Civil Aviation Authority

Annual Report & Accounts 2016/17
Civil Aviation Authority

CAP 1560

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www.caa.co.uk/CAP1560

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www.caa.co.uk

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Statement by the Chair

The central focus of the CAA is the welfare of those who use aviation services and of those who are overflown. So, following the tragic accident at Shoreham in 2015, it was absolutely right that we acted immediately to carry out a comprehensive review of civil air show safety. We also implemented a number of safety enhancements straight away and have continued to review this area, with further improvements to safety being introduced for this year's flying display season.

During its investigation, the Air Accident Investigations Branch (AAIB) published 21 recommendations for the CAA, all of which we have acted on. The final AAIB report contains a further 10 recommendations for the CAA, all of which we are acting on as part of our commitment to air shows taking place safely.

‘we have worked hard at transforming the CAA into an organisation that is more outwardly focused... and is more confident and proactive in its approach’

Looking forward

The next couple of years look likely to bring significant challenges to the CAA, particularly as we work on three main priorities: Brexit, runway expansion and airspace change. But over the last few years we have worked hard at transforming the CAA into an organisation that is more outwardly focused, that is intent on understanding the issues facing the public and aviation sector and is more confident and proactive in its approach. As a result, I believe we are well equipped to deal with the coming challenges.

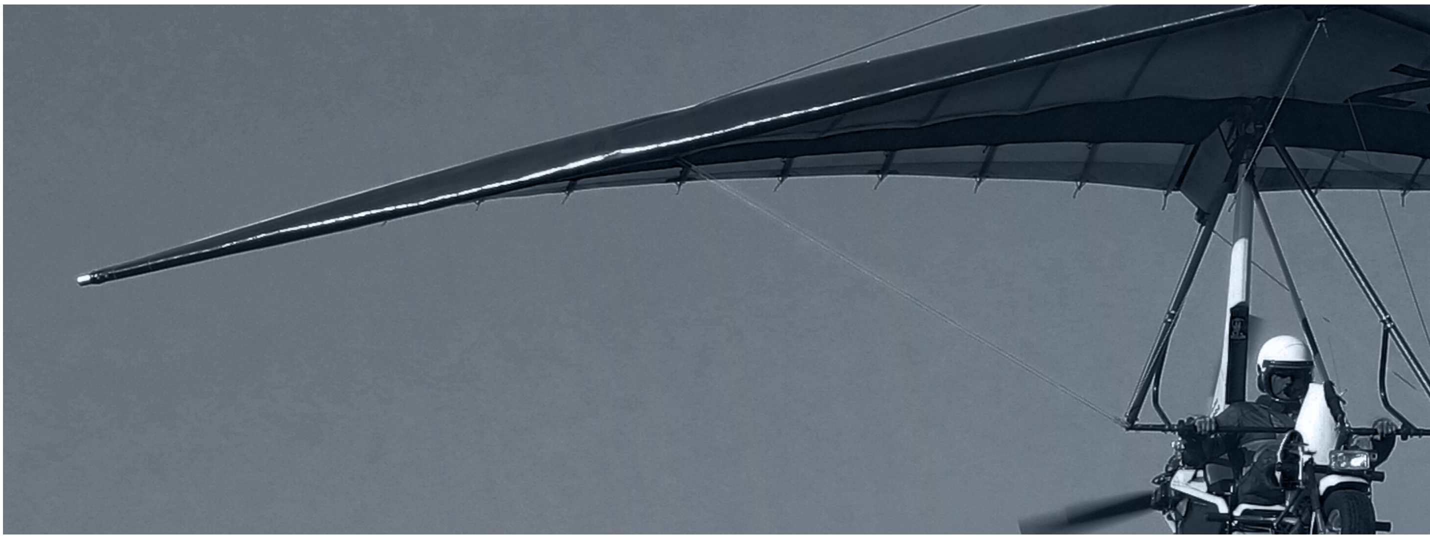
Brexit

While aviation is a worldwide industry, governed by the rules of the International Civil Aviation Organisation (ICAO), being part of the European Union has brought benefits for both UK consumers and the aviation industry. Whether in the areas of safety, choice, value, or the general efficiency of our aviation network and airspace, EU membership has generally been positive. The UK has made a significant contribution to improvements in European safety and security, often leading on the European Aviation Safety Agency’s (EASA) projects. It will be important that as a nation, we continue to punch above our weight in European and international aviation arenas.

Runway expansion

We have very clearly said that there is an urgent need for more capacity in the south east of England, so we are delighted that the Government has decided that a new runway should be built.

The third runway at Heathrow will be the biggest privately funded infrastructure project in the world. We are already working on the economic regulatory regime to achieve the right balance between shareholders’ ability to finance the scheme and affordability for the airlines and their passengers.

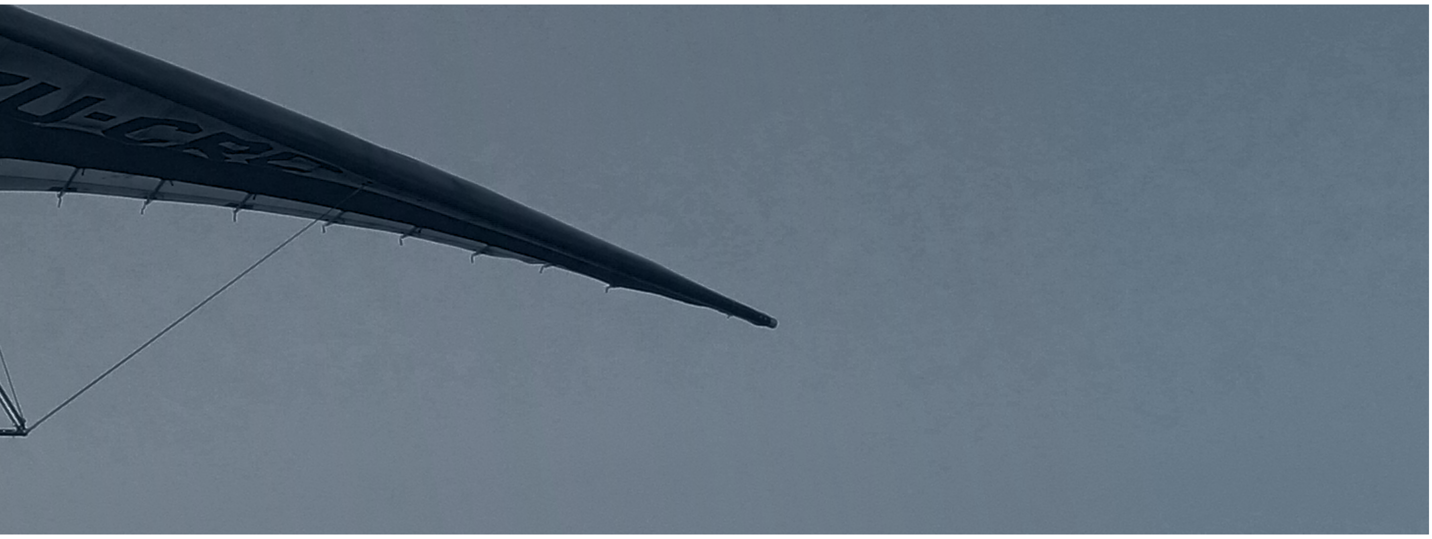


To do this we will work closely with the airport and the airlines. We are already doing significant preparatory work, and have set up a Consumer Challenge Board chaired by Jeff Halliwell who is the Chair of Transport Focus, Airport Co-ordination Limited (ACL) and Anglian Water's Consumer Challenge Group. This group will scrutinise Heathrow's plans and advise us on whether consumers' needs are reflected in the airport's business plans and operations, and how well it is engaging with them. I have every confidence that it will do an excellent job of assessing the proposals and holding Heathrow to account.

Airspace

Airspace is an enormous issue for UK aviation. There must be action on this in order to be able to make the best use of new runway capacity. The organisation of our roads in the sky has not changed for 40 years, during which time UK airspace has become increasingly congested, and London airspace is now full.

The effects of this are felt by both passengers and industry as the network struggles to cope. We are also well aware of needing to strike the right balance between the interests of passengers and the aviation industry, and people affected by the environmental impact of aircraft, such as their noise and carbon emissions. Aviation can only expect license to grow if it acts as a responsible neighbour to the main communities it impacts upon.



Board

We have greatly benefitted from the support of our board and non-executive directors and I would like to thank them for their dedication and consistently valuable advice.

I would particularly like to thank Air Vice-Marshall Richard Knighton who, as a board member since 2015, played a full role on the board, as well as ably representing the Ministry of Defence and its interests.

I am very grateful to Andrew Haines for agreeing to stay on for an extra year as Chief Executive to provide vital leadership through what will no doubt be an extremely challenging year.

With the continuity and thoughtful leadership that Andrew provides, and the combined skills and expertise of everyone at the CAA, I am sure that we will rise to the many challenges with confidence.

Dame Deirdre Hutton DBE
Chair
21 June 2017

Statement by the Chief Executive

One year into the five year Strategic Plan we launched in 2016, we continue to focus on five key themes across the CAA: risk based regulation, empowering consumers, infrastructure optimisation, service excellence and technological innovation.

This year, we have continued to respond proactively to risk developments in a number of areas. Examples include the restriction of certain offshore helicopters; advising EASA on pilot medical requirements following the German Wings incident; and our review and improvement of airshow regulation. Acting to develop confidence in the aviation community to manage its own risks, we have supported UK airports in their implementation of Security Management Systems and given General Aviation community members greater control of their flying where risk to third parties is low. The extension of self-declared medicals for private pilots has been of particular note in this regard.

The increased uptake in Alternative Dispute Resolution schemes for airlines (with 78% of the UK passenger market now covered) has significantly increased passenger accessibility to compensation, while the ATOL protection scheme repatriated or refunded 17,000 individuals in 2016/17. Our publication of findings on the performance of airlines and airports in their provisions for passengers with disabilities has enabled consumers to make more informed decisions on travel.

The Government's choice of Heathrow to provide new airport capacity has been a major aviation decision in the past year. In addition to the physical runway, it is also necessary to consider the airspace which will support it nationally. The process for making decisions on airspace change is a critical element of this and we recognise the need for it to be more transparent. In preparation for this, we consulted on the implementation of new processes and this work will continue throughout the coming year. But even with the increased capacity facilitated by a new runway and more efficient airspace design, the whole sector must now work to increase its resilience and we have been encouraged by the industry's response to our suggestion that the sector must own this issue for itself.

Improving the services we offer to those we regulate and our customers remains a key commitment. We have continued to improve our systems and processes to drive our organisational efficiency. The Shared Services Centre is being developed with a demand model that helps to focus our resources, gradually increasing confidence in service quality at the same time as being key to delivering some challenging efficiencies. We have also been undertaking work across our online system offering with new tools to support risk based regulation and airline and airport data recording. In the coming year we will move to online services for pilot licence applications and ATOL renewals.

‘The UK has an opportunity to be a leading nation in some of the key emerging areas of the aviation sector.’

The UK has an opportunity to be a leading nation in some of the key emerging areas of the aviation sector. Supporting the safe growth of drones and spaceplanes have been particular areas of interest this year. While the spaceplane industry is in its early stages, with clear Government support for UK involvement in the sector we are working to support its significant potential and safe growth.

Our long-term work around drones has seen significant progress this year with the launch of a wide-reaching education campaign aimed at consumers. The project’s focus is to fulfil the potential of drones by encouraging all users to fly safely. The campaign targeted an understanding of the rules to follow, and we have already seen an improvement in public awareness of drone rules. It has been encouraging to see how the aviation and drone communities have worked well together on this project. At the same time we have worked very closely with EASA on a new set of regulations, pushing essential safety criteria in manufacturing standards as the most reliable way to protect aircraft and the public.

In the coming year we know that there remains much to do in every one of our key priority areas and every day we face challenges which ensure that we do not become complacent. Consumers are rightly demanding greater confidence in the quality of service they can expect, while digital technology continues to increase demand for ever more dynamic responses from aviation regulators across the globe and we will continue to lead in meeting these demands. By focusing on emerging risks we will be better equipped to protect UK citizens in the air and on the ground and through our facilitation of modernisation of the UK’s aviation infrastructure we can play our part in the continued prosperity of our country.

Andrew Haines OBE
Chief Executive
21 June 2017

Strategic Report

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 requires all companies that are not small to prepare a strategic report which contains a fair and balanced analysis, consistent with the size and complexity of the business, of:

- the development and performance of the company's business during the financial year;
- the position of the company at the end of the year; and
- a description of the principal risks and uncertainties facing the company.

Our Strategic Report comprises the following sections:

- CAA Business Model;
- Review of Our Business;
- Our Efficiency Report;
- Key Performance Indicators;
- Principal Risks and Uncertainties; and
- Financial Review.

This Strategic Report was approved by the Board on 21 June 2017.
By order of the Board

Kate Staples

Kate Staples
General Counsel and Secretary
21 June 2017

CAA Business Model

Our stakeholders

Those we PROTECT

- Aviation consumers
- The overflown

The ones who HELP us

- Competition and Markets Authority
- The Police
- The Health and Safety Executive
- Other regulators

The ones we REGULATE

- Airlines and airports
- Approved training organisations
- Air navigation service providers
- Individual licence holders
- General aviation

The ones who CONTROL us

- European Aviation Safety Agency
- Department for Transport

The ones we seek to INFLUENCE (leadership beyond authority)

- International Civil Aviation Organisation
- Other national aviation authorities
- Manufacturers

Our statutory functions

- Regulating civil aviation safety as part of a European system.
- Advising and assisting the Secretary of State for Transport on all civil aviation matters, including policy for the use of UK airspace so as to meet the needs of all users, having regard for national security, economic and environmental factors, while maintaining a high standard of safety.
- The economic regulation of airports with significant market power and of the provision of en-route air traffic services.
- Concurrent competition powers (with the Competition and Markets Authority) over airports and air traffic control.
- The licensing of airlines, including assuring their financial fitness.
- The licensing of air travel organisers and management of the ATOL protection scheme.
- Enforcing general consumer protection and aviation specific legislation, such as denied boarding compensation and persons with reduced mobility.
- The inspection of UK outbound aviation security and drafting of regulations as directed by the Secretary of State for Transport.

The risk principles we apply

Principle 1: We will seek to protect the consumer and the public from harm where there is a clear justification for CAA involvement.

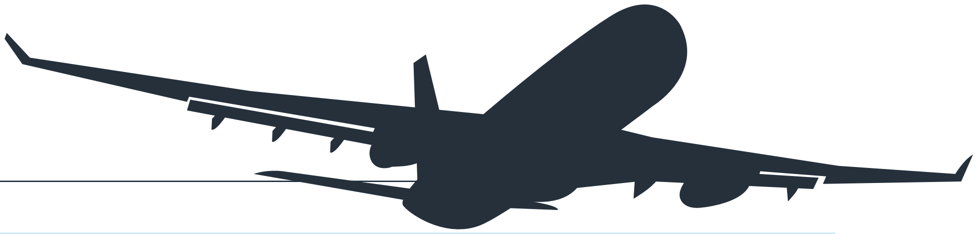
Principle 2: We will be clear at all times about the risks for which we are accountable and only seek to be accountable for risks that we can manage or oversee.

Principle 3: We will seek to influence the management of risks for which we are not accountable but which materially impact on consumers and the public in a manner proportionate to the outcome.

Principle 4: We will actively monitor the risk landscape (horizon scanning) to identify emerging risks and significant changes in risk levels.

Be proactive in taking the lead in areas of emerging risks, particularly where the risks are significant and within CAA's mandate. We will undertake scenario planning, including external parties, to inform our response.

Principle 5: We will take reputational risk into account when considering consumer risks in order to ensure that credibility is maintained in delivering the CAA's primary duties. Reputational risk and resourcing considerations will feature more strongly when following Principles 2 & 3.



Key strategic priorities

Risk based regulation

To focus our regulatory activity and resources on the areas of highest risk and where new risks emerge:

- Implementing Performance Based Oversight;
- Improving proportionate regulation;
- Implementing Security Management Systems;
- Influencing risk-based implementation of the Package Travel Directive; and
- Developing our enforcement role to protect consumers and the public.

Empowering consumers

To focus on better informing consumers so that they can get the best outcomes:

- Improving awareness of ATOL and consumer rights;
- Using the CAA's information duty to provide more information for consumers; and
- Using Alternative Dispute Resolution schemes to help passengers resolve complaints with airlines.

Technological innovation

To ensure that we do not act as a barrier to technological developments that deliver benefits to the consumer:

- Drones;
- Spectrum release;
- Spaceplanes; and
- Single European Sky ATM research.

Infrastructure optimisation

To support the aviation system to innovate in a capacity constrained environment:

- Facilitating new airport capacity;
- Look to see where we can simplify and open up airspace in the UK; and
- Facilitate a more resilient aviation system for consumers.

Service excellence

To improve the service we provide to our stakeholders, particularly where they have multiple transactional dealings with us:

- Developing end-to-end processes;
- Building customer accounts;
- Providing guaranteed delivery times; and
- Increased transparency over transactional activities.

Key enablers

Regulatory income

For the year ended 31 March 2017 our total income was £135.8m of which £79.6m was statutory income generated under the statutory charges schemes, £13.7m was in respect of Eurocontrol service charges.

Transforming our systems and processes

We are funded by those we regulate. Our commitment is to ensure that the CAA is efficient without jeopardising the role we undertake.

Our risk management process focusses on risks to those we seek to protect.

We will be active in applying the Government's better regulation principles.

We will strive to be evidence based in all our actions.

Additional income sources

£17.2m was income generated by CAA International Limited, a subsidiary company of CAA, which provides consultancy services to a number of national and international aviation authorities to promote improved aviation safety standards worldwide.

£22.7m for other services, which included rental income from subletting London properties and income for activities funded directly by the DfT (eg. State Safety Programme).

Our people

We want to attract the best and create an environment that helps them achieve their full potential.

Review of Our Business

Our purpose is to protect UK consumers and citizens through the regulation of UK civil aviation and to enhance their safety wherever they might travel around the world. Our five key strategic priorities reflect the breadth of our work while placing emphasis on those areas where we can have the most effect.

Risk based regulation

Risk based regulation is based on an informed and comprehensive understanding of risk and seeks to deliver effective regulation that is targeted, timely and proportionate. We aim to continuously improve our processes and our practical application of risk based regulation. We have, therefore, integrated the approach into our regulatory safety management system.

Access to information and data enables a comprehensive risk picture to be built. This is key to the success of our approach. Work is progressing towards the utilisation of big data, both nationally and internationally with the European Aviation Safety Agency (EASA), to enhance this process.

Within Aviation Security, we have expanded and released the latest version of CYGNUM, a scheduling and monitoring tool for auditors which allows the use of data to achieve better understanding and monitoring of compliance performance. Aviation Security has also expanded Security Management Systems (SeMS) to over 40 organisations (including all major UK airports), engaging with the industry through conferences and workshops to deliver a more flexible regulatory approach. SeMS is a tool which enables operators to take a systemic approach to managing their security and which instils it into daily activities and the entity's operational and corporate culture. We have been working with the industry and City and Guilds to create accredited training schemes for audit and security staff, as well as developing apprenticeship opportunities.

Following the death of 13 Norwegian offshore workers in an Airbus Super Puma in April last year, we have reinforced our focus on offshore helicopter safety. Working with the Offshore Helicopter Safety Leadership Group (which includes operators, workforce representatives and the oil and gas industry) we have been able to engage with colleagues in Norway, EASA and Airbus Helicopters to understand the cause and seek to prevent any reoccurrence.

In General Aviation (GA), we have continued to review national air show regulation following the Shoreham accident, working closely with the UK Air Accident Investigation Branch. We have used a new edition of CAP 403, the guide to safety and administrative arrangements for flying displays and special events, to respond to feedback from the display community on enhanced measures introduced for the 2016 display season. While feedback was mixed, the need to strengthen safety measures for air displays is generally accepted by this close-knit community. Safety enhancements have included requirements for more stringent risk assessments, increased training and more thorough assessments of organisers' and pilots' experience, skills and health. In addition, all actions from our air display review have either been completed in line with stated timetables or are on track for delivery by agreed deadlines. We have sought to maintain progress on our wider General Aviation Programme alongside the work on air displays, albeit at a slower pace than we originally planned. There are 31 active projects in the broader GA Change Programme, and achievements this year include: the introduction of medical self-declaration (in excess of 1,500 applications have been processed to date); an online form for multiple air display applications; and issuing the first gyroplane night rating.

In September 2016 Amazon UK was fined £65,000 in relation to four offences of causing dangerous goods such as lithium ion batteries to be delivered for carriage in an aircraft. This follows our extensive work to highlight the risk to the public and the importance of complying with international regulation in this area.

Empowering consumers

Protecting consumer rights and working to strongly encourage the industry to improve its practices while helping the public to understand their rights and make informed choices is a key part of our activity.

Following last year's introduction of Alternative Dispute Resolution (ADR) schemes for airports and airlines, we have approved three organisations to provide ADR services to the aviation industry: CEDR, Consumer Dispute Resolution Limited and söp. All major UK airlines (except Jet2), several overseas airlines and an increasing number of airports have signed up, now covering over 78% of passenger journeys to and from the UK. Passengers who are not covered by ADR still have access to CAA complaints support, but we remain unable to enforce appropriate remedies, including payment of compensation. ADR enables consumers to bring complaints without the financial and administrative burdens of court, increasing accessibility to fast and fair resolution to disputes.

We have published a number of reports about the performance of airlines and airports. These have supported consumer decision making and held airlines and airports to account. Our report on airport performance relating to assistance for passengers with a disability and people with reduced mobility (PRM) was published following the development of a performance framework last year. This rated the 30 busiest airports in the UK, helping them to identify and incentivise areas for service improvement and increase consumer awareness. Continuing this work, we have now published guidance for airports on support for people with hidden disabilities, with a report to follow later in the year.

Our compliance report on flight compensation regulation (Regulation 261/2004) focused on financial compensation, care and assistance on delayed or cancelled flights and denied boarding. While most airlines were found to comply with the law, we launched enforcement action against five airlines to bring them into compliance with compensation requirements (American Airlines, Emirates, Etihad, Singapore Airlines and Turkish Airlines). We also brought action against Vueling for issues surrounding care and assistance.

We are committed to ensuring that consumers have the requisite means to make informed choices. We have therefore been reviewing the information available to consumers on holiday price comparison websites, particularly the degree to which advertised deals are available in practice. eDreams and Opodo were required to make changes to their websites to prevent potentially misleading information from being shown to customers during booking.

We also completed our first investigation under the Competition Act 1998. We found that East Midlands International Airport Limited and Prestige Parking Limited broke competition law by agreeing to fix prices for car parking services at East Midlands Airport. Following the investigation, the parent company, Manchester Airport Group, agreed to establish a programme to ensure ongoing compliance within its business and among staff. We subsequently wrote to all airport CEOs to raise awareness and remind them of their responsibilities under competition law.

Our ATOL scheme protects consumers' holidays if licence holders become insolvent. We license over 2,000 ATOL holders ranging from large tour operators to small boutique providers and deal with a wide range of financial structures. In each case we seek to protect consumers' interests by ensuring that tour operators are well run and well financed. For example, in October 2016, we granted a twelve day licence extension to Monarch Group to allow them to confirm a refinancing package and successfully apply for their licence. There were also a number of company failures this year: we repatriated and refunded 17,000 affected passengers at no additional cost to them.

The ATOL awareness campaign has also continued, with a three-phase campaign undertaken this year which targeted consumers during peak holiday booking periods through a variety of media channels. Research indicates that 72% of passengers in the UK who have flown in the last year are now aware of ATOL and the financial protection it provides.

Technical innovation

We recognise the role of regulation in facilitating the introduction of new technologies which provide benefits to consumers and the aviation industry. We work closely with the UK Government and international regulators to set a framework for how operators should manage the risks which their activities present to the public, other aviation operators and themselves.

The drone sector is rapidly expanding, with over 2,000 commercially approved operators in the UK in addition to a growing leisure market. A high profile education campaign was launched this year to raise awareness of current drone regulations, including the Dronecode which focuses on simple rules for responsible operation. Key players in the aviation industry, manufacturers, retailers and media have all supported and cooperated with our campaign. Initiatives have included the '400 ft Britain' photography competition to increase visibility of the Dronecode and a number of campaigns for schools to promote early understanding of responsible use. The police and other agencies have also agreed with us how and by whom the law will be enforced in the event of illegal drone activity. We have had considerable input into EASA and ICAO's development of international drone regulation and the Government's consultation on drone policy, taking account of rapid growth and undertaking initial work on the risks associated with drone use and a technical assessment of their mitigation.

As part of its industrial strategy, the UK Government wishes to create a regulatory framework for spaceflight to take place from the UK. We published a report in 2014 on the key principles of such a framework and during the year we have been working closely with the DfT and the UK Space Agency to provide the necessary technical, policy and legal input to develop the enabling primary legislation. This extensive programme of work led to the Government's publication of the draft Spaceflight Bill in February 2017.

Infrastructure optimisation

The need for increased aviation capacity and associated network resilience is clear, particularly in the South East of England. The Government has decided to support a third runway at Heathrow to meet this challenge. Our role is to further consumers' interests by setting appropriate licence conditions on Heathrow Airport Limited. This principally relates to the setting of limits on its landing charges to airlines and the quality of the service it provides to consumers. We must ensure that a balance is struck between cost to passengers and airlines and the ability to attract the private investment necessary to complete the project.

We have consulted on approaches to the economic regulation of capacity expansion of Heathrow, determining priorities and timetables; agreeing to extend current price controls for a further year to 2020; and drafting guidance for business planning. We consulted extensively and have reached a decision on how Heathrow is able to recover costs incurred in undertaking the planning process. An independent Consumer Challenge Board has been established by us to hold Heathrow to account in delivering a business plan that reflects the needs of passengers. We will formally monitor and periodically report on the effectiveness of Heathrow's engagement with the airline community to develop an affordable scheme design. Our advice will be taken into account by the Secretary of State for Transport prior to the Government's recommendation to Parliament on its National Policy Statement.

Additional runway capacity must be combined with an alleviation of the congestion of UK airspace, through both design and use. We have undertaken consultations on proposals to strengthen the transparency, stakeholder engagement and evidence used in the current airspace change process, as well as detailed guidance on the implementation of these proposals. We have also stimulated a public debate on the effectiveness of the current approach to planning UK airspace and whether reliable change mechanisms exist to prompt reform. A number of potential gaps in the existing architecture have been identified and we are working through these with stakeholders. The new process will be implemented in the coming year.

As the national aviation network is strained by increasing passengers and flights, delays have increased. The proportion of flights arriving or departing from the five main London airports on time has fallen from 80% in 2011 to 71% in 2016. During the year, we undertook research into the extent and nature of the day to day operating resilience of the UK's aviation system and identified a number of areas for further work. This led to the creation of a Voluntary Industry Resilience Group which is led and staffed mainly by industry experts who will design and deliver a range of actions to tackle the challenge of resilience.

Meanwhile, we have continued to chair the Future Airspace Strategy (FAS) Deployment Steering Group (DSG), engaging extensively with industry in a wide range of air traffic control and airspace deployment plans and research.

Service excellence

We undertake a broad range of transactional activities with stakeholders across the aviation industry. Our Transformation Programme works across the organisation to modernise our processes and systems using investments funded by efficiency savings. Two notable projects from the programme this year have been AvStats and e-Licensing. The introduction of the AvStats system for industry submission of statistical data has improved usability for both entry and analysis. E-Licensing is a new and more efficient online licence application system which has been developed with our Shared Services Centre. It will open to commercial pilots later this year, extending to other pilot licence holders in 2018. We have plans to expand the system to all types of licence in due course, including drone operators.

Service excellence is a wider focus for our Shared Services Centre team, both in developing service competencies across the CAA and identifying how our service offering can improve its value and efficiency based on stakeholder feedback. For value, a major undertaking this year has been the building of a demand and forecasting model to allow us to identify where skills and resources should be invested. For efficiency, we continue to offer a daily counter service to pilots who require rapid processing of their licence applications. This year an average of 127 pilots per week made use of this service, and we have recruited and trained additional Licensing Officers to meet this demand and achieve target processing times.

Our role is not confined to transactional activities: we are also committed to being an organisation that is responsive to its stakeholders and engages with the public as much as with the industry. By integrating our Passenger Advice and Complaints Team (PACT) into the Shared Services Centre and focusing the range of complaints it handles to those we have regulatory powers over, we have improved the support offered to consumers who are not covered by ADR services.

The systems we use are also key to our service excellence delivery. Our Transformation Programme has established a number of quality internal capabilities such as testing and a change management function which are supporting delivery across the programme. We continue to make good progress across a number of its key initiatives, with the second phase of the Entity Performance Tool programme launching in October which supports our performance-based approach to regulation. We launched our Aviation Statistics (AvStats) system during the year which is an online tool through which airlines and airports provide us with data and has allowed us to move to a more efficient way of working.

We have progressed other projects including e-Licensing, which will provide a modern digital platform for our licensed community, such as pilots and engineers, to apply for licences. We also plan to deliver the first phase of a new system that will process ATOL licences in the summer.

Further information on our work in service excellence is detailed in Our Efficiency Report (page 20).

International

Our International Directorate brings together three key areas of international activity to help improve standards sustainably across the globe. The international strategy and engagement team works closely with the European Commission, European Parliament, EASA and ICAO to raise the standard of the regulatory framework both in Europe and globally. This year we have provided extensive support to the DfT for the 39th ICAO Assembly and the ongoing negotiations for a revision to the EASA Basic Regulation, which determines the scope of the Agency's activities. We also work in partnership with other countries' aviation authorities to improve the operational safety performance of their airlines in UK airspace and UK airlines in foreign airspace in order to protect UK citizens travelling the world. During the year we have continued to work closely with Turkey, France and Ireland, and have been developing partnership arrangements with the USA and Spain.

Through CAA International Limited (our international aviation advisory arm), we provide advisory, training and examination services to raise international safety standards. We have continued to work with the Thai authorities to help them to re-certify their international operators and build capacity, and we have just completed a five-year programme in Brunei helping to build core regulatory capacity and capability.

Our Efficiency Report

Our approach to efficiency is based on three core principles, ensuring that our costs of operation are as efficient as possible, that we continuously improve our transactional engagement with stakeholders and that we challenge ourselves to ensure the burden we impose through our regulation is proportionate to the risks being managed.

Financial efficiency

We are funded directly by charges paid by those we regulate. We fully understand the challenges the industry continues to face and recognise this when setting our charges. While we face significant cost pressures, including increases in our cost base and the need to invest in modernising our systems, we are determined to deliver long-term efficiencies and value for money for those we regulate. During 2016/17 we held our regulatory charges at the previous year's levels for the sixth year in succession.

Employment costs represent the majority of our total costs, at 58%, so if we are to deliver efficiencies, it is important that we focus on these costs. Pension costs have shown a downward trend, reflecting the closure of our defined benefit scheme to new members and the movement to a lower cost defined contribution scheme.

We are also set a financial target for our regulatory sector by the Secretary of State for Transport. This target is to achieve the higher of an annual 3.5% rate of return on average current cost of capital employed or break-even after charging interest and tax. During the financial year ended 31 March 2017 we achieved a return of 8.2%. The excess return offsets the previous year's under-recovery and, to a lesser extent, provides additional funding for our Transformation Programme in 2017/18.

During the financial year, we have met all of the funding requirements of the Transformation Programme (£8.9m) and our loan repayment commitments (£1.1m) to the National Loans Fund, while ensuring that cash reserves remain positive. With such significant expenditure funded by existing resources, a key business requirement is the management of cash flows. We have a £10m overdraft facility with our bankers, Royal Bank of Scotland; we have not used it this financial year.

We will further improve our efficiency by encouraging our operational managers to control spend on their budgets more effectively and to deliver more regulatory improvements for every pound that is spent. Our business plans link costs to strategic outcomes, with a prerequisite of reliable and transparent financial reporting to our Board and key stakeholders.

In order to achieve these efficiency outcomes we have set ourselves financial efficiency targets for the next financial year, including:

- below inflation increases in fees and charges for the majority of those we regulate;
- reducing expenditure in real terms except in areas of security and emerging technologies and ensuring that operating costs do not exceed 2017/18 budgeted levels within the regulatory sector;
- reducing our pension costs;
- continued funding of the Transformation Programme from existing reserves and savings generated from the programme; and
- seeking to sub-let space in our London offices.

During the financial year we have met the financial efficiency targets we set ourselves in last year's annual report. These targets were:

Target	Outcome
Zero increases in fees and charges for the majority of those we regulate, except in situations where material cross-subsidies reside	Achieved Our charges remained at the same levels as the previous year, with only minor changes in prices for a few specific charge categories.
Reducing expenditure in real terms and ensuring that operating costs do not exceed 2016/17 budgeted levels within the regulatory sector	Achieved The regulatory cost case reduced by £2.4m to £81.2m.
Reducing our pension costs	Achieved Our pension costs reduced by £3.1m to £17.5m.
Continued funding of the Transformation Programme from existing reserves and savings generated from the programme	Achieved The spend on the Transformation Programme continued as planned throughout the year and cash reserves increased by £4.3m.
Improving the transparency of charging mechanisms to ensure that costs are fairly allocated against the activities they support	Part achieved This activity was partially addressed during the year and will be a feature of 2018/19 charging proposals.

Regulatory efficiency

Our key objectives are to maintain safety though a performance based regulatory regime, delivery of safety programmes, optimisation of UK aviation infrastructure and airspace and strengthening our internal capacity. We want to do this as efficiently and effectively as possible, and this year we introduced a number of changes that reduced either the regulatory burden or costs for stakeholders.

Medical self-declaration for pilot licences

In September 2016 we allowed holders of pilot licences for non-EASA aeroplanes to make a self-declaration of medical fitness free of charge, rather than, as previously, having to produce a medical certificate. The standard of fitness is the same as that required by the DVLA for a driving licence, plus a declaration that the applicant has not suffered from a list of defined medical conditions.

This reduces the cost and level of regulation for pilots, as they no longer have to pay for a medical examination and certificate. In addition, they previously would have had to repeat the process at certain intervals, but now the self-declaration is valid until age 70, unless there is a change in the individual's circumstances. Since September 2016 there have been over 1,500 self-declarations.

Simplifying approvals for standard repairs to UK aircraft

Until this year there has been no UK equivalent of EASA's 2015 certification specification for standard changes and standard repairs (CS-STAN), which simplified the approval system and allowed small modifications to be made without reference to the regulating authority.

We have now applied the principles of CS-STAN to UK aircraft, which means the operators, who are largely private owners, no longer have to apply to us and can instead go direct to licensed engineers to carry out and sign off the work.

While there are no significant economic gains for owners, as the elimination of our fee is offset by additional engineering work, they will benefit from a reduction in turn-around times because there are many more appropriately licensed engineers to do the work. One example of this is the transition to 8.33kHz radios. Many of the radio upgrades will be like-for-like replacements or small wiring or mounting bracket changes. These qualify for our new approach, making it easier for operators to implement the European radio spacing requirements.

Online application forms for air displays

We have changed the application system for approvals for air displays and special events from a paper-based to an online form. In addition, applicants can now make an application for multiple events on one form, pay online and submit supporting material. This makes the process simpler and easier.

Interoperability - dry leasing[1]

We have been developing a system of short-notice interoperability, which allows aircraft and crews to be used by more than one air operator. We have expanded last year's trial from one operator to two more major airlines. The first operator reported significant savings, and the further two also expect to make similar economies.

Our system enables dry leasing of aircraft and crew with minimum notice and no lengthy application process by having upfront agreements in place. The operator simply notifies us, typically saving them 500 hours work per application.

Although the operator has to invest considerable resources initially, the flexibility of being able to dry lease at very short notice allows operators to make more flexible use of aircraft and manage the long and short-notice peaks in aircraft demand.

Issuing temporary pilot licences

We have introduced temporary licences and ratings for pilots so that they can continue to fly while they are waiting for us to send them their new paper licence. We did this because we realised that a number of helicopter pilots were routinely travelling from Scotland to Gatwick to collect their licence. At a time when pilots have been in very high demand this has had cost implications for companies which had to provide replacement crews and travel costs.

This change actually affects all 35,000 UK aeroplane and helicopter pilots, so the benefits are felt across the whole of industry, by both pilots and employers.

1 Dry leasing is when an airline or aircraft financing entity provides an aircraft, but not the crew, ground staff, maintenance, etc. to a lessee.

Planned future efficiencies

We have started planning efficiencies for 2017/18 and have already decided to establish new KPIs on the efficiency and effectiveness of our oversight of performance based regulation (PBR). These KPIs include:

- Percentage confidence that oversight is managed in accordance with the PBR approach, which assesses each regulatory team against key criteria including the presence of an oversight plan, consistent use of the Q-Pulse audit tracking tool and evidence that managers are using resource and oversight information from Q-Pulse to manage resources and vary the oversight plan where appropriate.
- Percentage confidence our oversight is being adjusted for performance and risk which, linked to the above, measures our confidence level that each team has embedded the PBR approach in respect of its ability to adjust the level and focus of its oversight activities, whereby the oversight plan is being actively adjusted as appropriate to entity performance and/or identified areas of risk.

We are currently in the process of setting targets for each team for 2017/18 to further embed the PBR approach which will have the following benefits:

- Increase the number of oversight activities using the PBR approach;
- Improve our adherence to the oversight plans;
- Encourage the oversight plans to be adjusted based on entity performance and risk
- Encourage those we regulate to close findings in a timely manner

Service efficiency

Improving our service delivery

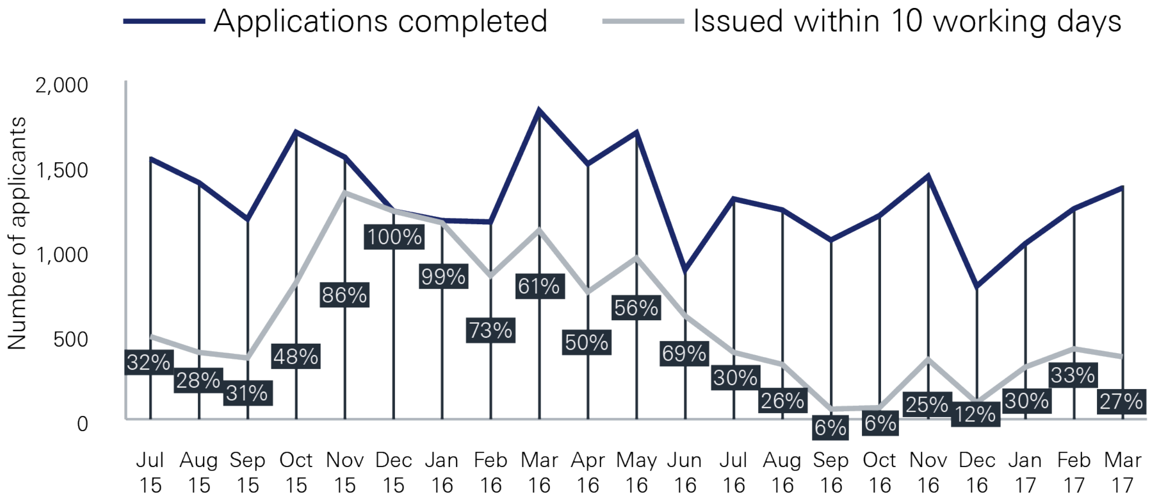
The focus this year in our Shared Services Centre (SSC) has been on further improving service delivery, data capture and transparency. We have been building the capability of the SSC because it has allowed us to reduce unnecessary headcount and gather together transactional activities from across the organisation, introduce more standardised processes and, as a consequence, better service performance. Balancing the need for financial efficiencies whilst delivering the quality of service we aspire to has sometimes been challenging and we have not always achieved that. We have, however, made strong progress overall and by the end of the financial year we were in a much stronger position. As part of building resilience in the SSC we have built a demand and forecasting model for a number of its key services. This gives a much better understanding of the likely forward resource requirements than we have ever had before.

At the same time we have created an internally resourced operational excellence team, reducing our reliance on contractors whilst building internal capability.

Vulnerability of service standards was most evident in Flight Crew Licensing where the unexpected loss of a number of key colleagues for a variety of reasons meant that service standards for much of the year fell well short of our target. Whilst we acted quickly to recruit replacements, in the absence of automation these roles require extensive training and by Easter 2017 the performance levels were back to where we had planned. The implementation of e-Licensing should ensure that we can prevent any recurrence of this going forward. We will go live with this new online licence application system in summer 2017, initially for commercial pilot applications. It will automatically validate fields in the application so reducing the number of applicants, currently 27%, who have to wait while we contact them for further information.

The graph below shows the number of licences issued and the SLA for the last two years:

Flight Crew Licences issued and % within SLA

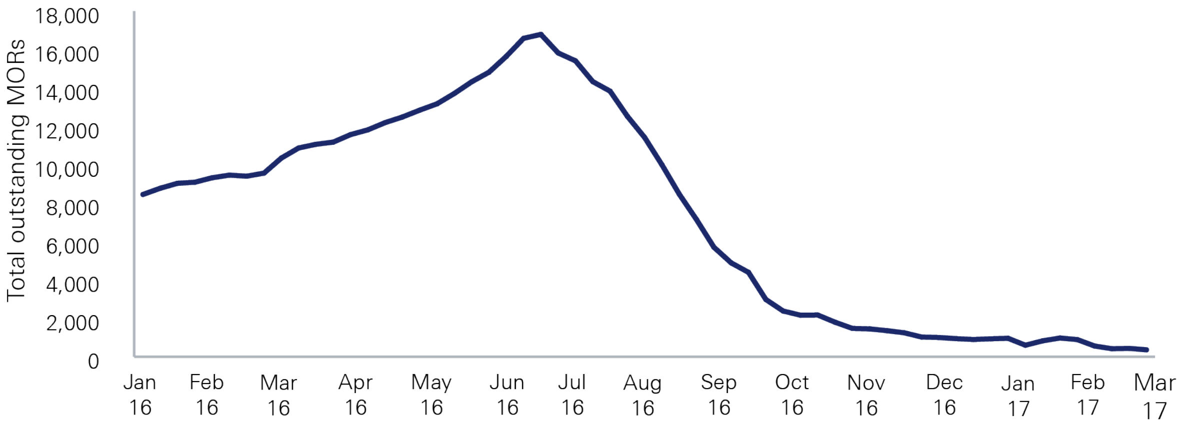


Reducing the backlog of mandatory occurrence reports

By summer 2016 there was a backlog of 16,800 mandatory occurrence reports (MOR) that needed to be put into our management system. This was caused by new regulation (an increase of 48%) and additional supplementary submissions (an increase of 148%).

By using aeronautical students from Kingston University and a redesign of the processes, we were able to reduce the backlog to less than 500 by January. We increased productivity by 42% year on year, taking an average of three weeks to process MORs.

MOR outstanding workload

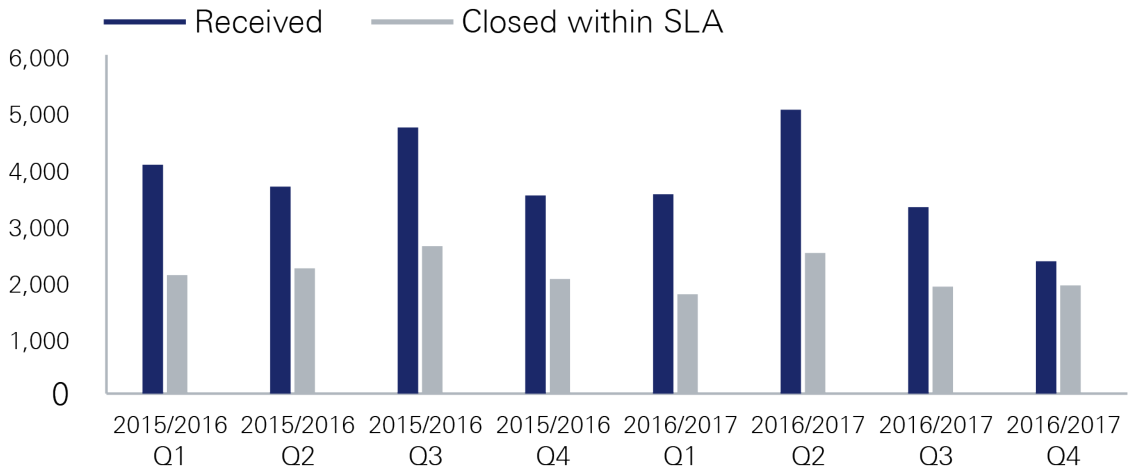


Passenger advice and complaints

Our passenger advice and complaints team (PACT) gives advice to consumers who are not satisfied with an airline or airport's response to a complaint. Over the past three years we have been instrumental in obtaining around €15 million for customers whose compensation claims have been rejected by airlines.

Since the successful introduction of the Alternative Dispute Resolution (ADR) service, where approved suppliers manage passenger complaints against airlines, we have seen a significant reduction in the number of calls to PACT – see our website (www.caa.co.uk) for further details on how ADR works.

Number of cases closed within target SLA (70 days) 15/16 - 16/17



Complaints about the CAA

We are committed to providing a high standard of service to everyone we deal with and welcome comments, including when we get things wrong. We hope to learn from complaints to improve our services and the way we do things. For example, in response to an increase in complaints this year about licence processing delays we have recruited additional licensing officers with the aim of bringing the service back to the target level. Below is the number and type of formal complaints we have received and the percentage upheld in full or in part.

Complaints about the CAA	2015/16	2016/17
Numbers of complaints in line with our complaints policy	143	178
Upheld in full or in part	53%	53%
The categories of upheld complaints are:		
Poor service	96%	91%
Over-regulation	3%	1%
Incorrect advice	1%	-
Staff behaviour	-	5%
Charges	-	2%
Lack of CAA action	-	1%

Planned future efficiencies

We have a number of efficiency initiatives planned for next year. They include:

- The launch of e-Licensing services for pilot licences and engineers; phase 1 for commercial pilot licences due July 2017 and private pilot licences will follow in 2018, providing an anticipated saving of 20% in terms of productivity.
- The introduction of a new online application process for drones; proposal being created for Transformation review. It is envisaged that this will facilitate a reduction in incomplete applications by up to 50%.
- A new call centre system: roll out phase 1 launch will be May-August 2017 with phase 2 August-December 2017. This will facilitate a future single contact solution combining email and call handling providing an improved and timely service.
- The delivery of a new scheduling system for airworthiness and flight operations inspectors. CRM phase 1 for scheduling delivered April 2017 and phase 2 due September 2017. This will provide a more efficient and effective allocation of resources, reducing waiting times for stakeholders.

Auditor’s statement

Under section 102 of the Civil Aviation Act 2012 the Board Members of the Civil Aviation Authority (the “Authority”) are required to prepare a statement of efficiency in the performance of the Authority’s functions during the year ended 31 March 2017 (the “Efficiency Statement”) and to have it independently assessed. As noted in our audit report on the financial statements, as the Authority’s auditors we read all the financial and non-financial information in the Annual Report & Accounts 2016/17 to identify:

- any material inconsistencies with the audited financial statements; and
- any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

We have no exceptions to report in relation to the Efficiency Statement. The full audit report can be found on pages 79 to 87.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

21 June 2017

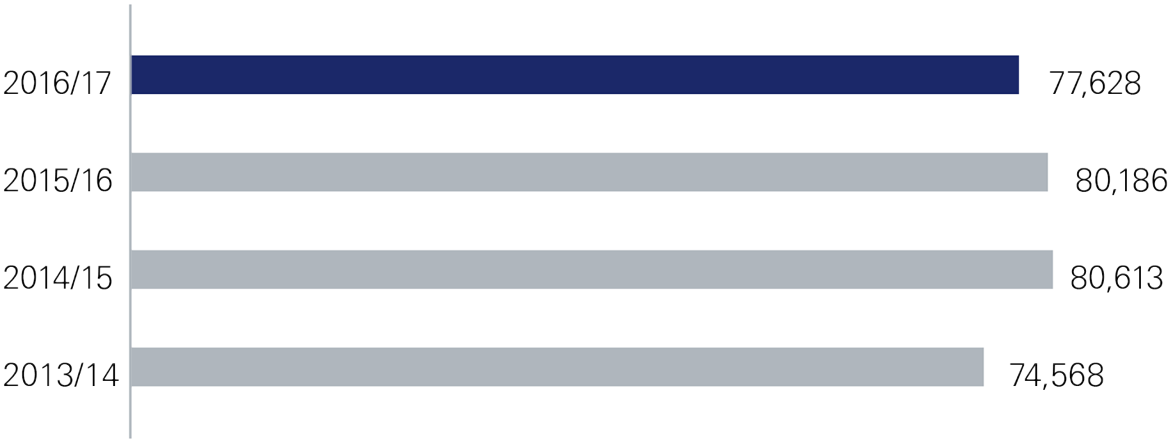
Key Performance Indicators

We have identified a number of key performance indicators (KPIs) that we use to assess our performance against our core strategic objectives.

Financial key performance indicators

Operating costs – regulatory sector

Adjusted operating costs (actual prices - £’000s)



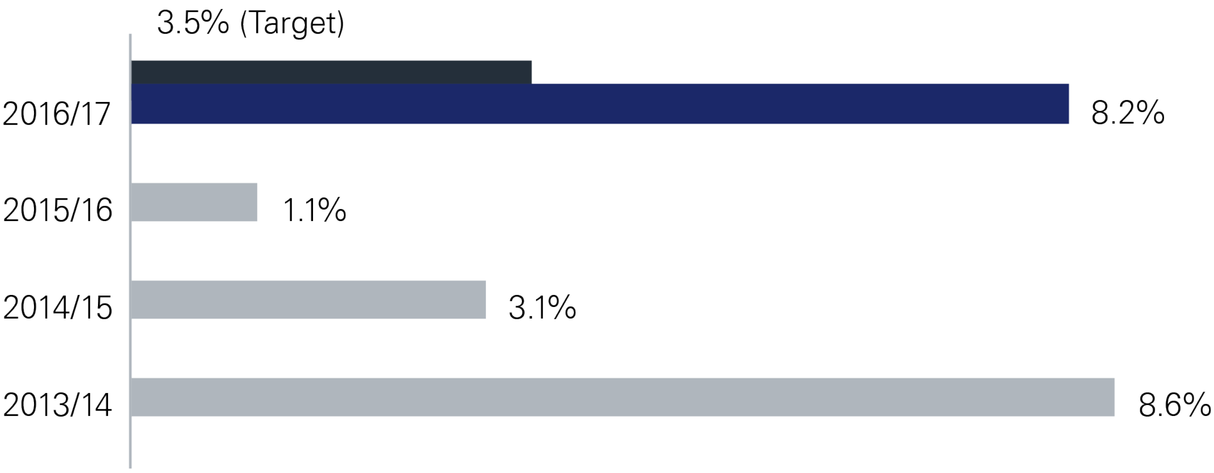
This KPI is the adjusted operating costs for the regulatory sector, which is made up of the activities of safety and airspace regulation, consumers and markets and aviation security. The operating costs have been adjusted to exclude CAA International Limited’s (CAAi) contribution and directly funded research costs.

Analysis

Total operating costs have reduced considerably compared to the 2015/16 level. We have achieved this through a tight fiscal policy of constraining costs despite ongoing upward pressures on employment costs through payroll and pension cost inflation. Further information is provided in the Financial Review.

Target rate of return

Rate of return (%)



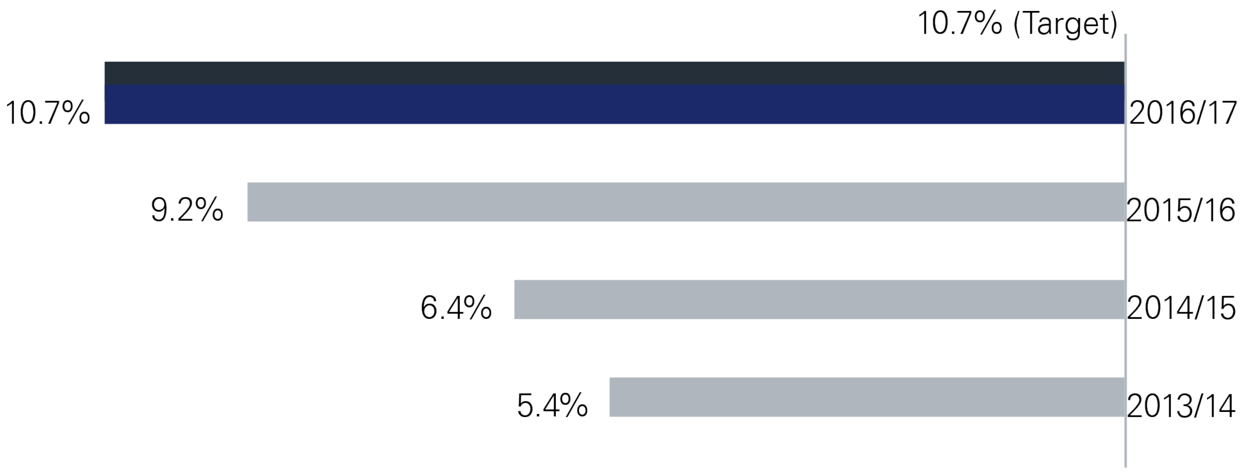
We are required by the Secretary of State for Transport to achieve for the regulatory sector the higher of a 3.5% rate of return on the current cost of capital employed, or a break-even result after loan interest and corporation tax. Following a review of our target rate of return, the Secretary of State agreed to reduce the target for the financial year 2015/16 onwards from 6.0% to 3.5% on the current cost of capital employed.

Analysis

The rate of return for 2016/17 was 8.2%, 4.7% above the required 3.5% return. The surplus reflects the continued effort to implement cost saving measures throughout the Group as well as the better than anticipated profits arising from CAAi commercial activities.

Average charges at constant prices (at 2011/12 prices)

Price increase (%)



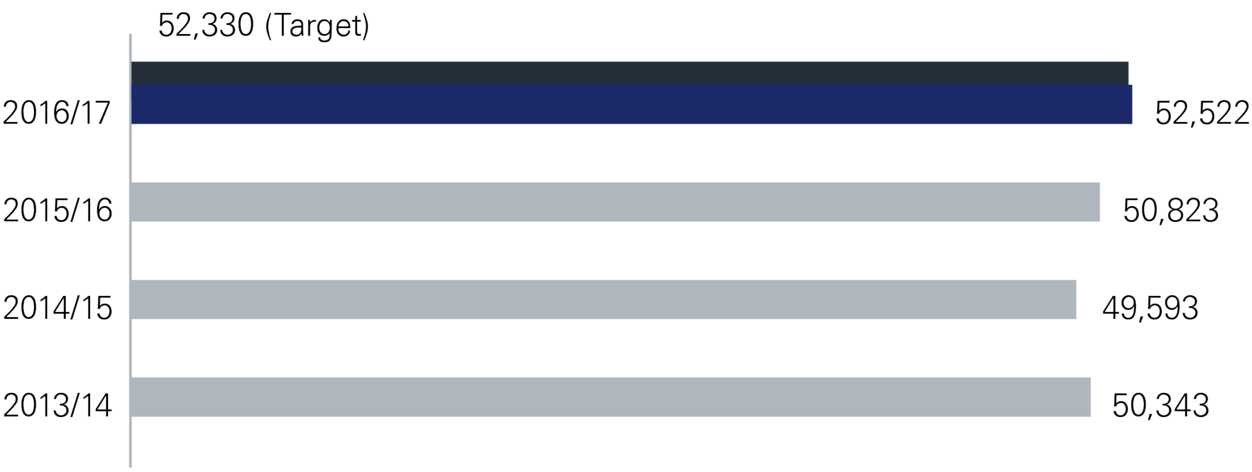
We are required to set statutory charges to recover our operating costs. The average increase in charges excludes the new charges that we have been consulting on during this financial year.

Analysis

The 2016/17 charges review resulted in charges remaining at the same levels as the previous year, with only minor changes in prices for a few specific charge categories.

Cost per employee including CAA Board

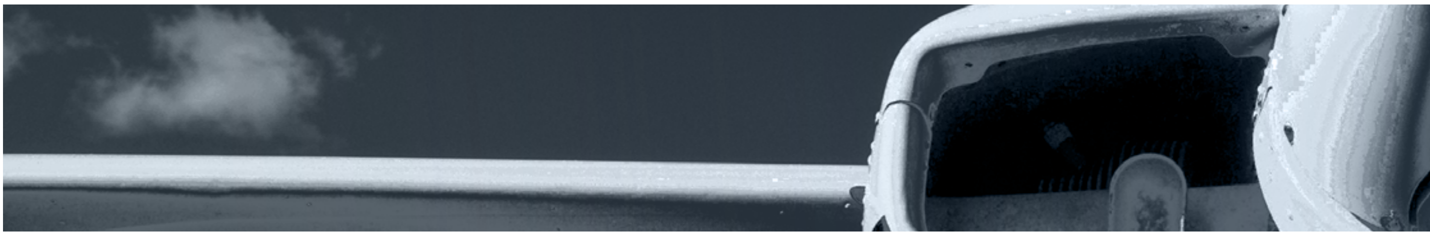
Cost per employee (£)



The cost per employee represents an average employment cost. All employees, including our board members, are included within the cost per employee.

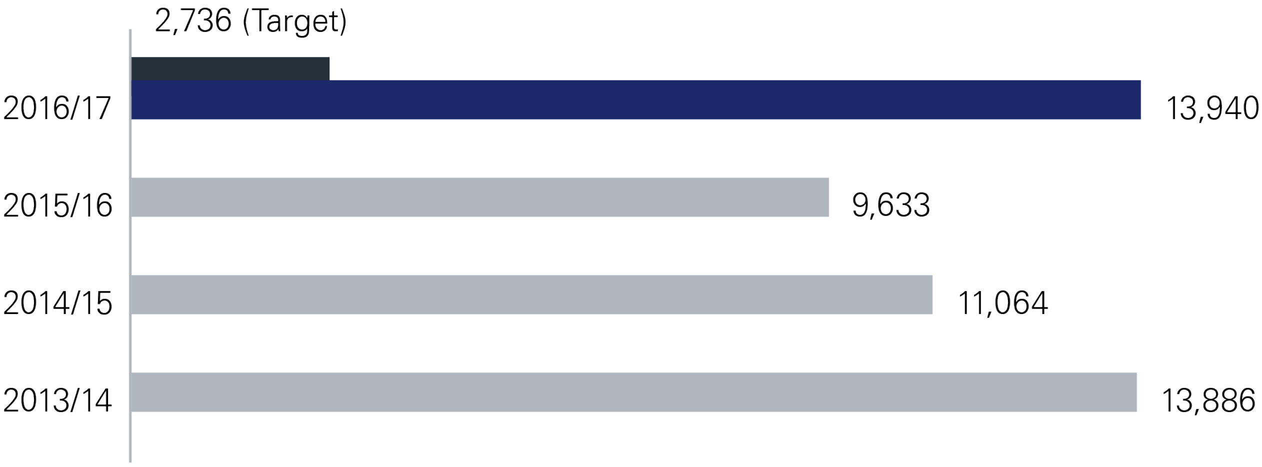
Analysis

The average cost per employee has increased by 2.9% when compared to 2015/16 primarily due to the upward pressures on pensions costs. During 2016/17, the average number of employees reduced to 927 FTEs (2016: 968), a reduction of 41, and overall employment costs decreased by £6.1m compared to the prior year.



Cash balance

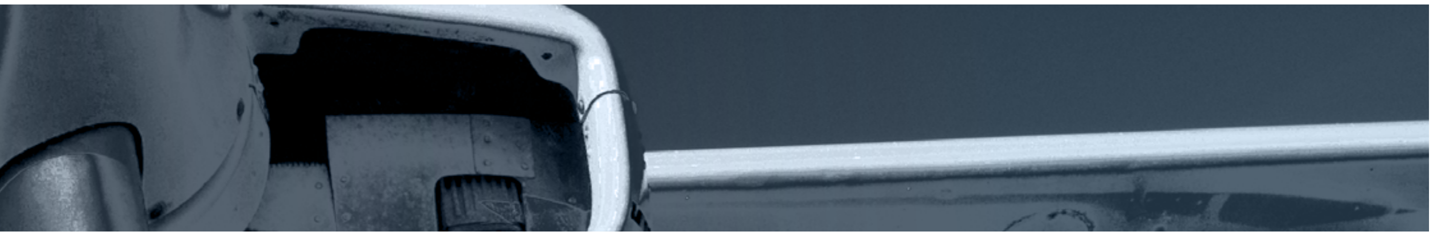
Cash balance (£'000s)



The cash balance is defined as 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.

Analysis

The cash balance increased significantly in 2016/17 as a consequence of the favourable Group operating result for the year, the receipt of the initial tranche of EU funding (£1,469k) in respect of the transition to 8.33kHz radios and our tight cash management throughout the financial year.



Pilot licences issued per average staff full time equivalent (FTE)

Number of licences issued per average staff FTE

One of our major tasks is issuing flight crew licences and associated ratings. The above table shows the number of individual licences and ratings issued or re-issued during the financial year per FTE engaged in the activity.

Analysis

Due to the EASA licence transition and the creation of the SSC, previous data cannot be compared with earlier years, therefore this information is displayed for the last 2 years.

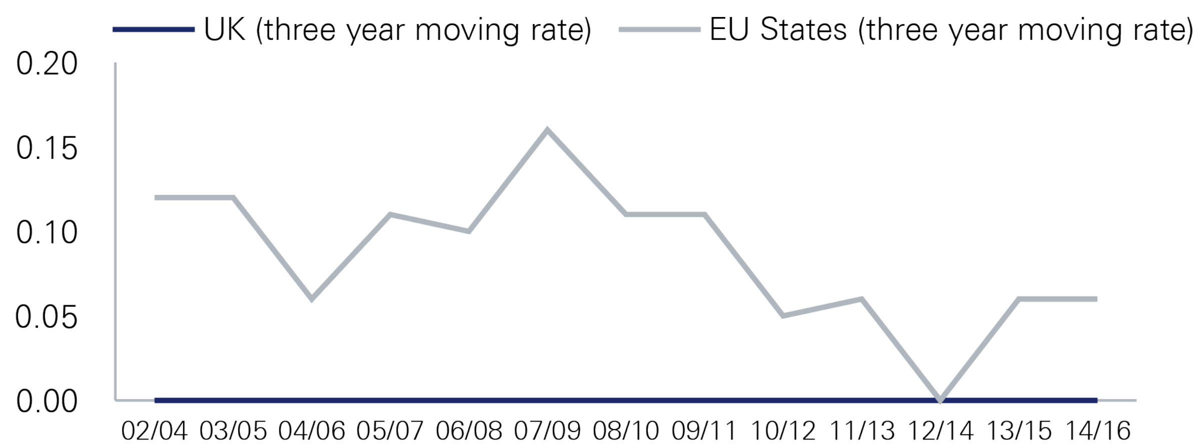
2016/17 saw the Flight Crew Licensing Assessment team composition change by 73%. This led to the in depth training of newly recruited licensing officers across the last 3 quarters of the year which lowered the productivity by 11% vs the previous year.

Fatal accident rates

The safety performance indicators are for UK-registered or operated passenger aircraft, using a three-year moving rate (based upon calendar years) of fatal accidents per million flights. A fatal accident is defined as an accident that results in fatal injury to any person in or upon the aircraft or by direct contact with any part of the aircraft.

UK-registered/AOC fixed wing passenger aircraft above 5,700kg MTWA

Fatal accident rate, rate per million flights



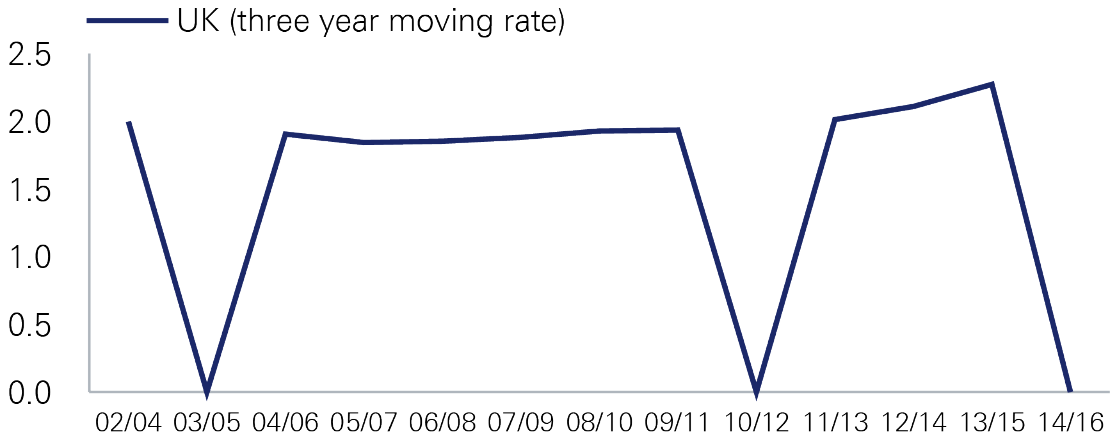
MTWA: Maximum Take-off Weight Authorised

Analysis

We have compared the three-year moving rate of fatal accidents for passenger aeroplanes above 5,700kg MTWA for UK operators with that of operators from the EU. In the three-year period from 2014 to 2016, there were no fatal accidents involving UK operators and one involving an operator from an EU member state. The UK fatal accident rate in this category has remained at zero in recent years; the last fatal accident occurred in 1999 when a Boeing 757 made a heavy landing in Girona, Spain, resulting in one fatality.

UK-registered/AOC public transport helicopters above 3,175kg MTWA

Fatal accident rate, rate per million flights

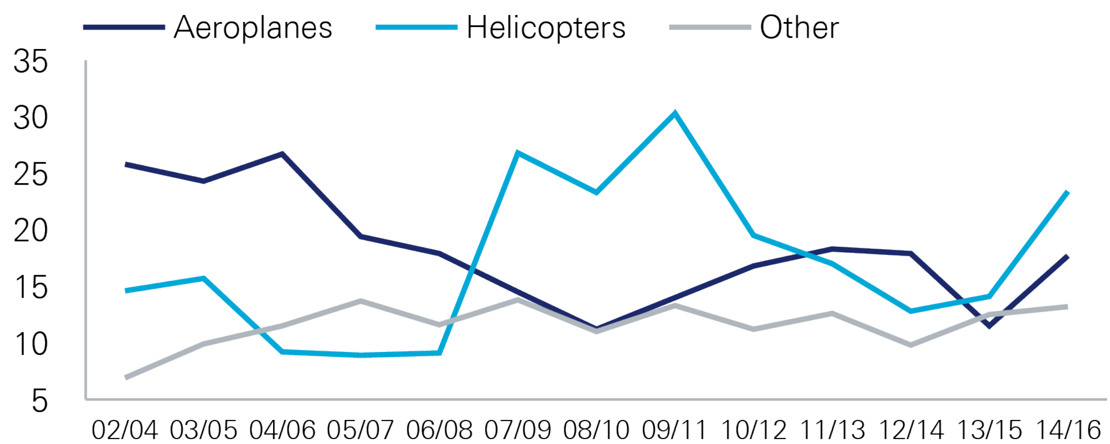


Analysis

The fatal accident rate for UK commercial air transport helicopter operations fell to zero for the three-year period from 2014 to 2016. The last fatal accident involving this category of aircraft occurred in 2013; an AS332 Super Puma crashed into the North Sea, resulting in four fatalities.

UK general aviation

Fatal accident rate, rate per million flight hours (3 year moving rates)



We have separated the three-year moving rate (based upon calendar years) of fatal accidents for UK general aviation into three classes of aircraft: fixed wing aeroplanes, helicopters and other. The other category includes airships, balloons, gliders, gyroplanes and microlights. For the purpose of the analysis we only considered accidents involving G-registered aircraft engaged in general aviation activities.

The rates are calculated based upon the estimated annual number of hours flown and the annual number of fatal accidents involving G-registered aircraft for each of the groups mentioned above aggregated accordingly (fatal accidents per million flight hours flown). The lines represent the three-year moving rates by aircraft category. Non-EASA[1] aeroplanes with an MTWA above 5,700 kg and Non-EASA helicopters with an MTWA above 3,175 kg, are included, if involved in general aviation operations. Our aircraft registration department collects the flight hours and are estimated for the years 2015 and 2016 (provisional and subject to alterations).

Analysis

Aeroplanes

There were 17 fatal accidents involving G-registered aeroplanes during 2014-2016, with six fatal accidents in 2016. There were 17 fatal accidents in the previous three-year period, from 2013-2015, with seven in 2015. We saw no significant fluctuations in the current period. The fatal accident rate improved from approximately 16 fatal accidents per million flight hours in 2007 to 15 fatal accidents per million flight hours in 2016.

Helicopters

There has been a rise in the rates of fatal accidents over the period 2014-2016 which coincides with an estimated decline in hours flown involving G-registered helicopters engaged in general aviation operations. There has been one fatal accident per annum from 2014 onwards.

Other

There were 16 fatal accidents involving G-registered aircraft in this group during the period 2014-2016. This exceeds the 10 fatal accidents during the period 2013-2015. 2016 saw predominantly more fatal accidents with gliders and gyroplanes, in comparison to the previous year.

1 Non-EASA aircraft are also known as 'Annex II' aircraft, as they are listed in Annex II to the Basic Regulation; the European legislation which is the source of requirements for pilot licences.

Principal Risks and Uncertainties

Our risk management framework

We introduced a new risk management framework (RMF) in January 2016 and have made good progress implementing it this year. It has already brought a number of noticeable improvements including greater quantification and visibility of risks at all levels.

The RMF has also improved risk reporting to the Executive Committee, Board and the Audit Committee and, for safety risks, the governance forums of our regulatory safety management system.

A core element of our RMF is the categorisation of risks. This encourages us to consider risk as widely as possible. We have three risk categories:

- **Consumer and Public Risks** - these are risks that could impact directly on consumers and the public in terms of safety, security, consumer choice, value and fair treatment, and the environment. We do not exclusively own these risks - they also belong, or are relevant to, others such as industry or the Government.
- **Strategic Risks** - risks to the delivery of our strategy and target outcomes intended to mitigate the consumer and public risks
- **Business Risks** - routine risks that affect our capability and capacity to carry out our day-to-day business plan and business-as-usual activities and deliver our strategy and target outcomes

A summary of the overarching principal risks and some of the mitigations we undertake is outlined below.

Air transport safety risks

- Commercial air transport accidents in the UK
- Commercial air transport accidents involving an airline holding a UK air operator certificate
- Commercial air transport accidents involving UK passengers
- General aviation accidents in the UK

Mitigations

Through our regulatory oversight we monitor the UK aviation sector's management of the safety risks it owns and oversee its compliance with the required safety standards covering aircraft, airlines, flight crews, air traffic controllers, aircraft maintenance engineers, licensed aerodromes and air traffic services.

We also regulate UK airspace to support safe and efficient operations and are embedding a performance-based approach to safety regulation across the industry, so we can target our resources to the areas that need most attention.

Aviation security risks

- A terrorist attack at a UK airport or on any aircraft flying from one.

Mitigations

Our security team seeks to ensure that regulation of the aviation sector remains proportionate to the threat, and through our oversight activity we provide assurance regarding compliance with the security requirements of UK and international law.

We promote and support the industry's adoption of security management systems to help ensure that effective security quality management processes are in place.

Consumer value and fair treatment risks

- Consumers are not provided with air transport services that perform as expected and experience difficulties when seeking redress.
- Consumers are stranded abroad following a UK tour operator failure - particularly a large operator failing during the peak holiday season.

Mitigations

We protect consumers, where we have the necessary powers, by enforcing passenger rights and competition law. Through our economic regulation of airports and air traffic services we enable the provision of aviation infrastructure that meets consumers' needs.

We have approved Alternative Dispute Resolution providers to handle consumer complaints more effectively.

We operate the ATOL scheme to protect consumers in the events of a UK tour operator failure of any size. This includes repatriation and refunds.

We have contingency plans in place and continue to learn from potential and actual failures.

Cross-cutting risks

- Brexit could be to the detriment of consumers and the public if there are not common and proportionate safety and security standards, competitive air service access and effective consumer protection arrangements in place when the UK leaves the EU.

Mitigations

We have identified and communicated four priorities for aviation. We are engaging with the Department for Transport and will provide evidence and expert opinion to support the best outcomes for aviation.

We are engaging with key stakeholders to understand their priorities and perspectives.

It is worth noting that the UK's exit might also offer positive opportunities that could benefit consumers.

Financial Review

Significant financial developments

- Total revenue: £135.8m, up 2.4% (2016: £132.6m)
- Operating profit: £4.9m (2016: operating loss £5.4m)
- Pension surplus: £110.9m, up 17.7% (2016: £94.2m)

In 2016 the Group operated in a challenging external environment which included uncertainty following the UK vote to leave the European Union (EU) and the global threat of terrorism. The Group continues to focus on reducing controllable costs by addressing legacy areas of the cost base. During 2016 an employee restructuring and transformation programme continued to improve the overall efficiency and effectiveness of the Group. As a consequence the CAA continued for a further year of not increasing the regulatory charges and to fund its Transformation Programme from existing reserves combined with exerting significant pressure to drive down costs throughout the business.

The CAA is directed by the Department for Transport (DfT) to prepare the financial statements in accordance with the accounting and disclosure requirements of companies' legislation currently in force and international generally accepted accounting practice. The financial results of the Group are assessed, however, by reference to financial targets agreed with the Secretary of State for Transport. The CAA achieved a rate of return of 8.2% for the regulatory sector, which was above the 3.5% target rate of return set by the Secretary of State for Transport. The increase as compared to target reflected the CAA continuing to implement cost saving measures.

Although the CAA is required to comply with International Accounting Standard (IAS) 19 'Employee Benefits' in accounting for pension costs in its financial statements, the regulatory target is based upon the level of employer cash contributions paid to the CAA Pension Scheme ('the Scheme') during the financial year, rather than pension costs evaluated under IAS 19.

In July 2015, the Trustee of the Scheme, with the support of the CAA, agreed to purchase a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014. Following that, a second bulk annuity contract was purchased with Pension Insurance Corporation in January 2017 in respect of non-insured pensioners at 30 June 2016. The value of the buy-in policies held on behalf of the members is equal to the value of the benefits covered by the policies and is included under "insured annuity policies" in the above allocation. The value of these benefits as at 31 March 2017 is estimated to be £1,506,288,000 (2016: £1,397,903,000).

The last formal actuarial valuation of the CAA Section of the Scheme was carried out as at 31 December 2015. Following discussions with the Scheme Actuary, the Trustees determined and agreed with the CAA the assumptions to be used for the latest actuarial valuation as at 31 December 2015. The 2015 valuation revealed a small deficit of £4.2m. A recovery plan has been agreed by the CAA and the Trustees of the scheme, whereby the CAA will remove the deficit over the period to 31 December 2021.

Overall financial performance

In the year ended 31 March 2017, the CAA recorded an operating profit before interest and tax of £4.9m (2016: operating loss £5.4m). These results included the effects of IAS 19. Within the operating result the regulatory sector, comprising the activities of Safety & Airspace Regulation, Consumers and Markets and Aviation Security, as well as the result achieved by CAA International Limited (CAAi) made an operating profit before IAS 19 adjustments of £4.6m (2016: £1.1m) and a profit after adjustments for IAS 19 pension costs and net interest, but before tax, of £7.0m (2016: £1.1m).

CAA financial performance results		
	2017 (£m)	2016 (£m)
Group revenue	**135.8**	132.6
Operating costs (excluding IAS 19 pension scheme adjustment)	**(130.8)**	(135.1)
Group operating profit / (loss)	**5.0**	(2.5)
IAS 19 pension scheme adjustment	**(0.1)**	(2.9)
Group adjusted operating profit / (loss)	**4.9**	(5.4)
Net interest	**3.3**	10.8
Profit before taxation	**8.2**	5.4
Taxation	**(1.7)**	(1.3)
Profit after taxation	**6.5**	4.1

Revenue

Group revenue for the year ended 31 March 2017 was £135.8m (2016: £132.6m), an increase of £3.2m (2.4%). The regulatory sector saw an increase of £0.7m (0.9%) to £82.3m (2016: £81.6m). The increase in income has arisen primarily as a result of higher volumes of activity with the safety and airspace regulation and aviation security functions. Miscellaneous services rose by £0.7m principally reflecting a significant increase in third party costs that are recharged in full to the CAA Pension Scheme.

CAAi revenues rose to £17.2m (2016: £15.7m). The increase has been driven predominantly from consultancy activities, in particular the new Thailand contract.

Operating costs

Operating costs for the year ended 31 March 2017 reduced to £130.9m (2016: £138.1m). The significant areas of change are described below:

- Employment costs were £76.2m, showing a decrease of £6.1m (7.4%) compared to the prior year. Within this figure, defined benefit pension costs decreased by £3.6m to £15.7m, the decrease being attributable to the treatment of defined benefit pension costs in accordance with IAS 19. The financial results of the Group are, however, assessed by reference to financial targets agreed with the Secretary of State for Transport. This target excludes the effects of IAS 19 on pension costs and reflects instead the level of employer cash contributions paid to the CAA Pension Scheme during the financial year. The cash contribution to the Scheme decreased to £15.6m (2016: £16.4m), a reduction of £0.8m (4.9%). Also contributing to the overall reduction in staff costs, was the fall in the average number of employees across the Group as disclosed in note 3; the average number of full time equivalents fell to 927 (2016: 968), a decrease of 41. Employment costs in the prior year included severance costs of £3.0m, primarily in relation to the Transformation Programme; the corresponding figure for the current year was £0.3m.
- Repairs and maintenance costs were £3.9m (2016: £2.9m), an increase of £1.0m (34.5%). The overall level of buildings maintenance costs remained broadly similar to last year, however a variation to the lease in respect of the CAA's accommodation in London resulted in a release of £1.3m dilapidations provision during the year ended 31 March 2016.
- External research and development costs were £0.3m (2016: £0.8m). In addition to third party expenditure, the CAA incurred £1.3m (2016: £1.4m) of internal costs, bringing the total research and development expenditure to £1.6m, a decrease of £0.6m (27.3%) compared to the prior year. The CAA involves the aviation industry in determining the Group's research and development programme, which concentrated on aircraft safety during the year.

Corporation tax

The estimated tax charge for this year is £1.7m (2016: a charge of £1.3m). A net deferred tax asset of £378k (2016: £376k) is included within the balance sheet, an increase of £2k as compared to the prior year.

Capital expenditure

Capital expenditure during the year totalled £3.1m (2016: £2.8m). The expenditure primarily included expenditure related to IT development projects. The net book value of the Group's capitalised assets at 31 March 2017 increased in the year by £0.2m to £15.1m (2016: £14.9m).

Financial management

Treasury policy

Our Board sets our terms of reference for treasury policy. They cover strategy, control and overall financial management, including compliance with any borrowing covenants. All relations with banks and other third parties are governed by dealing mandates, facility letters and other agreements.

We do not enter into speculative treasury arrangements as we match all transactions in financial instruments to our underlying business requirements. Our treasury department works closely with all areas of our business to manage and minimise all material financial exposures, and to anticipate what our funding requirements will be. In addition, our internal auditors regularly review our treasury activities.

The aim of our funding policy is to ensure that we are not constrained by lack of funds so we can meet our operational requirements, and that we are not unreasonably or imprudently bound by restrictive covenants or liquidity risks. Working within the constraints of the public sector, we aim to ensure that we can meet all our forecast cash needs for a period of at least 12 months ahead, within the targets we have agreed with HM Treasury.

We primarily place our surplus sterling funds with HM Treasury debt management office. Our surplus funds that are available for less than one month are placed on short-term or overnight deposit at banks that have money market credit rating of at least a BBB+. We keep these institutions under constant review to secure the best returns available, consistent with the minimum credit rating we require. We limit our credit exposure to individual banks and other counter-parties by reviewing credit ratings and closely monitoring aggregate exposures. The majority of our expenditure is settled in sterling.

Please see page 117 for an analysis of our debt in note 15 to the accounts.

Financing

We borrow sums from the National Loans Fund at fixed rates of interest over specific periods and repay them on an instalment basis. During the year we repaid £1.1m of existing loans. The carrying value of our outstanding borrowings stood at £1.9m as at 31 March 2017 (2016: £3.0m). We also have a £10.0m overdraft facility with our bankers, Royal Bank of Scotland, which we did not utilise during the financial year.

Financial target

The Secretary of State for Transport sets us a financial target for the regulatory sector, which covers Safety and Airspace Regulation, Consumers and Markets and Aviation Security, as well as the result achieved by CAAi. The target is the higher of an annual 3.5% rate of return on average current cost of capital employed or break-even after charging interest and tax. In the year ended 31 March 2017, we achieved a rate of return of 8.2% (2016: 1.1%).

Our Equality and Diversity Policy

We are committed to equality of opportunity. We recognise that each individual is different and we value those differences. All employees, prospective employees and those who use our services can expect respect and fair treatment in all aspects of their interactions with us.

In recruitment, career progression and development, we will ensure that there is no requirement or condition that could disadvantage someone on the grounds of disability, sex, gender re-assignment, pregnancy or maternity, race, sexual orientation, religion or belief, marriage or civil partnership, or age.

To help us measure how we are meeting our equality and diversity commitments, and for no other purpose, we maintain records of employees and job applicants according to these characteristics. We monitor and analyse this information so that we can identify and remove any unnecessary and unjustifiable barriers, and provide appropriate facilities and employment conditions to create and support a diverse workforce where everyone feels able to give of their best.

The steps we take to embed diversity are to:

- Understand, value, welcome and actively encourage equality and diversity in our workforce
- Ensure that all relevant policies reflect our commitment to action

- Promote positive behaviours by treating people with respect, consideration and without prejudice
- Support the use of flexible working patterns wherever possible to enable employees to balance work and home responsibilities

We are currently developing a new equality and diversity strategy. This will ensure that we continue to improve our approach to diversity and inclusion, both as an employer and as a service provider. It will include our duty to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation; advance equality of opportunity; and foster good relationships between different people in carrying out our activities.

Business sector review

Our activities are divided into six sectors.

Safety and Airspace Regulation

Through the work of our Safety and Airspace Regulation Group (SARG) we ensure that UK civil aviation safety standards are set and we actively assess compliance with them in a co-operative and cost-effective manner. We must be satisfied that aircraft are properly manufactured, operated and maintained; that airlines are competent; that flight crews, air traffic controllers and aircraft maintenance engineers are fit and competent; that licensed aerodromes are safe to use; and that air traffic services and general aviation activities meet required safety standards.

To monitor the activities of this complex and diverse industry, we employ a team of specialists. They have an exceptionally wide range of skills, including pilots qualified to fly in command of current airliners; experts in flying training, leisure and recreational aviation activities; aircraft maintenance surveyors; surveyors who are fully up-to-date with the latest design and manufacturing techniques; flight test examiners; aerodrome operations and air traffic control specialists; and physicians skilled in all branches of aviation medicine.

The operating costs of the safety and airspace regulation activities for the year ended 31 March 2017 (excluding the effects of IAS 19 pension scheme adjustments) were £58.6m (2016: £59.9m), a decrease of £1.3m (2.2%). Revenue for the year was £57.5m (2016: £57.1m), an increase of £0.4m (0.7%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating loss of £1.1m (2016: loss of £2.9m). Average staff numbers for the year were 477 (2016: 482), a decrease of 5.

Consumers and Markets

Our Consumers and Markets Group's work covers the economic regulation of airports and NATS en route air traffic services. We advise the Government on aviation policy, including the liberalisation of airline markets, economic regulation and competition in the supply of aviation services and infrastructure, and economic aspects of environmental policy. We also compile our published statistical information on airlines, airports and passengers.

Our general approach to regulatory work is to consider the extent of competition and its implications for regulation and then to involve, to the greatest extent possible, the commercial parties.

The Consumers and Markets Group is also responsible for implementing European and UK legislation on airline licensing. We also administer the ATOL scheme. Consumer protection is responsible for managing the consequences for consumers when an ATOL holder becomes insolvent. The activities include organising repatriation flights, dealing with hotels and paying refunds where appropriate to those who have not yet travelled.

Operating costs of Consumers and Markets activities for the year ended 31 March 2017 (excluding the effects of IAS 19 pension scheme adjustments) were £14.0m (2016: £15.0m), a decrease of £1.0m (6.7%). Revenue for the year was £15.8m (2016: £16.0m), a decrease of £0.2m (1.2%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £1.7m (2016: £0.9m). The average number of staff in the year ended 31 March 2017 was 82 (2016: 91). In addition, the CAA employed, on average, 74 survey staff at airports, most on a part-time basis.

Aviation Security

Our Aviation Security Group oversees how the aviation industry meets UK and international legal security requirements. Our regulatory team gives the Secretary of State for Transport advice and assistance on security policy and the future evolution of the regulatory framework in accordance with better regulation principles. We also give advice to industry on interpreting and understanding the regulations.

Aviation Security achieved an operating profit (excluding the effects of IAS 19 pension scheme adjustments) of £0.4m (2016: £0.2m loss). Operating costs for the year ended 31 March 2017 (excluding the effects of IAS 19 pension scheme adjustments) were £ 8.5m (2016: £8.7m). Revenue for the year was £9.0m (2016: £8.5m), an increase of £0.4m (4.7%). The average number of Aviation Security staff in the year ended 31 March 2017 was 79 (2016: 83).

UK en route Air Traffic Services (UKATS)

According to the Single European Sky regulation and the Eurocontrol charging convention the costs of en route air navigation services must be passed on to users - the aircraft using the airspace. In the UK the charges are passed on to four organisations to recover related costs: NATS (En Route) plc, which incurs the vast majority of the costs; the Met Office; the CAA; and the DfT.

The pricing mechanism is regulated by the Single European Sky charging regulation and performance scheme. The current reference period covers a five-year period from 2015 to 2019. As a regulatory body, our income is not volume related but is a fixed charge, based on budgeted costs within the reference period.

Costs of UKATS for the year ended 31 March 2017 were £13.2m (2016: £13.0m), an increase of £0.2m (1.5%). Our UKATS costs arise from SARG, depreciation charges and costs of capital associated with the refurbishment of the former NATS headquarters building; and legal and financial support to the route charges system. Operating costs include the recovery of additional sums relating to pension liabilities in respect of NATS pensioners inherited at the time of the separation of NATS from the CAA in 2001.

Revenue for the year was £13.7m (2016: £13.3m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.5m (2016: £0.3m).

CAA International (CAAi)

CAAi is a leading, globally recognised aviation consultancy and a wholly owned subsidiary of the CAA. The company provides best-practice advice and training to civil aviation authorities and industry worldwide, as well as examinations and licensing systems. It helps extend our regulatory influence overseas, working to raise aviation standards across the globe to protect UK air passengers travelling abroad or on non-UK airlines. CAAi's objectives are wholly aligned to the strategic safety, security and environmental objectives of the CAA.

The company's principal business activities include independent advisory services, training, licensing systems and examinations for pilots and engineers. Throughout the year, CAAi has been providing regulatory advice mainly to EASA, civil aviation authorities in Asia, the Middle East, East Africa and Europe and the Ministry of Defence in the UK. The company's activities covered all regulatory areas including: aviation safety oversight, security, environment, economic regulation and consumer choice and value. CAAi regularly supports EASA and ICAO at events throughout the year.

The company also provides open-access courses and in-company training programmes for Civil Aviation Authorities and industry.

The company continues to support civil aviation authorities and industry with flight crew licensing examinations (Part-66 and Part-FCL) through providing an electronic examination system. To support States challenged with limited resources or expertise, the system helps to enhance examination standards and streamline the licensing process. In 2016/17, the company opened 5 new exam centres, two for flight crew examinations (USA and Madrid), and three for engineering examinations (Trinidad and Tobago, Brunei and Maldives).

In 2016/17 CAAi has developed an e-licensing system in partnership with ASPEQ from New Zealand. The implementation of the system will take place in July 2017, with a pilot project delivered for the UK CAA.

The company will continue to focus on growing business through its advisory, training, licensing and exams service lines in target markets of Asia, the Middle East and Africa, plus we will start opening a new market in Latin America. During the financial year ending 31 March 2018 the company will focus on consolidating current business lines and growing the technology solutions (e-Exams, e-Licensing and e-Learning), in full alignment with the CAA's strategy and also securing robust advisory services contracts with national aviation authorities.

The company achieved revenues of £17.2m (2016: £15.7m). The increase has been driven predominantly from consultancy activities, in particular the new Thailand contract. The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating profit of £3.5m (2016: £3.2m). The company employed an average of 54 staff (2016: 52) during the financial year with a further 31 full time equivalents being supplied from other areas within the CAA (2016: 29). A combination of staff supplied from the Authority and management charges in respect of HR, finance, IT services, insurance, accommodation and central administrative functions, provided a contribution to the CAA regulatory sector before corporation tax of £6.8m (2016: £6.3m).

Miscellaneous Services

This includes both our corporate functions and other activities, which are either funded or operated by us but where a degree of independence from the regulatory sector is required. These include:

- CAA Corporate Centre (including our Board, HR, IT, Office of the General Counsel, Finance & Corporate Services and the Transformation team);
- Air Safety Support International Limited (a subsidiary of the CAA); and
- other activities (including the UK Airprox Board and the administration of the CAA Pension Scheme).

Turnover for the year increased to £22.7m (2016: £22.0m), an increase of £0.7m (3.2%). The net operating loss for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was £0.1m (2016: £4.0m). The operating loss in the prior year was principally due to the costs incurred within the Transformation Programme. In order to finance these transition activities the DfT and HM Treasury agreed that the associated costs should not be borne by UK industry but financed from existing CAA reserves. The average number of staff in the year ended 31 March 2017 was 235 (2016: 260).

Financial outlook

As most of the CAA's costs are recovered from those that it regulates via Statutory Charges Schemes, the aviation industry and consumers expect the CAA to use the statutory income it receives efficiently and effectively. Our challenge is to ensure that the CAA is highly efficient without compromising standards in the role it undertakes as the UK aviation regulator. The CAA is committed to controlling costs, while investing to deliver savings and improvements in the medium to long-term. The CAA continues to set efficiency targets in its budgets and plans. As employment costs represent 58% of our total future costs, this must be a primary source of efficiencies if we are to deliver an acceptable outcome.

During 2017/18 and beyond, our Portfolio Delivery programme will deliver a positive step change in the experience of our stakeholders when they interact with us and enable the target efficiencies to be achieved. It is planned that the benefits of this programme will shortly start to realise a reduced cost of delivering our core functions and, in addition, streamline current processes whilst delivering a more flexible resource management model. This programme will help CAA become a more agile and efficient organisation that can innovate and deliver for its stakeholders efficiently and effectively.

Christopher Tingle
Chief Operating Officer
21 June 2017

Board Members

Chair

Dame Deirdre Hutton DBE

Dame Deirdre Hutton, DBE became Chair of the Civil Aviation Authority on 1 August 2009 and was previously Chair of the Food Standards Agency until July 2009. She has served on a number of public bodies and has considerable experience of corporate governance, risk based regulation and consumer policy. She is Honorary Vice President of the Trading Standards Institute, sits as a non-executive on the board of Thames Water Utilities Limited and is also Pro-Chancellor of Cranfield University. From September 2008 until November 2013 she sat on the board of HM Treasury. Until June 2008, she was the Vice-Chair of the European Food Safety Authority Management Board and was Deputy Chair of the Financial Services Authority until December 2007. For five years, until 2005, she was Chair of the National Consumer Council, having formerly chaired the Scottish Consumer Council. Prior to her appointment at the Food Standards Agency, she was a member of the Better Regulation Task Force. She has held a number of positions on bodies dealing with food issues, including Chair of the Foresight Panel on the Food Chain and Crops for Industry, Chair of the Food Chain Centre, and membership of the Policy Commission on the Future of Farming and Food (the Curry Commission). In April 2010 she was awarded a Fellowship of City and Guilds.

Executive board members

Andrew Haines OBE

Andrew Haines, OBE was appointed as a board member and Chief Executive in August 2009 and for a further 5 years in August 2012. He joined the CAA after a wide-ranging career in the rail industry, latterly as Managing Director of South West Trains, and then as Managing Director of the Rail Division for First Group plc, which, under his leadership, became Britain's largest and most profitable train operating business. He is also a non-executive director of Eversholt Rail UK Limited.

Richard Moriarty

Richard joined the CAA in January 2016 as Group Director of Consumers and Markets and Deputy Chief Executive. He is responsible for the ATOL scheme, the economic regulation of airports and air navigation providers, our competition powers, and our consumer redress and enforcement activities. He is also a trustee of the Air Travel Trust Fund. Before joining the CAA Richard was the CEO of the Legal Services Board, which oversees the regulation of the legal profession in England and Wales. Richard has also held senior public and private sector roles in a number of regulated sectors including water, energy, aviation, postal communications, and social housing. Richard is a non-executive director of the Homes and Communities Agency Regulation Committee.

Mark Swan

Appointed to the board as Group Director Airspace Policy in March 2008, Mark previously held numerous appointments in the Royal Air Force since joining as a pilot in 1979, and he was formerly Director of Operational Capability for the Ministry of Defence from 2006 to 2008. In July 2013 he was charged with merging the Airspace and Safety groups and re-structuring the combined group to focus on performance based regulation. He is currently Director Safety and Airspace Regulation.

Christopher Tingle

Chris is currently Chief Operating Officer, a trustee of the Air Travel Trust Fund and a member of the Chartered Institute of Management Accountants. Chris is responsible for the management of Finance and Corporate Services and the Shared Services Centre. Chris joined the CAA in January 2016, previously having a career in a variety of financial and operational roles within the private sector, predominantly in the rail freight and consumer goods industries.

Non-executive board members

David Gray

David was appointed as a non-executive member of the Board in November 2009 and is Chair of the Remuneration Committee and is a member of the Nominations Committee. He is Chair of the Gas and Electricity Markets Authority (Ofgem) and a governor of the Central School of Ballet. He was a member of the Panel of Experts which advised the Department for Transport on its review of airport regulation in 2008-09 and, in 2010-11, led a review of the water regulator Ofwat on behalf of DEFRA and the Welsh government.

David King

Appointed to the Board as a non-executive member on 1 September 2013. David serves as a member of the Audit Committee and Nominations Committee. He also serves as Chair of the Board Safety Review Committee for Cathay Pacific Airways and is a visiting professor at Cranfield University. He was formerly the Chief Inspector of the UK Air Accidents Investigation Branch (AAIB) where he was responsible for hundreds of investigations, many involving large public transport aircraft.

Michael Medlicott

Michael was appointed as a non-executive member of the board in February 2010. He is Chair of the Air Travel Trust Fund, and also serves as a member of the Audit Committee, Remuneration Committee and CAA International Limited Management Advisory Board. He has many years' experience of the transport and tourism sectors, including a senior management position at Delta Airlines and Chief Executive of the British Tourist Authority. He sat on the board of Manchester Airports Group from 2002 until joining the board of the CAA. He is Chair of Myriad Holdco Limited and non-executive director of Virgin Healthcare Holdings Limited.

Dr Ashley Steel

Ashley became a non-executive director of the CAA in September 2015. Ashley is a former Vice-Chair at KPMG and Global Chair for Aviation at KPMG, who retired from the firm in September 2014. She has significant international experience and has advised numerous FTSE/Fortune 500 boards. Her sector experience includes professional services, transport, leisure, logistics, technology, media, business services and healthcare. She has a family background of owner-managed retail business.

Graham Ward CBE

Graham Ward, CBE was appointed as a non-executive member of the board on 1 September 2013. He also serves as Chair of the Audit Committee and as a member of the Remuneration Committee. Graham is an honorary officer of The World Energy Council, a governor of Dulwich College and Vice-Chair of the Board of Goodenough College. Graham was, until June 2015, the first Chief Commissioner of the Independent Commission for Aid Impact. He spent 36 years, including 24 as a partner, with PricewaterhouseCoopers and is a former Deputy Chair of the Financial Reporting Council, President of the Institute of Chartered Accountants in England and Wales and President of the International Federation of Accountants.

Air Vice-Marshal Michael Wigston

Michael joined the Royal Air Force in 1986. After serving as officer commanding No. 12 Squadron, he became commander of No. 903 Expeditionary Air Wing in Afghanistan in 2008. He went on to be Director of Air Operations at the International Security Assistance Force Headquarters in Afghanistan in 2011, Principal Staff Officer to the Chief of the Defence Staff in 2012 and Commander British Forces Cyprus and Administrator of the Sovereign Base Areas in 2015. He became Assistant Chief of the Air Staff in January 2017. His education and training includes: reading engineering science at Oriel College, Oxford; the Advanced Command and Staff Course; an MA in defence studies from King's College, London; the Higher Command and Staff Course; and the UK Pinnacle Course. He is a service Vice-President of the RAF Charitable Trust and President of the RAF Rowing Association.

Corporate Governance

Good corporate governance is vital to the CAA, so our Board ensures that we have the right corporate governance procedures in place and reviews them regularly.

We have applied the principles and provisions of the September 2014 Financial Reporting Council's UK corporate governance code, as appropriate for a public corporation, throughout the year ended 31 March 2017. In addition, we adopted the provisions of the new April 2016 code early – it is mandatory for financial periods that start on or after 17 June 2016 but we complied with it during our financial year that started 1 April 2016.

In November 2014, the Board commissioned a formal evaluation of its effectiveness, which was carried out by an external independent body. The principal finding of the external review was that the Board was operating well and that some of its practices were leading in comparison to other organisations, but it also highlighted a number of ways in which we could potentially improve our procedures. One of these was that the identification and effective reporting of risk within the CAA could be improved.

In addition, our Audit Committee conducted its annual assessment of CAA governance against the UK corporate governance code's requirements. The committee also assessed its own work against its terms of reference and reported the results of both assessments to the Board.

The Board will continue to review its performance and that of its members regularly. An internal CAA board effectiveness survey is carried out annually, the most recent one was concluded in February 2017 and discussed at the board meeting on 19 April 2017. The next external independent review is scheduled to take place in late 2017.

You can read the terms of reference of all board committees on our website.

The Board

The Board is made up of the non-executive Chair, four executive members and six independent non-executive members whose roles are similar to those of non-executive directors in a listed company. The Secretary of State for Transport appoints non-executive members on fixed-term contracts and also sets the Chair's objectives.

Our board members must declare all their interests and memberships when they are appointed and throughout their terms of office. We actively and continuously manage any actual or perceived conflicts. Non-executive members of the Board are considered to be independent.

During the reporting period there were the following changes to the Board:

- AVM Richard Knighton resigned on 1 March 2017
- AVM Michael Wigston was appointed on 1 March 2017

Board meetings and attendance

The Board is assisted by three committees:

- Audit Committee - chaired by Graham Ward;
- Remuneration Committee - chaired by David Gray; and
- Nominations Committee - chaired by Dame Deirdre Hutton.

Members' attendance at board and committee meetings is shown below. When invited by the committee's chair they can also attend meetings of committees of which they are not members.

Attendance for the 12 months to 31 March 2017	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Number of meetings held	**11**	**4**	**3**	**1**
Dame D Hutton	11	*3	*3	1
A Haines	11	*2	*3	*1
D Gray	11	N/A	3	1
D King	11	3	N/A	1
AVM R Knighton	10(1)	N/A	N/A	N/A
M Medlicott	11	4	3	N/A
R Moriarty	11	N/A	N/A	N/A
A Steel	10	3 (2)	N/A	N/A
M Swan	10	N/A	N/A	N/A
C Tingle	11	4	N/A	N/A
G Ward	11	4	3	*1
AVM M Wigston	1(3)	N/A	N/A	N/A

* Meetings attended by invited non-members
(1) of the 10 possible meetings prior to his resignation in March 2017
(2) of the 3 possible meetings following her appointment in September 2016
(3) of the 1 possible meeting following his appointment in March 2017

The Board delegates responsibility for operations and management, and the development of strategy and policies to executive members. Executive members and management make regular reports and presentations so that the Board is aware of developments within each business sector. In addition, there is a formal schedule of matters reserved for Board decisions.

We ensure that the Board is given appropriate and timely information in advance of its meetings and that the form and quality of this information enables it to fulfil its responsibilities: maintaining strategic direction, approving major capital expenditure, considering significant financing matters and monitoring our overall performance and key business risks.

Our General Counsel and Secretary is responsible for ensuring that the Board follows correct procedures. As part of this, she makes sure that members are offered training on complying with relevant rules and regulations. She is also regularly available to give members advice.

It is the responsibility of the non-executive members to ensure that board proposals are fully discussed and critically examined. Their different backgrounds and experience complement those of the executive board members and they bring independent judgement to board decisions. They also make up the membership of the Audit, Nominations and Remuneration Committees.

The Secretary of State for Transport did not appoint a senior non-executive member, as he did not believe that this would add value to the CAA, given that we are sponsored by the Department for Transport (DfT) and have no shareholders.

Accountability and audit

Financial reporting

We present a balanced and comprehensible assessment of our position and prospects in the Statement by the Chair, the Statement by the Cheif Executive, the Review of Our Business and the Financial Review, which you can find on pages 2 to 5, 6 to 8, 12 to 19 and 42 to 53. In particular, the financial review gives details of the performance and financial position of each business sector.

For the board members' responsibilities for the financial statements see pages 77 and 78.

Risk management and internal control

The Board is responsible for our systems of risk management and internal control. It also monitors and reviews their effectiveness. The agenda for the board's meetings includes a regular item on risk and control. The aim is to give the Board regular oversight and assurance about the degree of risk control, rather than ad hoc reports when exceptional risks arise.

It is important to note that internal control systems are designed to manage the risk of failure to achieve business objectives but cannot be expected to eliminate them. The systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

We have a robust assessment process for identifying, evaluating and managing our principal financial, operational and compliance risks. It was in place for the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts, and is regularly reviewed by the Board. It complies with the internal control guidance for directors of the UK corporate governance code. See pages 39 to 41 for a detailed description of the principal risks and uncertainties.

The executive members report to the Board on possible control issues that have been brought to their attention by the operational units' early warning mechanisms. In addition, the Audit Committee receives regular reports from our internal auditors, which include recommendations for improvement. The committee then monitors how the recommendations are implemented.

The Board carried out its annual review of the effectiveness of our risk management and internal control systems in June 2017, considering reports and developing appropriate plans and programmes. It confirmed that the necessary actions have been taken to remedy any significant failings and weaknesses that were identified and that it has not been told of material weaknesses in the internal control system relating to financial reporting.

There was substantial assurance that the risk management processes are working well and that there is good progress in the continued development of our risk management framework and approach.

There was, however, only limited assurance that our internal controls are well designed and operating effectively. This is largely due to the lack of integrated monitoring processes and controls, meaning that we rely instead on manual workarounds, interventions and detection controls. The Board believes that the replacement of our current finance and HR systems is a high priority, as the delays in doing so continue to have a major impact on our ability to make improvements in our financial control. In the meantime, the internal audit department conducts quarterly unannounced audits of selected key financial controls.

Viability statement

The Board has made an assessment of our ability to continue to operate and meet our liabilities through to 2021 - the remaining years covered by our current strategic plan. The Board chose this period for its review as there is a reasonable degree of certainty about our regulatory objectives and that we will have sufficient resources to achieve them.

It considered the information in the strategic plan and the approved budget for the financial year ending 31 March 2018, as well as the impact of our Transformation Programme, industry activity and the overall funding model. It also carried out a robust assessment of the principal risks that would threaten our business model, future performance and solvency.

The board members confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due through to 2021.

Going concern

The Board also considered it appropriate to prepare the financial statements on the going concern basis. See page 94 for an explanation in note 1.1 to the accounts.

Compliance statement

We are directed by the Secretary of State for Transport to report on our compliance with the corporate governance code provisions throughout the accounting period. The Board considers that it has complied, throughout the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts, with the April 2016 Financial Reporting Council's UK corporate governance code, except in those areas not deemed appropriate for the CAA, which are disclosed and explained below.

The code includes 18 principles of good governance, 15 of which apply to the CAA. The three that do not apply cover: re-election of directors by shareholders (B7); dialogue with shareholders (E1); and the constructive use of the Annual General Meeting (E2). Of the 15 code provisions that apply to the CAA, the only exception was:

> A4.1: A senior non-executive member was not appointed as it was considered it would not add value to the CAA, which is sponsored by the DfT and has no shareholders. The Secretary of State for Transport has appointed a non-executive Chair and considers her to be independent.

Report by the Audit Committee

Throughout the year ended 31 March 2017 the Audit Committee's members were:

Chair: Graham Ward
David King
Michael Medlicott
Dr Ashley Steel (from September 2016)

We are all independent non-executive board members. The Board has confidence that, given our considerable financial, aviation, regulatory and business experience (as outlined in the committee members' profiles on pages 54 to 57) we have sufficient recent and relevant financial experience to fulfil the committee's functions.

When required I, as committee Chair, invite the CAA Chair, Chief Executive, other senior management and the internal and external auditors to attend meetings.

The Audit Committee's terms of reference

Our terms of reference include the review of the annual financial statements; internal financial control and risk management systems; statutory and other external compliance requirements; as well as the planning, scope and results of both the internal and external audit programmes.

The Board has confirmed that we are carrying out our duties in accordance with our terms of reference, the principles and provisions of the UK corporate governance code, CAA requirements and common practice. This follows the review of our performance that we conducted with the assistance of the internal audit department and our subsequent report to the Board.

Our work this year

We reviewed the significant areas of the Group's critical accounting policies, which you can read in the notes to the financial statements on pages 94 to 134. We particularly focused on:

- **Pensions estimate:** a significant estimate in the financial statements is the valuation of net pension surplus for employees in the CAA Pension Fund. The net pension surplus at 31 March 2017 was £110.8m (2016: £94.2m), an overall increase in the surplus by 17.6% in the past 12 months. The Committee, taking account of the external auditor's review, considered the reasonableness of the assumptions underlying the pension calculations and agreed that the assumptions are within an acceptable range.
- **Accounting principles and policies:** we scrutinised and approved the selection of significant accounting policies and practices that have, or could have, a material effect on the statement of accounts. We particularly considered those relating to the capitalisation and impairment of assets in respect of the Transformation Programme and were satisfied that no changes were required.

We considered whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and if it gives the Secretary of State for Transport the necessary information to assess the CAA's performance, business model and strategy. We reported to the Board that we believe this to be the case.

Audits

We meet regularly with both the internal and external auditors to review internal control and audit procedures. Management also provide us with reports on internal financial controls.

Internal audit

Together with the CAA's Executive Committee, in April 2016 we approved and finalised a formal charter for our internal audit department. This specifies two main activities for the department – risk-based assurance audits and consultancy audits. Our Head of Internal Audit proposes which risk-based assurance audits should be carried out and they are authorised each year by the Committee.

All audits are carried out independently, in accordance with the standards for professional practice of internal auditing, by our internal auditors, as required by the UK corporate governance code. Typically the audits cover specific areas of concern that managers have about procedures and processes. They can be requested on an ad-hoc basis. Often the auditors will include examples of industry good practice in their advice.

The assurance ratings from these audits inform our Head of Internal Audit's report to the committee on governance, risk and control arrangements.

The Internal Audit department has three permanent staff members and, when required, temporary staff and internal secondments.

We regularly assess the effectiveness and independence of the internal audit function, including:

- key internal audit reports;
- stakeholder feedback on the quality of internal audit activity;
- a formal annual review of the in-house team;
- an annual private discussion between Head of Internal Audit and committee members;
- the results of the risk assessment of the annual Internal Audit department;
- internal audit's compliance with prevailing professional standards; and
- the implementation of internal audit's recommendations.

We will also be reviewing a quality assessment of the internal audit function. This will be conducted by external assessors in late 2017 and will report to the Audit Committee in early 2018.

External auditor

Every year we assess the effectiveness of our external audit by reviewing partner rotation, audit and non-audit fee levels and trends, audit plans, reports, other communications, and independence. As a result of this year's review, which we carried out according to the Financial Reporting Council's "Audit Quality: Practice Aid for Audit Committees", we were satisfied with all aspects of our external auditors' work.

The external auditors are appointed on a three-year basis, at the end of which we carry out a full tender process. We last did this in 2014 and are doing so again in 2017. We expect to have a new external audit contract in place and ready to start on 1 September.

Our policy is not to exclude our external audit firm from providing additional non-audit services, as long as this does not impair the independence and objectivity of the audit. Moreover, the external auditor cannot: provide a service which results in it auditing its own firm's work; make management decisions for the CAA; create a common interest; or act as an advocate for the CAA. In addition, it would not be in our interests to engage our external auditor to carry out services where there is a conflict of interest with one of its other clients and we do not do so.

Non-audit services which are permitted by the Ethical Standards for Auditors issued by the Financial Reporting Council may be provided by the external auditors only after pre-approval by the Audit Committee. Non-audit work performed by the auditor is awarded under the Authority's normal procurement procedures and is monitored by the Head of Procurement. The Audit Committee monitors the application of these procedures and the independence of the external auditor. £0.017m non-audit fees were paid to the external auditor during the year; these were in respect of audit-related reviews of the CAA's Ofcom Return and Whole of Government Accounts Return and an audit of CAA International Limited's Malaysia Branch (2016: £0.017m for the same services).

The current external auditor is PricewaterhouseCoopers LLP. Their engagement leader is Jonathan Lucas-Lucas, who signs the audit opinion on their behalf. This is the second year that he has held this role on our audit

Graham Ward CBE
Chair, Audit Committee
21 June 2017

Report by the Nominations Committee

Throughout the year ended 31 March 2017 the Nominations Committee's members were:

Chair: Dame Deirdre Hutton
David Gray
David King

A representative of the Department for Transport (DfT) is invited to attend. When we are not considering the posts of CAA Chair or Chief Executive, I may invite the Chief Executive to attend. If our own appointments are being considered, committee members do not attend that part of the meeting. We met once during the year ended 31 March 2017.

In addition to our general duties, we aim to continue to improve diversity on the board and look for opportunities to achieve this. While we are limited in the short to medium-term by the cycle of our non-executive appointments, we will take the opportunity to improve the diversity of our board whenever we consider future appointments.

See pages 54 to 57 for committee members' profiles.

The Nominations Committee's terms of reference

We consider the appointment of executive and non-executive members and, where appropriate, make recommendations to the relevant appointing body when that is not us. We are also required to carry out a regular review of the board's composition and size and recommend changes as necessary.

When considering this, we endeavour to ensure there is an overall balance of skills, knowledge, experience and diversity amongst the board's members and that any nominations or appointments are made against objective criteria in the description of the role and in accordance with the agreed appointment process. We also ensure that new non-executive members receive an appropriate induction.

Appointments to the CAA Board

The way board members are appointed is set out in the Civil Aviation Act 1982, as amended by the Civil Aviation Act 2012. In summary, they are:

- the Secretary of State for Transport appoints the CAA Chair;
- the Secretary of State appoints the non-executive members on the basis of recommendations made following an OCPA aligned process conducted by the CAA and DfT;
- the non-executive members appoint the Chief Executive, subject to approval by the Secretary of State; and
- the Chief Executive appoints other executive board members, subject to the approval of the Chair and at least one other non-executive member.

Board members' contracts

All current non-executive members have fixed-term contracts of between three and five years, with a maximum term of 10 years.

Most of our executive members are on open-ended, permanent employment contracts. The exception is Andrew Haines, who is on a fixed-term contract. All have a termination notice period of six months or less.

We review the desirability of fixed-term contracts when the expiry dates are approaching.

CAA members' terms

CAA member	Date of first appointment	Date of expiry
Dame D Hutton	14 April 2009	31 July 2019
A Haines	6 August 2009	5 August 2018
D Gray	16 November 2009	15 November 2019
D King	1 September 2013	31 August 2019
M Medlicott	1 February 2010	31 January 2020
R Moriarty	12 January 2016	N/A
Dr A Steel	1 September 2015	31 August 2018
M Swan	1 March 2009	N/A
C Tingle	25 January 2016	N/A
G Ward	1 September 2013	31 August 2019
AVM M Wigston	1 March 2017	Ex officio appointment

There were two reappointments during 2016/17. Following decisions taken in 2015/16, both Graham Ward and David King commenced their second terms on the CAA Board following their reappointment by the Secretary of State at our request.

During 2016/17, we invited Andrew Haines to serve a further year with the CAA beyond August 2017. He accepted and his term will now expire in August 2018.

There was one change to the board membership during the year. AVM Michael Wigston replaced AVM Richard Knighton as Assistant Chief of Air Staff and therefore became a non-executive member of the CAA Board on an ex-officio basis.

Dame Deirdre Hutton DBE
Chair, Nominations Committee
21 June 2017

Report by the Remuneration Committee

Throughout the year ended 31 March 2017 the Remuneration Committee's members were:

Chair: David Gray
Michael Medlicott
Graham Ward

We are all independent non-executive board members. The CAA Chair and Chief Executive are also invited when we are not discussing matters that apply to them.

See pages 54 to 57 for committee members' profiles.

The Remuneration Committee's terms of reference

We are responsible for ensuring that there are effective performance management arrangements in place for the CAA Chair and executive board members and for approving any salary changes and performance-related payments for executive board members. The responsibility for the remuneration of non-executive board members, including the CAA Chair, lies with the Secretary of State for Transport.

We follow the provisions of the UK corporate governance code (see our Corporate Governance statement on pages 58 to 64) and comply with the Directors' Remuneration Regulations 2002, as applicable to a public corporation. We also apply the principles of good governance to executive board members' remuneration.

Remuneration policy

Our policy is to reward executive members appropriately so we can recruit and retain members who are motivated to deliver our objectives effectively. We review executive members' remuneration every year.

Salaries and fees

When deciding on salaries, fees and the total package of benefits, we look at what the relevant market considers acceptable for board members of the appropriate calibre.

The fees that we pay non-executive board members may vary from year to year because of per diem fees for serving on licensing panels, with the exception of the Chair.

Performance-related pay

We have a long-established policy of considering performance-related payments for executive board members. The maximum performance-related payment is normally 25% of basic annual salary for the Chief Executive and 20% of basic annual salary for the other executive board members. Performance-related payments are not pensionable.

We reserve the right to recover performance-related payments where, following payment, it is discovered that there is material evidence of a criminal act, misconduct, dishonesty or other deliberate wrongdoing which, had we been aware of such evidence at the time, would have influenced our decision to make the payment. Performance-related payments are agreed on that basis.

Benefits

Benefits provided to the executive board members predominantly relate to company cars, accommodation and health cover.

Board members' emoluments

Emoluments (excluding pension arrangements) of the Chair and board members for the financial year ended 31 March 2017 were as follows:

	Salary and fees	Benefits	2016/17 performance-related payments	2016/17 total	2015/16 total
	£'000	£'000	£'000	**£'000**	£'000
Dame D Hutton	133.4	0.0	0.0	**133.4**	130.0
A Haines	289.7	0.0	66.7	**356.4**	350.7
R Moriarty	193.2	1.0	37.0	**231.2**	43.9
M Swan[1]	213.4	36.8	33.0	**283.2**	273.8
C Tingle	178.2	3.8	30.5	**212.5**	34.7
D Gray[2]	28.7	0.0	0.0	**28.7**	25.0
D King	24.2	0.0	0.0	**24.2**	25.2
M Medlicott[3]	25.0	0.0	0.0	**25.0**	26.9
Dr A Steel	22.0	0.0	0.0	**22.0**	12.8
G Ward[4]	31.9	0.0	0.0	**31.9**	26.1
AVM M Wigston[5]	0.0	0.0	0.0	**0.0**	0.0
R Jackson[6]	0.0	0.0	0.0	**0.0**	293.3
C Jesnick[6]	0.0	0.0	0.0	**0.0**	416.3
AVM R Knighton[5]	0.0	0.0	0.0	**0.0**	0.0
I Osborne[7]	0.0	0.0	0.0	**0.0**	61.2
Board members' emoluments as per the financial statements	**1,139.7**	**41.6**	**167.2**	**1,348.5**	**1,719.9**

1. M Swan became Group Director Safety and Airspace Regulation in July 2013 following the merger of the Safety Regulation and Airspace Policy Groups. This wider role requires presence at both London and Gatwick offices resulting in additional accommodation and travel costs. Mr Swan receives additional payments to cover these costs and these payments are included within the benefits column of the table. Salary and fees include an element of grossing up to cover the tax liabilities on the additional payments.
2. D Gray's salary includes remuneration for his role as Chair of the Remuneration Committee.
3. M Medlicott's salary includes remuneration for his role as Chair of the Air Travel Trust Fund.
4. G Ward's salary includes remuneration for his role as Chair of the Audit Committee.
5. AVM M Wigston and AVM R Knighton are MoD nominees holding ex officio posts with no remuneration.
6. R Jackson and C Jesnick received compensation payments on their departures from the CAA during 2015/16. This was in keeping with their contracts of employment.
7. I Osborne resigned with effect from 31 July 2015.

In the event of termination of a member's contract, the executive board members would receive compensation on broadly similar terms to those applicable to a CAA employee. Non-executive board members would not be eligible to receive termination compensation.

Pension arrangements

Executive board members who were formerly employees of the CAA immediately prior to their appointment to the board may continue to be members of the CAA Pension Scheme (CAAPS), which is a defined benefit scheme governed by an independent trust. You can find a description of the scheme on pages 120 to 126 in note 18 to the consolidated financial statements.

These executive board members accrue pension entitlement in the year at an annual rate of 1/59 of final pensionable salary (subject to a cap on pensionable pay increases), up to a limit of 2/3 final pensionable salary, in exactly the same manner as other CAA employees who are members of CAAPS. CAAPS has been closed to new members since December 2012.

From April 2013 a cap on pensionable pay increases was introduced. In exactly the same manner as other employees who are impacted by the pensionable pay cap in CAAPS, executive board members may also join our defined contribution (DC) pension scheme. Mark Swan has opted to do this.

CAAPS pension payments increase in line with the retail price index for service accrued up to 30 June 2015 and in line with the consumer price index for service accrued after that date. Death in service cover of four times salary and spouse's pension at the rate of 2/3 of the member's pension are provided at death. As at 31 March 2017, Andrew Haines and Mark Swan were members of CAAPS.

Chris Tingle and Richard Moriarty were members of our DC scheme. Like other employees who are members of the CAA's DC scheme, these executive board members can elect to pay 3%, 5%, or 6% of their pensionable pay into this scheme and receive a contribution of 6%, 10% or 12% respectively from the CAA.

Board members’ pension arrangements - CAAPS

	Accrued pension as at 31/03/17	Increase in accrued pension during the year	CAA contribution during the year	Board member’s contribution during the year*
	£’000	£’000	£’000	£’000
A Haines	37.4	5.9	81.7	0.0
M Swan	24.4	3.6	49.5	0.0

The accrued pensions are the amounts that would be paid under CAAPS if the board member left service at the relevant date.

Board members’ pension arrangements - DC scheme

	CAA contribution during the year	Board member’s contribution during the year*
	£’000	£’000
R Moriarty	39.0	0.0
M Swan	6.3	0.0
C Tingle	33.3	0.0

* The CAA section of the CAAPS and the CAA DC scheme operate a salary sacrifice arrangement for all of the above. Board members were members of this arrangement and so have not directly paid contributions to the scheme since the commencement of the salary sacrifice arrangement, or since joining the CAA if later. The amount of salary sacrificed is equivalent to the employee pension contribution paid and was equal to £15,718 in relation to Andrew Haines, £15,000 in respect of Richard Moriarty, £11,629 in relation to Mark Swan, and £11,100 in respect of Chris Tingle.

David Gray
Chair, Remuneration Committee
21 June 2017

Statement of Board Members' Responsibilities

The board members are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

The Accounts Direction issued by the Secretary of State for Transport requires the board members to prepare financial statements for each financial year. Under the Accounts Direction the board members have prepared the Group and CAA financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under the Accounts Direction the board members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the CAA and of the profit or loss of the Group and of the CAA for that period. In preparing the financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and CAA will continue in business.

The board members are responible for keeping adequate accounting records that are sufficient to show and explain the Group's and the CAA's transactions and disclose with reasonable accuracy at any time the financial position of the Group and of the CAA and enable them to ensure that the financial statements comply with the Civil Aviation Act 1982 and the Accounts Direction made thereunder by the Secretary of State for Transport.

The board members are also responsible for safeguarding the assets of the Group and the CAA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board members are responsible for the maintenance and integrity of the CAA's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each board member in office at the date the annual report is approved:

- so far as the board member is aware, there is no relevant audit information of which the Group and the CAA's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a board member in order to make themselves aware of any relevant audit information and to establish that the Group's and the CAA's auditors are aware of that information.

By order of the Board

Kate Staples

Kate Staples
General Counsel and Secretary
21 June 2017

Independent auditors' report to the Secretary of State for Transport

Report on the financial statements

Our opinion

In our opinion:

- Civil Aviation Authority's Group ("the Group") financial statements and Authority financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Authority's affairs as at 31 March 2017 and of the Group's profit and the Group's and the Authority's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Authority's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Civil Aviation Act 1982 and the Report and Accounts Directions made thereunder by the Secretary of State for Transport.

What we have audited

The Civil Aviation Authority's financial statements comprise:

- the Group's Income Statement for the year ended 31 March 2017;
- the Group's and the Authority's Statements of Comprehensive Income for the year ended 31 March 2017;
- the Group's and the Authority's Statements of Financial Position as at 31 March 2017;
- the Group's and the Authority's Statements of Changes in Equity for the year ended 31 March 2017;
- the Group's and the Authority's Statements of Cash Flows for the year ended 31 March 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and the requirements of the Civil Aviation Act 1982 and the Report and Accounts Directions made thereunder by the Secretary of State for Transport.

Our audit approach

Overview

- Overall Group materiality: £2.5m which represents 2% of total revenues.
- The Group comprises the Civil Aviation Authority and two subsidiary companies. We performed an audit of the complete financial information of all three entities.
- Capitalisation and valuation of intangible assets capitalised as a result of the Transformation Programme.
- Valuation of defined benefit pension scheme assets and liabilities.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the board members made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board members that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Capitalisation and valuation of intangible assets capitalised as a result of the Transformation Programme *See note 10 'Intangible assets' in the Group's notes to the consolidated financial statements.* The Group is investing in its systems and operations as a result of an ongoing Transformation Programme. During the year £2m has been capitalised as intangible assets (predominantly internally developed software costs) and in total £6m is recorded in the balance sheet in relation to the Transformation Programme. We considered the risks to be in relation to management's judgement as to whether the costs should be capitalised and the valuation of amounts already capitalised. The valuation of items already capitalised is supported by an annual impairment review performed on a value in use basis. No impairment charge has been recorded against these balances in the current financial year. The value in use assessment to support the continued carrying value for the capitalised Transformation Programme involves the application of subjective judgement about future performance. Certain assumptions made by management in the impairment review are considered by the engagement team to be key areas of judgement, notably the full time equivalent (FTE) saving and the discount rates applied.	We verified the Transformation Programme has been accounted for in accordance with IAS 38 'Intangible assets'. We tested a sample of costs which were capitalised. We found that these costs were appropriately capitalised in line with the standard. We reviewed the impairment assessment performed by management for the intangible assets in relation to the Transformation Programme. We evaluated the Group's future cash flow forecasts and the process by which they were drawn up, and tested the underlying value in use calculations. We evaluated: ▪ the board members' key assumptions for the forecasted benefits (the FTE savings) resulting from a sample of projects in the Transformation Programme; and ▪ the discount rate by assessing the cost of capital of the Authority, with reference to the target rate of return set by the Secretary of State for Transport and historic trend, and assessed the assumptions used for this assessment. We determined that it was unlikely that a movement in these key assumptions would result in a material impairment.

Area of focus	How our audit addressed the area of focus
Valuation of defined benefit pension scheme assets and liabilities *See note 18 'Retirement benefit obligations' in the Group's notes to the consolidated financial statements.* The net surplus on the CAA Pension Scheme, a defined benefit pension scheme, at 31 March 2017 was £111m (2016: £94m). The defined benefit obligations at 31 March 2017 were £2,224m (2016: £2,083m). This is against total scheme assets valued at £2,335m (2016: £2,178m). This represents a significant balance in the Authority's financial statements. During the financial year an additional management buy-in of the CAA Pension Scheme was completed to further insure the benefits of its members. We identified that this transaction may impact the valuation of the net retirement benefit asset at 31 March 2017. The CAA Pension Scheme was formally revalued as at 31 December 2015 during the financial year. We identified that this revaluation may impact the valuation of the net retirement benefit asset at 31 March 2017. The assumptions used in the valuation of the defined benefit obligation represent significant management estimates. The key assumptions applied are disclosed in note 18 of the Group's financial statements under 'The principal actuarial assumptions used for the purpose of IAS 19'.	We used our pension experts to satisfy ourselves that the assumptions used in calculating the pension scheme liabilities were appropriate, including confirming that salary increases and mortality rate assumptions were consistent with relevant national and industry benchmarks. We considered whether the discount and inflation rates used in the valuation of the pension liabilities were consistent with our internally developed benchmarks. In each case we determined the assumptions made by management to be reasonable in light of the available evidence. We agreed membership data used by the actuary to calculate the pension liabilities back to payroll records without exception. Consistent with the year end assumptions we used our pension experts to satisfy ourselves that the approach and assumptions used in the valuation of the additional management buy-in of the CAA Pension Scheme were appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured with a parent Authority i.e. the Civil Aviation Authority (the 'CAA' or the 'Authority'), and two subsidiary companies, Air Safety Support International Limited ('ASSI') and CAA International Limited ('CAAi'). We performed full scope audit work over all three reporting units.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£2.5m (2016: £2.2m)
How we determined it	2% of total revenues
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted measure when auditing a public corporation such as the Authority. We note that revenue is a key measure used both internally by management and, we believe, externally by entities regulated by the Authority in evaluating the performance of the Group, particularly given that all surpluses are re-invested.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £125,000 (2016: £110,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The board members have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the Authority were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the board members' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the board members' statement, the board members have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and the Authority have adequate resources to remain in operation, and that the board members intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the board members' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Authority's ability to continue as a going concern.

Other required reporting

ISAs (UK & Ireland) reporting	
As a result of the board members' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the Annual Report is: ▪ materially inconsistent with the information in the audited financial statements; or ▪ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Authority acquired in the course of performing our audit; or ▪ otherwise misleading.	We have no exceptions to report.
The statement given by the board members on pages 77 and 78, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and the Authority's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Authority acquired in the course of performing our audit.	We have no exceptions to report.
The section of the Annual Report on pages 65 to 68, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The board members' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group	
As a result of the board members' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
the board members' confirmation on pages 62 to 63 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
the board members' explanation on page 64 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate governance statement

The Authority voluntarily prepares a corporate governance statement in accordance with the provisions of the UK Corporate Governance Code. The board members have requested that we review the parts of the Corporate Governance statement relating to ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Authority were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the board members

As explained more fully in the Statement of Board Members' Responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Secretary of State for Transport in accordance with the Act and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Authority's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the board members; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the board members' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 June 2017

Financial Statements

Income Statement

For the years ended 31 March

	Note	Group 2017 £'000	Group 2016 £'000
Revenue	2	**135,818**	132,619
Operating costs			
Employment costs	3	**(76,194)**	(82,303)
Services and materials		**(17,759)**	(18,115)
Repairs and maintenance		**(3,936)**	(2,872)
Research	6	**(271)**	(860)
Depreciation, amortisation and disposals	6, 9, 10	**(2,581)**	(4,041)
Other (losses) / gains - net	6	**(338)**	62
Other expenses		**(29,826)**	(29,922)
Net operating costs		**(130,905)**	(138,051)
Operating profit / (loss)		**4,913**	(5,432)
Finance income	7	**3,369**	10,934
Finance costs	7	**(86)**	(121)
Finance income - net		**3,283**	10,813
Profit before income tax		**8,196**	5,381
Income tax charge	8	**(1,694)**	(1,297)
Profit for the financial year	14	**6,502**	4,084

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 profit for the Authority for the year was £13,667k (2016: £814k) including dividend income from a subsidiary of £10m.

The supporting notes on pages 94 to 134 are an integral part of these financial statements.

Statements of Comprehensive Income

For the years ended 31 March

	Note	**Group 2017 £'000**	Group 2016 £'000	**Authority 2017 £'000**	Authority 2016 £'000
Profit for the financial year		**6,502**	4,084	**13,667**	814
Other comprehensive (losses) / income:					
Unrealised foreign exchange differences		**285**	(296)	**(1)**	-
Movement on deferred tax relating to unrealised foreign exchange differences		**(49)**	-	**-**	-
Actuarial gain / (loss) on post employment benefit obligations	14,18	**13,367**	(236,312)	**13,367**	(236,312)
Movement on deferred tax relating to post employment benefit obligations	14	**(2,272)**	47,262	**(2,272)**	47,262
Effect of tax rate changes relating to post-employment benefit obligations		**942**	1,884	**942**	1,884
Total comprehensive income / (losses) for the year		**18,775**	(183,378)	**25,703**	(186,352)

Statements of Financial Position

As at 31 March

	Note	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**7,606**	9,470	**7,484**	9,456
Intangible assets	10	**7,444**	5,411	**6,576**	4,394
Investments in subsidiaries	11	**-**	-	**-**	-
Trade and other receivables	12	**158**	-	**122**	-
Deferred income tax assets	17	**378**	376	**398**	341
Retirement benefit assets	18	**110,849**	94,215	**110,849**	94,215
Total non-current assets		**126,435**	109,472	**125,429**	108,406
Current assets					
Trade and other receivables	12	**19,316**	17,490	**13,159**	12,642
Derivative financial instruments	20	**27**	-	**27**	-
Current income tax assets	17	**-**	524	**-**	-
Cash and cash equivalents	13	**13,940**	9,633	**13,727**	9,501
Total current assets		**33,283**	27,647	**26,913**	22,143
Total assets		**159,718**	137,119	**152,342**	130,549
Capital and reserves					
Retained earnings	14	**104,453**	85,678	**95,632**	69,929
Total capital and reserves		**104,453**	85,678	**95,632**	69,929
Total equity		**104,453**	85,678	**95,632**	69,929
Liabilities					
Non-current liabilities					
Borrowings	15	**727**	1,905	**727**	1,905
Trade and other payables	16	**1,371**	1,605	**1,371**	1,605
Deferred income tax liabilities	17,18	**18,844**	16,959	**18,844**	16,959
Retirement benefit obligations	18	**1,627**	1,540	**1,627**	1,540
Provisions for other liabilities and charges	19	**40**	-	**-**	-
Total non-current liabilities		**22,609**	22,009	**22,569**	22,009
Current liabilities					
Borrowings	15	**1,178**	1,142	**1,178**	1,142
Trade and other payables	16	**30,452**	27,836	**32,399**	37,093
Derivative financial instruments	20	**-**	279	**-**	279
Current income tax liabilities	17	**850**	-	**467**	-
Retirement benefit obligations	18	**97**	97	**97**	97
Provisions for other liabilities and charges	19	**79**	78	**-**	-
Total current liabilities		**32,656**	29,432	**34,141**	38,611
Total liabilities		**55,265**	51,441	**56,710**	60,620
Total equity and liabilities		**159,718**	137,119	**152,342**	130,549

The supporting notes on pages 94 to 134 are an integral part of these financial statements. The financial statements on pages 89 to 93 were authorised for issue by the Board on 21 June 2017 and were signed on its behalf.

Andrew Haines
Chief Executive

Christopher Tingle
Chief Operating Officer

Statements of Changes in Equity

	Note	Group retained earnings £'000	Authority retained earnings £'000
Balance as at 1 April 2015	14	269,056	256,281
Profit for the financial year	14	4,084	814
Unrealised foreign exchange differences		(296)	-
Actuarial loss on post-employment benefit obligations	18	(236,312)	(236,312)
Movement on deferred tax relating to post-employment benefit obligations	14	47,262	47,262
Effect of tax rate changes relating to post-employment benefit obligations		1,884	1,884
Balance as at 31 March 2016		85,678	69,929
Balance as at 1 April 2016		**85,678**	**69,929**
Profit for the financial year	14	**6,502**	**13,667**
Unrealised foreign exchange differences		**285**	**(1)**
Movement on deferred tax relating to unrealised foreign exchange differences		**(49)**	**-**
Actuarial gain on post-employment benefit obligations	18	**13,367**	**13,367**
Movement on deferred tax relating to post-employment benefit obligations	14	**(2,272)**	**(2,272)**
Effect of tax rate changes relating to post-employment benefit obligations		**942**	**942**
Balance as at 31 March 2017		**104,453**	**95,632**

Statements of Cash Flows

For the years ended 31 March

	Note	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Cash flows from operating activities					
Cash generated from operations	22	**8,414**	2,755	**8,382**	2,152
Interest paid		**(86)**	(119)	**(86)**	(121)
Income tax received / (paid)		**185**	(190)	**3**	-
Net cash generated from operating activities		**8,513**	2,446	**8,299**	2,031
Cash flows from investing activities					
Purchase of property, plant and equipment		**(422)**	(730)	**(297)**	(220)
Disposal of property, plant and equipment		**6**	-	**-**	-
Purchase of intangible assets		**(2,687)**	(2,122)	**(2,671)**	(2,122)
Interest received		**39**	83	**37**	53
Net cash used in investing activities		**(3,064)**	(2,769)	**(2,931)**	(2,289)
Cash flows from financing activities					
Repayments of borrowings		**(1,142)**	(1,108)	**(1,142)**	(1,108)
Net cash used in financing activities		**(1,142)**	(1,108)	**(1,142)**	(1,108)
Net increase / (decrease) in cash and cash equivalents		**4,307**	(1,431)	**4,226**	(1,366)
Cash and cash equivalents at beginning of year		**9,633**	11,064	**9,501**	10,867
Cash and cash equivalents at end of year	13	**13,940**	9,633	**13,727**	9,501

Notes to the Consolidated Financial Statements

1. General information and significant accounting policies

The Civil Aviation Authority (CAA) is a public corporation in the UK, 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, consumer protection and aviation security. The Group comprises the CAA (Authority) together with its subsidiary undertakings Air Safety Support International Limited and CAA International Limited.

The principal accounting policies 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, the Civil Aviation Act 2012 and the Accounts Directions for the year ended 31 March 2017 authorised 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) being stated at fair value; year on year movements are taken through the Income Statement or Statement of Other Comprehensive Income.

The preparation of financial statements in conformity with IFRSs adopted by the 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 1.19.

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 Group for the first time in the current year and have been adopted by the Group with no impact on the Group's accounting policies or on its results or net assets included within these financial statements:

- Annual improvements to IFRSs 2012-2014 Cycle;
- Amendment to IAS 1 'Presentation of financial statements'; and
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'.

The following standards, amendments and interpretations to existing standards, issued by the International Accounting Standards Board (IASB) and endorsed by the EU, are effective for the first time in the current year but are either not relevant or have no material impact on these financial statements:

- Amendments to IFRS 11 'Joint arrangements';
- Amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture'; and
- Amendments to IAS 27 'Separate financial statements'; and
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures'.

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 for Transport.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies 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 Executive Committee. The Executive Committee 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 pounds sterling, which is the Group's functional and presentational currency.

(b) *Transactions and balances*

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 resulting from the movement in the fair value of foreign currency derivative instruments are recognised in the Statement of Comprehensive Income. All other foreign exchange gains and losses are presented in the Income Statement within 'Other (losses) / gains-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, 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 costs 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 assets' costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	10-30 years
Leasehold buildings	over the remainder 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 and amortisation' 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

Intangible assets are stated at historic cost less amortisation. Historic cost includes expenditure that is directly attributable to the generation of the items. Subsequent costs are included in the asset's carrying amount, or recognised as separate assets, 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 maintenance costs are charged to the Income Statement during the financial period in which they are incurred.

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

Software and development costs	5-10 years
Intellectual property	5 years

Assets in the course of construction are not amortised.

1.7 Impairment of non-financial assets

Assets that are subject to depreciation 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 its value in use. For the purposes of assessing impairment, assets are separately distinguished 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 Financial assets

1.8.1 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*

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*

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.

1.8.2 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. 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 (losses) / gains-net' in the period in which they arise.

Impairment testing of trade receivables is described in note 1.10.

1.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into. These are subsequently remeasured at their fair value and the gain or loss arising is recognised in the Income Statement within 'Finance income-net'.

1.10 Trade receivables

Trade receivables are recognised at fair value 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 carrying amount of trade receivables 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.

1.11 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.

1.12 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.

1.13 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 established 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 profits 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 differences associated with the investment, including dividend policy, is controlled by the Group.

1.14 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) is 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 (note 18)*

The Group has defined benefit and defined contribution retirement benefit plans, and an unfunded scheme for past Board members.

The Group has two defined contribution plans, one in which contributions are paid into an independently administered fund and a second where contributions are paid to the Civil Service Pension Plan following the transfer of responsibility for regulating aviation security from the Department for Transport to the Civil Aviation Authority as from 1 April 2014.

The defined benefit plan, 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 plan was closed to new entrants on 30 November 2012. The asset recognised in the Statement of Financial Position 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 Income Statement in accordance with the advice of a professionally qualified actuary. A current and a non-current liability are held in the Statement of Financial Position 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.

1.15 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 at the balance sheet date, and the risks specific to the obligation. The movement in the provision is recognised within 'Finance income - net'.

1.16 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 accrued income 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 13 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.

(b) *Eurocontrol service charges*

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

(c) *Other service charges*

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.

1.17 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. Lease rental charges for vehicle agreements entered into from 2012 are reimbursed by the member of staff responsible for each vehicle.

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.

1.18 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.

1.19 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.

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 and Airspace Regulation, Consumers and Markets, and Aviation Security, in addition to that derived from 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 (DfT), disclosure is also given regarding revenue analysed between statutory scheme charges and other revenue.

Included within Miscellaneous Services are grants from the DfT amounting to £2,055k during the year (2016: £2,069k), of which £353k relates to the release of a grant received for assuming control of the Aviation Security function on behalf of the DfT (2016: £353k) and £1,702k relates to work undertaken by ASSI Limited on the behalf of the DfT (2016: £1,719k). 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 2017 income of £808k has been deferred (2016: £1,320k deferred).

2. Segment information (continued)

The segment information for the year ended 31 March 2017 is as follows:

	Safety & Airspace Regulation	Consumers & Markets	Aviation security	Regulatory Sector subtotal	UK en route Air Traffic Services	CAA International	Miscellaneous Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue								
Statutory and scheme charges	56,491	14,139	8,953	79,583	-	-	-	79,583
Eurocontrol service charges	-	-	-	-	13,656	-	-	13,656
Other revenue	1,023	1,648	-	2,671	-	17,238	22,670	42,579
Total revenue	57,514	15,787	8,953	82,254	13,656	17,238	22,670	135,818
Operating costs (excluding IAS 19 pension scheme adjustments	58,643	14,047	8,510	81,200	13,153	13,690	22,799	130,842
Profit / (loss) before IAS19 adjustments	(1,129)	1,740	443	1,054	503	3,548	(129)	4,976
IAS 19 pension scheme adjustments	(31)	(6)	(5)	(42)	-	(4)	(17)	(63)
Operating profit / (loss)	(1,160)	1,734	438	1,012	503	3,544	(146)	4,913
Profit / (loss) before income tax	528	2,024	718	3,270	503	3,735	688	8,196

A reconciliation of operating profit to profit before income tax is provided as follows:	£'000
Adjusted operating profit for reportable segments	4,913
Finance income	3,369
Finance costs	(86)
Profit before income tax	**8,196**

2. Segment information (continued)

The comparable segment information for the previous year, ended 31 March 2016, is as follows:

	Safety & Airspace Regulation	Consumers & Markets	Aviation Security	Regulatory Sector subtotal	UK en route Air Traffic Services	CAA International	Miscellaneous Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue								
Statutory and scheme charges	55,917	13,652	8,545	78,114	-	-	-	78,114
Eurocontrol service charges	-	-	-	-	13,325	-	-	13,325
Other revenue	1,166	2,279	-	3,445	-	15,738	21,997	41,180
Total revenue	57,083	15,931	8,545	81,559	13,325	15,738	21,997	132,619
Operating costs (excluding IAS 19 pension scheme adjustments)	59,936	14,983	8,701	83,620	12,979	12,547	25,957	135,103
(Loss) / profit before IAS 19 adjustments	(2,853)	948	(156)	(2,061)	346	3,191	(3,960)	(2,484)
IAS 19 pension scheme adjustments	(1,446)	(334)	(252)	(2,032)	-	(161)	(755)	(2,948)
Operating (loss) / profit	(4,299)	614	(408)	(4,093)	346	3,030	(4,715)	(5,432)
Profit / (loss) before income tax	1,008	1,837	516	3,361	346	3,619	(1,945)	5,381

A reconciliation of operating loss to profit before income tax is provided as follows:	£'000
Adjusted operating loss for reportable segments	(5,432)
Finance income	10,934
Finance costs	(121)
Profit before income tax	5,381

3. Employment costs

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

	Note	Group 2017 £'000	Group 2016 £'000
Wages and salaries		**51,232**	51,943
Social security costs		**5,878**	5,343
Defined benefit pension plan costs	18	**15,700**	19,339
Defined contribution pension plan costs	18	**1,631**	1,274
Unfunded pension plan costs	18	**184**	40
Other employee benefits expense		**1,569**	4,364
Total employment costs		**76,194**	82,303

Other employee benefits expenses include costs of relocation, overseas accommodation and taxes, car leasing and allowance costs.

The monthly average number of employees (including executive members) during the year was:

	Group 2017 Year end	Group 2017 Average	Group 2016 Year end	Group 2016 Average
By business segment				
Safety & Airspace Regulation	**498**	**477**	450	482
Consumers & Markets	**79**	**82**	83	91
Aviation Security	**83**	**79**	80	83
CAA International	**53**	**54**	53	52
Miscellaneous Services	**251**	**235**	245	260
Total employees	**964**	**927**	911	968

4. Board members' and key management personnel emoluments

Board member emoluments	Group 2017 £'000	Group 2016 £'000
Salaries and fees	**1,140**	1,177
Benefits	**42**	49
Performance related payments	**167**	112
Compensation for loss of office	**-**	382
Emoluments excluding pension contributions	**1,349**	1,720
Pension contributions	**210**	226
Pension payments to past board members	**95**	95
Board member emoluments	**1,654**	2,041

Details of aggregate emoluments for each of the 10 board members (2016: 13) are included in the table above. The Report by the Remuneration Committee provides details for each board member.

Key management personnel emoluments	Group 2017 £'000	Group 2016 £'000
Salaries and fees	**905**	1,035
Benefits	**6**	4
Emoluments excluding pension contributions	**911**	1,039
Pension contributions	**193**	212
Key management personnel emoluments	**1,104**	1,251

There were 6 employees considered to be key management personnel in the year (2016: 7).

There had been no decision made on whether there will be any performance related payments to key management personnel at the date of the signing of these financial statements (2016: nil).

In the prior period, in addition to the costs shown above, key management personnel services are provided by third parties. Details of the transactions and balances with these providers are set out in note 25. In the current period no key management personnel services are provided by third parties.

5. Auditors' remuneration

	Group 2017 £'000	Group 2016 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**88**	95
Audit of subsidiary company financial statements	**14**	14
Audit of the Group's Malaysia branch financial statements	**13**	13
Audit related assurance services	**4**	4
Total auditors' remuneration	**119**	126

6. Profit for the year

Profit for the year has been arrived at after charging / (crediting):

	Note	Group 2017 £'000	Group 2016 £'000
Net foreign exchange losses / (gains) on operating activities		**338**	(62)
Total foreign exchange losses / (gains)		**338**	(62)
Operating lease payments:			
Properties (included within services and materials)		**7,100**	7,219
Vehicles (shown within employment costs and other expenses)		**14**	23
Total operating lease payments		**7,114**	7,242
Depreciation, amortisation and disposals:			
Depreciation on property, plant and equipment	9	**2,286**	2,971
Grant released on property, plant and equipment	16	**(212)**	(212)
Amortisation of intangible fixed assets	10	**654**	560
Grant released on intangible fixed assets	16	**(141)**	(141)
(Profit) / loss on disposal of property, plant and equipment	9	**(6)**	19
Loss on disposal of software and development costs	10	**-**	844
Total depreciation, amortisation and disposals		**2,581**	4,041

(Profits) / losses on disposal are shown within 'Depreciation, amortisation and disposals'.

The Department for Transport provided £1,806,804 of cash resources in connection with the transfer of responsibility for the regulation of the aviation security function, which is released on a systematic basis over the lives of the assets to which the resources were applied (see note 16).

Research expenditure (all in respect of safety regulation):	Group 2017 £'000	Group 2016 £'000
Internal costs (included within employment costs)	**1,289**	1,362
External costs	**271**	860
Total research expenditure	**1,560**	2,222

All research costs are shown within 'Other expenses'.

7. Finance income and costs

	Note	Group 2017 £'000	Group 2016 £'000
Finance income:			
Interest on short-term deposits		**39**	53
Other interest income		**-**	4
Employee benefit scheme - expected return on assets	18	**70,067**	80,361
Employee benefit scheme - interest charge on liabilities	18	**(66,737)**	(69,484)
Total finance income		**3,369**	10,934
Finance costs:			
National Loans Fund borrowings		**(85)**	(121)
Unwinding of discount on provisions	19	**(1)**	-
Total finance costs		**(86)**	(121)
Finance income - net		**3,283**	10,813

8. Income tax charge

Analysis of tax charge in the year:	Group 2017 £'000	Group 2016 £'000
Current tax:		
UK corporation tax at 20% (2016: 20%) on profit for year	**1,154**	-
Adjustment in respect of prior years	**-**	(93)
Tax overseas suffered	**40**	31
Prior year adjustment to tax overseas suffered	**-**	(21)
Withholding tax suffered	**(4)**	46
Total current tax charge / (credit)	**1,190**	(37)
Deferred tax:		
Origination and reversal of temporary differences	**(53)**	(175)
Adjustment in respect of prior years	**-**	(118)
Effect of tax rate changes	**2**	42
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	**555**	1,585
Total deferred tax charge	**504**	1,334
Income tax charge	**1,694**	1,297

8. Income tax charge (continued)

Reconciliation of effective tax rate:	Group 2017 £'000	Group 2016 £'000
Profit before income tax	**8,196**	5,381
Corporation tax calculated at 20% (2016: 20%)	**1,641**	1,076
Tax effects of:		
Fixed asset differences	**210**	-
Expenses not deductible for tax purposes	**6**	282
Income not taxable for tax purposes	**-**	(28)
Adjustments to brought forward values	**-**	(118)
Foreign tax credits	**-**	78
Foreign tax	**13**	-
Adjustments to tax charge in respect of previous periods	**-**	(114)
Effect of rate change	**(17)**	41
Deferred tax not recognised	**(159)**	80
Income tax charge	**1,694**	1,297

At Summer Budget 2015, the Government announced legislation setting the corporation tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the Government announced a further reduction to the corporation tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the balances recognised in these financial statements are expected to reverse over the longer term, the 17% rate which will apply from 1 April 2020, has been used to measure deferred tax balances.

The tax reconciliation above includes deferred tax not recognised of £159k, which relates to brought forward tax losses for which a deferred tax asset had not been recognised. These brought forward losses were fully utilised against profits this year.

9. Property, plant and equipment

	Freehold buildings	Leasehold buildings	Plant and equipment	Vehicles	Furniture, fixtures and fittings	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group							
Cost							
At 1 April 2015	22,116	26,157	8,477	113	5,618	572	63,053
Additions	-	-	47	-	117	71	235
Disposals	-	-	(316)	-	(2,179)	(10)	(2,505)
Transfers	-	-	478	31	124	(633)	-
At 31 March 2016	22,116	26,157	8,686	144	3,680	-	60,783
Additions	-	-	13	-	112	297	422
Disposals	-	-	(53)	(22)	(58)	-	(133)
Transfers	-	-	18	-	48	(66)	-
At 31 March 2017	**22,116**	**26,157**	**8,664**	**122**	**3,782**	**231**	**61,072**
Accumulated depreciation							
At 1 April 2015	19,728	19,819	7,559	113	3,609	-	50,828
Charge for the year	754	1,457	432	6	322	-	2,971
Eliminated on disposal	-	-	(307)	-	(2,179)	-	(2,486)
At 31 March 2016	20,482	21,276	7,684	119	1,752	-	51,313
Charge for the year	202	1,456	325	6	297	-	2,286
Eliminated on disposal	-	-	(53)	(22)	(58)	-	(133)
At 31 March 2017	**20,684**	**22,732**	**7,956**	**103**	**1,991**	**-**	**53,466**
Net book value 31 March 2017	**1,432**	**3,425**	**708**	**19**	**1,791**	**231**	**7,606**
Net book value 31 March 2016	1,634	4,881	1,002	25	1,928	-	9,470

9. Property, plant and equipment (continued)

	Freehold buildings	Leasehold buildings	Plant and equipment	Vehicles	Furniture, fixtures and fittings	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Authority							
Cost							
At 1 April 2015	22,116	26,157	8,392	71	5,542	572	62,850
Additions	-	-	31	-	117	72	220
Disposals	-	-	(249)	-	(2,179)	(11)	(2,439)
Transfers	-	-	478	31	124	(633)	-
At 31 March 2016	22,116	26,157	8,652	102	3,604	-	60,631
Additions	-	-	-	-	-	297	297
Disposals	-	-	(45)	-	-	-	(45)
Transfers	-	-	18	-	48	(66)	-
At 31 March 2017	**22,116**	**26,157**	**8,625**	**102**	**3,652**	**231**	**60,883**
Accumulated depreciation							
At 1 April 2015	19,728	19,819	7,474	71	3,533	-	50,625
Charge for the year	754	1,457	430	6	322	-	2,969
Eliminated on disposal	-	-	(240)	-	(2,179)	-	(2,419)
At 31 March 2016	20,482	21,276	7,664	77	1,676	-	51,175
Charge for the year	202	1,456	317	6	288	-	2,269
Eliminated on disposal	-	-	(45)	-	-	-	(45)
At 31 March 2017	**20,684**	**22,732**	**7,936**	**83**	**1,964**	**-**	**53,399**
Net book value 31 March 2017	**1,432**	**3,425**	**689**	**19**	**1,688**	**231**	**7,484**
Net book value 31 March 2016	1,634	4,881	988	25	1,928	-	9,456

10. Intangible assets

	Software development costs £'000	Assets in the course of construction £'000	Other intangible assets £'000	Total £'000
Group				
Cost				
At 1 April 2015	7,631	2,285	-	9,916
Additions	-	2,454	155	2,609
Disposals	(129)	(844)	-	(973)
Transfers	572	(572)	-	-
At 31 March 2016	8,074	3,323	155	11,552
Additions	-	2,687	-	2,687
Disposals	(31)	-	-	(31)
Transfers	1,250	(1,250)	-	-
At 31 March 2017	**9,293**	**4,760**	**155**	**14,208**
Accumulated amortisation				
At 1 April 2015	5,710	-	-	5,710
Charge for the year	545	-	15	560
Eliminated on disposal	(129)	-	-	(129)
At 31 March 2016	6,126	-	15	6,141
Charge for the year	623	-	31	654
Eliminated on disposal	(31)	-	-	(31)
At 31 March 2017	**6,718**	**-**	**46**	**6,764**
Net book value 31 March 2017	**2,575**	**4,760**	**109**	**7,444**
Net book value 31 March 2016	1,948	3,323	140	5,411

10. Intangible assets (continued)

	Software development costs £'000	Assets in the course of construction £'000	Other intangible assets £'000	Total £'000
Authority				
Cost				
At 1 April 2015	7,046	2,105	-	9,151
Additions	-	2,114	-	2,114
Disposals	(67)	(814)	-	(881)
Transfers	450	(450)	-	-
At 31 March 2016	7,429	2,955	-	10,384
Additions	-	2,671	-	2,671
Disposals	(31)	-	-	(31)
Transfers	1,250	(1,250)	-	-
At 31 March 2017	**8,648**	**4,376**	**-**	**13,024**
Accumulated amortisation				
At 1 April 2015	5,649	-	-	5,649
Charge for the year	408	-	-	408
Eliminated on disposal	(67)	-	-	(67)
At 31 March 2016	5,990	-	-	5,990
Charge for the year	489	-	-	489
Eliminated on disposal	(31)	-	-	(31)
At 31 March 2017	**6,448**	**-**	**-**	**6,448**
Net book value 31 March 2017	**2,200**	**4,376**	**-**	**6,576**
Net book value 31 March 2016	1,439	2,955	-	4,394

11. Investments in subsidiaries

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

The registered office of both subsidiaries is:
CAA House
45-59 Kingsway
London
WC2B 6TE

Shares in Group undertakings

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

	2017	2016
	£	£
Beginning and end of the financial 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 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Current receivables:				
Trade receivables	**5,584**	5,504	**2,578**	2,690
Less: provision for doubtful trade receivables	**(334)**	(171)	**(224)**	(127)
Trade receivables - net	**5,250**	5,333	**2,354**	2,563
Social security and other taxes	**431**	-	**431**	-
Prepayments	**1,776**	3,022	**1,682**	2,947
Accrued income	**11,447**	8,483	**8,293**	6,485
Other receivables	**412**	652	**399**	647
Total current receivables	**19,316**	17,490	**13,159**	12,642
Non-current receivables:				
Prepayments	**122**	-	**122**	-
Other receivables	**36**	-	**-**	-
Total non-current receivables	**158**	-	**122**	-
Total trade and other receivables	**19,474**	17,490	**13,281**	12,642

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

As at 31 March 2017 trade receivables of £3,088k (2016: £2,341k) were past their due date but were not doubtful. The ageing analysis of these is as follows:

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Past due:				
Up to 3 months	**2,581**	2,140	**1,242**	1,415
From 3 to 12 months	**484**	155	**53**	101
Over 12 months	**23**	46	**-**	-
	3,088	2,341	**1,295**	1,516

12. Trade and other receivables (continued)

Movements on the provision for doubtful trade receivables:

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
At 1 April	**171**	347	**127**	291
Provision for receivables impaired	**248**	109	**169**	141
Receivables written off during the year as uncollectable	**(40)**	(258)	**(40)**	(258)
Unused amounts reversed	**(45)**	(27)	**(32)**	(47)
At 31 March	**334**	171	**224**	127

The creation and release of provision for doubtful receivables have been included in 'Other expenses' in the Income Statement. Amounts charged to the allowance 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 carrying value of all financial assets. The Group does not hold any collateral as security.

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

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
British pounds	**5,009**	4,653	**2,942**	3,337
Euros	**926**	1,132	**-**	-
Kuwaiti dinars	**27**	301	**-**	-
US dollars	**30**	58	**-**	-
Other currencies	**40**	12	**35**	-
	6,032	6,156	**2,977**	3,337

13. Cash and cash equivalents

The following cash and cash equivalents are included within the Statement of Cash Flows:

	Group 2017 £'000	Group 2016 £'000	**Authority 2017 £'000**	Authority 2016 £'000
Cash at bank and in hand	**2,038**	743	**1,825**	611
Short-term bank deposits	**11,902**	4,890	**11,902**	4,890
Short-term HM Treasury deposits	**-**	4,000	**-**	4,000
Total cash and cash equivalents	**13,940**	9,633	**13,727**	9,501

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

14. Retained earnings

	Note	**Group £'000**	**Authority £'000**
At 1 April 2015		269,056	256,281
Profit for the financial year		4,084	814
Unrealised foreign exchange differences		(296)	-
Actuarial loss on employee benefit scheme	18	(236,312)	(236,312)
Movement on deferred tax relating to employee benefit scheme		47,262	47,262
Effect of tax rate changes relating to post-employment benefit obligations		1,884	1,884
At 31 March 2016		85,678	69,929
At 1 April 2016		**85,678**	**69,929**
Profit for the financial year		**6,502**	**13,667**
Unrealised foreign exchange differences		**285**	**(1)**
Movement on deferred tax relating to unrealised foreign exchange differences		**(49)**	**-**
Actuarial gain on employee benefit scheme	18	**13,367**	**13,367**
Movement on deferred tax relating to employee benefit scheme		**(2,272)**	**(2,272)**
Effect of tax rate changes relating to post-employment benefit obligations		**942**	**942**
At 31 March 2017		**104,453**	**95,632**

Retained earnings represents the cumulative surplus and other gains made by the Authority and the Group since its inception.

15. Borrowings

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Non-current				
National Loans Fund	**727**	1,905	**727**	1,905
Total non-current borrowings	**727**	1,905	**727**	1,905
Current				
National Loans Fund	**1,178**	1,142	**1,178**	1,142
Total current borrowings	**1,178**	1,142	**1,178**	1,142
Total borrowings	**1,905**	3,047	**1,905**	3,047

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 2017 £'000	Carrying amount 2016 £'000	Fair value 2017 £'000	Fair value 2016 £'000
Non-current	**727**	1,905	**718**	1,888
Current	**1,178**	1,142	**1,174**	1,132
Total borrowings	**1,905**	3,047	**1,892**	3,020

The fair value of borrowings is calculated by discounting the cash outflow by the rate ruling at the balance sheet date for borrowings with a similar maturity and repayment style. The fair values are based on cash flows discounted using rates relevant to the entity. For CAA the borrowing rates were between 0% and 1.08% (2016: 1.35% and 1.44%).

The carrying amounts of the borrowings are denominated in pound sterling.

The CAA and Group has maximum borrowing powers of £550m (2016: £550m) under the Civil Aviation Act 1982 (as amended). Below are details of the Authority's undrawn and uncommitted borrowing facilities:

	2017 £'000	2016 £'000
Bank overdraft facility	**10,000**	10,000
Total undrawn and uncommitted borrowing facilities	**10,000**	10,000

16. Trade and other payables

	Note	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Current liabilities:					
Trade payables		**5,140**	4,049	**5,093**	3,905
Amounts due to related parties	25	**-**	-	**7,444**	14,461
Social security and other taxes		**1,998**	2,347	**1,998**	2,347
Accrued expenses		**7,563**	8,990	**6,737**	8,343
Deferred income		**11,435**	9,893	**7,385**	6,297
Other payables		**4,316**	2,557	**3,742**	1,740
Total current trade and other payables		**30,452**	27,836	**32,399**	37,093
Non-current liabilities:					
Other payables		**861**	796	**861**	796
Accruals and deferred income		**510**	809	**510**	809
Total non-current trade and other payables		**1,371**	1,605	**1,371**	1,605
Total trade and other payables		**31,823**	29,441	**33,770**	38,698

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

A current deferred income balance of £880,048 as at 31 March 2016 has been reclassified as other payables.

The Department for Transport provided £1,806,804 of cash resources in connection with the transfer of responsibility for the regulation of the aviation security function, which is released on a systematic basis over the lives of the assets to which the resources were applied (see note 6).

Included in deferred income are the amounts shown below in respect of the grant received from the Department for Transport in connection with the transfer of responsibility for the regulation of the aviation security function:

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
No later than 1 year	**298**	353	**298**	353
Later than 1 year and not later than 5 years	**449**	715	**449**	715
Later than 5 years	**60**	92	**60**	92
Total grant outstanding	**807**	1,160	**807**	1,160

17. Deferred income tax

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

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
At 1 April	**376**	125	**341**	100
Income Statement tax credit	**51**	251	**57**	241
Other comprehensive income tax charge	**(49)**	-	**-**	-
At 31 March	**378**	376	**398**	341

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 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Deferred tax assets	**477**	531	**448**	496
Deferred tax liabilities	**(99)**	(155)	**(50)**	(155)
Deferred tax assets - net	**378**	376	**398**	341

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

	Group Other £'000	Group Total £'000	Authority Other £'000	Authority Total £'000
Deferred tax assets				
At 1 April 2016	531	531	496	496
Income Statement tax charge	(54)	(54)	(48)	(48)
At 31 March 2017	**477**	**477**	**448**	**448**

	Group Accelerated tax depreciation £'000	Group Other £'000	Group Total £'000	Authority Accelerated tax depreciation £'000	Authority Other £'000	Authority Total £'000
Deferred tax liabilities						
At 1 April 2016	(155)	-	(155)	(155)	-	(155)
Income Statement tax credit	110	(5)	105	110	(5)	105
Other comprehensive income tax charge	-	(49)	(49)	-	-	-
At 31 March 2017	**(45)**	**(54)**	**(99)**	**(45)**	**(5)**	**(50)**

17. Deferred income tax (continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has utilised the remainder of the losses brought forward in this period thus leaving no losses to carry forward against future periods. The Group had not recognised deferred income tax assets of £126k in 2016 in respect of losses amounting to £700k that were carried forward against future taxable income from that period.

At Summer Budget 2015, the Government announced legislation setting the corporation tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the Government announced a further reduction to the corporation tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the balances recognised in these financial statements are expected to reverse over the longer term, the 17% rate which will apply from 1 April 2020, has been used to measure deferred tax balances.

On the face of the Statement of Financial Position, the deferred income tax liability of £18,844k (2016: £16,959k) relates to the pension scheme surplus (see note 18).

18. Retirement benefit obligations

The Group has both defined benefit and defined contribution retirement benefit plans and an unfunded scheme for past board members. The Group's main plan is the Civil Aviation Authority Pension Scheme which is a defined benefit plan that was closed to new entrants on 30 November 2012. After that date new entrants have been able to join a defined contribution plan, currently the Civil Aviation Authority Personal Pension Plan, contract based arrangement. In order to further mitigate the increase in the defined benefit liabilities the CAA has 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.

Defined contribution plan: a defined contribution plan is a pension arrangement under which the benefits are linked to contributions paid; the performance of each individual's chosen investments and the form in which the individuals choose to take their benefits. The Group has two defined contribution plans, one in which contributions are paid into an independently administered fund and a second where contributions are paid to the Civil Service Pension Plan following the transfer of responsibility for regulating aviation security from the Department for Transport to the Civil Aviation Authority as from 1 April 2014. The Income Statement charge in respect of the defined contribution plans represents the contributions payable by the Group based on a percentage of the employees' pay. The CAA has no exposure to investment and other experience risks. Costs associated with these schemes of £1,631k (2016: £1,274k) were charged to the Income Statement.

Unfunded scheme: the CAA also operates an unfunded scheme for some past members of the Board. Costs associated with this scheme of £184k (2016: £40k) were charged to the Income Statement in accordance with the advice of a professionally qualified actuary. A non-current liability of £1,627k (2016: £1,540k) and a current liability of £97k (2016: £97k) are held in the Statement of Financial Position in respect of post-employment benefits payable under this scheme.

Defined benefit plan: a defined benefit plan is a pension arrangement under which participating members receive a pension benefit at retirement determined by the plan rules dependent upon factors such as age, years of service, and pensionable pay and it is not dependent upon the contributions made

18. Retirement benefit obligations (continued)

by the Group or members. The Income Statement service cost in respect of the defined benefit plan represents the increase in the defined benefit liability arising from pension benefits earned by active members in the current period. The CAA is exposed to investment and other experience risks. 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.

The scheme is currently governed by the Trust Deed and Rules effective from 6 April 2006 and amending documents. The assets of the scheme are held in a separate trustee administered fund. The Trustee is responsible for the operation and the governance of the Scheme, including making decisions regarding the scheme's funding and investment strategy in conjunction with the CAA. The Trustee directors meet at least quarterly and, with the exception of the Chair, all the Trustee directors are either contributing members or beneficiaries of the scheme.

In July 2015, the Trustee of the scheme, with the support of the CAA, agreed to purchase a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014. Following that, a second bulk annuity contract was purchased with Pension Insurance Corporation in January 2017 in respect of non-insured pensioners at 30 June 2016. The value of the buy-in policies held on behalf of the members is equal to the value of the benefits covered by the policies and is included under "insured annuity policies" in the below allocation. The value of these benefits as at 31 March 2017 is estimated to be £1,506,288,000 (2016: £1,397,903,000).

The last formal actuarial valuation of the CAA section of the Civil Aviation Authority Pension Scheme was carried out as at 31 December 2015. Following discussions with the Scheme Actuary, the Trustee determined and agreed with the CAA the assumptions to be used for the latest actuarial valuation as at 31 December 2015. The 2015 valuation revealed a small deficit of £4.2m. A recovery plan has been agreed by the CAA and the trustees of the scheme, where the CAA will remove the deficit over the period to 31 December 2021. In addition, the CAA will pay contributions in line with the updated Schedule of Contributions dated 21 October 2016 to cover the cost of revised benefits which incorporates changes to the normal contribution rate following the cessation of contracting-out from 6 April 2016. The funding rate was set at 22.2% of pensionable earnings for the year 2016/17 in respect of which the CAA paid contributions of £15.6m. The expected contribution in the 2017/18 year is £16.6m. The expected future benefit payments for 2017/18 are forecast to be £126.3m.

The methodology underlying the formal valuation differs from that used for annual IAS 19 disclosures, particularly in relation to the financial assumptions used. 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 2015 valuation and that used for IAS 19 disclosures are:

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 2015 formal valuation:

iii) Discount rates:
- pensioner and deferred liabilities - gilt yields less 0.1% p.a
- pre-retirement discount rate for active members - gilt yields plus 2.25% p.a

iv) Allowance for a reserve for changes in mortality and contingencies in respect of SPADs (Separation Pensioners and Deferreds)

18. Retirement benefit obligations (continued)

	Group and Authority	
	2017 £'000	2016 £'000
Balance sheet assets for:		
Post-employment benefits - fully funded pension fund	**92,005**	77,256
Total balance sheet assets	**92,005**	77,256
Balance sheet obligations for:		
Non-current post-employment benefits - unfunded pension scheme	**(1,627)**	(1,540)
Current post-employment benefits - unfunded pension scheme	**(97)**	(97)
Total balance sheet obligations	**(1,724)**	(1,637)
Income Statement charge for:		
Pension benefits (note 3)	**15,700**	19,339
Post-employment benefits - unfunded pension scheme (note 3)	**184**	40
Total Income Statement charge	**15,884**	19,379

Funded pension benefits

The amounts recognised in the balance sheet are determined as follows:	Group and Authority	
	2017 £'000	2016 £'000
Fair value of plan assets	**2,334,888**	2,177,603
Present value of future obligations	**(2,224,039)**	(2,083,388)
Surplus in funded scheme	**110,849**	94,215
Related deferred tax liability at 17% (2016: 18%)	**(18,844)**	(16,959)
Net surplus in funded pension scheme	**92,005**	77,256

The CAA has determined, based on legal advice, that it has a right to any surplus that arises within the scheme. As such no asset ceiling (IFRIC14) is applied.

The movements in surplus in funded pension scheme are as follows:	Group and Authority	
	2017 £'000	2016 £'000
Surplus in funded pension scheme brought forward	**94,215**	322,598
Service cost	**(15,700)**	(19,339)
Net interest on net defined benefit asset	**3,330**	10,877
Remeasurement effects recognised in other comprehensive income	**13,367**	(236,312)
Employer contributions	**15,637**	16,391
Surplus in funded pension scheme carried forward	**110,849**	94,215

18. Retirement benefit obligations (continued)

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

	Group and Authority	
	2017 £'000	2016 £'000
DBO brought forward	**2,083,388**	2,157,602
Current service cost (including administration costs)	**15,700**	19,339
Interest costs on the DBO	**66,737**	69,484
Scheme participants' contributions	**150**	158
Actuarial gain - experience	**(50,217)**	(24,756)
Actuarial gain - demographic assumptions	**(163,956)**	-
Actuarial loss / (gain) - financial assumptions	**396,733**	(31,874)
Benefits paid from scheme assets	**(124,496)**	(106,565)
DBO carried forward	**2,224,039**	2,083,388

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

	Group and Authority	
	2017 £'000	2016 £'000
Fair value of assets brought forward	**2,177,603**	2,480,200
Interest income on scheme assets	**70,067**	80,361
Return on scheme assets greater / (less) than discount rate	**195,927**	(292,942)
Employer contributions	**15,637**	16,391
Scheme participants' contributions	**150**	158
Benefits paid	**(122,122)**	(104,080)
Administrative costs paid	**(2,374)**	(2,485)
Fair value of assets carried forward	**2,334,888**	2,177,603

The CAA provides pensions administration services to the scheme and has charged £2,374k (2016: £2,485k) over the course of the year. The CAA also charges for third party costs incurred on behalf of the scheme. These totalled £3,909k (2016: £3,283k) for the year.

18. Retirement benefit obligations (continued)

The Scheme assets are allocated as follows:	Group and Authority			
	2017 £m	**%**	2016 £m	%
Index Linked (UK)	**335.7**	**14.4%**	361.2	16.6%
Total Dedicated Bond Fund	**335.7**	**14.4%**	361.2	16.6%
UK Equity Fund	**65.3**	**2.8%**	52.9	2.4%
North America Equity Fund	**37.9**	**1.6%**	30.9	1.4%
Europe Equity Fund	**13.4**	**0.6%**	10.7	0.5%
Global Equity Fund	**100.3**	**4.3%**	83.4	3.9%
Japan Equity Fund	**5.6**	**0.2%**	4.5	0.2%
Pacific Equity Fund	**19.1**	**0.8%**	16.1	0.7%
EM Equity Fund	**56.8**	**2.5%**	47.2	2.2%
Total Quoted Equities	**298.4**	**12.8%**	245.7	11.3%
Insured Annuity Policies	**1,506.3**	**64.5%**	1,397.9	64.2%
Total Insured Annuity Policies	**1,506.3**	**64.5%**	1,397.9	64.2%
Other Holdings	**194.5**	**8.3%**	172.8	7.9%
Total Other Holdings	**194.5**	**8.3%**	172.8	7.9%
Fair value of scheme assets carried forward	**2,334.9**	**100.0%**	2,177.6	100.0%

There were no employer related investments during the year and the CAA does not use any asset-liability matching strategies in the Plan.

The amounts recognised in the Income Statement are as follows:	Group and Authority	
	2017 £'000	2016 £'000
Current service cost	**15,700**	19,339
Total Income Statement charge included in employment costs	**15,700**	19,339
Net interest on defined benefit obligation	**66,737**	69,484
Expected return on funded pension scheme assets	**(70,067)**	(80,361)
Total credit to finance income (note 7)	**(3,330)**	(10,877)
Total included in Income Statement	**12,370**	8,462

18. Retirement benefit obligations (continued)

Analysis of amounts recognised in the Statement of Comprehensive Income:

	Group and Authority	
	2017 £'000	2016 £'000
Actuarial gains due to liability experience	**(50,217)**	(24,756)
Actuarial losses / (gains) due to liability assumption changes	**232,777**	(31,874)
Return on scheme assets (greater) / less than discount rate	**(195,927)**	292,942
Actuarial (gain) / loss recognised in the Statement of Comprehensive Income	**(13,367)**	236,312

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

	2017 % p.a.	2016 % p.a.
Discount rate	**2.45**	3.3
Inflation assumption (RPI)	**3.4**	3.0
Inflation assumption (CPI)	**2.4**	2.0
Rate of increase in salaries in the next financial year	**2.0**	3.0
Rate of increase in salaries in future financial years	**2.4**	3.0
Rate of increase in pensions in payment (pre 1 June 2015) *	**3.4**	3.0
Rate of increase in pensions in payment (post 1 June 2015) *	**2.4**	2.0
Rate of increase for deferred pensioners **	**3.4**	3.0
Rate of increase in deferred pensioners (post 1 June 2015) **	**2.4**	2.0

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

Mortality assumptions are based on the Self-Administered Pension Scheme All Pensioner Light series tables with allowance for future improvements in line with the Continuous Mortality Investigation 011 Core Projections model. The expected lifetime of a current pensioner who is aged 60 and the expected lifetime of a current non-pensioner (at age 60) are shown in years below:

Age	**Males**	**Females**
60	28.8	29.9
60 in 10 years	29.6	30.9

Additional information **Expected contributions for the following year end:**	**2018 £'000**
Employer	**16,578**
Scheme participants	**145**
Total expected contributions for the following year end	**16,723**

Weighted Average Duration of Defined Benefit Obligation	**17 years**

18. Retirement benefit obligations (continued)

The principal risks that the Scheme is exposed to include:

Investment risk: the present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate it will reduce the reported surplus.

Longevity risk: the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk: the present value of the defined benefit plan liability is calculated by reference to future salaries of plan participants. As such, an increase in salary of plan participants will increase the plan liability.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, expected salary increases and mortality. The table below shows the effect of changes in those assumptions:

Assumption	Base assumption	Sensitivity	Effect on Defined Benefit Obligation
Discount rate	2.45%	0.1% increase	1.7% reduction
Price inflation (RPI)	3.4%	0.1% increase	1.7% increase
Price inflation (CPI)	2.4%	0.1% increase	0.2% increase
Salary growth	2.4%	0.1% increase	0.1% increase
Mortality	93% (male) / 91% (female)	Long-term trend 1.25%	0.9% reduction

19. Provisions for other liabilities and charges

	Group 2017 £'000	Group 2016 £'000	**Authority 2017 £'000**	Authority 2016 £'000
Building repairs:				
Brought forward	**78**	1,401	**-**	1,323
Provision made in the year	**40**	-	**-**	-
Credited to the Income Statement	**-**	(1,323)	**-**	(1,323)
Unwinding of discount - charge	**1**	-	**-**	-
Total provisions for other liabilities and charges	**119**	78	**-**	-

19. Provisions for other liabilities and charges (continued)

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Analysis of total provisions:				
Non-current	**40**	-	**-**	-
Current	**79**	78	**-**	-
Total provisions for other liabilities and charges	**119**	78	**-**	-

A provision of £79k (2016: £78k) exists in respect of the cost of building repairs that will be required to restore the property at Northgate House, Crawley, to its original condition on termination of the lease. The lease expired on 24 December 2016; at the date these financial statements have been signed the value of the dilapidation expense has not been agreed upon by the property landlords and the Group, therefore it remains outstanding as a current liability. Whilst the final value of the dilapidations expense has not yet been agreed it is not expected to exceed the existing provision.

A provision of £40k exists in respect of the cost of building repairs that will be required to restore the property at The Portland Building, Crawley, to its original condition on termination of the lease on 17 November 2021. The provision is based on estimates of the terminal dilapidations liabilities and related professional fees that will arise. The provision is showing as non-current.

The fair value of the provision is calculated by discounting the anticipated cash outflows by the deposit rate ruling at the balance sheet date i.e. 0.0025% (2016: 0.0025%).

20. Derivative financial instruments

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Forward foreign exchange contract asset	**27**	-	**27**	-
Forward foreign exchange contract liability	**-**	279	**-**	279

The fair value of the forward foreign exchange contracts is determined using the forward exchange rate at 31 March 2017, discounted back to present values.

21. Financial instruments by category

Group			2017			2016
	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	27	-	27	-	-	-
Trade and other receivables	-	5,662	5,662	-	5,985	5,985
Cash and cash equivalents	-	13,940	13,940	-	9,633	9,633
Net book amount	27	19,602	19,629	-	15,618	15,618

Authority			2017			2016
	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	27	-	27	-	-	-
Trade and other receivables	-	2,753	2,753	-	3,210	3,210
Cash and cash equivalents	-	13,727	13,727	-	9,501	9,501
Net book amount	27	16,480	16,507	-	12,711	12,711

Trade and other receivables excludes prepayments, accrued income and statutory assets.

21. Financial instruments by category (continued)

Group

	2017 Liabilities at fair value through the Income Statement	2017 Other financial liabilities at amortised cost	2017 Total	2016 Liabilities at fair value through the Income Statement	2016 Other financial liabilities at amortised cost	2016 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities as per Statement of Financial Position:						
Derivative financial instruments	-	-	-	279	-	279
Trade and other payables	-	10,317	10,317	-	7,402	7,402
Borrowings	-	1,905	1,905	-	3,047	3,047
Net book amount	-	12,222	12,222	279	10,449	10,728

Authority

	2017 Liabilities at fair value through the Income Statement	2017 Other financial liabilities at amortised cost	2017 Total	2016 Liabilities at fair value through the Income Statement	2016 Other financial liabilities at amortised cost	2016 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities as per Statement of Financial Position:						
Derivative financial instruments	-	-	-	279	-	279
Trade and other payables	-	17,140	17,140	-	20,902	20,902
Borrowings	-	1,905	1,905	-	3,047	3,047
Net book amount	-	19,045	19,045	279	23,949	24,228

Trade and other payables excludes accruals, deferred income and statutory liabilities.

A current deferred income balance of £880,048 as at 31 March 2016 has been reclassified as other payables.

Financial risk management disclosures are set out in the Financial Review on pages 42 to 53.

22. Cash generated from operations

	Group 2017 £'000	Group 2016 £'000	Authority 2017 £'000	Authority 2016 £'000
Profit before income tax	**8,196**	5,381	**14,629**	2,159
Adjustments for:				
Depreciation, amortisation and adjustment on disposal	**3,293**	4,394	**3,111**	4,211
Profit on disposal of asset	**(6)**	-	**-**	-
Grant amortisation	**(353)**	(353)	**(353)**	(353)
Finance income - net	**(3,283)**	(10,813)	**(3,281)**	(10,809)
Unrealised foreign exchange differences	**(19)**	-	**(305)**	296
Changes in working capital:				
- Trade and other receivables	**(1,986)**	(1,184)	**(641)**	1,483
- Trade and other payables	**2,469**	3,705	**(4,841)**	3,540
IAS 19 current service costs net of cash contributions	**63**	2,948	**63**	2,948
Provisions	**40**	(1,323)	**-**	(1,323)
Cash generated from operations	**8,414**	2,755	**8,382**	2,152

23. Commitments

Capital commitments

At 31 March 2017 and 2016, the Group had no capital commitments that were contracted for but not provided.

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.

23. Commitments (continued)

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

Properties:	2017 £'000	2016 £'000
No later than 1 year	6,895	6,946
Later than 1 year and not later than 5 years	12,179	18,690
Total property operating lease commitments	**19,074**	25,636

Vehicles:		
No later than 1 year	537	570
Later than 1 year and not later than 5 years	403	292
Total vehicle operating lease commitments	**940**	862

Vehicle lease rental agreements are entered into by the Group. Lease rental charges are reimbursed by the member of staff responsible for each vehicle. This has resulted in a charge of £14k to the Income Statement (2016: £23k).

Operating lease receipts in respect of sub-let office space:	2017 £'000	2016 £'000
No later than 1 year	5,493	5,493
Later than 1 year and not later than 5 years	9,612	15,105
Total property operating lease commitments	**15,105**	20,598

24. Guarantees and contingencies

Group and Authority

As at 31 March 2017, the Group had the following guarantees in place:

- A performance guarantee in the sum of KWD 136,964 with the Directorate General of Civil Aviation of the Government of the state of Kuwait, expiring 29 August 2017.
- A performance guarantee in the sum of MYR 247,500 with the Government of Malaysia, expiring 31 December 2018.

Other than as described above, as at 31 March 2017, the Group is not aware of any material contingent liabilities and the Group does not anticipate that any material contingent liabilities will arise.

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 for Transport may direct the Civil Aviation Authority as to the performance of those duties, powers and functions.

During the year the CAA has undertaken work for the Department for Transport and has recognised revenue of £5,117k (2016: £5,359k).

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. M Medlicott, R Moriarty and C Tingle (board members of the CAA) and K Staples (Secretary to the CAA) were 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 £29,515 (2016: £13,424) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £730,505 (2016: £625,071) to the ATT during the year for legal fees, accommodation costs, accounting and other administrative services, none of which was accrued at the year end. In the prior year the ATT made a one-off contribution of £364,500 to the CAA towards the cost of developing an improved crisis management system; there was no contribution made in this year.

During the year K Staples was a trustee of the Civil Aviation Authority Pension Scheme. 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, D King, a non-executive board member of the CAA, was on the CHIRP Board of Trustees and the CAA incurred expenditure of £194,500 (2016: £208,000) in support of the programme.

No key management personnel services were provided by third parties in the year. In the prior year these services were provided by third parties, namely Alium Partners and Smart Sourcing. The total expenditure incurred by the CAA for these services in the prior year was £972,629 and £113,507 respectively. There were no amounts included in trade payables at the end of the year (2016: £97,686 and £26,336 respectively).

Board member and key management personnel emoluments are detailed in note 4 and the Report by the Remuneration Committee.

Dividend

During the year a dividend of £10m was paid from CAA International Limited to the parent, CAA. The dividend has been included in CAA's revenue and profit figure for the year and has been removed from the Group accounts for consolidation purposes.

25. Related-party transactions (continued)

Authority

The following transactions with subsidiaries occurred during the year:

	2017 £'000	2016 £'000
Re-charge of corporate legal, finance, IT and facilities costs:		
CAA International Limited	**870**	831
Air Safety Support International Limited	**308**	294
Re-charge of corporate board member costs:		
CAA International Limited	**70**	70
Air Safety Support International Limited	**18**	17
Provision of radio licencing service to CAA International Limited	**213**	221
Work carried out on behalf of CAA International Limited with regard to commercial aviation related services	**2,840**	2,808
Provision of technical assistance to Air Safety Support International Limited	**8**	8
Interest on intercompany trading balances:		
CAA International Limited	**-**	(29)
Air Safety Support International Limited	**-**	(1)
Total inter-group charges	**4,327**	4,219

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

	2017 £'000	2016 £'000
CAA International Limited	**6,855**	13,182
Air Safety Support International Limited	**589**	1,279
Total payables to group undertakings	**7,444**	14,461

As part of the treasury function, the Group operates a cash pooling arrangement for the Authority and its subsidiaries. A number of other functions, including payroll and accounts payable, are carried out and settled by the Authority on behalf of its subsidiaries. These transactions are not included in the above disclosures..

26. Current cost return on capital employed

	Operating profit £000	Average capital employed £000	Return on capital employed %
CAA Regulatory Sector	**3,123**	**38,084**	**8.2%**

The Group is set financial targets by the Department for Transport of a 3.5% rate of return for the regulatory and en route sectors. The targets are based upon the annual rate of return before interest and tax, 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; and

ii) The treatment of the pension scheme under IAS 19 has been excluded from the Statement of Financial Position and from the Income Statement.

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

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

	Target period	Target rate
CAA Regulatory Sector	01.04.16 - 31.03.17	3.5%

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.

27. Ultimate controlling party

The corporation's ultimate controlling party is the Secretary of State for Transport in pursuance of the Civil Aviation Act 1982 and the Civil Aviation Act 2012.

Group Five-Year Summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Income Statement (historic cost accounts)					
Revenue	**135.8**	132.6	134.1	132.0	125.8
Operating profit / (loss) before finance income-net and income tax charge	**4.9**	(5.4)	(4.3)	(5.9)	(6.9)
Finance income - net	**3.3**	10.8	11.3	23.9	30.3
Income tax charge	**(1.7)**	(1.3)	(1.8)	(3.9)	(4.3)
Profit for the financial year	**6.5**	4.1	5.2	14.1	19.1
Statement of Financial Position (historic cost accounts)					
Non-current assets	**126.4**	109.5	339.1	278.9	569.7
Current assets	**33.3**	27.6	30.0	32.9	36.1
Total assets	**159.7**	137.1	369.1	311.8	605.8
Reserves	**104.4**	85.7	269.0	221.2	438.0
Equity	**104.4**	85.7	269.0	221.2	438.0
Total liabilities	**55.3**	51.4	100.1	90.6	167.8
Total equity and liabilities	**159.7**	137.1	369.1	311.8	605.8

Outturn against financial target set by the Department for Transport based on current cost accounting

	2017	2016	2015	2014	2013
CAA Regulatory Sector	**8.2%**	1.1%	3.1%	8.6%	5.5%

Civil Aviation Authority (Accounts) Direction 2017

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 2017 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; and

   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 UK Listing Rules;

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

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

2. 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.

3. The accounts kept and the statement prepared in pursuance of Section 15, subsection (1) of the Civil Aviation Act 1982 ("the Act") shall be audited by auditors appointed annually by the Secretary of State after consultation with the CAA, and a person shall not be so appointed unless he / she is eligible for appointment as a company auditor under the Companies Act 2006 or is a member of the Chartered Institute of Public Finance and Accountancy with a current practicing certificate and approved to carry out the audit by a firm of auditors registered with one of the bodies listed below:

   - the Institute of Chartered Accountants in England and Wales;
   - the Institute of Chartered Accountants of Scotland;
   - the Association of Certified Accountants;

- the Institute of Chartered Accountants in Ireland;
- any other body of accountants established in the United Kingdom and for the time being recognised for the purposes of the Companies Act 2006 by the Secretary of State,
- but a Scottish firm may be so appointed if each of the partners therein is qualified to be so appointed.

This paragraph supersedes section 15, subsection (2) of the Civil Aviation Act 1982.

The Direction issued to the Authority dated 16 February 2016 is hereby revoked.

Dan Micklethwaite
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State

Dated: 24 April 2017

SCHEDULE 1

1. The Companies Act 2006 requires certain information to be disclosed in the Director's 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 summary financial position 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 has no power over the Air Travel Trust Fund (ATTF) and no exposure to variable returns from its involvement with the 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:
      - *Regulatory Sector made up of:
      - Safety & Airspace Regulation
      - Consumers & Markets
      - Aviation Security
      - *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, depreciation, amortisation and disposals, other gains / (losses)(as appropriate) - net and other expenses; and

   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; and

   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 target rate of return achieved by the Regulatory operations based upon the average total equity based upon changing prices; with effect from 1 April 2015 total equity shall be amended to reflect all costs relating to Regulatory Operations that have historically formed part of the Miscellaneous Segment result;

   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; and

   d) the amount, source and purpose of capital grants receivable.

Civil Aviation Authority (Report) Direction 2017

The Secretary of State for Transport, in exercise of his / her 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. an audited statement of efficiency;
4. 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;
    e) comments on other relevant aspects of the financial results; and
    f) summary of significant events since the end of the reporting period;
5. a five year summary of the Group's financial results, including and identifying inter-alia:
    a) appropriate analyses of income and expenditure and assets and liabilities;
    b) total equity; and
    c) operating profit / (loss) (as appropriate) before interest 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; and
6. this Direction and the Accounts Direction.
7. The Report Direction issued to the Civil Aviation Authority dated 16 February 2016 is hereby revoked.

Dan Micklethwaite
Director of Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 24 April 2017

Slavery and Human Trafficking Statement 2016/17

The CAA remains committed to ensuring best practice in its own business activities and has similar expectations of companies in its supply chains. The CAA therefore acknowledges its responsibility under the Modern Slavery Act 2015. The CAA will not support or deal with any business knowingly involved in slavery or human trafficking.

As a public body the CAA adheres to the 2014 EU Procurement Directives, as implemented by the UK in the Public Contracts Regulations 2015. The Directives and the regulations govern how we buy goods, services and works and enshrine fundamental principles of transparency, equal treatment and non-discrimination in all public sector procurements irrespective of value. In that overall context, the CAA is committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its business.

During the course of this reporting year we have:

- Undertaken an initial risk assessment of the CAA's current supply chain and internal practices and identified a number of priority areas where we have concluded that the risk of poor practice is or appears more likely to exist;
- Focused our attention on those priority areas. We have asked twelve of our suppliers to provide details of their processes, procedures relating to and confirmation of their compliance with the Modern Slavery Act 2015. The suppliers provide services to the CAA in the following areas:
    - IT providers for applications support and desktop maintenance
    - IT recycler
    - Building maintenance
    - Security
    - Office cleaning
    - Mail room services
    - Furniture provider and installer
    - Pest control
    - Landscaping
    - Stationery
    - Catering
- Updated the CAA's tender and contractual templates to incorporate provisions relating to suppliers' compliance with the Modern Slavery Act 2015.

In addition, we have adopted a new procurement policy, implementation of which will drive greater consistency in our procurement practice, thereby enhancing our ability to monitor our suppliers' compliance with the Modern Slavery Act 2015 and meet our own obligations under that Act.

The CAA's Chief Operating Officer is responsible for implementing the CAA's policy on modern slavery and, in collaboration with the CAA's Executive Committee, will provide adequate resources, training and investment to ensure that slavery and human trafficking is not taking place within the organisation or within its supply chain.

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes the CAA and its subsidiaries' slavery and human trafficking statement for the current financial year.

Christopher Tingle
Chief Operating Officer
21 June 2017