

Economic Regulation of Airports

Accounting requirements for Manchester Airport under the Airports Act 1986

CAA decision

March 2009

Civil Aviation Authority

45 – 59 Kingsway, London WC2B 6TE

Purpose of the document

- 1.1 This document sets out the CAA's decision to impose upon Manchester Airport discretionary accounts conditions to replace the mandatory conditions that lapse on 31 March 2009 as a consequence of the Government's decision to "de-designate" Manchester Airport.

Background

- 1.2 Under the Airports Act 1986 ("the Act") the CAA has powers to impose certain conditions on airports that are subject to economic regulation by virtue of the Act. Such conditions include the 'accounts conditions' which are described in section 40(2) of the Act. The information which has to be disclosed in the statutory accounts of those airport operators that are subject to the conditions is, broadly,
- a breakdown of costs and revenues into certain categories defined in the Act; and
 - details of any subsidy they receive either externally or internally where the airport is part of a wider group.
- 1.3 The CAA's powers to impose accounts conditions are mandatory for some airports and discretionary for others. These conditions are mandatory for those airports that have been designated by the Secretary of State. In 1986 the Secretary of State designated Heathrow, Gatwick, Stansted and Manchester airports for the purposes of Part IV of the Act. Consequently, the CAA applied accounts conditions to Manchester airport in the same terms as they were applied to Heathrow, Gatwick and Stansted by the Secretary of State using powers under section 53 of the Act. Manchester airport has been subject to unchanged accounts conditions since 1987.
- 1.4 For airports that are subject to economic regulation under Part IV of the Act but which have not been designated, the CAA has discretionary powers to apply accounts conditions. The CAA has exercised these powers in relation to a number of regulated airports that are not designated and, in particular, the larger airports with significant commercial air services.
- 1.5 In February 2008, the Secretary of State announced that following a review of its designation status Manchester Airport would be "de-designated" as from 1 April 2009 and this has now been confirmed through secondary legislation¹. As a consequence of this decision, the current mandatory accounts conditions that apply to Manchester Airport consequent to it being a designated airport lapse on 31 March 2009. However, in announcing the decision to de-designate Manchester Airport the Secretary of State said: "The CAA has stated that following de-designation of Manchester Airport it proposes to consult on re-applying under section 41(1) of the Airports Act 1986 the accounts conditions that currently apply to Manchester airport by virtue of it being a designated airport."

¹ The Economic Regulation of Airports (Designation) Order (Amendment) Order 2008 (SI 2008/2702)

CAA proposal

- 1.6 On 28 January 2009 the CAA published proposals in accordance with section 41(1) of the Act to impose in relation to Manchester Airport accounts conditions which would, in effect, maintain the arrangements previously in effect under the mandatory conditions. In doing so the CAA also took the opportunity to update the conditions to reflect the current legal position on accounting and related matters. The CAA invited comments on the proposals within two months in accordance with regulation 10 of the Civil Aviation Authority (Economic Regulation of Airports) Regulations 1986.

Responses

- 1.7 The CAA received three responses to its proposals. Manchester Airport fully supported the proposals explaining that its existing accounting systems already produced the relevant information and that it anticipated no difficulties in being able to continue to produce the information as the CAA had proposed. Peel Airports supported the continuance of the accounts condition at least until the EU directive on airport charges becomes applicable. TUI Travel also supported the proposals as they reflected the view the company had previously taken that if Manchester Airport were to be de-designated it should continue to be financially regulated, at least in the medium term.

CAA decision

- 1.8 The CAA notes the absence of any objections to its proposals and the support of those who responded. The CAA also considers, as it indicated in its proposals, that at some point in the future the airport is likely to be expected to publish similar information in accordance with the transparency requirements of the EC airport charges directive once this has been implemented in the UK. The CAA therefore considers that the re-imposition of the conditions as proposed would be proportionate and consistent with the CAA's statutory duties in section 39 of the Act. Accordingly, it imposes with effect from 1 April 2009 the accounts conditions at Annex 1 which will apply to the accounts of the operator of Manchester Airport for accounting periods starting on or after 1 April 2009.
- 1.9 The CAA will consider at the appropriate time whether the requirements of the airport charges directive when implemented in the UK could be met in another way. In such circumstances the condition could be removed or modified.

Civil Aviation Authority**31 March 2009**

**Annex 1: CONDITIONS AS TO ACCOUNTS IMPOSED IN RELATION TO
MANCHESTER AIRPORT IN ACCORDANCE WITH SECTION 41(1) OF THE AIRPORTS
ACT 1986****Interpretation**

1.-(1) For the purpose of these conditions and of the Schedule hereto

- (a) "accounting reference period" has the meaning given by sections 391 to 392 of the Companies Act 2006;
- "accounts of the airport operator" means accounts delivered to the registrar of companies in accordance with the Companies Act 2006;
- "airport operator" means the person for the time being having the management of Manchester airport;
- "auditors" means the auditors appointed by the airport operator in accordance with section 485 or 489 of the Companies Act 2006.
- (b) the value of any asset or other thing shall be taken to be
- (i) the value attributed to that asset or other thing in the accounting records kept by the person transferring the asset or giving the thing; or
- (ii) where that value is unknown or is unascertainable by the airport operator
- (aa) the value of the asset or thing assessed by the auditors, or
- (bb) where the auditors consider it reasonable for a valuation of the asset or thing to be made, or for them to accept a valuation made, by another person who appears to them to have the requisite knowledge and experience to carry out the valuation, the value of the asset or thing assessed by that person;
- (c) any question whether a person is connected with another person shall be determined as, for the purposes of the Income and Corporations Taxes Act 1988, it falls to be determined under sections 229 and 839 of that Act;
- (d) all forms of property shall be assets, whether situated in the United Kingdom or not, including-
- (i) options, debts and incorporeal property generally, and
- (ii) any currency including sterling, and
- (iii) any form of property created by the person disposing of it; and
- (e) reference to a transfer of an asset include references to a part transfer of an asset, and there is a part transfer of an asset where an interest or right over the asset is created by the transfer, as well as where it subsists before the transfer, and generally, there is a part transfer of an asset where, on a person making a

transfer, any description of property derived from the asset remains untransferred.

- (2) Other expressions used in these conditions shall, unless the context requires, have the same meaning as in the Airports Act 1986.
 - (3) Any requirement of these conditions that the accounts of the airport operator shall disclose information shall be satisfied if that information is disclosed in a schedule to the accounts signed on behalf not the board by two directors of the airport operator.
2. These conditions shall apply to accounts of the airport operator prepared in respect of each accounting reference period ending after 1 April 2009.

CONDITION 1

1. Subject to paragraph 2, the accounts of the airport operator shall disclose, in relation to each transaction of a description specified in the first column of the Schedule hereto which took place during the accounting reference period to which the accounts relate, the person or authority who was a party to the transaction with the airport operator and the information specified in relation to that transaction in the second column of that schedule.
2. (1) Any amount required to be disclosed in relation to transactions specified in paragraphs 4, 5, 6, 7, 8, 10, 11 and 12 of the Schedule may be aggregated with any other such amounts arising from such transactions with the same person or authority.
 - (2) Nothing in paragraph 1 shall require the disclosure of any information:
 - (a) if the aggregate of any amounts required to be disclosed in accordance with paragraphs 4, 5, 6, 7, 8, 10, 11 and 12 of the Schedule arising from transactions with the same person or authority, is not material to the business as a whole; or
 - (b) relating to a transaction wholly unconnected with the business of the airport operator consisting of the carrying on of operational activities at Manchester airport.
3. The accounts of the airport operator shall disclose
 - (a) particulars of any special circumstances which reduce the liability of the airport operator in respect of taxation during the accounting reference period to which the accounts relate or the liability in respect of taxation during succeeding accounting reference periods, and such particulars shall include the identity of any person or authority contributing to the reduction of that liability and the terms on which such contribution is made; and
 - (b) any benefit received by the airport operator in consideration of the airport operator having contributed to the reduction of such liabilities of any other person as are referred to in sub-paragraph (a) above and the identity of that person.

CONDITION 2

1. The accounts of the airport operator shall disclose the broad principles on which costs of the airport operator have, in respect of the accounting reference period to which the accounts relate, been allocated between the business carried on by it so far as consisting of the carrying on of operational activities relating to Manchester airport and any other activities carried on by it.
2. Where the aggregate expenditure of the airport operator attributable to the carrying on of operational activities relating to Manchester airport during the accounting reference period to which the accounts relate exceeds the aggregate income attributable to such activities, the accounts of the airport operator shall disclose the amount, if any, by which the aggregate income of the airport operator attributable to any other activities carried on by it exceeds the aggregate expenditure attributable to such activities.

CONDITION 3

1. The accounts of the airport operator shall disclose the broad principles on which costs of the airport operator have, in respect of the accounting reference period to which the accounts relate, been allocated between the activities in respect of which airport charges were levied at Manchester airport during that period and any other operational activities relating to that airport carried on by it.
2. The accounts of the airport operator shall disclose the aggregate income and expenditure of the airport operator attributable to activities in respect of which airport charges were levied at Manchester airport during the accounting reference period to which the accounts relate.

CONDITION 4

The accounts of the airport operator shall disclose the aggregate income and expenditure of the airport operator during the accounting reference period to which the accounts relate, attributable to operational activities relating to Manchester airport (whether carried on by the airport operator or any other person).

CONDITION 5

1. The airport operator shall require its auditors to carry out an independent examination for the purpose of making a special report to the CAA as to whether, in the opinion of the auditors, the accounts of the airport operator comply with the requirements of the foregoing conditions.
2. The auditors' special report shall state:
 - (a) whether the auditors have conducted an independent examination of the accounting records of the airport operator and of such other documents and information which the auditors consider necessary for them to form an opinion for the purposes of making the special report;
 - (b) whether, in the opinion of the auditors, the accounts of the airport operator comply with the requirements of the foregoing conditions which are in force in relation to Manchester airport by virtue of the Airports Act 1986.

3. If the auditors are of the opinion that proper accounting records have not been kept or if the auditors have failed to obtain all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of making the special report, they shall state that fact or facts in their report.
4. If the auditors are of the opinion that the accounts of the airport operator do not comply with the requirements of the foregoing conditions which are in force in relation to Manchester airport by virtue of the Airports Act 1986 they shall state particulars of the way in which, in their opinion, the accounts do not so comply.
5. If the auditors have, for the purposes of the foregoing conditions, which are in force in relation to Manchester airport, made a valuation of any asset or other thing, they shall state in their report the method used to value that asset or thing or, if the valuation has been made by another person, they shall state in their report the name of that person, the knowledge and experience he has to carry out the valuation and the method used by him to carry out the valuation.
6. The airport operator shall submit the special report to the CAA at the time that the accounts are delivered to the registrar of companies in accordance with the Companies Act 2006.

SCHEDULE

Column 1	Column 2
1. Any borrowings or sums raised by the airport operator in any currency from any person connected with the airport operator.	1. The principal of the amount borrowed or raised, the date on which or the dates between which repayment is to be made and the rate of interest payable.
2. Any borrowings or sums raised by the airport operator in any currency from any public or local authority or from any institution of the European Community.	2. The principal of the amount borrowed or raised, the date on which or the dates between which repayment is to be made and the rate of interest payable.
3. The guaranteeing or giving of any other form of security by any person or authority for the repayment of the principal of, or the payment of interest on, any sums borrowed or raised by the airport operator in any currency.	3. The form of the guarantee or other security given, the principal of the sums borrowed or raised, the date on which or the dates between which repayment is to be made and the rate of interest payable.
4. The making of any grant to the airport operator.	4. The amount of the grant.
5. The transfer of any asset to the airport operator by a person connected with the airport operator for a consideration which is less than the value of the asset.	5. The amount by which the consideration for the transfer is less than the value of the asset.
6. The transfer of any asset to the airport operator by a person connected with the airport operator for which no consideration is given.	6. The value of the asset.
7. The transfer of any asset to the airport operator by a person connected with the airport operator for a consideration which is more than the value of the asset.	7. The amount by which the consideration for the transfer is more than the value of the asset.
8. Any two transactions each involving the transfer of an asset to the airport operator by the same person, being a person connected with the airport operator, taking place within a period of 5 years, where the consideration given in respect of each of the transactions is less than would have been given had the transactions been effected as a single transaction.	8. The amount by which the aggregate consideration for the two transactions is less than the consideration which would have been given had the transactions been effected as a single transaction.
9. The supply of any service to the airport operator by a person connected with the airport operator either (a) where that service has been supplied for a consideration which is less than the cost attributed to the supply of that service in the accounting records kept by the person supplying the service; or (b) where the cost attributed to the supply of the service in the accounting records of the person supplying it is unknown or unascertainable by the airport operator.	9. In either case, the nature of the service supplied, the terms on which it was supplied and the total charge made for the service and, in a case where the cost attributed to the supply of the service in the accounting records of the person supplying it is unknown or unascertainable by the airport operator, the fact that it is unknown or unascertainable.
10. The omission by any person connected with the airport operator to exercise a right as	10. The person omitting to exercise the right and the amount by which the value of

a result of which the value of assets less liabilities ("net assets") of the airport operator is increased.	the net assets of the airport is increased.
11. The waiver by any person connected with the airport operator of any consideration, remuneration or other payment owed by the airport operator.	11. The person making the waiver and the amount of the consideration, remuneration or payment waived.
12. Any other transaction, not falling within paragraphs 1 to 11, to which the airport operator and any person connected with the airport operator are parties and which is material to the business as a whole if the value of the consideration given by the airport operator is less than the value of the thing in respect of which consideration is given.	12. The amount by which the value of the consideration given by the airport operator is less than of the thing in respect of which the consideration is given.