Annual Report & Accounts 2017/18
Civil Aviation Authority

CAP 1671

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www.caa.co.uk/CAP1671

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Statement by the Chair

It has been a remarkable year for the CAA, both within our organisation and across the industry that we regulate. Remarkable because 2017 was the first year in which there were no commercial airline fatalities anywhere in the world: a significant achievement and testament to the professionalism of our industry, the continuous advancements in aviation safety being introduced, and of course the focus of safety regulators around the globe. However, 2018 has not started so well and reminds us yet again of the need never to be complacent.

Monarch Airlines failure

It was also an unusual year within our organisation, not least because of the extraordinary situation of managing the aftermath of Monarch Airlines entering administration in October 2017, when the CAA faced one of the most significant challenges in its history. This was a defining moment as the organisation extended its already diverse role to include running one of the UK's largest airlines for two weeks.

As we seek to learn the lessons from that period, a number of thoughts stand out. First, that the overall situation was one that no one wanted to see happen. Monarch Airlines was a UK aviation institution, almost 50 years old. Its failure impacted thousands of consumers and loyal staff.

Secondly, the commitment and skill of colleagues across the organisation and those of our partners, who stepped up to the mark superbly in difficult circumstances, ensured that Monarch Airlines's customers were brought home in an almost faultless operation.

And, lastly, how well all the various elements of the operation worked together. From government departments to airports and airlines, the seamless operation was, I think, unprecedented and I would like to thank all those partners who so ably assisted us.

It has always been a matter of great pride to me that my colleagues in the CAA are up to any task asked of them. The intense few weeks of repatriation flights and the following work to refund passengers with forward bookings confirmed that to be the case.

‘We remain focused on developing a regulatory framework that places scheme affordability and financability at its heart’

Increasing capacity

The proposed expansion of Heathrow would be one of the largest privately financed infrastructure projects ever undertaken anywhere in the world. We have been clear for many years that while expansion at an affordable price is in the interests of consumers, the economic regulation of this expansion cannot be treated as business as usual and Heathrow’s airline customers have a critical role to play in establishing the efficiency of scheme design, procurement and delivery.

In 2018 our Chief Executive appeared before the Transport Select Committee as part of its hearing into a National Policy Statement for aviation. We await the parliamentary vote on the National Policy Statement. We remain focused on developing a regulatory framework that places scheme affordability and financability at its heart and we will publish our initial views on this in the months ahead, alongside an update on the framework of economic regulation in which Heathrow Airport operates.

Innovation

Aviation has always been an industry centred around innovation. Currently that surfaces in areas such as drones and spaceflight, in both of which the CAA has taken a leading role.

As a regulator we seek to strike the right balance between preserving safety and allowing these technologies to develop and provide benefit to the wider community. Finding that balance is not always straightforward and during the year we’ve been investigating how we can continue to play our role in the facilitation of future safe innovation.

All of these strands of work and others were brought together at our first Enabling Innovation in Aviation conference held in 2018. The event helped us to set out our position to be more involved in the development of technology and innovation in the aviation sector.

Safety review

As a responsible regulator, safety is our number one priority. Audits by the European Aviation Safety Agency and the International Civil Aviation Organisation have shown us to be a highly competent aviation regulator. The approach to aviation safety is frequently cited by other industries, including medicine, as a system to learn from.

But the quickest way to lose that reputation would be to rest on our laurels, so we are determined to be an organisation that continuously scrutinises and challenges what we do, as we will with the industry we regulate, to ensure that the UK continues to benefit from the very highest levels of aviation safety.

To help continue to improve our work, we commissioned an independent Cranfield University research study to provide an overview of UK regulation and a benchmark by which to judge future achievements. We have already started to use the findings to take our oversight of UK civil aviation to a higher level wherever possible.

We continued to act on implementing all the recommendations of the Air Accidents Investigation Branch resulting from the Shoreham accident, which we will complete shortly. We will cooperate fully with whatever judicial action arises. Our thoughts remain with those affected by this terrible tragedy and I would like to give my assurance that we will continue to work hard to make air displays as safe as possible.

Internal

Within our own organisation, there has been a change of personnel and a renewed focus on our people. By the time this annual report is published, a smooth transition will have taken place between our long-serving Chief Executive Andrew Haines and his successor Richard Moriarty. We have learned a number of lessons about how well our people rise to the challenge in a crisis situation and during periods of intense activities and reflected upon how important it is that we should repay that determination and dedication in kind. Our new 'people' agenda has progressed with a focus on both wellbeing and diversity & inclusion and we have plans to ensure that our future focus is never far from our colleagues who are so critical to the effectiveness of the CAA.

Like many bodies we are actively working on the implications of Brexit. The Government, the CAA and the entire aviation industry have been clear that our collective preference is to remain a member of the European Aviation Safety Agency (EASA) once the UK withdraws from the European Union (EU). We continue our work to develop necessary contingency plans.

Board

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

This is Andrew Haines's last report as CEO since he left the CAA at the end of May after a tenure of nine years. Andrew has been an outstanding Chief Executive. His leadership, determination and focus have transformed the CAA and its ability to rise to the many and varied challenges that the past nine years have thrown at us. We all have reason to be very grateful to Andrew and I, along with everyone at the CAA, wish him well for the future.

In Richard Moriarty, we have a worthy and extremely able successor to Andrew and someone with whom I am very much looking forward to working.

Everyone at the CAA was delighted that three colleagues received awards in the Queen's Birthday Honours: Andy Cohen, Dr Sally Evans and David Kendrick. I would like to extend our congratulations to all three.

As the CAA continues to learn from the past, embraces this period of change and looks forward to the challenges of the year ahead, I would like to thank each and every member of our team for their continued focus and dedication to the important work that they do. Their contribution to safer aviation and to the better and fairer treatment of consumers has been, and will remain, critical.

Dame Deirdre Hutton DBE
Chair
20 June 2018

Statement by the Chief Executive

This statement has been written by the former Chief Executive, Andrew Haines, who was in post for the duration of the financial year ended 31 March 2018. He stood down from the Board on 23 May 2018.

At first glance, the role of a regulator can seem straightforward; establish rules and enforce them. The CAA's roles and responsibilities across the aviation landscape sometimes, however, take us into territory which does not fit with this general expectation.

Tales of the Unexpected

With that in mind it would be impossible to reflect on the past year without starting with a tribute to my colleagues for the exceptional work they carried out following Monarch Airlines entering into administration. Faced with the challenge of repatriating more than 85,000 people from across the Mediterranean and beyond, together we launched and operated one of the UK's biggest airlines for two weeks and returned 98% of those who travelled to the UK on the same day as their original booking. It was a phenomenal effort by hundreds of people. We are not a large organisation and the exercise required many colleagues to embrace roles that were utterly unlike their normal day job and demanded that we worked in close partnership with key suppliers and numerous government departments. That these arrangements worked so well is a real testament to the commitment, professionalism and flexibility of my colleagues and that is the reason it was one of the very proudest moments of my professional life.

Another area where our regulatory approach has gone beyond the expectations of some has been our determined use of 'reputational regulation' through publicity to raise consumers' awareness of their rights and to highlight where companies are not living up to their obligations. We have used this approach during the year with regards to the services provided for persons of reduced mobility at airports and with a number of airlines when they have not complied with European law in respect of passenger compensation or complaints handling. We are conscious that the limitations of our consumer powers mean that good outcomes for consumers are often best delivered through publicity that highlights these shortcomings. We look forward to hearing more of the Government's plans in this area as part of their Aviation Strategy proposals, which are expected to be published in the autumn.

Space is another new frontier for the CAA. The Space Industry Act became law in March 2018 unlocking an exciting new era of British space innovation, exploration and investment. Specialists from the CAA were involved in developing the safety legislation elements of the Act, that is designed to enable the development of a vibrant space and satellite launch industry in the UK. We will continue to work with the Government to create a regulatory structure that empowers innovation, embraces opportunity and allows UK launch activity to be carried out safely and responsibly.

Airspace

The next few years will continue to be challenging and stimulating for UK aviation, especially around the issues of additional runway capacity and airspace. The benefit of any additional airport capacity will be limited unless our nation's airspace is also updated. One of our prime roles in this area is to make decisions on whether proposed airspace changes go ahead. During the year we consulted on, and then introduced, a new process for this work, which is designed to make sure that future decisions about airspace changes are fair, transparent, evidence-based and proportionate.

We recognise that airspace changes can have a significant impact on local communities and other airspace users, and that some of the proposed impacts are understandably unwelcome. We want to make sure that, during the decision-making process, all those affected by a potential airspace change have access to transparent information and are engaged meaningfully in the process so that they can have their say.

The details of proposed changes and decisions are now more accessible through our interim website portal, which will be replaced by a permanent, upgraded facility in the Summer.

Safety Learning

Of course, the CAA's focus on consumer rights and the developing aviation sector must be underpinned by the enormous amount of work that goes into ensuring that the UK enjoys some of the very highest aviation safety standards in the world. It would be easy to take this for granted, given the exceptional safety record of commercial aviation in the UK. That risk of complacency must be avoided at all costs and during the year we have continued to work widely and deeply to improve our approach to safety regulation and oversight. This has involved improving how we gather data to build and establish a picture of risk, strengthening our approach to the way we plan and conduct our oversight, establishing more effective enforcement mechanisms and continuing to be influential in international rule making bodies. Our work with our Norwegian colleagues regarding the EC225 helicopter, with Cranfield University on our own safety Maturity Model, with various external bodies to reflect and learn from the awful Grenfell Tower tragedy and our work with EASA to establish a legal basis for a Drugs and Alcohol testing regime are a small sample of the areas where we have worked extensively during the year with a wide range of third parties to continue to strengthen the UK aviation safety system.

‘I have been humbled by the commitment and professionalism of so many of my colleagues at the CAA.’

Conclusion

This is my last report as CEO after almost nine years. During that time we have helped support the ongoing significant growth in choice and value for consumers, confronted challenging unexpected events such as Icelandic volcanic eruptions, taken on new roles, such as in aviation security, embraced huge logistical challenges, such as the Monarch Airlines repatriation and sought to learn whatever lessons we can from a small number of dreadful and tragic safety events, such as with helicopters, both on and offshore, and the Shoreham Air Display. Throughout my time in this role, during all of these circumstances and having observed the often unnoticed vast improvements in the way we go about our daily activity, I have been humbled by the commitment and professionalism of so many of my colleagues at the CAA. It is they who have had a real and positive impact on the lives of so many people and they are the reason why I believe that the CAA is well placed to embrace the challenges it will inevitably face in the coming years.

I am immensely grateful to Deirdre Hutton, who has been a truly exceptional Chair of the organisation and mentor to me. I could not be more delighted that Richard Moriarty is succeeding me and can think of no better an individual to carry forward the work of the CAA.

Andrew Haines OBE

Statement by the Chief Executive, Richard Moriarty

I am honoured to become the CAA's Chief Executive and build upon the strong foundations Andrew Haines has laid to ensure that the CAA consistently delivers on its core purpose of protecting the public and ensuring that consumers are fairly treated. In doing so I am pleased to be working with a dedicated group of professionals for whom the CAA's core purpose is a real passion and not simply a duty. This provides us with a solid platform to deal with the opportunities and challenges that lie ahead when combined with a confident and open approach to engaging with our stakeholders and a restless drive to learn and improve.

Richard Moriarty
Chief Executive
20 June 2018

Strategic Report

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 requires all companies that are not too 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 20 June 2018.
By order of the Board

Kate Staples
General Counsel and Secretary
20 June 2018

CAA Business Model

Our stakeholders

Those we PROTECT

- Aviation consumers
- The overflown

The ones who OVERSEE our work

- European Aviation Safety Agency (EASA)
- Department for Transport (DfT)
- International Civil Aviation Organization (ICAO)

The ones we REGULATE

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

The ones who HELP us

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

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 licensing of airlines, including assuring their financial fitness.
- 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.
- Oversight of the design, maintenance and repair of aircraft.
- The licensing of pilots, air traffic controllers and aircraft maintenance engineers.
- 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.

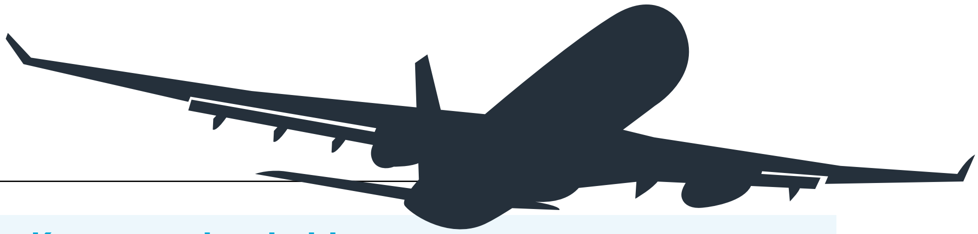
Principle 2: We will be clear at all times about the risks for which we are accountable and only seek to be accountable for risks that we can manage or oversee.

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.

We will 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;
- Looking to see where we can simplify and open up airspace in the UK; and
- Facilitating 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
- Increasing transparency over transactional activities.

Key enablers

Regulatory income

For the year ended 31 March 2018 our total income was £190.7m of which £84.5m was statutory income generated under the statutory charges schemes, £13.2m 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

£14.9m 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.

£21.8m 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 and promotes equal opportunity for all.

Review of Our Business

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

Monarch Airlines Administration

By far the biggest challenge the organisation faced during the year was repatriating the customers of Monarch Airlines, following a decision by the company's Board to cease trading. This was the UK's largest ever airline to enter administration.

As well as those covered by our ATOL holiday protection scheme, the Government asked us to repatriate all Monarch Airlines customers abroad. This led to the largest air repatriation exercise ever seen in the UK, requiring us to secure a fleet of nearly 60 aircraft to bring home more than 85,000 passengers that were abroad in just two weeks.

We had just a few weeks' notice that the failure of the company was one of several possible outcomes after restructuring discussions with the company's shareholders had commenced. In that time, we established a fleet equivalent in size to one of the UK's largest airlines, contracting aircraft from operators around the world as part of a contingency plan that we hoped we wouldn't have to deploy. The flight programme was designed to be as close as possible to the original Monarch Airlines schedule to allow those abroad to complete their holidays.

The two-week repatriation operation proved very successful, with almost 600 flights and 98 per cent of passengers returning to the UK on the day of their original scheduled flight, despite encountering some of the external disruption factors which affect commercial aviation.

We knew that clear and timely information to Monarch Airlines customers and others affected would be a key element to the success of the operation. We therefore ensured that a dedicated call centre and social media handlers, as well as a dedicated website specifically built to handle high levels of traffic, were in place as soon as the company went into administration.

As well as the repatriation, we also ensured that the many thousands of ATOL protected passengers unable to have their holidays were able to claim refunds though an efficient, streamlined service. In the first three months following the failure around 80% of ATOL protected customers were refunded.

Our operations called on colleagues from across the organisation, many undertaking tasks outside of their normal roles. As a result there has been an impact on some existing planned work that has been subject to delay.

Risk based regulation

We have placed a risk based approach to regulation at the heart of what we do, because it is founded on an informed and comprehensive understanding of present and emerging risk, seeking to deliver effective regulation that is targeted, timely and proportionate. Our work to embed performance-based regulation as the mainstay of our safety oversight continues and is becoming 'business as usual' for many of our colleagues. A real benefit is that it allows us to deploy our resources more flexibly to target the most significant risks while still maintaining oversight of all other elements of the UK industry. We will continue to develop the system and our work to embed it with UK industry over the coming year.

We continued to implement actions from our UK air display review. New procedures were introduced for the 2017 air display season. The review followed the accident at the Shoreham Air Display in 2015 and our thoughts remain with the families and friends of everyone affected by this terrible tragedy.

Safety promotion and education are key elements in our overall work to continuously improve levels of safety. This is particularly the case for recreational aviation, which is where the overwhelming majority of fatal accidents have occurred in the past generation. Part of this work is making rules, regulations and safety advice available to audiences in formats that they find most useful. The publication in 2017 of our new Skyway Code for General Aviation was a major achievement in this area. It has been particularly well received by the community.

The safety of those who travel on offshore helicopter flights remains another key priority for the CAA. We work closely with colleagues in Norway and the European Aviation Safety Agency (EASA) to develop safety improvements. We also continue to embed the work of our 2014 review with helicopter operators, the offshore industries, international regulators, unions and pilot representatives to enhance offshore safety standards still further with all these parties actively involved in ongoing discussions.

In 2017, along with Norway, we lifted restrictions on H225LP and AS332L2 helicopters that were imposed following the fatal accident involving a H225 near Turøy in Norway in April 2016. This was not a decision we took lightly. It was only made after receiving extensive information from the Norwegian accident investigators, working with EASA and once we were satisfied with the subsequent changes introduced by the manufacturer, Airbus Helicopters. No UK operator has so far decided to return the aircraft into service.

More recently, there has been significant press coverage of reliability problems with variants of the Rolls-Royce Trent 1000 engines. While EASA is the certificating authority for these engines, we continue to work closely with them to satisfy ourselves that appropriate measures have been put in place by the manufacturer and the operators to ensure safety.

In aviation, many advances in technology and safety are made by the ground-breaking work of individuals. The first recipient of the new CAA Flight Safety Award is an example of this. Dr Rory Clarkson, an engineer at Rolls-Royce in Derby, has been a leading figure in the aviation industry's efforts to safely reduce the disruption that volcanic ash can cause. Since the 2010 ash disruption, Rory has been researching and developing the understanding of what has happened when jet engines have encountered volcanic ash. For the first time, the global aviation industry now has a set of data and a model to use during any ash event. This will mitigate against aircraft engines becoming damaged by volcanic ash while at the same time allowing airlines to fly as much as possible, safely reducing the disruption to passengers.

As well as concentrating on emerging risks, we have taken a risk-based approach to make changes that are proportionate and we have, for example, enabled pilots with medical conditions to keep flying, most recently in our ground-breaking work on insulin-treated diabetes.

We have also been responsible for writing international guidelines on pilots living with HIV and have been promoting the need for changes to the current regulations regarding the restrictions applicable to pilots with certain medical conditions, including HIV.

In early 2018, when a HIV positive UK pilot was blocked from pursuing a career by the way European regulations dealt with initial pilot applications, we issued an exemption. This allowed the issue of an initial Class 1 medical certificate, with a restriction to multi-pilot operations, to applicants wishing to become commercial pilots, subject to them passing their Class 1 medical assessment.

We also made representations to EASA, asking them to undertake the necessary rulemaking activity and associated research without delay. We intend that this will lead to a permanent change to the current regulations.

The emphasis that our aviation security team has placed on collaborative working with industry since its arrival in the CAA is now paying dividends. It has facilitated the correction of aviation security compliance failings at the earliest possible stage, through open dialogue between the industry and our auditors. This has built up trust and resulted in sustained high levels of compliance. Tied to this is our approach to our security management system (SeMS), which promotes the embedding of quality control and security awareness in the regulated entity.

Empowering consumers

We continue to investigate potential sources of consumer detriment in consumer rights issues. These include flight delays and cancellations, the rights of people with restricted mobility to assistance and support, and consumers' rights to make informed buying decisions based on comprehensive and accurate information.

We will not hesitate to take action against airlines operating in the UK that we believe are not fully compliant with important consumer laws. We are consistent in this approach, and in the last six years the CAA has secured 22 legal undertakings from airlines and other travel companies on a range of issues to protect consumers. We took action when airlines misled passengers with inaccurate information about their rights.

During the year we also welcomed the decision of the Supreme Court to refuse a permission to appeal in relation to passenger compensation for missed connections outside the EU. The Court's decision confirmed our interpretation of the European regulation around compensation for passengers that had suffered a long delay as a result of a missed connection outside the EU.

In other areas, we have achieved improvements in the quality of information given to consumers by several online travel agents where the information omitted key facts; launched a review of airline allocated seating charges; and taken further steps to ensure that airlines properly give passengers their rights to reach their destination through rerouting, where the airline has cancelled flights.

The UK's Alternative Dispute Resolution (ADR) system continues to grow with 78% of passengers flying to and from the UK now using an airline that participates in this scheme to ensure that passengers can escalate disputed complaints, limiting the need to go to court. We have been very public in urging those who have not yet signed up to ADR to do so, given the consumer benefits of doing so.

The ADR system dealt with more than 10,000 passenger complaints in its first 12 months. 79% of complaints were upheld, and 77% of consumers found the decisions to be clear.

We continue to draw attention to the importance of ensuring that air travel is increasingly accessible. The numbers of UK passengers with a disability travelling by air has grown by more than two thirds since 2010. For the second year we published an assessment of how well the UK's top 30 airports performed in assisting people with restricted mobility and made good progress in developing a framework within which airports should offer assistance to people with 'hidden disabilities', such as dementia and autism. We have also published guidance for airports.

In the coming year we plan to build on this existing work to provide a compliance framework for airlines and produce similar guidance for them on hidden disabilities. We will also continue our consumer awareness campaign for ATOL holiday protection.

Our Consumer Panel was established in October 2012, and since then has become a firmly established part of the CAA's eco-system, providing independent advice and challenge to us on a range of consumer issues. In 2017/18, we undertook a review of how the Panel can best deliver against its purpose over the next five years, and to inform a number of Panel appointment processes.

We were delighted to appoint Jenny Willott as Chair of the Panel in January 2018. Prior to her appointment as Consumer Panel Chair, Jenny was a Member of Parliament for Cardiff Central and served as the Consumer Affairs Minister, with responsibilities including consumer policy, competition policy and employment law. She is now the Director of Enterprise and Innovation at St Mary's University and a Non-Executive Director for the Independent Parliamentary Standards Authority.

In addition, the terms of many founding Consumer Panel members are reaching an end over the course of 2017/18, and we have appointed five new Panel members. They have wide ranging skills and experience that will ensure that the Panel can give high quality input in a broad range of areas. Our new appointees are Carol Brennan, Helen Dolphin MBE, Jacqueline Minor, David Thomas and Walter Merricks OBE. They will take up their positions between April and October 2018.

Technical innovation

One of our key aims as a regulator is to ensure that we are not an unnecessary impediment to innovations that might benefit consumers through enhanced safety or better choice or value.

Two prime areas of work this year have been unmanned air vehicles, or drones, and spaceflight.

We support the safe development of drones in the UK. Drones can bring many benefits, but to achieve those we need everyone flying a drone to do so safely. During the year we have been working with the Government on their plans to introduce a drone registration scheme in the UK and revise the relevant legislation. Our policy experts have played a key role in assisting EASA to develop cross-European rules for drone use. This will assist drone organisations trading across the continent and help to reduce confusion among drone users. We have also consolidated our specialists into a single drone team.

Educating drone users to help them to understand the risks posed to other airspace users remains a key element of our work. We have continued to run an extensive education campaign, which was acknowledged with a national award in 2017.

We are supporting development of low cost surveillance and awareness devices for general aviation aircraft. These can offer benefits to pilots by providing them with immediate weather information and collision avoidance advice. Plus, as demand for airspace increases, the devices will provide information on the aircraft to air traffic control, potentially allowing easier access for general aviation aircraft into controlled airspace. Notwithstanding this good work, there are significant challenges regarding interoperability of the various devices in use across the different aviation communities, which do not communicate with each other and, in some cases, use different parts of the frequency spectrum. Consideration also needs to be given to the wider use of drones and the conspicuity challenge they bring.

The Space Industry Act became law on 15 March unlocking an exciting new era of British space innovation, exploration and investment. Specialists from the CAA were involved in developing the safety legislation that will now unlock this area. We will continue to work with the Government to create a regulatory structure that empowers innovation, embraces opportunity and enables UK launch activity to be carried out safely and responsibly.

All these strands of work and others were brought together at our first "Enabling Innovation in Aviation" conference held in March 2018. This helped us to set out our position to be more involved in the development of technology.

Infrastructure optimisation

The proposed expansion of Heathrow would be one of the largest privately financed infrastructure projects ever undertaken anywhere in the world. We have been clear for a number of years that, while expansion at an affordable price is in the interests of consumers, the economic regulation of this expansion cannot be treated as business as usual, and Heathrow's airline customers have a critical role to play in establishing the efficiency of the scheme design, procurement and delivery.

We remain committed to working with stakeholders to ensure that the right incentives are in place so that the expansion scheme is deliverable in a timely, affordable and financeable way that protects the interest of consumers. We have published a series of consultations and other documents which will ultimately lead to us setting a price control for Heathrow to cover its construction of new capacity. In addition, we have reported regularly to the Secretary of State under Section 16 of the Civil Aviation Act 1982 on how well Heathrow Airport Limited is engaging with the airline community. The aim of this work is to ensure that the concerns of Heathrow's customers on scheme scope, design and cost are appropriately considered by the airport operator.

In the coming year there will be further work and reports, plus an update on our approach to the framework of economic regulation in which Heathrow Airport operates. We will also continue to support airport-airline engagement so that the interests of consumers are appropriately reflected in the scheme design.

The benefit of any additional airport capacity will be severely limited unless our nation's airspace is also updated. We have two principal roles in this area. The first is to establish an overarching plan for the modernisation of airspace and the second is to make decisions on whether proposed airspace changes go ahead. During the year we have begun refreshing the overarching plan in the light of new statutory guidance provided by the Secretary of State for Transport. At the same time, we have consulted on, and then introduced, a new process for this work, which is designed to make sure that future decisions about airspace changes are made in a fair, transparent, evidence-based and proportionate way.

We recognise that airspace changes can have a significant impact on local communities and other airspace users, and that some of the proposed impacts are understandably unwelcome. We want to make sure that, during the decision-making process, all those affected by a potential airspace change have access to transparent information and are engaged meaningfully in the process so that they can have their say.

The details of proposed changes and decisions are now more accessible through our website.

Service excellence

There were some key successes this year in our work to enhance further the broad range of transactional activities we undertake with stakeholders across the aviation industry.

We introduced online licensing applications and administration for commercial pilots. The new service is part of the CAA's plans to update the personnel licensing system for the UK aviation industry, with private licence applications following.

The latest deployment of the ATOL e-Licensing platform was successfully implemented. It allows greater use of data analysis to help inform us as we identify risk factors in our regulatory decision-making. The principal remaining elements of the rebalancing ATOL programme, designed to address a specific disparity in the regulatory burden between larger and smaller ATOL holders, were also rolled out.

Although service levels for flight crew licensing improved at the start of the year they then deteriorated from December 2017. This was due to significant increases in applications, teething issues with the launch of the e-Licensing system, and resourcing challenges. We expect to return to our target service levels in June 2018.

International

Our key international objectives focus on working with, and supporting others, to improve aviation standards sustainably across the globe and using our resources wisely to maximise our international influence to protect UK citizens outside of UK airspace.

We continue to partner with EASA to support its outsourcing contract for organisation certification and approvals around the world. We have continued to work in partnership with a number of States to improve operational safety performance in UK airspace and at significant destinations for UK operators.

The accreditation of CAA International Limited, our wholly owned advisory arm, as a Social Enterprise gives us the opportunity to work with national aviation authorities around the world to improve their safety performance.

As part of this effort we have signed a training agreement with ICAO, to provide a number of free training places to regulators selected jointly by us and ICAO as part of their 'No Country Left Behind' programme. In partnership with ICAO's Eastern and Southern African Office and the Kenyan Government, we delivered an Aerodrome Certification course in Nairobi to 36 African delegates. As of December 2016, only 21% of aerodromes in Africa were certified to ICAO standards. With almost 5 million passengers flying to and from UK airports to Africa, we were delighted to support this project.

We have been invited to participate in key international study groups that are aiming to move safety oversight onto a more performance based footing. This is an area where we have taken a lead, and developed a much closer relationship with UK Government entities to ensure that we maximise our international reach and coordinate with other UK companies. This means that we can offer a full service to international clients. In the coming year we will launch our 'Aviation Academy', initially with an aviation security training programme.

Our Efficiency Report

Being efficient and effective is an essential element of delivering our objectives. It is also central to the principles of Better Regulation to understand the impact of our regulation, minimise costs where possible and ensure that we have resources available to focus on the most significant risks.

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 that the burden we impose through our regulation is proportionate to the risks being managed.

This report provides a review of the financial, regulatory and service efficiencies that we have achieved during the year and the efficiencies that we have planned for the coming 12 months.

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 2017/18, for the first time in seven years, we increased our charges but held the rises to below the level of general price increases; this followed six successive years of charges being frozen or reduced.

Employment costs represent the majority of our total expenditure so if we are to deliver efficiencies it is important that we focus on these costs. Average pension costs have shown a downward trend in the last few years, 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. 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. The rate of return for 2017/18 was 0.3%, 3.2% below the target return. Following the achievement of a much higher rate of return (8.2%) in 2016/17, the CAA Board took the decision to fund certain project related expenditure in the current year from the surplus reserves created in the previous year.

If we had not gone ahead with that project related expenditure, the return achieved this year would have been 5.9%. The lower rate achieved in 2017/18, therefore, reflects the outcome of the Board's decision. The average rate of return achieved over the last two years was 4.3%.

During the financial year, we have met all of the funding requirements of the Transformation Programme (£7.0m) and our loan repayment commitments (£1.2m) 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 £10 million overdraft facility with our bankers, Royal Bank of Scotland; we have not used it during this financial year.

We will further improve our efficiency by encouraging all of our budget holders to control spend 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.

During the financial year we have met the financial efficiency targets we set ourselves in last year's annual report (2016/17). These targets were:

Target	Outcome
Below inflation increases in fees and charges for the majority of those we regulate.	Achieved. Our charges increased by 1.5%.
Reducing expenditure in real terms except in areas of security (including Cyber) and emerging technologies and ensuring that operating costs do not exceed 2017/18 budgeted levels within the Regulatory Sector.	Achieved. The regulatory cost base for the year was £243k lower than budgeted.
Managing our pension costs.	The overall pension cost in the Income Statement has increased, primarily as a result of the IAS 19 valuation adjustment. Average actual contribution per employee, however, has reduced by 7.2% year-on-year as the proportion of defined benefit scheme members decreases due to staff turnover.
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 £2.5m.
Seeking to sub-let space in our London offices and optimise relocation costs from other London offices.	Achieved. Space at the CAA London office has been sublet to the Crown Commercial Services.

In order to continue our 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 and ensuring that operating costs do not exceed 2018/19 budgeted levels within the regulatory sector;
- managing our pension costs;
- continued funding of the Transformation Programme from existing reserves and savings generated from the programme; and
- optimising the transition costs of the relocation of the CAA's London office and ensuring that it delivers a positive net present value over the term of the new office lease.

Regulatory efficiency

The primary aims of our regulatory functions include: maintain safety through a performance based regulatory regime; delivery of safety programmes; optimisation of UK aviation infrastructure and airspace; and strengthening our internal capacity, utilising our resources as efficiently and effectively as possible.

Performance Based Oversight

Performance Based Regulation (PBR) is a new approach to safety regulation. This approach involves developing a comprehensive safety risk picture with the organisations we regulate and building our knowledge and data to ensure that we target our regulation in the areas where it will make the biggest difference. We have been rolling this out over a number of years in a phased manner and we have established internal targets and measures to monitor progress, as first detailed in our 2016/17 efficiency report. Targets have been set for each of the Safety and Airspace Regulation Group (SARG) oversight teams for 2017/18 and 2018/19 and are shown below for the two measures (Tables 1 and 2 respectively). These measures are reported on internally on a quarterly basis.

1. % of confidence that oversight is managed in accordance with PBR approach				
SARG team	**March 2017 Actual**	**March 2018 Actual**	**March 2018 Target**	**March 2019 Target**
Aerodromes, Airspace and ATM	35%	85%	70%	100%
Airworthiness	100%	100%	100%	100%
Flight Operations	50%	75%	75%	100%
General Aviation	20%	43%	30%	60%
Meteorology	N/A	100%	100%	100%

Explanation:

Our performance based oversight (PBO) approach has been introduced team by team in recent years. We developed a set of indicators to measure the progress each team has been making towards fully embedding the PBO approach. The percentages in the above table summarise the indicators to give us an overall confidence level for each team.

The indicators include:

- implementation of Business Rules to determine the extent of oversight we want to apply to each organisation we regulate;
- implementation of an oversight plan for all organisations in accordance with these Business Rules;
- managers using our oversight recording tool (Q-Pulse) to manage the use of their people resources to best effect; and
- managers assessing and approving changes to the level of oversight applied to organisations based on audit findings and safety risk.

The March 2018 figures show the improvements made since March 2017 across all teams (except Airworthiness which had already reached the target in March 2017). The General Aviation team started to implement the PBO approach later than other teams and is a complex 'mini-SARG' which carries oversight responsibilities in many sectors including Airworthiness, Aerodromes, Air Displays and Pilot Training.

If sustained, all teams are expected to reach the agreed 2019 targets. The achievement of these targets will provide us with confidence that we are planning our oversight activities, and the use of our resources, to focus on those areas or organisations where we consider there are safety performance improvements required.

2. % of oversight activity planned in next 12 months that is overdue				
	March 2017 Actual	**March 2018 Actual**	**March 2018 Target**	**March 2019 Target**
Aerodromes, Airspace and ATM	4%	5%	5%	5%
Airworthiness	4%	3%	5%	5%
Flight Operations	15%	15%	10%	5%
General Aviation	19%	13%	10%	5%
Meteorology	N/A	9%	5%	5%

Explanation:

Each of our teams establishes an annual oversight plan for the organisations we regulate. Although we want to deliver against that plan, we also want to be agile in adapting the plan in the light of what we learn during each of our oversight visits and also want to be able to deal with important 'pop-up' activity during the year. Examples are: if we identify safety performance concerns at an organisation, we may choose to prioritise additional visits to that organisation that are not in the original plan; and if we are requested to provide specialist expertise to support an accident investigation, some planned oversight may need to be delayed. In effect, the plans are flexed so that some activities are delayed and replaced with activities of higher safety benefit. We have, therefore, set ourselves a target whereby we expect some planned activities to be delayed but aim to have no more than 5%. In other words, we aim to deliver 95% of the plan to time.

e-Learning Platform for AMEs

In August 2017, we implemented an online system to provide training updates to the approved Aeromedical Examiners (AMEs) who undertake medical assessments of aircrew and air traffic controllers. This system will enable the AMEs to access up to date information about developments in medical regulation and in aviation-related medical matters. This will enable more prompt and efficient provision of information to the AMEs and significantly reduce the reliance on face-to-face training events for them. Since August, further enhancements have been made to the platform to make more online information available to AMEs.

Class 1 Medical Assessments by AMEs

We are putting in place a new approach whereby AMEs will be able to declare commercial pilots medically fit after a period of decrease in medical fitness, in straightforward cases. This will mean there will be no need to contact a medical assessor at the CAA for a decision on fitness in specified circumstances. This will result in a more efficient process for the pilot and industry, which should minimise any delay for pilots returning to work after minor injury or illness.

Mandatory Occurrence Reporting process

We have undertaken a full review of how we receive, process and assess Mandatory Occurrence Reports (MORs) submitted to us by the aviation industry. The review has resulted in several recommendations that address improving the efficiency with which we undertake this work, for example, by streamlining our internal distribution process and automatically producing data for monthly MOR report listings. Work is progressing to enable industry to submit the MOR reports electronically directly into the European Co-ordination Centre for Accident and Incident Reporting Systems (ECCAIRS) database. We went live with this in January 2018. This is starting to standardise the format of reports submitted to us, which should improve the quality of data being received from reporters. It also reduces the margin for error that is present when manually entering information from several different reporting document formats through automation of the input of a proportion of this routine information.

Electronic conspicuity

Our work on low cost electronic conspicuity devices, as detailed in CAP1391, has allowed very inexpensive devices to be used by the general aviation sector to enable them to enhance the visibility of their aircraft without significant financial burden.

The CAA is leading a period of trials and studies to confirm our view that the use of ADS-B (Automatic Dependent Surveillance-Broadcast) on 1090mHz frequency is a valid methodology for improving electronic conspicuity amongst General Aviation airspace users and, in due course, drones also. CAP1391 has brought new standalone devices to the market (a multi-functional 'carry-onboard' model is now available from £350, a near 50% reduction on its predecessor) to encourage uptake. Other methods of making aircraft electronically conspicuous do exist in the market but tend to be localised fixes for small sections of the market. Our intention is that we develop a truly interoperable solution that provides both financial and safety-of-life benefits as well as enabling wider access to some currently restricted blocks of airspace.

Airspace Change Online Portal

We launched our interim Airspace Change Online Portal in January 2018, to enable transparent consultation to take place on new proposals for airspace changes. Work continues towards delivery of a full portal solution which will provide:

- a single, 'one-stop shop' access point, allowing users to access every airspace change proposal and view its current status;
- a document repository for each change proposal throughout the seven stages of the airspace change process;
- the route by which all consultees can respond to consultations publicly, with responses published while consultation is still in progress;
- the means of tracking progress of an airspace change proposal and accessing all relevant documents published during the process; and
- the means of notifying opportunities for public engagement and booking slots at public meetings.

The full portal solution is expected to be in place during summer 2018.

ATOL

2017/18 was the first whole year during which 100% of ATOL holders had been regulated within the new measures introduced following the CAA's "Rebalancing ATOL" consultation, which were primarily new financial tests applied to all licence holders, and independent assurance on regulatory returns by qualified accountants, appointed by their professional bodies ("ATOL Reporting Accountants", or ARAs). During the year the renewal processes were further streamlined in the light of the initial renewal rounds run on the new basis. Additionally, the CAA monitored the accuracy of the reports provided by ARAs and fed back issues to the accountancy professional bodies, so that those issues could be addressed.

In addition to those changes, the CAA has been considering how it can further develop the basis on which resources are allocated proportionately so that cases with greater consumer exposure, whether for reasons of size or level of risk, are better resourced than others. That exercise will continue into next year, as will an exercise to review and revalidate the new financial ratios, in the light of experience gained since their introduction.

During the first half of the year the CAA also conducted a project to improve the resilience of its repatriation capabilities, by renegotiating contracts with airlines where the CAA had existing terms under which the airline would supply capacity, and also signing similar contracts with new airlines and ground handlers.

ATOL online

We have introduced a new online application system for organisations to apply each year for their ATOL certificates. The system was initially tested with 5 ATOL holders in September 2017 and went live with over 250 ATOL holders applying for their licences in March 2018. The new system will deliver benefits for ATOL holders and will also provide efficiency improvements for us to complete risk analysis and issue ATOL certificates. The system will be open for all organisations to apply for their ATOL certificates in September 2018.

Consumer rights

An internal reorganisation, which brought ATOL enforcement and consumer rights enforcement closer together, proved its worth during the year. In response to evidence indicating that several travel companies had breached the Package Travel Regulations, the CAA's operation to respond to this benefited from the detailed knowledge of ATOL specialists, working within the broader and more holistic framework developed for consumer enforcement. The two specialisms working together delivered a successful outcome.

Service efficiency

The focus within the Shared Service Centre (SSC) continues to focus on improving service delivery to all our stakeholders; both external and internal.

As our new systems come on-line, richer data sets and operational performance data are providing managers with the information required to maintain and build on previous efficiency gains whilst also sign-posting the way forward to future service quality improvements. Our demand and forecasting models have allowed us to identify what we should focus on and where we need to invest time and resources at a more granular level.

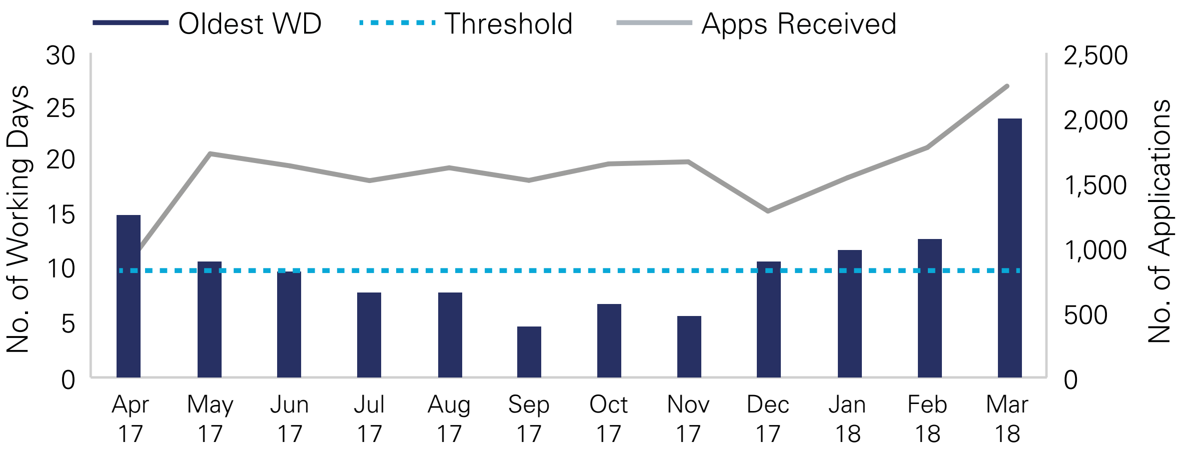
New technologies, however, do not deliver service and quality improvement on their own. In 2018 we will invest further in our staff and management capabilities so that change can more readily be realised and build further on our reputation as a source of high quality staff to all CAA departments.

Flight crew licensing service & new online pilot licence application system

Service Delivery

Service levels on flight crew licensing improved at the start of the year and reached a low of 6 working days turnaround time in November 2017. This improvement to our target service levels was supported by additional trained resources who had successfully completed a 12 month in-house training course. Service levels have unfortunately deteriorated since December 2017 due to significant increases (up to 60%) in pilot licence applications (partly due to EASA conversion requirements), teething issues with the launch of the e-Licensing system for commercial pilots and resourcing challenges as some staff have been promoted to other roles within SARG. We expect to return to our target service levels in June 2018 following a review of resourcing and improvements to the e-Licensing system.

Applications Received and Oldest Working Day (by month)



We have also enhanced our on-site services and have introduced a "Same Day Service" booking telephone line with an SMS system to notify stakeholders of appointment date/time and amendments. The enhanced counter service has proved popular as it enables applicants to avoid queuing times, with slots being regularly filled up to a month in advance.

Going forward we will continue to improve demand forecasting and increase capacity to ensure that we have improved resilience. We will also focus on improving application quality and 'self-service' activity. At present, depending on the application methodology (paper, online, e-Licensing), early indications are that between 30-50% of pilot applications are submitted incorrectly and this creates additional workload and queries with pilots. Our new Right First Time approach will allow us to identify and work with stakeholders to drive efficiency and compliance over the coming twelve months.

Online Pilot Licensing System – e-Licensing

The first phase of the e-Licensing solution was launched in December 2017. The focus of this release was processing capability for commercial pilots and implementing a portal for training organisations to review or submit applications on behalf of their pilots.

Whilst the system validates that documents have been submitted, there is still a need for pilots to ensure that they are submitting the correct version of documents in the appropriate place. We have provided system and process training to key stakeholder organisations to address many of the frequently asked questions. Further development is ongoing in this area to fully realise the benefits.

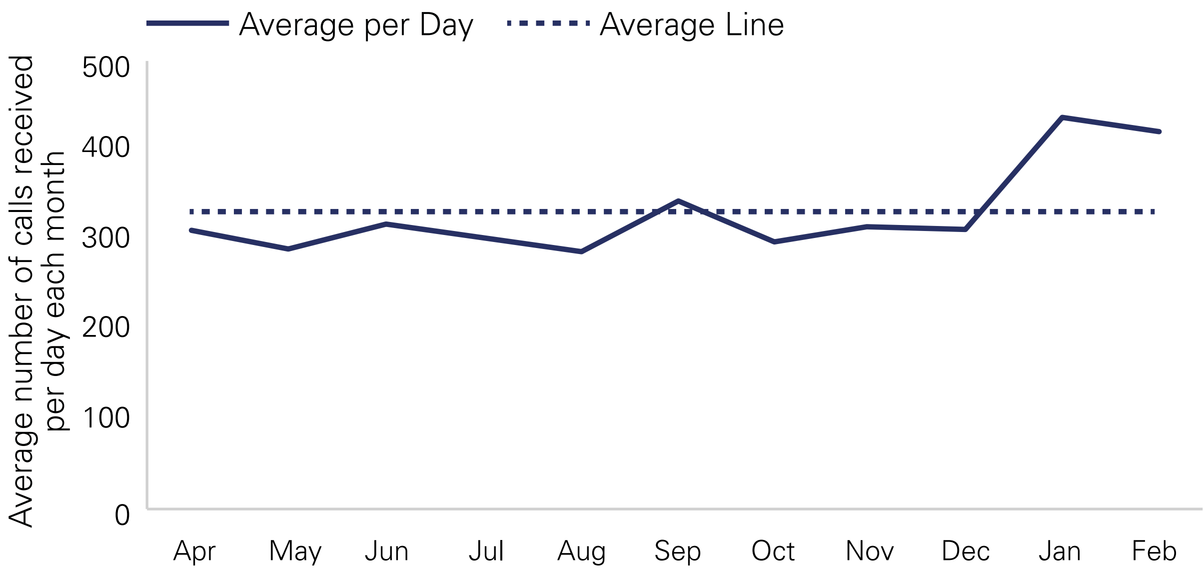
We will continue to focus on performance across all aspects of Flight Crew Licensing over the coming year as we embed the new systems associated with it, work with capability areas to enhance demand forecasting and continue to add further resilience through management and staff training programmes.

Telephony

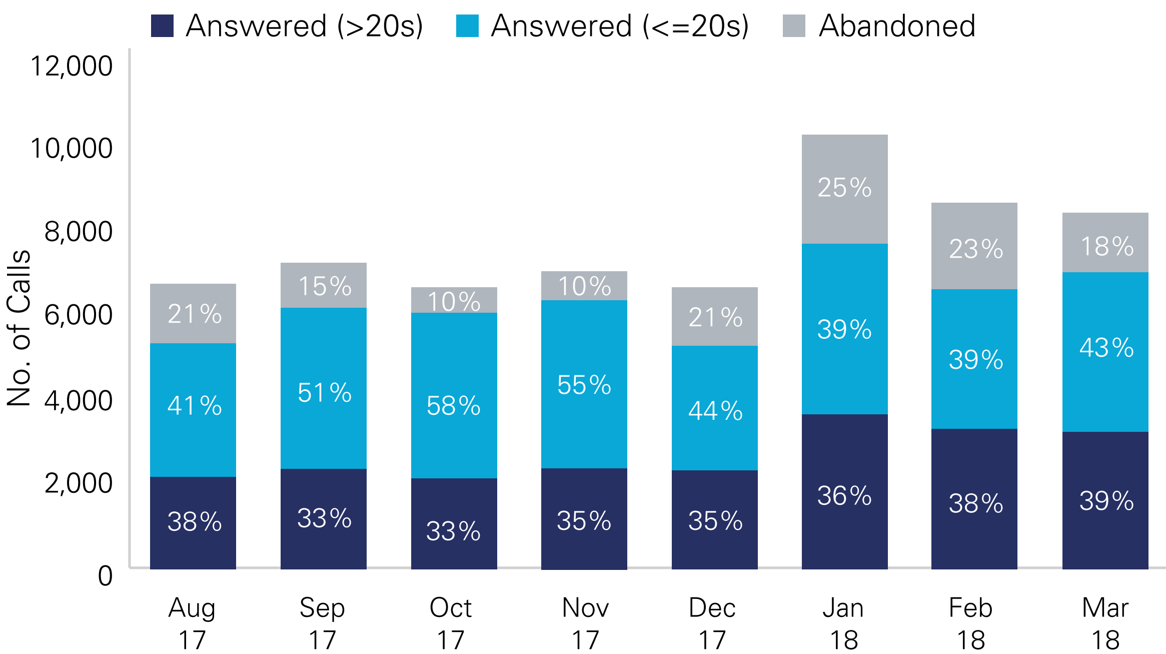
In July 2017, we introduced a new telephony platform. In the first phase, this has enabled us to improve internal performance reporting, and improve call routing/handling so that calls are handled efficiently by correctly skilled staff. Call recording has also been introduced, which also improves customer service quality.

As call volumes continue to rise or spike during busier periods, the system continues to be enhanced to provide richer call reporting data delivering clearer visibility of performance, call "tagging" has been enabled in February 2018 and in combination these features enable call analysis which will support our ability to further improve service delivery. Our target is to reduce abandoned calls to be less than 10%.

Calls Volume Growth



Call Answer Times Vs Abandonment



Over the coming financial year we will be evaluating further potential improvements:

- delivering Automated Payment Card Industry compliant payments (PCI);
- deeper integration with our CRM master customer database to facilitate more self-service provision; and
- linking an Artificial Intelligence (AI) 'bot' to the CAA website to improve customer experiences and encourage self-service.

UAS Applications

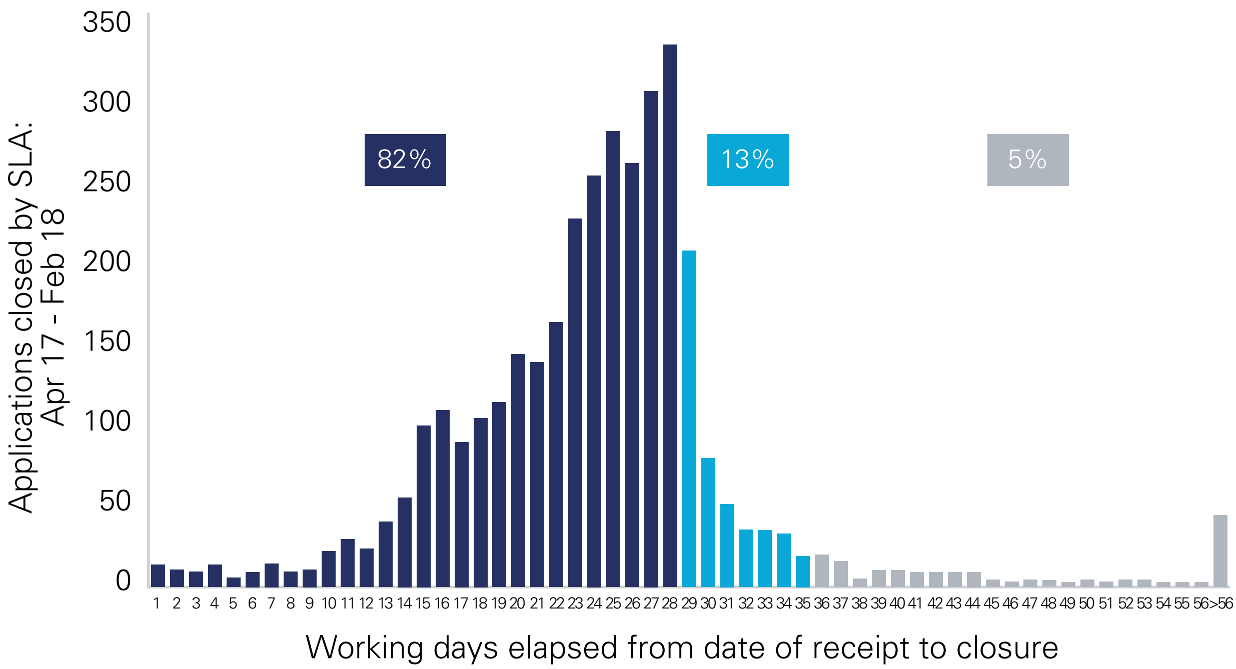
Unmanned Aircraft Systems (UAS) application demand has increased by 32% year-on-year and new insurance requirements were introduced in March 2017, this led to performance falling short of our target service standards for several months. To enable us to stabilise the service delivery, we adjusted internal processes, team size and skill levels to improve lead time and customer service for standard applications. This has resulted in setting up a new Sector Team to handle National Qualified Entity (NQE) and Operational Safety Case (OSC) applications, which has enabled our Shared Service Centre to focus on improving service on Standard Permissions. Improvements have included the design of an online application process for Standard Permissions, which accounts for 95% of the overall demand and this went live in April 2018. It is anticipated that this change will reduce the volume of applications placed on hold by 30%.

The review work is ongoing at the time of this publication and further adjustments to our internal process are planned. We have already delivered notable improvements to turn around time with the number of applications being processed within 28 working days increasing from 45% to 82%, as can be seen in the graphics below.

UAS Historical Performance

Historical performance comparison against service standards			
Period	**< 28 Days**	**28-35 Days**	**>35 Days**
Oct 16 - Mar 17	45%	31%	24%
Apr 17 - Feb 18	82%	13%	5%

UAS Applications Closed

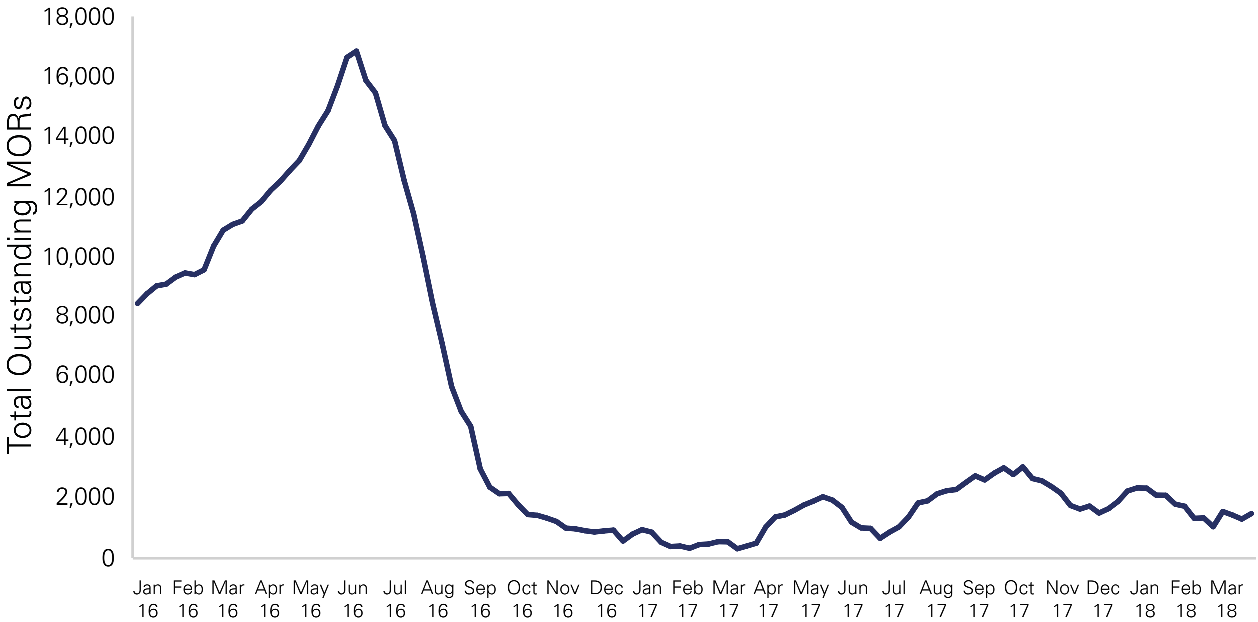


Mandatory Occurrence Reports (MORs)

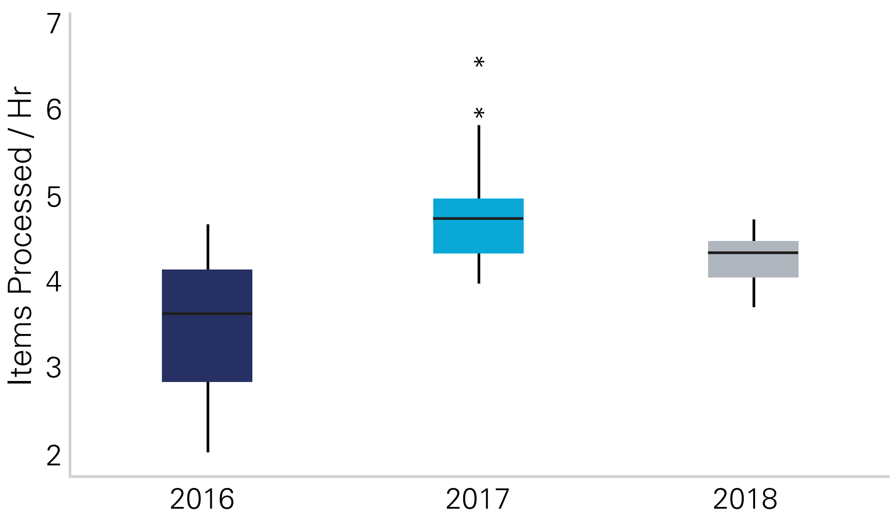
The total number of new MORs received has remained stable (an increase of under 3% Mar-Feb 17/18 compared to Mar-Feb 16/17).

The changes introduced into the Safety Data team to increase capacity and productivity have been resilient to the seasonal reporting peak, with service standards achieved for the entire year.

MOR Outstanding Workload



MOR Weekly Productivity



Complaints about the CAA

We are committed to providing a high standard of service to everyone we deal with and welcome complaints as this feedback enables us continuously to improve. Below is a table highlighting the number of complaints received over the past year split by category. Overall there has been a 26% reduction in the number of complaints received and the number that were upheld in full or in part which is positive. We recognise, however, that since December 2017 and March 2018 Flight Crew Licensing has been operating in excess of the service level targets due in part to: an increase in applications; the implementation of the new e-Licensing system; and the ongoing need to train our staff. We acknowledge this will have a negative impact on the number and types of complaints received and we are taking active steps to address this, including pipelining additional resources, making improvements to the e-Licensing system, reviewing and enhancing forecasting activities and increasing the training provision.

In addition, we will be reviewing our communications and end-to-end processes with a view to increasing the percentage of applications that are 'right first time' as this will improve both the customer experience and enhance team efficiency.

Complaints about the CAA	2017-18	2016-17	2015-16
Number of complaints in line with our complaints policy	131	178	143
Upheld in full or in part	61 (47%)	94 (53%)	76 (53%)
The categories of upheld complaints are:			
Poor service, including:	56 (92%)	86 (91%)	73 (96%)
application processing delays	39 (64%)		
failure to respond to enquiries	10 (16%)		
other (quality and systematic issues)	7 (12%)		
Charges/fees	1 (2%)	2 (2%)	-
Staff behaviour	3 (4%)	4 (5%)	-
Lack of CAA action	-	1 (1%)	-
Unfair treatment/bias	-	-	-
Over regulation/gold plating	-	1 (1%)	2 (3%)
Incorrect advice	1 (2%)	-	1 (1%)

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 2018 (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 2017/18 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 89 to 97.

Moore Stephens LLP

Chartered Accountants and Statutory Auditors
150 Aldersgate Street
London
EC1A 4AB

20 June 2018

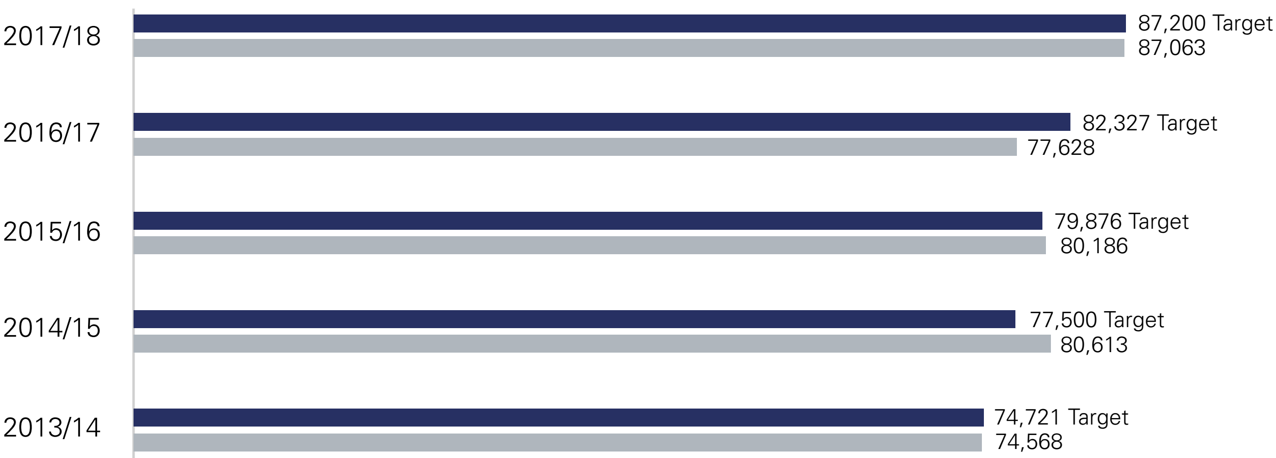
Key Performance Indicators

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)



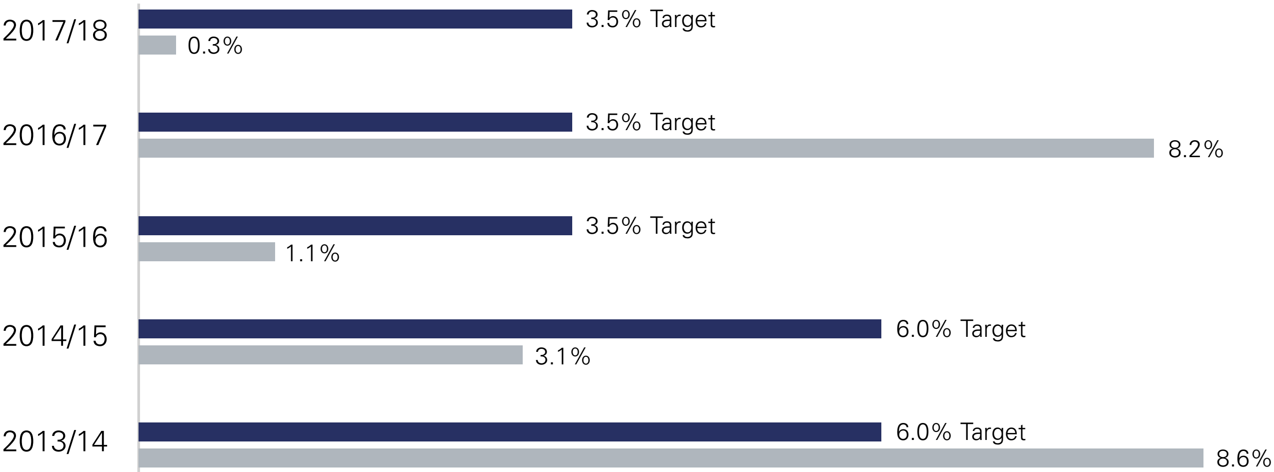
This KPI is the adjusted operating costs for the Regulatory Sector, which is made up of the activities of safety and airspace regulation, consumers and markets and aviation security.

Analysis

Regulatory operating costs have risen substantially over last year's levels as a result of growth in the number of resources employed to undertake additional regulatory and transformation programme activities, an increase in professional fees (mainly consultancy costs in respect of the Heathrow runway and NATS reviews) and a reduction in the operating profit contribution generated by CAA International Limited. We did, however, manage to hold the overall increase in costs to below the budgeted level.

Target rate of return

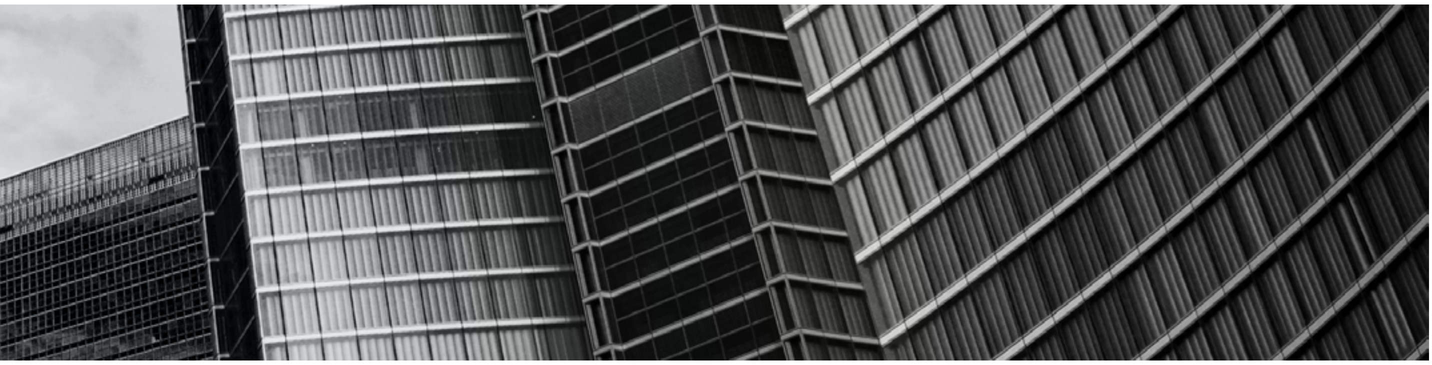
Rate of return (%)



We are required by the Secretary of State for Transport to achieve for the regulatory sector the higher of either 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% to 3.5% on the current cost of capital employed.

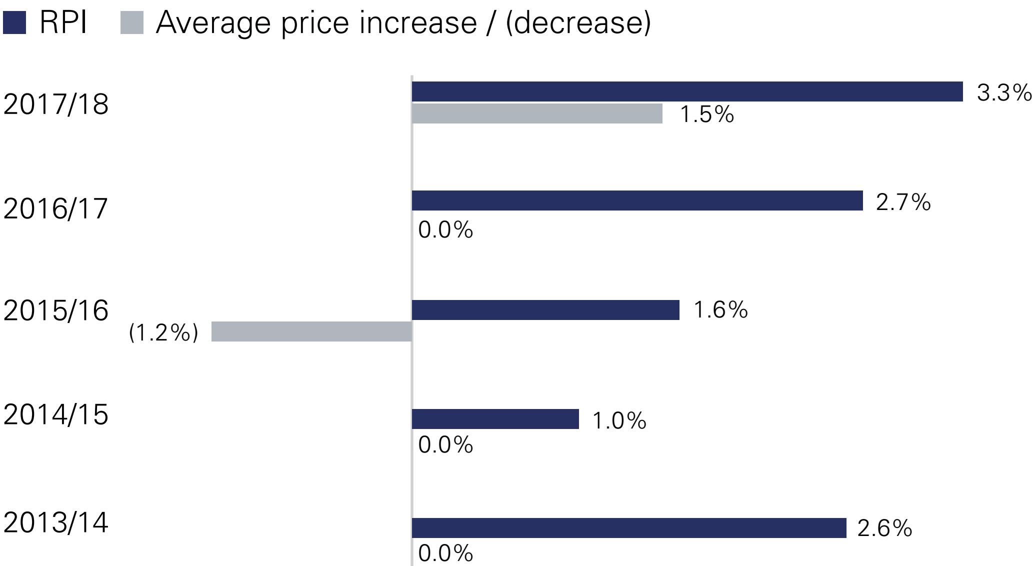
Analysis

The rate of return for 2017/18 was 0.3%, 3.2% below the target 3.5% return. Following the achievement of a much higher rate of return (8.2%) in 2016/17, the CAA Board took the decision to fund certain project related expenditure in the current year from the surplus reserves created in the previous year. If we had not gone ahead with that project related expenditure, the return achieved this year would have been 5.9%. The lower rate achieved in 2017/18, therefore, reflects the outcome of the Board's decision. The average rate of return achieved over the last two years was 4.3%.



Average price changes

Price increase / (decrease) versus RPI (%)



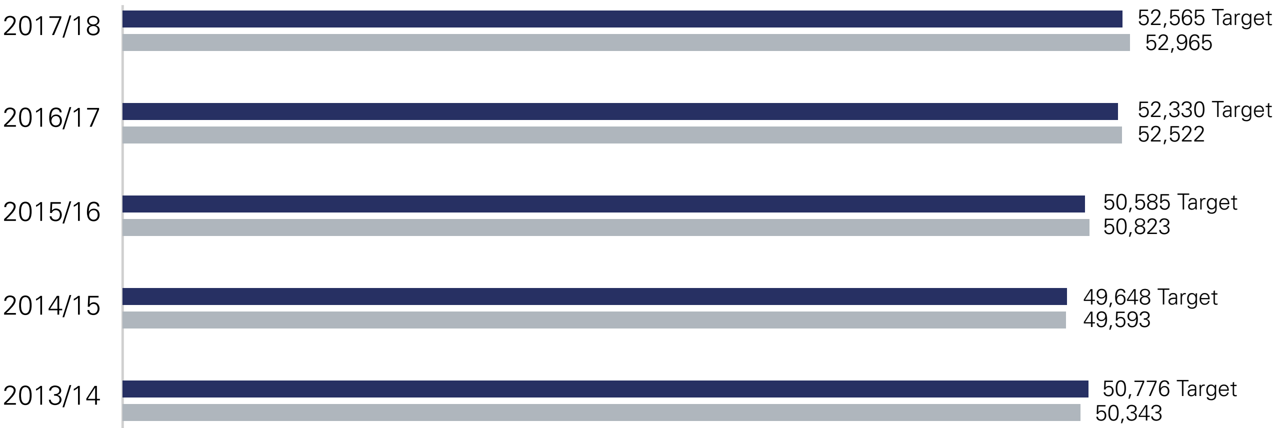
We are required to set statutory charges to recover our operating costs. The average increase in charges excludes the new charges that we have been consulting on during this financial year.

Analysis

The average price increase for 2017/18 was 1.5% compared to the increase in RPI of 3.3%. This is the first year there has been an average increase in charges since 2011/12, with prices being held static in three of the previous four years and a decrease applied in 2015/16.

Cost per employee including CAA Board

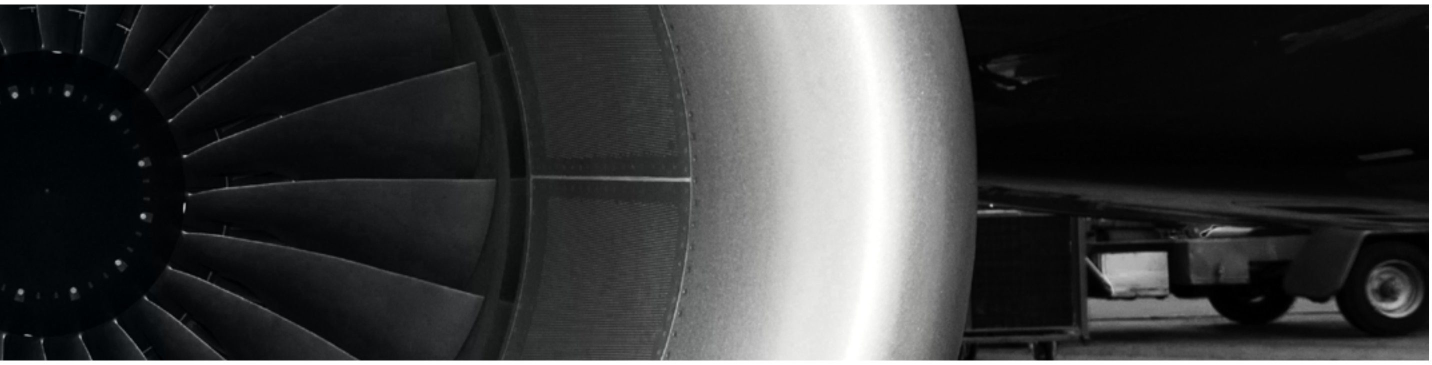
Cost per employee represents an average employment cost (£)



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

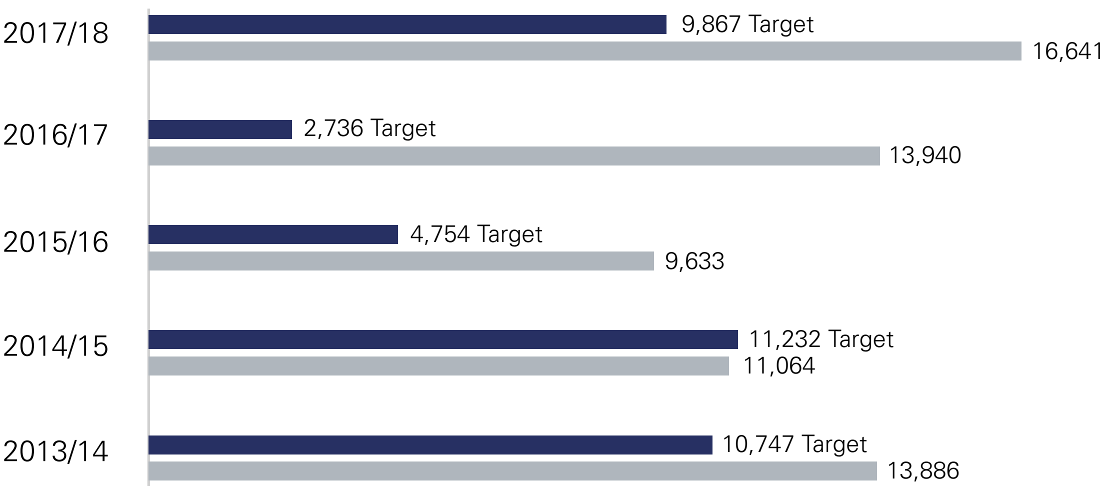
Analysis

The average cost per employee has increased by 0.8% when compared to 2016/17, significantly below the rate of inflation, although there has been a substantial rise in overall employment costs. This is due to the increase in the average numbers to 1,028 (2017: 927) to undertake additional regulatory and transformation programme activities.



Cash balance

Cash balance (£'000s)



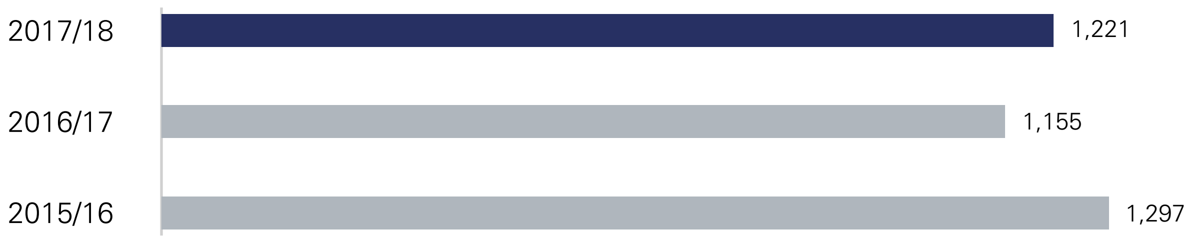
The cash balance is defined as cash in hand, deposits held at call with banks or HM Treasury and other short-term highly liquid investments with original maturities of three months or less.

Analysis

The cash balance as at 31 March 2018 includes a balance of £6,490k relating to funds provided by the Department of Transport and the Air Travel Trust to fund the Monarch Airlines repatriation activities. Once the final payments relating to this have been made, any remaining balance will be returned. Excluding the repatriation funds, there was a reduction in operating cash levels, primarily as a result of the ongoing funding requirements of the CAA Transformation Programme.

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. This graph represents licences and ratings produced through our licence administration system where applications have been submitted via online forms. EASA commercial pilot licences that have been processed through the e-Licensing system are not incorporated into this data.

Analysis

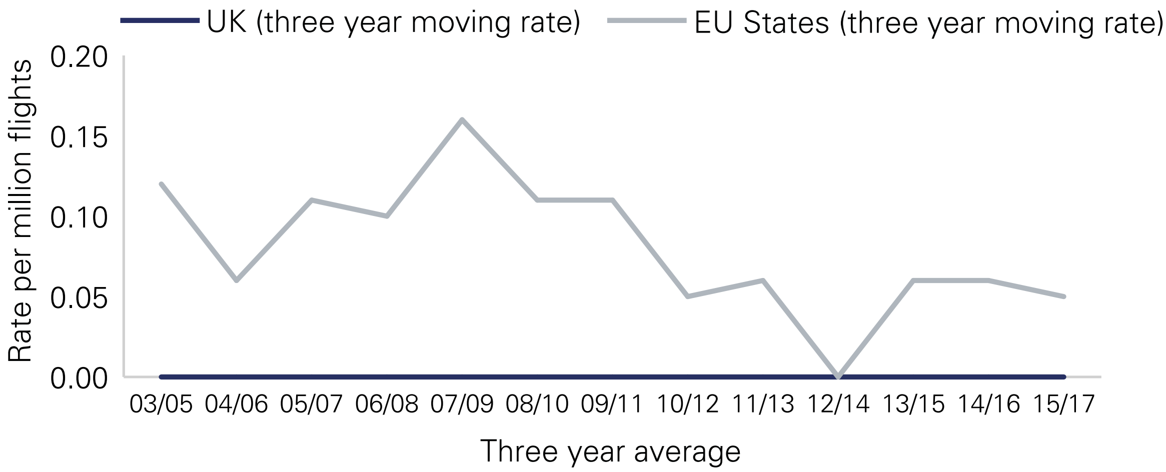
2017/18 saw a 5.7% increase in the number of licenses issued per FTE. This statistic indicates a broadly positive direction of travel and is indicative of a higher proficiency level having been reached, following successful completion of their training, by the new licensing officers that were recruited in FY16/17. This in turn has driven an increase in productivity levels.

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



*2017 flights data has been estimated
(MTWA: maximum take-off weight authorised)
(AOC: Air Operator Certificate)

Analysis

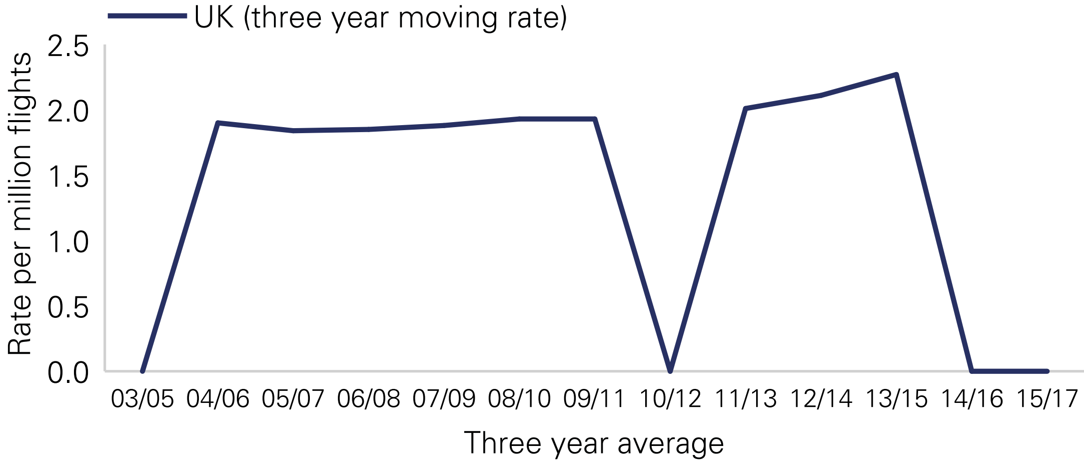
A three-year moving average of fatal accident rates for passenger aeroplanes with a maximum authorised take-of weight (MTWA) for UK operators has been produced and compared to the rate for these type of aircraft registered in EU member states[1].

In the three-year period between 2015-2017 there were no fatal accidents involving UK operators and one involving an EU member state. The UK fatal accident rate in this category has remained at zero since 1999, when a Boeing 757 experienced a heavy landing in Girona, Spain, resulting in one fatality.

1 EU Member states for each year are taken to be the current members (correct as of April 2018).

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

Fatal accident rate

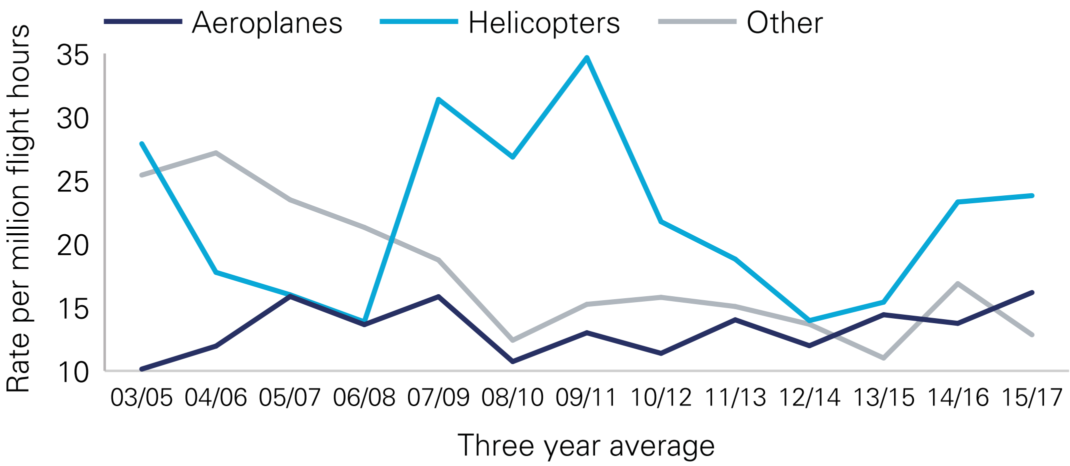


Analysis

The fatal accident rate for UK commercial air transport helicopter operations remained at zero for the three-year period from 2015 to 2017, which is consistent with the level recorded between 2014 and 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)



The General Aviation (GA) fatal accident rate for UK registered aircraft and non-UK registered aircraft operating in the UK has been segmented into 3 categories; Aeroplanes, Helicopters and Other. The Other category includes lighter air vessels (e.g. balloons & airships), gliders, gyroplanes and microlights.

The rates shown above have been calculated using the estimated number of flying hours undertaken for each of the groups mentioned above. The UK CAA aircraft registration department gathers aircraft utilisation data (e.g. annual flight hours) data. Utilisation data for 2017 and 2018 are estimated based on historic data provided.

For each group, the number of reported fatal accidents has been expressed as the rate per one million flying hours, which have then been aggregated into a three year moving average that is presented by sector on the chart above.

Analysis

Aeroplanes

There were 21 fatal accidents reported during 2015-2017 involving UK registered aeroplanes with 8 fatal accidents in 2017. There were 18 fatal accidents in the previous 3 year period between 2014-2016, with 6 of these fatal accidents occurring during 2016. We saw a slight year-on-year increase in the number of fatal accidents, increasing the fatal accident rate for aeroplanes by 1.2. The rate is significantly higher for 2017 compared to 2008 levels (increasing 33% to 17.8 from 9.7 in 2008), although this is exacerbated by the reduction in the estimated number of flying hours, that have reduced by 27% compared to 2008.

Helicopters

The rate of fatal accidents involving UK registered helicopters is comparable with that observed in 2016. There were 3 fatal accidents reported for the period between 2015-2017, which is consistent with the previous three year period. The slight increase in the fatal accident rate for UK registered helicopters has been driven by a reduction in the estimated number of flying hours for this sector.

Other

There were 14 reported fatal accidents involving Other sector aircraft reported between 2015-2017, with 1 fatal accident reported during 2017. There has been a marked reduction in the rate of fatal accidents for this sector which has been driven both by a decrease in the number of reported fatal accidents and an estimated increase in the number of flying hours.

Principal Risks and Uncertainties

Our risk management framework

We introduced a new risk management framework (RMF) in January 2016. Following a successful implementation phase last year, the focus this year has been on embedding the RMF so that it becomes part of our routine way of working.

Good progress has been made during the year to embed the RMF including our regulatory safety management system (RSMS). The RSMS is a critical part of the framework as it is the mechanism we use to provide oversight of aviation safety risks owned and managed by industry.

Our Executive Committee and Board continue to receive regular risk updates and risk reporting is now becoming standard practice within each CAA business area.

Our risk management arrangements are subject to scrutiny by the CAA's Audit Committee and any improvements that are needed are promptly addressed.

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; and
- 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 that we can target our resources to the areas that need most attention.

During the year we undertook an internal review of our safety assurance processes and will be taking forward the recommendations this made to help further to enhance our oversight arrangements.

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 industry's adoption of security management systems to help to ensure that effective security quality management processes are in place.

Consumer choice, value and fair treatment risks

- Consumers are not provided with air transport services that perform as expected and experience difficulties when seeking redress; and
- 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 facilitate 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 event 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, such as the collapse of Monarch Airlines at the start of October 2017.

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.

Mitigations

We have been explicit about our views on the Brexit priorities for aviation, including the need to maintain standards, access and protection. We are engaging with the Department for Transport and the Department for Exiting the European Union and providing evidence and expert opinion to support the best outcomes for aviation. We are contingency planning to ensure that the CAA is able to regulate effectively up to and after we exit the EU.

We continue to engage with key industry stakeholders to understand their priorities and perspectives and to support them in their own contingency planning.

Financial Review

Significant financial developments

- Total revenue: £190.7m, up 40.4% (2017: £135.8m)
- Operating loss: £1.6m, (2017: operating profit £4.9m)
- Pension surplus: £200.9m up by 81.1% (2017: £110.9m)

In 2017/18 the Group operated in a challenging external environment which included continued uncertainty following the UK vote to leave the European Union (EU) and the ongoing global threat of terrorism. The continuing economic challenges that the industry faces were highlighted by the Monarch Airlines failure, with the repatriation activities undertaken by the CAA leading to some very significant year-on-year increases in both costs and revenue in our Income Statement. The Group continues to focus on reducing controllable costs by addressing legacy areas of the cost base. Additional regulatory and transformation activities this year, however, led to a substantial rise in resources and a subsequent increase in our regulatory cost base. As a consequence, we increased our prices by an average of 1.5% in 2017/18, the first such increase in six years, although we continue to fund aspects of our Transformation Programme from existing reserves where possible.

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 generally accepted international 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 0.3% for the Regulatory Sector, which was below the 3.5% target rate of return set by the Secretary of State for Transport. Further analysis is provided on page 57.

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 amount of employer cash contributions paid to the CAA Pension Scheme during the financial year, rather than pension costs evaluated under IAS 19.

In order to manage our pension liability, the Civil Aviation Authority Pension Scheme (CAAPS) has been implementing a strategy of buy-in annuity contracts for pensioners since 2015. 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". The value of these benefits as at 31 March 2018 is estimated to be £1,449.7m (2017: £1,506.3m).

The last formal actuarial valuation of CAAPS was carried out as at 31 December 2015. The 2015 valuation revealed a small deficit of £4.2 million. 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 2018, the CAA recorded an operating loss before interest and tax of £1.6m (2017: operating profit £4.9m). These results included the effects of IAS 19. Within the operating result, the Regulatory Sector, comprising the activities of Safety & Airspace Regulation, Consumers & Markets and Aviation Security, as well as the result achieved by CAA International, made an operating profit before IAS 19 adjustments of £0.4m (2017: £4.6m) and a profit after adjustments for IAS 19 pension costs and net interest, but before tax, of £0.8m (2017: £7.0m).

CAA financial performance results

	2018 (£m)	2017 (£m)
Group revenue	**190.7**	135.8
Operating costs (excluding IAS 19 pension scheme adjustment)	**(189.9)**	(130.8)
Group operating profit	**0.8**	5.0
IAS 19 pension scheme adjustment	**(2.4)**	(0.1)
Group adjusted operating (loss) / profit	**(1.6)**	4.9
Net interest	**2.8**	3.3
Profit before taxation	**1.2**	8.2
Taxation	**(0.4)**	(1.7)
Profit after taxation	**0.8**	6.5

Revenue

Group revenue for the year ended 31 March 2018 was £190.7m (2017: £135.8m), an increase of £54.9m (40.4%). The primary reason for the increase in revenue was the Monarch Airlines repatriation activities (£52.5m). The Regulatory Sector saw an increase of £6.0m (7.3%) to £88.3m (2017: £82.3m). This increase in income has arisen primarily from: a 1.5% average price increase across our schemes of charges; new charges introduced for airspace regulation activities; an increase in recharges made of actual costs incurred in respect of the Heathrow runway review; and higher industry activity levels across our whole portfolio of variable charge-based revenue streams. Miscellaneous Services income rose by £51.6m to £74.3m (£22.7m); this is mainly due to the funding provided by the DfT and the Air Travel Trust (£52.5m) for the Monarch Airlines repatriation activities carried out during the year.

CAAi revenues reduced to £14.9m (2017: £17.2m). The decrease is primarily due to the substantial completion of some major advisory contracts in the prior year and the early part of the current year.

Operating costs

Operating costs for the year ended 31 March 2018 increased to £192.3m (2017: £130.9m). The main reason for the increase was the Monarch Airlines repatriation. The significant areas of change are described below:

- Employment costs were £87.7m, showing an increase of £11.5m (15.1%) compared to the prior year. Within this figure, defined benefit pension costs rose by £2.0m to £17.7m, the increase 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 amount of employer cash contributions paid to CAAPS during the financial year. The cash contribution to the scheme decreased to £15.3m (2017: £15.6m), a reduction of £0.3m (1.9%). The remainder of the increase in employment costs is attributable to the growth in the number of resources in order to carry out additional regulatory and transformation activities this year; the average number of employees across the Group, as disclosed in note 3, rose to 1,028 (2017: 927).
- Other expenses costs were £79.8m (2017: £29.8m). The increase is due to £50.7m of third party supplier costs (primarily chartering aircraft) being incurred as a result of the repatriation of Monarch Airlines customers following the collapse of their business in 2017.

Corporation Tax

The estimated tax charge for this year is £0.4m (2017: £1.7m). A net deferred tax asset of £488k (2017: £378k) is included within the Statements of Financial Position, an increase of £110k as compared to the prior year.

Capital Expenditure

Capital expenditure during the year totalled £3.3m (2017: £3.1m). The expenditure primarily included expenditure related to IT development projects. The net book value of the Group's capitalised assets at 31 March 2018 decreased in the year by £0.1m to £15.0m (2017: £15.1m).

Financial management

Treasury policy

Our Board sets our terms of reference for treasury policy. This covers 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 either HM Treasury debt management office or on short-term or overnight deposit at banks that have money market credit ratings 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.

An analysis of our debt can be found in note 14 to the accounts on page 127.

Financing

We occasionally 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 £1.2m of existing loans. The carrying value of our outstanding borrowings stood at £0.7m as at 31 March 2018 (2017: £1.9m). 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. The rate of return for 2017/18 was 0.3%, 3.2% below the target return. Following the achievement of a much higher rate of return (8.2%) in 2016/17, the CAA Board took the decision to fund certain project related expenditure in the current year from the surplus reserves created in the previous year. If we had not gone ahead with that project related expenditure, the return achieved this year would have been 5.9%. The lower rate achieved in 2017/18, therefore, reflects the outcome of the Board’s decision.

Our Equality and Diversity Policy

We are committed to ensuring that equality, diversity and inclusion are integral to our policies and practices, ensuring that our services are accessible to all those who use them or who are interested in working here. We recognise the positive benefits that diversity and inclusion bring to the CAA's work and to the CAA as a place to work. We are committed to challenging all forms of discrimination and unfairness in every aspect of our work and working practices. We work hard to ensure that we promote and value both diversity and inclusion in all that we do.

Like other employers with 250 or more employees, we published our Gender Pay Gap during the year, using the formula set down in legislation. We have more men than women in senior, higher paid roles and more women than men in junior lower paid roles resulting in a mean Gender Pay Gap of 34% and a median Gender Pay Gap of 41.6%. The CAA's structure is influenced by our role as the UK's public civil aviation regulator and it consists of a large proportion of technical regulatory roles operating at a senior level. A number of our roles require us to recruit from the aviation industry (e.g. trained pilots) and men currently occupy a high proportion of these roles. Although the Gender Pay Gap is not a measure of whether men and women receive equal pay for work of equal value – that is a measure of equal pay – our current Gender Pay Gap is not what we want for the CAA. To stay at the forefront of civil aviation, we need to ensure that we are always evolving and enhancing the diverse range of competencies required within the CAA which, in turn, contributes to eliminating our Gender Pay Gap. We are ambitious in our aspirations, which we believe are achievable over time. We will release more detailed plans in July 2018, but they include:

- reviewing the capabilities required to fulfil our range of roles, so that we are able fully to meet our evolving regulatory and business requirements, attracting a wider, more diverse mix of appropriately qualified and skilled colleagues who are passionate about the work we do;
- understanding how we are perceived as a potential employer and reviewing our recruitment strategy in order to attract a diverse range of talent;
- developing and delivering awareness and other appropriate training for managers and colleagues;
- finding new ways to engage our colleagues in sharing their thoughts and suggestions for addressing the factors that contribute to the Gender Pay Gap; and
- delivering a people agenda that supports an inclusive working environment in which colleagues flourish.

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 actively assess compliance with UK civil aviation safety standards in a co-operative and cost-effective manner. We must be satisfied that: aircraft are properly manufactured, operated and maintained; airlines are competent; flight crews, air traffic controllers and aircraft maintenance engineers are fit and competent; licensed aerodromes are safe to use; and 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 2018 (excluding the effects of IAS 19 pension scheme adjustments) were £65.2m (2017: £58.6m), an increase of £6.6m (11.3%). Revenue for the year was £60.4m (2017: £57.5m), an increase of £2.9m (5.0%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating loss of £4.8m (2017: loss of £1.1m). Average staff numbers for the year were 517 (2017: 477), an increase of 40.

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 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. The consumer protection function 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. This included the repatriation of Monarch Airlines customers following its failure in October 2017; however, the revenue and costs related to these activities are included within the Miscellaneous Services business sector.

Operating costs of Consumers and Markets activities for the year ended 31 March 2018 (excluding the effects of IAS 19 pension scheme adjustments) were £15.8m (2017: £14.0m), an increase of £1.8m (12.9%). Revenue for the year was £17.7m (2017: £15.8m), an increase of £1.9m (12.0%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £1.9m (2017: £1.7m). The average number of staff in the year ended 31 March 2018 was 87 (2017: 82). In addition, the CAA employed, on average, 70 survey staff at airports, mostly 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 £0.9m (2017: £0.4m profit). Operating costs for the year ended 31 March 2018 (excluding the effects of IAS 19 pension scheme adjustments) were £9.3m (2017: £8.5m). Revenue for the year was £10.2m (2017: £9.0m), an increase of £1.2m (13.3%). The average number of Aviation Security staff in the year ended 31 March 2018 was 85 (2017: 79).

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 2018 were £12.9m (2017: £13.2m), a decrease of £0.3m (2.2%). Our UKATS costs arise from SARG activities, 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 £13.2m (2017: £13.7m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.3m (2017: £0.5m).

CAA International (CAAi)

CAA International Limited 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 to 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, national aviation authorities in Asia, the Middle East, East Africa and Europe and the Ministry of Defence in the UK. Our 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.

We also provide open-access courses and in-company training programmes for national aviation authorities and industry, and we continue to support them in delivering crew licensing examinations by providing an electronic examination system. Additionally, a newly developed e-Licensing system was successfully implemented in the UK CAA in partnership with ASPEQ from New Zealand.

CAAi achieved revenues of £14.9m (2017: £17.2m). The decrease is primarily due to the substantial completion of a number of major advisory contracts in the prior year and the early part of the current year. The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating profit of £2.6m (2017: £3.5m). The company employed an average of 56 staff (2017: 54) during the financial year, with a further 29 full time equivalents being supplied from other areas within the CAA (2017: 31). A combination of staff supplied from the CAA and management charges in respect of HR, finance, IT services, insurance, accommodation and central administration functions, provided a contribution to the CAA Regulatory Sector before corporation tax of £5.7m (2017: £6.8m).

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 and Corporate Services and the Transformation Programme);
- 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 £74.3m (2017: £22.7m), an increase of £51.6m (227.3%). The primary reason for the increase in revenue was the funding received for the Monarch Airlines repatriation activities (£52.5m). The net operating loss for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was £0.1m (2017: £0.1m). The operating loss was principally due to the costs incurred within the CAA Transformation Programme. In order to finance certain transition activities, it was 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 2018 was 283 (2017: 235).

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 over 60% of our total future expenditure, this must be a primary source of efficiencies if we are to deliver an acceptable outcome.

During the year ending 31 March 2019 and future years, we shall aim to ensure that we:

- undertake our core regulatory work as efficiently as possible while achieving the targets set by the Department for Transport;
- continue to implement several projects to improve customer service and the efficiency of operations. These will include investment in a new finance and HR system; and
- review our accommodation location and foot-print. This project is a key focus for the year ending 31 March 2019 with the planned move to a new office at Canary Wharf. This office move will deliver savings in the medium to long-term. Our finances will, however, be impacted in the early years by capital investment in refurbishment and the provision of information technology.

Chris Tingle
Chief Operating Officer
20 June 2018

Board Members

Chair

Dame Deirdre Hutton DBE

Dame Deirdre Hutton 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.

Executive Board members

Richard Moriarty

Richard was appointed as Chief Executive Officer on 24 May 2018 having previously joined the CAA Board in January 2016 as Group Director of Consumers and Markets and Deputy Chief Executive. In that role he was 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.

Paul Smith

Paul was appointed to the Board as Group Director of Consumers and Markets on 24 May 2018. Before joining the CAA he was Head of Regulatory Strategy and Policy at the Payment Systems Regulator since January 2016. Paul has also previously held the position of Chief Executive of the Australian Energy Market Commission. Prior to that he worked on economic regulation issues as a consultant and in a number of roles at Postcomm and Ofgem.

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.

Chris 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, Independent Chair of National Aviation Security Committee – Executive Committee, 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. She has non-executive positions at the BBC and National Express. 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. He is a service Vice-President of the RAF Charitable Trust and President of the RAF Rowing Association.

Former Board member

Andrew Haines OBE

Andrew Haines was appointed as a Board member and Chief Executive in August 2009. 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. Andrew stood down from the Board on 23 May 2018.

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 Financial Reporting Council's April 2016 UK Corporate Governance Code, as appropriate for a public corporation, throughout the year ended 31 March 2018.

In late 2017, the Board commissioned a formal evaluation of its effectiveness, which was carried out by an external independent body, Flint International, and the results of this were discussed at the Board meeting on 18 April 2018. The evaluators concluded that the CAA had a strong Board that had come a long way in the last 8 years. They reported a healthy degree of challenge and support between the Chair and CEO and from the non-executives, who have a wide range of relevant skills and experience. The key future challenges for the Board are to manage effectively the transition as the Chair, Chief Executive and four non-executive Board members will all change within an 18 month period. This represents an opportunity to improve the diversity of the Board. It was also recommended that the Board devotes more dedicated time to setting its own future agenda. The next external independent review is scheduled to take place in late 2020. An internal CAA Board effectiveness survey is also carried out annually, except in years when an external review takes place.

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 terms of reference of all Board Committees are published 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 to take effect during 2018/19:

- Andrew Haines stood down from the Board on 23 May 2018 to facilitate the handover to his successor, Richard Moriarty;
- Richard Moriarty was appointed as Chief Executive Officer on 24 May 2018; and
- Paul Smith was appointed on 24 May 2018.

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 2018	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Number of meetings held	**11**	**4**	**3**	**3**
Dame Deirdre Hutton	11	*4	*3	3
Richard Moriarty	11	*1	N/A	*1
Andrew Haines	11	*2	*3	N/A
David Gray	10	N/A	3	3
David King	10	4	N/A	2
Michael Medlicott	9	2	1	*1
Ashley Steel	10	3	N/A	*1
Mark Swan	11	N/A	N/A	N/A
Chris Tingle	11	*4	N/A	N/A
Graham Ward	11	4	3	*2
AVM Michael Wigston	8	N/A	N/A	N/A

* Meetings attended by invited non-members

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 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 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, Statement by the Chief Executive, the Review of Our Business and the Financial Review, which can be found on pages 2, 6, 14 and 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 page 87.

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 2018 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 50 to 52 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, our risk management arrangements are subject to scrutiny by our Audit Committee. This includes receiving regular reports from our internal auditors, which incorporate 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 2018, 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 2019, 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. An explanation can be found in note 1.1 to the accounts on page 104.

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 2018 and up to the date of approval of the annual report and accounts, with the Financial Reporting Council's April 2016 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 by the Secretary of State for Transport that 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 2018 the Audit Committee's members were:

Chair: Graham Ward
David King
Michael Medlicott
Dr Ashley Steel

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 64 to 67) we have sufficient recent and relevant financial and other 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 our 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 104 to 146. 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 2018 was £200.9 million (2017: £110.8 million), an overall increase in the surplus by 81.3% 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.

We carried out our annual review of the CAA's risks. This took the form of a comprehensive discussion at a detailed level of all current risks captured on the risk registers in each of the organisation's business areas. It was decided this year to invite, where necessary, the heads of business areas to attend a meeting with Audit Committee members to have an even more in-depth dialogue on how particular individual risks are being managed and potential additional mitigations; this practice will continue in future years. Overall, we were satisfied that the CAA has made good progress in the management of risks at a detailed level and is now in a better position than last year.

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 (FRC's) "Audit Quality: Practice Aid for Audit Committees", we were satisfied with all aspects of our external auditor's work.

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

Our Internal Audit department's formal charter 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 reviewed and, if thought fit, authorised each year by the Committee.

All audits are carried out independently, in accordance with the international 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. 'Co-sourced' resources are also utilised as required and these are provided by a third-party supplier. Our Head of Internal Audit is both a Certified Internal Auditor with the Global Institute of Internal Auditors and a Chartered Accountant.

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.

An independent external quality effectiveness review of the internal audit function was carried out in late 2017 by the Chartered IIA. The outcome of the review was that the CAA's Internal Audit department falls in the middle of the range in terms of performance when compared to benchmark organisations. The Chartered IIA provided thirteen recommendations which broadly covered three main themes: enhancement of the audit scoping process; refinement of audit documentation; and implementation of time recording for the internal audit function. Ten of the recommendations have already been actioned and are now closed, with the remaining three scheduled to be completed by the end of July 2018. The aim is to ensure that the CAA conforms as closely as possible with the standards of the Global Institute of Internal Auditors. A rigorous annual internal assessment will be carried out to confirm continuing conformance until the next external quality assessment is performed.

External auditor

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 during 2017 with Moore Stephens LLP being appointed to replace PricewaterhouseCoopers LLP. This appointment was made following a tender process, which complied with the applicable parts of the FRC's Best Practice guide to Audit Tendering. The procurement strategy chosen for this re-tender was to utilise the Crown Commercial Services framework agreement Consultancy One Lot 5.4 External Audit with eight pre-approved suppliers being invited to participate in the process. Some of those chose not to submit proposals so as not to compromise their ability to bid for future consultancy work with the CAA. The proposals that were received were evaluated against agreed criteria, with an 80% weighting given to quality and 20% to price. A final recommendation was made by the Audit Committee to award the contract to the bidder achieving the highest score against the evaluation criteria. This recommendation was endorsed by the Board.

The new external audit contract with Moore Stephens commenced on 1 September 2017, and the responsible partner for the audit is Michael Simms. We are expecting to carry out the next external audit tender process in 2020.

The Audit Committee is pro-active in ensuring an effective relationship with the external auditor and steps taken to promote this include: senior members of the external audit team are invited to, and attend, all Committee meetings held during the year; at least one meeting with the external auditor is held each year at which there are no CAA management attendees present; the Chair of the Committee is separately consulted with by the external auditor during the audit planning process, particularly on matters relating to risks and internal controls.

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 interest 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 CAA's Head of Procurement. The Audit Committee monitors the application of these procedures and the independence of the external auditor. £0.013m 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 CAAi Ltd's Malaysia Branch (2017: £0.017m for the same services).

Graham Ward CBE
Chair, Audit Committee
20 June 2018

Report by the Nominations Committee

Throughout the year ended 31 March 2018 the Nominations Committee's members were:

Chair: Dame Deirdre Hutton
David Gray
David King

A representative of the Department for Transport 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 twice during the year ended 31 March 2018.

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 64 to 67 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 as well as providing on-going development opportunities where appropriate.

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 appointments 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 was Andrew Haines who was 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 Deirdre Hutton	14 April 2009	31 July 2019
A Haines	6 August 2009	5 August 2018
R Moriarty	12 January 2016	N/A
D Gray	16 November 2009	15 November 2019
D King	1 September 2013	31 August 2019
M Medlicott	1 February 2010	31 January 2020
P Smith	24 May 2018	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

During the year we completed the process of appointing a new Chief Executive to replace Andrew Haines, whose term of office expires on 5 August 2018. He formally handed over his responsibilities as Chief Executive to his successor, Richard Moriarty, on 24 May 2018.

Working with the Department for Transport, during the year, we also commenced a recruitment process for two new non-executive members; one to replace Ashley Steel, whose term of office expires in August 2018, and is not seeking reappointment, and another to temporarily increase the number of non-executives to help to ease the situation in 2019, when a number of other highly experienced non-executives are due to reach the end of their Board terms.

Dame Deirdre Hutton DBE
Chair, Nominations Committee
20 June 2018

Report by the Remuneration Committee

Throughout the year ended 31 March 2018 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 invited to attend meetings when we are not discussing matters that apply to them.

See pages 64 to 67 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 page 68) 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 executive Board members of the appropriate calibre.

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 paid to the executive Board members and shown in the Board Members' Emoluments predominantly relate to company cars, accommodation and health cover. Pensions are covered separately in this report.

Board members' emoluments

Emoluments (excluding pension arrangements) of the Chair and Board members for the financial year ended 31 March 2018 were as follows:

	Salary and fees	Benefits	2017/18 performance-related payments	2017/18 total	2016/17 total
	£'000	£'000	£'000	**£'000**	£'000
Dame Deirdre Hutton	130.0	0.0	0.0	**130.0**	133.4
Richard Moriarty	194.0	0.1	40.0	**234.1**	231.2
Andrew Haines[1]	363.0	0.0	73.8	**436.8**	356.4
Mark Swan[2]	224.7	34.7	36.0	**295.4**	283.2
Chris Tingle	185.2	4.5	33.3	**223.0**	212.5
David Gray[3,4]	27.0	0.0	0.0	**27.0**	28.7
David King	22.0	0.0	0.0	**22.0**	24.2
Michael Medlicott[3,5]	25.0	0.0	0.0	**25.0**	25.0
Dr Ashley Steel[3]	22.0	0.0	0.0	**22.0**	22.0
Graham Ward[3,6]	29.3	0.0	0.0	**29.3**	31.9
AVM Michael Wigston[7]	0.0	0.0	0.0	**0.0**	0.0
Board members' emoluments as per the annual accounts	**1,222.2**	**39.3**	**183.1**	**1,444.6**	**1,348.5**

1. Andrew Haines' salary and fees includes payment of a lump sum in February 2018 as part of the agreement to extend his term of office by one year to August 2018.
2. Mark 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. Mark receives an additional payment in contribution towards these costs.
3. Non-executive members are paid a fixed rate of £22,000. This is uprated by £3,000 for chairing Committees. In addition, a per-diem rate of £430 is paid for serving on licensing panels.
4. David Gray's salary includes remuneration for his role as Chair of the Remuneration Committee.
5. Michael Medlicott's salary includes remuneration for his role as Chair of the Air Travel Trust.
6. Graham Ward's salary includes remuneration for his role as Chair of the Audit Committee.
7. AVM Michael Wigston is a MoD nominee holding an ex-officio post with no remuneration.

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

The CAA Pension Scheme (CAAPS), which is a defined benefit scheme governed by an independent trust, has been closed to new members since December 2012. Executive Board members employed prior to that date may continue to be CAAPS members.

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.

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 2018 Andrew Haines was a member of CAAPS. Mark Swan was a member until 10 July 2017 when he became a CAAPS pensioner.

Members of CAAPS 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.

A description of the scheme is given on page 131 in note 17 to the consolidated financial statements.

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 opted to do this for part of the year.

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.

During the year the CAA introduced a scheme offering cash alternatives to pension contributions to those impacted by the pensions statutory lifetime allowance and/or annual allowance. Mark Swan and Chris Tingle elected to take part in the cash alternatives scheme. The relevant cash alternative amounts are included within the figures in the emoluments table on page 84.

Board members' pension arrangements - CAAPS

	Accrued pension as at 31/03/18	Increase in accrued pension during the year	CAA contribution during the year	Board member's contribution during the year*
	£'000	£'000	£'000	£'000
Andrew Haines	43.8	6.4	92.1	0.0
Mark Swan	25.4	1.0	15.4	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
Richard Moriarty	39.0	0.0
Mark Swan	1.9	0.0
Chris Tingle	22.2	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 beginning 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 £16,181 in relation to Andrew Haines, £15,000 in respect of Richard Moriarty, £3,334 in relation to Mark Swan, and £7,400 in respect of Chris Tingle.

David Gray
Chair, Remuneration Committee
20 June 2018

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 responsible 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 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
General Counsel and Secretary
20 June 2018

Independent Auditors' Report to the Secretary of State for Transport

Opinion

We have audited the financial statements of Civil Aviation Authority (the "Authority") and its subsidiaries (the "Group") for the year ended 31 March 2018, which comprise the Group's Income Statement, the Group's and the Authority's Statements of Comprehensive Income, the Group's and the Authority's Statements of Financial Position, the Group's and the Authority's Statements of Changes in Equity, the Group's and the Authority's Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union, the Civil Aviation Act 1982, the Civil Aviation Act 2012 and, as regards the Authority's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- 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 2018 and of the Group's profit for the year then ended;
- the Group's 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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Civil Aviation Act 1982 (the "Act") and the Report and Accounts Directions made thereunder by the Secretary of State for Transport.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit approach

The scope of our audit and our areas of focus

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.

We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work towards those areas of the financial statements which we assessed as having the highest risk of containing material misstatements.

We tested and examined information using both analytical procedures and tests of detail, to the extent necessary to provide us with a reasonable basis to draw conclusions. These procedures gave us the evidence that we need for our opinion on the Group's financial statements as a whole and, in particular, helped mitigate the risks of material misstatements mentioned below.

We also documented and reviewed the Group's systems, primarily to confirm that they form an adequate basis for the preparation of the financial statements, but also to identify the controls operated to ensure the completeness and accuracy of the data.

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 materiality related to Defined pension benefit assets and liabilities	**Group materiality - £28.0m** **Authority materiality – £28.0m**
Overall materiality related to other balances	**Group materiality - £2.4m** **Authority materiality - £2.2m**
How we determined it	1.25% of Defined pension benefit assets and liabilities 1.25% of Revenue
Rationale for benchmark applied	We note that revenue is a key measure used both internally by management and externally by entities regulated by the Authority in evaluating the performance of the Group. Also, given that defined pension benefit assets and liabilities are the most significant balances in the financial statements and knowing the uncertainty affecting estimation of pension liabilities, we believe that those amounts would represent high interest for the financial statement readers as well. Thus considering both areas of interest we have estimated two financial statement materialities: one specific for defined pension benefit assets and liabilities and a second one for all other balances using revenue benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £119,000 (2017: £125,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	Response
Capitalisation and valuation of intangible assets The Group is investing in its systems and operations as a result of an ongoing Transformation Programme. An amount of £3.2m was capitalised as intangible assets during the year ended 31 March 2018. There is a significant risk associated with the capitalisation and valuation of intangible assets as a result of the Transformation Programme. The risk relates to management's judgement and supporting evidence in regard to material capitalised balances, key assumptions and inputs which have the potential to cause a material misstatement to the financial statements.	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 reviewed management's impairment model and considered the appropriateness of key assumptions and other inputs. We have performed sensitivities on a selection of these assumptions confirming that the results are not unduly susceptible to change. We found that the valuation of intangible assets is consistent with the evidence obtained.

Key audit matter	Response
Valuation of defined benefit pension scheme assets and liabilities Given the materiality and the level of judgement involved in the valuation of the defined benefit pension scheme assets and liabilities, which amounted as at 31 March 2018, to £2,243m and £2,042m, the valuation of pension scheme assets and liabilities is considered a significant risk. The assumptions used in the valuation of the defined benefit obligation represent significant management estimates. The key assumptions applied are disclosed in note 17 of the financial statements.	We reviewed the appropriateness of the accounting policies relating to valuation of pension assets and liabilities. We found no exception. We arranged a meeting with the Authority's pension actuary and our pension expert and discussed the assumptions used in calculating the pension scheme liabilities. The assumptions used were appropriate; salary increases and mortality rate assumptions were consistent with the relevant national and industry benchmarks. We have reviewed the scheme audited accounts for the custodian of the scheme. 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 audit evidence. We ensured the employee data used by actuaries is consistent with the employer data. We are satisfied that the valuation of the defined benefit pension scheme assets and liabilities are consistent with the evidence obtained.

<table>
<tr><th>Key audit matter</th><th>Response</th></tr>
<tr><td>Revenue recognition

The Group’s revenue for the year ended 31 March 2018 amounted to £190.7m (2017: £135.8m), an increase of £54.9m.

The primary reason for the increase in revenue in the year was a result of the Monarch Airlines repatriation activities, which accounted for £52.5m.

The Monarch Airlines repatriation activities are treated as normal trading activities within revenue, in accordance with Section 16 of the Civil Aviation Act 1982.</td><td>We performed the following audit procedures relating to the Monarch Airlines repatriation activities:

▪ reviewed the Civil Aviation Act 1982 and confirmed that the Monarch Airlines repatriation activities form part of normal trading activities of the Group under Section 16 of the Act;

▪ agreed the funds received from the Department for Transport (DfT) and Air Travel Trust (ATT) into the Authority’s bank account relating to Monarch Airlines repatriation activities;

▪ obtained direct confirmations from the DfT and the ATT of the total funds remitted to the CAA during the year ended 31 March 2018;

▪ traced a sample of repatriation costs incurred during the year ended 31 March 2018 to underlying supporting documentation;

▪ traced a sample of associated prepayments and accruals as at 31 March 2018 to underlying supporting documentation; and

▪ agreed the balances repayable by the Authority to the DfT and the ATT amounting to £3.5m as at 31 March 2018 to direct confirmations received from the DfT and the ATT.

Based on the procedures performed, we are satisfied that the revenue relating to the Monarch Airlines repatriation activities is recorded appropriately in the Income Statement for the year ended 31 March 2018.</td></tr>
</table>

Conclusions relating to principal risks, going concern and viability statement

As a result of the Board members’ voluntary reporting on how they have applied the UK Corporate Governance Code, we have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the Board members' confirmation in the annual report 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;
- the Board members' statement in the financial statements about whether the Board considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Board members' identification of any material uncertainties to the Group and the Authority's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Board members' statement relating to going concern is materially inconsistent with our knowledge obtained in the audit; and
- the Board members' explanation in the annual report 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.

Other information

The Board members are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters 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 of the Board members for the financial statements

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. The Board members are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board members are responsible for assessing the Group's and the Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Board members either intend to liquidate the Group or the Authority or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our auditors' report.

Use of our report

This report is made solely to the Secretary of State for Transport, in accordance with the Civil Aviation Act 1982. Our audit work has been undertaken so that we might state to the Secretary of State for Transport those matters we are required to state to him in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Secretary of State for Transport, for our audit work, for this report, or for the opinions we have formed.

Moore Stephens LLP
Chartered Accountants and Statutory Auditors
150 Aldersgate Street
London
EC1A 4AB

20 June 2018

Financial Statements

Income Statement

For the years ended 31 March

	Note	**2018 £'000**	2017 £'000
Revenue	2	**190,714**	135,818
Operating costs			
Employment costs	3	**(87,679)**	(76,194)
Services and materials		**(17,540)**	(17,759)
Repairs and maintenance		**(3,881)**	(3,936)
Research	6	**(278)**	(271)
Depreciation, amortisation and disposals	6	**(3,114)**	(2,581)
Other losses	6	**(57)**	(338)
Other expenses		**(79,786)**	(29,826)
Net operating costs		**(192,335)**	(130,905)
Operating (loss) / profit		**(1,621)**	4,913
Finance income	7	**2,918**	3,369
Finance costs	7	**(50)**	(86)
Finance income - net		**2,868**	3,283
Profit before income tax		**1,247**	8,196
Income tax charge	8	**(433)**	(1,694)
Profit for the financial year		**814**	6,502

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 £3,593k (2017: £13,667k) including dividend income from a subsidiary of £5m (2017: £10m).

The supporting notes on pages 104 to 146 are an integral part of these financial statements.

Statements of Comprehensive Income

For the years ended 31 March

	Note	**Group 2018 £'000**	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Profit for the financial year		**814**	6,502	**3,593**	13,667
Other comprehensive income					
Unrealised foreign exchange differences		**(92)**	285	**(53)**	(1)
Movement on deferred tax relating to unrealised foreign exchange differences		**55**	(49)	**-**	-
Actuarial gain on post employment benefit obligations	17	**89,552**	13,367	**89,552**	13,367
Movement on deferred tax relating to post employment benefit obligations		**(15,224)**	(2,272)	**(15,224)**	(2,272)
Effect of tax rate changes relating to post-employment benefit obligations		**-**	942	**-**	942
Total comprehensive income for the year		**75,105**	18,775	**77,868**	25,703

Statements of Financial Position

As at 31 March

	Note	**Group 2018 £'000**	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**5,635**	7,606	**5,537**	7,484
Intangible assets	10	**9,371**	7,444	**8,603**	6,576
Investments in subsidiaries	11	**-**	-	**-**	-
Trade and other receivables	12	**88**	158	**52**	122
Deferred tax assets	16	**488**	378	**458**	398
Retirement benefit assets	17	**200,908**	110,849	**200,908**	110,849
Total non-current assets		**216,490**	126,435	**215,558**	125,429
Current assets					
Trade and other receivables	12	**20,090**	19,316	**15,940**	13,159
Derivative financial instruments	19	**45**	27	**45**	27
Current income tax assets		**485**	-	**229**	-
Cash and cash equivalents	13	**16,641**	13,940	**16,430**	13,727
Total current assets		**37,261**	33,283	**32,644**	26,913
Total assets		**253,751**	159,718	**248,202**	152,342
Capital and reserves					
Retained earnings		**179,558**	104,453	**173,500**	95,632
Total capital and reserves		**179,558**	104,453	**173,500**	95,632
Total equity		**179,558**	104,453	**173,500**	95,632
Liabilities					
Non-current liabilities					
Borrowings	14	**371**	727	**371**	727
Trade and other payables	15	**1,131**	1,371	**1,131**	1,371
Deferred tax liabilities	16, 17	**34,154**	18,844	**34,154**	18,844
Retirement benefit obligations	17	**1,513**	1,627	**1,513**	1,627
Provisions for other liabilities and charges	18	**50**	40	**-**	-
Total non-current liabilities		**37,219**	22,609	**37,169**	22,569
Current liabilities					
Borrowings	14	**356**	1,178	**356**	1,178
Trade and other payables	15	**36,438**	30,452	**37,076**	32,399
Current tax liabilities		**-**	850	**-**	467
Retirement benefit obligations	17	**101**	97	**101**	97
Provisions for other liabilities and charges	18	**79**	79	**-**	-
Total current liabilities		**36,974**	32,656	**37,533**	34,141
Total liabilities		**74,193**	55,265	**74,702**	56,710
Total equity and liabilities		**253,751**	159,718	**248,202**	152,342

The supporting notes on pages 104 to 146 are an integral part of these financial statements. The financial statements on pages 99 to 147 were authorised for issue by the Board on 20 June 2018 and were signed on its behalf.

Richard Moriarty
Chief Executive

Chris Tingle
Chief Operating Officer

Statements of Changes in Equity

	Note	Group retained earnings £'000	Authority retained earnings £'000
Balance as 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 post employment benefit obligations	17	13,367	13,367
Movement on deferred tax relating to post employment benefit obligations		(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**
Balance as at 1 April 2017		**104,453**	**95,632**
Profit for the financial year		**814**	**3,593**
Unrealised foreign exchange differences		**(92)**	**(53)**
Movement on deferred tax relating to unrealised foreign exchange differences		**55**	**-**
Actuarial gain on post-employment benefit obligations	17	**89,552**	**89,552**
Movement on deferred tax relating to post-employment benefit obligations		**(15,224)**	**(15,224)**
Balance as at 31 March 2018		**179,558**	**173,500**

Statements of Cash Flows

For the years ended 31 March

	Note	**Group 2018 £'000**	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Cash flows from operating activities					
Cash generated from operations	21	**8,801**	8,414	**7,526**	8,382
Interest paid		**(59)**	(86)	**(59)**	(86)
Income tax (paid) / received		**(1,738)**	185	**(701)**	3
Net cash generated from operating activities		**7,004**	8,513	**6,766**	8,299
Cash flows from investing activities					
Purchase of property, plant and equipment		**(89)**	(422)	**(80)**	(297)
Disposal of property, plant and equipment		**8**	6	**-**	-
Purchase of intangible assets		**(3,073)**	(2,687)	**(2,834)**	(2,671)
Interest received		**29**	39	**29**	37
Net cash used in investing activities		**(3,125)**	(3,064)	**(2,885)**	(2,931)
Cash flows from financing activities					
Repayments of borrowings		**(1,178)**	(1,142)	**(1,178)**	(1,142)
Net cash used in financing activities		**(1,178)**	(1,142)	**(1,178)**	(1,142)
Net increase in cash and cash equivalents		**2,701**	4,307	**2,703**	4,226
Cash and cash equivalents at beginning of year		**13,940**	9,633	**13,727**	9,501
Cash and cash equivalents at end of year	13	**16,641**	13,940	**16,430**	13,727

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 2018 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 Statements of Comprehensive Income.

The preparation of Statements of Comprehensive Income in conformity with IFRS as 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 company for the first time in the current year and have been adopted by the company with no impact on the company'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 7 'Statement of Cash Flows'; and
- Amendments to IAS 12 'Income Taxes'.

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 following years. The effective dates are listed below and the impact, unless otherwise stated, is not expected to be material to the financial statements:

- Issue of IFRS 15 'Revenue from Contracts with Customers' (1 January 2018);
- Issue of IFRS 9 'Financial Instruments' (1 January 2018);
- Amendments to IFRS 2 'Share-based Payment' (1 January 2018);
- Amendments to IFRS 4 'Insurance Contracts' (1 January 2018);
- Amendments to IAS 40 'Investment Property' (1 January 2018);
- Annual improvements to IFRSs 2014-2016 Cycle (1 January 2018);

- Issue of IFRS 16 'Leases' (1 January 2019); and
- Amendments to IFRS 9 'Financial Instruments' (1 January 2019).

IFRS 16 'Leases' is expected to have a material impact on the financial statements. In essence this will result in the contractual commitments of operating leases being recognised within liabilities on the Statements of Financial Position. The new standard will also require the leased asset to be recognised. In terms of the impact this will have on the CAA, the property and vehicle lease obligations and right of use assets will be disclosed.

As IFRS 16 is effective from periods starting on or after 1 January 2019, this will be adopted for the first time in the financial statements for the year ended 31 March 2020. At this time it is expected that right of use assets of £148k and a lease liability of £175k will be recognised in relation to the properties. The vehicles are expected to result in right of use assets of £995k and lease liabilities of £938k. There will be no material impact on the Income Statement as a result of IFRS 16.

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 Statements of Comprehensive Income. All other foreign exchange gains and losses are presented in the Income Statement within 'Other losses'.

1.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment. 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. Once the asset is brought into use it is transferred to the relevant category and depreciation commences from that date.

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

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

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Depreciation, amortisation and disposals' in the Income Statement.

1.6 Intangible assets

Intangible assets are stated at historical cost less amortisation and impairment. Historical 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 company, and the cost of the item can be measured reliably.

Amortisation is calculated using the straight-line method to allocate assets' costs 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 and installation are not amortised. Once the asset is brought into use it is transferred to the relevant category and amortisation commences from that date.

1.7 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and 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.

Assets in the course of construction are reviewed for impairment at each balance sheet date. Impairment losses are recognised in the Income Statement where required. Assets that are subject to impairment are reviewed at each balance sheet date to ensure the impairment continues to be appropriate. If necessary, the value of any impairment is reduced or extended through the Income Statement.

1.8 Financial assets

1.8.1 Classification

The company 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' 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 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 17)*

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 Statements 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 Statements 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 Statements 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 Group 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.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 17.

Intangible assets

Estimates are made in relation to the value in use of the fixed assets. This is included within the impairment review calculations. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects the current market assessment of the time value of money.

2. Segment information

The operating segments have been based on the reports reviewed by the CAA 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 & Airspace Regulation, Consumers & 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 revenues generated from the Monarch Airlines repatriation activities of £52,511k. This amounted to £43,020k from the DfT and £9,491k from the Air Travel Trust. Also included within Miscellaneous Services are grants from the DfT amounting to £2,149k during the year (2017: £2,055k), of which £254k relates to the release of a grant received for assuming control of the Aviation Security function on behalf of the DfT (2017: £353k) and £1,895k relates to work undertaken by Air Safety Support International Limited on the behalf of the DfT (2017: £1,703k). 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 2018 income of £623k has been deferred (2017: £808k deferred).

2. Segment information (continued)

The segment information for the year ended 31 March 2018 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	59,642	15,728	9,101	84,471	-	-	-	84,471
Eurocontrol service charges	-	-	-	-	13,177	-	-	13,177
Other revenue	734	1,981	1,101	3,816	-	14,947	74,303	93,066
Total revenue	60,376	17,709	10,202	88,287	13,177	14,947	74,303	190,714
Operating costs (excluding IAS 19 pension scheme adjustments)	65,236	15,845	9,272	90,353	12,861	12,341	74,400	189,955
Profit / (loss) before IAS 19 adjustments	(4,860)	1,864	930	(2,066)	316	2,606	(97)	759
IAS 19 pension scheme adjustments	(1,196)	(202)	(197)	(1,595)	-	(130)	(655)	(2,380)
Operating profit / (loss)	(6,056)	1,662	733	(3,661)	316	2,476	(752)	(1,621)
Profit / (loss) before income tax	(4,616)	1,904	970	(1,742)	316	2,632	41	1,247

A reconciliation of operating loss to profit before income tax is provided as follows:	**£'000**
Adjusted operating loss for reportable segments	**(1,621)**
Finance income	**2,918**
Finance costs	**(50)**
Profit before income tax	**1,247**

2. Segment information (continued)

The comparable segment information for the previous 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 IAS 19 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 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

3. Employment costs

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

	Note	**Group 2018 £'000**	Group 2017 £'000
Wages and salaries		**58,811**	51,232
Social security costs		**7,049**	5,878
Defined benefit pension plan costs	17	**17,702**	15,700
Defined contribution pension plan costs	17	**2,459**	1,631
Unfunded pension plan costs	17	**(13)**	184
Other employee benefits expense		**1,671**	1,569
Total employment costs		**87,679**	76,194

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 2018 Year end	**Group 2018 Average**	Group 2017 Year end	Group 2017 Average
By business segment				
Safety & Airspace Regulation	**543**	**517**	498	477
Consumers & Markets	**90**	**87**	79	82
Aviation Security	**96**	**85**	83	79
CAA International	**54**	**56**	53	54
Miscellaneous Services	**295**	**283**	251	235
Total employees	**1,078**	**1,028**	964	927

4. Board members' and key management personnel emoluments

Board member emoluments	Group 2018 £'000	Group 2017 £'000
Salaries and fees	**1,222**	1,140
Benefits	**39**	42
Performance related payments	**183**	167
Emoluments excluding pension contributions	**1,444**	1,349
Pension contributions	**171**	210
Pension payments to past Board members	**184**	95
Board member emoluments	**1,799**	1,654

Details of aggregate emoluments for each of the 10 Board members (2017: 10) who received remuneration in the year are included in the table above. The Report by the Remuneration Committee provides details for each Board member.

Key management personnel emoluments	Group 2018 £'000	Group 2017 £'000
Salaries and fees	**961**	905
Benefits	**8**	6
Emoluments excluding pension contributions	**969**	911
Pension contributions	**197**	193
Key management personnel emoluments	**1,166**	1,104

There were 6 employees considered to be key management personnel in the year (2017: 6).

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.

5. Auditors' remuneration

	Group 2018 £'000	Group 2017 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**102**	88
Audit of subsidiary company financial statements	**15**	14
Audit of the Group's Malaysia branch financial statements	**8**	13
Audit related assurance services	**5**	4
Total auditors' remuneration	**130**	119

6. Profit for the year

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

	Note	Group 2018 £'000	Group 2017 £'000
Net foreign exchange losses on operating activities		**57**	338
Total foreign exchange losses		**57**	338
Operating lease payments:			
Properties (included within services and materials)		**6,927**	7,100
Vehicles (shown within employment costs and other expenses)		**17**	14
Total operating lease payments		**6,944**	7,114
Depreciation, amortisation and disposals:			
Depreciation on property, plant and equipment	9	**2,053**	2,286
Grant released on property, plant and equipment	15	**(126)**	(212)
Amortisation of intangible fixed assets	10	**1,155**	654
Grant released on intangible fixed assets	15	**(128)**	(141)
Profit on disposal of property, plant and equipment		**(2)**	(6)
Impairment of intangible fixed assets	10	**162**	-
Total depreciation, amortisation and disposals		**3,114**	2,581

Profit on disposals is shown within 'Depreciation, amortisation and disposals'.

The Department for Transport provided £1,807k 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 15).

Research expenditure (all in respect of safety regulation):	Group 2018 £'000	Group 2017 £'000
Internal costs (included within employment costs)	**1,926**	1,289
External costs (included within research)	**278**	271
Total research expenditure	**2,204**	1,560

7. Finance income and costs

	Note	**Group 2018 £'000**	Group 2017 £'000
Finance income:			
Interest on short-term deposits		**29**	39
Employee benefit scheme - expected return on assets	17	**55,495**	70,067
Employee benefit scheme - interest charge on liabilities	17	**(52,607)**	(66,737)
Other interest income		**1**	-
Total finance income		**2,918**	3,369
Finance costs:			
National Loans Fund borrowings		**(50)**	(85)
Unwinding of discount on provisions	18	**-**	(1)
Total finance costs		**(50)**	(86)
Finance income - net		**2,868**	3,283

8. Income tax charge

Analysis of tax charge in the year:	**Group 2018 £'000**	Group 2017 £'000
Current tax:		
UK corporation tax at 19% (2017: 20%) on profit for year	**363**	1,154
Adjustment in respect of prior years	**25**	-
Tax overseas suffered	**16**	40
Adjustment in respect of prior years (foreign tax)	**(2)**	-
Withholding tax suffered	**-**	(4)
Total current tax charge	**402**	1,190
Deferred tax:		
Origination and reversal of temporary differences	**(43)**	(53)
Adjustment in respect of prior periods	**(12)**	-
Effect of tax rate changes	**-**	2
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	**86**	555
Total deferred tax charge	**31**	504
Income tax charge	**433**	1,694

8. Income tax charge (continued)

Reconciliation of effective tax rate:	**Group 2018 £'000**	Group 2017 £'000
Profit before income tax	**1,247**	8,196
Corporation tax calculated at 19% (2017: 20%)	**237**	1,641
Tax effects of:		
Fixed asset differences	**159**	210
Expenses not deductible for tax purposes	**6**	6
Adjustments to brought forward values	**(12)**	-
Overseas tax	**16**	13
Adjustments to tax charge in respect of previous periods	**23**	-
Effect of rate change	**4**	(17)
Deferred tax not recognised	**-**	(159)
Income tax charge	**433**	1,694

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 the 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.

9. Property, plant and equipment

Group **Cost**	**Freehold buildings £'000**	**Leasehold buildings £'000**	**Plant and equipment £'000**	**Vehicles £'000**	**Furniture, fixtures and fittings £'000**	**Assets in the course of construction £'000**	**Total £'000**
At 1 April 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
Additions	-	-	6	-	3	80	89
Disposals	-	-	(11)	(20)	-	-	(31)
Transfers	-	-	100	-	210	(310)	-
At 31 March 2018	**22,116**	**26,157**	**8,759**	**102**	**3,995**	**1**	**61,130**
Accumulated depreciation							
At 1 April 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
Charge for the year	200	1,286	220	7	340	-	2,053
Eliminated on disposal	-	-	(4)	(20)	-	-	(24)
At 31 March 2018	**20,884**	**24,018**	**8,172**	**90**	**2,331**	**-**	**55,495**
Net book value 31 March 2018	**1,232**	**2,139**	**587**	**12**	**1,664**	**1**	**5,635**
Net book value 31 March 2017	1,432	3,425	708	19	1,791	231	7,606

9. Property, plant and equipment (continued)

Authority Cost	Freehold buildings £'000	Leasehold buildings £'000	Plant and equipment £'000	Vehicles £'000	Furniture, fixtures and fittings £'000	Assets in the course of construction £'000	Total £'000
At 1 April 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
Additions	-	-	-	-	-	80	80
Disposals	-	-	(11)	-	-	-	(11)
Transfers	-	-	100	-	210	(310)	-
At 31 March 2018	**22,116**	**26,157**	**8,714**	**102**	**3,862**	**1**	**60,952**
Accumulated depreciation							
At 1 April 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
Charge for the year	200	1,286	210	7	317	-	2,020
Eliminated on disposal	-	-	(4)	-	-	-	(4)
At 31 March 2018	**20,884**	**24,018**	**8,142**	**90**	**2,281**	**-**	**55,415**
Net book value 31 March 2018	**1,232**	**2,139**	**572**	**12**	**1,581**	**1**	**5,537**
Net book value 31 March 2017	1,432	3,425	689	19	1,688	231	7,484

10. Intangible assets

Group Cost	Software development costs £'000	Assets in the course of construction £'000	Intellectual property £'000	Total £'000
At 1 April 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
Additions	-	3,244	-	3,244
Transfers	6,664	(6,664)	-	-
At 31 March 2018	**15,957**	**1,340**	**155**	**17,452**
Accumulated amortisation and impairment				
At 1 April 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
Charge for the year	1,123	-	32	1,155
Impairment	64	98	-	162
At 31 March 2018	**7,905**	**98**	**78**	**8,081**
Net book value 31 March 2018	**8,052**	**1,242**	**77**	**9,371**
Net book value 31 March 2017	2,575	4,760	109	7,444

Significant software projects in relation to ATOL Licensing, e-Licensing and CRM totalling £6,664k were all transferred from 'Assets in the course of construction' to 'Software development costs' in the year. The transferred assets are being amortised from the date of transfer over periods ranging from 5-10 years. No charge for these assets had previously been recognised in the Income Statement.

As part of our normal impairment review process, we have taken the decision to impair assets previously capitalised, following a reassessment of future benefits associated with the projects.

Impairment losses of £162k (2017: nil) are included within 'Depreciation, amortisation and disposals' on the Income Statement. The impairment loss relates to two software projects which are not considered to be commercially viable. As such, the carrying value of these projects has been written down to nil.

10. Intangible assets (continued)

Authority Cost	Software development costs £'000	Assets in the course of construction £'000	Intellectual property £'000	Total £'000
At 1 April 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
Additions	-	3,005	-	3,005
Transfers	6,139	(6,139)	-	-
At 31 March 2018	**14,787**	**1,242**	**-**	**16,029**
Accumulated amortisation				
At 1 April 2016	5,990	-	-	5,990
Charge for the year	489	-	-	489
Eliminated on disposal	(31)	-	-	(31)
At 31 March 2017	6,448	-	-	6,448
Charge for the year	978	-	-	978
At 31 March 2018	**7,426**	**-**	**-**	**7,426**
Net book value 31 March 2018	**7,361**	**1,242**	**-**	**8,603**
Net book value 31 March 2017	2,200	4,376	-	6,576

Significant software projects in relation to ATOL Licensing, e-Licensing and CRM totalling £6,139k were all transferred from 'Assets in the course of construction' to 'Software development costs' in the year. The transferred assets are being amortised from the date of transfer over periods ranging from 5-10 years. No charge for these assets had previously been recognised in the Income Statement.

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.

	2018	2017
	£	£
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 2018 £'000	Group 2017 £'000	Authority 2018 £'000	Authority 2017 £'000
Current receivables:				
Trade receivables	**6,864**	5,584	**4,053**	2,578
Less: provision for doubtful trade receivables	**(222)**	(334)	**(79)**	(224)
Trade receivables - net	**6,642**	5,250	**3,974**	2,354
Social security and other taxes	**378**	431	**378**	431
Prepayments	**3,294**	1,776	**3,190**	1,682
Accrued income	**9,358**	11,369	**8,068**	8,293
Income equalisation	**88**	78	**-**	-
Other receivables	**330**	412	**330**	399
Total current receivables	**20,090**	19,316	**15,940**	13,159
Non-current receivables:				
Prepayments	**52**	122	**52**	122
Other receivables	**36**	36	**-**	-
Total non-current receivables	**88**	158	**52**	122
Total trade and other receivables	**20,178**	19,474	**15,992**	13,281

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

As at 31 March 2018 trade receivables of £2,636k (2017: £3,088k) were past their due date but were not doubtful. The ageing analysis of these is as follows:

	Group 2018 £'000	Group 2017 £'000	Authority 2018 £'000	Authority 2017 £'000
Past due:				
Up to 3 months	**2,444**	2,581	**1,034**	1,242
From 3 to 12 months	**189**	484	**93**	53
Over 12 months	**3**	23	**3**	-
	2,636	3,088	**1,130**	1,295

12. Trade and other receivables (continued)

Movements on the provision for doubtful trade receivables:

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
At 1 April	**334**	171	**224**	127
Provision for receivables impaired	**159**	248	**94**	169
Receivables written off during the year as uncollectible	**(210)**	(40)	**(179)**	(40)
Unused amounts reversed	**(61)**	(45)	**(60)**	(32)
At 31 March	**222**	334	**79**	224

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 company does not hold any collateral as security.

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

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
British pounds	**3,975**	4,675	**2,639**	2,718
Euros	**3,011**	926	**1,665**	-
Kuwaiti dinars	**-**	27	**-**	-
US dollars	**-**	30	**-**	-
Other currencies	**22**	40	**-**	35
Total trade and other receivables	**7,008**	5,698	**4,304**	2,753

13. Cash and cash equivalents

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

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Cash at bank and in hand	**7,609**	2,038	**7,398**	1,825
Short-term bank deposits	**8,032**	11,902	**8,032**	11,902
Short-term HM Treasury deposits	**1,000**	-	**1,000**	-
Total cash and cash equivalents	**16,641**	13,940	**16,430**	13,727

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

14. Borrowings

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Non-current				
National Loans Fund	**371**	727	**371**	727
Total non-current borrowings	**371**	727	**371**	727
Current				
National Loans Fund	**356**	1,178	**356**	1,178
Total current borrowings	**356**	1,178	**356**	1,178
Total borrowings	**727**	1,905	**727**	1,905

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.

14. Borrowings (continued)

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

	Carrying amount 2018 £'000	Carrying amount 2017 £'000	**Fair value 2018 £'000**	Fair value 2017 £'000
Non-current	**371**	727	**365**	718
Current	**356**	1,178	**349**	1,174
Total borrowings	**727**	1,905	**714**	1,892

The fair values of borrowings are 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 1.70% (2017: between 0.00% and 1.08%).

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

The Authority has maximum borrowing powers of £550 million (2017: £550 million) under the Civil Aviation Act 1982 (as amended). Below are details of the Authority's undrawn and uncommitted borrowing facilities:

	2018 £'000	2017 £'000
Bank overdraft facility	**10,000**	10,000
Total undrawn and uncommitted borrowing facilities	**10,000**	10,000

15. Trade and other payables

	Note	**Group 2018 £'000**	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Current liabilities:					
Trade payables		**12,677**	5,140	**12,435**	5,093
Amounts due to related parties	24	**-**	-	**4,698**	7,444
Social security and other taxes		**2,476**	1,998	**2,476**	1,998
Accrued expenses		**7,717**	7,563	**7,126**	6,737
Income equalisation		**170**	354	**-**	-
Deferred income		**10,262**	11,081	**7,294**	7,385
Other payables		**3,136**	4,316	**3,047**	3,742
Total current trade and other payables		**36,438**	30,452	**37,076**	32,399
Non-current liabilities:					
Other payables		**831**	861	**831**	861
Accruals and deferred income		**300**	510	**300**	510
Total non-current trade and other payables		**1,131**	1,371	**1,131**	1,371
Total trade and other payables		**37,569**	31,823	**38,207**	33,770

The carrying amount of trade and other payables is deemed to approximate their fair value.

The Department for Transport (DfT) provided £1,807k 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 DfT in connection with the transfer of responsibility for the regulation of the Aviation Security function:

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
No later than 1 year	**254**	298	**254**	298
Later than 1 year and not later than 5 years	**269**	449	**269**	449
Later than 5 years	**31**	60	**31**	60
Total grant outstanding	**554**	807	**554**	807

16. Deferred income tax

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

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
At 1 April	**378**	376	**398**	341
Income Statement tax credit	**55**	51	**60**	57
Other comprehensive income tax charge	**55**	(49)	**-**	-
At 31 March	**488**	378	**458**	398

Deferred 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 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 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Deferred tax assets	**495**	477	**465**	448
Deferred tax liabilities	**(7)**	(99)	**(7)**	(50)
Deferred tax assets - net	**488**	378	**458**	398

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

	Group Accelerated tax depreciation £'000	**Group Other £'000**	**Group Total £'000**	**Authority Accelerated tax depreciation £'000**	**Authority Other £'000**	**Authority Total £'000**
Deferred tax assets						
At 1 April 2017	-	477	477	-	448	448
Income Statement tax charge	65	(53)	12	41	(24)	17
Other comprehensive income tax charge	-	6	6	-	-	-
At 31 March 2018	**65**	**430**	**495**	**41**	**424**	**465**

	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 2017	(45)	(54)	(99)	(45)	(5)	(50)
Income Statement tax credit	45	(2)	43	45	(2)	43
Other comprehensive income tax charge	-	49	49	-	-	-
At 31 March 2018	**-**	**(7)**	**(7)**	**-**	**(7)**	**(7)**

16. Deferred income tax (continued)

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 the 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 Statements of Financial Position, the deferred income tax liability of £34,154k (2017: £18,844k) relates to the pension scheme surplus (see note 17).

17. 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 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 scheme of £2,459k (2017: £1,631k) were charged to the Income Statement (see note 3).

Unfunded scheme: the CAA also operates an unfunded scheme for some past members of the Board. The revaluation of the unfunded scheme at the end of the period has resulted in a credit of £13k (2017: charge of £184k) to the Income Statement in accordance with the advice of a professionally qualified actuary (see note 3). A non-current liability of £1,513k (2017: £1,627k) and a current liability of £101k (2017: £97k) are held in the Statements of Financial Position in respect of post employment benefits payable under this scheme.

17. Retirement benefit obligations (continued)

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 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 Chairman, 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. The value of the buy-in policy held on behalf of the members is equal to the value of the benefits covered by the policy and is included under the asset class 'insured annuity policies'. The value of these benefits as at 31 March 2018 is estimated to be £1,450 million (2017: £1,506 million).

17. Retirement benefit obligations (continued)

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 £4.2 million. 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 25.2% of pensionable earnings for the year 2017/18 (2017: 22.2%) in respect of which the CAA paid contributions of £15.3 million. The expected contribution in the 2018/19 year is £15.7 million. The expected future benefit payments for 2018/19 are forecast to be £159.8 million.

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

17. Retirement benefit obligations (continued)

	2018 £'000	2017 £'000
Statements of Financial Position assets for (Group and Authority):		
Post-employment benefits - fully funded pension fund	**166,754**	92,005
Total Statements of Financial Position assets	**166,754**	92,005
Statements of Financial Position obligations for (Group and Authority):		
Non-current post-employment benefits - unfunded pension scheme	**(1,513)**	(1,627)
Current post-employment benefits - unfunded pension scheme	**(101)**	(97)
Total Statements of Financial Position obligations	**(1,614)**	(1,724)
Income Statement charge for (Group):		
Pension benefits (note 3)	**17,702**	15,700
Post-employment benefits - unfunded pension scheme (note 3)	**(13)**	184
Total Income Statement charge	**17,689**	15,884

Funded pension benefits
The amounts recognised in the Statements of Financial Position are determined as follows:

	Group and Authority	
	2018 £'000	2017 £'000
Fair value of plan assets	**2,242,726**	2,334,888
Present value of future obligations	**(2,041,818)**	(2,224,039)
Surplus in funded scheme	**200,908**	110,849
Related deferred tax liability at 17% (2017: 17%) (note 16)	**(34,154)**	(18,844)
Net surplus in funded pension scheme	**166,754**	92,005

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**	
	2018 £'000	2017 £'000
Surplus in funded pension scheme brought forward	**110,849**	94,215
Income Statement movement	**(14,814)**	(12,370)
Remeasurement effects recognised in other comprehensive income	**89,552**	13,367
Employer contributions	**15,321**	15,637
Surplus in funded pension scheme carried forward	**200,908**	110,849

17. Retirement benefit obligations (continued)

The movements in the defined benefit obligations (DBO) over the year are as follows:	Group and Authority	
	2018 £'000	2017 £'000
DBO brought forward	**2,224,039**	2,083,388
Current service cost (excluding administration costs)	**16,453**	13,326
Interest costs on the DBO	**52,607**	66,737
Scheme participants' contributions	**120**	150
Actuarial gain - member experience	**(66,704)**	(50,217)
Actuarial gain - demographic assumptions	**-**	(163,956)
Actuarial (gain) / loss - financial assumptions	**(30,046)**	396,733
Benefits paid from scheme assets	**(154,651)**	(122,122)
DBO carried forward	**2,041,818**	2,224,039

The movements in the fair value of plan assets in the year are as follows:	Group and Authority	
	2018 £'000	2017 £'000
Fair value of assets brought forward	**2,334,888**	2,177,603
Interest income on scheme assets	**55,495**	70,067
Return on scheme assets (less) / greater than discount rate	**(7,198)**	195,927
Employer contributions	**15,321**	15,637
Scheme participants' contributions	**120**	150
Benefits paid	**(154,651)**	(122,122)
Administrative costs paid	**(1,249)**	(2,374)
Fair value of assets carried forward	**2,242,726**	2,334,888

The CAA provides pensions administration services to the scheme and has charged £1,249k (2017: £2,374k) over the course of the year. The CAA also charges for third party costs incurred on behalf of the scheme. These totalled £4,903k (£3,909k) for the year.

17. Retirement benefit obligations (continued)

The scheme assets are allocated as follows:	Group and Authority			
	2018 £m	**%**	2017 £m	%
Index Linked (UK)	**255.8**	**11.4%**	335.7	14.4%
Total Dedicated Bond Fund	**255.8**	**11.4%**	335.7	14.4%
Equity Fund	**212.7**	**9.5%**	298.4	12.8%
Total Quoted Equities	**212.7**	**9.5%**	298.4	12.8%
Insured Annuity Policies	**1,449.7**	**64.6%**	1,506.3	64.5%
Total Insured Annuity Policies	**1,449.7**	**64.6%**	1,506.3	64.5%
Other Holdings	**324.5**	**14.5%**	194.5	8.3%
Total Other Holdings	**324.5**	**14.5%**	194.5	8.3%
Fair value of scheme assets carried forward	**2,242.7**	**100.0%**	2,334.9	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	
	2018 £'000	2017 £'000
Current service cost	**16,453**	13,326
Administrative costs paid	**1,249**	2,374
Total Income Statement charge included in employment costs	**17,702**	15,700
Net interest on defined benefit obligation	**52,607**	66,737
Expected return on funded pension scheme assets	**(55,495)**	(70,067)
Total credit to finance income (note 7)	**(2,888)**	(3,330)
Total included in Income Statement	**14,814**	12,370

17. Retirement benefit obligations (continued)

Analysis of amounts recognised in the Statements of Comprehensive Income:

	Group and Authority	
	2018 £'000	2017 £'000
Actuarial gains due to liability experience	**(66,704)**	(50,217)
Actuarial (gains) / losses due to liability assumption changes	**(30,046)**	232,777
Return on scheme assets less / (greater) than discount rate	**7,198**	(195,927)
Actuarial gain recognised in the Statements of Comprehensive Income	**(89,552)**	(13,367)

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

	2018 % p.a.	2017 % p.a.
Discount rate	**2.50**	2.45
Inflation assumption (RPI)	**3.35**	3.40
Inflation assumption (CPI)	**2.35**	2.40
Rate of increase in salaries in future years	**2.35**	2.40
Rate of increase in pensions (pre 1 June 2015) *	**3.35**	3.40
Rate of increase in pensions (post 1 June 2015) *	**2.35**	2.40

* In excess of any guaranteed minimum pension

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	30.0
60 in 10 years	29.6	30.9

Additional information **Expected contributions for the following year end:**	**2019 £'000**
Employer	**15,712**
Scheme participants	**114**
Total expected contributions for the following year end	**15,826**

Weighted Average Duration of Defined Benefit Obligation	**15 years**

17. 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	2.5%	0.1% increase	1.4% reduction
Price inflation (RPI)	3.4%	0.1% increase	1.5% increase
Salary growth	2.4%	0.1% increase	0.1% increase
Mortality	93% (male) / 91% (female)	Long-term trend 1.25%	0.8% reduction

18. Provisions for other liabilities and charges

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Building repairs:				
Brought forward	**119**	78	**-**	-
Provision made in the year	**10**	40	**-**	-
Unwinding of discount - charge	**-**	1	**-**	-
Total provisions for other liabilities and charges	**129**	119	**-**	-

18. Provisions for other liabilities and charges (continued)

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Analysis of total provisions:				
Non-current	**50**	40	**-**	-
Current	**79**	79	**-**	-
Total provisions for other liabilities and charges	**129**	119	**-**	-

A provision of £79k (2017: £79k) 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 accounts have been signed the value of the dilapidation expense has not been agreed upon by the property landlords and Air Safety Support International Ltd, 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 £50k (2017: £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% (2017: 0.0025%).

19. Derivative financial instruments

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Forward foreign exchange contract asset	**45**	27	**45**	27

The fair value of the forward foreign exchange contracts is determined using the forward exchange rate at 31 March 2018, discounted back to present values.

20. Financial instruments by category

Group	2018 Assets at fair value through the Income Statement £'000	2018 Other financial assets at amortised cost £'000	2018 Total £'000	2017 Assets at fair value through the Income Statement £'000	2017 Other financial assets at amortised cost £'000	2017 Total £'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	**45**	**-**	**45**	27	-	27
Trade and other receivables	**-**	**7,008**	**7,008**	-	5,698	5,698
Cash and cash equivalents	**-**	**16,641**	**16,641**	-	13,940	13,940
Net book amount	**45**	**23,649**	**23,694**	27	19,638	19,665

Authority	2018 Assets at fair value through the Income Statement £'000	2018 Other financial assets at amortised cost £'000	2018 Total £'000	2017 Assets at fair value through the Income Statement £'000	2017 Other financial assets at amortised cost £'000	2017 Total £'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	**45**	**-**	**45**	27	-	27
Trade and other receivables	**-**	**4,304**	**4,304**	-	2,753	2,753
Cash and cash equivalents	**-**	**16,430**	**16,430**	-	13,727	13,727
Net book amount	**45**	**20,734**	**20,779**	27	16,480	16,507

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

20. Financial instruments by category (continued)

Group

	2018			2017		
	Liabilities at fair value through the Income Statement	**Other financial liabilities at amortised cost**	**Total**	Liabilities at fair value through the Income Statement	Other financial liabilities at amortised cost	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Liabilities as per Statement of Financial Position:						
Trade and other payables	**-**	**16,644**	**16,644**	-	10,317	10,317
Borrowings	**-**	**727**	**727**	-	1,905	1,905
Net book amount	**-**	**17,371**	**17,371**	-	12,222	12,222

Authority

	2018			2017		
	Liabilities at fair value through the Income Statement	**Other financial liabilities at amortised cost**	**Total**	Liabilities at fair value through the Income Statement	Other financial liabilities at amortised cost	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Liabilities as per Statement of Financial Position:						
Trade and other payables	**-**	**21,011**	**21,011**	-	17,140	17,140
Borrowings	**-**	**727**	**727**	-	1,905	1,905
Net book amount	**-**	**21,738**	**21,738**	-	19,045	19,045

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

Financial risk management disclosures are set out in the Financial Review on pages 53 to 63.

21. Cash generated from operations

	Group 2018 £'000	Group 2017 £'000	**Authority 2018 £'000**	Authority 2017 £'000
Profit before income tax	**1,247**	8,196	**3,624**	14,629
Adjustments for:				
Depreciation, amortisation, impairment and adjustment on disposal	**3,370**	3,293	**2,999**	3,111
(Profit) / loss on disposal of asset	**(2)**	(6)	**7**	-
Grant amortisation	**(254)**	(353)	**(254)**	(353)
Finance income - net	**(2,868)**	(3,283)	**(2,868)**	(3,281)
Unrealised foreign exchange differences	**(92)**	(19)	**(53)**	(305)
Changes in working capital:				
- Trade and other receivables	**(875)**	(1,986)	**(2,711)**	(641)
- Trade and other payables	**5,885**	2,469	**4,402**	(4,841)
IAS 19 current service costs net of cash contributions	**2,380**	63	**2,380**	63
Provisions	**10**	40	**-**	-
Cash generated from operations	**8,801**	8,414	**7,526**	8,382

22. Commitments

Capital commitments

At 31 March 2018 and 2017, the Group had no material 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.

22. Commitments (continued)

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

Properties:	**2018 £'000**	2017 £'000
No later than 1 year	**6,873**	6,895
Later than 1 year and not later than 5 years	**5,312**	12,179
Total property operating lease commitments	**12,185**	19,074

Vehicles:		
No later than 1 year	**594**	537
Later than 1 year and not later than 5 years	**412**	403
Total vehicle operating lease commitments	**1,006**	940

Vehicle lease rental agreements are entered into by the company. Lease rental charges are reimbursed by the member of staff responsible for each vehicle. Some lease vehicles have not been allocated to employees, which has resulted in a charge of £17k to the Income Statement (2017: £14k).

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

Operating lease receipts in respect of sub-let office space:	**2018 £'000**	2017 £'000
No later than 1 year	**5,879**	5,493
Later than 1 year and not later than 5 years	**4,119**	9,612
Total committed property operating lease receipts	**9,998**	15,105

23. Guarantees and contingencies

Group and Authority

As at 31 March 2018, the Group has the following guarantee in place:

- A performance guarantee in the sum of MYR 247,500 (£46k) with the Government of Malaysia, expiring 31 December 2018.

The following guarantee, which was in place at the end of the previous period, expired during the year:

- A performance guarantee in the sum of KWD 136,964 (£325k) with the Directorate General of Civil Aviation of the Government of the state of Kuwait, expired 31 March 2018.

Other than as described above, as at 31 March 2018, the Group is not aware of any material contingent liabilities and the Group does not anticipate that any material contingent liabilities will arise.

24. 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 Group has undertaken work for the Department for Transport (DfT) and has recognised revenue of £47,668k (2017: £5,117k). The substantial increase in the year was primarily due to the Monarch Airlines repatriation activities that the CAA was instructed to undertake by the DfT. This amounted to revenue of £43,020k in the year. At the end of the year £1,484k was owed to the DfT by the CAA (2017: £133k owed by the DfT).

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. At the end of the year £1,515k was owed to the ATT by the CAA (2017: nil).

During the year, the CAA charged £120k (2017: £30k) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £9,969k (2017: £731k) to the ATT during the year for legal fees, accommodation costs, accounting and other administrative services. The substantial increase in the year was primarily due to the Monarch Airlines repatriation activities, to which the ATT provided £9,491k.

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 17.

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 £204k (2017: £195k) in support of the programme.

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 £5m (2017: £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.

24. Related-party transactions (continued)

Authority

The following transactions with subsidiaries occurred during the year:

	2018 £'000	2017 £'000
Re-charge of corporate legal, finance, IT and facilities costs:		
CAA International Limited	**780**	870
Air Safety Support International Limited	**323**	308
Re-charge of corporate Board member costs:		
CAA International Limited	**32**	70
Air Safety Support International Limited	**19**	18
Provision of radio licensing service to CAA International Limited	**208**	213
Work carried out on behalf of CAA International Limited with regard to commercial aviation related services	**2,356**	2,840
Provision of technical assistance to Air Safety Support International Limited	**8**	8
Total inter-group charges	**3,726**	4,327

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

	2018 £'000	2017 £'000
CAA International Limited	**3,559**	6,855
Air Safety Support International Limited	**1,139**	589
Total payables to group undertakings	**4,698**	7,444

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.

25. Current cost return on capital employed

	Operating profit £'000	Average capital employed £'000	Return on capital employed %
CAA Regulatory Sector	**134**	**38,917**	**0.3%**

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. Further analysis is included on page 42 within Key Performance Indicators.

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	01.04.17 - 31.03.18	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.

26. 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

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income Statement (historic cost accounts)					
Revenue	**190.7**	135.8	132.6	134.1	132.0
Operating (loss) / profit before finance income-net and income tax charge	**(1.6)**	4.9	(5.4)	(4.3)	(5.9)
Finance income - net	**2.8**	3.3	10.8	11.3	23.9
Income tax charge	**(0.4)**	(1.7)	(1.3)	(1.8)	(3.9)
Profit for the financial year	**0.8**	6.5	4.1	5.2	14.1
Statement of Financial Position (historic cost accounts)					
Non-current assets	**216.5**	126.4	109.5	339.1	278.9
Current assets	**37.3**	33.3	27.6	30.0	32.9
Total assets	**253.8**	159.7	137.1	369.1	311.8
Reserves	**179.6**	104.4	85.7	269.0	221.2
Equity	**179.6**	104.4	85.7	269.0	221.2
Total liabilities	**74.2**	55.3	51.4	100.1	90.6
Total equity and liabilities	**253.8**	159.7	137.1	369.1	311.8

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

	2018	2017	2016	2015	2014
CAA Regulatory Sector	**0.3%**	8.2%	1.1%	3.1%	8.6%

Civil Aviation Authority (Accounts) Direction 2018

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 2018 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.

4. The Direction issued to the Authority dated 24 April 2017 is hereby revoked.

Dan Micklethwaite
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 9 April 2018

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 2018

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 24 April 2017 is hereby revoked.

Dan Micklethwaite
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 9 April 2018