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| Title: Civil Aviation Bill: summary impact assessment IA Nos: DFT0000%, DFT00037, DFT00038, DFT00120 Lead department or agency: Department for Transport Other departments or agencies: None | Impact Assessment (IA) | | |
| | Date: 12/11/2011 | | |
| | Stage: Final | | |
| | Source of intervention: Domestic | | |
| | Type of measure: 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 (EANCBC 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 21st 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 ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ 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 the 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 -£61.2m¹.
 - 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.

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

- 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 £1.10m¹.
- 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.

Micro-Businesses

5. The Government aims to ensure that, as far as possible, micro-businesses² 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.

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