Annual Report & Accounts 2018/19
Civil Aviation Authority

CAP 1806

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Civil Aviation Authority

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Statement by the Chair

The year under review has been one that has had a significant impact on the country, the aviation industry and our role as a regulator. It pulls into sharp focus how much aviation is an international business and how that relationship must be retained regardless of the UK's future role in Europe.

EU-Exit

Negotiations on the UK's withdrawal from the European Union have been one of the defining issues in the year under review. While the future settlement remains uncertain, as a regulator we must continue to plan for the future while maintaining our current oversight.

Quite rightly we have channeled considerable resource into helping the aviation industry prepare for any possible no deal exit. But we are also focused on helping to ensure that the UK remains a leading aviation country.

This effort will continue well after our standing with the European Union is decided. But already the bilateral air safety agreements we have negotiated with the USA, Japan, Canada and Brazil set out a long-term partnership plan for aviation safety.

Aviation will remain an international business. As such, we will continue to have strong relationships with fellow European regulatory bodies, including the European Aviation Safety Agency (EASA), regardless of the outcome of negotiations. Keeping these strong ties to the rest of the world will be imperative if we are to retain and enhance the high levels of safety and security we currently have.

'It pulls into sharp focus how much aviation is an international business and how that relationship must be retained regardless of the UK's future role in Europe'

Safety

The two Boeing 737 MAX accidents were a stark reminder of the need for constant vigilance in relation to aviation safety and our thoughts remain with all of those impacted by these tragic events. While we do not currently have formal responsibilities as a certification body for large airliners, we nonetheless closely monitor situations like this.

Following the Ethiopian accident, we took the precautionary decision to prohibit the use of that aircraft type by UK airlines and in UK airspace. This was influenced by the fact that there had been two accidents in a short space of time and there was insufficient information from the flight data recorders to be able to get any definitive answers.

Safety will always be our first priority and therefore our restrictions will remain in place until we are satisfied that the aircraft type meets the high levels of safety the world demands. In pursuit of this end, we will of course remain in close contact with EASA as the certification authority for Europe and other industry regulators around the world.

General aviation, including the safety of airshows, has again been a key area of work this year. We have completed the last remaining recommendations from the Air Accidents Investigation Branch report into the Shoreham accident. These covered long-term areas of work that included developing new human factors guidance that is specific to this environment.

We noted the verdict from the trial of the pilot involved in the Shoreham accident and remain committed to all airshows having the highest levels of safety for the six million people who attend them each year in the UK and for the communities in which they take place.

Consumers

The needs and aspirations of consumers are always a central focus of our work and during the year we have continued to develop our approach to passengers for whom accessibility is a critical issue.

The number of people asking for accessibility assistance at UK airports has been steadily rising with more than three million making such a request in 2017. It is an important principle that we make air travel increasingly accessible and we have worked with airports during the year to improve the experience of people with disabilities, especially including those living with hidden disabilities.

The coming year

As we move into a new reporting year, I believe that one of the key opportunities and challenges will be to make the most of the potential that innovation and technology can bring.

To that end we have established our regulatory 'sandbox' which is helping innovators navigate the regulatory system in developing their products and bringing them to market. Our innovation team is already working with ground-breaking organisations from around the world that recognise our expertise and are seeking to use our safe, but proportionate, regulatory structure in developing their products in the UK.

We expect this work to expand in the coming year. Companies involved in the sandbox development phase of this project include Volocopter passenger drones and innovation foundation NESTA's work to prototype the use of drones in cities.

New technologies can bring challenges as well as opportunities and in December 2018 we saw the impact caused that the malicious use of drones can bring. We also, however, know of the many benefits that the drone industry can deliver. Key to the success of this sector will be the promotion to the public of examples of the good things that drones can offer.

Board

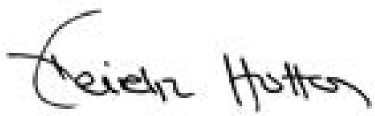
There have been a number of changes to the Board during the year. Ashley Steel ended her term on the Board and I would like to thank her in particular for the rigorous commercial experience that she brought.

Two new non-executive directors, Marykay Fuller and Anne Lambert, joined the Board in January. I am delighted to welcome them to the Board and appreciate the significant contribution they are already making.

Andrew Haines, the CAA's Chief Executive for nine years, left the Board in May 2018. His contribution has been enormous and I know that I speak for everyone in the CAA in expressing our gratitude for his commitment to leading an organisation that is highly skilled and respected around the world. In particular, his focus on learning has given the CAA an aspirational legacy, which will be important in the challenging times ahead.

This is Richard Moriarty's first year as Chief Executive, having moved from Director of the Consumer and Markets Group to take on the role. I am delighted that we were able to promote an internal candidate of such high calibre and look forward to working with Richard over the coming year as he continues to make his mark.

I remain deeply grateful to all Board members for their commitment to our work. As we have faced new challenges in a world where this can only continue, the experience and support that Board members bring is a great asset to the CAA.



Dame Deirdre Hutton DBE
Chair
19 June 2019

Statement by the Chief Executive

Preparing for EU-Exit

The past year has been dominated by the UK aviation sector seeking to understand, and prepare for, the UK's withdrawal from the European Union (EU). Our aviation connectivity is vital to both the UK's and EU's prosperity. Linked to this is the ability of friends and families to connect with each other and that the safety interests of UK citizens go beyond UK borders.

In partnership with the Department for Transport (DfT) and others, we have developed, and will continue to develop, detailed plans to assist those we regulate to help minimise any disruption to consumers and industry.

In doing so, we are mindful also that the UK's aviation and aerospace sector is the third largest in the world and a significant source of employment and innovation in the UK.

During the year we helped an unprecedented number of businesses and individuals change their licences and approvals to prepare for EU-Exit. We received licence transfer requests from an extra 6,000 pilots and engineers in the six months leading up to the end of March 2019. I am pleased to say that all valid change applications were completed by the end of March. This did, however, place a considerable stress on the organisation to facilitate this and, unfortunately, turnaround times for some of our other services suffered as a result of us needing to prioritise resources to deal with the EU-Exit applications. Service levels for other applications have since recovered and we are now completing over 90% of applications within our service standards.

Enhancing risk based safety regulation

During the year we continued to embed and enhance our approach to risk based safety regulation. Our approach to Performance Based Oversight (PBO) is now much more established both internally and with those that we regulate.

We must never be complacent: there is always more that both we and others can learn about how to enhance safety standards. Safety assurance is a never-ending journey, not a destination.

Although the public rightly expect that commercial aviation, which handled around 300 million passenger journeys last year, will represent the major focus of our safety activities, we have also continued to develop, and dedicate significant resource to, the regulation of general aviation.

‘During the year we continued to embed and enhance our approach to risk based safety regulation.’

The UK’s general aviation industry provides a significant contribution, diversity and heritage. The risk profile, especially third-party risk from sport and recreational activities, is different to commercial aviation so a separate approach is used. During the year we worked successfully with the British Microlight Aircraft Association to delegate to it certain oversight functions. We will continue to work with the general aviation community to ensure that regulation is as targeted and proportionate as it needs to be.

Following the tragic accident involving the footballer Emiliano Sala in January 2019 we are initiating a new education campaign to help make those looking to use general aviation aircraft more aware of the different options and the requirements in place for commercial flights.

Our aviation security team has continued to develop a risk-based approach to regulation following the successful PBO model pioneered by safety colleagues at the CAA.

Empowering consumers

The findings from our latest consumer survey, the sixth carried out over the last two years, help inform our ongoing work. Overall levels of consumer satisfaction dropped slightly; with 82 per cent across the UK saying they were satisfied with their most recent flight compared to 83 per cent in the April 2018 survey and 90 per cent in 2016. While 82 per cent is a high figure compared to other transport modes, it is important for the industry to continue to improve in areas where consumers are less content, such as complaint handling. This is particularly important given new findings in this survey showing how poor complaint handling can make many consumers think twice about flying with an airline again.

Playing our role in modernising aviation infrastructure

During the year, we made significant progress in establishing a platform for airspace modernisation. This vital invisible infrastructure in our sky has not had a fundamental overhaul for decades and this needs to be addressed if we are to support the future aspirations of the commercial and general aviation industries whilst ensuring better overall outcomes for communities in terms of noise and for the environment in terms of carbon emissions. The needs of future airspace users such as drones will also need to be considered.

We welcome the Government's active support for reform including as co-sponsors of modernisation with the CAA. For this programme to succeed it will require all parties to play their role to the full and it will inevitably require some difficult trade-off decisions.

We published in December 2018 an Airspace Modernisation Strategy (AMS). This new strategy is in response to the Government tasking us with preparing and maintaining a coordinated strategy and plan for the use of UK airspace up to 2040. Since then we have worked with the DfT, NATS and others to establish the governance framework to take forward this strategy, including setting up a new Airspace Coordination Organising Group (ACOG).

During the year we also dedicated significant resource to our programme on runway expansion, playing our role in helping to secure runway expansion at Heathrow that is in consumers' interests and both affordable and commercially financeable.

Enabling technology and staying one step ahead

The UK aviation industry is a rich source of innovation and technological advancement. It is also one that faces new opportunities and challenges from outside its traditional boundaries in terms of disruptive technologies and potential business models, for example drones and future space flight. As a regulator our core purpose will remain constant in terms of protecting the public. But we are keen to play our role facilitating new technologies not least because doing so and working very closely with those looking to advance the boundaries of the industry is more likely to lead to better outcomes for the public and consumers than if we take a more passive stance. During the year we established our new innovation platform to engage with new technologists and were pleased to see the launch of the first six trials.

We also established within our Aviation Security team a new capability for cyber security under the National Infrastructure Security (NIS) Directive. Our approach will be to ensure that those entities within the scope of the NIS Directive provide themselves with sufficient assurance that their cyber risks to resilience and disruption are being appropriately managed.

International Engagement

It remains vital to our commitment to public protection that we continue to be active in and indeed lead in, the international arena. We remain one of the most active states in ICAO and the CAA provides a senior leader to fulfil the role of the UK's Air Navigation Commissioner, our representative on ICAO's highest-level technical committee. This year we have and will continue to play our full part in the EASA system, from the Management Committee, to technical rulemaking expertise.

Through our International Group we are working with States around the world to help them sustainably improve aviation standards, whether through CAAi, our advisory arm, or through our State Safety Partnership programme. We are currently working with States from Thailand to Saudi Arabia, USA to the Gambia, and Malaysia to Ukraine; all with the purpose of raising aviation standards across the globe.

Internal change to support our strategy

We need the internal enablers to support our strategy if our plans are to become reality. An ongoing process of change is simply the normal operating environment to those we regulate; as the regulator we cannot be immune to change either. Making sure we have the right people with the right skills and values, aligned to our strategy and fully engaged and motivated is a pre-requisite for success.

I have welcomed the support from industry and by extension their consumers, who after all pay our fees and charges, in developing this. In the course of the year we have invested in targeted areas where the demand for our services has grown significantly, such as in dealing with record numbers of airspace change requests and the Heathrow expansion programme.

I have also welcomed in my first year as Chief Executive how my colleagues in the CAA have continued to dedicate themselves to our core purpose of protecting the public, especially when unexpected or unplanned events happen. We are only as good as our people and how well we work together and with our partners to deliver on our core purpose.

This year has also seen us preparing for a major office move for the organisation. For almost as long as we have been in existence our head office has been located at CAA House in central London. With the long-term lease coming up for renewal in 2019, and the much smaller number of staff located in London now, we took the decision to rationalise our accommodation.

In the summer of 2019, we will vacate our central London office. The majority of colleagues will be located in our Gatwick office with a smaller number being based on one floor of a shared building in Canary Wharf. At that point our Gatwick office will become our Head Office.

Overall the year under review has produced both known and unexpected challenges. The organisation has responded well because my committed colleagues have stepped up and have done what it takes. This commitment from our people to do the right thing and step up to the challenge stands us in good stead for what I'm sure will be another challenging year ahead.

Richard Moriarty
Chief Executive Officer
19 June 2019

Strategic Report

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 require 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 19 June 2019.
By order of the Board

Kate Staples
General Counsel and Secretary
19 June 2019

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, aircraft maintenance engineers and commercial UAV operators.
- 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.

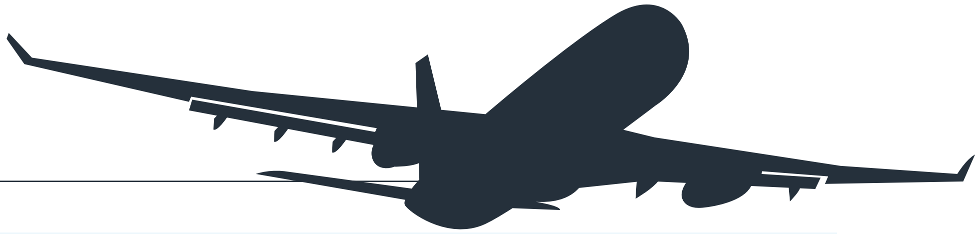
Principle 2: We will be clear at all times about the risks for which we are accountable and only seek to be accountable for risks that we can manage or oversee.

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 2019 our total income was £150.2m of which £93.2 was statutory income generated under the statutory charges schemes, £13.1m 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

£13.9m 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.

£26.1m 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 as an organisation is to protect consumers and citizens by regulating civil aviation in the UK and seeking to enhance their safety wherever they might travel around the world. Our five key strategic priorities reflect that role, placing emphasis on areas where we can have the most impact.

Risk-based regulation

We continue to use a risk-based approach to regulation, founded on an informed and comprehensive understanding of present and emerging risk. Our aim is to deliver regulation that is targeted, timely and proportionate.

Like other leading aviation regulators, risk or performance-based regulation is how we work in most areas of regulation. This allows us to target our resources at the most significant risks while still maintaining oversight of all other elements of the UK industry.

During the year we finalised the small number of remaining safety recommendations from the Shoreham air display accident. These were long-term pieces of work including looking at pilot human factors. We have worked closely with the air display community to embed the changes introduced over recent years.

Our General Aviation (GA) Unit has continued with its principles of making the UK one of the best countries for a GA community to operate in. We have explored and removed regulation to allow greater freedoms for various areas while maintaining high levels of safety. We extended our approvals to Huey helicopter operators, acknowledging the desire for many people to fly in vintage aircraft, allowing them to offer paying passengers flights in historic aircraft under certain strict conditions.

We also completed the payment of over £2.65m in EU grants to more than 6,000 pilots towards the purchase of 8.33 kHz compatible radios.

The protection of consumers will always be our first priority. In March 2019 we acted to restrict the use of Boeing 737-8 MAX and 737-9 MAX aircraft by UK operators and in UK airspace. This precautionary measure was introduced after the two tragic accidents involving these aircraft types. We continue to monitor the situation closely and remain in contact with the European Aviation Safety Agency (EASA) as the certificating agency of the aircraft for Europe.

The offshore helicopter industry remains a significant area of work and the safety of those who travel on offshore helicopter flights is a key priority for us. In July 2018 the Norwegian accident investigators published the final report on the Super Puma accident in Norway.

The report supported the action taken by us and Norwegian safety regulators following the accident introducing restrictions to prevent operators using H225LP and AS332L2 helicopters for commercial flights.

We would not have taken this decision unless we were convinced that the changes to the helicopters and their maintenance restore the required airworthiness standards. No UK operator has yet made an application to return the helicopter to service.

We continue to work with the helicopter operators, the offshore industries, international regulators, unions and pilot representatives to enhance offshore safety standards still further and all these parties are actively involved in ongoing discussions.

Following the tragic Leicester City football club helicopter accident, the CAA continues to offer support to the accident investigators in their work.

Disruptive airline passengers remained an issue in the year under review. While there was a levelling out of reported figures the number of incidents still remains unacceptably high. Airlines, airports and other agencies are working with us to raise awareness with passengers of both the impact that this behaviour can have and also the significant penalties for someone being found guilty of related offences. We will continue to seek to educate passengers and are also partners in European and international projects to tackle the issue.

In 2018/19 we have remained a close partner with EASA. Our involvement has heavily influenced its plans for GA rules and regulation, and we remain key players in many EASA working groups and development projects.

In recent months we have seen increasing levels of scrutiny around illegal public transportation and we will be launching a targeted campaign to educate consumers about the various options available and the levels of regulation and oversight that govern the different categories of flight.

Empowering consumers

During the year we proactively continued to investigate potential sources of detriment to consumers. These included 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 took action against airlines operating in the UK that we believed were not fully compliant with consumer laws. In the last six years we have secured legal undertakings from airlines and other travel companies on a range of issues to protect consumers.

During the year there were several airline failures, including flybmi and Primera Air, affecting UK consumers. In all these cases we immediately issued advice to consumers on their rights and courses of action available to them. Our increased use of social media in these cases was very effective; reaching more consumers, and more quickly, than ever before.

We have continued to monitor airline licence holders closely during the year, particularly as trading conditions have been more challenging than in recent years.

We continued our work to ensure all in the industry are aware of the importance of making air travel increasingly accessible. The number of people asking for assistance at UK airports has been steadily rising with more than three million making such a request in 2017.

We are also the first aviation regulator in the world to put in place a framework which reports on the progress made by airports and airlines on what they need to offer to people who may find the flying experience very daunting or difficult. The framework makes clear that people with accessibility needs are entitled to help moving around the airport, in a seamless and timely manner, and to be treated with dignity and respect.

This year, we updated our guidance for frontline staff to help them identify more easily people with hidden disabilities, who may otherwise go unnoticed, such as those who may be hard of hearing, suffer with dementia or are autistic.

In preparing this guidance, we met with several accessibility organisations which work closely with the communities the progress framework is designed to support.

Our assessment this year showed airports overall were continuing to improve their service to persons of reduced mobility and helping to increase the confidence of people needing assistance to travel.

We also published our analysis of allocated seating practices in the UK and the proposed next steps.

Overall levels of consumer satisfaction dropped slightly; with 82 per cent across the UK saying they were satisfied with their most recent flight compared to 83 per cent in the April 2018 survey and 90 per cent in 2016. While 82 per cent is a high figure it is important for the industry to continue to improve in areas where consumers are less content such as complaint handling. This is particularly important given new findings in this survey showing how poor complaint handling can make many consumers think twice about flying with an airline again.

Our latest UK aviation consumer survey shows passengers living in the north of England and Northern Ireland to be the most satisfied with their overall experience of flying from the UK.

The research also found consumers from London, the South-East and the West Midlands were the least satisfied with their overall experience.

The findings from this latest survey, the sixth carried out over the last two years, help to inform our ongoing work on consumer behaviour and attitudes to flying.

We have an ongoing review that involves analysing the contract terms for the largest airlines operating in the UK to understand how clear and fair those terms are to consumers. We will publish the conclusions of this analysis and next steps in the coming months.

Our ATOL holiday financial protection scheme continues to protect millions of passengers. The failures occurring during previous financial years continued to be administered to closure. This included the Monarch Holidays Group, which resulted in 2,170 overseas passengers refunded from 986 claims. Overall, we processed 21,350 Monarch forward bookings covering 60,400 passengers. The administration of this failure concluded for claim receipt in October 2018 and the current cost to the Air Travel Trust (ATT) stands at £15.7m.

Of the other failures, Chadwell Travel Limited proved to be more challenging as it resulted in both fulfilment of holidays and claims. The original estimated cost of this failure was £6.5m assuming all future bookings were processed as claim refunds. By taking action to enable 17,420 affected consumers to continue their holidays even though Chadwell had failed we reduced the cost of this failure to £3.7m. The remaining 400 claims from this failure were refunded at a cost of £291,000.

The failure of Mert Selim resulted in 5,204 passengers being refunded at a cost to the ATT of £2.0m. We are investigating this failure as the volume of claims received indicates that the ATOL holder was overtrading its licence authorisation.

More recently we administered Lee's Travel Limited. Consumers were able to use some of the cruise elements of their original trip which reduced the cost of this failure from £1.9m to £1.3m.

Innovation

During the year we were successful in a funding bid to the Department for Business, Energy and Industrial Strategy to help advance our innovation work. As a result, we have set up a new team to facilitate innovation throughout the aviation and travel industries.

Our work is, primarily, supporting three areas:

- An innovation gateway - allowing anyone to submit ideas for the aviation sector and get a quick answer from us as to whether it needs regulatory input or approval:
- A regulatory lab - automation and urban air mobility. It brings together those with an interest in the area, such as other regulators, academia and the public, to develop potential regulatory models and avoid duplication between agencies; and
- A regulatory sandbox - where we can give initial guidance to innovators on the development and potential eventual approval of ideas, and help create safe conditions for testing. This is separate from our teams deciding on final regulatory approval.

This is a significant change to the way we work with individuals and companies in the innovation sector. It also allows us to be much clearer internally in separating regulatory approval tasks from advice and facilitation.

One of the key initial areas for the team will be urban air mobility. More generally drones continue to be a significant area of work for us. Our Unmanned Aircraft Systems unit is now a standalone team within our Safety and Airspace Regulation Group with the head of the team reporting directly to the Safety Director. The team draws all of our policy, approval and inspection teams together into one place.

We continue to work closely with the Government in all our drone work and support Government policies and new regulation. This included the introduction of new airfield exclusion zones and the development of the UK's drone registration scheme due for implementation in October 2019 prior to it becoming a legal requirement in November 2019.

The year also saw the first transatlantic flight by a large commercial drone from the USA to the UK. We facilitated its access to UK airspace and approved the safety oversight.

We are keen to support the growth of the UK drone industry as it has the potential to bring significant economic and societal gains for the UK. This, however, must be achieved safely. The December 2018 incident at Gatwick showed the impact that illegal use of drones can have. While we will concentrate on the regulation and education of users that want to follow the rules, the enforcement, prevention and detection of illegal drone use primarily falls for the airports involved, the police and the Government.

In setting the way forward for the future of the UK's airspace the Government's Green Paper also called for the roll out of full electronic conspicuity in the UK. This would result in all airspace users transmitting details of their position that could then be interrogated by air traffic control and other aircraft to increase safety and allow better management of airspace. Once in place it would also allow the expansion of drone operations, potentially making it easier to approve regular 'beyond line of sight' flying, by giving drones electronic information on other aircraft that they can then use to sense and avoid them. In March 2019 we issued a call for evidence on the issue that will help us to assess the roll out strategy.

Internationally our CAAi and innovation teams work closely to ensure that we are able to create new propositions for CAAi clients that will help them address their challenges of new technologies in aviation. We are positioning the organisation as 'the aviation regulator to go to' for innovation projects and will work closely with ICAO to support its work and pioneer innovation at the international level.

Infrastructure optimisation

Following the Government's decision to support expansion at Heathrow we have been engaging with all parties involved. We have always been clear that we expect capacity expansion at Heathrow to be delivered in a way that is timely, affordable, financeable and, critically, in the interests of consumers. This is what underpins our work as we continue to develop the regulatory framework for capacity expansion working closely with airlines, Heathrow Airport Limited and other stakeholders.

This has included further work on cost of capital, capital expenditure incentives and surface access policy.

We welcomed in principle the agreement reached between Heathrow Airport Limited and its airline customers on a charging scheme to cover the next two years prior to the expected start of expansion construction.

We have consulted on whether the agreement is in the long-term interest of all consumers. Any airport expansion needs suitable airspace to support it. In response to the Government tasking us with preparing and maintaining a co-ordinated strategy and plan for the use of UK airspace up to 2040, including modernisation, we published our Airspace Modernisation Strategy (AMS).

This replaces the UK's Future Airspace Strategy and sets out the ways, means and ends of modernising airspace through 15 initiatives that will modernise the design, technology and operations of airspace, initially focusing on the period until the end of 2024. These include the removal of all fixed routes in upper airspace, so aircraft can fly fully optimised routes, a fundamental redesign of the terminal route network using precise and flexible satellite navigation and the focus on electronic surveillance solutions to improve safety and enable better integration of all airspace users. The AMS was published following public engagement in 2018.

The structure of the UK's airspace has remained the same for decades, despite an increase in demand from its users. According to research conducted by NATS, flights in UK airspace are forecast to grow from 2.25 million per year in 2015 to 3.25 million in 2030 (an increase of 44 per cent). If nothing changes, more and more flights will be delayed at UK airports each year.

The AMS sets out a new shared objective between us and the Government for modernising airspace which is to deliver quicker, quieter and cleaner journeys and more capacity for the benefit of those who use and are affected by UK airspace. This new strategy will allow the UK to provide more choice and value for consumers, airlines to add new flights reducing flight delays and enhancing global connections that can help boost the UK economy, whilst continuing to improve safety standards and helping make journeys more environmentally friendly. Coupled with the adoption of new technology by existing airspace users, it will also help pave the way for increased safe access for newer airspace users like drones and spacecraft.

The increase in traffic may lead to an increase in noise in some areas or the concentration of traffic can focus noise over a smaller area. While it is impossible to reduce the impact of aviation noise for all communities it is important that noise is managed as well as possible. Airports should also consider whether they can develop airspace change proposals to reduce noise and to reduce the total adverse health effects of noise.

The AMS also presents a new governance structure which sets out the industry's responsibility for its delivery and how relevant stakeholders will be a part of that process.

Any individual airspace changes that are developed either in response to this strategy or for any other reasons will go through our airspace change process. This will include consultation with affected stakeholders which, depending on the circumstances, includes communities on the ground and other airspace users. To help make this process more transparent a new standalone online airspace change portal was launched in 2018.

During the past year we have worked extensively to develop the initial proposals for the relevant RP3 economic regulation of air traffic service provider NATS that starts in 2020. The proposals that have been consulted on, would see a reduction in unit charges, while funding airspace modernisation.

Throughout the year we continued to produce UK airline, airport and noise statistics to support policy making and regulatory decision making. Specific highlights include major pieces of work on departure noise impacts and long-term noise forecasting work to support the Government's aviation strategy.

Service excellence

Improving the experience we provide to stakeholders and customers continues to be a key priority. Further extending our online pilot licensing facility has been one of the projects for this year. Our portfolio delivery team continues to develop and implement improvements to our back-office systems to improve the organisation's overall efficiency. The transfer of commercial pilot licences from the UK to EC countries as part of organisations' and individuals' reactions to EU-exit placed a considerable workload on our Shared Services Centre during the year. As a result, delays have unfortunately occurred to the amendment and issue of pilot licences throughout the year. We continue to work hard to keep these delays to a minimum.

EU-Exit

We have put in place comprehensive contingency arrangements for a no deal EU-exit, engaging extensively with the Government and the aviation sector. Key activities have included preparing and publishing guidance, establishing an International Civil Aviation Organisation (ICAO) compliant state of design capability for UK aerospace activities and processing significant numbers of pilot and engineer licence transfer requests.

On wider international work we have agreed new bilateral air safety agreements with the USA, Canada, Brazil and Japan and prepared and issued third country approvals and foreign operator permits for European Union airlines. As part of this work we have developed a new system for online application and processing of foreign operator permits. This will allow faster processing of the expected higher volumes.

International

Our key international objectives focus on working with and supporting others to improve aviation standards sustainably across the globe and using our resources to maximise our international influence to protect citizens outside of UK airspace. Primarily we achieve this through the work of our International Group, which comprises CAAi (our wholly owned advisory subsidiary), the International Strategy and Engagement team, and the DfT funded State Safety Partnership team.

Key to achieving these aims is the work we undertake with other nations and regulators. On 10 September 2018, CAAi signed 'Appendix 3' of our framework contract with CAA Thailand to provide new regulations and guidance material across all safety areas, fully aligned with ICAO and harmonised with EASA where appropriate. We have started a project to support the Saudi Arabian Authority (GACA) to prepare for an ICAO audit.

With the Ukraine authorities we are assisting with flight operations and personnel licensing to help them align with European regulations. This is an EU-funded project that we lead with a consortium formed with the Spanish regulator AESA.

In partnership with safety colleagues, CAAi has launched a new risk-based surveillance course to support industry and national authorities around the world to understand the principle of risk-based regulation.

In September 2017, CAAi became a social enterprise. Under this new 'profit for a purpose' approach, we have reinvested in 12 initiatives including many funded spaces on our CAAi training courses and two funded aerodromes courses (in Nairobi and Bangkok), and a third on the job training course in Cambodia. All of them are in partnership with ICAO's 'No country Left Behind' programme. The fund is also supporting product development in aviation security and performance-based regulation to expand CAAi's offer. Additionally, we funded the Women in Aerospace Charter website to support the UK CAA's diversity and inclusion strategy. In the 2018 Social Enterprise UK Annual Awards, CAAi were shortlisted for two categories: international impact and education and training.

In May 2018, CAAi successfully transitioned from ISO 9001:2008 to achieve the ISO 9001:2015 accreditation. As a globally-recognised standard, which is a prerequisite for many of our clients and potential clients, it gives us a platform to standardise our processes where appropriate, create efficiencies by demonstrating continuous improvement and achieve higher levels of customer satisfaction.

Our International Strategy and Engagement team helped coordinate the UK's input to the very successful ICAO Air Navigation conference, held in Montreal in October 2018. A set of high-level recommendations in air navigation and safety matters was agreed and will be submitted for endorsement by the 40th session of the Assembly in 2019, the preparations for which are already well underway.

In 2018 we provided significant input into the work on the new EASA Basic Regulation, now in force, and the development of the proposal for the replacement of Regulation 868 (concerning protection against subsidisation and unfair pricing practices causing injury to Community air carriers). Both of these met key UK objectives and enable UK regulation to keep pace with this EU regulation in the light of EU-Exit. This was important to ensure full alignment.

Our Department for Transport (DfT) funded State Safety Partnership Programme is risk-based by design and a prioritisation scheme has been agreed this year with the DfT to determine which partnerships will generate the best safety outcomes for the consumer and UK industry. The team are currently actively working with the Authorities of Caribbean States, USA, Spain, Gambia and others on various safety improvement projects from wildlife management to increasing the number of runway ends with precision approaches with vertical guidance.

In the coming year we will continue to support CAAi clients with advisory, examination and training services designed to improve aviation standards across the globe, launching new services in areas such as aviation security. The ISE team will be focused on ICAO Assembly 40 and on ensuring we complete ICAO's 'On Line Framework' tool to demonstrate to ICAO and the world how we comply with ICAO requirements. The SSP team will continue to focus on engaging with those States where safety improvements would best support UK citizens and UK industry.

CAA Consumer Panel Summary of its 2018/19 Annual Report

The CAA Consumer Panel is an independent non-statutory body providing expert advice to the CAA to make sure that the consumer interest remains central to its policy development. The Panel acts as a critical friend helping the CAA to understand fully, and take account of, the interests of current and potential aviation consumers.

This is achieved largely by providing the CAA with feedback from a consumer perspective on the effectiveness of its policies and practices and by undertaking targeted reviews where the Panel feels it can add value and promote its core strategic aims to improve access, redress and quality of service. Over the last year, Panel Members have made a significant contribution to the work of the CAA. Early and targeted engagement has allowed the CAA access to Panel Members' expertise and experience and provided an opportunity for the Panel to promote its priorities.

To address its commitment to accessibility, the panel undertook an in-depth review of vulnerability in aviation. This review considered all aspects of air travel from selecting and booking a ticket, getting to and through the airport, the experience on-board the aircraft and when arriving at the destination, as well as any disruption experienced or attempt to complain after the journey. The Panel found that there is potential for vulnerability at each step and has recommended that the CAA develop a framework to identify the potential for detriment in any given situation and prioritise actions to address it, to ensure that all consumers are able to access aviation services in a way that is safe, fit-for-purpose and value for money.

The Panel believe that redress is one of the fundamental consumer principles. Considering the evidence available from the CAA's Aviation Consumer Survey it is clear that consumers are dissatisfied with how complaints are handled and in many cases are discouraged from raising issues or making claims due to the shortcomings of the current landscape. The Panel committed to undertake an evidence-based review of complaints handling to provide clear, actionable recommendations for the CAA. This pointed to the need for further research into the consumer experience of complaints handling at the first tier and the need for ADR (Alternative Dispute Resolution) in aviation to be made mandatory rather than voluntary, delivered by a single ADR provider who does not charge the consumer for accessing the service.

These findings have been fed into the Department for Transport (DfT) and reflected in the proposals contained in the Aviation Strategy green paper. The Panel have been working with the CAA and the DfT on the key consumer proposals in the green paper including the Passenger Charter which the panel see as a key tool in promoting accessibility and improved redress.

The Panel has also promoted the consumer interest in the CAA's economic regulation function on issues such as capacity expansion at Heathrow Airport and the regulatory framework for NATS and continues to support the delivery of the CAA's Aviation Consumer Survey contributing to the consumer survey working group. This provides an opportunity to help shape the design of the survey and furthers the Panel's objective of ensuring that the CAA has an effective evidence base from which to develop policy and monitor the market.

The Panel looks forward to working with the CAA further on the big issues identified above and on its priorities for 2019 and beyond which include a project on the impact of the emerging technologies and the role of data on consumers and the delivery of the DfT's Aviation Strategy proposals.

The Rt. Hon Jenny Willott OBE
Chair of the CAA Consumer Panel

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 continue to invest in modernising our systems, we remain determined to deliver long-term efficiencies and value for money for those we regulate. During 2018/19 we increased our charges for the second successive year; this followed six consecutive 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 continue to focus on this expenditure. A key element within employment costs are pension costs. Our defined benefit scheme was closed to new entrants in 2012 and more than half our colleagues are now within the defined contribution scheme. The cost of the defined benefit scheme remains a risk which will be reviewed as part of the upcoming triennial valuation process.

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 2018/19 was -2.2%, 5.7% 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 2017/18 and 2018/19 from the surplus reserves created in 2016/17. The lower rate in the last two years reflects the outcome of the Board's decision. If we had not gone ahead with the project expenditure this year, the return achieved would have been 4.5%. The average rate of return achieved over the last 3 years was 2.1%.

During the financial year, we have met all of the funding requirements of the Transformation Programme (£5.9m) and our loan repayment commitments (£0.4m) 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 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 most of the financial efficiency targets we set ourselves in last year's annual report (2018/19). These targets were:

Target	Outcome
Below inflation increases in fees and charges for the majority of those we regulate.	It was necessary to increase charges by an average of 2.6%, slightly above RPI (2.4%). This ensured that we were able to continue our programme of further efficiency improvements and that we continue to meet our statutory requirements.
Reducing expenditure in real terms and ensuring that operating costs do not exceed 2018/19 budgeted levels within the regulatory sector.	Partially achieved. While regulatory sector costs have shown a substantial year-on-year increase (see KPIs section for further explanation), there was an overall favourable variance of £0.9m against the 2018/19 budget.
Managing our pension costs.	The overall pension cost in the Income Statement has increased, partially due to the impact of the IAS 19 valuation adjustment. Average actual contribution per employee, however, has reduced by 5.8% (2018: 7.2% decrease) 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 during the year, although delivery on some projects was delayed in the final quarter of the year, with resources diverted to EU-Exit related activities. Normal operating levels of cash showed a small year on year increase.
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.	In progress. The CAA will relocate to a smaller office at Canary Wharf in summer 2019. Some teams have also relocated to Aviation House, Gatwick. Refurbishment works for the new office at Westferry Circus have been completed and the process of staff relocation is underway. We are on track to deliver a positive net present value over the term of the lease.

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

- Increases in fees and charges in line with inflation for the majority of those we regulate;
- Reducing expenditure in real terms and ensuring that operating costs do not exceed 2019/20 budgeted levels within the regulatory sector;
- Managing our pension costs; 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: maintaining 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.

Airspace Change Online Portal

Delivery of the full Airspace Change Online Portal took place in October 2018. This has provided many benefits for those proposing, and those affected by, potential changes to airspace arrangements, including:

- A single, 'one-stop shop' access point, allowing users to access every airspace change proposal and view its 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;
- The means of notifying opportunities for public engagement and booking slots at public meetings.
- The method by which the public can locate airspace changes based on location, either by postcode or place name.

The portal also includes a user survey function which allows us to measure user satisfaction with the portal. Since its delivery and implementation, we have used this feedback to identify areas where further enhancements can be made.

Big data

We have realised some of the benefits of our Big Data program during 2018/19, albeit these represent only a fraction of the expected benefits that will be realised when the project completes in July 2020.

The efficiency benefits have been achieved through implementation of an improved data analysis tool that has significantly reduced our data processing time and also paves the way for more efficient data extraction processes. This has also allowed us to spend more time analysing the data to be able better to define our total risk picture and to consider more complex ways of interrogating our data that would not have been practicable with our previous tools. The implementation of other tools has also begun to allow our specialist teams to self-service simple analytical requests which in turn has enabled them better to refine their safety intelligence and data requirements going forward. It is estimated that we have saved approximately 15% of our analysis time as a result of these changes.

UAS insurance requirements

We are amending our insurance evidence requirement for those applying for an Unmanned Aerial System (Drone) permission. Previously we required the applicant to provide us with evidence of their insurance cover. We will make it clear to the applicant on the application form that the validity of any permission granted by the CAA is subject to the applicant having appropriate insurance in place and that failure to have this would invalidate the permission. This change is expected to be implemented in July 2019 and will provide time-savings for the CAA by removing the need for us to check and in some cases, correct, the insurance information provided with the application. We estimate this change will save the CAA around 100 days effort per annum.

Aeromedical Examiners (AMEs) undertaking Class 1 and Class 3 medical cases

As a result of a medical policy change last year that now permits Aeromedical Examiners (AMEs) to undertake Class 1 and Class 3 medical casework and make fitness decisions following periods of 'unfitness', our Aeromedical Nurse Specialists (ANSs) have saved a significant amount of time in dealing with telephone enquiries. This has also resulted in a speedier process for licence holders to receive their medical re-certification.

Aeromedical Examiners (AMEs) training and education

We continue to work with academic organisations to deliver the educational training our AMEs require. EASA-mandated education material is now being delivered to AMEs by the authority as recorded material via the online AME e-learning portal. Previously, classroom training of around 200 AMEs would have incurred significant time costs for the CAA and time and travel costs for all AMEs.

Medical System replacement

A new Medical System is in the process of being developed, with delivery expected in September 2019. Once implemented it will provide the CAA and the certificated Aeromedical Examiners with a medical records database and workflow system with improved efficiency. Applicants will be able to complete their application form online and review the progress of their application and any casework that is referred in to the CAA Medical team. The system will provide an improved workflow to streamline the medical assessment process.

Commercial Balloon operations moving from an AOC system to a declarative system under EASA Rules

The UK CAA and the UK ballooning industry have been actively engaged in supporting and encouraging EASA work to provide "Simpler, Lighter, Better Rules" for balloon operations. As a result, in March 2018, EASA published simpler and more proportionate rules for balloon operations in the 'EASA Balloon Rule Book'. This provides in a single document, for the first time, all the major rules that a balloon pilot or operator needs to know. The UK balloon industry met the compliance date of 8 April 2019, the date that the revised rules came into effect.

One of the major simplifications for commercial passenger ballooning has been the removal of the need for the balloon operator to hold an Air Operator Certificate (AOC). This has been replaced by a declaration by the operator that it operates in compliance with the EASA ballooning regulations.

These changes have enabled easier access to, and improved understanding of the rules for balloon operators and have removed the time and expense of operators needing to apply for an Air Operator Certificate.

PPL Theoretical Knowledge exams online

We are moving to the provision of online exams for private pilots, which will save considerable time as it will remove the need for manual handling of different exam papers and the manual marking of the same. All this will be completed online automatically delivering an immediate result to the candidate and to the training organisation. The delivery of this system is expected by January 2020.

Performance Based Oversight (PBO)

We have continued the phased roll-out of the Performance Based Regulation (PBR) approach to safety regulation, which we first introduced in 2015. This approach involves developing a comprehensive safety risk picture with the organisations we regulate and building our knowledge and data to ensure we target our regulation in the areas where it will make the biggest difference to safety. We defined two measures of our performance in this area:

1. % of oversight activity planned that was re-prioritised based on risk

SARG team	April 2019 Performance	Benchmark
Aerodromes, Airspace and ATM	11%	5% or less
Airworthiness	4%	5% or less
Flight Operations	8%	5% or less
General Aviation	11%	5% or less
Meteorology	0%	5% or less

Background:

Each of our teams establish 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 light of what we learn during each of our oversight activities and also want to be able to deal with important 'pop-up' activity during the year. Examples are: a) 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 b) 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 benchmark whereby we may expect some planned activities to be delayed but aim to have no more than 5%.

Performance:

The April performance shows that most teams continue to work towards this benchmark. As detailed above, we do expect to adjust our priorities based on the performance of the organisations we oversee and also to re-prioritise our resources to respond to unplanned safety performance issues that arise. As a result, the degree to which we need to adjust our plans will vary, with 5% being used as a benchmark, but recognising the degree of variation from the plan will vary dynamically in line with the findings of our oversight activities and other unplanned safety performance issues.

2. % of confidence that oversight is managed in accordance with PBR approach

Since the introduction of our PBR approach, we have developed our understanding of how this approach is working in practice as we continue the phased roll-out of its implementation. During 2018, we carried out a thorough review of how we are assessing our progress against this measure and identified an improved assessment method. Given this change of method to assessing progress, the targets we reported in previous Annual Reports are no longer valid. We will be setting new targets for, and reporting progress against, the new assessment method in future reports.

ATOL Online

The final major update to our ATOL Online facility was released in December 2018, as we brought all March 2019 expiring ATOL holders on to our online platform. All ATOL holders, over 2,000 organisations, are now able to apply, renew and maintain their ATOL licence online.

We were pleased with the overall performance of the system during the March 2019 ATOL renewal and we continue to review the processes and act on feedback to enhance the system and its ease of use. We expect to release further enhancements in advance of the next round of ATOL renewals.

ATOL Online provides efficiency improvements to ATOL holders, such as a quicker application process, real time progress updates of their application and improved turnaround time. With all ATOL holders having now used the new system at least once, we expect these benefits to manifest further at the next renewal round.

In addition, the platform has improved the ability to unlock the power of information and data building and we are now reviewing how to incorporate this into future improvements in our risk assessment process.

Service efficiency

The focus within the Shared Service Centre (SSC) continues to be on improving service delivery to our stakeholders, external and internal. This has been a challenge in 2018/19 as consumers of our services have reacted to the uncertainties of the UK exit from the European Union and for some teams within the SSC this has resulted in demands which have far outstripped annual norms and forecast.

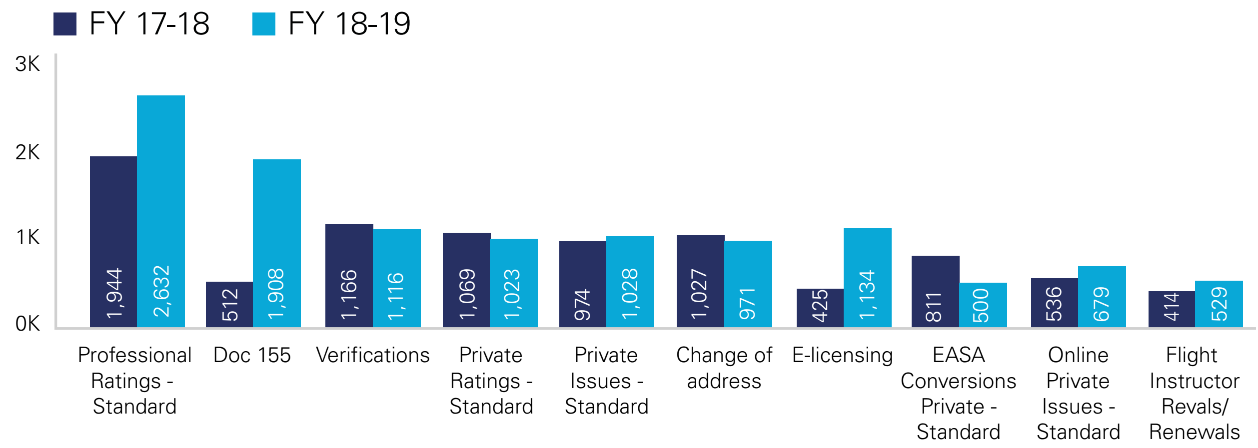
The impact landscape has been mixed, with Flight Crew Licensing (FCL) being the area most significantly affected. It has been challenging to adjust the output capacity in this area because of the long training lead-time for knowledge workers. In addition, an e-Licencing platform for professional pilots has been launched to improve end user experience, productivity and quality. This has been well received by stakeholders. Further development work on the system has not progressed as quickly as planned, however, due to issues with the software supplier and high workload levels in the flight crew licensing team.

Flight Crew Licensing Service & new e-Licence pilot licence application system

Service Delivery

Over the course of the year application demand has continued to exceed previous years. As at August 2018 there was an unexpected but statistically significant 28% increase in applications received. A substantial amount of this increase has been driven by EU-Exit, specifically pilots updating their rating and addresses prior to transferring their licence to other EASA member states (Doc 155). Further analysis completed in November 2018 shows a 40% Year on Year demand increase from 2017.

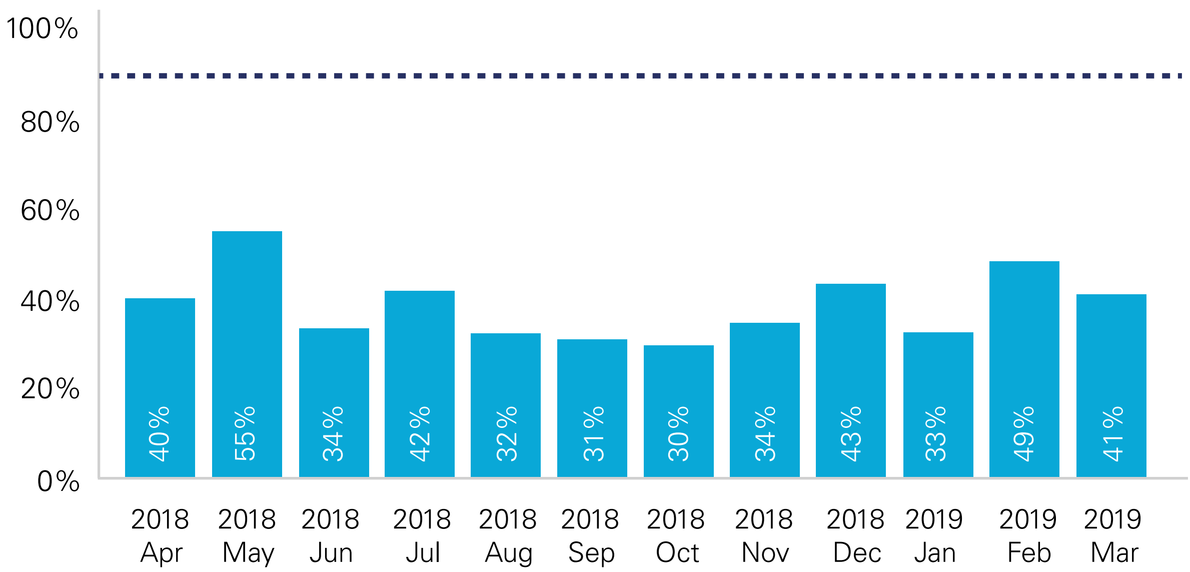
Demand Comparison for Top 10 Application Types – FY 17-18 / 18-19



An improvement plan was initiated in June 2018 which sought to address this by increasing staffing levels, moving to a modular training approach thereby enabling new hires to become productive more quickly. Due to the training and recruitment lead-time the benefits only started to be realised in November when the first cohort passed their modular exams.

The lack of long-range demand forecasting meant we could not mobilise additional resources in time to meet the increased demand. To address this issue in the future the Flight Operations team are working to improve demand forecasting, using exams information to increase visibility of medium and long-term demand.

FCL Applications Completed in 10-day SLA



Throughout the year we have continued to target the published Code of Practice SLA of 90% of applications processed within 10 working days of receipt. As demand has increased, however, our ability to meet this SLA has been negatively impacted.

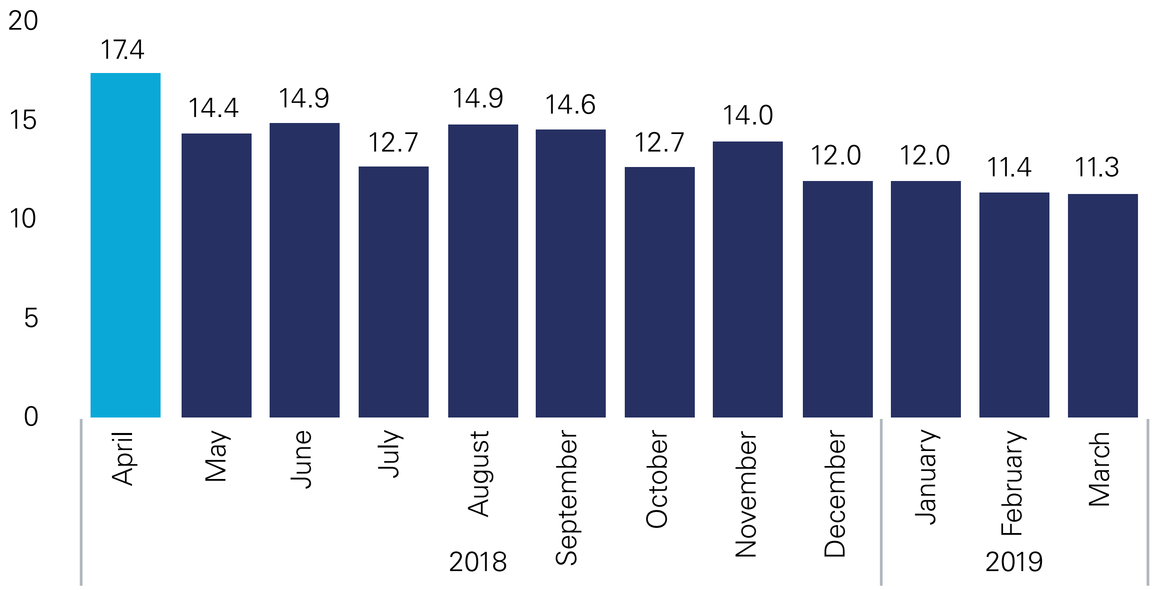
Improvements made including reviewing how we put applications on hold and streamlining key areas such as enhancing the work allocation approach have contributed to the upward trend experienced since November (January figures show a decline due to the impact of the winter closedown).

The quality of applications received from industry improved over the latter part of the year reaching a high of 73% right first time in January 2019. A significant driver of this improvement was the implementation of application pre-screening across all application types. This process enables the Licence Support team to catch incomplete applications prior to them being received by our Licensing Assement Officers in the Flight Crew Licensing team.

Certificates of Airworthiness

Performance against the service standards for Certificates of Airworthiness (C of A) has been more consistent over the last 12 months. This is mainly due to the additional cross-training within the team which has meant that the Technical Standards Surveyors are trained and signed off to perform an increased number of activities, allowing us to flex resources to meet demand as required. In addition, we have introduced a new role of Senior Technical Standards Surveyor who provides support to the Technical Lead and the wider team with all training aspects.

C of A issue versus SLA (15 days)



Unmanned Aerial Systems (UAS) Applications

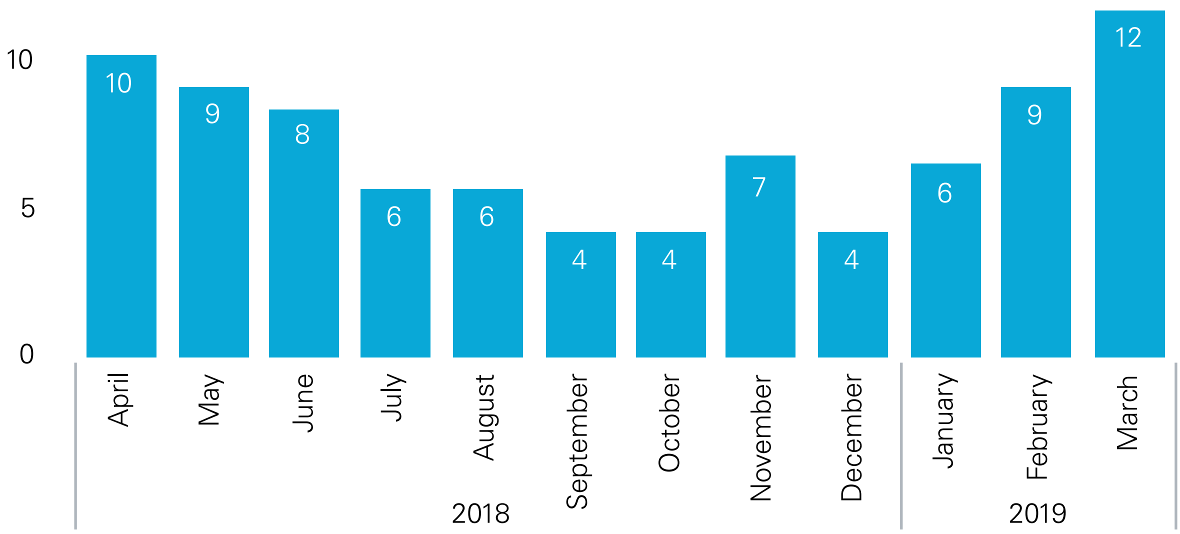
The UAS application demand is tracking at an increase of 34% year on year (based on April to March 2018 vs 2019).

In 2018 we ran a 10-week project where we looked to improve customer service and turnaround times for Permission for Commercial Operation (PfCO) applications.

The improvements in the customer journey have been delivered by the launch of an online application process which includes the ability to make an online payment at time of applying and the auto population of the application data into our internal database. In addition, the team introduced electronic signatures and the use of auto generated emails.

Since April 2018, the team have delivered a highly improved performance with an increased demand of work, without additional resource. These improvements resulted in application assessment times reducing from 70 minutes to 29 minutes which in turn led to turnaround times reducing from an average of 25 working days to 6 working days.

Average Days to Complete UAS Applications by Month



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. The number of incoming complaints has increased by 76 per cent, some of which can be attributed to an increase in EASA licence conversion applications where a standard processing time cannot be provided due to the complexity of the conversion process. The number of upheld complaints has increased by 195 per cent. We recognise the need to make further service improvements that include the recruitment and training of new officers, making improvements to the application process, reviewing and enhancing forecasting activities and reviewing our communications and end-to-end processes. We expect these improvements to have a positive impact on customer experience and enhance team efficiency.

A total of 29,006 applications (covering FCL, Engineer Licensing, UAS and C of A) were received by our Shared Service Centre in 2018-19, so the 231 complaints received represented 0.8% of all applications; the comparative number of applications for 2017-18 was 21,562 with the number of complaints being 131 (0.6%).

Complaints about the CAA	2018-19	2017-18	2016-17
Number of complaints in line with our complaints policy	231	131	178
Upheld in full or in part	180 (78%)	61 (47%)	94 (53%)
The categories of upheld complaints are:			
Poor service, including:	161 (89%)	56 (92%)	86 (91%)
Application processing delays	123 (68%)	39 (64%)	
Failure to respond to enquiries	10 (5%)	10 (16%)	
Other (quality and systematic issues)	28 (16%)	7 (12%)	
Charges/fees	5 (2%)	1 (2%)	2 (2%)
Staff behaviour	3 (2%)	3 (4%)	4 (5%)
Lack of CAA action	3 (2%)	-	1 (1%)
Unfair treatment/bias	1 (1%)	-	-
Over regulation/gold plating	3 (2%)	-	1 (1%)
Incorrect advice	4 (2%)	1 (2%)	-

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 2019 (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 and Accounts 2018/19 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 93 to 99.

BDO LLP

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

19 June 2019

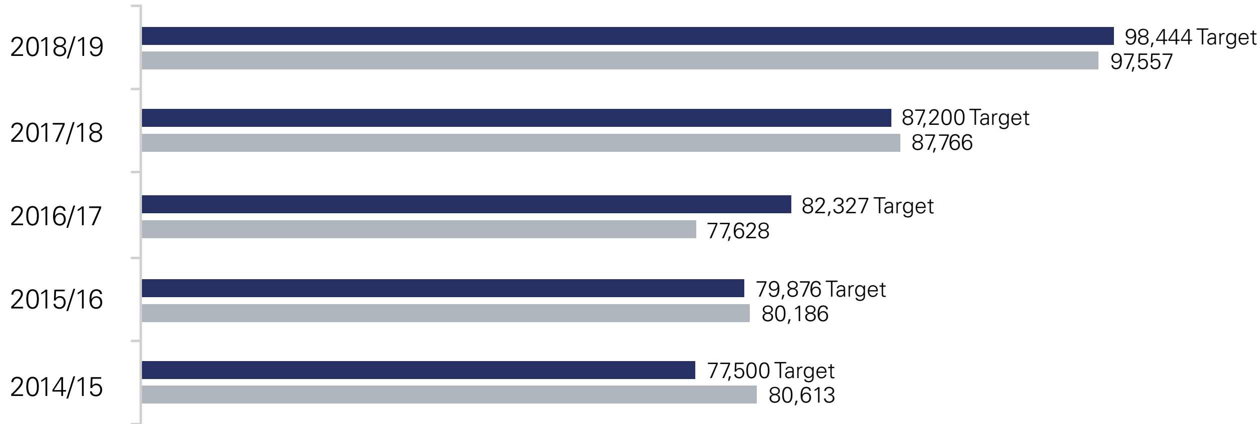
Key Performance Indicators

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

Operating costs (£'000s)



This KPI shows the operating costs for the Regulatory Sector, which is made up of the activities of safety and airspace regulation, consumers and markets and aviation security, together with the profit achieved by CAA International Limited.

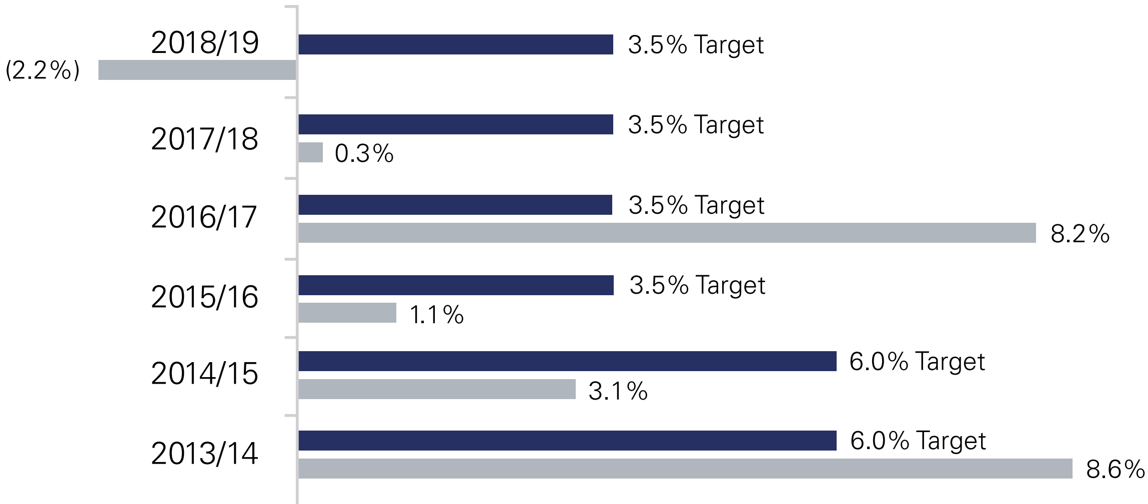
Analysis

Regulatory costs have risen substantially over last year's levels for a number of reasons: growth in the number of resources employed to undertake regulatory activities, particularly within our Shared Service Centre and our Aviation Security function; an increase in professional fees relating to our airports (primarily Heathrow) and NATS pricing reviews; expenditure in relation to the relocation of our London office to Canary Wharf; significant legal costs incurred on two high profile legal cases; and termination payments as a result of organisation design activities.

Regulatory costs were still held within the budgeted level primarily due to delays experienced in the office relocation project, with the remainder of this expenditure being incurred in the 2019/20 financial year.

Target rate of return

Rate of return (%)



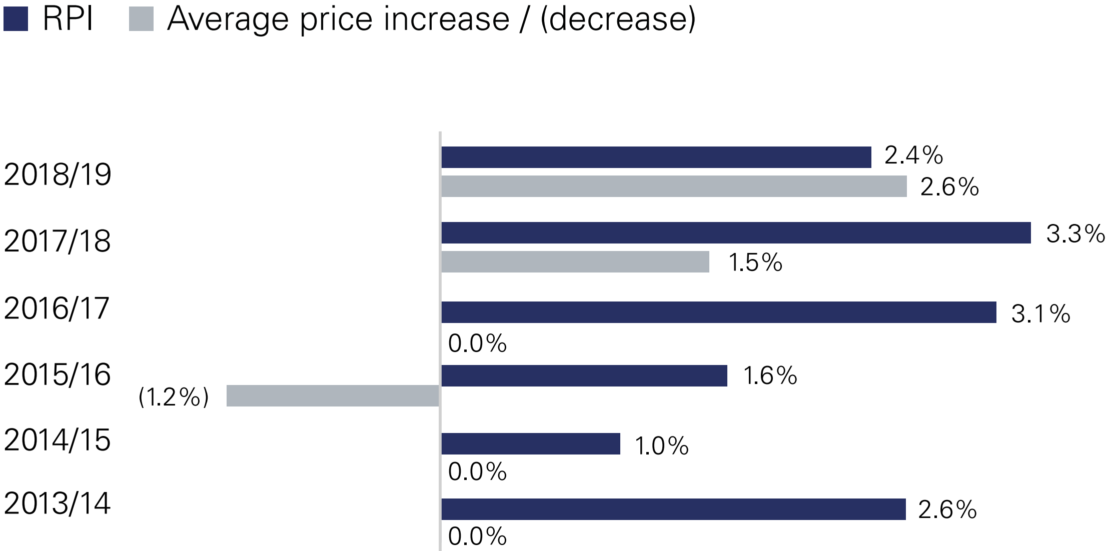
We are required by the Secretary of State for Transport to achieve for the regulatory sector the higher of either a 3.5% rate of return on the current cost of capital employed, or a break-even result after loan interest and corporation tax. Following a review of our target rate of return, the Secretary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

Analysis

The rate of return for 2018/19 was -2.2%, 5.7% 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 2017/18 and 2018/19 from the surplus reserves created in 2016/17. The lower rate in the last two years reflects the outcome of the Board's decision. If we had not gone ahead with the project expenditure this year, the return achieved would have been 4.5%. The average rate of return achieved over the last 3 years was 2.1%.

Average price changes

Price increase / (decrease) versus RPI (%)



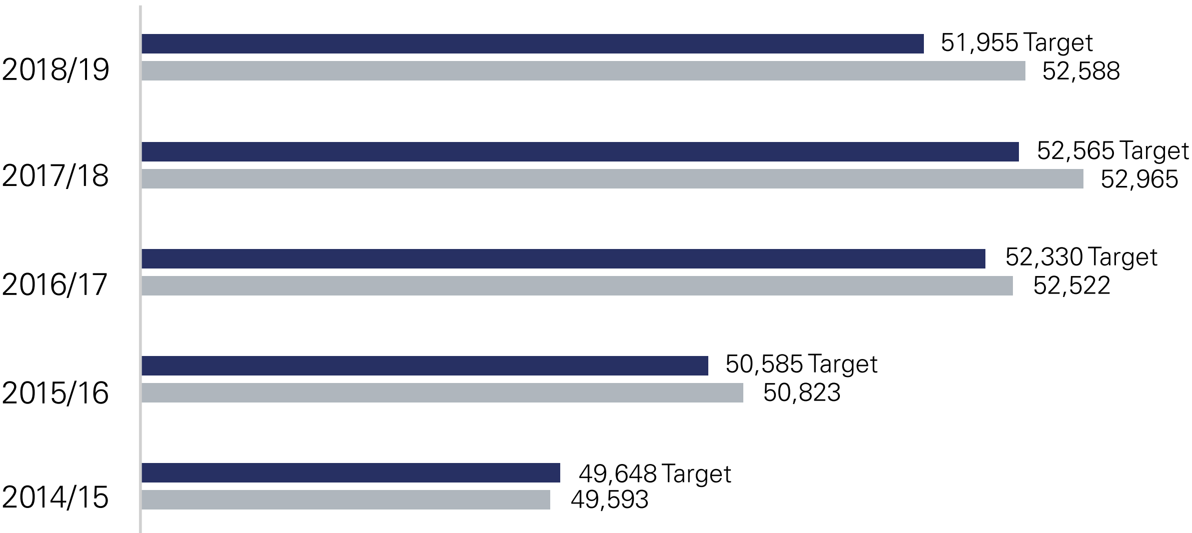
We are required to set statutory charges to recover our operating costs. The average increase in charges excludes the new charges that we have been consulting on during this financial year.

Analysis

The average general price increase for 2018/19 was 2.6% compared to the increase in RPI of 2.4%. This is the second year that there has been an average increase in charges since 2011/12, with prices being held static in three of the previous five years and a decrease applied in 2015/16. The price increase for 2018/19 ensured that we were able to continue our programme of further efficiency improvements and that we continue to meet our statutory requirements.

Cost per employee including CAA Board

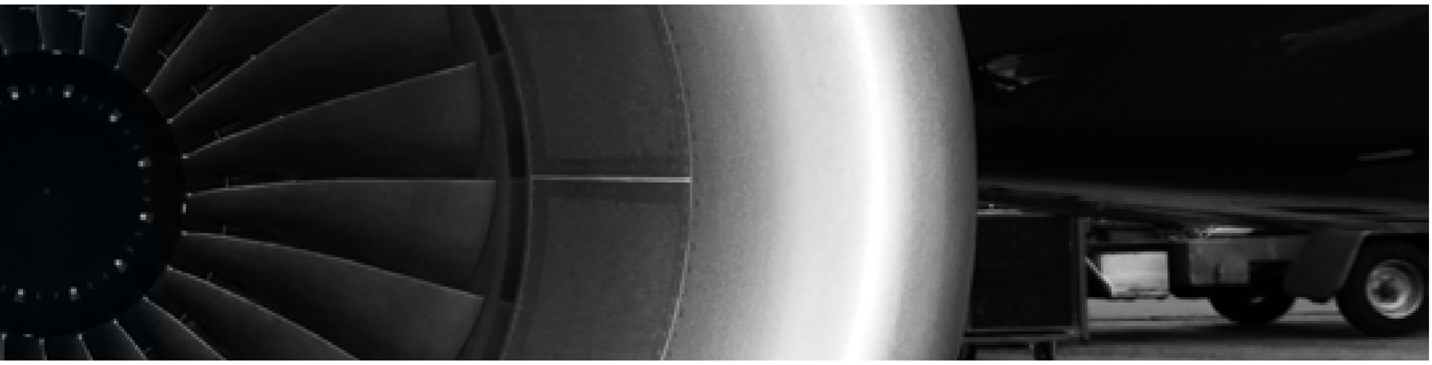
Cost per employee (£)



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

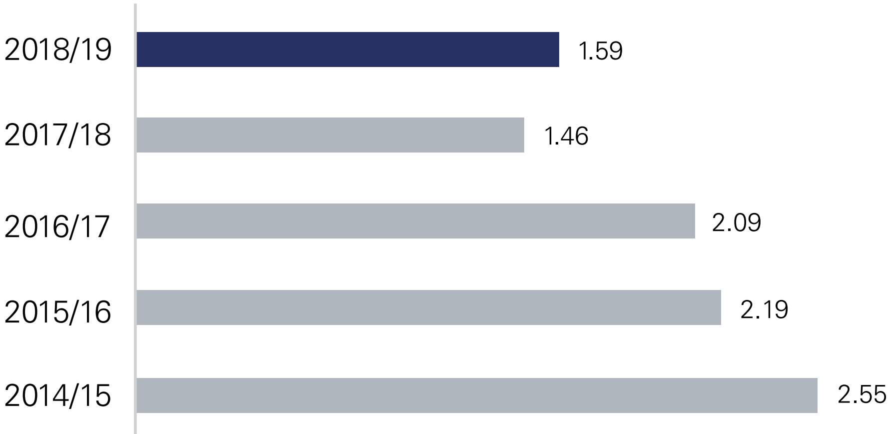
Analysis

The average cost per employee has decreased by 0.7% when compared to 2017/18, although there has been a significant rise in employment costs. The average number of staff employed by the group increased by 86 in this financial year with a large proportion of new recruits filling lower paid roles, particularly within our Shared Service Centre, which has had a positive impact on the KPI.



Liquidity

Cash resources / current liabilities ratio



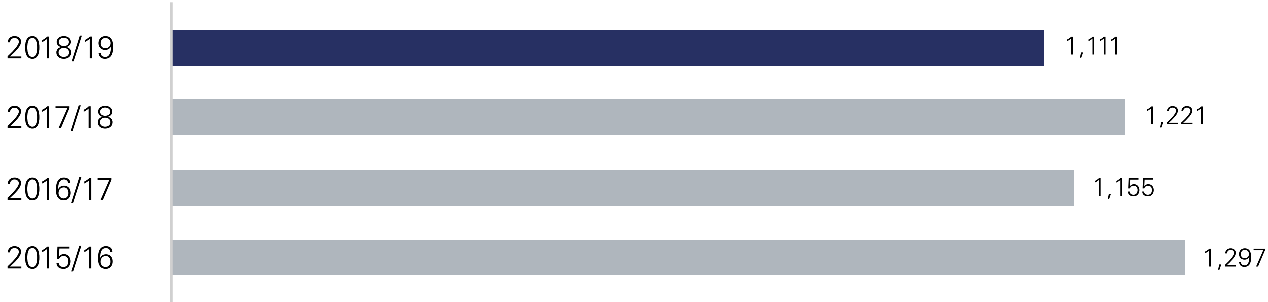
This KPI shows the level of cash resources available to the Group (including the unutilised bank overdraft facility) compared to relevant levels of current liabilities in the Group's Statement of Financial Position. Current liabilities for this purpose include the following: trade payables, social security and other taxes, and other payables.

Analysis

The ratio has decreased in recent years, primarily due to: significant capital expenditure cash outgoings as planned as part of our Transformation Programme; and the Board's decision to fund certain project related spend from surplus reserves achieved in earlier years. The ratio as at 31 March 2019 still, however, shows a relatively healthy position, particularly as the Group has not utilised it's £10m overdraft facility during the year.

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

Number of licences issued per average staff FTE



One of our major tasks is issuing flight crew licences and associated ratings. 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

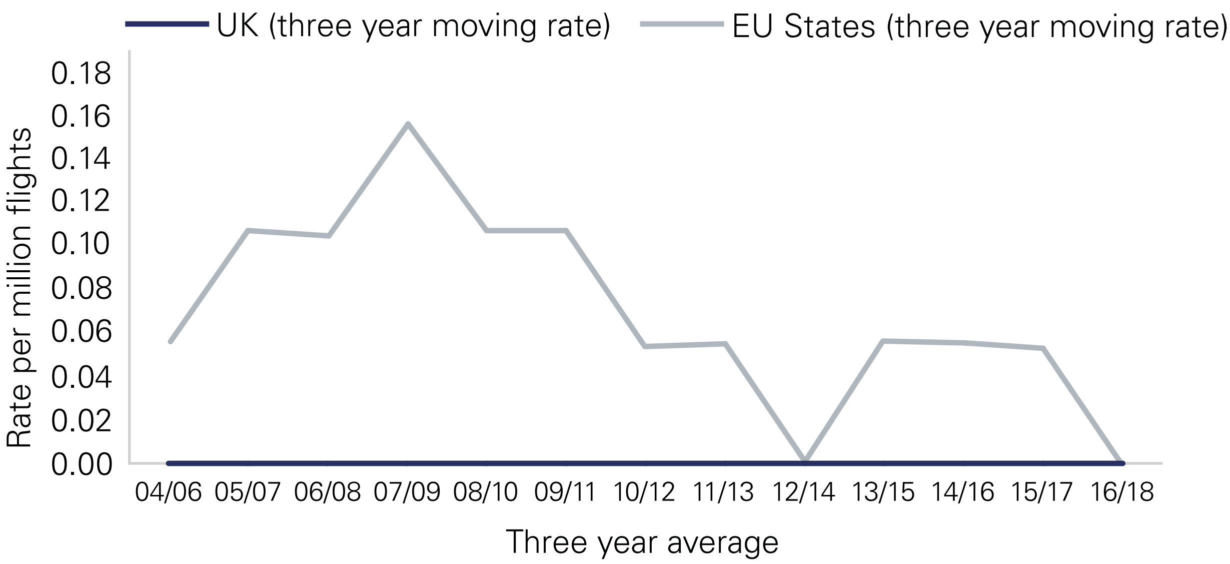
Over the course of 2018/19, application demand exceeded previous years with an unpredicted increase of 30%. Additional Licensing Officers were recruited and trained, however trainees are not as productive as experienced Officers, therefore the average issued per staff member was lower compared to the previous year.

Fatal accident rates

The safety performance indicators are for UK-registered or operated passenger aircraft, using a three-year moving rate (based upon the preceding 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



*2018 flights data has been estimated
(MTWA: maximum take-off weight authorised)
(AOC: Air Operator Certificate)

Analysis

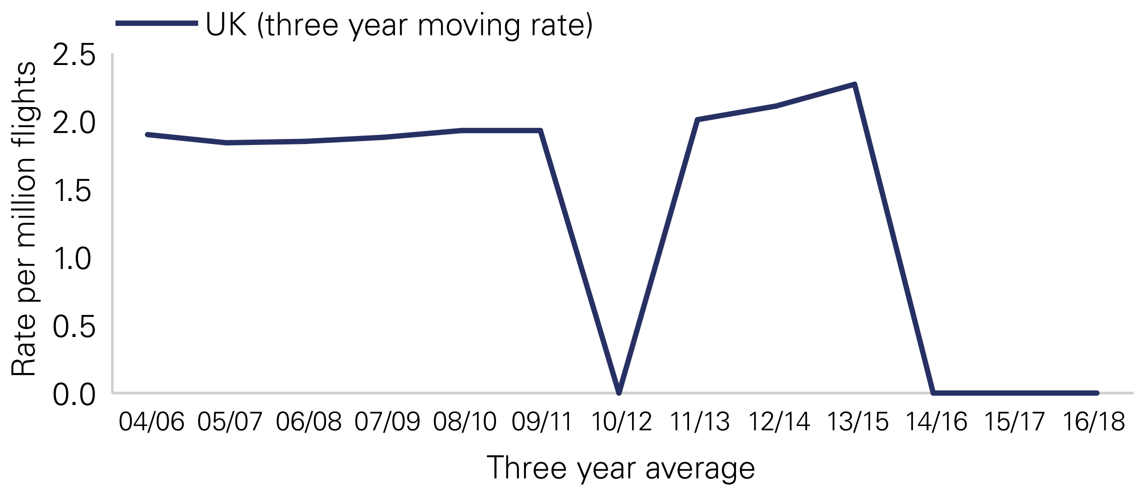
A three-year moving rate of fatal accidents for passenger aeroplanes with a maximum authorised take-off weight (MTWA) for UK operators has been produced and compared to the rate for the same types of aircraft registered in EU member states[1].

In the three-year period between 2016-2018 there were no fatal accidents involving UK operators and none 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 May 2019).

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

Fatal accident rate

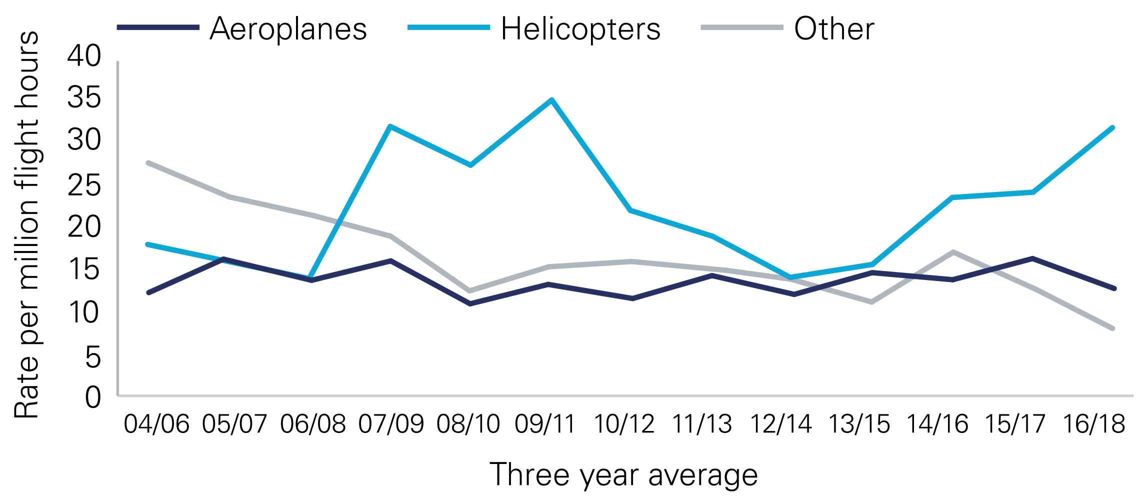


Analysis

The fatal accident rate for UK commercial air transport helicopter operations remained at zero for the three-year period from 2016 to 2018, which is consistent with the level recorded between 2015 to 2017. 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
(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; Fixed Wing Aeroplanes, Helicopters and Other. The other category includes lighter than air vessels (e.g. balloons and 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 (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 17 fatal accidents reported during 2016-2018 involving UK registered aeroplanes with 3 fatal accidents in 2018. There were 21 fatal accidents in the previous 3-year period between 2015-2017, with 8 of these fatal accidents occurring during 2017. We saw a year over year decrease in the number of fatal accidents reported, which decreased the fatal accident rate for aeroplanes by 10.8 fatal accidents per million flight hours. The rate is significantly lower compared to 2009 levels (decreasing 54% to 6.86 from 14.97 in 2009), which may have been driven by the favourable flying weather observed in the UK during 2018 which may have allowed pilots to remain more current than in preceding years.

Helicopters

The rate of fatal accidents involving UK registered helicopters is higher than that observed in 2017. There were 4 fatal accidents reported for the period between 2016-2018, which is higher than the previous three-year period. The 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 and one additional fatal accident being reported during 2018.

Other

There were 11 reported fatal accidents involving other sector aircraft reported between 2016-2018, with 1 fatal accident reported during 2018. 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

The CAA has an established risk management framework (RMF) which was introduced in January 2016 and is now part of our routine way of working.

We continue to prioritise risks and provide regular updates to the Executive Committee and the Board. Risk reporting is also now standard practice within each CAA business area and risks are escalated through the management chain when necessary.

The CAA's regulatory safety management system (RSMS) remains a critical part of the RMF as it is the mechanism we use to provide oversight of aviation safety risks owned and managed by industry. The RSMS is now embedded and remains subject to continuous improvement.

Our risk management arrangements as a whole are scrutinised 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 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 consumer and public 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 continue to use a performance-based approach to safety regulation across the industry, so that we can target our resources to the areas that need most attention.

Aviation security risks

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

Mitigations

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

We promote and support industry's adoption of security management systems to help to ensure that effective security quality management processes are in place. Significant progress continues to be made by industry to adopt security management systems, which provides benefits to consumers and helps the CAA to enhance its oversight arrangements.

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 (ADR) providers to handle consumer complaints more effectively. We continue to encourage airlines to appoint ADR providers as this enables consumers to use an independent organisation that provides decisions that are binding on the airline(s). ADR also helps to settle consumer complaints without necessarily needing to go to court.

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 we continue to improve our capabilities in this area, including learning from past failures. The CAA also continues to work closely with the Air Travel Trust (ATT). The ATT Trustees are all CAA Board Members or officials and the CAA acts as the Trust's agent when committing ATT funds to help to manage failures.

Cross-cutting risks

- EU-Exit 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 EU-Exit priorities for aviation, including the need to maintain standards, access and protection. We continue to engage with the Department for Transport and provide evidence and expert opinion to support the best outcomes for aviation. We have implemented contingency plans to ensure that if the UK leaves the EU without a negotiated agreement the CAA is able to continue to regulate effectively.

Throughout the EU-Exit process we have and will continue to engage with key industry stakeholders to understand their concerns, particularly those that could affect safety standards and consumers. These concerns are reflected in the advice we provide to the Department for Transport, to industry and in our own priorities and contingency plans.

The EU Commission has proposed a regulation on air connectivity in a no deal scenario (which the UK Government has reciprocated) that has reduced the risk of limited or no air service access. Additionally, the UK Government's approach to no deal planning means that protection for consumers will continue regardless of the EU-Exit outcome.

In addition to the consumer and public risks above, the CAA also manages a range of strategic and business risks. These include risks to the on-going sustainability of the organisation, such as:

Financial Exposure

- Changes in external financial markets could increase our expenditure, such as the cost of maintaining our defined benefit pension scheme for which there is a small deficit that could increase in the future. The service accrual rate for the scheme may also rise. The level of any such increases is based on triennial actuarial valuations of the scheme and could create cost pressures;
- Changes to the size and shape of the industry we regulate might reduce our income, such as UK registered airline and/or tour operator insolvencies; and
- The outcome of the EU-Exit could also affect our income. This includes the level of income the CAA might receive from EASA in future.

Mitigations

We continue to monitor our external environment, including the financial markets and the aviation industry, and where necessary implement measures to minimise any financial impacts on the CAA. This includes appraising the options available to us to manage any challenges that arise from future valuations of our defined benefit pension scheme.

EU-Exit contingency plans are in place and consider the impacts of different potential scenarios/outcomes on our financial position and the actions we might need to take to manage this.

Our Finance Department continues to apply a robust approach to budgeting and in year financial management across the organisation.

Capacity Challenges / Resource Constraints

- Externally driven, unplanned increases in demand for our regulatory expertise/services from industry and other stakeholders, such as significant increases in the number of airspace change proposals we receive; and
- Increases (planned and unplanned) to the workloads of our corporate functions driven by rises in internal and external demand.

Mitigations

We continue to manage these types of risks by applying a range of mitigations. These mitigations include (not exhaustive): recruitment of additional staff (where this is the most appropriate and cost-effective option), prioritisation of workloads, changing the design and workflows of our functions and engaging with stakeholders to manage their expectations and understand their concerns.

Combinations of these types of mitigations have been applied (and some will continue to be) in relation to the increase in the number of airspace change proposals we received during the year (and continue to receive) as referred to above.

Financial Review

Significant financial developments

- Total revenue: £150.2m, down 21.2% (2018: £190.7m)
- Operating loss: £2.7m, up by 68.8% (2018: operating loss £1.6m)
- Pension surplus: £205.5m, up by 2.3% (2018: £200.9m)

In 2018/19 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 have been highlighted by a number of travel operator failures in 2018/19, but more notably the Monarch Airlines failure in 2017/18 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 in the current and prior years. The Group continues to focus on reducing controllable costs by addressing legacy areas of the cost base. Additional regulatory and transformation activities over the last couple of years, however, have 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 2.6% in 2018/19 (1.5% in 2017/18); the last two years of price increases were preceded by six consecutive years where prices were either frozen or reduced. We have continued 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 -2.2% for the Regulatory Sector, which was below the 3.5% target rate of return. Further analysis is provided on page 60.

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 2019 is estimated to be £1,424.7m (2018: £1,449.7m).

The last formal actuarial valuation of the CAA Section of the CAAPS was carried out as at 31 December 2015. The 2015 valuation revealed a small deficit of £4.2m. A recovery plan has been agreed by the CAA and the Trustees of the scheme, whereby the CAA will remove the deficit over the period to 31 December 2021.

Overall financial performance

In the year ended 31 March 2019, the CAA recorded an operating loss before interest and tax of £2.7m (2018: operating loss £1.6m). These results included the effects of IAS 19. Within the operating result, the Regulatory Sector, comprising the activities of Safety and Airspace Regulation, Consumers and Markets and Aviation Security, as well as the result achieved by CAA International (CAAi), made an operating loss before IAS 19 adjustments of £0.5m (2018: £0.5m profit) and a loss after adjustments for IAS 19 pension costs and net interest, but before tax, of £2.3m (2018: £1.2m).

CAA financial performance results

	2019 (£m)	2018 (£m)
Group revenue	**150.2**	190.7
Operating costs (excluding IAS 19 pension scheme adjustment)	**(150.5)**	(189.9)
Group operating (loss) / profit	**(0.3)**	0.8
IAS 19 pension scheme adjustment	**(2.4)**	(2.4)
Group adjusted operating loss	**(2.7)**	(1.6)
Net interest	**5.0**	2.8
Profit before taxation	**2.3**	1.2
Taxation	**(0.4)**	(0.4)
Profit after taxation	**1.9**	0.8

Revenue

Group revenue for the year ended 31 March 2019 was £150.2m (2018: £190.7m), a decrease of £40.5m (21.2%). The primary reason for the reduction in revenue was that 2017/18 included income relating to the Monarch Airlines repatriation activities (£52.5m). The Regulatory Sector saw an increase of £8.8m (10.0%) to £97.1m (2018: £88.3m). This increase in income has arisen primarily from: a 2.6% average price increase across our schemes of charges; new charges introduced to cover the costs of our cyber programme and drones activities; an increase in recharges made of actual costs incurred in respect of the Heathrow runway review and the NATS pricing review; significant increases in volumes of professional licensing and airworthiness activities; and higher industry activity levels across our whole portfolio of variable charge-based revenue streams. Miscellaneous Services income reduced by £48.2m to £26.1m (2018: £74.3m); this is mainly due to the funding provided by the DfT and the Air Travel Trust for the Monarch Airlines repatriation activities carried out during the prior year.

CAAi revenues reduced to £13.9m (2018: £14.9m). The decrease is primarily due to the substantial completion of some major advisory contracts in the early part of this year.

Operating costs

Operating costs for the year ended 31 March 2019 reduced to £152.9m (2018: £192.3m). The main reason for the decrease was the Monarch Airlines repatriation. The significant areas of change are described below:

- Employment costs were £93.9m, showing an increase of £6.2m (7.1%) compared to the prior year. A large proportion of this increase is attributable to the growth in the number of resources employed to undertake regulatory activities; the average number of employees across the Group rose by 86 in this financial year to 1,114 (2018: 1,028) as disclosed in note 3. Defined benefit pension costs reduced by £0.2m to £17.5m, the decrease being attributable to the treatment of defined benefit pension costs in accordance with IAS 19. The financial results of the Group are, however, assessed by reference to financial targets agreed with the Secretary of State for Transport. This target excludes the effects of IAS 19 on pension costs and reflects instead the amount of employer cash contributions paid to the CAAPS during the financial year. The cash contribution to the scheme increased to £15.9m (2018: £15.3m), an increase of £0.6m (3.9%). Organisation design activities in a number of areas in the CAA also resulted in additional termination payment costs of £1.0m.

- Services and materials expenditure increased by £1.6m to £19.1m (2018: £17.6m). A significant element of this increase is attributable to the rent, rates and service charge costs in respect of the new London office in Canary Wharf.

- Other expenses costs were £31.6m (2018: £79.8m). The decrease is due to £50.7m of third party supplier costs (primarily chartering aircraft) being incurred in 2017/18 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 (2018: £0.4m). A net deferred tax asset of £655k (2018: £488k) is included within the Statements of Financial Position, an increase of £167k as compared to the prior year.

Capital Expenditure

Capital expenditure additions during the year totalled £5.7m (2018: £3.3m). The expenditure principally included £4.0m (2018: £3.2m) of expenditure related to IT development projects, mainly in respect of our Transformation Programme, as well as fitout costs and IT hardware expenditure in respect of the new London office. The net book value of the Group's capitalised assets at 31 March 2019 increased in the year by £1.7m to £16.7m (2018: £15.0m).

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 132.

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 £0.3m of existing loans. The carrying value of our outstanding borrowings stood at £0.4m as at 31 March 2019 (2018: £0.7m). 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 2018/19 was -2.2%, 5.7% 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 2017/18 and 2018/19 from the surplus reserves created in 2016/17. The lower rate in the last two years reflects the outcome of the Board's decision. If we had not gone ahead with the project expenditure this year, the return achieved would have been 4.5%.

Our Equality and Diversity Policy

The active promotion of diversity and inclusion is essential to the future success of the CAA as a regulator and as a modern employer. We are committed to ensuring that our organisation reflects the public and consumers whose interests we serve and to enabling colleagues to bring their whole selves to work and give their best. Equality, diversity and inclusion are therefore 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 remain committed to challenging all forms of discrimination and unfairness in every aspect of our work and working practices. We continue to work hard to ensure that we promote and value both diversity and inclusion in all that we do.

We released our first Diversity and Inclusion Annual Plan in July 2018, which was created by listening to our colleagues and incorporating their ideas. Six key themes shaped the plan:

- **Environment and Working Practices** - To ensure that our workplace and work practices support colleagues and allow them to work in a way that suits their individual needs;
- **Performance and Development** - All colleagues have equal opportunity to progress and develop in our organisation;
- **Search and Selection** - We are an open and inclusive employer, ensuring that we are attracting talent from a diverse range of backgrounds to give breadth and depth to our organisation;
- **Culture and Behaviour** - Our organisation is a place where everyone is valued, supported and appreciated;
- **Leadership Commitments** - Supporting our leaders to be our Diversity and Inclusion advocates; and
- **External Voice and Partnerships** - Working with like-minded organisations that support and progress our Diversity and Inclusion agenda.

Work continues under the plan, steered through a dedicated Diversity and Inclusion Board chaired by an Executive Committee Director with representatives from each area of the business at all levels and we are continually measuring progress.

We also published our second Gender Pay Gap report during the year, which saw some positive progress from our first report, but not materially so. We were not surprised by this for, as well as improvement requiring a long-term approach, our 31 March 2018 position was established by the time we published our first report and subsequent plan. We continue to 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 32.9% and a median Gender Pay Gap of 40.9%. Our current Gender Pay Gap is not what we want for the CAA and we are committed to addressing our gender pay position in a sustainable way over the longer term. Further, our determination to continue to attract the very best people who want a rewarding career in aviation, in a workplace where everyone is rewarded fairly for their efforts, has not waivered.

Wellbeing

In the last two years the CAA has made significant strides to developing its approach to colleague wellbeing and in August 2018 we employed our first Wellbeing Manager. This role was introduced to ensure that our approach to wellbeing at the CAA is strategic, comprehensive and measurable.

Wellbeing in the workplace is developed upon a bedrock of good HR and employment practice alongside robust approaches to health and safety. The CAA is seeking to build on our core principles and good practice in these areas and develop further, in line with evolving statutory obligations and increasing expectations from the labour market.

Like any business or organisation, the productivity and success of the CAA is hugely dependent on the contribution of its people, and subsequently its people's ability to give their best. The evidence is overwhelming; improvements in wellbeing support good organisational performance. When CAA colleagues are feeling 'well' this not only benefits them but will also improve the CAA's regulatory outcomes and the experience of our stakeholders.

After a comprehensive review of the CAA's specific wellbeing needs, a wellbeing strategy was developed for 2019 to 2021.

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 2019 (excluding the effects of IAS 19 pension scheme adjustments) were £68.8m (2018: £65.2m), an increase of £3.6m (5.5%). Revenue for the year was £65.7m (2018: £60.4m), an increase of £5.3m (8.8%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating loss of £3.1m (2018: loss of £4.8m). Average staff numbers for the year were 562 (2018: 517), an increase of 45.

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 2019 (excluding the effects of IAS 19 pension scheme adjustments) were £20.3m (2018: £15.8m), an increase of £4.5m (28.5%). Revenue for the year was £21.1m (2018: £17.7m), an increase of £3.4m (19.2%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.8m (2018: £1.9m). The average number of staff in the year ended 31 March 2019 was 90 (2018: 87). In addition, the CAA employed, on average, 75 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 loss (excluding the effects of IAS 19 pension scheme adjustments) of £0.6m (2018: £0.9m profit). Operating costs for the year ended 31 March 2019 (excluding the effects of IAS 19 pension scheme adjustments) were £11.0m (2018: £9.3m). Revenue for the year was £10.3m (2018: £10.2m), an increase of £0.1m (1.0%). The average number of Aviation Security staff in the year ended 31 March 2019 was 102 (2018: 85).

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 the five years 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 2019 were £12.9m (2018: £12.9m). 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 £13.1m (2018: £13.2m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.2m (2018: £0.3m).

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.

The company also provides open access courses and in-company training programmes for national aviation authorities and industry. We have a strategic partnership with other training providers, such as SAA (Singapore Aviation Academy), MAVA (Malaysia Aviation Academy) and GAA (Gulf Aviation Academy).

CAAi achieved revenues of £13.9m (2018: £14.9m). The decrease is primarily due to the substantial completion of a number of major advisory contracts in the early part of the year. The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating profit of £2.4m (2018: £2.6m). The company employed an average of 57 staff (2018: 56) during the financial year, with a further 29 full time equivalents being supplied from other areas within the CAA (2018: 29). 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 £5.4m (2018: £5.7m).

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 was £26.1m (2018: £74.3m), a decrease of £48.2m (64.9%). The primary reason for the decrease in revenue was the funding received for the Monarch Airlines repatriation activities (£52.5m) in 2017/18. The net operating result for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was break-even (2018: £0.1m loss). The average number of staff in the year ended 31 March 2019 was 303 (2018: 283).

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

During the year ended 31 March 2019 we planned for the implementation of a new finance and HR system which was delivered on 1 April 2019. Additionally, we completed the review of our location and foot-print and progressed plans for the move to a new office at Canary Wharf.

During the year ending 31 March 2020 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;
- Explore further efficiency opportunities available following implementation of the new finance and HR system;
- Continue to implement and build on projects to improve customer service and the efficiency of licensing operations; and
- Complete our move to 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
19 June 2019

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, sat as a non-executive on the Board of Thames Water Utilities Limited until end January 2018 and is 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 in 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 airline licensing, the ATOL scheme, the economic regulation of airports and air navigation providers, our competition powers, and our consumer redress and enforcement activities. 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 Social Housing Regulator.

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 Tingle 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 Service 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

Marykay Fuller

Marykay is a former partner at KPMG and prior to that was a Principal Banker for the European Bank for Reconstruction and Development. She has also worked for the US Government in international banking development and for the US pension regulator where she worked on numerous airline restructurings and represented the Corporation on the National Airline Commission. She has significant finance and restructuring experience in both the public and private sector and her experience across sectors, up to Board level, includes aviation, aircraft financing, logistics, rail and shipping across multiple jurisdictions, including the UK, Europe and the USA. Marykay previously was a board member of British American Business and currently also serves on the Carnegie Mellon Heinz College Alumni Advisory Board in the US.

Air Vice-Marshal Ian Gale MBE

Ian was appointed Assistant Chief of the Air Staff in April 2019, responsible for the coherence and coordination of the Royal Air Force, international relations, strategic engagement and parliamentary business on behalf of the Chief. He is a Non-Executive Director of the UK Civil Aviation Authority. Ian has commanded at flight, wing and station level amassing over 3000 flying hours and 350 operational missions as a Tornado Weapons Instructor and in Operational Test and Evaluation of Tornado and Typhoon. He was appointed MBE for his leadership in ops and trials and the Sir Arthur Barrett prize for developing new tactics / techniques for the 2003 Scud Hunting Campaign. He was at the forefront of the deployment of Tornado to Afghanistan in 2009 and fought the 2011 Libya campaign as the Deputy Air Contingent Commander. As CO RAF Lossiemouth, Ian commanded a unit of 2,500 personnel, three Tornado Squadrons, a Search and Rescue Flight, an RAF Regiment Wing and various smaller units across Scotland, during a time of unprecedented operational activity in two theatres, for which he received the 1 Group Leadership Prize and an Institute of Directors award.

David Gray CBE

David Gray CBE was appointed as a Non-Executive member of the Board in November 2009. He is Chair of the Remuneration Committee and is a member of the Nominations Committee. He is Chairman of Mutual Energy and a Governor of Central School of Ballet. He was Chairman of the Gas and Electricity Markets Authority (Ofgem) from 2013 to 2018. 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. David also serves as Co-Deputy Chair of the National Aviation Security Committee, is a visiting Professor at Cranfield University and was Chairman of the Board Safety Review Committee for Cathay Pacific Airways form January 2012 until January 2019. 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.

Anne Lambert CMG

Anne Lambert CMG was appointed as a Non-Executive member of the Board on 1 February 2019. She is currently a Governor of Portsmouth University and a member of the Quality Assurance Agency for Higher Education's Advisory Committee on Degree Awarding Powers. She was an Inquiry Chair at the Competition and Markets Authority 2014 to 2019 and a Non-Executive Director of the CMA from 2016 to 2018. Previous roles include the UK's Deputy Permanent Representative to the EU and Director, European and Government Affairs for NATS.

Michael Medlicott

Michael Medlicott was appointed as a Non-Executive member of the Board in February 2010. He is Chairman of the Air Travel Trust Fund, and also serves as a member of the CAA Audit Committee, CAA Remuneration Committee and CAA International Ltd Management Advisory Board. He has many years' experience of the transport and tourism sectors, including a senior management position at Delta Air Lines Inc., and Chief Executive of the British Tourist Authority. He sat on the Board of the Manchester Airports Group from 2002 until joining the Board of the CAA. He is Chairman of Myriad Healthcare Group and a Non-Executive Director of Virgin Healthcare Holdings Ltd. He is Companion of the Royal Aeronautical Society.

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.

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 2019.

The last formal evaluation of the Board's effectiveness was carried out in late 2017 by an external independent body, Flint International. The evaluators concluded that the CAA had a strong Board with 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. It was acknowledged that the Board faced some important challenges in having to manage numerous changes to its composition in a relatively short period of time, recognising that this presented an opportunity to improve the diversity of the Board, which the CAA has been successful in meeting as demonstrated by the recent non-executive member appointments. 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. The latest survey took place in March 2019, with the key points and recommendations being discussed at the Board meeting on 17 April 2019. The survey evidenced a high level of satisfaction with the current Board governance mechanisms and pointed to improvements over recent years in how these are organised. The Board reported that the information received from CAA colleagues has continually improved, leading to better understanding of safety risks across the aviation sector and Board members being able to fulfil their governance role more effectively. The key future challenges for the Board are to manage the high level of uncertainty across a range of issues such as EU-Exit and integration of new technologies into aviation. To address this, the Board asked to be kept appraised of incremental developments and to regularly discuss and to review its approach to long-term issues.

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 seven 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:

- 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;
- Paul Smith was appointed on 24 May 2018;
- AVM Michael Wigston ceased to be a Board member on 18 July 2018;
- AVM Gerry Mayhew was appointed on 18 July 2018;
- Ashley Steel ceased to be a Board member on 31 August 2018;
- Marykay Fuller was appointed on 14 January 2019; and
- Anne Lambert was appointed on 1 February 2019.

The following changes occurred after the end of the reporting period:

- AVM Gerry Mayhew ceased to be a Board member on 17 April 2019;
- AVM Ian Gale was appointed on 17 April 2019; and
- Katherine Corich joins as non-executive Board member in July 2019.

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 2019	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Number of meetings held	**11**	**4**	**3**	**1**
Dame Deirdre Hutton	11	*4	*3	1
Richard Moriarty	11	*3	*3	N/A
Andrew Haines	2	N/A	*1	N/A
Marykay Fuller	3	2	N/A	N/A
David Gray	10	N/A	3	1
David King	10	3	N/A	0
Anne Lambert	2	N/A	N/A	N/A
AVM Gerry Mayhew	8	N/A	N/A	N/A
Michael Medlicott	10	4	2	N/A
Paul Smith	8	N/A	N/A	N/A
Ashley Steel	3	1	N/A	N/A
Mark Swan	11	N/A	N/A	N/A
Chris Tingle	11	*4	N/A	N/A
Graham Ward	11	4	3	N/A
AVM Michael Wigston	1	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, Kate Staples, 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 55. 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 91.

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 2019 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 54 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 2019, considering reports and developing appropriate plans and programmes. It confirmed that the necessary actions have been taken to remedy any significant failings or weaknesses and that no material weaknesses in the internal control system relating to financial reporting have been identified.

There was substantial assurance that the risk management processes are working well and that our risk management framework and approach continues to mature.

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. Having placed a high priority on the replacement of our previous finance and HR systems, the Board expects that the full adoption and embedding of our new system by the end of the 2019/20 financial year will have a major impact on our ability to make improvements in our financial control. In the meantime, the Internal Audit department continues to conduct 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 2020, 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 has regularly reviewed the CAA Group's three-year cash forecasts, which incorporate a sensitivity analysis on the CAA's cash position in the event of several crisis scenarios, primarily involving the potential loss of income as a result of the failure of large and medium-sized UK airlines. These scenarios have also been overlaid with the potential additional financial effect of various EU-Exit outcomes. The Board are satisfied that all the scenarios modelled could be managed within the CAA's existing funding resources.

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 106.

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 2019 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

During the year ended 31 March 2019 the Audit Committee's members were:

Chair: Graham Ward;
Marykay Fuller (from 14 January 2019);
David King;
Michael Medlicott; and
Dr Ashley Steel (until 31 August 2018).

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 68 to 71) 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 during the year 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 are set out in the notes to the financial statements on pages 106 to 150. 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 2019 was £205.5 million (2018: £200.9 million), an overall increase in the surplus by 2.3% 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 the effects of IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases) and were satisfied that the appropriate actions had been taken to ensure compliance with the new requirements.
- **Intangible assets:** we considered the mechanisms in place for reviewing for any impairments of intangible assets including the key judgements made in reaching impairment decisions.

We considered whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and whether 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. Overall, we were satisfied that the CAA has continued to carry out good management of its risks at a detailed level following the improvements made to the process last year.

During the year we received regular assurance updates on CAA information security controls, General Data Protection Requirements maturity and the status of the project to replace our core HR and Finance systems.

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 for the duration of the financial year was both a Certified Internal Auditor with the Global Institute of Internal Auditors and a Chartered Accountant. He resigned, in order to return to his home country, in April 2019. The Committee records its thanks for his high quality work over the last ten years. From April 2019 an interim Head of Internal Audit was provided by a third-party provider until the recruitment process for a permanent Head of Internal Audit can be conducted in Autumn 2019. The interim Head of Internal Audit is a Certified Information Systems Auditor (CISA) and holds a Master of Business Administration (MBA).

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 annual risk assessment of the Internal Audit department;
- Internal Audit's compliance with prevailing professional standards; and
- The implementation of Internal Audit's recommendations.

The last independent External Quality Assessment (EQA) of the Internal Audit (IA) function was carried out in late 2017 by the Chartered Institute of Internal Auditors (IIA). Ten of the thirteen resulting recommendations were actioned and closed during the previous financial year; the remaining three were 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 IIA. An annual internal self-assessment will be carried out by the Head of Internal Audit to confirm continuing conformance until the next external quality assessment is performed, with the first taking place in June 2019. Having completed the actions from the EQA, the results of this internal self-assessment confirmed that the work of the IA function continues to conform to the professional standards of the Global IIA.

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. In February 2019, Moore Stephens LLP merged with BDO LLP and the contract was subsequently novated over to BDO LLP. At the request of the Board, the Committee oversaw this novation and was satisfied that it was carried out in an appropriate manner. 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 FRC may be provided by the external auditors but 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. £0.011m non-audit fees were paid to the external auditor during the year; these were in respect of audit-related reviews of the Whole of Government Accounts Return and an audit of CAAi Ltd's Malaysia Branch (2018: £0.013m for similar services). Further non-audit work is in progress relating to the provision of a grant assurance report (£0.003m (2018: £nil)).

Graham Ward CBE
Chair, Audit Committee
19 June 2019

Report by the Nominations Committee

Throughout the year ended 31 March 2019 the Nominations Committee's members were:

Chair: Dame Deirdre Hutton;
David Gray; and
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. When the role of the CAA Chair is being discussed, David Gray chairs the discussion on behalf of NomCo. NomCo meets a minimum of once per year with meetings timed around the Board appointment schedule. With consideration around board appointments starting about a year ahead of expected appointment end dates most of our work takes place considerably in advance. We met once during the year ended 31 March 2019.

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 take the opportunity to improve the diversity of our Board whenever we consider future appointments.

See pages 68 to 71 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. Our executive members are all on open-ended, permanent employment contracts and all have a termination notice period of six months or less.

CAA members' terms

CAA member	Date of first appointment	Date of expiry
Dame Deirdre Hutton	14 April 2009	31 July 2020
R Moriarty	12 January 2016	N/A
M Fuller	14 January 2019	13 January 2023
AVM I Gale	17 April 2019	Ex-officio appointment
D Gray	16 November 2009	15 November 2019
D King	1 September 2013	31 August 2021
A Lambert	1 February 2019	31 January 2023
M Medlicott	1 February 2010	31 January 2020
P Smith	21 May 2018	N/A
M Swan	1 March 2009	N/A
C Tingle	25 January 2016	N/A
G Ward	1 September 2013	31 August 2021

There were a number of changes in Board members during the year, most were the culmination of our work last year. Richard Moriarty formally took over as Chief Executive on 24 May 2018 from his predecessor, Andrew Haines, whose term of office expired on 5 August 2018. Paul Smith joined us on 21 May 2018 replacing Richard Moriarty as Group Director Consumers and Markets.

Ashley Steel's term of office expired in August 2018. Working with the Department for Transport, during the year we completed the process of recruiting three new non-executive Board members; Marykay Fuller took office in January 2019, Anne Lambert joined the Board in February 2019 and Katherine Corich joins in July 2019, temporarily increasing the number of non-executives and helping to ease the situation during the latter half of 2019 as a number of highly experienced non-executives reach the end of their Board terms. Furthermore, Graham Ward and David King accepted invitations to extend their contracts for an additional two years, which will both now expire in August 2021. Also, to help ease the situation in the latter half of 2019 while supporting the transition of the CAA to a new Chief Executive, the Department for Transport invited me to serve a final, further year to July 2020 as CAA Chair which I have accepted. AVM Gerry Mayhew joined us in August 2018 in an ex-officio capacity on his appointment as Assistant Chief of the Air Staff and was replaced in April 2019 by AVM Ian Gale.

Dame Deirdre Hutton DBE
Chair, Nominations Committee
19 June 2019

Report by the Remuneration Committee

Throughout the year ended 31 March 2019 the Remuneration Committee's members were:

Chair: David Gray;
Michael Medlicott; and
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 68 to 71 for Committee members' profiles.

The Remuneration Committee's terms of reference

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

We follow the provisions of the UK Corporate Governance Code (see our Corporate Governance statement on page 72) 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 qualified and 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 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 2019 were as follows:

	Salary and fees	Benefits	2018/19 performance-related payments	2018/19 total	2017/18 total
	£'000	£'000	£'000	**£'000**	£'000
Dame Deirdre Hutton	130.0	0.0	0.0	**130.0**	130.0
Richard Moriarty	289.4	1.2	56.7	**347.3**	234.1
Andrew Haines[1]	195.1	0.0	0.0	**195.1**	436.8
Mark Swan	221.0	18.0	34.0	**273.0**	295.4
Paul Smith	175.8	1.0	24.0	**200.8**	0.0
Chris Tingle	220.7	6.3	32.0	**259.0**	223.0
Marykay Fuller[2]	4.7	0.0	0.0	**4.7**	0.0
David Gray[2,3]	25.0	0.0	0.0	**25.0**	27.0
David King[2]	28.6	0.0	0.0	**28.6**	22.0
Anne Lambert[2]	3.7	0.0	0.0	**3.7**	0.0
Michael Medlicott[2,4]	25.0	0.0	0.0	**25.0**	25.0
Dr Ashley Steel[2]	9.2	0.0	0.0	**9.2**	22.0
Graham Ward[2,5]	32.6	0.0	0.0	**32.6**	29.3
AVM Gerry Mayhew[6]	0.0	0.0	0.0	**0.0**	0.0
AVM M Wigston[6]	0.0	0.0	0.0	**0.0**	0.0
Board members' emoluments as per the annual accounts	**1,360.8**	**26.5**	**146.7**	**1,534.0**	**1,444.6**

1. Andrew Haines' salary and fees includes a contractual end of term lump sum payment.
2. 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.
3. David Gray's salary includes remuneration for his role as Chair of the Remuneration Committee.
4. Michael Medlicott's salary includes remuneration for his role as Chair of the Air Travel Trust.
5. Graham Ward's salary includes remuneration for his role as Chair of the Audit Committee.
6. AVM Gerry Mayhew and AVM M Wigston were MoD nominees who held ex-officio posts 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.

Andrew Haines was a member of CAAPS until leaving the CAA. Mark Swan was a member until July 2017 when he became a CAAPS pensioner. As members of CAAPS they accrued pension entitlement 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. Also in the same manner as other CAA employees who are members of CAAPS, Executive Directors whose actual pay exceeds the cap on pensionable pay can elect to have the amount above the cap treated as pensionable on a defined contribution basis. Mark Swan elected to do this prior to becoming a CAAPS pensioner in July 2017.

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. CAAPS provides a spouse's pension at the rate of 2/3 of the member's pension at death. As at 31 March 2019, no Executive Directors were contributing members of CAAPS.

A description of the scheme is given on page 136 in note 17 to the consolidated financial statements.

Since the closure of CAAPS to new entrants we have provided a Defined Contribution (DC) pension scheme. Richard Moriarty and Paul Smith were members of our DC scheme during the year. Like other employees who are members of the CAA's DC scheme, 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 previous 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. Richard Moriarty elected to take part in the cash alternatives scheme part way through this year; Chris Tingle elected to take part in this scheme in the previous year, continuing to do so throughout this year. Mark Swan also elected to take part in this scheme in the previous year, continuing to do so throughout this year, for the element of his pay that was pensionable on a DC basis. The relevant cash alternative amounts are included within the figures in the emoluments table on page 88.

Board members’ pension arrangements - CAAPS

	Accrued pension as at 31/03/19	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	46.1	2.3	36.3	0.0

The accrued pension is the amount 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	20.0**	0.0
Paul Smith	15.0***	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 £5,841 in relation to Andrew Haines, £7,675 in respect of Richard Moriarty and £5,000 in relation to Paul Smith.

** The contribution during the year in respect of Richard Moriarty reflects his period of membership of the DC scheme prior to electing to take a cash alternative to pension contributions from the CAA.

*** The contribution during the year in respect of Paul Smith reflects his period of membership of the DC scheme since joining the CAA part way through the year.

David Gray CBE
Chair, Remuneration Committee
19 June 2019

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
19 June 2019

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 2019, 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 statements have been prepared in accordance with the Civil Aviation Act 1982 and the Report and Accounts Directions made thereunder by the Secretary of State for Transport.

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 2019 and of the Group's profit for the year then ended; 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.

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 and the Authority 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.

Conclusions relating to principal risks, going concern and viability statement

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; 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.

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) that we identified, 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 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 thereon.

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. The accounting policies, assumptions and relevant disclosures were included within the following notes of the financial statements: 1.6, 1.7, 1.19 and 10. There is a significant risk associated with the capitalisation and valuation of intangible assets. 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 tested a sample of costs by vouching those back to supporting documentation and checking that they had been capitalised in line with the standard. We reviewed management's impairment model in line with the accounting framework. We evaluated the Group's future cash flow forecasts and the process by which they were drawn up, and recalculated the underlying value in use computations for major projects. We considered the appropriateness of management's rationale related to the expected costs, benefits and discount rates based on the supporting evidences. We have performed sensitivities on a selection of management assumptions to check that the results are not unduly susceptible to change.
Valuation of defined benefit pension scheme assets and liabilities Given the materiality and the level of judgement involved in valuation of the defined benefit pension scheme assets and liabilities, 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 accounting policies, assumptions and relevant disclosures were included within the following notes of the financial statements: 1.14, 1.19 and 17.	We reviewed the accounting policies related to valuation of pension assets and liabilities and checked that these are in line with the accounting framework. We tested pension assets to third party confirmations. We have reviewed the scheme audited accounts for the custodian of the scheme and to check that there are no operational issues related to the pension scheme itself. 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 related to salary increases and mortality rate and we checked that they were consistent with the relevant national and industry benchmarks. We considered whether the discount and inflation rates used in the valuation of the pension liabilities were consistent with our internally developed benchmarks. We reconciled the employee data used by actuaries to the employer data and tested a sample back to supporting documentation.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect 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	Specific materiality related to balances apart from defined pension benefit assets and liabilities	How we determined it	Rationale for benchmark applied
Group - £27.3m (2018: £28.0m) Authority - £27.3m (2018: £28.0m)	Group - £1.9m (2018: £2.4m) Authority - £1.7m (2018: £2.2m)	Overall materiality - 1.25% of defined pension benefit assets and liabilities Specific materiality - 1.25% of Revenue	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. For all other balances, 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.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Assertions within each transaction cycle have a different risk profile, therefore a specific performance materiality is assessed based on a basic, medium or high risk assertion. The percentages applied for this year are 67.5% (2018: 67.5%), 55% (2018: 55%) and 45% (2018: 45%).

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £94,000 (2018: £119,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

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').

Our audit approach is risk based and we directed our work towards those areas of the financial statements which we assessed as having the highest risk of containing material misstatements.

The subsidiaries of the Group were considered non-significant, however those have been subject to full scope audits for statutory reporting purposes.

Other information

The Board members are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable:** the statement given by the Board members that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Secretary of State for Transport to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting:** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Board members' statement of compliance with the UK Corporate Governance Code:** the parts of the Board members statement relating to the Authority's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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 Section 15 of 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.

BDO LLP
Chartered Accountants
London, UK

Date: 19 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements

Income Statement

For the years ended 31 March

	Note	**2019 £'000**	2018 £'000
Revenue	2	**150,212**	190,714
Operating costs			
Employment costs	3	**(93,915)**	(87,679)
Services and materials		**(19,068)**	(17,540)
Repairs and maintenance		**(4,455)**	(3,881)
Research	6	**(143)**	(278)
Depreciation, amortisation, impairments and disposals	6	**(3,724)**	(3,114)
Other losses	6	**(18)**	(57)
Other expenses		**(31,606)**	(79,786)
Net operating costs		**(152,929)**	(192,335)
Operating loss		**(2,717)**	(1,621)
Finance income	7	**5,088**	2,918
Finance costs	7	**(24)**	(50)
Finance income - net		**5,064**	2,868
Profit before income tax		**2,347**	1,247
Income tax charge	8	**(441)**	(433)
Profit for the financial year		**1,906**	814

The Authority has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Authority Income Statement. The loss for the Authority for the year was £326k (2018: profit of £3,593k) which does not include any dividend income from a subsidiary (2018: £5m).

The supporting notes on pages 106 to 150 are an integral part of these financial statements.

Statements of Comprehensive Income

For the years ended 31 March

	Note	**Group 2019 £'000**	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Profit / (loss) for the financial year		**1,906**	814	**(326)**	3,593
Other comprehensive income					
Unrealised foreign exchange differences		**36**	(92)	**54**	(53)
Movement on deferred tax relating to unrealised foreign exchange differences		**3**	55	**-**	-
Actuarial gain on post employment benefit obligations	17	**2,003**	89,552	**2,003**	89,552
Movement on deferred tax relating to post employment benefit obligations		**(340)**	(15,224)	**(340)**	(15,224)
Total comprehensive income for the year		**3,608**	75,105	**1,391**	77,868

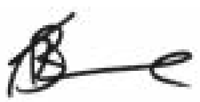
The supporting notes on pages 106 to 150 are an integral part of these financial statements.

Statements of Financial Position

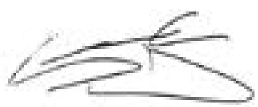
As at 31 March

	Note	**Group 2019 £'000**	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**5,338**	5,635	**5,271**	5,537
Intangible assets	10	**11,353**	9,371	**10,818**	8,603
Investments in subsidiaries	11	**-**	-	**-**	-
Trade and other receivables	12	**36**	88	**-**	52
Deferred tax assets	16	**655**	488	**626**	458
Retirement benefit assets	17	**205,483**	200,908	**205,483**	200,908
Total non-current assets		**222,865**	216,490	**222,198**	215,558
Current assets					
Trade and other receivables	12	**20,883**	20,090	**17,077**	15,940
Derivative financial instruments	19	**34**	45	**34**	45
Current income tax assets		**180**	485	**-**	229
Cash and cash equivalents	13	**9,518**	16,641	**9,267**	16,430
Total current assets		**30,615**	37,261	**26,378**	32,644
Total assets		**253,480**	253,751	**248,576**	248,202
Capital and reserves					
Retained earnings		**183,166**	179,558	**174,891**	173,500
Total capital and reserves		**183,166**	179,558	**174,891**	173,500
Total equity		**183,166**	179,558	**174,891**	173,500
Liabilities					
Non-current liabilities					
Borrowings	14	**-**	371	**-**	371
Trade and other payables	15	**877**	1,131	**877**	1,131
Deferred tax liabilities	16, 17	**34,932**	34,154	**34,932**	34,154
Retirement benefit obligations	17	**1,415**	1,513	**1,415**	1,513
Provisions for other liabilities and charges	18	**50**	50	**-**	-
Total non-current liabilities		**37,274**	37,219	**37,224**	37,169
Current liabilities					
Borrowings	14	**371**	356	**371**	356
Trade and other payables	15	**32,401**	36,438	**35,987**	37,076
Current tax liabilities		**165**	-	**-**	-
Retirement benefit obligations	17	**103**	101	**103**	101
Provisions for other liabilities and charges	18	**-**	79	**-**	-
Total current liabilities		**33,040**	36,974	**36,461**	37,533
Total liabilities		**70,314**	74,193	**73,685**	74,702
Total equity and liabilities		**253,480**	253,751	**248,576**	248,202

The supporting notes on pages 106 to 150 are an integral part of these financial statements. The financial statements on pages 100 to 151 were authorised for issue by the Board on 19th June 2019 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 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**
Balance as at 1 April 2018		**179,558**	**173,500**
Profit / (loss) for the financial year		**1,906**	**(326)**
Unrealised foreign exchange differences		**36**	**54**
Movement on deferred tax relating to unrealised foreign exchange differences		**3**	**-**
Actuarial gain on post employment benefit obligations	17	**2,003**	**2,003**
Movement on deferred tax relating to post-employment benefit obligations		**(340)**	**(340)**
Balance as at 31 March 2019		**183,166**	**174,891**

The supporting notes on pages 106 to 150 are an integral part of these financial statements.

Statements of Cash Flows

For the years ended 31 March

	Note	**Group 2019 £'000**	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Cash flows from operating activities					
Cash (used) / generated from operations	21	**(1,447)**	8,801	**(1,414)**	7,526
Provision settled in the year		**(8)**	-	**-**	-
Interest paid		**(25)**	(59)	**(34)**	(59)
Income tax (paid) / received		**303**	(1,738)	**229**	(701)
Net cash (used) / generated from operating activities		**(1,177)**	7,004	**(1,219)**	6,766
Cash flows from investing activities					
Purchase of property, plant and equipment	9	**(1,674)**	(89)	**(1,671)**	(80)
Disposal of property, plant and equipment		**-**	8	**-**	-
Purchase of intangible assets	10	**(3,994)**	(3,073)	**(3,994)**	(2,834)
Interest received		**78**	29	**77**	29
Net cash used in investing activities		**(5,590)**	(3,125)	**(5,588)**	(2,885)
Cash flows from financing activities					
Repayments of borrowings		**(356)**	(1,178)	**(356)**	(1,178)
Net cash used in financing activities		**(356)**	(1,178)	**(356)**	(1,178)
Net (decrease) / increase in cash and cash equivalents		**(7,123)**	2,701	**(7,163)**	2,703
Cash and cash equivalents at beginning of year		**16,641**	13,940	**16,430**	13,727
Cash and cash equivalents at end of year	13	**9,518**	16,641	**9,267**	16,430

The supporting notes on pages 106 to 150 are an integral part of these financial statements.

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 Direction for the year ended 31 March 2019 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 financial statements 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

New standards impacting the Group that were adopted in the financial statements for the year ended 31 March 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 15 'Revenue from Contracts with Customers'; and
- IFRS 9 'Financial Instruments'.

Both standards had a transition date of 1 April 2018. Details of the impact which these two standards have had are given below:

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the Statement of Comprehensive Income. Previously, the Group's approach was to include the impairment of trade receivables in other expenses. An impairment charge of £96k has been recognised in the year ended 31 March 2019 (2018: £155k).

The "incurred losses" model for calculating risk provisioning and impairments under IAS 39 is replaced by a forward-looking model under IFRS 9 based on "expected credit losses". Financial assets that are not overdue are also subject to an impairment charge. The new impairment model should be applied to financial assets that are measured at amortised cost or at fair value through other comprehensive income, as well as to contract assets in accordance with IFRS 15.

The general approach is used by the Group for cash and cash equivalents and other financial assets that fall within the scope of application for impairments under IFRS 9. The difference between the amount of the loss allowances for other financial assets as at 31 March 2018 under IAS 39 and the amount of the loss allowances for other financial assets as at 1 April 2018 under IFRS 9 is immaterial.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has adopted the modified retrospective method from 1 April 2018.

The Group has undertaken a review of its contracts and considers the main accounting implications under IFRS 15 are likely to occur in relation to CAA International, which enters unique contracts with its suppliers. The individual contracts have been reviewed and revenue is recognised using the most appropriate measure in each case.

Since application of IFRS 15 has not resulted in any material effects, no cumulative adjustment amounts had to be recognised in equity as at 1 April 2018. The application of IFRS 15 rather than IAS 18 has also not resulted in any material changes to the amount of revenue in the current reporting period.

The Group has taken the practical expedient not to disclose quantitative information about unsatisfied or partially satisfied performance obligations, as the original expected duration of the underlying contract is less than one year.

Adoption of new and revised standards

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. The Directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact, unless otherwise stated, on the figures included in the financial statements in the period of initial application.

- Annual Improvements to IFRS Standards 2015-2017 Cycle (1 January 2019);
- IFRS 16 'Leases' (1 January 2019);
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments' (1 January 2019);
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation' (1 January 2019);
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures' (1 January 2019); and
- Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement' (1 January 2019).

IFRS 16: Leases

The standard makes substantial changes to the recognition and measurement of leases by lessees. On adoption of the standard, lessees, with certain exceptions for short term or low value leases, will be required to recognise all leased assets on their Statement of Financial Position as 'right-of-use assets' with a corresponding lease liability. The requirements for lessors are substantially unchanged.

In addition to the re-measurements required, on application of the standard, the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and variability of lease payments and cash flows, by providing qualitative and quantative information.

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 Group, 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 £3,962k and a lease liability of £4,845k will be recognised in relation to the properties. The vehicles are expected to result in right of use assets of £751k and lease liabilities of £703k. 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 and 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-Group transactions, balances and unrealised gains and losses on transactions between Group companies are 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 reporting date.

An asset's carrying amount is written down 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, impairments 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 Group, 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 reporting date. Impairment losses are recognised in the Income Statement where required. Assets that are subject to impairment are reviewed at each reporting 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 instruments

Financial assets and liabilities are initially recognised on the Statement of Financial Position at fair value when the Group has become party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification of financial assets

Financial instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets except derivatives, are categorised as financial assets held at amortised cost. Such assets are subsequently carried at amortised cost using the effective interest method, if the time value of money may have a significant impact on their value, less allowances for any expected lifetime credit losses.

The Group's financial assets measured at amortised cost comprise trade and other receivables, contract assets, receivables from related parties and cash and cash equivalents in the Statement of Financial Position.

Financial liabilities are subsequently measured at amortised cost using the effective interest method.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in financial instruments that are measured at amortised cost including trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group assesses at the reporting date whether there is objective evidence that there has been an increase in the credit risk of its financial assets. The Group uses criteria such as significant financial difficulty of the counterparty, the disappearance of an active market for that financial asset because of financial difficulties and breaches of contract as objective evidence.

Definitions of default and write off

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

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.

Trade and other receivables

Trade and other 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 reporting date. These are classified as non-current assets.

Capital management

The capital structure of the Group consists of retained earnings only with a net surplus of £183,166k (2018: £179,558k). The Group's main objective when managing capital is to safeguard its ability to continue as a going concern.

The Group reviews its capital structure regularly. The Group is not subject to any externally imposed capital requirements.

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 Contract balances

Contract asset

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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 reporting 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 other comprehensive income. In this case the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting 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 reporting 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 reporting 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 reporting 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 reporting date, and the risks specific to the obligation. The movement in the provision is recognised within 'Finance income - net'.

1.16 Revenue recognition

The Group recognises revenue at the transaction price, in line with progress towards the completion of the performance obligation of the particular service being provided. The Group provides a number of different services, and uses both input and output methods to assess both the transaction price and the point of revenue recognition, using the most appropriate for each individual service. The transaction price for the majority of the Group's services are as per our published Statement of Charges and may be either fixed or variable. Additional services may be delivered under an agreed contract at a negotiated price. Revenue is shown net of value-added tax, credits and discounts and after eliminating sales within the Group.

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The Group bases its contract assets estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group's activities can be classified as follows:

(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 Significant 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. Additional information is disclosed in note 10.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

Fair value measurement

Assets and liabilities for which fair value is measured or disclosed in the financial statements are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings. Due to their short-term nature, the carrying value of those approximates their fair value. Derivatives are the only financial instruments that are measured at fair value and are included in Level 2 in the above grouping classifications.

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 and Airspace Regulation, Consumers and Markets, and Aviation Security, in addition to that derived from UK en route Air Traffic Services and the commercial activities of CAA International. All other results are included in the Miscellaneous Services column.

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

Included within Miscellaneous Services are revenues generated from the Monarch repatriation activities of £265k (2018: £52,511k). Furthermore, grants from the DfT amounting to £2,129k during the year (2018: £2,149k), of which £254k relates to the release of a grant received for assuming control of the Aviation Security function on behalf of the DfT (2018: £254k) and £1,875k elates to work undertaken by Air Safety Support International Limited on behalf of the DfT (2018: £1,895k) are also included. 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 2019 funding of £326k has been deferred (2018: £623k deferred).

2. Segment information (continued)

The segment information for the year ended 31 March 2019 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	65,227	18,576	9,433	93,236	-	-	-	93,236
Eurocontrol service charges	-	-	-	-	13,095	-	-	13,095
Other revenue	454	2,500	913	3,867	-	13,937	26,077	43,881
Total revenue	65,681	21,076	10,346	97,103	13,095	13,937	26,077	150,212
Operating costs (excluding IAS 19 pension scheme adjustments)	68,771	20,262	10,982	100,015	12,887	11,544	26,045	150,491
Profit / (loss) before IAS 19 adjustments	(3,090)	814	(636)	(2,912)	208	2,393	32	(279)
IAS 19 pension scheme adjustments	(1,230)	(197)	(223)	(1,650)	-	(125)	(663)	(2,438)
Operating profit / (loss)	(4,320)	617	(859)	(4,562)	208	2,268	(631)	(2,717)
Profit / (loss) before income tax	(1,765)	1,026	(395)	(1,134)	208	2,527	746	2,347

A reconciliation of operating loss to profit before income tax is provided as follows:	£'000
Adjusted operating loss for reportable segments	(2,717)
Finance income	5,088
Finance costs	(24)
Profit before income tax	**2,347**

2. Segment information (continued)

The comparable segment information for the previous 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

3. Employment costs

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

	Note	**Group 2019 £'000**	Group 2018 £'000
Wages and salaries		**62,846**	58,811
Social security costs		**7,487**	7,049
Defined benefit pension plan costs	17	**17,539**	17,702
Defined contribution pension plan costs	17	**3,046**	2,459
Unfunded pension plan costs	17	**5**	(13)
Other employee benefits expenses		**2,992**	1,671
Total employment costs		**93,915**	87,679

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) for the Group during the year was:

	Group 2019 Year end	**Group 2019 Average**	Group 2018 Year end	Group 2018 Average
By business segment				
Safety and Airspace Regulation	**563**	**562**	543	517
Consumers and Markets	**95**	**90**	90	87
Aviation Security	**110**	**102**	96	85
CAA International	**56**	**57**	54	56
Miscellaneous Services	**318**	**303**	295	283
Total employees	**1,142**	**1,114**	1,078	1,028

4. Board members' and key management personnel emoluments

Board member emoluments:	**Group 2019 £'000**	Restated Group 2018 £'000
Salaries and fees	**1,361**	1,222
Benefits	**26**	39
Performance related payments	**147**	183
Emoluments excluding pension contributions	**1,534**	1,444
Pension contributions	**71**	171
Pension payments to past Board members	**101**	97
Board member emoluments	**1,706**	1,712

Details of aggregate emoluments for each of the 13 Board members (2018: 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 2019 £'000**	Group 2018 £'000
Salaries and fees	**841**	961
Benefits	**4**	8
Emoluments excluding pension contributions	**845**	969
Pension contributions	**136**	197
Key management personnel emoluments	**981**	1,166

There were 5 employees considered to be key management personnel in the year (2018: 6).

5. Auditor's remuneration

	Group 2019 £'000	Group 2018 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**110**	102
Audit of subsidiary company financial statements	**15**	15
Audit of the Group's Malaysia branch financial statements	**8**	8
Audit related assurance services	**3**	5
Total auditor's remuneration	**136**	130

6. Profit for the year

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

	Note	**Group 2019 £'000**	Group 2018 £'000
Net foreign exchange losses on operating activities		**18**	57
Total foreign exchange losses		**18**	57
Operating lease payments:			
Properties (included within services and materials)		**7,258**	6,927
Vehicles (shown within employment costs and other expenses)		**18**	17
Total operating lease payments		**7,276**	6,944
Depreciation, amortisation and disposals:			
Depreciation on property, plant and equipment	9	**1,971**	2,053
Grant released on property, plant and equipment	15	**(126)**	(126)
Amortisation of intangible fixed assets	10	**1,516**	1,155
Grant released on intangible fixed assets	15	**(128)**	(128)
Profit on disposal of property, plant and equipment		**-**	(2)
Impairment of intangible fixed assets	10	**491**	162
Total depreciation, amortisation and disposals		**3,724**	3,114

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

The Department for Transport provided £1,807k of cash resources in the financial year ended 31 March 2019, 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 2019 £'000**	Group 2018 £'000
Internal costs (included within employment costs)	**1,679**	1,926
External costs (included within research)	**143**	278
Total research expenditure	**1,822**	2,204

7. Finance income and costs

	Note	**Group 2019 £'000**	Group 2018 £'000
Finance income:			
Interest on short-term deposits		**77**	29
Employee benefit scheme - expected return on assets	17	**54,660**	55,495
Employee benefit scheme - interest charge on liabilities	17	**(49,649)**	(52,607)
Other interest income		**-**	1
Total finance income		**5,088**	2,918
Finance costs:			
National Loans Fund borrowings		**(24)**	(50)
Total finance costs		**(24)**	(50)
Finance income - net		**5,064**	2,868

8. Income tax charge

Analysis of tax charge in the year:	**Group 2019 £'000**	Group 2018 £'000
Current tax:		
UK corporation tax at 19% (2018: 19%) on profit for year	**165**	363
Adjustment in respect of prior years	**(3)**	25
Tax overseas suffered	**-**	16
Adjustment in respect of prior years (overseas tax)	**-**	(2)
Withholding tax suffered	**6**	-
Total current tax charge	**168**	402
Deferred tax:		
Origination and reversal of temporary differences	**(164)**	(43)
Adjustment in respect of prior periods	**-**	(12)
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	**437**	86
Total deferred tax charge	**273**	31
Income tax charge	**441**	433

8. Income tax charge (continued)

Reconciliation of effective tax rate:	**Group 2019 £'000**	Group 2018 £'000
Profit before income tax	**2,347**	1,247
Corporation tax calculated at 19% (2018: 19%)	**446**	237
Tax effects of:		
Fixed asset differences	**(10)**	159
Expenses not deductible for tax purposes	**23**	6
Adjustments to brought forward values	**-**	(12)
Overseas tax	**-**	16
Overseas withholding tax	**5**	-
Adjustments to tax charge in respect of previous periods	**(3)**	23
Effect of rate change	**(20)**	4
Income tax charge	**441**	433

At Summer Budget 2015, the Government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the Government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. This rate reduction has been reflected in the calculation of deferred tax at the reporting 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:	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
Cost							
At 1 April 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
Additions	-	-	3	-	-	1,671	1,674
Disposals	-	-	(386)	-	-	-	(386)
Transfers	-	-	196	-	-	(196)	-
At 31 March 2019	**22,116**	**26,157**	**8,572**	**102**	**3,995**	**1,476**	**62,418**
Accumulated depreciation							
At 1 April 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
Charge for the year	178	1,285	209	6	293	-	1,971
Eliminated on disposal	-	-	(386)	-	-	-	(386)
At 31 March 2019	**21,062**	**25,303**	**7,995**	**96**	**2,624**	**-**	**57,080**
Net book value at 31 March 2019	**1,054**	**854**	**577**	**6**	**1,371**	**1,476**	**5,338**
Net book value at 31 March 2018	1,232	2,139	587	12	1,664	1	5,635

9. Property, plant and equipment (continued)

Authority:	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
Cost							
At 1 April 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
Additions	-	-	-	-	-	1,671	1,671
Disposals	-	-	(368)	-	-	-	(368)
Transfers	-	-	196	-	-	(196)	-
At 31 March 2019	**22,116**	**26,157**	**8,542**	**102**	**3,862**	**1,476**	**62,255**
Accumulated depreciation							
At 1 April 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
Charge for the year	178	1,285	198	6	270	-	1,937
Eliminated on disposal	-	-	(368)	-	-	-	(368)
At 31 March 2019	**21,062**	**25,303**	**7,972**	**96**	**2,551**	**-**	**56,984**
Net book value at 31 March 2019	**1,054**	**854**	**570**	**6**	**1,311**	**1,476**	**5,271**
Net book value at 31 March 2018	1,232	2,139	572	12	1,581	1	5,537

10. Intangible assets

Group:	Software development costs £'000	Assets in the course of construction £'000	Intellectual property £'000	Total £'000
Cost				
At 1 April 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
Additions	-	3,994	-	3,994
Disposals	(1,444)	(105)	-	(1,549)
Transfers	1,855	(1,855)	-	-
At 31 March 2019	**16,368**	**3,374**	**155**	**19,897**
Accumulated amortisation and impairment				
At 1 April 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
Charge for the year	1,485	-	31	1,516
Impairment	218	227	46	491
Disposals	(1,444)	(100)	-	(1,544)
At 31 March 2019	**8,164**	**225**	**155**	**8,544**
Net book value at 31 March 2019	**8,204**	**3,149**	**-**	**11,353**
Net book value at 31 March 2018	8,052	1,242	77	9,371

Significant software projects in relation to ATOL Licensing, e-Licensing, Airspace Change Portal and Information Strategy totalling £1,855k (2018: £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 £491k (2018: £162k) are included within 'Depreciation, amortisation, impairments and disposals' on the Income Statement. The impairment loss relates mainly to software projects which are not considered to have a value in use. As such, the carrying value of these projects has been written down to nil. One further software project has been written down to its estimated value in use of £1,585k, based on the discount rate currently in use of 2%, the expected internal efficiencies to be realised and the forecast revenue from sales to overseas aviation authorities.

10. Intangible assets (continued)

Available for use intangibles are reviewed at least annually for any indications of impairment. Intangible assets that have any elements still unavailable for use are tested for impairments using a value in use model, based on their approved business cases and adjusted for any known material changes. This testing occurs annually or whenever a material change to the project occurs. The current discount rate used in our models is 2%, which is a value provided by the DfT and is in line with market rates.

A rise in the discount rate by 10 basis points (i.e. +0.1%) would result in a further impairment of £15k. A decrease in the discount rate of 10 basis points (i.e. -0.1%) would result in a reversal of impairment of £15k.

Authority:	**Software development costs £'000**	**Assets in the course of construction £'000**	**Total £'000**
Cost			
At 1 April 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
Additions	-	3,994	3,994
Transfers	1,855	(1,855)	-
Disposals	(1,444)	(7)	(1,451)
At 31 March 2019	**15,198**	**3,374**	**18,572**
Accumulated amortisation and impairment			
At 1 April 2017	6,448	-	6,448
Charge for the year	978	-	978
At 31 March 2018	7,426	-	7,426
Charge for the year	1,327	-	1,327
Disposals	(1,444)	-	(1,444)
Impairment	218	227	445
At 31 March 2019	**7,527**	**227**	**7,754**
Net book value at 31 March 2019	**7,671**	**3,147**	**10,818**
Net book value at 31 March 2018	7,361	1,242	8,603

Significant software projects in relation to ATOL Licensing, e-Licensing, Airspace Change Portal and Information Strategy totalling £1,855k (2018: £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.

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.

10. Intangible assets (continued)

Impairment losses of £445k (2018: £nil) are included within 'Depreciation, amortisation, impairments and disposals' on the Income Statement. The impairment loss relates mainly to software projects which are not considered to have a value in use. As such, the carrying value of these projects has been written down to nil. One further software project has been written down to its estimated value in use of £1,585k, as detailed above.

Available for use intangibles are reviewed at least annually for any indications of impairment. Intangible assets that have any elements still unavailable for use are tested for impairments using a value in use model, based on their approved business cases and adjusted for any known material changes. This testing occurs annually or whenever a material change to the project occurs. The current discount rate used in our models is 2%, which is a value provided by the DfT and is in line with market rates.

A rise in the discount rate by 10 basis points (i.e. +0.1%) would result in a further impairment of £15k. A decrease in the discount rate of 10 basis points (i.e. -0.1%) would result in a reversal of impairment of £15k.

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 and 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.

	2019	2018
	£	£
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 2019 £'000	Group 2018 £'000	Authority 2019 £'000	Authority 2018 £'000
Current receivables:				
Trade receivables	**6,090**	6,864	**3,752**	4,053
Less: provision for doubtful trade receivables	**(287)**	(222)	**(87)**	(79)
Trade receivables - net	**5,803**	6,642	**3,665**	3,974
Social security and other taxes	**277**	378	**277**	378
Prepayments	**3,676**	3,294	**3,451**	3,190
Contract assets	**9,632**	9,358	**8,210**	8,068
Income equalisation	**21**	88	**-**	-
Other receivables	**1,474**	330	**1,474**	330
Total current receivables	**20,883**	20,090	**17,077**	15,940
Non-current receivables:				
Prepayments	**-**	52	**-**	52
Other receivables	**36**	36	**-**	-
Total non-current receivables	**36**	88	**-**	52
Total trade and other receivables	**20,919**	20,178	**17,077**	15,992

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

Invoices raised in relation to statutory charges are due for payment immediately on presentation, unless otherwise stated in the Schemes of Charges. Standard credit terms for commercial activities are 30 days, unless otherwise specified in individual contracts with customers.

As at 31 March 2019 trade receivables of £2,569k (2018: £2,636k) were past their due date but were not impaired. The ageing analysis of these is as follows:

	Group 2019 £'000	Group 2018 £'000	Authority 2019 £'000	Authority 2018 £'000
Past due:				
Up to 3 months	**2,481**	2,444	**1,600**	1,034
From 3 to 12 months	**87**	189	**72**	93
Over 12 months	**1**	3	**1**	3
	2,569	2,636	**1,673**	1,130

12. Trade and other receivables (continued)

Movements on the provision for doubtful trade receivables:

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
At 1 April	**222**	334	**79**	224
Provision for receivables impaired	**235**	159	**133**	94
Receivables written off during the year as uncollectable	**(68)**	(210)	**(68)**	(179)
Unused amounts reversed	**(102)**	(61)	**(57)**	(60)
At 31 March	**287**	222	**87**	79

The creation and release of provision for doubtful receivables have been included in 'Other expenses' in the Income Statement.

The maximum exposure to credit risk at the reporting date is the carrying value of all financial assets. The Group does not hold any collateral as security.

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

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
British pounds	**5,853**	3,975	**5,139**	2,639
Euros	**1,309**	3,011	**-**	1,665
Thai Baht	**120**	-	**-**	-
US dollars	**28**	-	**-**	-
Other currencies	**3**	22	**-**	-
Total trade and other receivables	**7,313**	7,008	**5,139**	4,304

12. Trade and other receivables (continued)

Contract balances:

Group:	Contract assets 2019 £'000	Contract assets 2018 £'000	Contract liabilities 2019 £'000	Contract liabilities 2018 £'000
At 1 April	**9,358**	11,369	**(10,564)**	(11,081)
Transfers in the period from contract assets to trade receivables	**(9,159)**	(10,486)	**-**	-
Excess of revenue recognised over cash (or rights for cash)	**9,433**	8,475	**-**	-
Amounts included in contract liabilities that were recognised as revenue during the period	**-**	-	**8,680**	8,703
Cash received in advance of performance and not recognised as revenue during the period	**-**	-	**(7,986)**	(8,186)
At 31 March	**9,632**	9,358	**(9,870)**	(10,564)

Authority:	Contract assets 2019 £'000	Contract assets 2018 £'000	Contract liabilities 2019 £'000	Contract liabilities 2018 £'000
At 1 April	**8,068**	8,293	**(7,594)**	(7,385)
Transfers in the period from contract assets to trade receivables	**(8,177)**	(7,718)	**-**	-
Excess of revenue recognised over cash (or rights for cash)	**8,319**	7,493	**-**	-
Amounts included in contract liabilities that were recognised as revenue during the period	**-**	-	**7,471**	7,085
Cash received in advance of performance and not recognised as revenue during the period	**-**	-	**(6,859)**	(7,294)
At 31 March	**8,210**	8,068	**(6,982)**	(7,594)

13. Cash and cash equivalents

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

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Cash at bank and in hand	**3,706**	7,609	**3,455**	7,398
Short-term bank deposits	**4,812**	8,032	**4,812**	8,032
Short-term HM Treasury deposits	**1,000**	1,000	**1,000**	1,000
Total cash and cash equivalents	**9,518**	16,641	**9,267**	16,430

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

14. Borrowings

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Non-current:				
National Loans Fund	**-**	371	**-**	371
Total non-current borrowings	**-**	371	**-**	371
Current:				
National Loans Fund	**371**	356	**371**	356
Total current borrowings	**371**	356	**371**	356
Total borrowings	**371**	727	**371**	727

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 2019 £'000	Carrying amount 2018 £'000	**Fair value 2019 £'000**	Fair value 2018 £'000
Non-current	**-**	371	**-**	365
Current	**371**	356	**371**	349
Total borrowings	**371**	727	**371**	714

The fair values of borrowings are calculated by discounting the cash outflow by the rate ruling at the reporting 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% (2018: 1.70%).

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

The Authority has maximum borrowing powers of £550 million (2018: £550 million) under the Civil Aviation Act 1982 (as amended). Below are details of the Authority's undrawn and uncommitted borrowing facilities:

	2019 £'000	2018 £'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 2019 £'000**	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Current liabilities:					
Trade payables		**7,205**	12,677	**6,868**	12,435
Amounts due to related parties	24	**-**	-	**7,780**	4,698
Social security and other taxes		**2,142**	2,476	**2,142**	2,476
Accrued expenses		**10,257**	7,717	**9,596**	7,126
Income equalisation		**87**	170	**-**	-
Contract liabilities		**9,747**	10,262	**6,859**	7,294
Other payables		**2,963**	3,136	**2,741**	3,047
Total current trade and other payables		**32,401**	36,438	**35,986**	37,076
Non-current liabilities:					
Other payables		**754**	831	**754**	831
Accruals and contract liabilities		**123**	300	**123**	300
Total non-current trade and other payables		**877**	1,131	**877**	1,131
Total trade and other payables		**33,278**	37,569	**36,863**	38,207

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 contract liabilities 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 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
No later than 1 year	**177**	254	**177**	254
Later than 1 year and not later than 5 years	**123**	269	**123**	269
Later than 5 years	**-**	31	**-**	31
Total grant outstanding	**300**	554	**300**	554

16. Deferred income tax

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

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
At 1 April	**488**	378	**458**	398
Income Statement tax credit	**164**	55	**168**	60
Other comprehensive income tax charge	**3**	55	**-**	-
At 31 March	**655**	488	**626**	458

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 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Deferred tax assets	**660**	495	**631**	465
Deferred tax liabilities	**(5)**	(7)	**(5)**	(7)
Deferred tax assets - net	**655**	488	**626**	458

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 2018	65	430	495	41	424	465
Income Statement tax credit / (charge)	196	(30)	166	196	(30)	166
Other comprehensive income tax charge	-	(1)	(1)	-	-	-
At 31 March 2019	**261**	**399**	**660**	**237**	**394**	**631**

	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 2018	-	(7)	(7)	-	(7)	(7)
Income Statement tax credit	-	2	2	-	2	2
Other comprehensive income tax charge	-	-	-	-	-	-
At 31 March 2019	**-**	**(5)**	**(5)**	**-**	**(5)**	**(5)**

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 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 reporting 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 £34,932k (2018: £34,154k) 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 the Civil Aviation Authority Pension Scheme which is a defined benefit plan that was closed to new entrants on 30 November 2012. After that date new entrants have been able to join a defined contribution plan, currently the Civil Aviation Authority Personal Pension Plan, contract based arrangement. In order to further mitigate the increase in the defined benefit liabilities the CAA has introduced a cap on the growth of future pensionable earnings. The cap is based upon the members' pensionable earnings as at the 31 March 2013 level plus inflation.

Defined contribution plan: a defined contribution plan is a pension arrangement under which the benefits are linked to contributions paid; the performance of each individual's chosen investments and the form in which the individuals choose to take their benefits. The Group has two defined contribution plans, one in which contributions are paid into an independently administered fund and a second where contributions are paid to the Civil Service Pension Plan following the transfer of responsibility for regulating aviation security from the Department for Transport to the Civil Aviation Authority as from 1 April 2014. The Income Statement charge in respect of the defined contribution plans represents the contributions payable by the Group based on a percentage of the employees' pay. The CAA has no exposure to investment and other experience risks. Costs associated with these schemes of £3,046k (2018: £2,459k) 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 charge of £5k (2018: credit of £13k) to the Income Statement in accordance with the advice of a professionally qualified actuary (see note 3). A non-current liability of £1,415k (2018: £1,513k) and a current liability of £103k (2018: £101k) are held in the Statements of Financial Position in respect of post-employment benefits payable under this scheme.

Defined benefit plan: a defined benefit plan is a pension arrangement under which participating members receive a pension benefit at retirement determined by the plan rules dependent upon factors such as age, years of service, and pensionable pay and it is not dependent upon the contributions made 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, with a second contract put in place with Pensions Insurance Corporation in January 2017 for uninsured pensioners at 30 June 2016; in July 2018, a further tranche of pensioner liabilities was insured with Pensions Insurance Corporation covering the uninsured pensioner population at 31 March 2018. The value of the buy-in policies 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 2019 is estimated to be £1,425 million (2018: £1,450 million).

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 28.2% of pensionable earnings for the year 2018/19 (2018: 25.2%) in respect of which the CAA paid contributions of £15.9 million. The expected contribution in the 2019/20 year is £15.2 million. The expected future benefit payments for 2019/20 are forecast to be £131.1 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:

i) 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.

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

17. Retirement benefit obligations (continued)

	2019 £'000	2018 £'000
Statements of Financial Position assets for (Group and Authority):		
Post-employment benefits - fully funded pension fund	**170,551**	166,754
Total Statements of Financial Position assets	**170,551**	166,754
Statements of Financial Position obligations for (Group and Authority):		
Non-current post-employment benefits - unfunded pension scheme	**(1,415)**	(1,513)
Current post-employment benefits - unfunded pension scheme	**(103)**	(101)
Total Statements of Financial Position obligations	**(1,518)**	(1,614)
Income Statement charge for (Group):		
Pension benefits (note 3)	**17,539**	17,702
Post-employment benefits - unfunded pension scheme (note 3)	**5**	(13)
Total Income Statement charge	**17,544**	17,689

Funded pension benefits

The amounts recognised in the Statements of Financial Position are determined as follows:	**Group and Authority**	
	2019 £'000	2018 £'000
Fair value of plan assets	**2,184,640**	2,242,726
Present value of future obligations	**(1,979,157)**	(2,041,818)
Surplus in funded scheme	**205,483**	200,908
Related deferred tax liability at 17% (2018: 17%) (note 16)	**(34,932)**	(34,154)
Net surplus in funded pension scheme	**170,551**	166,754

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**	
	2019 £'000	2018 £'000
Surplus in funded pension scheme brought forward	**200,908**	110,849
Income Statement movement	**(13,339)**	(14,814)
Remeasurement effects recognised in Statements of Comprehensive Income	**2,003**	89,552
Employer contributions	**15,911**	15,321
Surplus in funded pension scheme carried forward	**205,483**	200,908

17. Retirement benefit obligations (continued)

The movements in the defined benefit obligations (DBO) over the year are as follows:	Group and Authority	
	2019 £'000	2018 £'000
DBO brought forward	**2,041,818**	2,224,039
Current service cost (excluding administration costs)	**14,313**	16,453
Past service cost	**1,572**	-
Interest costs on the DBO	**49,649**	52,607
Scheme participants' contributions	**97**	120
Actuarial loss / (gain) - membership experience	**3,870**	(66,704)
Actuarial gain - demographic assumptions	**(101,949)**	-
Actuarial loss / (gain) - financial assumptions	**96,484**	(30,046)
Benefits paid from scheme assets	**(126,697)**	(154,651)
DBO carried forward	**1,979,157**	2,041,818

The movements in the fair value of plan assets in the year are as follows:	Group and Authority	
	2019 £'000	2018 £'000
Fair value of assets brought forward	**2,242,726**	2,334,888
Interest income on scheme assets	**54,660**	55,495
Return on scheme assets greater / (less) than discount rate	**407**	(7,198)
Employer contributions	**15,912**	15,321
Scheme participants' contributions	**97**	120
Benefits paid	**(126,697)**	(154,651)
Administrative costs paid	**(2,465)**	(1,249)
Fair value of assets carried forward	**2,184,640**	2,242,726

The CAA provides pensions administration services to the scheme and has charged £2,465k (2018: £1,249k) over the course of the year. The CAA also charges for third party costs incurred on behalf of the scheme. These totalled £4,728k (2018: £4,903k) for the year.

17. Retirement benefit obligations (continued)

The scheme assets are allocated as follows:	Group and Authority			
	2019 £m	**%**	2018 £m	%
Index Linked (UK)	**336.0**	**15.4%**	255.8	11.4%
Total Dedicated Bond Fund	**336.0**	**15.4%**	255.8	11.4%
Equity Fund	**186.9**	**8.6%**	212.7	9.5%
Total Quoted Equities	**186.9**	**8.6%**	212.7	9.5%
Insured Annuity Policies	**1,424.7**	**65.2%**	1,449.7	64.6%
Total Insured Annuity Policies	**1,424.7**	**65.2%**	1,449.7	64.6%
Other Holdings	**237.0**	**10.8%**	324.5	14.5%
Total Other Holdings	**237.0**	**10.8%**	324.5	14.5%
Fair value of scheme assets carried forward	**2,184.6**	**100.0%**	2,242.7	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	
	2019 £'000	2018 £'000
Current service cost	**13,502**	16,453
Past service cost	**1,572**	-
Administrative costs paid	**2,465**	1,249
Total Income Statement charge included in employment costs	**17,539**	17,702
Net interest on defined benefit obligation	**49,649**	52,607
Expected return on funded pension scheme assets	**(54,660)**	(55,495)
Total credit to finance income (note 7)	**(5,011)**	(2,888)
Total included in Income Statement	**12,528**	14,814

17. Retirement benefit obligations (continued)

Analysis of amounts recognised in the Statements of Comprehensive Income:

	Group and Authority	
	2019 £'000	2018 £'000
Actuarial losses / (gains) due to liability experience	**3,870**	(66,704)
Actuarial gains due to liability assumption changes	**(5,466)**	(30,046)
Return on scheme assets (greater) / less than discount rate	**(407)**	7,198
Actuarial gain recognised in the Statements of Comprehensive Income	**(2,003)**	(89,552)

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

	2019 % p.a.	2018 % p.a.
Discount rate	**2.35**	2.50
Inflation assumption (RPI)	**3.50**	3.35
Inflation assumption (CPI)	**2.50**	2.35
Rate of increase in salaries in future years	**2.50**	2.35
Rate of increase in pensions (pre 1 June 2015) *	**3.50**	3.35
Rate of increase in pensions (post 1 June 2015) *	**2.50**	2.35

* 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	27.7	28.9
60 in 10 years	28.5	29.8

Additional information	**2020**
Expected contributions for the following year end:	**£'000**
Employer	**15,243**
Scheme participants	**96**
Total expected contributions for the following year end	**15,339**

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	Defined Benefit
Discount rate	2.4%	0.1% increase	1.4% reduction
Price inflation (RPI)	3.5%	0.1% increase	1.4% increase
Salary growth	2.5%	0.1% increase	0.1% increase
Mortality	98% (male) / 97% (female)	Long-term trend 1.25%	0.9% reduction

18. Provisions for other liabilities and charges

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Building repairs:				
Brought forward	**129**	119	**-**	-
Provision made in the year	**-**	10	**-**	-
Provision settled in the year	**(8)**	-	**-**	-
Overprovision in prior years	**(71)**	-	**-**	-
Total provisions for other liabilities and charges	**50**	129	**-**	-

18. Provisions for other liabilities and charges (continued)

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Analysis of provisions:				
Non-current	**50**	50	**-**	-
Current	**-**	79	**-**	-
Total provisions for other liabilities and charges	**50**	129	**-**	-

A provision of £49,672 (2018: £49,548) 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.

A provision no longer exists in respect of property dilapidations at Northgate House, Crawley, as the value of the dilapidation expense was agreed upon by the property landlords and the company and was settled during the year ended 31 March 2019. The value of the settlement invoice was £8,000.

The fair value of the provision is calculated by discounting the anticipated cash outflows by the deposit rate ruling at the reporting date i.e. 0.0025% (2018: 0.0025%).

19. Derivative financial instruments

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Forward foreign exchange contract asset	**34**	45	**34**	45

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

20. Financial instruments by category

Group	2019 Assets at fair value through the Income Statement £'000	2019 Other financial assets at amortised cost £'000	2019 Total £'000	2018 Assets at fair value through the Income Statement £'000	2018 Other financial assets at amortised cost £'000	2018 Total £'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	**34**	**-**	**34**	45	-	45
Trade and other receivables	**-**	**7,313**	**7,313**	-	7,008	7,008
Cash and cash equivalents	**-**	**9,518**	**9,518**	-	16,641	16,641
Net book amount	**34**	**16,831**	**16,865**	45	23,649	23,694

Authority	2019 Assets at fair value through the Income Statement £'000	2019 Other financial assets at amortised cost £'000	2019 Total £'000	2018 Assets at fair value through the Income Statement £'000	2018 Other financial assets at amortised cost £'000	2018 Total £'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	**34**	**-**	**34**	45	-	45
Trade and other receivables	**-**	**5,139**	**5,139**	-	4,304	4,304
Cash and cash equivalents	**-**	**9,267**	**9,267**	-	16,430	16,430
Net book amount	**34**	**14,406**	**14,440**	45	20,734	20,779

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

20. Financial instruments by category (continued)

Group	2019			2018		
	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	-	10,922	10,922	-	16,644	16,644
Borrowings	-	371	371	-	727	727
Net book amount	-	11,293	11,293	-	17,371	17,371

Authority	2019			2018		
	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	-	18,143	18,143	-	21,011	21,011
Borrowings	-	371	371	-	727	727
Net book amount	-	18,514	18,514	-	21,738	21,738

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

Financial risk management disclosures are set out in the Financial Review on pages 55 to 67.

21. Cash generated from operations

	Group 2019 £'000	Group 2018 £'000	**Authority 2019 £'000**	Authority 2018 £'000
Profit / (loss) before income tax	**2,347**	1,247	**(57)**	3,624
Adjustments for:				
Depreciation, amortisation, impairment and adjustment on disposal	**3,978**	3,370	**3,710**	2,999
Loss / (profit) on disposal of asset	**7**	(2)	**7**	7
Grant amortisation	**(254)**	(254)	**(254)**	(254)
Finance income - net	**(5,064)**	(2,868)	**(5,053)**	(2,868)
Unrealised foreign exchange differences	**36**	(92)	**54**	(53)
Changes in working capital:				
- Trade and other receivables	**(741)**	(875)	**(1,074)**	(2,711)
- Trade and other payables	**(4,124)**	5,885	**(1,186)**	4,402
IAS 19 current service costs net of cash contributions	**2,439**	2,380	**2,439**	2,380
Provisions	**(71)**	10	**-**	-
Cash generated from operations	**(1,447)**	8,801	**(1,414)**	7,526

22. Commitments

Capital commitments

At 31 March 2019 and 2018, 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 reporting date the future aggregate minimum lease payments under non-cancellable operating leases fall due as follows:

Properties:	**2019 £'000**	2018 £'000
No later than 1 year	**5,127**	6,873
Later than 1 year and not later than 5 years	**2,201**	5,312
Greater than 5 years	**2,547**	-
Total property operating lease commitments	**9,875**	12,185

Vehicles:		
No later than 1 year	**459**	594
Later than 1 year and not later than 5 years	**281**	412
Total vehicle operating lease commitments	**740**	1,006

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 £18k to the Income Statement (2018: £17k).

At the reporting 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:	**2019 £'000**	2018 £'000
No later than 1 year	**4,212**	5,879
Later than 1 year and not later than 5 years	**-**	4,119
Total committed property operating lease receipts	**4,212**	9,998

23. Guarantees and contingencies

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 MYR 247,500 (£46,929) with the Government of Malaysia, expired 31 December 2018.

Other than as described above, as at 31 March 2019, 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 £7,206k (2018: £47,668k). The substantial decrease in the year was primarily due to the Monarch Airlines repatriation activities in 2018 that the CAA was instructed to undertake by the DfT. This amounted to revenue of £43,020k in 2018. At the end of the year £502k was owed to the CAA by the DfT (2018: £1,484k owed to 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, P Smith and C Tingle (Board members of the CAA) and K Staples (Secretary to the CAA) were Trustees of the ATT either for all or part of 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 £393k was owed to the ATT by the CAA (2018: £1,515k).

During the year, the CAA charged £280k (2018: £120k) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £688k (2018: £9,969k) to the ATT during the year for legal fees, accommodation costs, accounting and other administrative services. The substantial decrease in the year was primarily due to the Monarch Airlines repatriation activities in 2018, 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 £195k (2018: £204k) 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 no dividends were paid from CAA International Limited to the parent, CAA (2018: £5m). The prior year dividend was included in CAA's revenue and profit figure for the year and was removed from the Group accounts for consolidation purposes.

24. Related party transactions (continued)

Authority

The following transactions with subsidiaries occurred during the year:

	2019 £'000	2018 £'000
Re-charge of corporate legal, finance, IT and facilities costs:		
CAA International Limited	**848**	780
Air Safety Support International Limited	**343**	323
Re-charge of corporate Board member costs:		
CAA International Limited	**33**	32
Air Safety Support International Limited	**19**	19
Provision of radio licensing service to CAA International Limited	**149**	208
Work carried out on behalf of CAA International Limited with regard to commercial aviation related services	**2,195**	2,356
Provision of technical assistance to Air Safety Support International Limited	**8**	8
Total inter-group charges	**3,595**	3,726

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

	2019 £'000	2018 £'000
CAA International Limited	**6,812**	3,559
Air Safety Support International Limited	**968**	1,139
Total payables owing to Group undertakings	**7,780**	4,698

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	**(814)**	**37,825**	**(2.2)%**

The Group is set financial targets by the Department for Transport of a 3.5% rate of return for the regulatory and en route sectors. The targets are based upon the annual rate of return before interest and tax, on average capital employed revalued at current cost for the target period. The financial target is calculated to provide sufficient reserves for future capital investment, interest payments and corporation tax. 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	01.04.18 - 31.03.19	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

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Income Statement (historic cost accounts)					
Revenue	**150.2**	190.7	135.8	132.6	134.1
Operating (loss) / profit before finance income-net and income tax charge	**(2.7)**	(1.6)	4.9	(5.4)	(4.3)
Finance income - net	**5.0**	2.8	3.3	10.8	11.3
Income tax charge	**(0.4)**	(0.4)	(1.7)	(1.3)	(1.8)
Profit for the financial year	**1.9**	0.8	6.5	4.1	5.2
Statement of Financial Position (historic cost accounts)					
Non-current assets	**222.9**	216.5	126.4	109.5	339.1
Current assets	**30.6**	37.3	33.3	27.6	30.0
Total assets	**253.5**	253.8	159.7	137.1	369.1
Reserves	**183.2**	179.6	104.4	85.7	269.0
Equity	**183.2**	179.6	104.4	85.7	269.0
Total liabilities	**70.3**	74.2	55.3	51.4	100.1
Total equity and liabilities	**253.5**	253.8	159.7	137.1	369.1

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

	2019	2018	2017	2016	2015
CAA Regulatory Sector	**(2.2)%**	0.3%	8.2%	1.1%	3.1%

Civil Aviation Authority (Accounts) Direction 2019

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 2019 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 9 April 2018 is hereby revoked.

Dan Micklethwaite
Director of Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 18 April 2019

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 2019

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 9 April 2018 is hereby revoked.

Dan Micklethwaite
Director of Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 18 April 2019