65,950

The operating costs have risen by £2,048k during the eight year period, which equates to an annualised increase of 0.4 % per annum. If the 1997/98 operating costs had risen by movements in the Retail Price Index then the Operating costs for 2004/05 would have been £77,023k; an increase of £13,121k.

This containment of costs has been achieved by significant efficiency improvements and against considerable pressures from external forces, which have driven costs in an upward direction, such as increases in insurance premiums post 11 September 2001.

This performance has been achieved against a background of turbulence, restructuring and cost cutting within all sectors of the aviation industry, and it is axiomatic that as industry experiences acute financial and operational difficulties, the need for safety regulatory oversight increases. It is CAA policy that it will continue to strive for greater efficiency and with this in mind the CAA is currently reviewing its procedures in the light of the latest EASA developments and from the information gathered from the joint CAA / industry reviews being undertaken.

SRG also meets frequently with industry for advice on its charging schemes through the Safety Regulation Finance Advisory Committee (SRFAC). At these meetings, full disclosure of its cost base, annual budget and proposed projects and efficiencies are made and discussed

together with proposals to develop and improve the cost recovery mechanism via the charges schemes. On some issues, the way forward becomes a compromise, as to do otherwise would result in an overly undue financial burden on some of the smaller sectors of the aviation industry that would place pressure on their future viability.

The CAA endeavours to set its charges fairly and properly in accordance with its statutory objectives. To this end it consults widely with the industry. The CAA is well aware that the UK is the only country within Europe that requires its aviation industry to pay the whole of its regulatory costs. However, that has been the policy of all successive Governments since the CAA's inception in 1972. The CAA is also acutely aware that no set of charging schemes is going to be viewed as "fair" by all of the very different aviation sectors that pay the charges.

4.1.5 *Regulatory Reviews*

Following the completion of the JRT and the CAA's desire to continually improve its effectiveness in both regulatory and financial efficiency, the CAA instigated four reviews aimed specifically at the GA Community and the smaller operators. These reviews include:

1. **The Strategic Review of GA in the UK**
This review will provide a description and clear definition of general aviation in the UK. The review will examine the principal strategic issues for general aviation, including domestic and international policy-making, provision of sectoral trends, environmental impacts and effectiveness of consultative methods between GA interests and CAA/Government. It will also seek to identify benefits to the UK or European aviation industries that emanate from general aviation.
2. **The Regulatory Review of General Aviation**
The review aims to develop a model for the future regulatory regime for UK General Aviation.
3. **The Light Aircraft Aerodrome Study Group**
The review aims to provide an opportunity for creative thinking and for the discussion and development of industry proposals, free from the restraint of preconceived assumptions. It recognises and reflects industry's desire to examine new regulatory concepts with the aim of meeting safety objectives in a practical, efficient and economically viable way.
4. **The Light AOC Review**
The objective is to review the oversight of all approved companies to determine if a single focussed approach to oversight through a common oversight methodology is possible. The review will also determine the factors that would permit a minimum level of oversight of approved companies. This has provisionally been termed a 'Gold Standard' or 'Earned Autonomy'.

It is intended that these reviews will be complete in the early part of 2006 in order that they may be reflected in future SRG charging proposals. It is

CAA Charges Consultation - CAA Response

the CAA's belief that these reviews and the charging proposals are two separate processes and do not accept that they should be mixed.

4.1.6 *EASA and future funding*

As the CAA transfers responsibilities to EASA, the Government has allowed the CAA to utilise its accumulated reserves to fund certain short term transition costs.

The charges that the CAA will levy in the coming 15 months will be for only those activities for which the CAA remains responsible either as a national requirement or as a Competent Authority for EASA.

4.1.7 *Government issues*

Airlines don't pay duty and VAT on fuel, as GA does?

In a recent adjournment debate, Karen Buck MP, Parliamentary Under Secretary of State for Transport stated that

'The hon. Gentleman made a point about what he sees as inequity in VAT and taxation policy. Our policy position in that field is derived from long-standing international agreements. The International Civil Aviation Organisation's policy is that fuel used for international aviation should not be subject to tax. The European members of ICAO have succeeded in getting it recognised that the policy has been called into question in some member states that impose taxes on other transport modes and other sources of greenhouse gases. However, the great majority of ICAO's member states oppose any change to a policy enshrined in many hundreds of bilateral air service treaties.'

SRG should be funded by a passenger levy

When the CAA was established in 1972 the Government decreed that it would be a cost recovery agency. This is unlike most of the other aviation regulators that are directly funded by Government taxes or through a levy on airline tickets, aviation fuel or landing charges. Successive Governments have continued to believe in the policy that the costs of aviation safety regulation should be met by the industry and consequently only the UK Government is in a position to alter these national policy issues.

4.1.8 *Transition periods*

The transition periods were chosen to mitigate the effect of the changes to the smaller end of the industry. The transition period includes at least five years for the AOC and Aerodrome Licensing Schemes and at least three years for each of the other Schemes.

4.1.9 AOC comments

The proposed annual charges for AOC holders will be based upon a position within a banded structure. CAA has undertaken an extensive analysis over the past 15 months to ensure that the charge bands are set according to the level of regulation within the respective band. The base data was taken from 7 full years of input from SRG's time recording system and the results were averaged over the seven years. The regulatory staff undertaking the activities then further verified the results.

The proposals also include, during the transitional period, a further reduction of 50% in any of the annual charges levied for the smaller operators.

4.1.10 Airworthiness Scheme comments

The issuing of permits to fly, which includes permits to fly for historic aircraft, is part of the Airworthiness Scheme. This activity has been significantly under recovering its cost over several years. This under recovery was highlighted to the Safety Regulatory Finance Advisory Committee during 2002. There are 4,091 permits on our system, of which only 1,878 (46%) are under the auspices of the PFA. These are generally homebuilt aircraft including certain vintage types, kit planes, some micro lights and gyroplanes etc. The CAA welcomes the activities undertaken by the PFA, however, it should be remembered that the ultimate responsibility for granting a permit to fly remains with the CAA. As a consequence, the CAA is required to carry insurance cover for all the permits that are issued.

4.1.11 Personnel Licensing Scheme

The comparison to the FAA model is unfounded as the FAA's operation is regionalised and highly subsidised by the US Government. However, we understand that the FAA is currently approximately 2 months behind in their processing of their PPL issue and renewal licences.

The Costs and Charges review confirmed that the cost of Personnel Licensing was not being recovered from the relevant charge payers. As a consequence, these activities are being subsidised by other non-related SRG charge payers. EASA may commence responsibility for this area as from 2007 at the earliest, and it is likely that the transition period will be similar to that attached to the Airworthiness functions. To observe the status quo until the end of this transition period, possibly 2010, is considered not to be acceptable.

4.1.12 Aerodrome Licensing Scheme

The proposals included within the consultation represent the first stage in the transition to cost related charges. The transition period will be for at least five years and during this time period future proposals will be affected by the outcomes of the Light Aviation Aerodrome Study Group.

4.1.13 *General Aviation Scheme*

Within the General Aviation scheme, flying display charges will rise by £5 for a basic flypast – e.g. at a fete - taking the charge to £162. At the other end of the scale, a fully organised display, - e.g. the Biggin Hill Air Fair would increase by £68 to £2,345.

Within the General Aviation Scheme there are charges for parachuting activities which will not increase as they are already sufficient to fully recover the associated costs.

4.1.14 *Aircraft Registration and Mortgages Scheme*

The increases to the Scheme were driven by changes in European legislation relating to third party insurance requirements.

5 **CAA conclusions**

5.1 The CAA welcomed the response to consultation on charging proposals and would like to thank all 219 respondents for their comments.

5.2 The responses to the consultation have been carefully considered and analysed in an open minded way. Particular consideration has been given to representative organisations from all parts of the aviation industry.

5.3 In considering its response to the consultation, the CAA has paid particular attention to the strength of feeling amongst its charge payers and the further evidence of the associated impacts that these proposals will have on them.

5.4 Following due consideration by the CAA Board in respect of the points detailed above, the CAA proposes to implement the charges outlined in the consultation document for the period commencing 1 January 2006 and concluding on 31 March 2007, with the following amendments:

- Charges for Permits to Fly within the Airworthiness Scheme will increase by 10% (previously 23.1%).
- Charges for the General Aviation Scheme will increase by 3% (previously 8.4%) with the exception of parachuting whose charges will remain at the previous year's level.
- Aerial Application Certificates charges will increase by 3% (previously 8.4%).

The lost revenues associated with these amendments will be funded from the CAA reserves.