



# Draft Civil Aviation Bill: An effective regulatory framework for UK aviation

## Volume 3: Impact Assessments

Presented to Parliament by the  
Secretary of State for Transport,  
by Command of Her Majesty  
November 2011

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<b>Title:</b> Civil Aviation Bill: 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> 12/11/2011			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Primary legislation			
	<b>Contact for enquiries:</b> robert.catherall@dft.gsi.gov.uk			
<b>Summary: Intervention and Options</b>				<b>RPC Opinion:</b> 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, Measure qualifies as One-Out?	
£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 draft Bill 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 draft Bill 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 draft Bill 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:

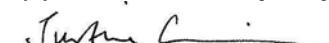
1. To reform the framework for the economic regulation of airports, including: clearer duties for the regulator; a flexible licensing regime; a proportionate enforcement regime; concurrent competition powers; and greater accountability of regulatory decisions (including rights to challenge airport licence modifications for airport operators and airlines).
2. 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.
3. To grant the CAA powers to publish information on service standards and environmental performance to help consumers make more informed choices.
4. To transfer aviation security regulation and compliance functions from DfT to the CAA.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 04/2018

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.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A	Non-traded: 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: 12/11/2011

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Summary of 4 policies within the Civil Aviation Bill 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 onto 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 OIOO?	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 proposed in the draft Civil Aviation Bill. 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 the policies and a break down of the costs and benefits please refer to the individual policy's full impact assessment evidence base, which are available on the Department for Transport's website.

## One-in, One-out

3. The Government is committed to cutting regulatory red-tape with the One-in, One-out (OIOO) approach to regulation, whereby new regulation cannot be introduced without a greater cut in regulation elsewhere. **Overall, the policies included in the draft Civil Aviation Bill 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 have 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 for when the policy is implemented in April 2014.
4. The four policy proposals together will deliver a positive net benefit to business. Individually the proposals' contributions to OIOO 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 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" IA 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, One-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 have 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 OIOO 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 Equivalent Annual Net Cost to Business (EANCB) is £0.55m with a range of £0.41m to £1.10m<sup>1</sup>.
  - The policy to transfer of aviation security regulation and compliance functions from DfT to the CAA are out of scope of OIOO 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.

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

## Micro-Businesses

5. 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.
6. The exception is one of the CAA reforms to the regulatory framework. Depending on the timing of Royal Assent, 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.

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



<b>Title:</b> 1. Reforming the framework for the economic regulation of airports <b>IA No:</b> DFT00005  <b>Lead department or agency:</b> Department for Transport <b>Other departments or agencies:</b> None	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 12/11/2011			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Primary legislation			
	<b>Contact for enquiries:</b> robert.catherall@dft.gsi.gov.uk			

## 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 (EANCBS on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?	
£160m	NQ	NQ	Yes	OUT

### What is the problem under consideration? Why is government intervention necessary?

UK airports with substantial market power are subject to economic regulation if the threat of competition law is not sufficient to address the risk that these airports may abuse their power by exploiting passengers. Evidence indicates that there is at least one airport (Heathrow) that will continue to have substantial market power. Evidence from consultations show that industry and the regulator believe the current regime to be disproportionate, inflexible and in need of reform. The Competition Commission has concluded that the current legislative framework distorts competition between airlines by adversely affecting the level, specification and timing of investment and the appropriate level and quality of service to passengers and airlines.

### What are the policy objectives and the intended effects?

The aim of economic regulation is to replicate the outcomes of a competitive market (e.g. price, service quality, choice and reliability). By giving the airport regulator a clearer objective, a more effective set of regulatory tools and making its decisions more accountable, we aim to further reduce levels of consumer detriment by:

- improving outcomes so they more closely replicate the outcomes of a competitive market; and
- reducing the distortionary effects of economic regulation (by removing regulation where it's no longer necessary and removing unnecessary political involvement and bureaucracy from the regulatory process).

### What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

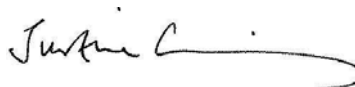
Option 0: Do nothing - retain the current regime as set out in part IV of the 1986 Airports Act.  
 Option 1a: A package of regulatory reforms including clearer duties for the regulator; a flexible licensing regime; a proportionate enforcement regime; concurrent competition powers and greater accountability of regulatory decisions (including rights to challenge airport licence modifications for the airport operator only).  
 Option 1b: Same as option 1a but rights to challenge for airport operator and Secretary of State.  
 Option 1c: Same as option 1a but rights to challenge for airport operator and a consumer body.  
 Option 1d (preferred option): Same as option 1a but rights to challenge for airport operator and airlines.  
 Option 1e: Same as option 1a but rights to challenge for airport operator, airlines and a consumer body.  
 Note, there is a different form of challenge for options 1d and 1e to options 1a, 1b and 1c.

### Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2019

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.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A	Non-traded: 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: 12/11/2011

# Summary: Analysis & Evidence

## Policy Option 1d

**Description:** Preferred Option: Same as option 1a except the right to object to licence modifications is given to airlines as well as the airport operator and the form of challenge is an appeal rather than an investigation.

### FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2011	Time Period Years 20	Net Benefit (Present Value (PV)) (£m)		
			Low: -75.5	High: 927.5	Best Estimate: 160.0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.2	0.5	7.5
High	1.2	5.6	81.2
Best Estimate	0.6	2.4	34.8

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

Total additional CAA resources (£19.2m).

Appeals and objections costs: appeal interveners (licensee and airlines) (£4.7m); Competition Appeal Tribunal (CAT) (£2.1m); Competition Commission (£3.3m); appellants (licensee and airlines) (£5.4m).

We anticipate that the majority of these costs (at least 93.9%) will be passed on to the passenger. The remainder (at most 6.1%) is incurred by either DfT or the CAT. See paragraph 26 of the full IA for detail.

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

Some stakeholders are concerned that if this option led to numerous appeals it could create regulatory risk. Although the number of appeals is likely to be higher than for other options, the design of the system should deter speculative appeals and help to reduce the level of regulatory risk.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0.4	5.8
High	0	65.8	934.9
Best Estimate	0	13.7	194.8

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

Overall benefits: operating and capital expenditure efficiencies and reduction in cost of capital (£174.6m).

Removal of automatic references to the Competition Commission on price controls (£17.4m).

Other resource savings associated with the new regime (£2.8m).

We anticipate the vast majority of these benefits (99.6%) will be passed on to passengers, for example through lower prices and/or higher service quality. The remainder (0.4%) is realised by DfT.

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

This option should make CAA decisions on licence modifications more accountable than under options 1a, 1b and 1c.

Key assumptions/sensitivities/risks	Discount rate (%)
As for option 1a.	3.5

### BUSINESS ASSESSMENT (Option 1d)

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

<b>Title:</b> 2. Modernising the Civil Aviation Authority's (CAA's) Governance and Operations  <b>IA No:</b> DFT00038  <b>Lead department or agency:</b> Department for Transport  <b>Other departments or agencies:</b> None	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 12/11/2011		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Primary legislation		
<b>Contact for enquiries:</b> ben.smith@dft.gsi.gov.uk			
<b>Summary: Intervention and Options</b>			<b>RPC Opinion:</b> 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, One-Out?	Measure qualifies as One-Out?
£0.002m	N/A	N/A	No	NA

**What is the problem under consideration? Why is government intervention necessary?**

The current regulatory framework established under the 1982 Civil Aviation Act is now outdated. The Government has identified 4 specific problems where intervention is needed to update legislation: 1.) Government involvement in CAA Executive appointments is bureaucratic, hindering recruitment. 2.) Certain offences cannot be dealt with appropriately by the CAA due to a lack of appropriate sanctions. 3.) Taxpayers fund the CAA's prosecution work and it is more appropriate that the CAA charge payers fund it. 4.) The CAA's process for publishing new charging schemes includes an inefficiently long notice period.

**What are the policy objectives and the intended effects?**

The policy objectives and intended effects are as follows: 1.) Remove unnecessary bureaucracy from the regulatory process by reforming the CAA's governance and charging-scheme arrangements. 2.) Improve industry compliance through the CAA's use or threat of civil sanctions. 3.) Reduce the costs for the taxpayer of regulating the aviation sector where it is more appropriate for this work to be funded by the CAA's charges to payers from the aviation industry (e.g. the CAA's prosecution work).

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

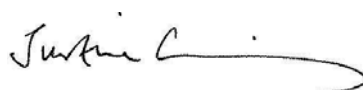
Against the "do-nothing" option (Option 1), we assess 4 stand-alone proposals. The preferred option (2) is to introduce legislation implementing all 4 of these proposals, resulting in a more efficient CAA with a greater ability to deliver benefits to users of air transport and the public. We have explored and eliminated non-legislative options on legal advice. The proposals are to: Option 2a: Amend legislation to empower the CAA to appoint its Executive Directors. Option 2b: Enable the Secretary of State to give the CAA powers to enforce existing offences through civil sanctions. Option 2c: Grant the CAA a power to recover the cost of prosecution work from its charge payers rather than from general taxation. Option 2d: Balance a new consultation obligation with shorter notice periods for the CAA's charging schemes.

**Will the policy be reviewed? It will be reviewed. If applicable, set review date:** 04/2018

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.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A	Non-traded: 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: 12/11/2011

# Summary: Analysis & Evidence

## Policy Option 2

**Description:** Implementation of all four policy options (see breakdown of specific options below)

### FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: -0.002

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	0.08	1.045	8.768

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

Specific options break these down, including recruitment costs of Executive Board members; and determining when to use enforcement powers. The CAA will charge industry for the use of these powers through its charging mechanisms. We expect these costs to be passed on to passengers (see second paragraph in One In One Out section on page 13 of the full IA).

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

Specific options break these down including: costs for industry/passengers from collecting information and reduced public influence over the CAA Board. Where non-monetised costs are incurred by the actions of the regulator as a result of this provision then we expect them to be passed on to service users.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	0	1.054	8.766

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

Specific options break these down including: Government not incurring Executive Board recruitment costs.

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

The impact assessment records a small negative net present value (NPV) of £0.002m. However, it is considered that implementing the proposals will receive considerable non-monetised benefits, which are likely to exceed these costs. Furthermore, the CAA's charges which will fund the use of these reforms are scrutinised by industry who are well placed to ensure that the benefits must outweigh the costs. See breakdown of specific options for further details.

#### Key assumptions/sensitivities/risks

See breakdown of specific options in main Impact Assessment .

Discount rate (%)

3.5

### BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	No	NA

<b>Title:</b> 3. Granting the Civil Aviation Authority (CAA) Powers to Publish Information <b>IA No:</b> DfT00120 <b>Lead department or agency:</b> Department for Transport <b>Other departments or agencies:</b> None	Impact Assessment (IA)				
	<b>Date:</b> 12/11/2011				
	<b>Stage:</b> Final				
	<b>Source of intervention:</b> Domestic				
	<b>Type of measure:</b> Primary legislation				
	<b>Contact for enquiries:</b> andy.kirby@df.t.gsi.gov.uk				

## 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 (EANCBC on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?	
£-5.9m	£-4.6m	£0.55m	Yes	IN

### What is the problem under consideration? Why is government intervention necessary?

Air travel is a complex consumer product. Surveys suggests that for many non-price characteristics (e.g. aspects of service quality and environmental performance) there is not sufficient information available for passengers to make an effective comparison between flights. Government intervention is necessary for the following reasons: 1) to reduce the risk of passengers making uninformed decisions on non-price aspects due to poor information, which should aid passengers in purchasing tickets that provide greater benefit to them; and as a result 2) facilitate competition between airports and airlines on aspects of the flight package that passengers cannot observe at the point of purchase.

### What are the policy objectives and the intended effects?

The Coalition Government has a stated aim to improve transparency of information and encourage, support and enable people to make better choices for themselves. The policy objective is to do this by reducing information failures and thereby improve the performance of airlines and others by enabling the CAA to:

- (a) Ensure better and more easily comparable information is made available to the public on aspects of customer service and environmental performance to help passengers make more informed choices; and
- (b) Provide guidance to industry in order to enable best practice to be shared; but
- (c) To only undertake these activities where the benefits of doing so clearly outweigh the costs.

### What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: Do nothing - The CAA continues to publish information within its current regulatory functions.

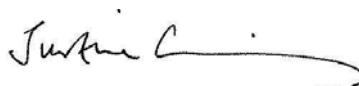
Option 1 (Preferred Option): Empower the CAA to ensure data are published on service standards and environmental performance to help consumers make more informed choices. The benefits from option 1 could include passengers selecting the most beneficial flight, improved airline and airport performance and increased transparency in the comparison of industry performance. Despite these benefits not being monetised, we believe they could be of substantial value to customers. The costs are relatively small compared to potential benefits, and will place limited burdens on industry. Because the CAA will have a legal obligation to demonstrate benefits outweigh the costs before using this power and because the CAA cannot oblige industry to collect information it does not already possess, the additional costs to industry are expected to be small, and only generated where benefits are shown to outweigh costs.

### Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2018

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? (Million tonnes CO <sub>2</sub> equivalent)			<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: 12/11/2011

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Empower the CAA to facilitate, where the benefits outweigh the costs, the publication of data on service standards and environmental performance to assist consumers in making more informed choice.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -11.1	High: -4.4	Best Estimate: -5.9

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-	0.53	4.4
High	-	1.33	11.1
Best Estimate	-	0.70	5.9

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

The CAA's costs of evaluating and consulting on the need for specific pieces of information to be collected and disseminated are approximately £1 million (PV over 10 years). The CAA has stated that it does not expect the licence fees that it charges industry to increase because of the use of these powers. Costs to industry for data analysis and publication are expected to total approximately £4.9 million (PV over 10 years). The cost per passenger is expected to be less than 0.04 pence (see paragraph 89 of the full IA).

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

The CAA must ensure that the benefits of carrying out functions under the powers should outweigh any adverse effect, and will be required to consult. The CAA will have the power to require a person to provide information or documentation that is held by the industry or under its control. The CAA will not be able to compel industry to provide information that industry could not be compelled to provide in evidence in civil proceedings before the court. Therefore costs from data collection should be kept low.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Not quantified	Not quantified	Not quantified
High	Not quantified	Not quantified	Not quantified
Best Estimate	Not quantified	Not quantified	Not quantified

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

It has not been possible to monetise the benefits for two reasons:

- 1) The information that the CAA may request is not prescribed in advance; the use of the power is subject to consultation by the CAA and is therefore currently unknown; and
- 2) Many factors and incentives influence airline and airport performance and therefore it is very difficult to isolate the impacts of information provision.

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

We expect the benefits to be significant. Broadly we expect two types of benefits to consumers:

- 1) Passengers should choose the flight that generates the greatest benefit to them since they have better information to make a fuller comparison between airlines and airports that is not solely price based; and
- 2) Incentivise airlines and airports to compete on non-price factors that passengers care greatly about but often cannot observe before buying tickets (e.g. baggage reclaim times, environmental performance).

### Key assumptions/sensitivities/risks

Discount rate (%)

3.5

We assume: 1) that consumers will be able and prepared to use the information provided to make decisions that better reflect their preferences, and that this will translate into further competitive pressure on industry; 2) that there will be compliance with information requests or penalties applied and so no use of the appeals mechanism will be made; and 3) a risk is that airlines do not directly link any change in customer behaviour to the information that is provided, and therefore not improving their performance in that area in response.

## BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 0.55      Benefits: 0      Net: 0.55	Yes	IN

<b>Title:</b> 4. Transfer of aviation security regulation and compliance functions from DfT to the Civil Aviation Authority.  <b>IA No:</b> DFT00037  <b>Lead department or agency:</b> Department for Transport  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 12/11/2011		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Primary legislation		
<b>Contact for enquiries:</b> matt.coleman@dft.gsi.gov.uk			
<b>Summary: Intervention and Options</b>			<b>RPC:</b> 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, One-Out?	Measure qualifies as
£-4.3m	£0	£0	No	NA

**What is the problem under consideration? Why is government intervention necessary?**

Aviation security regulation (i.e. rule-writing) and the inspection and enforcement of international, European and domestic regulations (i.e. compliance) are currently undertaken by the DfT, with the cost being met by the taxpayer. As a result, the costs of aviation security regulation and compliance are not reflected in the price the passenger pays. This is in contrast to aviation safety regulation and compliance, as well as economic regulation, which is undertaken by the Civil Aviation Authority (CAA), and funded by industry, who subsequently pass on the costs to passengers. Government intervention is necessary to bring forward the necessary legislation to transfer the delivery of the regulatory and compliance functions away from the DfT.

**What are the policy objectives and the intended effects?**

1. Reduce the costs to the taxpayer in line with SR commitments by introducing the user pays principle.
2. Remove price distortions associated with aviation security regulation and compliance being funded via general taxation. Making passengers pay for these costs should help ensure prices better reflect the costs of air travel. It should remove any distortions created from funding this through general taxation.
3. Offer efficiency savings for industry by having a single organisation responsible for aviation security, safety and economic regulation, for example synergies could result in joint inspections, thereby reducing industry resources deployed to working with compliance visits.

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

Option 0 (Do nothing): Aviation security compliance and regulation functions continue to be provided by DfT and funded through general taxation.

Option 1: Transfer aviation security regulation and compliance functions to the CAA. This is the preferred option because it meets the Comprehensive Spending Review and DfT's business plan commitments, should cost less than option 2 yet deliver at least the same level of (if not more) benefits than option 2.

Option 2: Create a new arms-length government agency to undertake aviation security regulation and compliance functions, with the powers to recover costs from industry.

**Will the policy be reviewed? It will be reviewed. If applicable, set review date:** 10/2014

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: Nil		Non-traded: Nil

**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 SELECT SIGNATORY:  Date: 12/11/2011

## Summary: Analysis & Evidence

## Policy Option 3

**Description:** Preferred option: Transfer aviation security regulation and compliance functions to the CAA through primary legislation.

### FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -4.8	High: -3.8	Best Estimate: -4.3

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	2.36	4.8	28.4
High	1.36	6.6	39.2
Best Estimate	1.54	4.8	28.9

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

There are transitional costs of £1.54m to transfer the compliance and regulation functions from DfT to CAA. These relate to upgrading the CAA's IT system, £1.5m, and office costs incurred in physical relocation of £0.037m.

There are average annual costs of £4.8m (running costs that will be incurred by the CAA in taking on these functions).

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

None.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	4.3	24.6
High	0	6.1	34.5
Best Estimate	0	4.3	24.6

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

The benefits relate to savings to the taxpayer from no longer funding the aviation security regulation and compliance functions, which are currently provided free to airports and airlines. The benefits to DfT match the costs incurred, excluding the employer's liability and third party liability insurance cost brought about by the CAA taking on additional members of staff and transition costs.

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

One body responsible for aviation safety and security regulation. Initial discussions with industry suggest that some industry operators could restructure accordingly, leading to savings, as they would be able to combine certain members of staff who currently have similar safety and security roles. The CAA may be able to make efficiency savings through synergies of aviation security and safety regulation and compliance, such as joint inspections.

Key assumptions/sensitivities/risks	Discount rate (%)
<p><b>ASSUMPTIONS:</b> That the posts transferred will be subject to the current terms and conditions. That the cost of upgrading the security of the CAA's IT system falls to this project. That this transfer will take place in April 2014 in line with legislative timetables.</p> <p><b>SENSITIVITIES:</b> That the number of posts transferred will change prior to the transfer, although we do not expect any significant changes.</p> <p><b>RISK:</b> That CAA lacks sufficient security expertise, although DfT and the CAA are working to mitigate this.</p>	3.5

### BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: NA      Benefits: NA      Net: NA	No	NA