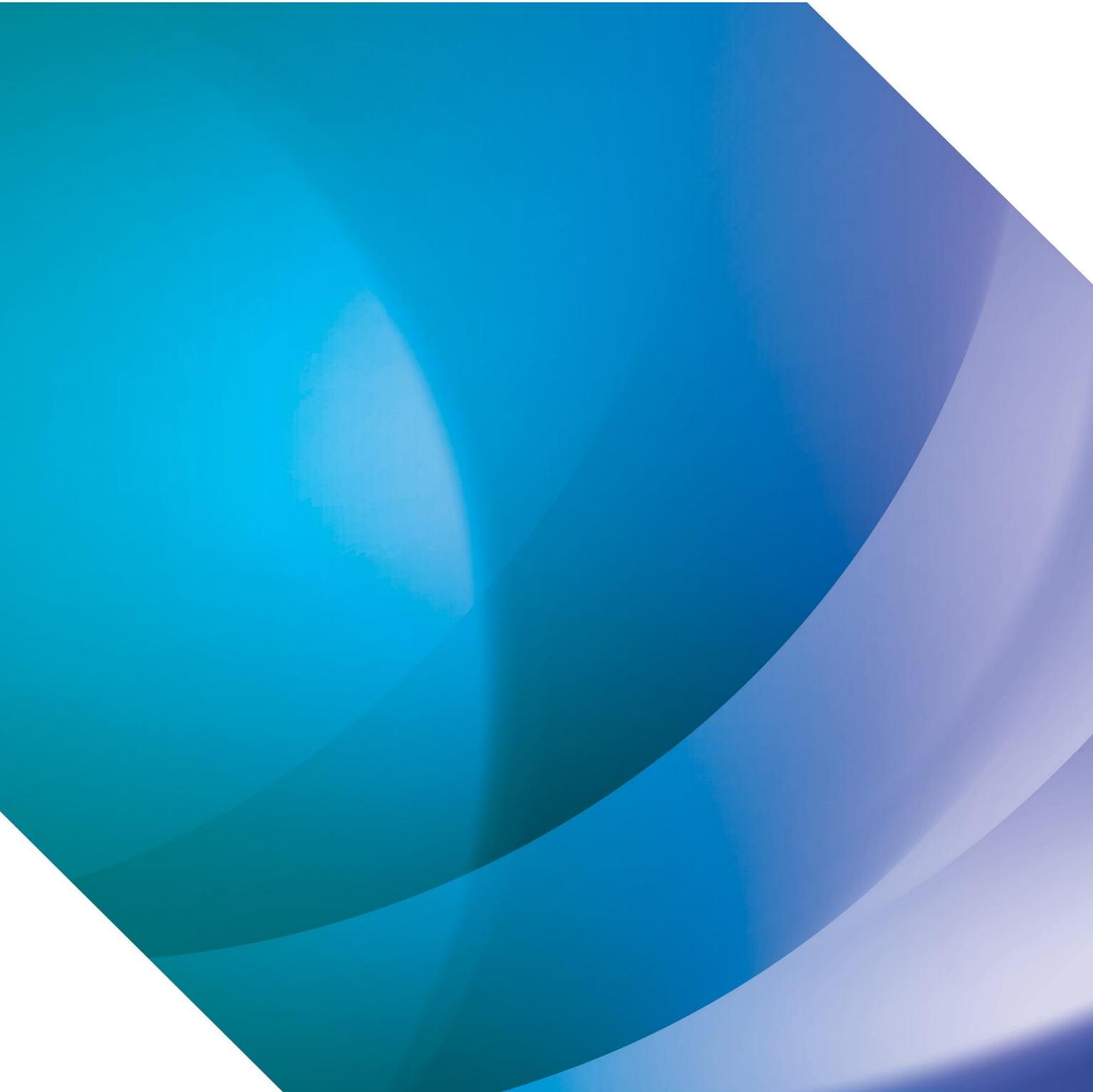


# CAA Statutory Charges 2020-21: Consultation on Charges CAA Response Document

CAP 1880



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## Executive summary

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On 13 December 2019, we set out proposals for our Schemes of Charges due to come into effect from 1 April 2020 ([CAP1848](#) – Statutory charges 2020/21: Consultation document refers). As a cost recovery body, not funded by the tax payer, the cost of our activities must be recovered from those we regulate.

As detailed in the consultation document, over the past 10 years the CAA's charges have fallen in real terms by over 9%, while over the same period UK CPI inflation was just under 25%. The key proposals detailed below resulted in an **overall increase to charges of 1.1%** compared to the current<sup>1</sup> CPI rate of 1.8% and RPI of 2.7%.

Within this overall 1.1% increase, the key changes under this consultation were as follows:

- **A general price increase** of 1.7% across all Schemes of Charges in 2020/21.
- New specific charges were proposed to cover our costs in the following areas where we are undertaking new or expanded activities:
  - **Innovation Hub** – the CAA's new Innovation team was initially funded through BEIS's Regulators' Pioneer Fund (RPF). This funding was for a 12-month period starting in March 2019. The CAA considers the activity of this team should continue beyond the current financial year in the interests of the whole aviation sector. The CAA is therefore seeking funding from industry as from 1 April 2020. The additional cost of the core Innovation Hub capability would be £0.6m and was proposed to be recovered by an increase of 2.1% to certain schemes (airline, aerodrome, air traffic and security schemes).
  - **Cyber Security Oversight** – to enable the CAA to introduce the new cyber security oversight regime for aviation required (an International requirement), an increased cost of £256k was proposed to be recovered between airlines, airports and air navigation service providers.

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<sup>1</sup> CPI and RPI for January 2020.

- **Brexit** – the CAA introduced Brexit funding from industry at £1.6m as from 1 April 2019 to cover the resources required to pay for no deal planning and from now on, preparing the Future Regulatory Framework for aviation that will apply at the end of the transition period from December 2020. This additional cost is delivered from the airline, aerodrome, air traffic and security schemes. The CAA proposed that this charge is retained for 2020/21.
- **Unmanned aircraft systems (UAS)** - A new package of International UAS regulations was published by the European Union earlier in 2019 and Regulation (EU) 2019/947 Implementing Regulation (IR) is planned to become applicable on 1 July 2020. This resulted in the current UAS charging structure being proposed to be revised to align with the requirements and naming conventions of the new UAS regulations.
- **Airspace Changes: Reduction in Charge** – Reference Period 3 of the UK Eurocontrol Enroute unit rate started as from 1 January 2020. Therefore, the costs relating to the Airspace Change Process and the Airspace Modernisation Strategy Programme have now been incorporated into this rate rather than being recovered via the Schemes of Charges from industry. This resulted in £0.7m Airspace Scheme variable unit charges and the £0.7m Airspace charge levied on NATS being removed from the revised Airspace Scheme.

The consultation period ended on 7 February 2020, by which time we had received 36 submissions from stakeholders. The main concerns have been highlighted under chapter 2 of this document.

Having discussed the comments received, and due consideration been given by the CAA Board to the points detailed below, we propose to implement the charges outlined in the consultation document for the period commencing 1 April 2020 without further amendment.

However, we are mindful of the recent implications of the coronavirus on the aviation industry and are therefore currently exploring options to mitigate the increased charges to industry of these proposals.

We remain committed to controlling our costs while securing the people we need to deliver our often-changing statutory remit, maintaining the financial robustness of the CAA and investing in new processes, systems and skills.

## Chapter 1

## Consultation submissions

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1.1 A total number of 37 respondents provided 36 submissions through the consultation exercise. The submission type is broken down as follows:

Submissions	No.
Unmanned Aircraft System	6
Representative Organisations	6
Airports <i>(Note 1)</i>	5
Drone Registration Scheme	3
Airlines	2
Air Navigation Providers Services	2
Airworthiness Organisations	2
Approved Training Organisations	2
Personnel Licensing	2
Airport Terminal – Developer & Operator	1
Rocket Organisations	1
Other	4
<b>Total</b>	<b>36</b> <i>(Note 1)</i>

*(Note 1 – Two respondents from the same airport made identical submissions, so treated as one submission.)*

1.2 The six representative trade organisations that responded were:

- Airlines UK (AUK)
- Airport Operators Association (AOA)
- Association of Remotely Piloted Aircraft Systems UK (ARPAS UK)
- British Gliding Association (BGA)
- Freight Transport Association (FTA)
- PPL/IR Europe

1.3 Chapter 2 of the document has focused on providing a summary of the main issues raised by the respondents.

## Chapter 2

## Our responses to the consultation submissions

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### **General 1.7% increase in prices for 2020/21**

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**Respondents commented that the CAA general price increase across all Schemes was 1.7% rather than the Government's preferred measure of inflation being CPI (reported as 1.5% for November 2019). The CAA should revise down this inflationary increase to 1.5%.**

2.1 Whilst we strive to keep the CAA's rate of inflation price increase close to CPI, we felt that the average price increase during 2020/21 would need to be slightly higher due primarily to the perceived impact of Brexit as from 31 January 2020. The Board decided that provided the rate of inflation did not exceed the RPI level, being at that time 2.1% (October 2019), then we could propose a price increase at 1.7%. Bearing in mind that these figures are the lowest inflation rates since 2016, we are mindful of events unfolding in 2020/21 which may increase the inflationary pressures once again, in particular Brexit post 31 January 2020.

2.2 The decision to apply a general price increase of 1.7% was fully reviewed by the Board as being proportionate and justified. This decision has been further justified with the recent announcement of the January 2020 inflation indices being 1.8% (CPI) and 2.7% (RPI).

### **Brexit cost recovery**

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**Respondents expressed concerns over the possible Brexit impact should a no agreement position be evident on 31 December 2020.**

2.3 Following the UK departure from the EU with effect from 31 January 2020, the CAA continues to undertake significant work with the Department for Transport to prepare for a range of scenarios that might come from a

negotiated agreement with the EU that will apply after the end of the transition period on 31 December 2020.

- 2.4 In the meantime, the UK will continue to abide by the EU aviation acquis for the 11-month transition period to 31 December 2020.
- 2.5 The CAA will need to continue to plan and prepare to regulate UK aviation from outside the European framework should that be the outcome that occurs at the end of the transition period.
- 2.6 We are now preparing the Future Regulatory Framework for aviation that will apply at the end of the transition period. This has been factored into these charging proposals the funding for which remains unchanged for 2020/21.
- 2.7 We have shared the consultation responses with the Department for Transport and asked whether they would be willing to fund these incremental costs. The Government's assumption remains that the CAA's charge payers will continue to fund the CAA's Brexit costs.
- 2.8 One major airport consortium noted that the CAA had acted responsibly in its preparation for Britain's departure from the EU and welcomed that it had not requested additional Brexit related increases to the 2020/21 charges.
- 2.9 In summary, we are taking all steps to ensure that we work closely with Department for Transport to secure an agreement for the aviation industry by the end of the year. Information will continue to be relayed to industry as progress continues.

**Respondents suggested that the +£3billion raised in Air Passenger Duty (APD) would be a very sensible source of income for protecting air travellers and airports and would certainly be more justifiable than the specific funding proposals made for 2020/21**

- 2.10 The Air Passenger Duty is a tax levied by the Government: the CAA has no influence on its generation or use.

## **Innovation Hub funding**

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### **Respondents were unclear on what benefits the funding of an extra £0.6m for the Innovation Hub will be derived to justify this increase and questioning the user pays principle not applying**

- 2.11 The Innovation Hub works to develop new regulatory frameworks applicable to innovative technology through tests and trials. The CAA's activities are focussed on these activities that will have benefit to the aviation ecosystem as whole. The evidence and policy generated will allow CAA to set better regulatory frameworks for new technologies such as the electrification of aircraft and airports, Artificial Intelligence in aviation operations, electronic conspicuity and Unmanned Traffic Management (UTM) for deployment in the UK. All of these activities will benefit the UK aviation sector as a whole.
- 2.12 CAA recognises that innovation is driven by a diversity of entities, including start-ups, scale-ups and academia and that some of these entities may provide valuable insight that is relevant to the rest of the aviation ecosystem. We want to encourage organisations who are focussed on these system benefit changes to be able to engage with us as easily as possible and free of charge. However, we recognise that deeper and longer-term engagements with individual innovators should be funded directly by innovators. The CAA is looking to produce a model for extended engagements in the coming year.
- 2.13 Much of the support provided through the Hub is in the form of short inquiries, albeit on highly complex and uncertain issues, from a huge range of industry players including OEMs, Airlines, Airports, Air Navigation Service Providers (ANSPs) and Tour Operators unsure of which part of the CAA can support their innovations.
- 2.14 The user pays principle is being observed in that the passenger should bear the cost through increases in airline, aerodrome licensing and air traffic services and aviation security variable unit rate charges.

## **Unmanned Aircraft Systems (UAS) transition to new International UAS Regulations**

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**Respondents requested further clarity on the transition process from the current UAS permissions and exemptions to the revised International UAS authorisations**

- 2.15 We will be publishing guidance and associated communications before any introduction of new International services, so it is clear to operators what they can continue to use and where they need to apply for new services.
- 2.16 CAP722B was issued in December 2019 which included the transition process from the current National Qualified Entities to the new Recognised Assessment Entities under the International UAS Regulations to be implemented as from 1 July 2020.

## **Aerodrome Licensing and Aerodrome Air Traffic Services Regulation Scheme**

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### **Variable unit rate charges**

**Respondents queried the basis on which the 5.8% increase in the variable unit charge rates were derived.**

- 2.17 The breakdown of the 5.8% increase is as follows:

Based on the 2019/20 budgeted income for the respective variable charge for aerodrome licensing and for air navigation service providers being each £4.2m, increased costs related to:

- £88k (2.1% Innovation Hub)
- £85k (2.0% Cyber Security)
- £71k (1.7% inflation increase).

## Aviation Security Scheme

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### Cyber funding

**Respondents queried the basis on which cyber funding was determined, in particular, where the same UK Network & Information Systems (NIS) Regulation organisation has to pay for more than one service.**

- 2.18 The NIS charge is calculated on the services defined in Schedule 2 of the legislation (<http://www.legislation.gov.uk/uksi/2018/506/made>). Following a review of the cyber charging structure in 2019, we have gained a better understanding of the effort and resourcing required for NIS oversight and it has become evident that the size of the Operators of Essential Services (OES) is not indicative of the effort required in oversight but organisations who operate multiple services did have a direct correlation to increased oversight activity for the CAA. It should also be noted that the legislation (and therefore the charge) identifies the operator of the essential service using specific criteria and does not identify the operator of the essential service through ownership of the systems (which in some cases may vary).
- 2.19 The nature of the work is such that each service type e.g. airport operations, ATC operations at each airport location, is required to be carried out in isolation as each has their own respective regulatory oversight requirements. Therefore, we conclude that no double charging is evident for an airport that also undertakes its own ANSP service. Furthermore, where a single ANSP provides an ATC service at more than one airport, a separate service charge would be appropriate for each airport location.
- 2.20 The CAA will review the current cyber charging structure and costs again in 2020 to ensure that these costs remain proportionate and based on effort, complexity and activity. The CAA is required to recover its costs from the user of its services and it should be noted that in arriving at this calculation, the CAA has sought to avoid cross-subsidy.

2.21 We fully recognise that organisations will need to directly fund their ASSURE Cyber Audit. The CAA's chosen target operating model and the use of the equivalent of Qualified Entities for the ASSURE Cyber Audit, provides a more competitive commercial opportunity to reduce cost of the audit and equally ensures that the CAA does not need to maintain a very large team of cyber security oversight specialists to complete these audits. This allows the smaller team of cyber security oversight specialists to act as senior decision makers and have more efficient, targeted, risk and performance-based oversight activity with the organisation. We appreciate the support and time provided by the OES in the development of CAP1753 and associated material and whilst this was not mandatory, by providing your input and expertise this has helped to shape the process in a collaborative and mutually beneficial way.

## **Aviation Security variable unit rate charge increase**

**Respondents enquired as to the derivation of the increase of 4.7% in the variable charge unit rate.**

2.22 The breakdown of the 4.7% increase is as follows:

Based on the 2019/20 budgeted income for the respective variable charge for aviation security being each £8.7m, increased costs related to:

- £181k (2.1% Innovation Hub)
- £84k (0.9% iTAT\*)
- £148k (1.7% inflation increase.

\* Initial Threat Assessment Training – an e-Learning product.

## **General Aviation Scheme of Charges**

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### **Rocket launch permissions**

**Clarification was requested concerning the cost per launch as it would appear that the charge would be between £8k and £10k per launch. This level of charging would disadvantage the space industry where the UK was trying to establish a low-cost route to space.**

- 2.23 The income generated estimate of £40,000 was based on the assumption that there would be more applications at the smaller end of the scale than the larger; and was conservatively based on the assumption that Government funding had not been secured.
- 2.24 The initial fee of £1,000 was for a rocket that falls into the Large category (over 10240 Ns). Any rocket below this total impulse will only require a permission from the CAA, if the operation is Commercial. This cost for the smaller Commercial rocket permission would be £250.
- 2.25 The maximum cost was presented to cater for the potentially complex vehicles/operations considered on a case by case basis under the ANO before being regulated under the Space Industry Act when that is in force. These will require a much higher resource in assessing the safety case provided. The important point here, is that the initial fee would still be £1,000, and any further costs would be set out and agreed before progressing further.
- 2.26 However, since the Charges Consultation launch, the CAA has secured some funding from Government for 2020/21 to meet some of the costs of regulation for rocket launches under the ANO, which means that the regulatory costs for applicants up to a certain level will be covered by a Government contribution for the financial year 2020/21.

## **Regulation of Airports Scheme of Charges**

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### **Development Consent Orders (DCO)**

**Respondents commented that the increase in the DCO cap to £0.5m is unnecessary and any costs which take the total above the current limit of £0.35m should be agreed bilaterally.**

- 2.27 Under the Civil Aviation Act we are required to state a maximum liability figure for charges which are time-based in the CAA Schemes. If we exceed the maximum liability figure then further cost recovery is not permitted under the Scheme. We would point out that we will only charge

for actual costs incurred up to the level of the cap. The £0.5m cap is per annum and applied to each individual DCO.

### **Gatwick Airport Future Regulation (G7 Review)**

**Gatwick Airport Limited (GAL) challenged the proposal for recovery of additional internal CAA costs.**

2.28 We note your observations about the evolution of the regulatory regime and that the scheme of charges is designed to be broadly fair. The additional internal costs to which you refer relate to specific regulation for Gatwick as part of our work under Civil Aviation Act 2012. The recovery of additional internal costs is an important adjustment to ensure that charges reflect the significant peaks in workloads associated with price reviews and similar processes.

### **Heathrow Airport Price Control Conditions (H7) and Additional Runway Capacity (R3)**

**Heathrow Airport Limited (HAL) challenged the proposal for recovery of £0.5m in the maximum value of professional fees.**

2.29 The proposed increase reflects the fact we are moving in to a key phase of the price control process where the CAA will be undertaking additional scrutiny of HAL's plans including its Initial Business Plan, Final Business Plan as well as the submissions it makes as part of the planning process for expansion.

## Chapter 3

## Conclusion

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- 3.1 We would like to thank all 37 respondents for their comments to the charging proposals.
- 3.2 Having discussed the comments received, and due consideration having been given by the CAA Board to the points detailed above, we propose to implement the charges outlined in the consultation document for the period commencing 1 April 2020 without further amendment.
- 3.3 However, we are mindful of the recent implications of the coronavirus on the aviation industry and are therefore currently exploring options to mitigate the increased charges to industry of these proposals.