Financial Statements

Income Statement

Year ended 31 March 2013

	Note	**Group 2013 £'000**	Group 2012 £'000
Revenue	2	**125,842**	115,270
Operating costs			
Employment costs	3	**(78,597)**	(78,566)
Services and materials		**(15,366)**	(15,484)
Repairs and maintenance		**(2,703)**	(2,932)
External research and development		**(607)**	(546)
Depreciation, amortisation and disposals		**(2,821)**	(2,919)
Other gains / (losses) - net	5	**53**	(145)
Other expenses		**(31,166)**	(25,874)
Operating costs before income equalisation		**(131,207)**	(126,466)
Income equalisation	1.21	**292**	22
Net operating costs		**(130,915)**	(126,444)
Operating loss		**(5,073)**	(11,174)
Finance income	7	**2,411**	11,489
Finance costs	7	**(480)**	(530)
Finance income - net		**1,931**	10,959
Loss before income tax		**(3,142)**	(215)
Income tax credit / (expense)	8	**285**	(94)
Loss for the financial year, transferred to reserves	14	**(2,857)**	(309)

Statements of Comprehensive Income

	Note	**Group 2013 £'000**	Group 2012 £'000	**Authority 2013 £'000**	Authority 2012 £'000
Loss for the year	14	**(2,857)**	(309)	**(5,187)**	(1,636)
Other comprehensive (losses) / income:					
Actuarial (loss) / gain on post employment benefit obligations	14,18	**(49,283)**	108,076	**(49,283)**	108,076
Movement on deferred tax relating to post employment benefit obligations	14,18	**18,072**	(15,849)	**18,072**	(15,849)
Less deferred tax on pension contributions charged to income statement	8	**(703)**	(126)	**(703)**	(126)
Total comprehensive (losses) / income for the year		**(34,771)**	91,792	**(37,101)**	90,465

The notes on pages 75 to 111 are an integral part of these consolidated financial statements.

The Authority has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Authority Income Statement. The loss for the Authority for the year was £5,187k (2012: loss of £1,636k).

Balance Sheets

As at 31 March 2013

Assets	Note	**Group 2013 £'000**	Group 2012 £'000	**Authority 2013 £'000**	Authority 2012 £'000
Non-current assets					
Property, plant and equipment	9	**14,420**	15,721	**14,387**	15,656
Intangible assets	10	**1,162**	972	**1,152**	955
Investments in subsidiaries	11	**-**	-	**-**	-
Deferred income tax assets	17	**75**	-	**65**	-
Retirement benefit assets	18	**554,003**	606,222	**554,003**	606,222
Total non-current assets		**569,660**	622,915	**569,607**	622,833
Current assets					
Trade and other receivables	12	**18,505**	14,278	**13,516**	11,067
Cash and cash equivalents	13	**17,606**	18,266	**17,370**	17,937
Total current assets		**36,111**	32,544	**30,886**	29,004
Total assets		**605,771**	655,459	**600,493**	651,837
Equity					
Capital and reserves					
Retained earnings	14	**437,984**	472,755	**430,966**	468,067
Total equity		**437,984**	472,755	**430,966**	468,067
Liabilities					
Non-current liabilities					
Borrowings	15	**5,311**	7,832	**5,311**	7,832
Trade and other payables	16	**802**	1,095	**802**	1,095
Deferred income tax liabilities	17,18	**127,421**	145,499	**127,421**	145,508
Retirement benefit obligations	18	**1,555**	1,423	**1,555**	1,423
Provisions for other liabilities and charges	19	**1,317**	1,234	**1,317**	1,234
Total non-current liabilities		**136,406**	157,083	**136,406**	157,092
Current liabilities					
Borrowings	15	**2,499**	1,892	**2,499**	1,892
Trade and other payables	16	**28,053**	23,126	**30,413**	24,583
Derivative financial instruments	20	**81**	-	**81**	-
Current income tax liabilities		**562**	414	**21**	93
Retirement benefit obligations	18	**107**	110	**107**	110
Provisions for other liabilities and charges	19	**79**	79	-	-
Total current liabilities		**31,381**	25,621	**33,121**	26,678
Total liabilities		**167,787**	182,704	**169,527**	183,770
Total equity and liabilities		**605,771**	655,459	**600,493**	651,837

The notes on pages 75 to 111 are an integral part of these consolidated financial statements. The financial statements on pages 71 to 74 were authorised for issue by the Board on 18 June 2013 and were signed on its behalf.

Andrew Haines
Chief Executive

Chris Jesnick
Finance & Corporate Services Director

Statements of Changes in Equity

Year ended 31 March 2013

	Note	Group Retained Earnings £'000	Authority Retained Earnings £'000
Balance as at 1 April 2011	14	380,963	377,602
Comprehensive income			
Loss for the year	14	(309)	(1,636)
Other comprehensive income			
Actuarial gain on post employment benefit obligations	14, 18	108,076	108,076
Movement on deferred tax relating to post employment benefit obligations	14	(15,849)	(15,849)
Less deferred tax on pension contributions charged to income statement	8, 14	(126)	(126)
Total other comprehensive income		92,101	92,101
Total comprehensive income		91,792	90,465
Balance as at 1 April 2012		472,755	468,067
Comprehensive income			
Loss for the year	14	(2,857)	(5,187)
Other comprehensive income			
Actuarial loss on post employment benefit obligations	14, 18	(49,283)	(49,283)
Movement on deferred tax relating to post employment benefit obligations	14	18,072	18,072
Less deferred tax on pension contributions charged to income statement	8, 14	(703)	(703)
Total other comprehensive losses		(31,914)	(31,914)
Total comprehensive losses		(34,771)	(37,101)
Balance as at 31 March 2013		**437,984**	**430,966**

Statements of Cash Flows

Year ended 31 March 2013

	Note	**Group 2013 £'000**	Group 2012 £'000	**Authority 2013 £'000**	Authority 2012 £'000
Cash flows from operating activities					
Cash generated from operations	22	**2,910**	3,862	**2,646**	3,135
Interest paid		**(372)**	(489)	**(367)**	(489)
Net income tax paid		**(353)**	(557)	**-**	-
Net cash generated from operating activities		**2,185**	2,816	**2,279**	2,646
Cash flows from investing activities					
Purchase of property, plant and equipment		**(462)**	(365)	**(462)**	(331)
Purchases of intangible assets		**(567)**	(261)	**(567)**	(236)
Interest received		**76**	83	**75**	80
Net cash used in investing activities		**(953)**	(543)	**(954)**	(487)
Cash flows from financing activities					
Repayments of borrowings		**(1,892)**	(1,796)	**(1,892)**	(1,796)
Net cash used in financing activities		**(1,892)**	(1,796)	**(1,892)**	(1,796)
Net (decrease) / increase in cash and cash equivalents		**(660)**	477	**(567)**	363
Cash and cash equivalents at beginning of year		**18,266**	17,789	**17,937**	17,574
Cash and cash equivalents at end of year	13	**17,606**	18,266	**17,370**	17,937

1. General information and significant accounting policies

The Civil Aviation Authority (CAA) is a public corporation, established by Parliament in 1972. The CAA is the UK's independent specialist aviation regulator and its activities include economic regulation, airspace policy, safety regulation and consumer protection. The Group comprises the CAA (Authority) together with its subsidiary undertakings, Air Safety Support International Limited and CAA International Limited.

The principal accounting polices applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements of the CAA have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Civil Aviation Act 1982 and the Accounts Directions made thereunder by the Secretary of State for Transport. The consolidated financial statements have been prepared under the historical cost convention on a going concern basis as modified by financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS as adopted by EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 1.22.

1.1.1 Changes in accounting policies and disclosures

Adoption of new and revised Standards

The following standards, amendments and interpretations to existing standards, issued by the IASB and endorsed by the EU, are applicable to the Authority for the first time in the current year and have been adopted by the Authority with no impact on the Authority's accounting policies or on its results or net assets included within these financial statements:

IFRS 7, 'Financial Instruments: Disclosures', requiring additional qualitative and quantitative disclosures relating to transfer of financial assets - effective for annual periods beginning on or after 1 July 2011.

The following standards, amendments and interpretations to existing standards relevant to the Authority are not yet effective and have not been adopted early by the Authority in these financial statements:

IAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2013, amended to change the grouping of items presented in Other Comprehensive Income;

IAS 19, 'Employee Benefits', effective for annual periods beginning on or after 1 January 2013. The revised standard includes a number of amendments like the ability to defer recognition of actuarial gains and losses has been removed. Also new requirements to disclose quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption;

IAS 28, 'Investments in Associates and Joint Ventures', effective for the periods beginning on or after 1 January 2014. IAS 28 sets out the requirements for the application of the equity method to the accounting for investments in associates and joint ventures;

IFRS 13, 'Fair Value Measurement', effective for annual accounting periods beginning on or after 1 January 2014. IFRS 13 replaces the guidance on

fair value measurement in existing IFRS accounting literature with a single standard.

The following standards and interpretations have been issued by the IASB, but have not been endorsed by the European Commission for their application to become mandatory and these have not been adopted by the Authority in these financial statements:

IAS 27, 'Separate Financial Statements', effective for annual periods beginning on or after 1 January 2014 - amendments triggered by IFRS 10 to the portion that addresses the accounting for consolidated financial statements;

IFRS 9, 'Financial Instruments', effective for annual accounting periods beginning on or after 1 January 2015. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value;

IFRS 12, 'Disclosure of Interests in Other Entities', effective for annual accounting periods beginning on or after 1 January 2014. IFRS 12 requires extensive disclosures enabling users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on financial statements.

Amendment to IAS 12, 'Income taxes' on deferred tax;

Amendment to IFRS 10, 'Consolidated financial statements';

Amendment to IFRS 7, 'Financial instruments: Disclosures', on offsetting financial assets and financial liabilities;

Amendment to IAS 32, 'Financial instruments: Presentation', offsetting financial assets and financial liabilities.

1.2 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, see note 11. Shareholding of more than one half of the voting rights, the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Air Travel Trust (ATT) does not operate for the benefit of the Authority and its exclusion from the consolidated financial statements has been directed by the Secretary of State.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting polices of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the CAA Board. The CAA Board is responsible for strategic decisions, the allocation of resources and assessing performance of these operating segments.

1.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in pound sterling, which is the Authority's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign

exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) - net'.

1.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	10-30 years
Leasehold buildings	over the remaining life of the lease
Plant and equipment	3-10 years
Furniture, fixtures and fittings	10 years
Vehicles	5 years

Assets in the course of construction and installation are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'depreciation, amortisation and disposals' in the income statement.

The Authority has taken advantage of the exemption provided in paragraphs 27 and 28 of IAS 23 (revised): Borrowing Costs, to adopt the Standard prospectively for Property, Plant and Equipment assets whose commencement of capitalisation is on or after 1 January 2009, as permitted by paragraph 251 of IFRS 1.

1.6 Intangible assets - computer software

Computer software licences and development costs are valued at cost less accumulated amortisation. They are capitalised as intangible assets and written off on a straight line basis over their useful lives, typically over 5 years. Assets in the course of construction and installation are not amortised.

1.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less costs to sell) and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.8 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

1.9 Financial assets

1.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(c) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

1.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gains/(losses) - net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Impairment testing of trade receivables is described in note 1.11.

1.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedge items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the relevant hedge items.

The fair values of derivative instruments are disclosed in note 20. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within 'other gains/(losses) - net'.

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised immediately in the income statement within 'other gains/(losses) - net'.

1.11 Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Indicators that the trade receivable is impaired are: significant financial difficulties of the debtor; probability that the debtor will enter bankruptcy or financial reorganisation; and default or delinquency in payments (more than 365 days overdue). The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks or HM Treasury, and other short-term highly liquid investments with original maturities of three months or less.

1.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management establish a provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries as the timing of the reversal of the temporary difference associated with the investment including dividend policy is controlled by the Group.

1.16 Employee benefits

(a) Short-term employee benefits

The cost of short-term employee benefits (wages, salaries, social security contributions, annual leave, bonuses and non-monetary benefits) are recognised in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement, or in the case of non-accumulating absences, when the absences occur.

(b) Post-employment benefits - pension obligations

The Civil Aviation Authority Pension Scheme is a fully funded defined benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund.

The asset recognised in the balance sheet in respect of the defined benefit scheme is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit cost method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

The CAA also operates an unfunded scheme for some past members of the Board. Costs associated with this scheme are charged to the profit and loss account in accordance with the advice of a professionally qualified actuary. A non-current liability is held in the balance sheet in respect of post employment benefits payable under this scheme.

c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling

due more than 12 months after the balance sheet date are discounted to their present value.

1.17 Dilapidations provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, credits and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Statutory charges

Revenue is primarily derived from 12 statutory charges schemes approved by the Secretary of State for Transport under section 11 of the Civil Aviation Act 1982. The charges are published on the CAA website and are normally for a period of one year commencing on 1 April.

(b) Eurocontrol service charges

Revenue is derived from the collection of en route air traffic service charges. These charges are normally effective for a period of one year commencing on 1 January.

(c) Sales of services

The Group derives revenue from non-statutory aviation related activities which are either for a fixed price, or derived on a time and materials expended basis. The Group also derives revenue from its commercial aviation related services in providing examination services, training courses and aviation consultancy services.

(d) Rental income

Rental income arises from the letting of leased property in London, based on an open market rate.

(e) Pensions administration

Revenue is derived from the recharging of the cost of providing services to the Civil Aviation Authority Pension Scheme.

(f) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

1.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor and excluding costs for services such as insurance and maintenance) are charged to the income statement on a straight-line basis over the period of the lease.

Payments received under operating leases in respect of sub-let office space (net of any incentives given to the lessee) are credited to the income statement on a straight-line basis over the period of the lease.

1.20 Government grants

Government grants are recognised in the income statement on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.

Under the direction of the Secretary of State for Transport, Air Safety Support International Limited, a subsidiary of the CAA, carries out enhancement of regulatory oversight of aviation safety in the UK's Overseas Territories providing further assurance of safety standards. The operating costs are met primarily by way of a grant from the Department for Transport.

1.21 Income equalisation account

The United Kingdom is party to a multilateral agreement (Eurocontrol) relating to the collection of en route air traffic services charges. Historically, the participating States have agreed that any difference between income and defined costs should be recovered from, or returned to, users of en route navigation services by an amendment of the charges in later years, with any such difference being provided for as an asset/liability within the Eurocontrol income equalisation accounts. The mechanism ceased with effect from 1 January 2012 with any difference being reflected in the results of the representative entities of the participating States.

1.22 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and assumptions concerning the future are made by the Group and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The accounting standard IAS 19 requires that the Authority selects a discount rate based on yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The funding strategy actually adopted, and the investment portfolio held, are ignored for the purposes of IAS 19.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 18.

2. Segment information

The CAA Executive Committee has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions.

The Executive Committee considers the activities from a regulatory function perspective. The country of domicile is the UK for all of the Group entities. The Executive Committee does not consider the performance according to the geographic location of its customers.

The reportable operating segments derive their revenue primarily from the regulatory sector, comprising the activities of Safety Regulation, Regulatory Policy and Consumer Protection, in addition to that derived from the Directorate of Airspace Policy, UK en route air traffic services and the commercial activities of CAA International. All other results are included in the 'Miscellaneous Services' column.

In accordance with the Accounts Direction issued by the Department for Transport, disclosure is also given regarding revenue analysed between statutory scheme charges and other income.

The segment information for the year ended 31 March 2013 is as follows:

	Safety regulation	Regulatory policy	Consumer protection	Directorate of airspace policy	UK en route air traffic services	CAA Intl.	Miscellaneous services	Total
Revenue	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Statutory and scheme charges	**58,748**	**7,800**	**6,097**	**22**	**-**	**-**	**-**	**72,667**
Eurocontrol service charges	**-**	**-**	**-**	**-**	**13,859**	**-**	**-**	**13,859**
Other revenue	**1,110**	**1,286**	**718**	**1,189**	**-**	**17,114**	**17,899**	**39,316**
Total revenue	**59,858**	**9,086**	**6,815**	**1,211**	**13,859**	**17,114**	**17,899**	**125,842**

Government grant

Included within Miscellaneous Services is a grant from the Department for Transport (DfT) amounting to £2,097k during the year (2012: £2,013k). As in prior years, part of the DfT funding has been deferred to be utilised against operating expenditure in future years. In the year to 31 March 2013 income of £356k has been deferred (2012: £57k deferred).

	Safety regulation	Regulatory policy	Consumer protection	Directorate of airspace policy	UK en route air traffic services	CAA Intl.	Miscellaneous services	Total
Operating costs (excluding IAS 19 pension scheme adjustments)	**60,284**	**8,868**	**6,829**	**1,039**	**12,632**	**14,218**	**21,773**	**125,643**
(Loss) / profit before IAS 19 adjustments	**(426)**	**218**	**(14)**	**172**	**1,227**	**2,896**	**(3,874)**	**199**
IAS 19 pension scheme adjustments	**(3,001)**	**(329)**	**(326)**	**(319)**	**-**	**(224)**	**(1,073)**	**(5,272)**
Operating (loss) / profit	**(3,427)**	**(111)**	**(340)**	**(147)**	**1,227**	**2,672**	**(4,947)**	**(5,073)**
(Loss) / profit before income tax	**(2,326)**	**9**	**(221)**	**(30)**	**1,227**	**2,754**	**(4,555)**	**(3,142)**

A reconciliation of operating loss to loss before income tax is provided as follows:	**£'000**
Adjusted operating loss for reportable segments	**(5,073)**
Finance income	**2,411**
Finance costs	**(480)**
Loss before income tax	**(3,142)**

2. Segment information (continued)

The comparable segment information for the previous year, ended 31 March 2012, is as follows:

	Safety regulation	Regulatory policy	Consumer protection	Directorate of airspace policy	UK en route air traffic services	CAA Intl.	Miscellaneous services	Total
Revenue	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Statutory and scheme charges	57,893	6,519	6,095	13	-	-	-	70,520
Eurocontrol service charges	-	-	-	-	9,082	-	-	9,082
Other revenue	1,087	1,037	302	1,163	-	15,425	16,654	35,668
Total revenue	58,980	7,556	6,397	1,176	9,082	15,425	16,654	115,270

Government grant

Included within Miscellaneous Services is a grant from the Department for Transport (DfT) amounting to £2,000k during the year (2011: £3,000k). As in prior years, part of the DfT funding has been deferred to be utilised against operating expenditure in future years. In the year to 31 March 2012 income of £57k was deferred (2011: £264k released).

	Safety regulation	Regulatory policy	Consumer protection	Directorate of airspace policy	UK en route air traffic services	CAA Intl.	Miscellaneous services	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Operating costs (excluding IAS 19 pension scheme adjustments)	59,866	6,828	5,790	1,181	8,508	13,607	18,773	114,553
(Loss) / profit before IAS 19 adjustments	(886)	728	607	(5)	574	1,818	(2,119)	717
IAS 19 pension scheme adjustments	(8,698)	(946)	(994)	(931)	500	(521)	(301)	(11,891)
Operating (loss) / profit	(9,584)	(218)	(387)	(936)	1,074	1,297	(2,420)	(11,174)
(Loss) / profit before income tax	(2,032)	604	475	(128)	574	2,192	(1,900)	(215)

A reconciliation of operating loss to loss before income tax is provided as follows:	£'000
Adjusted operating loss for reportable segments	(11,174)
Finance income	11,489
Finance costs	(530)
Loss before income tax	(215)

3. Employment costs

In respect of the employees included in the table below, the related employee benefits expenses are as follows:

	Group 2013	Group 2012 (restated)
	£'000	£'000
Wages and salaries	**50,389**	51,794
Social security costs	**4,999**	5,045
Defined benefit pension plan costs (note 18)	**21,074**	20,278
Unfunded pension plan costs (note 18)	**234**	199
Other employee benefits expense*	**1,901**	1,250
	78,597	78,566

* Other employee benefits expense includes costs of relocation, car leasing and allowance costs together with luncheon vouchers.

(2012 comparatives have been restated to ensure consistency with classification of expenditure in the current year. Employee salary sacrifice amounts in relation to pension scheme arrangements are now correctly shown within pension costs, instead of salaries, whilst termination payments are now included within wages and salaries costs rather than pension costs.)

The average number of employees (including Executive Members) was:

	Group 2013	**Group 2013**	Group 2012	Group 2012
	At 31 March	**Monthly Average**	At 31 March	Monthly Average
By business segment				
Safety regulation	**543**	**555**	553	551
Regulatory policy	**59**	**61**	61	60
Consumer protection	**56**	**60**	62	63
Directorate of airspace policy	**57**	**59**	58	59
CAA International	**42**	**41**	40	33
Miscellaneous services	**190**	**199**	198	203
	947	**975**	972	969

4. Board Members' emoluments

	Group	Group
	2013	2012
	£'000	£'000
Emoluments excluding pension contributions:		
Salaries and fees	**1,386**	1,374
Benefits	**39**	34
Performance related payments	**153**	57
	1,578	1,465
Pension contributions	**190**	157
Pension payments to past directors	**105**	101
	1,873	1,723

Details of emoluments for each Board Member are included in the Report by the Board on Remuneration Matters. This report includes all key management personnel.

5. Other gains / (losses) - net

	Group 2013 £'000	Group 2012 £'000
Net foreign exchange gains / (losses) on operating activities	**53**	(145)

6. Other expenses

Other items charged to the income statement are:	**Group 2013 £'000**	Group 2012 £'000
Operating lease payments (note 23):		
- Properties	**(6,659)**	(6,951)
- Vehicles	**(811)**	(967)
	(7,470)	(7,918)

Property lease payments are included within services and materials.

Vehicle lease costs are shown within employment costs £243k (2012: £284k) and other expenses £568k (2012: £683k).

	Group 2013 £'000	Group 2012 £'000
Loss on disposal of property, plant and equipment	**(13)**	(10)
Loss on disposal of software and development costs	**-**	(43)
	(13)	(53)

Losses on disposal are included within depreciation, amortisation and disposals.

Research expenditure (all in respect of safety regulation):	**Group 2013 £'000**	Group 2012 £'000
Internal costs (included within employment costs)	**(583)**	(479)
External costs	**(607)**	(546)
	(1,190)	(1,025)

During the year the Group obtained the following services from the external auditor:	**Group 2013 £'000**	Group 2012 £'000
Audit of parent company and consolidated financial statements	**(58)**	(58)
Audit of subsidiary company financial statements	**(15)**	(15)
Audit related assurance services	**(2)**	(2)
Non audit services	**(57)**	(64)
	(132)	(139)

All costs are shown within other expenses.

7. Finance income and costs

	Group 2013 £'000	Group 2012 £'000
Interest expense:		
National loan fund borrowings	**(370)**	(461)
Other interest expense	**(5)**	69
Unwinding of discount on provisions (note 19)	**(24)**	(138)
	(399)	(530)
Forward foreign exchange contract expense (note 20)	**(81)**	-
Finance costs	**(480)**	(530)
Finance income:		
Interest on short-term deposits	**75**	80
Financial income relating to employee benefit scheme:		
Expected return on assets	**82,467**	95,510
Interest charge on liabilities	**(80,131)**	(84,104)
Net financial income in respect of employee benefit scheme (note 18)	**2,336**	11,406
Other interest income	**-**	3
Finance income	**2,411**	11,489
Net finance income	**1,931**	10,959

8. Income tax (credit) / expense

(a) Analysis of a (credit) / expense charge in the year:

	Group 2013 £'000	Group 2012 £'000
Current tax:		
UK corporation tax at 24% (2012: 26%) on loss for the year	**542**	565
Adjustments in respect of prior years	**(75)**	(8)
Overseas tax	**34**	10
Total current tax	**501**	567
Deferred tax:		
Origination and reversal of temporary differences	**(150)**	(35)
Adjustments in respect of prior years	**65**	(311)
Effect of tax rate changes	**2**	(1)
IAS 19 movement	**(703)**	(126)
Total deferred tax	**(786)**	(473)
Net income tax (credit) / expense	**(285)**	94

(b) Reconciliation of effective tax rate:

	Group 2013 £'000	Group 2012 £'000
Loss before income tax	**(3,142)**	(215)
Tax calculated at applicable UK corporation tax rate of 24% (2012: 26%)	**(754)**	(56)
Tax effects of:		
Expenses not deducted for tax purposes	**407**	470
Losses not set up as an asset	**70**	-
Effect of tax rate change	**2**	(1)
Adjustments in respect of prior years - current tax	**(75)**	(8)
Adjustments in respect of prior years - deferred tax	**65**	(311)
Income tax (credit) / expense for the year (note 8a)	**(285)**	94

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012.

Accordingly the authority's profits for this year are taxed at 24%.

9. Property, plant and equipment

Group	Freehold buildings	Leasehold buildings	Plant and equipment	Vehicles	Furniture fixtures and fittings	Assets in the course of construction	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2011	22,106	25,207	7,978	127	3,996	-	59,414
Additions	-	-	369	-	-	24	393
Disposals	-	-	(54)	-	(24)	-	(78)
Re-classification	(80)	80	-	-	-	28	28
Transfers	-	-	28	-	-	(28)	-
At 1 April 2012	22,026	25,287	8,321	127	3,972	24	59,757
Additions	-	-	127	-	-	989	1,116
Disposals	-	(7)	(444)	-	(68)	-	(519)
Re-classification	-	-	-	-	-	90	90
Transfers	-	-	90	-	24	(114)	-
At 31 March 2013	**22,026**	**25,280**	**8,094**	**127**	**3,928**	**989**	**60,444**
Accumulated depreciation							
At 1 April 2011	16,731	14,126	7,425	98	3,211	-	41,591
Charge for the year	749	1,470	201	13	79	-	2,512
Eliminated on disposal	-	-	(53)	-	(14)	-	(67)
At 1 April 2012	17,480	15,596	7,573	111	3,276	-	44,036
Charge for the year	747	1,462	152	8	125	-	2,494
Re-classification	-	-	(98)	-	98	-	-
Eliminated on disposal	(6)	(442)	-	-	(58)	-	(506)
At 31 March 2013	**18,221**	**16,616**	**7,627**	**119**	**3,441**	**-**	**46,024**
Net book value 31 March 2013	**3,805**	**8,664**	**467**	**8**	**487**	**989**	**14,420**
Net book value 31 March 2012	4,546	9,691	748	16	696	24	15,721

At 31 March 2013 the Group had no contractual commitments for the acquisition of property, plant and equipment (2012: nil).

The £2,494k (2012: £2,512k) depreciation charge is included within depreciation, amortisation and disposals.

9. Property, plant and equipment (continued)

Authority	Freehold buildings	Leasehold buildings	Plant and equipment	Vehicles	Furniture fixtures and fittings	Assets in the course of construction	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2011	22,108	25,204	7,806	85	3,912	-	59,115
Additions	-	-	335	-	-	24	359
Disposals	-	-	(8)	-	(17)	-	(25)
Re-classification	(80)	80	-	-	-	28	28
Transfers	-	-	28	-	-	(28)	-
At 1 April 2012	22,028	25,284	8,161	85	3,895	24	59,477
Additions	-	-	127	-	-	989	1,116
Disposals	(2)	(4)	(369)	-	(68)	-	(443)
Re-classification	-	-	-	-	-	90	90
Transfers	-	-	90	-	24	(114)	-
At 31 March 2013	**22,026**	**25,280**	**8,009**	**85**	**3,851**	**989**	**60,240**
Accumulated depreciation							
At 1 April 2011	16,731	14,126	7,281	75	3,149	-	41,362
Charge for the year	749	1,470	180	6	71	-	2,476
Eliminated on disposal	-	-	(8)	-	(9)	-	(17)
At 1 April 2012	17,480	15,596	7,453	81	3,211	-	43,821
Charge for the year	747	1,462	132	3	118	-	2,462
Re-classification	-	-	(98)	-	98	-	-
Eliminated on disposal	-	(6)	(366)	-	(58)	-	(430)
At 31 March 2013	**18,227**	**17,052**	**7,121**	**84**	**3,369**	**-**	**45,853**
Net book value 31 March 2013	**3,799**	**8,228**	**888**	**1**	**482**	**989**	**14,387**
Net book value 31 March 2012	4,548	9,688	708	4	684	24	15,656

At 31 March 2013 the Authority had no contractual commitments for the acquisition of property, plant and equipment (2012: nil).

The £2,462k (2012: £2,476k) depreciation charge is included within depreciation, amortisation and disposals.

10. Intangible assets

Group	Software development costs	Assets in the course of construction	Total
Cost	£'000	£'000	£'000
At 1 April 2011	5,364	228	5,592
Additions	25	271	296
Re-classification	-	(28)	(28)
Disposals	(137)	-	(137)
Transfers	61	(61)	-
At 1 April 2012	5,313	410	5,723
Additions	497	97	594
Re-classification	-	(90)	(90)
Transfers	323	(323)	-
At 31 March 2013	**6,133**	**94**	**6,227**
Accumulated amortisation			
At 1 April 2011	4,493	-	4,493
Charge for the year	353	-	353
Eliminated on disposal	(95)	-	(95)
At 1 April 2012	4,751	-	4,751
Charge for the year	314	-	314
At 31 March 2013	**5,065**	**-**	**5,065**
Net book value 31 March 2013	**1,068**	**94**	**1,162**
Net book value 31 March 2012	562	410	972

At 31 March 2013 the Group had no contractual commitments for the acquisition of intangible assets (2012: nil).

The £314k (2012: £353k) amortisation charge is included within depreciation, amortisation and disposals.

10. Intangible assets (continued)

Authority	Software development costs	Assets in the course of construction	Total
Cost	£'000	£'000	£'000
At 1 April 2011	5,191	228	5,419
Additions	-	271	271
Re-classification	-	(28)	(28)
Transfers	61	(61)	-
At 1 April 2012	5,252	410	5,662
Additions	497	97	594
Re-classification	-	(90)	(90)
Transfers	323	(323)	-
At 31 March 2013	**6,072**	**94**	**6,166**
Accumulated amortisation			
At 1 April 2011	4,404	-	4,404
Charge for the year	303	-	303
At 1 April 2012	4,707	-	4,707
Charge for the year	307	-	307
At 31 March 2013	**5,014**	**-**	**5,014**
Net book value 31 March 2013	**1,058**	**94**	**1,152**
Net book value 31 March 2012	545	410	955

At 31 March 2013 the Authority had no contractual commitments for the acquisition of intangible assets (2012: nil).

The £307k (2012: £303k) amortisation charge is included within depreciation, amortisation and disposals.

11. Principal subsidiaries and investments

Authority

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent	Proportion of voting rights held by parent	Investment
CAA International Limited	UK	Aviation consultancy, training & examination services	100%	100%	£1
Air Safety Support International Limited	UK	Regulatory oversight	100%	100%	£1

Authority

Shares in group undertakings

There was no movement in the investments in subsidiary undertakings during the year.

	2013	2012
	£	£
Beginning and end of year	**2**	2

Investments in Group undertakings are recorded at cost which is the fair value of the consideration paid.

12. Trade and other receivables

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Trade receivables	**6,547**	5,115	**3,001**	3,029
Less: provision for doubtful receivables	**(430)**	(386)	**(110)**	(313)
Trade receivables - net	**6,117**	4,729	**2,891**	2,716
Prepayments	**2,615**	3,338	**2,552**	3,247
Other receivables	**9,822**	6,261	**8,073**	5,104
Less: provision for doubtful other receivables	**(49)**	(50)	**-**	-
Trade and other receivables (current)	**18,505**	14,278	**13,516**	11,067
Other receivables (non-current)	**-**	-	**-**	-
Total trade and other receivables	**18,505**	14,278	**13,516**	11,067

The carrying amounts of trade and other receivables are deemed to approximate to their fair value.

As at 31 March 2013 trade receivables of £1,920k for the Group and £938k for the Authority were past their due date but were not doubtful. The ageing analysis of these is as follows:

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
Past due:	**£'000**	£'000	**£'000**	£'000
Up to 3 months	**1,638**	2,499	**820**	1,541
From 3 to 12 months	**276**	776	**118**	493
Over 12 months	**6**	121	**-**	112
	1,920	3,396	**938**	2,146

The decrease in the Authority's trade receivables being classified as past due has arisen as a result of a change in policy in the determination of payment terms for invoices. The majority of invoices are raised with terms of 'payment now due' to align with wording within the Statutory Charges Schemes, whereas they would have previously been raised with payment terms of 30 days.

12 Trade and other receivables (continued)

Movements on the Group and the Authority provision for doubtful trade receivables are as follows:

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
At 1 April	**386**	652	**313**	462
Provision for doubtful receivables	**362**	216	**55**	149
Receivables written off during the year as uncollectible	**(165)**	(383)	**(165)**	(280)
Unused amounts reversed	**(153)**	(99)	**(93)**	(18)
At 31 March	**430**	386	**110**	313

The movement on the Group provision for doubtful other receivables is wholly attributable to unused amounts reversed.

The creation and release of provision for doubtful trade receivables have been included in 'other expenses' in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the value of each class of receivable mentioned above. The Group and the Authority do not hold any collaterrol as security.

The value of trade and other receivables are denominated in the following currencies:

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
UK pounds	**13,725**	10,077	**11,074**	8,133
Euros	**2,621**	1,281	**-**	-
US dollars	**3**	3	**-**	-
Other currencies	**20**	15	**-**	-
	16,369	11,376	**11,074**	8,133

13. Cash and cash equivalents

The following cash and cash equivalents are included within the cash flow statements:

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Cash at bank and on hand	**1,010**	1,451	**774**	1,122
Short-term bank deposits	**3,596**	815	**3,596**	815
Short-term HM Treasury deposits	**13,000**	16,000	**13,000**	16,000
	17,606	18,266	**17,370**	17,937

The carrying amounts of cash and cash equivalents are deemed to approximate to their fair value.

14. Retained earnings

	Note	**Group**	**Authority**
		£'000	**£'000**
At 1 April 2011		380,963	377,602
Loss for the year		(309)	(1,636)
Actuarial gain on employee benefit scheme	18	108,076	108,076
Movement on deferred tax relating to employee benefit scheme	18	(15,849)	(15,849)
Less deferred tax on pension contributions charged to income statement	8	(126)	(126)
At 31 March 2012		472,755	468,067
At 1 April 2012		**472,755**	**468,067**
Loss for the year		**(2,857)**	**(5,187)**
Actuarial loss on employee benefit scheme	18	**(49,283)**	**(49,283)**
Movement on deferred tax relating to employee benefit scheme	18	**18,072**	**18,072**
Less deferred tax on pension contributions charged to income statement	8	**(703)**	**(703)**
At 31 March 2013		**437,984**	**430,966**

Retained earnings represent the cumulative surpluses and other gains made by the Authority and the Group since its inception.

15. Borrowings

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Non-current				
National Loans Fund	**5,311**	7,832	**5,311**	7,832
	5,311	7,832	**5,311**	7,832
Current				
National Loans Fund	**2,499**	1,892	**2,499**	1,892
	2,499	1,892	**2,499**	1,892
Total borrowings	**7,810**	9,724	**7,810**	9,724

The borrowings are repayable to the National Loans Fund on an instalment basis, the final instalment being due for repayment during December 2019. The borrowing rates are fixed for the entire period of the loans. These borrowings are unsecured.

The carrying amounts and fair values of borrowings are as follows:

	Carrying amount	Carrying amount	**Fair Value**	Fair Value
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Non-current	**5,311**	7,832	**5,708**	7,687
Current	**2,499**	1,892	**1,989**	1,883
	7,810	9,724	**7,697**	9,570

The fair value of borrowings is calculated by discounting the cash outflow by the rate ruling at the balance sheet date for borrowings with similar maturity and repayment style. The fair values are based on cash flows discounted using a rate based on the borrowing rates between 0% and 0.87% (2012: 0.44% and 0.99%).

The carrying amounts of the Group and Authority's borrowings are denominated in sterling.

The Group and Authority have maximum borrowing powers of £550 million (2012: £550 million) under the Civil Aviation Authority (Borrowing Powers) Order 1995. Below are details of the Group and Authority's undrawn and uncommitted borrowing facilities:

	2013	2012
	£'000	£'000
Bank overdraft facility	**5,000**	5,000

16. Trade and other payables

	Group 2013 £'000	Group 2012 £'000 restated	**Authority 2013 £'000**	Authority 2012 £'000
Current liabilities:				
Trade payables	**1,411**	1,870	**1,331**	1,830
Amounts due to related parties (note 25)	-	-	**7,302**	4,804
Social security and other taxes	**1,585**	1,622	**1,578**	1,622
Accrued expenses	**9,160**	8,191	**8,200**	7,615
Deferred income	**12,338**	8,906	**10,839**	7,777
Other payables	**3,183**	2,245	**787**	643
Income equalisation (note 1.21)	**376**	292	**376**	292
	28,053	23,126	**30,413**	24,583
Non-current liabilities:				
Other payables	**802**	719	**802**	719
Income equalisation (note 1.21)	**-**	376	**-**	376
	802	1,095	**802**	1,095

The carrying amounts of trade and other payables are deemed to approximate to their fair value.

Last year accrued expenses included a provision of £79k relating to property repairs at Northgate House (see note 19).

17. Deferred income tax

The gross movement on the deferred income tax account is as follows:

	Group 2013 £'000	Group 2012 £'000	**Authority 2013 £'000**	Authority 2012 £'000
At 1 April	**6**	354	**15**	359
Income statement credit	**(81)**	(348)	**(80)**	(344)
At 31 March	**(75)**	6	**(65)**	15

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the taxation authority where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	Group 2013 £'000	Group 2012 £'000	**Authority 2013 £'000**	Authority 2012 £'000
Deferred tax asset to be recovered after more than 12 months	**(693)**	(876)	**(692)**	(876)
Deferred tax liability to be recovered after more than 12 months	**618**	882	**627**	891
Deferred tax (asset) / liability (net)	**(75)**	6	**(65)**	15

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax liabilities	Group Accelerated tax depreciation £'000	Group Total £'000	Authority Accelerated tax depreciation £'000	Authority Total £'000
At 1 April 2012	882	882	891	891
Credited to the income statement	(264)	(264)	(264)	(264)
At 31 March 2013	**618**	**618**	**627**	**627**

Deferred tax assets	Group Tax losses £'000	Group Other £'000	Group Total £'000	Authority Tax losses £'000	Authority Other £'000	Authority Total £'000
At 1 April 2012	(115)	(761)	(876)	(115)	(761)	(876)
Charged to the income statement	115	68	183	115	69	184
At 31 March 2013	**-**	**(693)**	**(693)**	**-**	**(692)**	**(692)**

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of £70k (2012: £115k) in respect of losses amounting to £291k (2012: £478k) that can be carried forward against future taxable income. The Group expects to have taxable profits in the longer term once the general economic conditions improve.

The Finance Act 2012, which provides for a reduction in the main rate of corporation tax from 24% to 23% effective from 1 April 2013 was substantively enacted on 3 July 2012. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

The Government intends to enact future reductions in the main rate of corporation tax down to 20% by 1 April 2015. As this rate was not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with IAS10, as it is a non-adjusting event occurring after the reporting period.

Included within deferred income tax liabilities is an amount of £127,421k (2012: £145,493k) relating to the pension scheme surplus (see note 18).

18. Retirement benefit obligations

The Civil Aviation Authority Pension Scheme ("Scheme") is a fully funded defined benefit scheme providing benefits based on final pensionable pay. CAA closed the Scheme to new entrants as from 30 November 2012. In its place a Defined Contribution Scheme is available to new entrants. In order to further mitigate the increase in the Scheme liabilities the CAA have introduced a cap on the growth of future Pensionable earnings. The cap is based upon the members' pensionable earnings as at the 31 March 2013 level plus inflation.

The assets of the Scheme are held in a separate trustee administered fund. The pension cost relating to the Scheme is assessed in accordance with the advice of independent qualified actuaries and is such as to spread the cost of pensions over the working lives of the employees who are Scheme members.

Until 31 March 2001, National Air Traffic Services Ltd (NATS) was a subsidiary of the CAA. Upon separation of NATS from the CAA, two sections of the scheme were established, namely the CAA section and the NATS section. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001, Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001.

The CAA provides pension administration services to the scheme and has charged £6,971,034 (2012: £5,268,458) for its services during the year.

The CAA also operates an unfunded scheme for some past members of the Board. Costs associated with this scheme of £233,898 (2012: £199,321) were charged to the profit and loss account in accordance with the advice of a professionally qualified actuary. A non-current liability of £1,555k (2012: £1,423k) and a current liability of £107k (2012: £110k) are held in the balance sheet in respect of post employment benefits payable under this scheme.

The last formal actuarial valuation of the CAA Section of the Civil Aviation Authority Pension Scheme was carried out as at 31 December 2009. A formal valuation of the Scheme is currently under way and the results are expected later in 2013. The last valuation revealed an ongoing surplus of £99.7 million. The methodology underlying the formal valuation differs from that used for annual IAS 19 disclosures, particularly in relation to the financial assumptions used. The discount rates used for the 2009 formal valuation were largely based on Government bond (gilt) yields. This reflects the investment strategy of the Scheme where the majority of the assets (about 84% as at 31 December 2009 and, currently, about 82%) are held in a portfolio designed to match, as closely as possible, projected payments to current pensioner and deferred members. However, IAS 19 requires that projected future benefits are discounted at the yield on AA-rated corporate bonds; at 31 December 2009 these were about 1.2% p.a. higher than gilt yields resulting in a substantial reduction in the present value of benefit obligations compared with the formal actuarial valuation.

In addition, the formal valuation has a more prudent basis than IAS 19 disclosures and this is allowed for by means of further adjustments to the discount rate and the inclusion of reserves for contingent events, including further improvements in longevity. The main differences between the methodology used for the 31 December 2009 valuation and that used for IAS 19 disclosures are:

Measurement of liabilities using IAS 19 assumptions:

i) Discount rate based on AA-rated corporate bond yields

ii) No allowance for a reserve for changes in mortality and contingencies

Measurement of liabilities for the 31 December 2009 formal valuation:

i) Discount rates:
   - pensioner and deferred liabilities - gilt yields less 0.1% pa
   - pre-retirement discount rate for active members - gilt yields plus 3.0% pa

ii) Allowance for a reserve for changes in mortality and contingencies in respect of SPADs (Separation Pensioners and Deferreds). This reserve amounted to about 5% of the Scheme's liabilities as at 31 December 2009.

18 Retirement benefit obligations (continued)

THE FOLLOWING INFORMATION HAS ALL BEEN CALCULATED IN ACCORDANCE WITH IAS 19

	Group and Authority	
	2013	2012
	£'000	£'000
Balance sheet assets for:		
Post employment benefits - fully funded pension fund	**426,582**	460,729
Balance sheet obligations for:		
Non-current post employment benefits - unfunded pension scheme	**(1,555)**	(1,423)
Current post employment benefits - unfunded pension scheme	**(107)**	(110)
Post employment benefits - unfunded pension scheme	**(1,662)**	(1,533)
Income statement charge for:		
Pension benefits (note 3)	**21,074**	20,278
Post employment benefits - unfunded pension scheme (note 3)	**234**	199
Total income statement charge	**21,308**	20,477

Funded pension benefits:

The amounts recognised in the balance sheet are determined as follows:

	Group and Authority	
	2013	2012
	£'000	£'000
Fair value of plan assets	**2,391,070**	2,256,980
Present value of funded obligations	**(1,837,067)**	(1,650,758)
Surplus in funded scheme	**554,003**	606,222
Related deferred tax liability at 23%/24%	**(127,421)**	(145,493)
Net surplus in funded pension scheme	**426,582**	460,729

The movements in the defined benefit obligations over the year are as follows:

	Group and Authority	
	2013	2012
	£'000	£'000
At 1 April	**1,650,758**	1,574,169
Current service cost	**21,050**	19,981
Interest cost	**80,131**	84,104
Contribution by plan participants	**239**	285
Actuarial losses	**181,141**	61,936
Benefits paid	**(96,276)**	(90,014)
Past service cost	**24**	297
At 31 March	**1,837,067**	1,650,758

18. Retirement benefit obligations (continued)

The movements in the fair value of plan assets in the year are as follows:

	Group and Authority	
	2013	2012
	£'000	£'000
At 1 April	**2,256,980**	2,072,800
Expected return on scheme assets	**82,467**	95,510
Actuarial gains	**131,858**	170,012
Contributions by the employer	**15,802**	8,387
Contributions by plan participants	**239**	285
Benefits paid	**(96,276)**	(90,014)
At 31 March	**2,391,070**	2,256,980

The amounts recognised in the income statement are as follows:

	Group and Authority	
	2013	2012
	£'000	£'000
Current service cost	**21,050**	19,981
Past service cost	**24**	297
Total profit and loss charge included in employment costs	**21,074**	20,278
Interest cost	**80,131**	84,104
Expected return on funded pension scheme assets	**(82,467)**	(95,510)
Total charge to finance income (note 7)	**(2,336)**	(11,406)
Total included in income statement	**18,738**	8,872

Analysis of amounts recognised in statement of comprehensive income:

	Group and Authority	
	2013	2012
	£'000	£'000
Actual return less expected return on pension scheme assets	**131,858**	170,012
Experience gains and losses arising on the scheme liabilities	**(181,141)**	(61,936)
Actuarial (loss)/gain recognised in statement of comprehensive income	**(49,283)**	108,076

The actual return on the scheme asset was £214,325k (2012: £265,522k).

18. Retirement benefit obligations (continued)

The principal actuarial assumptions used for the purposes of IAS 19 were as follows:

As at 31 March	**2013 % pa**	2012 % pa
Discount rate	**4.3**	5.0
Inflation assumption	**3.6**	3.4
Rate of increase in salaries	**2.0/3.6**	3.4 / 4.5
Rate of increase in pensions in payment *	**3.6**	3.4
Rate of increase for deferred pensioners **	**3.6**	3.4
Expected long-term return on scheme assets	**3.8**	4.8

* In excess of any guaranteed minimum pension

** In excess of any guaranteed minimum pension and non-revaluing pensions

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics in the UK. Mortality assumptions are based on PA92 series tables with 92 series improvements, with medium cohort projections calendar year 2017 for current pensioners and 2027 for current non-pensioners. The expected lifetime of a current pensioner who is aged 65 and the expected lifetime of a current non-pensioner (at age 65) are shown in years, below, based on the above mortality tables.

	Males	**Females**
Current pensioner	89.2	89.2
Current non-pensioner	91.0	90.9

The CAA is required to contribute to the Scheme at the rates agreed at the last scheme specific funding valuation as at 31 December 2009. This is subject to review at future valuations. This rate was set at 12.0% of pensionable earnings for the year 2012/2013 in respect of which the CAA paid contributions of £15.8 million (including payments of £24k relating to past service costs). The expected contribution in the 2013/2014 year is £17.0 million. The expected future benefit payments for 2013/2014 are forecast to be £99.7 million.

Market value of assets and expected rate of return on assets:

As at 31 March	**Market Value 2013 £'000**	Market Value 2012 £'000
Equities *	**334,750**	331,776
Debt securities	**2,008,498**	1,857,494
Other	**31,084**	45,140
Real estate / property	**16,738**	22,570
Total value of assets	**2,391,070**	2,256,980

* Including private equity and hedge funds

18. Retirement benefit obligations (continued)

As at 31 March	**2013**	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	**2,391,070**	2,256,980	2,072,800	2,025,600	1,865,480
Present value of defined benefit obligation	**(1,837,067)**	(1,650,758)	(1,574,169)	(1,573,079)	(1,292,297)
Surplus in the scheme	**554,003**	606,222	498,631	452,521	573,183

As at 31 March	**2013**	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Experience adjustment on scheme liabilities:					
Liability loss / (gain) during period	**424**	5,079	21,420	(108,733)	-
Liability loss / (gain) expressed as a percentage of scheme liabilities	**0.0%**	0.3%	1.4%	(6.9%)	-
Assumption adjustment on scheme liabilities:					
Liability loss / (gain) during period	**180,717**	56,857	(31,265)	379,220	(89,334)
Liability loss / (gain) expressed as a percentage of scheme liabilities	**9.8%**	3.4%	(2.0%)	24.1%	(6.9%)
Experience adjustment on scheme assets:					
Asset (gain) / loss during period	**(131,858)**	(170,012)	(37,399)	(158,298)	206,538
Asset (gain) / loss expressed as a percentage of scheme assets	**(5.5%)**	(7.5%)	(1.8%)	(7.8%)	11.1%

19. Provisions for other liabilities and charges

	Building Repairs	
	Group	**Authority**
	£'000	**£'000**
At 1 April 2012 restated	1,313	1,234
Unwinding of discount	24	24
Expenditure charged against provisions	59	59
At 31 March 2013	**1,396**	**1,317**

	Group 2013 £'000	Group 2012 £'000 restated	**Authority 2013 £'000**	Authority 2012 £'000 restated
Analysis of total provisions:				
Non-current	**1,317**	1,234	**1,317**	1,234
Current	**79**	79	**-**	-
Total provisions	**1,396**	1,313	**1,317**	1,234

Last year the £79k provision was included in accrued expenses (see note 16).

Building repairs

Provisions are recognised in respect of:

- the cost of building repairs that will be recovered from the head leaseholder to restore the property at 45-59 Kingsway, London to its original condition on the termination of the lease in 2019
- the cost of building repairs that will be required to restore the property at Northgate House, Crawley, to its original condition on the termination of the lease in 2013.

The provisions are based on estimates made by independent property consultants of the terminal dilapidation liabilities and related professional fees that will arise.

20. Derivative financial instruments

	Group 2013 £'000	Group 2012 £'000	**Authority 2013 £'000**	Authority 2012 £'000
Forward foreign exchange contract liability	**81**	-	**81**	-
Total derivatives	**81**	-	**81**	-

21. Financial instruments by category

	Note	**Group Loans and receivables 2013 £'000**	Group Loans and receivables 2012 £'000	**Authority Loans and receivables 2013 £'000**	Authority Loans and receivables 2012 £'000
Assets as per balance sheet					
Trade and other receivables excluding prepayments	12	**15,890**	10,940	**10,964**	7,820
Cash and cash equivalents	13	**17,606**	18,266	**17,370**	17,937
Net book amount		**33,496**	29,206	**28,334**	25,757

The Group and the Authority had no assets at fair value through the profit and loss and no assets available for sale.

		Group 2013			Group 2012		
	Note	**Liabilities at fair value through the profit & loss £'000**	**Other financial liabilities at amortised cost £'000**	**Total £'000**	Liabilities at fair value through the profit & loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet							
Borrowings	15	**-**	**7,810**	**7,810**	-	9,724	9,724
Derivative financial instruments	20	**81**	**-**	**81**	-	-	-
Trade payables, other payables and amounts due to related parties	16	**-**	**5,396**	**5,396**	-	4,834	4,834
Net book amount		**81**	**13,206**	**13,287**	-	14,558	14,558

		Authority 2013			Authority 2012		
	Note	**Liabilities at fair value through the profit & loss £'000**	**Other financial liabilities at amortised cost £'000**	**Total £'000**	Liabilities at fair value through the profit & loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet							
Borrowings	15	**-**	**7,810**	**7,810**	-	9,724	9,724
Derivative financial instruments	20	**81**	**-**	**81**	-	-	-
Trade payables, other payables and amounts due to related parties	16	**-**	**10,222**	**10,222**	-	7,996	7,996
Net book amount		**81**	**18,032**	**18,113**	-	17,720	17,720

Financial risk management disclosures are set out in the Financial Review on pages 48 and 49.

22. Cash generated from operations

	Group	Group	**Authority**	Authority
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Loss before income tax	**(3,142)**	(215)	**(6,045)**	(2,034)
Adjustments for:				
Depreciation, amortisation and adjustment on disposal	**2,808**	2,865	**2,769**	2,779
Disposal of software and development costs	**-**	43	**-**	-
Disposal of property, plant and equipment	**13**	10	**13**	8
Income equalisation	**(292)**	(22)	**(292)**	(22)
Finance costs - net	**(1,931)**	(10,959)	**(1,935)**	(10,950)
Changes in working capital:				
- Trade and other receivables	**(4,228)**	1,703	**(2,449)**	(803)
- Trade and other payables	**4,222**	(1,625)	**5,125**	2,174
IAS 19 current service costs net of cash contributions	**5,272**	11,891	**5,272**	11,891
Unfunded retirement benefit obligations	**129**	92	**129**	92
Provisions	**59**	79	**59**	-
Cash generated from operations	**2,910**	3,862	**2,646**	3,135

23. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred was nil (2012: nil).

(b) Operating lease commitments

The Group leases offices (part of which are sub-let) and plant and machinery under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years. The majority of lease agreements contain provisions for upwards rent reviews, amounts which are agreed between the lessor and the lessee as the best rent likely to be achieved if let at open market conditions.

The Group also leases vehicles under cancellable operating lease agreements. The Group is required to give, in some instances, 30 days' notice for the termination of such agreements. The lease expenditure charged to the income statement during the year is disclosed in note 6.

At the balance sheet date the future aggregate minimum lease payments and receipts under non-cancellable operating leases fall due as follows:

Operating lease payments

Group	**2013 Properties £'000**	**2013 Vehicles £'000**	2012 Properties £'000	2012 Vehicles £'000
No later than 1 year	**6,488**	**627**	6,560	630
Later than 1 year and not later than 5 years	**25,524**	**410**	25,859	366
Later than 5 years	**10,872**	**-**	17,139	-
	42,884	**1,037**	49,558	996

Operating lease receipts in respect of sub-let office space

Group	**2013 Properties £'000**	2012 Properties £'000
No later than 1 year	**4,899**	4,899
Later than 1 year and not later than 5 years	**19,597**	19,597
Later than 5 years	**8,574**	13,473
	33,070	37,969

24. Contingencies

Group and Authority

The Group does not anticipate that any material contingent liabilities will arise other than those for which provision has been made (note 19).

25. Related-party transactions

Group

The Civil Aviation Authority is a statutory corporation whose duties, powers and functions are established in and pursuant to primary and secondary legislation. By virtue of provisions in the Civil Aviation Act 1982, the Airports Act 1986 and the Transport Act 2000 in specified circumstances the Secretary of State may direct the Civil Aviation Authority as to the performance of those duties, powers and functions.

The Air Travel Trust (ATT) exists to fund repatriation or reimbursement of holiday-makers in the event of the failure of a tour operator. The ATT is funded by contributions made when ATOL-protected holidays are purchased and, in certain circumstances, has recourse to bonds or insurance. K Staples, C Jesnick, R Jackson and R Mountford were Secretary and Board Members of the CAA and Trustees of the ATT during the year. As detailed in note 1.2, the ATT is excluded from the consolidated financial statements of the CAA.

During the year, the CAA charged £157,743 (2012: £126,770) for failure administration services to the ATT, of which £nil (2012: £nil) was accrued at the year end. The CAA also recharged £780,454 (2012: £351,640) to the ATT during the year for legal fees, accommodation costs, accounting and other administrative services, of which £342,911 (2012: £9,640) was accrued at the year end.

During the year, K Staples, R Jackson and R Mountford were Trustees of the Civil Aviation Authority Pension Scheme (R Mountford as Chairman). Details of the Scheme and the transactions between the CAA and the CAA Pension Scheme are disclosed within note 18.

The Confidential Human Factors Incident Reporting Programme (CHIRP) is a company limited by guarantee with charitable status and the programme continues to be supported by the CAA. During the year, R Jones, CAA's Head of Flight Operations, was on the CHIRP Board of Trustees. During the year, the CAA incurred expenditure of £348,900 (2012: £317,100) in support of the programme.

Board Member emoluments

See note 4 together with the Report by the Board on Remuneration Matters.

25. Related-party transactions (continued)

Authority

The following transactions with subsidiaries occurred during the year:

	2013	2012
	£'000	£'000
Re-charge of Corporate legal, finance, IT and facilities costs		
CAA International Ltd	**596**	739
Air Safety Support International Ltd	**298**	265
Re-charge of Corporate Board Member costs		
CAA International Ltd	**52**	52
Air Safety Support International Ltd	**45**	90
Provision of Radio Licencing service to CAA International Ltd	**282**	285
Work carried out on behalf of CAA International Limited with regard to commercial aviation related services	**4,467**	5,909
Provision of technical assistance to Air Safety Support International Ltd	**35**	33
Interest on inter company trading balances:		
Payable to CAA International Ltd	**(12)**	(6)
Payable to Air Safety Support International Ltd	**(3)**	(2)

The year-end balances owed by the Authority were as follows:

	Note	**2013**	2012
		£'000	£'000
CAA International Ltd		**6,049**	3,798
Air Safety Support International Ltd		**1,253**	1,006
	16	**7,302**	4,804

As part of the treasury function, the Group operates a cash pooling arrangement for the Authority and its subsidiaries.

Group Current Cost Income Statement

Year ended 31 March 2013

	Note	**2013** **£'000**	2012 £'000
Revenue		**125,842**	115,270
Net operating costs		**(125,643)**	(114,553)
Historic cost operating profit before net finance income and income tax expense	2	**199**	717
Current cost operating adjustments	3	**(1,305)**	(1,228)
Current cost operating loss before net finance income and income tax expense	4	**(1,106)**	(511)
Finance income - net		**(405)**	(447)
Current cost loss before income tax expense		**(1,511)**	(958)
Income tax expense		**(420)**	(220)
Current cost loss	7	**(1,931)**	(1,178)

Group Current Cost Balance Sheet

As at 31 March 2013

	Note	2013 £'000	2012 £'000
Assets			
Non-current assets	6	**20,307**	21,848
Deferred income tax assets		**75**	-
Total non-current assets		**20,382**	21,848
Current assets			
Trade and other receivables		**18,505**	14,278
Cash and cash equivalents		**17,606**	18,266
Total current assets		**36,111**	32,544
Total assets		**56,493**	54,392
Equity			
Capital and reserves:			
Current cost reserve	7	**163,253**	162,377
Retained earnings	7	**(147,127)**	(145,196)
Total equity		**16,126**	17,181
Liabilities			
Non-current liabilities			
Borrowings		**5,311**	7,832
Trade and other payables		**803**	1,095
Deferred income tax liabilities		**-**	6
Retirement benefit obligations		**1,555**	1,423
Provisions for other liabilities and charges		**1,317**	1,234
Total non-current liabilities		**8,986**	11,590
Current liabilities			
Borrowings		**2,499**	1,892
Trade and other payables		**28,053**	23,126
Derivative financial instruments		**81**	-
Current income tax liabilities		**562**	414
Retirement benefit obligations		**107**	110
Provisions for other liabilities and charges		**79**	79
Total current liabilities		**31,381**	25,621
Total liabilities		**40,367**	37,211
Total equity and liabilities		**56,493**	54,392

Notes to the Current Cost Accounts

1. Statement of accounting policies

The Group is set financial targets by the Department for Transport of a 6.0% rate of return for the regulatory and en route sectors. The targets are based upon the annual rate of return before interest, on average capital employed revalued at current cost for the target period. The financial target is calculated to provide sufficient reserves for future capital investment, interest payments and corporation tax.

The differences in accounting convention used when comparing current cost accounts with historic cost accounts are:

i) The current cost accounts have been prepared in accordance with the withdrawn Statement of Standard Accounting Practice Number 16, by the application of Government indices to the historic cost of fixed assets together with a working capital adjustment, so as to allow for the impact of price changes on profits and losses and asset values.

ii) The treatment of the pension scheme under IAS 19 has been excluded from the balance sheet and the profit and loss account. The IAS 19 current service cost of £21,074k (2012: £20,278k) has been replaced with the cash contribution of £15,802k (2012: £8,387k) made to the pension scheme, within the current cost profit and loss account. Net finance income of £405k (2012: £447k) excludes other finance income; this represents the net interest earned from the pension scheme assets and charges from the scheme liabilities of £2,336k (2012: £11,406k). A reconciliation of these adjustments is given in note 2 to the current cost accounts. A statement of recognised gains and losses is not included within the current cost accounts, however a statement of reserves is given in note 7 to the current cost accounts.

The alternative basis has been used as it provides a more consistent basis for assessing the financial target set by the Department for Transport.

2. Reconciliation of historic cost operating (loss) / profit excluding IAS 19 pension scheme adjustments

Group result for the year ended 31 March 2013

	Historic cost operating profit / (loss)	**IAS 19 current service cost (note 18)**	**Employer contributions (note 18)**	**Restated operating profit / (loss) excluding IAS 19 costs**
	2013	**2013**	**2013**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
UK en route air traffic services	**1,227**	**-**	**-**	**1,227**
Safety regulation	**(3,427)**	**12,001**	**(8,999)**	**(425)**
Regulatory Policy	**(111)**	**1,313**	**(985)**	**217**
Consumer protection	**(340)**	**1,304**	**(978)**	**(14)**
Directorate of airspace policy	**(147)**	**1,274**	**(955)**	**172**
CAA International	**2,672**	**895**	**(671)**	**2,896**
Miscellaneous services	**(4,947)**	**4,287**	**(3,214)**	**(3,874)**
Operating (loss) / profit	**(5,073)**	**21,074**	**(15,802)**	**199**
Finance income - net	**1,931**	**(2,336)**		**(405)**
Loss before income taxation expense	**(3,142)**			**(206)**
Income tax expense	**285**	**(705)**		**(420)**
Loss before income taxation expense	**(2,857)**			**(626)**

Group result for the year ended 31 March 2012

	Historic cost operating profit / (loss)	IAS 19 current service cost (note 18)	Employer contributions (note 18)	Restated operating profit / (loss) excluding IAS 19 costs
	2012	2012	2012	2012
	£'000	£'000	£'000	£'000
UK en route air traffic services	1,074	-	(500)	574
Safety regulation	(9,584)	14,233	(5,535)	(886)
Regulatory Policy	(218)	1,549	(603)	728
Consumer protection	(387)	1,627	(633)	607
Directorate of airspace policy	(936)	1,524	(593)	(5)
CAA International	1,297	853	(332)	1,818
Miscellaneous services	(2,420)	492	(191)	(2,119)
Operating (loss) / profit	(11,174)	20,278	(8,387)	717
Finance income - net	10,959	(11,406)		(447)
(Loss) / profit before income taxation expense	(215)			270
Income tax expense	(94)	(126)		(220)
(Loss) / profit before income taxation expense	(309)			50

3. Current cost operating adjustments

	2013	2012
	£'000	£'000
Depreciation	**1,150**	1,038
Working capital	**155**	190
	1,305	1,228

The working capital adjustment is made to allow for the effects of price changes on working capital by applying the movement in the UK Retail Price Index during the year to debtors, bank balances, creditors and provisions held as part of monetary working capital.

The depreciation adjustment is the difference between depreciation charges on the current cost of tangible fixed assets and those included in the historic cost accounts.

4. Current cost loss before net finance income and income tax expense

	2013	2012
	£'000	£'000
Safety regulation	**(1,300)**	(1,738)
Regulatory policy	**182**	697
Consumer protection	**(51)**	573
CAA International	**2,868**	1,792
CAA regulatory sector	**1,699**	1,324
Directorate of airspace policy	**152**	(28)
UK en route air traffic services	**899**	286
Miscellaneous services	**(3,856)**	(2,093)
	(1,106)	(511)

5. Current cost return on capital employed

	Operating profit	Average capital employed	Return on capital employed
	£'000	£'000	%
CAA regulatory sector	**1,699**	**30,931**	**5.5**

The Group is set a financial target by the Department for Transport.
The target for the CAA regulatory sector is based upon the annual rate of return, before interest, on average capital employed revalued at current cost, over the target period.

The reporting business segment and target rate of return is as follows:

	Target period	Target rate
CAA regulatory sector	**01.04.12 - 31.03.13**	**6.0%**

The business segment is required to achieve the higher of either the annual target rate of return on the average current cost of capital employed or break-even after charging interest and tax.

6. Tangible fixed assets

	Gross	Depreciation	Net
	£'000	£'000	£'000
Land and buildings	88,071	71,549	16,522
Plant and equipment	20,962	19,327	1,635
	109,033	90,876	18,157
Under construction	2,150	-	2,150
At 31 March 2013	**111,183**	**90,876**	**20,307**
At 31 March 2012	106,274	84,426	21,848

Tangible fixed assets are stated at indexed historic cost less accumulated depreciation.
The indexed historic cost has been calculated by applying relevant official Government indices.

The same asset lives are used for both historic and current cost accounts
(see accounting policies 1.5 and 1.6 of the historic cost accounts).

7. Statement of reserves

	2013	2012
	£'000	£'000
Current cost reserve		
At 1 April	**162,377**	161,306
Movement during year:		
Revaluation surplus reflecting price changes on tangible fixed assets and deferred government grants	**721**	881
Working capital adjustment	**155**	190
At 31 March	**163,253**	162,377
Current cost profit and loss account		
At 1 April	**(145,196)**	(144,018)
Movement during year:		
Current cost loss	**(1,931)**	(1,178)
At 31 March	**(147,127)**	(145,196)

The current cost accounts exclude the effects of IAS 19 in respect of accounting for the pension scheme.

The pension fund asset and liability (note 18, historic cost accounts) have therefore been excluded from the current cost accounts balance sheet.

Group Five Year Summary

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Income statement (historic cost accounts)					
Revenue	**125.8**	115.3	109.4	110.3	104.2
Operating loss before net finance income and income tax expense	**(5.1)**	(11.2)	(15.0)	(8.0)	(15.0)
Finance income - net	**1.9**	11.0	14.0	0.6	12.5
Income tax expense	**0.3**	(0.1)	(0.6)	(0.1)	0.1
Loss for the financial year	**(2.9)**	(0.3)	(1.6)	(7.5)	(2.4)
Balance sheet (historic cost accounts)					
Non-current assets	**569.7**	477.4	387.9	348.1	437.2
Current assets	**36.1**	32.6	30.8	42.3	40.9
Total assets	**605.8**	510.0	418.7	390.4	478.1
Reserves	**438.0**	472.8	381.0	338.2	424.2
Equity	**438.0**	472.8	381.0	338.2	424.2
Total liabilities	**167.8**	37.2	37.7	52.2	53.9
Total equity and liabilities	**605.8**	510.0	418.7	390.4	478.1
Income statement (current cost accounts)					
Historic cost profit / (loss) excluding IAS 19 accounting adjustments	**0.2**	0.7	0.7	1.7	(3.2)
Depreciation adjustment	**(1.2)**	(1.0)	(0.9)	(0.7)	(0.5)
Working capital adjustment	**(0.1)**	(0.2)	(0.2)	0.0	0.0
Current cost operating (loss) / profit for the year	**(1.1)**	(0.5)	(0.4)	1.0	(3.7)
Balance sheet (current cost accounts)					
Non-current assets	**20.4**	21.9	24.2	27.1	28.9
Current assets	**36.1**	32.5	30.8	42.3	40.9
Total assets	**56.5**	54.4	55.0	69.4	69.8
Reserves	**16.1**	17.2	17.3	17.2	15.9
Equity	**16.1**	17.2	17.3	17.2	15.9
Total liabilities	**40.4**	37.2	37.7	52.2	53.9
Total equity and liabilities	**56.5**	54.4	55.0	69.4	69.8
Operating loss expressed as a return on average equity (historic cost accounts)	**(1.1)%**	(2.6)%	(4.2)%	(2.1)%	(3.2)%
Outturn against financial target set by the Department for Transport					
CAA regulatory sector	**5.5%**	4.2%	7.6%	6.7%	(5.9)%

Civil Aviation Authority (Report) Direction 2012

The Secretary of State for Transport, in exercise of his powers under Section 21(2) (d) of the Civil Aviation Act 1982 hereby specifies that the Annual Report of the Civil Aviation Authority, (the Group which is comprised of the Authority and its subsidiaries) shall include:

1. the agreed performance and service aims of the Group, and the outturn against them;
2. the main features of the latest Strategic Plan of the Group;
3. a fair and full review of development of the business during the year, the significance of the circumstances facing the Group, and indication of likely future developments for each of the significantly different classes of business. The review should deal separately with the Group's financial position and should include:
   a) a comparison of results against target including explanation of the relationship between current and historic cost accounts and the significance of returns on assets employed;
   b) comments on and changes in funding levels;
   c) significant changes in property, plant and equipment and intangible assets, with a brief description of assets involved;
   d) indication of activities in the field of research and development;
   e) comments on other relevant aspects of the financial results;
   f) summary of significant events since the end of the reporting period.
4. five year summary of the Group's financial results, including and identifying inter-alia:
   a) for historic cost accounts, appropriate analyses of income and expenditure and assets and liabilities;
   b) income statement and balance sheet adjustments to current cost accounts;
   c) total equity;
   d) profit/loss expressed as a return before interest on average historic cost of total equity analysing the results between different classes of the business;
   e) profit/loss before interest is also expressed as a return on average current cost of total equity excluding treatment of the pension scheme under International Accounting Standard 19, analysed between the different classes of business.
5. this Direction and the Accounts Direction;
6. the Report Direction issued to the Civil Aviation Authority dated 21 March 2011 is hereby revoked.

Jonathan Moor
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 2 May 2012

Civil Aviation Authority (Accounts) Direction 2013

The Secretary of State for Transport, with the approval of the Treasury, in pursuance of section 15(1) of the Civil Aviation Act 1982, hereby gives the following Direction:

1. The statement of accounts, which it is the duty of the Civil Aviation Authority (the Group, which is comprised of the Regulatory Authority and its subsidiaries) to prepare in respect of its financial year ending 31 March 2013 and in respect of any subsequent accounting year, shall comprise:

   a) an annual report;

   b) a statement on internal control;

   c) a statement of Board members' responsibilities;

   d) an income statement;

   e) a statement of comprehensive income;

   f) a balance sheet of the Regulatory Authority and of the Group;

   g) a statement of changes in equity;

   h) a statement of cash flows;

   including in each case such notes as may be necessary for the purposes referred to in paragraphs 2 and 3 below.

   The statement of accounts shall, without limiting the information given, meet insofar as they are appropriate to public corporations:

   a) the accounting and disclosure requirements of companies legislation currently in force;

   b) the accounts disclosure requirements of paragraphs 9.8.6 and 9.8.8 of the Financial Services Authority Listing Rules;

   c) standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee;

   d) any additional disclosure or accounting requirements that the Treasury may issue from time to time in respect of public corporation's accounts.

2. The accounts should reflect the effect of changing prices. This information should be presented as a supplementary set of accounts to the main IFRS accounts;

3. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 to this Direction. The annual accounts shall include the information set out in Schedule 2 to this Direction;

4. The Direction issued to the Authority dated 2 May 2012 is hereby revoked.

Jonathan Moor
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 30 May 2013

Civil Aviation Authority (Accounts) Direction 2013

Schedule 1

1. The Companies Act 2006 requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to the Civil Aviation Authority shall be contained in the Annual Report.
2. The income statement shall be prepared in accordance with International Accounting Standard (IAS) 1.
3. The balance sheet shall be prepared in accordance with IAS 1, separating the classification of the current and non-current assets, and current and non-current liabilities on the face of the balance sheet.
4. The Civil Aviation Authority does not gain economic or other benefits from the Trustees' ability to govern the financial and operating policies of the Air Travel Trust Fund (ATTF). Accordingly, the ATTF shall not be consolidated as part of the Group financial statements.

Schedule 2

Supplementary Information

1. The income statement or the notes thereto shall include:
   a) analyses of revenue and operating profit or loss over the following:
      - Safety Regulation;
      - Regulatory Policy;
      - Consumer Protection;
      - Directorate of Airspace Policy;
      - UK en route Air Traffic Services;
      - CAA International;
      - Miscellaneous Services.
   b) revenue shall be analysed, as appropriate, between statutory and scheme charges and other income;
   c) expenditure shall be analysed between employment costs, services and materials, repairs and maintenance, research and development, depreciation and amortisation, other gains/(losses) - net, income equalisation and other expenses;
   d) a statement showing separately the interest on capital loans.
2. The balance sheet or a note thereto shall show:
   a) the Group's maximum borrowing power;
   b) all sums borrowed showing separately amounts borrowed from the National Loans Fund and other borrowings and showing separately when repayment is due.
3. The statement of accounts or notes thereto shall include:
   a) statement of the rate of return achieved by the Regulatory operations based upon the average total equity;
   b) an explanation of the manner in which the returns have been computed and a definition of the target to be achieved;
   c) comparisons with other financial targets which have been agreed with the Group;
   d) the amount, source and purpose of capital grants receivable.