

<b>Title:</b> Civil Aviation Act: Summary Impact Assessment <b>IA Nos:</b> DFT00005, DFT00037, DFT00038, DFT00120  <b>Lead department or agency:</b> Department for Transport  <b>Other departments or agencies:</b> None	<b>Impact Assessment (IA)</b>
	<b>Date:</b> 06/02/2013
	<b>Stage:</b> Enactment
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Primary Legislation
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**Summary: Intervention and Options** **RPC Opinion: AMBER**

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out?	Measure qualifies as
£149.8m	NQ	NQ	Yes	OUT

**What is the problem under consideration? Why is government intervention necessary?**  
 The Government wants to modernise key elements of the regulatory framework for civil aviation in the UK, to enable the sector to make a full contribution to economic growth without compromising high standards. Much of our aviation regulation is governed by 1980s legislation and needs to be brought into the 21<sup>st</sup> century.

**What are the policy objectives and the intended effects?**  
 The Act offers a package of reforms to make both regulation and the sanctions which support it flexible, proportionate, targeted and effective. It proposes removing unnecessary regulation and unnecessary intervention by central government. It devolves more responsibility to the independent specialist regulator, the Civil Aviation Authority (CAA), while ensuring that the CAA is accountable and weighs up the costs and benefits of its decisions. It proposes that the costs of regulating aviation should be principally covered by the aviation industry, not general taxation. Above all the Act puts the consumer first. In regulating airports with substantial market power (and where regulation adds real value) the CAA's primary duty will be to consumers, that is passengers and owners of cargo both present and future. In addition the Act gives the CAA a role in promoting better public information about airline and airport performance, to assist the consumer in selecting services, and about the environmental effects of aviation and measures taken to mitigate adverse effects.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)** The preferred options in each policy area are:

- To reform the framework for the economic regulation of airports, including: clearer duties for the regulator; a flexible licensing regime; a proportionate enforcement regime; concurrent competition powers; and greater accountability of regulatory decisions (including rights to challenge airport licence modifications for airport operators and airlines).
- To reform the CAA regulatory framework to improve the regulator's efficiency and provide greater ability to deliver benefits to users of air transport and the public.
- To grant the CAA powers to publish information on service standards and environmental performance to help consumers make more informed choices.
- To transfer aviation security regulation and compliance functions from DfT to the CAA.
- To widen the Secretary of State's existing power to make regulations on the provision of flight accommodation, the basis of the Air Travel Organisers' Licensing scheme.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 10/2015						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		<b>Micro</b> No	<b>&lt; 20</b> No	<b>Small</b> No	<b>Medium</b> No	<b>Large</b> No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (MtCO <sub>2</sub> e)			<b>Traded:</b> N/A <b>Non-traded:</b> N/A			

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.*

Signed by the responsible Minister: \_\_\_\_\_

Date: \_\_\_\_\_

7.2.13

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Summary of the 4 policies within the Civil Aviation Act to modernise the regulatory framework for civil aviation.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2011	Time Period Years 20	Net Benefit (Present Value (PV)) (£m)		
			Low: -91.4	High: 919.3	Best Estimate: 149.8

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	1.56	5.83	40.3
High	3.56	13.53	131.5
Best Estimate	2.22	8.95	77.8

### Description and scale of key monetised costs by 'main affected groups'

The majority of the costs in the different policy areas are incurred by either the CAA or industry, and then passed on to passengers. In the case of airport economic regulation and reforms to the CAA's regulatory framework, the majority of costs will ultimately be passed on to passengers. The costs from publication powers will fall on the CAA and industry. There will be transitional costs from transferring DfT functions to the CAA, incurred by the CAA. See individual IAs for costs breakdown.

### Other key non-monetised costs by 'main affected groups'

Costs to industry from the CAA's publication powers should be low as the CAA cannot request information that industry cannot reasonably be expected to possess.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	4.7	30.4
High	-	71.9	969.4
Best Estimate	-	10.0	228.2

### Description and scale of key monetised benefits by 'main affected groups'

For a breakdown of benefits see the relevant IA. Benefits to passengers from the proposed airport economic regulation regime include CAA and industry efficiency and resource savings that are passed on to passengers. Savings to government recruitment costs will be delivered through changes to the CAA regulatory regime. Taxpayers will benefit from the transfer of security functions to the CAA from DfT.

### Other key non-monetised benefits by 'main affected groups'

The benefits to passengers from CAA publication powers should be significant, in the form of improved information availability and increased competition between airlines and airports on non-price factors. There will be benefits to industry and the regulator from one body being responsible for aviation safety and security regulation. The benefits from the proposed airport economic regulation regime and the regulatory reforms are expected to far exceed the costs.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

1. All policy proposals have been appraised over a 10 year period, apart from the reforms to airport economic regulation which has an appraisal period of 20 years. The costs and benefits presented above have been added together, which assumes that there are no impacts beyond 10 years for the non-airport economic regulation proposals. 2. This package of reforms is considered an overall OUT, with the benefits to business exceeding the costs. Further evidence will be gathered to quantify the magnitude of the OUT (see evidence base for further discussion).

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OOTO?	Measure qualifies as
Costs: NQ	Benefits: NQ	Net: NQ	Yes	OUT

## Evidence Base for overarching Impact Assessment

1. The summary sheets above provide an overall assessment of the impact of the package of policies in the Civil Aviation Act. Each of the four policy proposals are presented in an individual Impact Assessment, all of which have received Regulatory Policy Committee (RPC) clearance.
2. The rationale, objectives and costs and benefits of the proposed individual policies are detailed in the additional summary sheets attached. For a fuller explanation of an individual policy and a break down of the costs and benefits related to that policy please refer to the individual policy's Impact Assessment evidence base, which are available on the Department for Transport's website.

### ATOL Reforms

3. As the intended effects of amending the Secretary of State's powers to make regulations in relation to the ATOL scheme would only arise when (and if) regulations under the new powers were made it has not been appropriate to incorporate the costs and benefits of the ATOL reforms in this Impact Assessment, which relates solely to the benefits and costs arising directly from the Civil Aviation Act. A separate Impact Assessment for the amendment to the Secretary of State's existing power to make regulations about the provision of flight accommodation is available and has been published alongside this document. This illustrative Impact Assessment demonstrates the possible impacts if the Secretary of State were to exercise these powers as envisaged.

### One-in, Two-Out

4. The Government is committed to cutting regulatory red-tape with the One-in, Two-Out (OOTO) approach to regulation, whereby new regulation cannot be introduced without a greater cut in regulation elsewhere. **Overall, the policies included in the Civil Aviation Act will make a positive contribution to this policy and will be classed as an OUT.** Further evidence and analysis is required to validate the value of this OUT and consequently, at this stage the OUT has not yet been quantified. The DfT with the assistance of the CAA has identified an approach to quantify this OUT but this quantification will not be possible until the CAA have completed further work on the next price review during the next two years. However, this will be ready to be included in the Statement of New Regulation when the policy is implemented in April 2014.
5. The four policy proposals together will deliver a positive net benefit to business. Individually the proposals' contributions to OOTO are as follows:
  - The reforms to the framework for economic regulation of airports delivers a positive net benefit to business, so the recasting of this policy through repealing Part IV of the Airports Act 1986 and Airports (Northern Ireland) Order 1994 and replacing it with a less burdensome regime is an OUT. The Regulatory Policy Committee (RPC) scrutinised the "Reforming the framework for economic regulation of airports" Impact Assessment in July and August 2011. The RPC's opinion stated "that it is difficult to conclude ... that the estimated benefits to business are robust for the purposes of One-in, Two-Out. Since the IA provides sufficient evidence to suggest that the benefits to business will outweigh the costs, we propose that this is treated as an OUT with a value of zero." The RPC recommended "further evidence and analysis, for example from the CAA in anticipation of the next price review, is gathered on the benefits when they begin to accrue prior to the OUT appearing in the relevant Statement of Regulation. The value of the OUT can then be validated at that stage." Consequently, at this stage we have not been able to quantify

the OUT but the CAA has agreed to assist DfT in gathering this evidence during the quinquennial 6 (Q6) price review. DfT's preliminary analysis suggested that the best estimate of the Equivalent Annual Net Cost to Business (EANCB) is -£10.7m with a range of £4.6m to -£61.2m<sup>1</sup>.

- The reforms to the CAA's regulatory framework are out of scope of OOTO because any of CAA's costs incurred as a result of this policy will be funded through an increase in CAA's charges to industry but without any change in the level of regulatory activity.
- The policy to grant the CAA powers to publish information on service standards and environmental performance to help consumers make more informed choices is considered an IN since the policy places costs on business. For the preferred option, the best estimate is that the EANCB is £0.55m with a range of £0.41m to £1.10m<sup>1</sup>.
- The policy of transferring aviation security regulation and compliance functions from DfT to the CAA are out of scope of OOTO because the CAA's costs incurred as a result of this policy will be through an increase in CAA's charges to industry without a change in the level of regulatory activity.
- As the changes to the Secretary of State's powers to make ATOL regulations in the Act have no direct impact on businesses, this policy is outside the scope of OOTO.

## Micro-Businesses

6. The Government aims to ensure that, as far as possible, micro-businesses<sup>2</sup> and new start-ups should be subject to no new regulation during a growth period which starts from 1st April 2011 to the 1st April 2014. Most of these policies will have no impact on micro-businesses during this period.
7. The exception is one of the CAA reforms to the regulatory framework. Depending on the timing of commencement of the relevant provisions in the Act, it is possible that the CAA could begin to recover the cost of its prosecution work through its charges in 2013-14. This would be within the moratorium period and it is likely that a small proportion of these costs would be incurred by micro-businesses. The CAA estimates that these costs would represent an increase of approximately 1.6% in its charges paid by micro-businesses. However, since the cost of this work relates to enforcement action to ensure compliance with regulations, we consider that the costs would fall outside the scope of the regulatory moratorium.
8. As detailed above, the changes to the Secretary of State's powers to make ATOL regulations in the Act have no direct impact on businesses, including micro-businesses.

## Amendments to the legislation made during Parliament

9. None of the 79 amendments made to the legislation during the Parliamentary process (described in detail in the individual policy Impact Assessments) are considered to have made material changes to the policy. It has therefore not been necessary to adjust the analysis regarding the impacts of the policy options. Consequently, the analysis remains the same as was produced for the Act's introduction into Parliament in January 2012.

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<sup>1</sup> Note, as in line with the OOTO guidance, the estimates presented here are in 2009 prices and have a 2010 present value base year.

<sup>2</sup> A micro-business is any *business* or *civil society organisation* with fewer than 10 employees (or their full time equivalents).

**Date at which policy will be reviewed**

10. The table below shows the proposed review dates of each policy.

<b>IA Number</b>	<b>Title</b>	<b>Review Date</b>
DFT00005	Reforming the framework for the economic regulation of airports	04/2018
<u>DfT00037</u>	Transfer of aviation security regulation and compliance functions from DfT to the Civil Aviation Authority	10/2015
<u>DfT00038</u>	Modernising the Civil Aviation Authority's (CAA's) Governance and Operations	04/2018
<u>DfT00120</u>	Granting the Civil Aviation Authority (CAA) Powers to Publish Information	04/2018

11. Please refer to the individual policy Impact Assessments for full details of the review date for each policy.