Annual Report & Accounts 2019/20
Civil Aviation Authority

CAP 1956

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Statement by the Chair

Dame Deirdre Hutton DBE

This is my eleventh, and final, annual report as the Chair of the UK Civil Aviation Authority. 2019 was, in many respects, a pivotal year for our industry. From responding to the collapse of Flybe and Thomas Cook, to introducing new safety measures and encouraging innovation, we have worked tirelessly to ensure that aviation is a thriving, robust and above all, safe community, and that consumers are protected.

However, as I write, the world faces an unprecedented challenge due to the tragic onset and impact of COVID-19. With hundreds of aircraft grounded, airports operating at minimal capacity and passenger revenues decimated, we enter a new decade facing an extraordinary threat to UK aviation. The uncertainties for the outlook of the industry have never seemed greater with a high likelihood of significant change. One illustration of this is the call for a greener post-COVID-19 economy and it seems essential that the CAA and the industry play their part in moving towards more environmentally sustainable aviation.

But a regulator should be always prepared for challenges and the organisation has acted swiftly to maintain safety, security, financial and consumer protection. We are building capacity for future strategic programmes, especially those relating to innovation, airspace and skills. And we are taking action to ensure our financial resilience and to protect jobs, so that we are fighting fit to support the industry and passengers through this exceptionally difficult period and to help quicken the industry's recovery.

Consumers and Thomas Cook failure

I also know from experience that in times of crisis, extraordinary feats can be accomplished by working together. From volcanic ash to airline failures, the last decade has thrown many challenges at the CAA. With that in mind it would be impossible to reflect on the past year without paying tribute to my colleagues for their exceptional work in successfully completing the largest peacetime repatriation, 'Operation Matterhorn', following the collapse of Thomas Cook. The operation brought more than 150,000 people back to the UK and managed payments for approximately 300,000 future ATOL protected bookings, reimbursing consumers for their lost holidays.

We are still learning valuable lessons from this exercise but a number of reflections come to mind. Firstly, the situation was deeply saddening. Thomas Cook commanded affection and loyalty from many thousands of people. After 170 years, it was a pillar of our travel industry with loyal people for whom its failure was personally and terribly felt.

Secondly, the commitment and skill of colleagues across the CAA, together with those of our partners, who rose to meet the challenge superbly in difficult circumstances, ensured that Thomas Cook's customers were brought home safely and swiftly.

And, lastly, how seamlessly the various elements of the operation worked together. From government departments to airports and airlines, the operation was, I think, unprecedented and I would like to thank all those partners whose help, commitment and flexibility was indispensable to our efforts.

It has always been a matter of great pride to me that my colleagues in the CAA rise to any challenge, learning and improving through times of uncertainty. The intense few weeks of repatriation flights and the following work to refund passengers with forward bookings only reaffirmed that view and I am deeply thankful to all my colleagues for their achievements.

Statement by the Chair

EU-Exit

The UK's withdrawal from the European Union was one of the defining issues in the year under review. The CAA continued to make no deal preparations for October 2019, providing comprehensive information for the sector via a dedicated microsite.

As a regulator we continue to support the Government as it prepares to negotiate the future economic partnership between the United Kingdom and the European Union (EU), while also further developing our relationships across the world, especially with the International Civil Aviation Organisation where we are well placed to play a full and constructive role.

The UK will no longer participate in the European Union Aviation Safety Agency (EASA) systems after the end of the transition period on 31 December 2020. We continue to implement contingency plans for the regulation of aviation in the event of the Brexit transition period ending in December 2020 with no UK-EU aviation safety agreements in place.

Safety and the coming year

Responding to the COVID-19 outbreak is at the forefront of our priorities and will continue to be so for the foreseeable future. The CAA has a unique and privileged responsibility – to protect the public and seek to make sure consumers are fairly treated. Whatever the airline industry looks like when the crisis has passed, our vision is that aviation remains competitive, innovative and, above all, safe.

Following two fatal and tragic crashes, the Boeing Max 737 has been grounded globally since March 2019. We remain in close contact with the EASA and industry regulators globally in deciding whether and when to allow the aircraft to return to service.

As we move into a new reporting year, I continue to believe that maximising the potential of innovation and technology will be key for future growth opportunities. To that end, our Innovation Team is continuing to help innovators bring their new aviation products and services to market, enabling new services to take to the skies when it is safe and sustainable to do so. With 40 years of aviation experience, the CAA is uniquely placed to facilitate, support and enable further innovation while shaping a progressive regulatory landscape.

Whether it's responding to automation, artificial intelligence, cargo and passenger drones, new types of aircraft, new business models, or environmental challenges we will continue to encourage innovation by working hand-in-hand with industry partners to co-create the right environment for innovation to flourish in line with our principles of safety, consumer protection and security. And, despite the current challenges, we look to the future with optimism.

Reflections on a decade in aviation

After eleven years leading the CAA's Board, it is opportune to reflect on the internal and external changes over that period. The aviation industry moves rapidly, often due to technological advances, and that requires a flexible and agile approach from the regulator. We are now dealing with developments that were not on the radar a decade ago. Space travel for passengers, drone deliveries and flying taxis are among exciting new developments that I hope will change consumers' lives for the better.

Equally, the industry endures its share of crises. My time at the CAA has been punctuated by seriously disruptive events, from volcanic ash to airline failure and, now, sadly COVID-19.

These events brought their unique challenges but crises also bring change and the CAA is a very different organisation to the one I started with eleven years ago. We have moved to risk-based regulation in safety and will do so in security; we have transformed the way in which we recognise consumer interests; we have worked to create a flexible, agile and intelligent organisation; and we have looked beyond aviation to recruit innovative thinking from other industries and disciplines.

I am particularly pleased that we now have some senior women in place and I hope this trend continues. Equally, our duty is to help the next generation of women succeed and this is an area where we are making particularly good progress.

All of these developments have created a CAA which I believe is well placed to meet the challenges and changes that will come our way. But, despite the formidable changes in the industry and the economy, our central role endures – to enable a thriving and competitive industry, to protect the public and to look after consumers, their safety, their security and their ability to make choices that reflect value for money.

Statement by the Chair

Board

There have been a number of changes to the Board during the year under review. Mark Swan left his role as Group Director of Safety and Airspace Regulation and I would like to thank him in particular for the enormous impact he made on the way the CAA approaches our safety regulation, introducing performance-based oversight.

This is Rob Bishton's first year as Group Director of Safety and Aerospace Regulation, having moved from Head of Flight Operations to take on the role. Following a full and open recruitment process that included external candidates we promoted an internal candidate whose drive, focus and experience will be critical as we tackle the big issues ahead of us.

The CAA Board was joined during the year by Katherine Corich as a non-executive director and I was delighted to welcome her and recognise the extensive experience she has brought, both in aviation and technology. There were two further departures as David Gray and Michael Medlicott came to the end of their terms. They were the first non-executive directors appointed after I became Chair and both have been hugely stalwart and committed members of the Board, for which I thank them.

I owe considerable thanks to all my Board colleagues, who have been a robust and reliable source of support and wisdom over the last year. I would especially like to thank Richard Moriarty for his unswerving dedication to the CAA as Chief Executive. It has been a privilege and pleasure to work with such an able and effective leader and colleague.

It has been a great honour to chair the CAA Board for the past eleven years. This is a special and inspirational organisation, whose passion, commitment and determination to deliver for consumers and the industry is truly awe-inspiring. I know that under the chairmanship of my successor, Sir Stephen Hillier, I am leaving the organisation in good hands.

I extend my best wishes to all my CAA colleagues over the past eleven years and to everyone working in the aviation industry. The effects of the COVID-19 pandemic are profound and, in many ways, devastating. But in my time I have learned just how resilient the aviation industry is and I am confident that, with time, it will rebuild and become a vibrant and successful industry that fully serves the consumer once more.

Deirdre Hutton

Dame Deirdre Hutton DBE
Chair
16 July 2020

Statement by the Chief Executive
Richard Moriarty

The year under review, especially the latter half of it, has been dominated by 'events' and exceptional challenges for the UK aviation industry. We had to respond to the loss from the UK aviation market of two long established and well-known businesses through the insolvencies of Thomas Cook plc in September 2019 and Flybe in January 2020. These were sad moments for their talented staff and loyal customers and suppliers alike. At the end of the year under review the aviation industry worldwide was gripped by the unprecedented challenges caused by the COVID-19 pandemic, with commercial traffic volumes falling by a scale never before seen in peacetime.

Following the year end, the situation with COVID-19 continues to dominate our operations and those of organisations across our industry. Our focus remains on helping the industry restart and recover itself with safe, secure and consumer focused operations just as soon as it is allowed and able to do so. Although the skies in the UK have never been less busy with aircraft, the CAA has never been busier in terms of its work in assisting the industry and its consumers with dealing with the pandemic and helping it pave a way to re-establish the vital links it provides to the country in terms of trade, tourism, and visiting friends and family.

Given the profound impact on the UK aviation industry of the COVID-19 pandemic we have included commentary in this annual report where possible. We have continued to update our website and have dedicated pages detailing our work and our response to COVID-19.

Despite the challenges that have arisen in the reporting year, the CAA has also made important progress on its strategic programmes of preparing for life outside of the European Union Aviation Safety Agency (EASA), enhancing risk-based safety regulation, modernising aviation infrastructure, enabling new technologies and innovation, empowering consumers and improving grass roots aviation.

Dealing with the insolvencies of Thomas Cook plc and Flybe

When Thomas Cook plc entered administration in September 2019, it was the UK's largest ever failure of an airline and tour operator. As well as being a terrible development for the 10,000 people it employed in the UK, it was also an anxious time for the 150,000 customers who were abroad at the time and the 360,000 customers who had booked with Thomas Cook for holidays in the future.

The CAA led the colossal task of repatriating back to the UK all those customers that were abroad in what became the largest ever peacetime repatriation programme. We were superbly supported by our aviation industry partners as well as our colleagues across Government. We also benefited enormously from some incredible professionals from Thomas Cook staff who stayed on to help us with the operation.

In the first few days of the operation, we contacted all 3,000 Thomas Cook hotels around the world so that customers were not asked to leave before the end of their holidays. We launched 150 aircraft on 746 flights to 55 international destinations to bring everyone home and were pleased that 98.5 per cent of people returned to the UK on the same day they were originally due to return with their Thomas Cook flight.

Shortly after the end of the repatriation programme we turned our attention to the equally enormous task of refunding the forward bookings due to claims against the ATOL insurance scheme, which is run by the CAA. This operation was complicated by the real threat of fraud and the limitations in the data systems we were able to access within the former Thomas Cook business. About two-thirds of all claims were settled within 60 days. At the end of the reporting year about 99 per cent of all claims had been settled.

Statement by the Chief Executive

Dealing with the insolvencies of Thomas Cook plc and Flybe (continued)

Flybe entered administration in January 2020. In addition to the impact on its staff and customers it also led to a significant impact on the number of flights within the UK and the regional commercial aviation network. We welcomed that the Government launched a review of regional connectivity following this, acknowledging the importance of regional aviation in the light of Flybe's demise. The CAA was not engaged operationally for the failure of Flybe as we were for Thomas Cook because it was a scheduled airline rather than an ATOL holiday protected operator. Nevertheless, we worked intensively with Flybe and Government colleagues to achieve the wind-down of operations being safe and orderly and the impact on consumers being as limited as could be achieved in the circumstances.

Preparing to leave the European Union Aviation Safety Agency system

The Government and the EU have been clear that the UK will not remain a member of the EASA system after the end of the EU Withdrawal Agreement on 31 December 2020. Progressing our plans to be ready for this date has remained an important part of our work throughout this year.

We have been extensively engaged working with Government colleagues on the future regulatory framework. We are confident that we will have in place the requisite skills, systems and resources to take on those responsibilities that will return to the CAA from EASA from that date, which mainly concern the area of State of Design for certain engineering authorisations.

Having developed Bilateral Aviation Safety Agreements with the United States, Canada, Japan and Brazil we are hopeful that the Government will be able to conclude one with the EU before the end of the Withdrawal Period. Whatever the outcome, the CAA as a technical regulator will always wish to remain engaged and open with EASA in order to share expertise and data in the pursuit of improving aviation safety standards, just as we do with other safety-based agencies around the world.

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 firmly established both internally and with those that we regulate. Through our extensive collection and analysis of data, we know that our safety reviews over the past few years have consistently shown that PBO is providing us with a fuller picture of the industry's risks and remedial actions to address these. For example, our use of data sampling and performance measures enabled us to identify an operator handling error which, when highlighted to the airline as part of our PBO activity, resulted in changes to their standard operating procedures and updates to their risk register.

In a fast changing and dynamic industry, however, effective regulation does not and cannot stand still. We must focus on getting the basics right; having a core safety regulatory framework that works to protect the public. We cannot be complacent and it is vital that we and the industry keep learning.

This year, we focussed on developing our approach for regulating in an increasingly automated industry, particularly in the light of issues raised by the grounding of the Boeing 737 Max aircraft in March 2019.

Towards the end of the year under review our focus centred on how the industry could safely respond to the challenges posed by COVID-19, both in terms of the reduction in passenger traffic volumes and also in terms of how regulation can best support a safe resumption of operations when that time comes.

Looking to the future, we continue to work with Cranfield University on a new Master of Science course in Safety Management, Risk and Regulation, that would meet an existing apprenticeship standard, thus giving access to UK organisations to their Apprenticeship Levy. The course is being designed to meet the needs of safety professionals in the CAA and in industry.

Statement by the Chief Executive

Empowering consumers

The findings from our latest consumer survey help inform our ongoing work. Overall levels of consumer satisfaction remained high; with 81 per cent across the UK saying they were satisfied with their most recent flight compared to 82 per cent reported in the previous survey conducted in Autumn 2018.

While 81 per cent is a high figure compared to survey results from other transport modes, it is important for the industry to continue to improve those areas where consumers are less happy, including complaint handling and how the industry copes with disruption.

The CAA continued this year with its pioneering work on improving airport accessibility for those consumers with reduced physical mobility and hidden disabilities. Each airport is given a performance score based on a common set of metrics. We have seen how this framework has helped support a change in the industry to put real leadership focus on accessibility. Although there is room for further improvement, we should all be proud that the UK has the most accessible airport system in Europe when measured by the number of those using the support services provided.

We have also this year embedded within airport security screening operations a different approach to those consumers who have critical medical related equipment within or attached to their body, such as insulin pumps. This allows the consumer to use a simple medical card to obtain a different security search practice that does not risk interfering with the medical device.

Modernising aviation infrastructure

We continued to make progress in establishing and delivering the airspace modernisation strategy. During the year, along with air traffic control body NATS and the Government, we established the Airspace Coordination Organisation Group (ACOG) and commissioned a masterplan from NATS/ACOG which has started the work to prepare it. Following a request from the Government, we have been prioritising consideration of Global Navigation Satellite System approaches for smaller aerodromes.

We also had a significant programme to support capacity expansion at Heathrow and in particular the development of an appropriate economic regulatory framework that would support the project whilst ensuring that charges for airlines remained affordable, efficient and at a level that was consistent with attracting and retaining commercial finance. This programme was paused following the ruling in February 2020 by the Court of Appeal that the Government's Airports National Policy Statement (ANPS) was unlawful in that it did not properly take into account the Government's climate change obligations. Heathrow Airport Limited (HAL) has secured permission to appeal this ruling to the Supreme Court.

Despite the work on expansion being paused pending the outcome of the HAL legal challenge, the CAA is still heavily engaged with HAL and the airlines on designing the appropriate economic controls on charges that should apply when the current arrangements expire at the end of 2021.

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

Statement by the Chief Executive

Enabling future technology and innovation

During the year, we continued working closely with partners giving guidance on the development and potential approval of their innovative ideas whilst developing appropriate safety standards. Whether it is responding to automation, artificial intelligence, cargo and passenger drones, new types of aircraft, or new business models, we are encouraging innovation by working collaboratively with partners to co-create the right environment for innovation to flourish in line with our duties towards safety, security, and consumer protection.

We have fully operationalised our new Innovation Hub which is a new, diverse CAA team, independent of our teams who assess regulatory approvals, providing support to innovators. As part of this, our Regulatory Sandbox aims to create an environment where innovation in aviation can be explored in line with UK CAA rules and guidance. Several companies are actively involved in various Sandbox projects, including Amazon, Volocopter, and NATS. This year we accepted the drone delivery service provider Skyports and Boeing on to the programme to explore how unmanned drones can operate beyond visual line of sight in non-segregated airspace.

Our new on-line Drone and Model Aircraft Registration and Education Service was developed and launched in November 2019 enabling drone users to interact with the system quickly and easily and learn about some of the key requirements for safe flying. The service had received almost 150,000 registrations by the end of May 2020.

The UK has the chance to be at the forefront of spaceflight development and, as the regulator of the UK's airspace, the CAA is well positioned to play a role to support this. This year, the Government and CAA announced that in 2021 we should become the UK's sole space regulator by taking on the regulatory functions that currently sit within the UK Space Agency.

Statement by the Chief Executive

Improving grass roots aviation

Sport and recreational aviation are vital foundations for the UK aviation industry. They often provide the inspiration for people to get into aviation careers, as well as supporting a significant industry in their own right contributing to local aerodromes, training schools and local businesses.

We will continue to work with the General Aviation (GA) community to ensure that regulation is as targeted and proportionate as it needs to be. We have now completed over 100 initiatives that we had planned as part of our GA Programme created from the Red Tape Challenge which is focused on deregulation, delegation and improvement. Many of these have progressed in the last year, including granting the British Microlight Aircraft Association permission to issue initial pilot licences and allowing the Light Aircraft Association to undertake airworthiness oversight of certain aircraft.

A major independent review of the safety of UK GA found that the current safety performance of recreational General Aviation (GA) in the UK is acceptable and that most recreational flying accidents are the result of human factors; and the most effective approach in reducing those accidents is more likely to be through continuous pilot training and improvement, rather than further regulation.

Encouraging careers in aviation

As an employer, we remain committed to understanding ambitions and interests of all currently underrepresented groups to create opportunities that are inclusive and engaging for all. More than 25 of our colleagues are already involved in STEM activities with an outreach programme for schools and colleges. Our apprenticeship programme is well established and receiving greater interest year on year.

Statement by the Chief Executive

Internal change to support our strategy

As the industry continues to change and evolve, so must we. It is important that we make sure that we have the right blend of skills and capabilities within our organisation. Equally, we must ensure that we have the right 'can do' culture, with people who care passionately about our core purpose of protecting the public, whilst being able to play our part in supporting a vibrant and multi-faceted aviation industry. This commitment makes the CAA's performance greater than the sum of its component parts.

This year has seen the public debate about race and racism come to the forefront of the international consciousness, with demonstrations taking place across the world. Promoting diversity and inclusion is a core aspect of the CAA's values. We have an established Diversity & Inclusion (D&I) Board, made up of leaders from across the business, as well as a colleague D&I Network which both meet regularly. Their primary functions are to support our ambition to be an organisation that better reflects the public we are here to protect and they have been planning engagement and education programmes for the coming months and years.

We have also seen our gender pay gap improve in 2019. The mean gender pay gap as of July 2019 is 31.9%, as compared to 32.9% in March 2018. We continue to review the gender pay gap and there remains much more to do; we must become more representative of the society we ultimately serve.

I am also proud that the CAA in 2019 won the prestigious Wellbeing Team of the Year award for our work in this area. We now have over 50 mental health first aiders trained within the organisation.

I am enormously impressed at how our people have responded to exceptional challenges this year. Many have volunteered for roles, in addition to their normal roles, because they are driven by a selfless desire to do the right thing to help at a time when our industry stakeholders and its consumers need us the most. This has resulted in much personal sacrifice, with many colleagues working long and sometimes anti-social hours, as well as volunteering for temporary pay reductions to help to stabilise our financial position in the wake of the COVID-19 impact on our income.

An organisation like the CAA is only as good as its people and how they work together in the public interest. This year I could not have asked for more from my colleagues who rallied to the challenges we faced with energy and commitment. For that I am truly grateful.

Statement by the Chief Executive

Farewell to Dame Deirdre Hutton

I want to end with an additional thank you. At the end of July, our Chair, Dame Deirdre Hutton will stand down from her role at the end of eleven years. Deirdre has been an outstanding Chair and has served with distinction during her long tenure at the CAA. She has presided over some of the most challenging years of the organisation's existence. Her personal leadership and her unwavering dedication to our core purpose have been exemplary and I speak for everyone at the CAA when I say that we are enormously thankful for her service.

We are also really pleased to have secured in her successor as Chair someone with the experience of Sir Stephen Hillier. He joined our Board as a non-executive director in June 2020 and myself and my colleagues are very much looking forward to working with him as our new Chair as he helps to guide us through the various challenges and opportunities that lie ahead.

Richard Moriarty
Chief Executive Officer
16 July 2020

Strategic Report

Strategic Report
Kate Staples

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 16 July 2020.

By order of the Board

Kate Staples

Kate Staples
General Counsel and Secretary
16 July 2020

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 Organisation
- Parliament

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.
- Oversight of Cyber Security resilience.

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 and 3.

CAA Business Model

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;
- Developing our enforcement role to protect consumers and the public; and
- Implementing Cyber Security Oversight.

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 2020 our total income was £281.9m of which £96.2m was statutory income generated under the statutory charges schemes. £13.4m was in respect of Eurocontrol service charges.

£134.2m related to funding for repatriation activities relating to the failure of Thomas Cook.

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
£11.2m was income generated by CAA International Limited, a subsidiary company of CAA, which provides consultancy services to a number of national and international aviation authorities to promote improved aviation safety standards worldwide.

£21.0m for other services, which included rental income from subletting London properties and income for activities funded directly by the DfT (e.g. 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 (risk-based regulation; empowering consumers; infrastructure optimisation; service excellence; and technological innovation) reflect that role, placing emphasis on areas where we can have the most impact.

COVID-19

The COVID-19 virus has had, and continues to have, an acute impact on the aviation industry, as well as on consumers of air travel.

We worked closely with the industry and to support passengers during the initial phase of the virus's spread and we will continue to play a full role in facilitating the industry's recovery. Where possible and appropriate, we issued exemptions and alleviations so that licences and approvals can be maintained by those in the industry during the major period of disruption. In addition, we have been looking closely at how we manage our internal costs and deferred any increases to our charges for an initial three-month period.

In addition, all members of the CAA Board and Executive Committee took pay cuts and we froze all recruitment and paused all capital-intensive projects.

We published advice to passengers directly affected by the virus about their rights to refunds and alterations to bookings.

To help aviation safely recover post COVID-19 we worked closely with representative groups and associations to provide safety advice and guidance on returning to flying. This was especially the case with the General Aviation community.

During the height of the crisis our innovation and safety teams were able to facilitate a number of trials and programmes to help with the COVID-19 relief effort. This included helping to coordinate commercial operators, including many helicopter operators, to move vital equipment and personnel and also several trials of drone delivery systems that significantly reduced the time to move NHS equipment.

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.

We aspire to oversee regulation that works from a proportionate, timely and targeted perspective with safety always being our top guiding principle. In doing this we primarily use risk or performance-based processes. We then target our resources at the most significant risks while still conducting our regular oversight of the UK industry.

During the year the world's aviation industry has been faced with several significant challenges.

The highest profile of these was the Boeing 737 Max and preparatory work relating to its potential re-introduction to service. While we are not a lead agency in this work, we have kept close to developments both in the USA and in Europe. We maintain close contact with EASA (as the certification body for Europe) and UK operators of the aircraft. As the plans for re-introduction to service develop we will increase our engagement with UK operators.

While aviation safety performance had improved consistently year on year until 2018, the two 737 Max accidents provide a strong and poignant reminder that safety cannot be taken for granted and that every single person involved in aviation, from the largest aircraft manufacturer, to the regulator, to the private pilot, must play their part to place safety first.

Much of our work forms part of a larger international structure and we seek to influence beyond the UK industry to help to protect UK passengers wherever they travel. An example of this work during the year under review is our close cooperation with EASA to develop a Europe-wide education programme for passengers on the risk posed by lithium batteries.

Our remit has been expanding over recent years to add new areas of regulation. One significant example is the setting up of our unmanned aerial systems unit. This is a maturing area of our work where we are both helping the sector to develop while also overseeing its safety and dealing with new emerging risks.

Review of Our Business

Risk-based regulation (continued)

A key new addition in the area this year was the UK Drone and Model Aircraft Registration and Education Service. This was developed and launched on time via a highly automated digital service. To enhance safety the operator of a drone is required to demonstrate a basic level of knowledge about safe operations before being accepted for registration.

Another significant example has been the set-up of our Cyber Security Oversight function. Initially this has focused on publishing guidance for the sector and a cyber assessment framework for aviation, aimed at helping industry to manage its cyber security risk. We are also holding aviation cyber forums to engage proactively with the sector and facilitate the sharing of good practice.

Oversight of aviation's critical national infrastructure, under the Network and Information Systems Regulation, progresses and we continue to engage internationally to ensure harmonisation of cyber security requirements in aviation wherever possible. The aim is to reduce duplication and regulatory burden for the sector.

We also launched our ASSURE accreditation framework, this provides a pool of highly qualified competent cyber auditors in an area where internationally, across all sectors, there is a skill shortage.

With the Government's increased emphasis on the importance of General Aviation (GA), we have increased our level of activity in this area (in some cases with Government financial support). Examples include part funding electronic conspicuity devices for GA aircraft, that both reduce the risk of mid-air collisions and pave the way for future airspace development; and administering the airfield development fund, which aims to assist smaller airfields.

Our GA unit has made good progress with its change programme to meet its aims of only regulating recreational aviation where it is absolutely necessary. Highlights this year include consulting on increasing the number of aircraft types that can be used for initial training, allowing representative organisations to take on airworthiness oversight of certain types of aircraft and introducing a commercial gyroplane licence. The GA community has continued to play a key role in helping us to develop our oversight of the sector.

An independent review of GA safety in the UK, commissioned by the Department for Transport and published in 2020, found that levels of safety were acceptable and that no further regulation of the sector was required.

In March 2020 the AAIB published its report into the accident in which Emiliano Sala and David Ibbotson died in January 2019. The AAIB considered the legal status of the flight as part of its detailed investigation. Flights carrying fare paying passengers illegally do unfortunately occur and, where we have evidence of this, we take action to combat this illegal activity. In addition, we try to educate passengers and during the year we launched an extensive consumer awareness campaign to alert consumers to the dangers of such illegal activity and how to check on the status of operators.

Helicopter safety, both onshore and operations supporting the offshore industry, continues to be a top priority. We issued our latest and final update on our 2014 offshore helicopter safety review, which prompted a number of significant safety improvements.

We took action to enable air carriers and supply chain entities in non-EU countries to handle, screen and fly cargo to the EU, avoiding the costs of re-screening in the UK, reducing journey times for goods and considerably enhancing the carriers' and entities' competitiveness. We did this by carrying out robust assessments of security standards overseas at the last points of departure, which allowed us to issue exemptions from the requirements that would otherwise have applied.

We have been actively engaged in revising the security requirements for handling and screening in-flight supplies in the UK, with the aim of moving to a secure supply chain concept. This will modernise the sector and will lead to a more secure environment for processing and screening.

Review of Our Business

Empowering consumers

The failure of Thomas Cook in 2019 formed the major element of our work to help and protect consumers during the year. Initially we helped passengers and holidaymakers who would otherwise have had significant difficulties returning from abroad. We brought some 150,000 passengers home in two weeks, with over 90% returning on their expected day to their expected airport.

The second phase was to refund consumers protected under the ATOL scheme. This was a significant task because of the number of consumers affected but was made more difficult because of the incomplete data we received from the company and the serious risk of attempted fraud.

By the end of January 2020, we had settled more than 95% of all the claims received to date. Overall, 335,000 claims were resolved and £345 million paid by 31 March 2020. This is the largest amount ever paid out by the scheme since its creation in the 1970s.

Over the next year we will review and learn lessons from the Thomas Cook repatriation and refund work to improve service to passengers and consumers. This will consider not just how we can improve the running of such operations but also other significant changes such as better availability of data.

Worldwide we have also unfortunately seen several high-profile airline failures during the year. In the UK this included Flybe, which entered into administration in March 2020. We offered advice to passengers around their rights and promoted rescue fares and other travel options.

In our wider role to protect consumers' rights we have demonstrated our willingness to take enforcement action where we consider it appropriate. We are involved in a number of court cases where our consumer-friendly approach has been challenged and the cases will be heard in 2020/21.

We reviewed a range of key airline terms and conditions to compare them to good practice and legal obligations. This led to a number of airlines making significant changes to simplify and improve their terms and conditions.

We have been actively contributing to the Government's policy making to improve the CAA's toolkit to help passengers in the event of airline insolvency or failure. This can make it easier to help passengers in circumstances similar to those seen with the Monarch and Thomas Cook failures.

Gatwick Airport has recently made proposals to us for its new commitments' framework, that primarily covers price and service quality, following engagement with the airlines. We will consider the proposals, including through consultation, to decide whether they are in consumers' interests and what new licence conditions should be introduced.

We want to make sure that everyone has access to air travel. During the year we helped to introduce a medical device awareness card that has received excellent feedback for supporting passengers through airport security control by helping them provide security teams with relevant information on their medical condition. We have liaised with airports to update our guidance on best practice for assisting transgender passengers through security processes.

Review of Our Business

Innovation

Our innovation hub, established with support from the Regulators Pioneer Fund, is now fulfilling a role in helping the UK aviation system to benefit from the latest technology and ideas. It encourages and enables innovation by providing advice and safe spaces for testing technologies and operations that will have a wider benefit for the sector. We also have been looking at changes to our regulatory framework.

In the first year, we provided advice to 200 companies, brought eight companies into our regulatory sandbox, where proposals and new systems can be safely tested and published four significant scene-setting papers on new subjects relevant to innovators, including on unmanned traffic management, social licences and drone regulations.

Our work with the Government's Future Flight Challenge over the next four years will be part of our commitment to helping aviation improve its environmental impact. Among the aims of this £125 million Government Industrial Strategy Challenge Fund programme is to demonstrate innovative ways to enable greener flight in a publicly acceptable manner leading to reduced carbon footprint for aviation.

Delivered by UK Research and Innovation (UKRI) the challenge will initially focus on smaller passenger aircraft and drones. Our Innovation Hub is leading the CAA's response to the initiative, as we provide both policy guidance and formal regulatory permissions and approvals.

This year it was announced that we would become the UK's sole space regulator. We are uniquely positioned to fulfil this role. As the sole regulator of the UK's airspace we will be able to harness this expertise so that horizontal and vertical launches in the UK are integrated efficiently and safely into our skies. This announcement followed our work to support the Department for Transport and the UK Space Agency to create the legislative framework to enable space flight to occur from the UK. This was published in March 2020.

Infrastructure optimisation

We continued to make progress in establishing and delivering the UK's airspace modernisation strategy. In doing so there are many issues to consider and environmental concerns remain to the fore.

The newly created Airspace Change Organising Group (ACOG) has been tasked by the Government with coordinating the future airspace changes needed to modernise UK airspace. Together with NATS it is developing the masterplan for change. Our role, at the right time, will be to assess that work.

We have started to gear up our airspace regulation and sponsor team capacity to deal with the projected increase in planned airspace changes. We have been notified of around 190 proposed changes but this demand may change due to the effect of COVID-19 on aviation.

One area of airspace change we have actively prioritised this year, in line with DfT requests, is the prioritising of satellite approach applications for smaller airfields.

On airport capacity and development, we made the licence modifications to allow the two year commercial deal agreed between Heathrow and the major airlines to be implemented from January 2020. The agreement is an example of closer airline and airport engagement to develop airport charging arrangements, which has potentially wider strategic significance.

Also in relation to Heathrow, we implemented a new licence condition to provide stronger powers to help to ensure that the airport always operates and develops in the best interests of its users. The condition draws on similar approaches in other economically regulated sectors.

During the year we made our final proposals for NATS'en-route NERL RP3 price control proposals. We proposed a package that recognised the strategic importance of delivering airspace modernisation, while also imposing a modest efficiency challenge. NERL chose to appeal our proposals to the Competition and Markets Authority (CMA) and we are now working with NATS and the CMA on how to take matters forward in the light of COVID-19.

Review of Our Business

Service excellence

Improving our licence transaction turnaround times has been an ongoing project. During the year there was an improvement in turnaround times for pilot licences, which consistently met our service level targets. This was achieved following a significant increase in demand during 2018 and a surge in change of state applications during the first quarter of 2019 driven by EU-Exit.

During the year we have continued to focus on improvements to all our licensing processes, including tactical improvements to application forms and the development of strategic plans for the future development of our e-licensing system.

Our move from our long-term location of CAA House in central London to make our existing Gatwick location our head office and have a new, smaller presence in Westferry Circus in London has delivered significant cost savings from a reduction in our office space. Together with IT improvements the move has facilitated the introduction of smarter ways of working across the organisation.

The upgrade of our finance and HR system has delivered a stronger foundation of core systems to support the development of the organisation and deliver operational improvements.

Our international team's training service received a 2020 Feefo Gold Trusted Service Award for service excellence. This award recognises businesses that delivered exceptional experience in 2019, as rated by our training delegates. Only businesses that achieved an average service rating of over 4.5 out of 5 are rewarded with the Gold Trusted status.

EU-Exit

EU-Exit work has been a major area of focus during the year under review. Preparations and advice to industry on the potential impact of a no deal scenario were a key aspect and were part of our overall advice on our microsite which was specially developed to help industry.

We have offered support to the Government as it prepares to negotiate the future economic partnership between the UK and EU and fully fulfilled our role as an EASA participant until the end of January 2020.

With the significant changes to our relationship with EASA and aviation internationally we will continue to monitor the impact on both us and industry and will, of course, maintain consistent and high levels of safety.

International

Working on our aim to enhance aviation safety worldwide our CAAi team, as part of the International Group, were awarded our first contract under the International Civil Aviation Organisation's 'SAFE Fund'. The work has supported Sierra Leone in improving its legislation and regulations in the areas of air navigation services, aerodromes and ground navigation aids.

Our state safety partnership team continue to build state to state relationships where we have a mutual interest in improving operational safety in UK airspace or the safety experienced by UK operators overseas. Projects this year have included the 'Approach Path Vertical' group of CAA and major airlines from the UK and beyond, agreeing to share company-created coded visual approaches to airports without vertical guidance. This will greatly enhance safety for aircraft using these airports.

In the field of aviation security, we have created three new courses (Introduction to Security Culture, Threat Image Protection and Managing Insider Risks) and have established strong international links to expand our footprint on aviation security internationally.

CAA Consumer Panel Summary of its 2019/20 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. The Panel publishes its own Work Programme and Annual Report, which are available on the Consumer Panel page of the CAA website.

Over the period we focused on ensuring good quality evidence on which to build consumer policy, as well as the key themes from our 2018-2020 work programme of access, quality and redress. In particular, this year the Consumer Panel:

- Continued to support the CAA in building its consumer evidence base, especially through the Consumer Aviation Survey, as well as providing advice on more in-depth pieces of research that have a consumer angle. This year for example we worked with the CAA on the design of research exploring how passengers may feel about safety related information, including how much awareness passengers have and want to have.
- Gave specific input to support greater accessibility in aviation, including work to enable people to travel confidently with assistance dogs, input to the design of a new airline accessibility framework, and highlighted the issues that those who need to travel with oxygen face when travelling through security as well as on board.
- Continued to support the CAA as it works to embed a consistent definition of consumer vulnerability across its functions, work initiated by the Consumer Panel.
- Focused on current and future developments in the use of data and the impact on consumers, something which will be at the heart of many developments in the years to come. We considered both the benefits and risks of increasing use of data by industry, as well as where increased or new regulation may be needed. We held interesting sessions with external organisations, looking at where there are opportunities to create significant benefits to consumers, but also tried to identify where there are specific gaps in regulation that affect aviation consumers. The outcome of the work was fed back to the CAA.
- This year the Panel was influential in the development of both CAA and DfT policy in respect of complaints handling and the approach to Alternative Dispute Resolution. Our response to the *Aviation 2050* green paper was submitted in June 2019 and provided the consumer voice in an area where the vast majority of responses were from industry. We raised the importance of redress to consumers and identified practical considerations to help DfT develop their proposals in a way that would improve industry behaviour and help consumers.
- The Consumer Panel's continued emphasis on redress also had a direct impact on the CAA's work and resulted in the commissioning of a quality audit on provision of ADR. The Panel helped design the scope of this Audit and we look forward to seeing the results and inputting to next steps in due course.

In addition to the areas set out above, we have important ongoing relationships with a range of stakeholders. Alongside the CAA, these include industry representative bodies, fellow consumer panels and organisations, and third sector bodies, whom we meet with regularly. As a small policy advisory body embedded within the CAA, these relationships allow us to work collaboratively, give considered and well-respected advice, and therefore maximise our influence with decision makers.

As we look ahead to next year, we are alert to the impacts on aviation from the COVID-19 pandemic. We have developed a Work Programme to cover the period 2020 to 2022 but we know that we are going to have to be agile and adapt our plan as circumstances change. We will focus on the strategic themes of building the evidence base, driving better outcomes for consumers, and influencing future frameworks. We had identified activities, which we will reconsider as appropriate, and these include working with the CAA to explore consumer views on environmental information in more detail. We also planned to press for improvements in protection, redress and how consumer complaints are dealt with by airlines and airports. And we will continue to contribute to the CAA's broader strategic thinking on consumer matters, as well as to wider Government initiatives affecting aviation consumers, which will come to the fore as the sector recovers in the next few years.

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

Growth Duty

The CAA supports the principles of the growth duty contained in section 108 of the Deregulation Act 2015[1]. The Growth Duty requires that:

- Regulators have regard to the desirability of promoting economic growth when delivering their regulatory functions;
- As part of this, consider the importance for the promotion of economic growth of exercising regulatory functions in a way which ensures action is only taken when it is needed, and that any action taken is proportionate.

The CAA enacts the Growth Duty in the context of its wider ‘Better Regulation’ approach ensuring that our regulatory decisions demonstrate transparently how the CAA has had regard to economic growth whenever it is appropriate to do so.

The CAA has also decided that, from this year, we will report annually on how our work has promoted the growth of aviation and wider economic growth.

The CAA is contributing to growth by carrying out work to ensure that the businesses we regulate can innovate, grow and work in new ways without compromising the safe, secure and consumer-focussed regulatory framework that we have put in place.

Examples of this work include GA Red Tape Challenge projects to deliver proportionate regulation of General Aviation; recognising the importance of innovation in aviation by creating a new innovation team and launching the Innovation Hub; and promoting STEM outreach activities to encourage, inform and educate the next generation of aviation professionals. These activities and others undertaken to support growth are listed in the tables provided in the Annex at the end of this document.

In response to the impact that COVID-19 is having on the aviation industry, the CAA is supporting industry in mitigating the virus’s impact in numerous ways across every aspect of our regulatory work. Where it is possible and allowed for within the regulations, we have already made changes and will continue to work flexibly with the industry in responding pragmatically to the challenges presented by the virus. The CAA is working closely with industry and the Government to facilitate bringing capacity back up as quickly as possible once restrictions are lifted and demand begins to return.

[1] The CAA’s economic regulatory functions are exempted from coverage by the growth duty

Our Efficiency Report

Being efficient and effective is an essential element of delivering our objectives. Our duty to maintain safety and security remains our foremost priority, but our commitment to better regulation principles demands that we understand the impact of our regulation, minimise costs and 'red tape' 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, continuously improving our transactional engagement with stakeholders and challenging ourselves to ensure that our regulation is proportionate to the risks being managed.

This report provides a review of the efficiencies that we have achieved and the improvements that we have planned for the coming 12 months.

Ensuring our costs of operation are as efficient as possible

Schemes of charges

We are funded directly by charges paid by those we regulate and are required to fully recover our costs accordingly. Over the past 10 years the CAA's charges have fallen in real terms by over 9%, while over the same period UK CPI inflation was just over 25%.

The table below sets out the historic price increases and decreases including the charges for the current year, together with scope changes to our activities.

Historical Price Increases	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Cumm%
General Price Movements	0.0%	3.0%	2.0%	0.0%	0.0%	(1.3%)	0.0%	1.5%	2.6%	2.4%	1.7%	12.5%
Other Price Movements:												
Safeguarding Competition in Air Transport											0.0%	0.0%
Market Power Determination											0.0%	0.0%
Innovation Hub (option 1)											0.7%	0.7%
Cyber									0.6%	0.3%	0.3%	1.2%
CAAI Profit Contribution Reduction										0.3%		0.3%
Airworthiness Part 21G approvals								(1.2%)		0.7%		(0.6%)
UAS (Drones)								0.6%	0.3%			1.0%
Legal									0.3%			0.3%
Airspace Change								1.1%		0.5%	(1.6%)	0.0%
Avsec Increase in FTEs								0.5%				0.5%
Medical Increase in FTEs								0.2%				0.2%
Air Display Charges							0.1%	0.1%	0.1%			0.3%
AOC Reductions					(2.1%)	(0.5%)						(2.6%)
Total Price Increase	**0.0%**	**3.0%**	**2.0%**	**0.0%**	**(2.1%)**	**(1.8%)**	**0.1%**	**2.7%**	**3.9%**	**4.1%**	**1.1%**	**13.6%**
EU-Exit										**1.9%**		**1.9%**
Total Price Increase (incl. EU-Exit)	**0.0%**	**3.0%**	**2.0%**	**0.0%**	**(2.1%)**	**(1.8%)**	**0.1%**	**2.7%**	**3.9%**	**6.0%**	**1.1%**	**15.5%**
Inflation (CPI)	**3.5%**	**3.1%**	**2.5%**	**1.5%**	**0.3%**	**0.8%**	**2.3%**	**2.3%**	**1.8%**	**1.5%**	**1.8%**	**23.6%**

We continue to remain committed to controlling our costs while securing the people we need to deliver our often-changing statutory remit, maintaining the financial robustness of the CAA and investing in new processes, systems and skills. In the light of COVID-19 and its financial impact on the aviation industry we have deferred the proposed charges increase for the first half of 2020/21 until 1 October 2020, which we are keeping under continuous review.

Our Efficiency Report

Accommodation project

In Summer 2019, we relocated our London office to smaller premises at Westferry Circus, Canary Wharf. This offered us a great opportunity to modernise and improve how we work, becoming more flexible and smarter. The floor plan footprint is 63% lower than CAA House. The layout was designed around team "neighborhoods" with shared desks and a range of alternative work and meeting settings. The project has achieved a cost saving of £616k p.a. compared to the former location at CAA House.

Pension changes

Employment costs represent the majority of our total expenditure and a key element within this is pension costs. Our defined benefit scheme was closed to new entrants in 2012 and more than half of our colleagues are now within the defined contribution scheme. The 2018 triennial actuarial valuation for the defined benefit scheme was completed this year. Employer contribution rates have been maintained at current levels following an update of actuarial assumptions. A member consultation process was concluded with a number of changes to members benefits being implemented with effect from 1 April 2020. Whilst the cost of the defined benefit scheme remains a risk, these steps have helped us to mitigate that risk further.

Information Services Department organisational design

In 2019 we completed a reorganisation of the Information Services Department, responding to findings of independent reviews of the department's performance and capabilities and to the agreed objectives of the recently published ICT Strategy for the CAA. Some of the changes impacting efficiency for the CAA included:

- The creation of a new integrated Service Support function bringing together previously diverse support teams into a single team, able to focus on swift resolution of user issues;
- In-sourcing of a long-term application development and support contract to reduce costs and enable better utilisation of resources; and
- The creation of software engineering and data management teams with a focus on more effective utilisation and development of specialist staff in these key areas.

HR, finance and procurement systems

Implementation of an SAP integrated solution for HR, Finance and Procurement has allowed better integration of data and process simplification, removing 're-keying' inefficiencies whilst giving employees greater visibility and access to their own personal details. The outcome has been to provide fit for purpose core systems across Finance, Procurement and HR with enhanced process efficiency and self-service tools, whilst maintaining greater control of data.

Modernisation of IT infrastructure

The CAA has now replaced much of its outdated and obsolete infrastructure, moving for the most part to a cloud-based approach to ensure ongoing modernisation and consolidation of technologies for reduced support and maintenance costs. The CAA has adopted Office 365 (O365), including SharePoint On-line, to ensure an "evergreen" end user desktop platform which will remain current and provide the most up to date productivity tools for staff to enable optimum efficiency. We are in the process of rolling out Windows 10 which will ensure best use of the O365 tools and will itself also be kept up to date on an "evergreen" basis, removing the need for costly upgrade projects in the future. We have also replaced our legacy telephony infrastructure and adopted a "unified comms" solution using Microsoft Skype for Business. This modernisation has already delivered significant benefits in enabling the organisation to continue to work effectively from home during the COVID-19 lockdown period.

Our Efficiency Report

Ensuring we continuously improve transactional engagement with stakeholders

Licensing

The CAA has a Digital by Default approach to personnel licensing, building on the introduction of a new on-line eLicensing system for commercial pilots in 2017. This has now evolved into a programme of work to review the end to end licensing journey with the aim of making tactical and longer-term improvements. To help us in the new work we are, therefore, keen to involve industry fully to ensure that we:

- Put the customer experience at the centre of our thinking;
- Identify the true regulatory requirements of the work rather than base it simply on current practices and customs; and
- Understand the end to end customer journey ahead of the development of a digital solution.

Drone and Model Aircraft Registration and Education Scheme

The CAA successfully implemented an on-line education and registration system for Unmanned Aerial System (UAS) operators. The system was built with simplicity, usability and accessibility in mind and went through extensive end user testing to achieve this. We have seen almost 150,000 successful registrations by the end of May 2020 since the system was launched in November 2019. This represents a simple mechanism for the UAS community to comply with Government-introduced requirements.

Airspace change process and portal

As reported last year, we implemented an Airspace Change On-line Portal in October 2018. Since then we have been collecting feedback from stakeholders on how it can be improved. Using their feedback, we are currently preparing a comprehensive upgrade programme that will deliver an improved service for all stakeholders. The first round of upgrades will include a Google Analytics tool to assist us in further understanding stakeholder interests and make improvements for those stakeholders with accessibility needs. Future upgrades will include an enhanced search functionality and improvements in how we collect stakeholder feedback on airspace change proposals.

Our Efficiency Report

Thomas Cook

The failure of Thomas Cook represented a significant challenge for the organisation on top of our core regulatory activities. This involved both the repatriation of customers from overseas locations and the processing of refunds for ATOL protected customers who had lost their future holidays.

The CAA has contracts in place with a range of airlines to ensure that pre-arranged aircraft capacity is available for the repatriation of passengers following the failure of an ATOL holder or airline. These activities are carried out by the CAA working as an agent for the Air Travel Trust and, as appropriate, the UK Government. In many cases the pre-agreed rates are lower than those that would be charged for chartering aircraft on the spot market in a period of high-demand. These arrangements were put to extensive use during the repatriation of Thomas Cook customers over a two-week period in September and October.

To manage further the costs associated with repatriation, steps were taken to reduce the number of flights required and to ensure that the flights that operated did so without large numbers of empty seats. Where practicable, particularly during the second week of the repatriation programme, flights were consolidated. This meant that passengers from multiple flights with low load numbers were accommodated on a single aircraft back to the UK. This resulted in some passengers returning to a different UK airport; with coach or taxi travel being provided for passengers to their original point of departure.

On certain routes, the CAA was also able to book smaller groups of passengers on existing flights operated by other airlines, instead of chartering dedicated aircraft.

By having these arrangements in place, the CAA was able to repatriate some 150,000 Thomas Cook customers, with over 90% being flown back on their original date of departure.

EU-Exit

Minimising burdens on businesses and new barriers to competition are key aims of the CAA's preparation for the end of the transition period. This was reflected in the preparatory work that we undertook during 2019/20. The CAA has engaged extensively with stakeholders throughout our EU-Exit preparations via existing channels and dedicated workshops. We have provided information about developing events and the options that stakeholders have to prepare themselves for different outcomes, allowing them to make informed decisions and reducing uncertainty.

PPL theoretical knowledge exams on-line

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

Our Efficiency Report

Medical system replacement

A new medical system is being implemented with delivery expected in 2020/21. This will provide the CAA and certificated aeromedical examiners with a medical records database and workflow system which provides improved efficiency. Applicants will be able to complete their application form on-line and review the progress of their application and any casework that is referred to the CAA medical team. The system will provide an improved workflow to streamline the medical assessment process.

Removal of the commercial trigger for low risk drone operations

Currently, permissions for low risk UAS operations to the CAA are required for commercial operators or individuals planning to work in a congested area. Following engagement with stakeholders, the CAA has decided that the requirement for permission to perform low risk commercial operations will no longer apply; this will come into effect towards the end of 2020. This is consistent with the approach being adopted at EU level, as set out in EU Commission Implementing Regulation (EU) 2019/947 and Commission Delegated Regulation (EU) 2019/945 (which comes into force in July 2020). This will remove regulation for those with low risk operations and represents a reduction in regulatory burden and cost.

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 during the last three years, split by category. The number of complaints received this financial year has decreased. The chief reason for this welcome reduction is the conclusion of processing EASA licence conversions that saw a high inflow of applications during 2018.

Complaints about the CAA	FY2019-20	FY2018-19	FY2017-18
Number of complaints in line with our complaints policy	**105**	231	131
Upheld in full or in part	**74 (70%)**	180 (78%)	61 (47%)
The categories of upheld complaints are:			
Poor service, including:	**61 (82%)**	161 (89%)	56 (92%)
application processing delays	**12 (20%)**	123 (68%)	39 (64%)
failure to respond to enquiries	**11 (18%)**	10 (5%)	10 (16%)
other (quality and systematic issues)	**38 (62%)**	28 (16%)	7 (12%)
Charges/fees	**2 (3%)**	5 (2%)	1 (2%)
Staff behaviour	**1 (2%)**	3 (2%)	3 (4%)
Lack of CAA action	**2 (3%)**	3 (2%)	-
Unfair treatment/bias	**2 (3%)**	1 (1%)	-
Over regulation/gold plating	**1 (2%)**	3 (2%)	-
Incorrect advice	**5 (7%)**	4 (2%)	1 (2%)

Our Efficiency Report

Ensuring regulation is proportionate to the risks being managed

Performance Based Regulation

Our performance-based regulation programme (PBR) started in 2014 and has been evolving ever since. The purpose of PBR is to ensure that we focus our activities, with the resource we have, to improve safety performance as well as to oversee the mitigations of industry-owned safety risks. It is a collaborative effort and will only truly be effective with the right data to drive safety-based decisions. We now have a systematic suite of safety performance and risk management tools. PBR is delivered through Performance Based Oversight (PBO) and our Regulatory Safety Management System (RSMS).

PBO enables the CAA to make future-based oversight decisions upon safety performance, risk and hazard data. These decisions are considered and made at Internal Review Meetings (IRM) attended by representatives from all relevant CAA teams, including inspectors and surveyors and all those who have direct involvement with the entity or aviation sector. All areas of an entity are discussed, with decisions about future oversight made by reference to entity-owned safety risks and hazards.

The PBR system balances compliance findings with auditors' expert judgements to identify safety performance issues which could relate to a safety risk or hazard. These findings and judgements are shared with the entity, usually at an Accountable Manager meeting where an open dialogue is encouraged to discuss the safety issues and agree an appropriate level of action. This may see the amount of oversight increase or reduce or, as is more often the case, the focus of activity will shift to where it is required the most. This ensures that resource is used in the most appropriate manner and to the direct benefit of safety improvement. Although the PBR journey continues, significant progress has been made.

In the last 12 months our internal training has focussed on the identification and articulation of safety risk and also improved the internal articulation of future oversight plans.

Safety risk management is conducted through our RSMS, which focusses on safety risks where there could be a potential for harm. Safety risks are monitored by a tiered governance process starting with the Safety Review Panels chaired by the leadership of each Capability team who are responsible for ensuring that risks are reviewed and appropriate mitigation is in place. These are overseen by a Safety Review Committee, ensuring a consistent, effective and efficient approach to risk management which demonstrates a delivery of 'resource to risk', a philosophy which underpins the PBR framework. A Safety Leadership Group chaired by the CAA Chief Executive Officer is also in place providing challenge and oversight of the whole RSMS. At any given time, we know the number of safety risks within the RSMS that are being monitored and the actions that are being taken.

UAS insurance requirements

We have amended 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 now 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 was implemented in July 2019 and has provided 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. This change has resulted in saving the CAA around 100 days effort per annum.

Our Efficiency Report

General Aviation

The CAA General Aviation (GA) Unit and the GA Programme were established in 2014. In our work since then we have sought to apply high-level principles for better regulation of GA. These principles are:

- Only regulate directly when necessary and do so proportionately;
- Deregulate where we can;
- Delegate where appropriate;
- Do not gold-plate; and quickly and efficiently remove gold-plating that already exists; and
- Help to create a vibrant and dynamic GA sector in the UK.

We have now completed 98 initiatives from our GA programme, of which 16 were completed during 2019/20. Examples of completed projects where we have sought to reduce the regulatory burden on industry are:

- We have allowed the British Microlight and Aircraft Association (BMAA) to issue initial pilot licences, thus removing an element of regulatory oversight and helping to expedite the issue of these licences. The CEO of the BMAA was quoted as saying "This agreement will greatly benefit BMAA members and those entering microlight flying by reducing the time taken to issue initial licences. It further illustrates the confidence that the CAA has in our organisation to act as a competent authority within the world of recreational flying".
- We have transferred 'Registered Flight Training Facilities' to being 'Declared Training Organisations'. This has resulted in a much simpler and less time-consuming oversight regime, allowing these operators to focus more on flying training and less on paperwork.
- The introduction of requirements for testing small experimental aircraft in the UK ('E-Conditions'). This is a simple set of requirements for approving the initial testing of small experimental aircraft. This significantly benefits small-scale aircraft designers and manufacturers by reducing the red tape and financial burdens associated with securing airworthiness and operational approval for new light aircraft designs and encouraging the growth of new design concepts. The requirements allow aircraft designers to try out a new concept aircraft (up to a maximum take-off mass of 2,000 kg) in the air without going through the costly and time-consuming procedures that previously existed to get a new design past the initial stage of proof-of-concept prototype.

Other projects in progress are:

- Increased delegation to the Light Aircraft Association (LAA).
- A review of permit to fly aeroplanes used for paid-for ab-initio pilot training.
- A review of 450-600 kg fleet opt-out from EASA Regulations for Airworthiness.

Our Efficiency Report

How we have influenced a better outcome for industry in our regulatory interface with EASA

In the Air Traffic Management/Air Navigation Services domain:

- We have successfully influenced EASA to amend proposed rules regarding the use of the VHF emergency frequency (121.500 MHz).
- We have successfully influenced EASA to amend proposed rules regarding communications for the control or management of vehicles other than aircraft on manoeuvring areas at aerodromes, which will result in maintaining safer operations in those areas.
- We have successfully influenced EASA to accept guidance material we have developed with regards to determining the transition level.

In the Aeronautical Information Management Information (AIMR) domain we successfully influenced EASA with regards to aeronautical information requirements at Visual Flight Rules (VFR) aerodromes.

ATOL On-line

ATOL On-line continues to provide efficiency improvements to internal and external ATOL stakeholders. All ATOL holders, over 2,000 organisations, as well as related professional advisers, can submit information required to maintain their ATOL licence on-line.

During 2019/20, over 50% of all applying ATOL holders were processed using automated workflows, leading to significant improvements in the speed of application processing and, therefore, a marked improvement in turnaround time. Applications were processed, on average, within 1.5 days. This is a significant advancement on the prior year before all the benefits of automated workflows had been realised. The expectation is that additional enhancements will yield further improvements in processing of applications that can be entirely automated.

Heathrow price control

To protect the interests of consumers, we extended the Q6 price control by two years so that the next main price control period (H7) was aligned with the wider capacity expansion programme at Heathrow airport. Our intention was to carry out an interim price review process, updating the key regulatory building blocks to set Heathrow Airport Limited's (HAL) revenue allowances for 2020 and 2021. In parallel, HAL and some of the major airlines operating at Heathrow negotiated a commercial pricing arrangement for the interim period (iH7) to replace the CAA led price control review process.

Following consultation, we determined that these alternative regulatory arrangements were in the interest of users and we recognised the wider benefits of the industry led arrangements. Consistent with principles of better regulation, the commercial deal at Heathrow facilitated regulation being focused on areas where it was needed. It enabled us to conduct a more focused and proportionate review for the interim control period and freed up HAL, stakeholders and the CAA to focus on the important matters relating to capacity expansion.

Our Efficiency Report

Aviation Security

A New Regulatory Framework

The CAA is supporting the modernisation of aviation security, as we move towards a Performance Based Oversight (PBO) regime. Utilising an entity's Security Management System (SeMS), it is intended that this innovative change will bring with it both improved security performance and further business efficiencies. The bedrock to this approach is ensuring that we are making the best use of time, for both ourselves and industry. This is where our utilisation of SeMS assists by identifying where the risk is greatest and deploying key resource to combat poor security performance. We ensure that the third party element is fully embedded within the SeMS, recognising that this is where perceived risk has been greatest and the entity is, therefore, able to oversee its security performance. By having this single comprehensive systematised approach, further efficiencies can be identified, with anticipated reductions in effort and cost for both the regulator and the regulated.

Work to minimise the burden of new regulation

The CAA has committed to (wherever possible) operate one single harmonised oversight process for cyber security (detailed in CAP1753), aligning various regulatory requirements. This will result in a reduction in both regulatory and regulated entity effort and cost, by ensuring that new and existing cyber regulation is overseen with consistency and clarity.

Moving the Quality Assurance Framework for Aviation Security training providers towards PBO

In 2019 we introduced a framework that focuses on providing training providers with the tools to ensure that they have internal quality assurance processes and confirmed these by an external assurance visit. We have now published a letter confirming to training providers the move to a PBO based system for year 2 of the framework. This will ensure that higher performing training providers continue to have a level of assurance appropriate to their risk, with poorer performing training providers receiving more frequent assurance visits to support them to reach the required standards. This makes more efficient use of our resources, aligns costs for industry to their performance and reflects the wider Aviation Security strategy of moving towards a PBO approach.

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 2020 (the "Efficiency Statement") and to have it independently assessed. As noted in our audit report on the financial statements, as the Authority's auditors we read all the financial and non-financial information in the Annual Report & Accounts 2019/20 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 83 to 87.

BDO LLP

Chartered Accountants and Statutory Auditors
55 Baker Street
London
W1U 7EU

16 July 2020

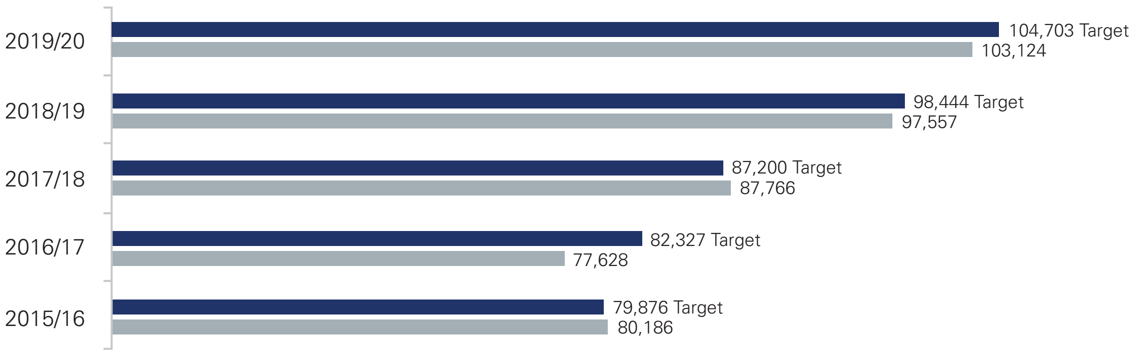
Key Performance Indicators

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, net of the profit achieved by CAA International Limited.

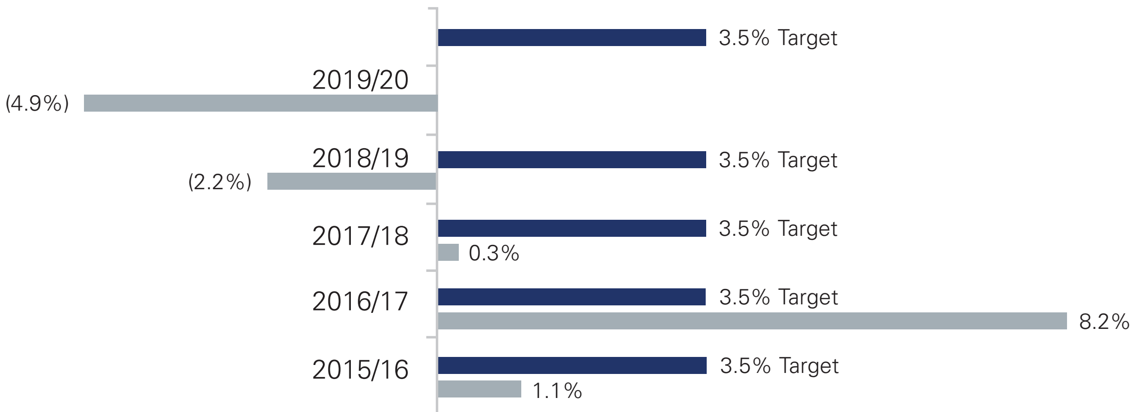
Analysis

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; expenditure in relation to the relocation of our London office to Canary Wharf; external costs associated with our activities in preparation for exiting the EU; and an increase in professional fees.

Key Performance Indicators

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.

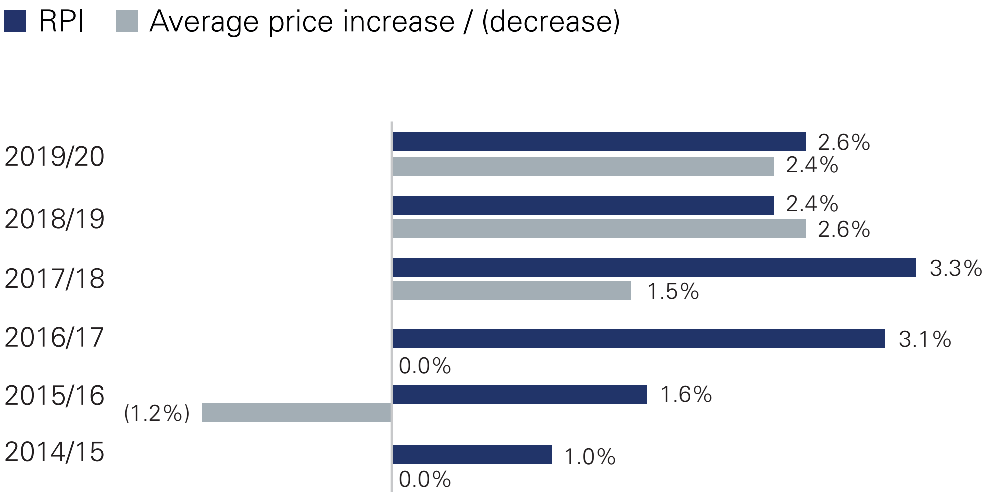
Analysis

The rate of return for 2019/20 was -4.9%, 8.4% 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, 2018/19 and 2019/20 from the surplus reserves created in 2016/17. The lower rate in the last three 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 6.1%.

Key Performance Indicators

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 any new charges that we have been consulting on during this financial year.

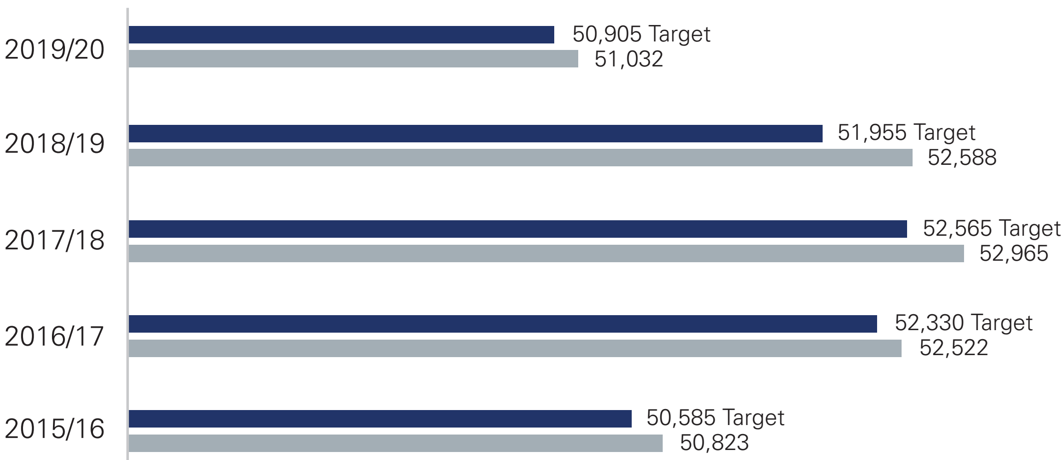
Analysis

The average general price increase for 2019/20 was 2.4% compared to the increase in RPI of 2.6%. This is the third 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.

Key Performance Indicators

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.

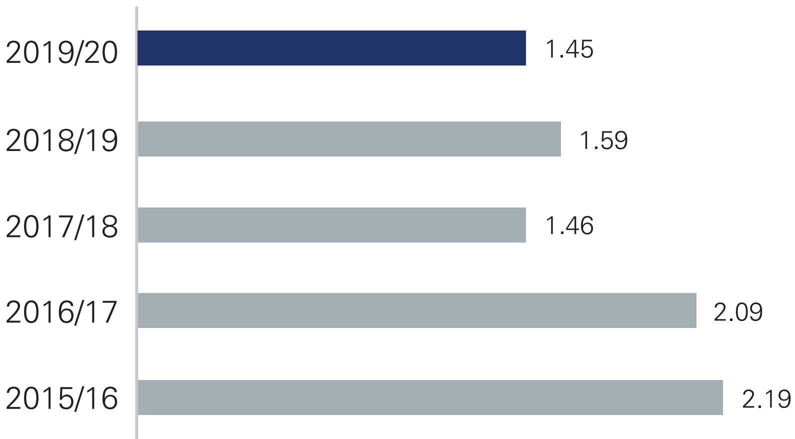
Analysis

The average cost per employee has decreased by 3.0% when compared to 2018/19, although there has been a significant rise in 'Wages and salaries' expenditure. The average number of staff employed by the group increased by 72 in this financial year with a large proportion of new recruits filling lower paid roles.

Key Performance Indicators

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.

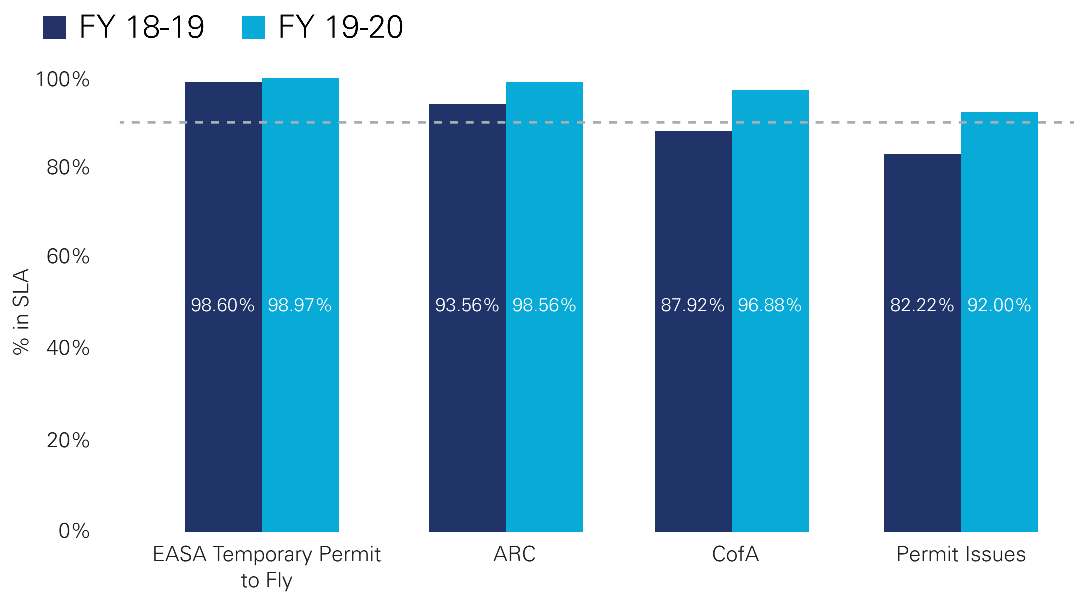
Analysis

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 2020 still, however, shows a relatively healthy position, particularly as the Group did not utilise its £10m overdraft facility during the year.

Key Performance Indicators

% of services delivered within published SLAs by CAA Shared Service Centre

% in SLA



EASA Temporary Permit to Fly

Performance against the service standards for EASA Temporary Permit to Fly has been consistent over the last 12 months. Temporary Permits to Fly are treated as a priority over other applications as the aircraft is grounded and needs to be moved urgently.

Airworthiness Review Certificates

Performance against the service standards for Airworthiness Review Certificates has been consistent over the last 12 months. We have ensured that the team has the required skill set to perform these applications and a robust training plan in place which has ensured that we have remained within service level for the whole period.

Certificates of Airworthiness

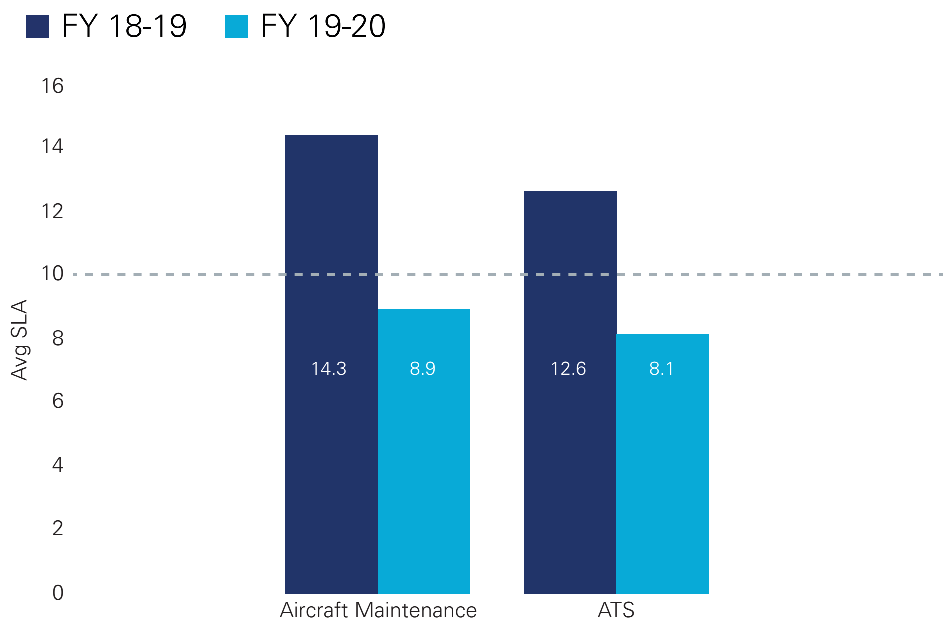
Performance against the service standards for Certificates of Airworthiness (C of A) has improved over the last 12 months. We have had a new Technical Standards Surveyor join the team which has given us more flexibility in this work stream.

National Permit Issues

Performance against the service standards for National Permit Issues has improved over the last 12 months. We have ensured the team has the required skill set to perform these applications and a robust training plan for Surveyors to follow which has ensured we have remained within service level for the whole period.

Key Performance Indicators

Average SLA (days)



Aircraft Maintenance

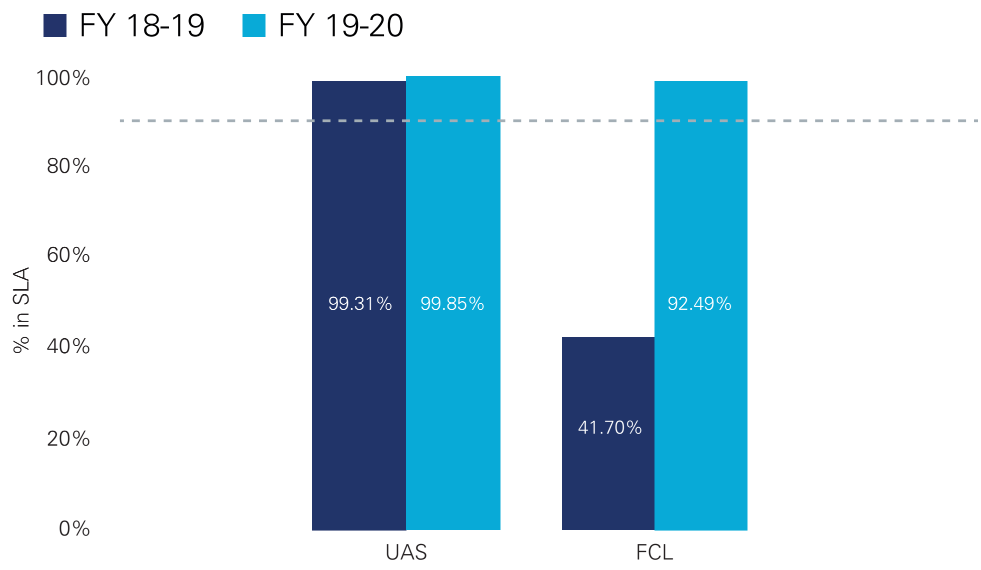
Aircraft Maintenance applications (Part 66) average turnaround times have dropped from 14.3 working days in FY 18-19 to 8.9 working days for FY 19-20. This represents a 48% reduction in average turnaround times over the last 12 months. This has been achieved as a result of team members having now been fully trained and having a flexible resource plan that allows staff to be diverted to activities where the need is greatest.

Air Traffic Services (ATS)

The average turnaround time for the issue of ATS applications over the past 12 months has dropped from 12.6 working days in FY 18-19 to 8.1 working days for FY 19-20. This represents a 36% reduction in average turnaround times over the last 12 months. This has been achieved by providing additional training to staff so that they can cover this type of application.

Key Performance Indicators

% in SLA



UAS Permission for Commercial Operations (PfCO)

The team's performance against service level has surpassed expectation over the last 12 months, having processed 99.85% of applications within SLA. We have managed to maintain an average 5 working days over this period, whilst also allocating staff to support training for new starters.

FCL

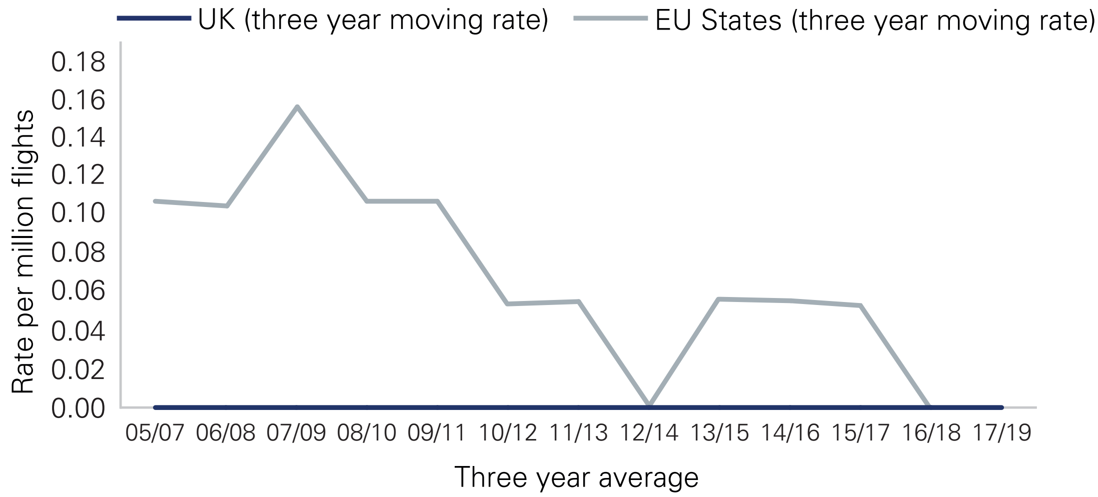
Over the course of FY 19-20 flight crew application processing has exceeded the service level agreement of 90% of licences issued within 10 working days.

Key Performance Indicators

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



*2019 flights data has been estimated
(MTWA: maximum take-off weight authorised)
(AOC: Air Operator Certificate)

Analysis

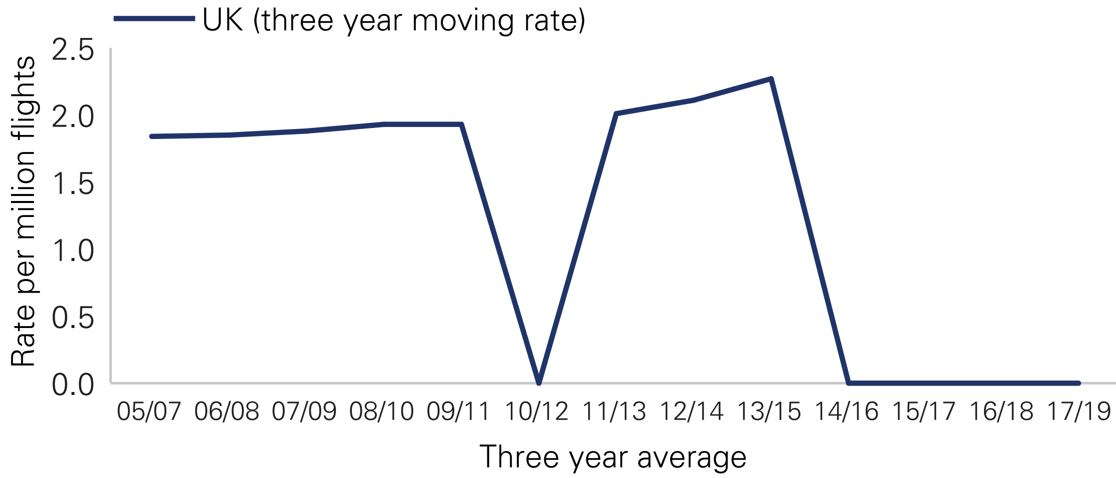
A three-year moving rate of fatal accidents for passenger aeroplanes with a MTWA for UK operators has been produced and compared to the rate for the same types of aircraft registered in EU member states[2].

In the three-year period between 2017-2019 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.

[2] EU Member states for each year are taken to be the current members (correct as of April 2020)

Key Performance Indicators

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

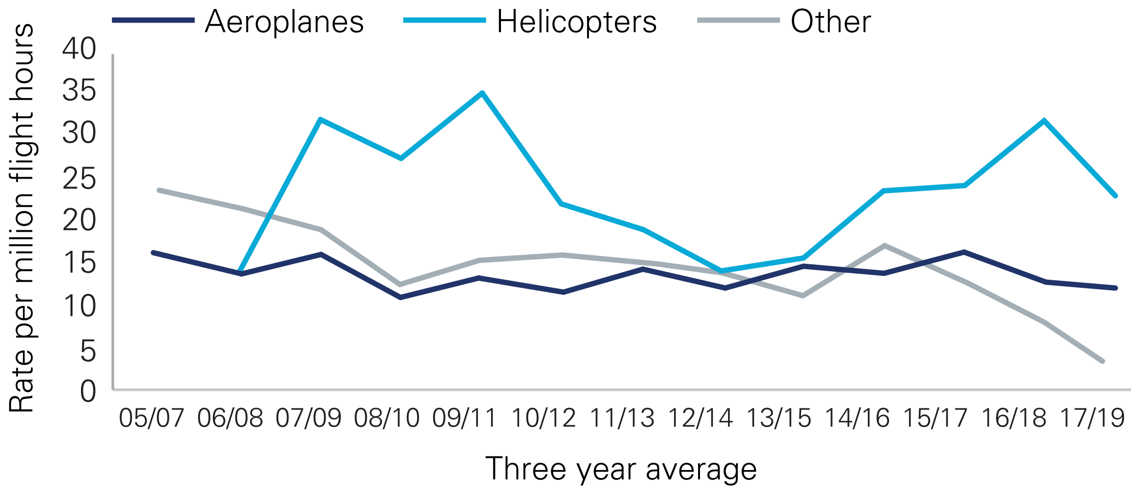


Analysis

The fatal accident rate for UK commercial air transport helicopter operations remained at zero for the three-year period from 2017 to 2019, which is consistent with the level recorded between 2016 to 2018. 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.

Key Performance Indicators

UK General Aviation



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 & 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 2018 and 2019 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 16 fatal accidents reported during 2017-2019 involving UK registered aeroplanes with 5 fatal accidents in 2019. There were 18 fatal accidents in the previous 3-year period between 2016-2018, with 3 of these fatal accidents occurring during 2018. Although we saw a year on year moderate increase in the number of fatal accidents reported, the fatal accident rate for aeroplanes decreased by 11.9 fatal accidents per million flight hours.

Helicopters

The rate of fatal accidents involving UK registered helicopters is lower than that observed in 2018. There were 3 fatal accidents reported for the period between 2017-2019, which is the same as the previous three-year period.

Other

There were 5 reported fatal accidents involving other sector aircraft reported between 2017-2019, with 3 fatal accidents reported during 2019. There has been a continuous 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 first introduced in January 2016 and is now part of our routine way of working. The CAA's Regulatory Safety Management System (RSMS) remains a critical part of the RMF. The RSMS is the mechanism we use to provide oversight of aviation safety risks owned and managed by the aviation industry. The RSMS is now embedded and remains subject to continuous improvement.

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

Our risk management arrangements as a whole and individual business areas' risk management practices 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 & 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 & 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.

We have reviewed risks in all three categories in light of COVID-19 and our approach to risk has not changed. 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.

Principal Risks and Uncertainties

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.

COVID-19 has had an acute impact on the industry, with a significant reduction in air traffic levels. We have been working closely with the industry to provide support while maintaining our focus on safety.

Where appropriate we have issued exemptions/alleviations to some requirements. Any exemptions/alleviations we have given have been thoroughly considered and are timebound and we continue to apply a risk-based approach to the decisions/actions taken by industry during the crisis.

COVID-19 has meant that we have needed to adapt the way in which we deliver some of our oversight work. This reflects the reduction in aviation activity and social distancing (including home working). Over the coming months we will play a full role in facilitating industry restart and recovery while focussing on safety standards continuing to be maintained.

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.

The reduction in aviation activity due to COVID-19 has resulted in a number of security risks reducing (temporarily) in terms of likelihood and impact. We expect this to change once operations start to resume.

During the initial phases of the COVID-19 (and to date) we have been providing support to airports, airlines, inflight supply organisations and cargo operators recognising the unique circumstances they find themselves in but also the need to focus on security standards being maintained.

Similar to safety, COVID-19 has meant that we have needed to adapt the way in which we deliver our oversight work. In conjunction with the Department for Transport, we have also granted some exemptions/alleviations where it is appropriate to do so. These exemptions/alleviations are timebound and based on CAA risk assessments. We will continue to work closely with and support the industry during the restart and recovery phase providing assurance on whether all applicable security requirements continue to be met.

Principal Risks and Uncertainties

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.
- 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 continue to encourage airlines to appoint Alternative Dispute Resolution (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 payment of claims. We have contingency plans in place and we continue to improve our capabilities in this area, including learning from past failures, such as the collapse of Thomas Cook in September 2019 for which we successfully delivered a large-scale repatriation operation. The CAA also continues to work closely with the Air Travel Trust (ATT). The ATT Trustees are all CAA members or officials and the CAA acts as the Trust's agent when committing ATT funds to help to manage failures.

We continue to monitor the aviation sector more broadly, including UK licensed airlines that are not part of the ATOL scheme.

The emergence of COVID-19 has led to increased financial pressures across the aviation industry. This has increased the risk that some tour operators and UK licensed airlines might fail. We continue to monitor the situation, engage with the companies concerned and enhance elements of our contingency plans where necessary. While still significant, the impact of any failures is less likely to include large numbers of consumers being stranded overseas, given the reduction in bookings/flights due to COVID-19. This position will change as the industry begins to restart/recover and we will keep our contingency plans under review.

We will continue to provide support to the industry throughout each phase of the pandemic, while ensuring that consumers remain protected in line with applicable regulations/legislation. This includes the payment of refunds for cancelled flights.

Principal Risks and Uncertainties

Cross-cutting risks

- Proportionate safety and security standards, competitive air service access and effective consumer protection arrangements in place might not be provided for in the terms of the deal to be negotiated between the UK and EU, which could be detrimental to UK consumers and the public.

Mitigations

This risk reduced over the course of the year. The UK Government's approach means that at the end of the transition period existing standards and consumer protection arrangements will continue to apply in the UK. The CAA's readiness preparations mean that we are confident that we will be able to support the delivery of the standards at the end of 2020.

The preparations that both the EU and the UK made to ensure continued air connectivity in readiness for the UK leaving the EU in March and October 2019 means that we have more assurance that air service access will continue in all scenarios and the EU and UK negotiating mandates suggest both sides have an interest in agreeing a UK/EU air transport agreement by the end of 2020.

Our focus going forward is on ensuring that our preparations for the end of the transition period are implemented effectively and any potential disruption is minimised. We are also contributing to the negotiations for a Bilateral Aviation Safety Agreement between the UK and the EU.

Climate Change

- Climate change might mean more frequent extreme weather events.
- Over time this might impact on how we work e.g. physical risks to staff and infrastructure, such as travel networks and our offices. It could result in higher insurance costs for offices.
- Transition risks could arise in relation to the speed, scale and cost of moving towards a greener, less polluting economy.
- There is growing interest from the public to have greater information on the environmental impacts of aviation, which we are considering in light of our information duties. There might also be pressure for people to fly less, which could impact on operators' profitability.
- There are also opportunities. Pursuing a greener agenda might include (for example) the development and use of more sustainable aircraft propulsion systems.

Mitigations

We have initiated a project to consider if there are any further actions we should take to meet growing consumer demand for information relating to the carbon impact of aviation. This includes reviewing our Information Duty in relation to the environment.

We also remain engaged with the Department for Transport to understand and be able to contribute to any new government policies on the environment and sustainability that might apply to the aviation sector.

We are also engaged with the Aerospace Technology Institute. This promotes transformative technology in air transport, including the use of more efficient aircraft propulsion systems that lower the impact on the environment.

Risks in relation to climate change do not pose a threat to the CAA's viability in the medium term but we will continue to monitor them. The emergence of COVID-19 has shown that the CAA's people are able to work at home in far greater numbers than previously and this might provide an opportunity to reduce our carbon footprint in future.

Principal Risks and Uncertainties

Financial Exposure

- Changes in external financial markets could increase our expenditure, such as the cost of maintaining our defined benefit pension scheme.
- Changes to the size and shape of the industry we regulate might reduce our income, such as UK registered airline or tour operator insolvencies.
- The future economic partnership between the UK and the EU could also affect our income. This includes the level of income the CAA will receive from EASA in future (which already has reduced).

Mitigations

We continue to monitor our external environment, including the financial markets and the aviation industry. Where necessary we implement measures to minimise any financial impacts on the CAA. For example, during the year we took action to control the ongoing costs of our defined benefit pension scheme to make this more affordable. Contingency plans are in place in relation to our future relationship with the EU and the impacts that different potential scenarios and outcomes could have on our financial position. These plans include the actions we might need to take to manage any pressures.

The emergence of COVID-19 and the resulting reduction in aviation activity has impacted the CAA's income and financial position. Mitigations are underway. We have received a grant from the Department for Transport who have also paid for work in advance. Additionally, we have taken a range of measures internally, including placing a freeze on recruitment, salary reductions, an overtime freeze and a pause on capital projects. We are also exploring other funding options and will continue to actively manage this risk. Our financial control framework has continued to operate effectively despite the challenges that have arisen due to COVID-19.

Capacity Challenges and Resource Constraints

- Externally driven, unplanned increases in demand for our regulatory expertise and services from industry and other stakeholders.
- Increases (planned and unplanned) to the workloads of our corporate functions driven by rises in internal and external demand and, in some cases, staff turnover and availability.

Mitigations

We continue to manage these types of risks by applying a range of mitigations. These mitigations include but are not limited to: prioritisation of workloads, changing the design and workflows of our functions and engaging with stakeholders to manage their expectations and understand their concerns.

COVID-19 has resulted in an increase to the workloads of some parts of our organisation and a need, in some cases, to redeploy staff.

Principal Risks and Uncertainties

Cyber Security

- CAA held data might be comprised by an attacker(s) and used maliciously.
- CAA operations could be disrupted due to an inability to access data or systems following a denial of service or other form of attack.
- CAA may lack the necessary capability to detect and respond to such attacks.

Mitigations

The risk of cyber-attacks is one that almost all organisations face and COVID-19 has seen a marked increase in malicious cyber activity globally.

The CAA remains aware and focused on these risks and has a range of measures in place to help to protect the organisation. This includes but is not limited to: network security controls, such as the use of firewalls to detect/block attacks and a 'security by design' process for new systems/applications or upgrades to existing ones.

Cyber security risks are by nature dynamic and constantly evolving and we recognise that there are (and may always be) some aspects of our cyber security arrangements which we need to enhance. Given this, we continue to review our arrangements including through internal and external audits. These include a review by our external facing Cyber Security Team using the aviation industry standard 'Cyber Assessment Framework'. Any improvements identified by this or other reviews are reported to our governance forums for consideration and resolution.

Procedures to Identify Emerging Risks

We have a range of teams, forums and processes in place to identify emerging risks. These include but are not limited to:

- **An Innovation Team** - that actively engages with innovators at an early stage in the development cycle to help to manage any emerging risks or regulatory challenges in relation to innovative aviation technologies and business models.
- **A Communications Team** - that monitors media channels for any emerging issues that could affect either aviation or the CAA.
- **An Aviation Futures Forum** - with external experts and CAA colleagues to identify future trends and consider how these may impact on the aviation sector and the CAA.
- **A Consumer Panel** - comprised of external experts to provide insight specifically in relation to emerging consumer issues.
- **Safety Risk Panels** - monthly internal forums that consider both current and new aviation safety risks. Additionally, a horizon scanning process is in place to consider safety risks that might emerge in the longer term.
- **Senior Leadership Team Meetings** - monthly internal forums which consider risks that are not related to safety, such as CAA business risks. These include any new or emerging risks.

Financial Review

Significant Financial Developments

- Total revenue: £281.9m, up by 87.7% (2019: £150.2m)
- Operating loss: £1.0m, reduced by 63.0% (2019: operating loss £2.7m)
- Pension surplus: £256.1m, up by 24.6% (2019: £205.5m)

In 2019/20 the Group once again operated in a challenging external environment, which included continued uncertainty following the UK decision to leave the European Union (EU), the collapse of Thomas Cook and the global impact at the end of the financial year of COVID-19. The Thomas Cook failure in September 2019 saw repatriation activities undertaken by the CAA lead to some substantial year-on-year increases in both costs and revenue in our Income Statement in the current year, with £134.2m of the revenue increase directly attributable to this activity. The impact of COVID-19 will have a very significant medium-term impact on the Group's finances, if not for longer.

Additional regulatory and transformation activities over the last few years have led to a rise in resource levels and a subsequent increase in our regulatory cost base. As a consequence, we increased our prices by an average of 2.4% in 2019/20 (2.6% in 2018/19); the last three years of price increases were preceded by six consecutive years where prices were either frozen or reduced (in cash terms).

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 -4.9% for the Regulatory Sector, which was below the 3.5% target rate of return set by the Secretary of State for Transport. Further analysis is provided on page 52.

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 (CAAPS) during the financial year, rather than pension costs evaluated under IAS 19.

In order to manage our pension liability, 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 2020 is estimated to be £1,231.1m (2019: £1,424.7m).

The last formal actuarial valuation of the CAA Section of the CAAPS was carried out as at 31 December 2018. The 2018 valuation revealed a deficit of £30.4 million. A recovery plan has been agreed by the CAA and the Trustees of the scheme, whereby the CAA will remove the deficit over the period to 31 December 2027. We have considered the impact of COVID-19 on the pension scheme valuation with our advisers and will continue to monitor the situation on an ongoing basis. The primary reason for the difference in valuation between the last formal valuation and that used for accounts purposes is that IAS 19 requires that the discount rate used to value scheme liabilities is determined by reference to high quality corporate bonds.

Financial Review

Overall Financial Performance

In the year ended 31 March 2020, the CAA recorded an operating loss before interest and tax of £1.0m (2019: operating loss £2.7m). These results included the effects of IAS 19. Within the operating result, the Regulatory Sector, comprising the activities of Safety & Airspace Regulation, Consumers & Markets and Aviation Security, as well as the result achieved by CAA International (CAAi), made an operating loss before IAS 19 adjustments of £1.7m (2019: £0.5m loss) and a loss after adjustments for IAS 19 pension costs and net interest, but before tax, of £1.7m (2019: £2.3m loss). There was no net effect on the operating loss as a result of the repatriation activities following the demise of Thomas Cook.

CAA financial performance results

	2020 (£m)	2019 (£m)
Group revenue	**281.9**	150.2
Operating costs (excluding IAS 19 pension scheme adjustment)	**(283.0)**	(150.5)
Group operating loss	**(1.1)**	(0.3)
IAS 19 pension scheme adjustment	**0.1**	(2.4)
Group adjusted operating loss	**(1.0)**	(2.7)
Net interest	**2.3**	5.0
Profit before taxation	**1.3**	2.3
Taxation	**(0.3)**	(0.4)
Profit after taxation	**1.0**	1.9

Revenue

Group revenue for the year ended 31 March 2020 was £281.9m (2019: £150.2m), an increase of £131.7m (87.7%). The primary reason for the increase in revenue was the income relating to the Thomas Cook repatriation activities (£134.2m); funding was provided by the Department for Transport and the Air Travel Trust to fully cover these costs. The Regulatory Sector saw an increase of £4.3m (4.4%) to £101.4m (2019: £97.1m). This increase in income has arisen primarily from: a 2.4% average price increase across our schemes of charges; additional increase in variable charges to recover the cost of EU-Exit related activities; and income from the new drone and model aircraft registration charges introduced this year.

Miscellaneous Services income increased by £129.8m to £155.9m (2019: £26.1m); this is mainly due to the funding provided by the DfT and the Air Travel Trust for the Thomas Cook repatriation activities carried out during the prior year. This, however, was partially offset by reduced rental charges to sub-tenants following the vacation of CAA House in December 2019 and a reduction in recharges of third-party costs to CAAPS, who have been paying these charges directly from January 2020 onwards.

CAAi revenues reduced to £11.2m (2019: £13.9m). The decrease is primarily due to reduced volumes of work being secured from the contract with EASA.

Financial Review

Operating Costs

Operating costs for the year ended 31 March 2020 increased to £282.9m (2019: £152.9m). The main reason for the increase was the Thomas Cook repatriation activities (£134.2m). The significant areas of change are described below:

- Employment costs were £92.8m, showing a decrease of £1.1m (1.2%) compared to the prior year. The average number of employees in the Group rose by 72 in the financial year to 1,186 (2019: 1,114) as disclosed in note 3, which contributed to the increase in total 'Wages and salaries' and 'Social security costs' of £3.1m. This was more than offset by defined benefit pension costs reducing by £3.2m to £14.3m, 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 decreased to £14.4m (2019: £15.9m), a reduction of £1.5m (9.4%). Organisation design activities in 2018/19 resulted in additional termination payment costs of £1.0m last year, which also contributed to the overall reduction in employment costs.
- Services and materials expenditure reduced by £1.7m to £17.4m (2019: £19.1m). A significant element of this decrease is attributable to rent, rates and service charge costs no longer being payable on the previous London office in Kingsway after the lease expired in December 2019.
- Other expenses costs were £163.6m (2019: £31.6m). The increase is due to the costs (primarily chartering aircraft) relating to the repatriation of Thomas Cook customers following the collapse of their business in September 2019.

Corporation Tax

The estimated tax charge for this year is £0.3m (2019: £0.4m). A net deferred tax asset of £768k (2019: £655k) is included within the Statements of Financial Position, an increase of £113k as compared to the prior year.

Capital Expenditure

Capital expenditure additions during the year totalled £4.6m (2019: £5.7m). The expenditure principally included £1.9m (2019: £4.0m) related to IT development projects, 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 2020 increased in the year by £4.8m to £21.5m (2019: £16.7m). A large part of this increase is attributable to bringing right of use assets onto the statement of financial position for the first time this year in line with IFRS 16 (see notes 1.1.1, 1.17, 9 and 25).

Financial Review

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 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 124.

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 £0.4m, which represented the final instalment of the existing loan. The carrying value of our outstanding borrowings therefore stood at £nil as at 31 March 2020 (2019: £0.4m). We also have a £10.0m overdraft facility with our bankers, NatWest, 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 2019/20 was -4.9%, 8.4% 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, 2018/19 and 2019/20 from the surplus reserves created in 2016/17. The lower rate in the last three 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 6.1%.

Financial Review

Our Equality and Diversity Policy

This year has seen us embed our Diversity and Inclusion (D&I) strategy, released in July 2018, into the organisation. Our strategy focuses on ensuring that the CAA reflects the public and consumers whose interests we serve, whilst enabling colleagues to bring their whole selves to work and give their best. This remains essential to our future success as a regulator and as a modern employer.

Our work continues under our six key themes.

- **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.

We published our third Gender Pay Gap report, which maintained our year on year reduction in both our mean and median figures. Whilst our Gender Pay Gap is not what we want, we are reassured that the work we are doing on D&I is starting to deliver our commitment to address our gender pay position in a sustainable way over the longer term.

We are not just internally focussed. We are conscious of the effect our policies and decisions might have, in line with the Public Sector Equality Duty and how we are able to use our role as the regulator to effect positive change in a wide range of areas. Examples include our work with airports on ranking accessibility for disabled passengers, raising awareness for Hajj travellers about unlawful travel agents and leading aviation regulatory changes that have enabled pilots with certain medical conditions to keep flying.

We are in the midst of two potentially monumental societal changes; the COVID-19 pandemic and the Black Lives Matter movement.

We are aware that COVID-19 will fundamentally change the aviation industry in both the short and long term, and that this will provide new opportunities to progress work on D&I. For the CAA, we recognise that our focus, in the short term, will move from our recruitment practices to development, to ensure that we are providing opportunities for all colleagues to grow their careers.

The Black Lives Matter movement has brought the discussion of race to the forefront, including the discussion of racism at work, whether this be overt, systemic or through micro-incivilities. We still have a lot to learn around race, and inclusion. We will be listening to colleagues and others over the coming months to understand what we can do better, how we can do better and why we can do better. This will help to support the development of further D&I initiatives.

Financial Review

Wellbeing

April 2019 saw the introduction of the CAA's first Wellbeing Strategy, built upon four key priorities:

- **Physical Movement** - Access to physical activity, musculoskeletal health;
- **Enabling Wellbeing** - Campaigns and events, information advice and guidance, self-management tools;
- **Early Intervention** - Services, wellbeing integration, policies and procedures; and
- **Wellbeing Culture** - Tackling mental health stigma, work life balance, ongoing wellbeing consultation and response.

We have made good progress under each of these priorities. Wellbeing Maps for our main offices and remote workers have enabled colleagues to locate and access local wellbeing resources, assets, services and support. A new gym facility at our head office has proved highly popular with colleagues, as have health-check campaigns and self-assessment tools. A network of 50 Mental Health First Aiders has been established to respond to need and champion good mental health in the workplace, while all managers have received training on managing mental health in the workplace.

The COVID-19 pandemic presented a significant task in ensuring a safe and effective transition to home working and subsequently the rapid development of a new short to medium-term wellbeing approach and planning the return to service of our office space. To respond to the emerging wellbeing risks presented by COVID-19, as well as to the entirely new environment in which resources and support need to be delivered, we have produced a raft of new guidance and interventions. These have been designed to address specific issues such as setting up workstations at home, health anxiety, connecting with colleagues, managing remote teams, balancing work and family life, loneliness, fluctuations in workloads and financial wellbeing.

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 2020 (excluding the effects of IAS 19 pension scheme adjustments) were £68.2m (2019: £68.8m), a decrease of £0.5m (0.7%). Revenue for the year was £65.9m (2019: £65.7m), an increase of £0.2m (0.3%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating loss of £2.3m (2019: loss of £3.1m). Average staff numbers for the year were 590 (2019: 562), an increase of 28.

Financial Review

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 and administering 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 Thomas Cook customers following its failure in September 2019; 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 2020 (excluding the effects of IAS 19 pension scheme adjustments) were £23.2m (2019: £20.3m), an increase of £2.9m (14.3%). Revenue for the year was £23.6m (2019: £21.1m), an increase of £2.5m (11.8%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.4m (2019: £0.8m). The average number of staff in the year ended 31 March 2020 was 101 (2019: 90). In addition, the CAA employed, on average, 74 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 £0.9m (2019: £0.6m loss). Operating costs for the year ended 31 March 2020 (excluding the effects of IAS 19 pension scheme adjustments) were £12.7m (2019: £11.0m). Revenue for the year was £11.8m (2019: £10.3m), an increase of £1.5m (14.6%). The average number of Aviation Security staff in the year ended 31 March 2020 was 114 (2019: 102).

UK En Route Air Traffic Services (UKATS)

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

The pricing mechanism is regulated by the Single European Sky charging regulation and performance scheme. The current reference period covers a five-year period from 2020 to 2024. As a regulatory body, our income is not volume related but is normally a fixed charge, based on budgeted costs within the reference period. In the light of the impact of COVID-19 there may be a need to review the pricing mechanism before 2024.

Costs of UKATS for the year ended 31 March 2020 were £13.2m (2019: £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 £13.4m (2019: £13.1m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.2m (2019: £0.2m).

Financial Review

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, consumer protection 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, 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 ICAO at events throughout the year.

The company also provides open access courses and in company training programmes for Civil 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 £11.2m (2019: £13.9m). The decrease is primarily due to reduced volumes of work being secured from the contract with EASA. The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating profit of £1.2m (2019: £2.4m). The company employed an average of 56 staff (2019: 57) during the financial year, with a further 25 full time equivalents being supplied from other areas within the CAA (2019: 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 £3.8m (2019: £5.4m).

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 Portfolio Delivery);
- 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).

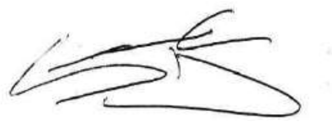
Turnover for the year was £155.9m (2019: £26.1m), an increase of £129.1m (497.3%). The primary reason for the increase in revenue was the funding received for the Thomas Cook repatriation activities (£134.2m) this year. The net operating profit for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was £0.5m (2019: break-even). The average number of staff in the year ended 31 March 2020 was 325 (2019: 303).

Financial Outlook

The CAA is funded by those it regulates, with in the region of 40% of its income derived from variable charges linked to aviation activity. As a result of the response to the COVID-19 pandemic, aviation demand has collapsed with activity reducing to around 10% of normal levels during April and May. Whilst there have been some small signs of increased flight levels during June and July there is still significant uncertainty about how quickly the sector will recover, which has a bearing on the Authority's financial position. The Board took a decision to defer the planned increase in charges for 2020/21, initially for three months but this has now been extended for a further three months to the end of September 2020.

In response to this unprecedented downturn, the CAA Group has implemented a number of cost cutting measures including a recruitment freeze, pay cuts for staff, initially for the period April to June but subsequently extended to September, a cancellation of overtime and bonuses and a pause on certain major projects and capital expenditure. Nevertheless, much of the cost base of the CAA is broadly fixed and we are unable to respond sufficiently in the timescale required with the cost cutting measures available to us to mitigate the expected drop in income. The CAA therefore requires further funding in the short to medium term.

The CAA, as the UK's aviation regulator, is critical to a well-functioning UK aviation sector, both during the current COVID-19 pandemic and in the future as the sector rebuilds and reinvents itself. The Department for Transport has confirmed it is important for the CAA to continue to be adequately resourced to provide regulatory support to the aviation industry during the recovery from COVID-19, meet the UK's international obligations to have a National Aviation Authority and take on additional regulatory activities given the UK's exit from the EU. To enable the CAA to continue to support the aviation sector and perform these roles, the Department for Transport has provided the Group with a grant of £10m since the end of the reporting period, as set out in note 26 to the financial statements and has confirmed its intention to provide ongoing financial support, if necessary, through to 2021/2022.



Chris Tingle
Chief Operating Officer
16 July 2020

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 and sat as a non-executive on the Board of Thames Water Utilities Limited until the end of January 2018. 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.

Board Members

Rob Bishton

Appointed to the Board as Group Director of Safety and Airspace Regulation in November 2019, Rob has been at the CAA since 2014, and previously held the role of Head of Flight Operations. He has extensive experience in the aviation industry, including as former Operations Director at Fastjet and as a commercial pilot with over 10,000 flying hours. Rob also brings significant board experience and is currently an executive director of the UK Flight Safety Committee. He is also a former general aviation helicopter pilot and intends to start flying light aircraft again.

Paul Smith

Paul was appointed to the Board as Group Director of Consumers and Markets in 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.

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 of 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.

Board Members

Non-Executive Board Members

Katherine Corich

Katherine Corich was appointed as a Non-Executive member of the Board on 1 July 2019. She serves on the Audit and Remuneration Committees. She has extensive experience of corporate governance, performance/risk-based regulation and aviation safety, serving on public, corporate, academic and third sector boards. She is currently Chair of the Sysdoc Group and IAP boards and is a Non-Executive director of MyWave Artificial Intelligence, Pure Advantage Climate Change Think Tank and Auckland University Business School. Katherine is a technology entrepreneur and trained commercial pilot. She was inducted into the NZ Hi-Tech Hall of Fame in 2015 and has been twice named as an EY Entrepreneur of the Year.

Marykay Fuller

Marykay Fuller was appointed to the Board as a Non-Executive Board member in January 2019. She is Chair of the Air Travel Trust Fund and also serves as a member of the CAA Audit Committee, and CAA International Ltd Management Advisory Board. Marykay also serves as a Non-Executive Director of Southern Water, where she sits on the Risk Committee. She is also a director of GCP Asset Backed Income Fund Limited, where she is a member of the Audit, Risk and Remuneration Committees. Marykay previously was a board member of British American Business and currently also serves on the Alumni Advisory Board of Carnegie Mellon University Heinz College in the USA. Marykay's executive career was in finance and consulting and she is a former senior advisory partner at KPMG LLP. Earlier in her career, she worked for the US Government, where she worked on numerous US airline restructurings and served on the White House National Airline Commission.

Board Members

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 3,000 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.

Sir Stephen Hillier

Sir Stephen Hillier was appointed as a Non-Executive member of the Board in June 2020 prior to taking up the post of Chair of the CAA on 1 August 2020. He previously had a long career in the Royal Air Force, eventually becoming Chief of the Air Staff, the head of the Service. He has extensive military flying experience as a pilot and instructor on a wide range of aircraft types, although his flying career started at age 17 when the CAA issued him his Private Pilot's Licence. He also has wide experience of leading large, complex and high-profile portfolios and programmes, and of change and risk management within regulated environments.

Board Members

David King

Appointed to the Board as a Non-Executive member in September 2013. David serves as Chair of the Remuneration Committee and as a member of the 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 from 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 member of the Horseracing Betting Levy Board, 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 from 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.

Graham Ward CBE

Graham Ward was appointed as a non-executive member of the Board in September 2013. He also serves as Chair of the Audit Committee and as a member of the Nominations Committee. Graham is President of Goodenough College, a Fellow of Dulwich College and an Honorary Officer of The World Energy Council. 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, President of the International Federation of Accountants and Vice Chairman of the UK-India Business Council.

Corporate Governance

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 UK Corporate Governance Code 2018, as appropriate for a public corporation, throughout the year ended 31 March 2020.

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 external independent review that was scheduled for this year commenced in February 2020, but work was paused due to the COVID-19 pandemic. It is anticipated that the review, which is being undertaken by Flint Global, will recommence and be completed before the end of 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; it evidenced a high level of satisfaction with Board governance mechanisms and pointed to improvements over recent years in how these are organised.

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

The Board reviews the CAA Governance Statement annually (usually in September) and once the Statement is approved in autumn 2020 it will be published on the CAA website. In that context it should be noted that the remit and terms of reference for the Remuneration and Nominations Committees are under review in light of the provisions of the Corporate Governance Code 2018. Any changes to be made following completion of that review will be implemented in 2020/21 and published appropriately.

Details of Board membership, Board committees and meetings are provided on pages 65 to 67. The following paragraphs provide an explanation of how the CAA carries out its work and, by doing so, seeks to achieve its legal and strategic objectives.

The CAA's remit is broad and underpinned by an extensive statutory and legal framework. In performing its functions and carrying out its duties in any given context the CAA Board will consider a range of factors, identifying in that context a course of action or decision that takes due account of:

- The consequences of action or inaction by the CAA;
- The importance of maintaining sound relationships with regulated entities, consumer and special interest groups, other public authorities and institutions, international and European stakeholders, and suppliers and business partners;
- The role of and impact on the CAA's employees; and
- The CAA's performance as a corporate citizen.

Thus, when preparing for and taking significant policy decisions, the CAA Board will ensure that meaningful and appropriate steps have been taken to engage and, where necessary, consult with all affected stakeholders. In addition, the CAA Board will ensure that suitable options for action are identified and carefully considered before conclusions are reached. Further, by ensuring the explicit application of the CAA's various policies the CAA Board ensures that when taking regulatory decisions the CAA takes into account all relevant matters and is clear about the outcome to be achieved. Members of the CAA, its Executive Committee and many CAA employees also engage regularly with a range of key stakeholders to understand the concerns and interests of industry sectors and enable early action or intervention as and when needed.

Corporate Governance

The CAA Board recognises that all CAA employees are key to effective performance. Accordingly, the CAA Board makes strenuous efforts to engage with CAA employees and oversees a range of actions that are designed to foster real employee engagement. In addition to receiving regular reports from the CAA People Director on employee matters, such as diversity and inclusion and gender pay performance, members of the CAA Board meet CAA colleagues at least twice a year.

The CAA Employee Forum meets regularly, at least 8 times per year, and offers elected employee and Trade Union representatives an opportunity to discuss matters that are of interest or concern to all CAA colleagues with CAA leadership. The CAA's People Director and Chief Operating Officer attend each Employee Forum and other directors attend by invitation. Accordingly, the Employee Forum is actively involved in improvements to ways of working. This year, for example, a sub-group of the Forum reviewed and agreed changes to the CAA's internal confidential reporting mechanisms. The new 'Speak Up' process provides guidance to colleagues on what to report and to whom and is backed up by recourse to independent investigation and oversight where necessary or appropriate. The Board receives an annual report on all confidential reporting and is briefed on any important issues arising as and when necessary throughout the year.

The CAA considers the wellbeing of every colleague to be of the utmost importance and seeks to support and enable wellbeing as a core element of 'business as usual' for the whole organisation. The CAA's Wellbeing Board meets monthly, chaired by the CAA's International Director and the Wellbeing Manager is responsible for the implementation of all necessary actions, supported by a network of representatives from each group. In February 2020 the CAA received the HR/ Wellbeing Team of the Year 2019 award from This Can Happen.

In addition to meeting all relevant legal requirements, such as those relating to Modern Slavery, the CAA actively participates in initiatives of wider societal impact. The CAA is a signatory to the Women in Aviation and Aerospace Charter and CAA colleagues actively support programmes designed to encourage girls and women to pursue careers in science and technology. The CAA People Director has a place on the Women in Aviation and Aerospace Charter steering group.

The Board

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

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

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

- AVM Gerry Mayhew ceased to be a Board member on 17 April 2019;
- AVM Ian Gale was appointed on 17 April 2019;
- Katherine Corich was appointed on 1 July 2019;
- Mark Swan ceased to be a Board member on 5 November 2019;
- Rob Bishton was appointed on 6 November 2019;
- David Gray ceased to be a Board Member on 15 November 2019; and
- Michael Medlicott ceased to be a Board member on 31 January 2020.

Corporate Governance

Board meetings and attendance

The Board is assisted by three Committees:

- Audit Committee – chaired by Graham Ward;
- Remuneration Committee- chaired by David King; 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 2020	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Number of meetings held	**11**	**5**	**3**	**1**
Dame Deirdre Hutton	11	*4	*3	1
Richard Moriarty	11	*4	*3	*1
Rob Bishton	4	N/A	N/A	N/A
Katherine Corich	9	3	1	N/A
Marykay Fuller	10	5	N/A	N/A
AVM Ian Gale	10	N/A	N/A	N/A
David Gray	6	N/A	1	N/A
David King	11	2	2	1
Anne Lambert	11	1	2	N/A
Michael Medlicott	8	4	2	N/A
Paul Smith	11	N/A	N/A	N/A
Mark Swan	6	N/A	N/A	N/A
Chris Tingle	11	*5	N/A	N/A
Graham Ward	11	5	2	1

* Meetings attended by invited non-members

Corporate Governance

Board meetings and attendance (continued)

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, the CAA's Governance Statement provides details of matters reserved for decision by the Board.

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

Our General Counsel and Secretary is responsible for ensuring that the Board follows correct procedures. As part of this, she makes sure that members are offered guidance 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, 5, 16 and 49. 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 82.

Corporate Governance

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 ermerging and principal financial, operational and compliance risks. It was in place for the year ended 31 March 2020 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 2018. There have been no changes to the design and implementation of internal controls as a result of COVID-19. See pages 43 to 48 for a detailed description of the principal risks and uncertainties.

Executive members report to the Board on possible control issues that have been brought to their attention by operational units' early warning mechanisms. In addition, our risk management arrangements are subject to regular 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 completed its annual review of the effectiveness of our risk management and internal control systems in June 2020. 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 adequate assurance that the risk management processes are working well and that our risk management framework and approach continues to mature.

There was, however, only some assurance that our internal controls are well designed and operating effectively. This is largely due to the lack of embedded system-based controls and integrated monitoring processes, meaning that we rely instead on manual workarounds, interventions and detective controls. The Board has placed a high priority on the replacement of our previous finance and HR systems, with the expectation that the new system would be fully operational by the end of the 2019/20 financial year. Although this project has been delayed and the full range of functionality envisaged has not yet been deployed, management of the project is sound and there is adequate confidence that it will deliver what is expected. Using the new functionality that is in place, the finance function has already made some important control improvements. In addition, Internal Audit's work concluded that the controls still to be implemented are designed satisfactorily. Target dates have been set for the implementation of these new controls and a roadmap of further enhancements is in development.

Corporate Governance

Viability statement

The aviation industry operates within a long-standing and well understood international legal framework. While the UK has now left the EU and is in transition to a new long-term relationship with the EU, the international framework's requirement for the UK to have an independent, competent and sustainable regulator is unchanged. That is the structural context within which the Board has assessed the CAA's continued viability.

The Board has also considered the financial context in which the CAA operates. The CAA is funded by charges payable by those subject to its oversight. Approximately 29% of those charges are fixed in amount and payable annually by charge payers. Of the remainder, 36% of the CAA's income is calculated by reference to passenger / cargo / available seat kilometre volumes and 35% by reference to levels of industry activity, principally relating to applications received. Accordingly, where industry's financial performance is adversely affected by economic factors, there is also an effect on the CAA. The Board and Executive Committee consider these matters in setting the annual budget and in actively managing expenditure.

The Board has also taken into account the operational context of the aviation industry. That context is very challenging. During the course of financial year 2019/20 a number of airlines ceased to operate, most notably Thomas Cook (September 2019) and Flybe (March 2020). More recently, the industry has also been significantly affected by the impacts of the restrictions imposed to combat COVID-19.

For the purposes of this Annual Report the Board has made an assessment of the CAA's ability to continue to operate and meet its liabilities through to 31 July 2021. 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 2021, together with the expected activity for April to July 2021. 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 have typically incorporated a sensitivity analysis on 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-size UK airlines. In the light of the COVID-19 pandemic the Group's three-year cash flows, with particular emphasis on the period through to July 2021, have been subjected to detailed stress tests and reverse stress tests of the revenue assumptions underpinning them with various scenarios considered in relation to the duration and severity of reduced demand in the aviation industry. Based on these tests and the financial support provided by the Department for Transport through to 2021/2022, the Board is satisfied that 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 and Authority will be able to continue in operation and meet its liabilities as they fall due through to 31 July 2021.

Corporate Governance

Going concern

The Board 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 94.

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 2020 and up to the date of approval of the annual report and accounts, with the Financial Reporting Council's July 2018 UK Corporate Governance Code, except in those areas not deemed appropriate for the CAA.

The Code includes 18 principles of good governance and 41 supporting provisions. The only exceptions where full compliance was not achieved were:

- **Provision 14:** the CAA Governance Statement will be published on the CAA website in autumn 2020 and annually thereafter;
- **Provisions 16 and 23:** arrangements for the appointment to and removal from the role of Company Secretary, and the Nominations Committee's responsibilities, will be considered during the review of that Committee's remit and terms of reference during 2020/21;
- **Provision 32:** at the time of appointment, the Chair of the Remuneration Committee had not previously served on a remuneration committee for at least 12 months; and
- **Provisions 33 and 41:** the Remuneration Committee's remit and terms of reference will be reconsidered during 2020/21.

Report by the Audit Committee

During the year ended 31 March 2020 the Audit Committee's members were:

Chair: Graham Ward;
Katherine Corich (from July 2019);
Marykay Fuller;
David King (until November 2019);
Anne Lambert (from March 2020); and
Michael Medlicott (until January 2020).

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 58 to 62) 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.

Report by the Audit Committee

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 94 to 145. 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 2020 was £256.1 million (2019: £205.5 million), an overall increase in the surplus by 24.6% in the past 12 months. The Committee, taking account of the external auditor's review, considered the reasonableness of the assumptions underlying the pension calculations and agreed that the assumptions are within an acceptable range. In addition, I held discussions with the BDO LLP partner with special responsibility for the audit of our pension arrangements. I was satisfied as to his capability to carry out this work, including his qualifications, experience and approach.
- **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. We also reviewed the accounting treatment and impact of the Thomas Cook repatriation activities on the financial statements.
- **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.
- **Going concern and viability:** we considered the impact of COVID-19 on the financial statements and the future cash flows of the Group, with particular regard for the measures in place to mitigate the impact and the assessment of the CAA to be able to meet going concern requirements as at the signing date of the accounts.

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 the current risks captured on the risk registers, in each of the organisation's business areas, which are classified as very high, high and upper medium. We also satisfied ourselves that these classifications were appropriate. 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 Cyber Security.

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.

Report by the Audit Committee

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 two 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. Following a rigorous internal and external recruitment process, in November 2019 Andrew Broadhead was appointed as our permanent Head of Internal Audit. Andrew is a Certified Information Systems Auditor (CISA) and holds a Master of Business Administration (MBA). From April 2018 and prior to becoming a permanent employee, he was acting as our Head of Internal Audit on an interim basis.

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). All of the thirteen resulting recommendations were actioned and closed 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 is carried out by the Head of Internal Audit to confirm continuing conformance until the next EQA; this will take place in 2022, in line with best practice. The results of the Head of Internal Audit's internal self-assessment confirmed that the work of the IA function continues to conform to the professional standards of the Global IIA.

Report by the Audit Committee

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 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. BDO LLP has been invited to continue in office for a further year which has been accepted. We are expecting to carry out the next external audit tender process in 2021.

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

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

Non-audit services which are permitted by the Ethical Standards for Auditors issued by the Financial Reporting Council may be provided by the external auditors 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. £0.010m of non-audit fees were paid to the external auditor during the year; £0.002m was in respect of an audit-related review of the Whole of Government Accounts return (2019: £0.003m) and £0.008m related to the provision of grant assurance reports (2019: £nil).

Graham Ward CBE
Chair, Audit Committee
16 July 2020

Report by the Nominations Committee

During the year ended 31 March 2020 the Nominations Committee's members were:

Chair: Dame Deirdre Hutton;
David King;
David Gray (until November 2019); and
Graham Ward (from November 2019).

The Chief Executive is invited to attend our meetings, as is a representative of the Department for Transport. Committee members and the Chief Executive do not attend that part of the meeting at which their own appointments or reappointments are considered. When the role of the CAA Chair is discussed, David King, as Chair of the Remuneration Committee, chairs the discussion on behalf of NomCo. NomCo meets a minimum of once per year with meetings timed around the Board appointment schedule. Consideration of Board appointments starts about a year ahead of a successful candidate's likely start date and consequently most of our work takes place considerably in advance of that date. We met once during the year ended 31 March 2020.

We strive to continue to improve diversity on the Board and look for opportunities to achieve this within the parameters of our non-executive appointment cycle.

See pages 58 to 62 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 also carry out a regular review of the Board's composition and size and recommend changes as necessary.

When doing so, we are governed by the requirements of the Civil Aviation Act 1982, as amended by the Civil Aviation Act 2012, which stipulate that the CAA Board has at least seven, but not more than sixteen, members and that, so far as is practicable, the number of non-executive members exceeds the number of executive members. We endeavour to ensure that 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 the provisions 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 members, subject to the approval of the Chair and at least one other non-executive member.

Report by the Nominations Committee

Board members' contracts

All current non-executive members have fixed-term appointments of between two 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
Richard Moriarty	12 January 2016	N/A
Robert Bishton	6 November 2019	N/A
Katherine Corich	1 July 2019	30 June 2023
Marykay Fuller	14 January 2019	13 January 2023
AVM Ian Gale	17 April 2019	Ex-officio appointment
Sir Stephen Hillier	10 June 2020	31 July 2024
David King	1 September 2013	31 August 2021
Anne Lambert	1 February 2019	31 January 2023
Paul Smith	21 May 2018	N/A
Chris Tingle	25 January 2016	N/A
Graham Ward	1 September 2013	31 August 2021

Report by the Nominations Committee

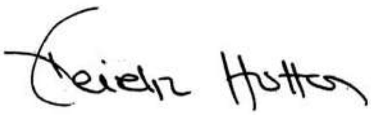
Changes in Board membership

There were changes in Board membership during the year.

As the culmination of our work last year working with the Department for Transport to recruit new non-executive Directors, Katherine Corich joined us in July 2019, joining Marykay Fuller and Anne Lambert who started in January 2019 and February 2019 respectively. Katherine's appointment brought to a conclusion last year's successful recruitment campaign for three new non-executives. One of these three roles filled the vacancy left by Ashley Steel in August 2018. The remaining two roles temporarily increased the number of non-executives on the Board in order to ease the situation during the latter half of 2019/20 when David Gray and Michael Medlicott reached the end of their Board terms. AVM Ian Gale joined us in April 2019 in an ex-officio capacity on his appointment as Assistant Chief of the Air Staff.

The Department for Transport started the process of recruiting a new CAA Chair to replace me when my term of office expires in July 2020. David Gray acted as a panel member for this appointment. Sir Stephen Hillier was chosen as the Chair designate, taking over that role on 1 August 2020. He also joined the Board as a non-executive member on 10 June 2020.

Mark Swan resigned in November 2019. Search consultants were appointed to help find his successor and an extensive open competition was held. Following this process Robert Bishton was appointed as Group Director Safety and Airspace Regulation. He was formerly CAA's Head of Flight Operations.



Dame Deirdre Hutton DBE
Chair, Nominations Committee
16 July 2020

Report by the Remuneration Committee

During the year ended 31 March 2020 the Remuneration Committee's members were:

Chair: David Gray until November 2019;
David King from November 2019;

Members: Michael Medlicott until January 2020;
Graham Ward until November 2019;
Anne Lambert; and
Katherine Corich from January 2020.

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 58 to 62 for Committee members' profiles.

The 2019/20 year saw the start of a period of transition for the Committee with changes in the Remuneration Committee membership including a new Committee chair and a review of the Remuneration Committee's scope and terms of reference to be concluded in the first half of 2020/21.

The Remuneration Committee's terms of reference

Under our current 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 pages 64 to 70) 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.

Report by the Remuneration Committee

Salaries and fees

When deciding on salaries, fees and the total package of benefits, we look at relevant market rates for executive Board members of the appropriate calibre. Although not within the period covered by this Report, executive and non-executive members elected to take a 10% pay reduction for the period 1 April to 30 September 2020. The CAA Chair and CEO elected to take a 15% pay reduction for the same period.

Performance-related pay

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

This year, however, consideration of performance-related payments has been overshadowed by the impact of the COVID-19 pandemic on the fortunes of the aviation sector and consequently the financial resources available to the Authority. So, at the end of a year when the CAA responded to a number of industry crises placing an exceptional workload on the Authority, the Remuneration Committee, despite individual performance warranting payment, accepted the executive members' offer to forgo any bonus.

When performance related payments are made, we reserve the right to recover them 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 allowances and health cover. Pensions are covered separately in this report.

Report by the Remuneration Committee

Board members' emoluments

Emoluments (excluding pension arrangements) of the Chair and Board members for the financial year ended 31 March 2020 were as follows:

	Salary and fees	Benefits	2019/20 performance-related payments	2019/20 total	2018/19 total
	£'000	£'000	£'000	**£'000**	£'000
Dame Deirdre Hutton	130.9	0.0	0.0	**130.9**	130.0
Richard Moriarty	338.6	1.0	0.0	**339.6**	347.3
Andrew Haines[1]	0.0	0.0	0.0	**0.0**	195.1
Mark Swan[2]	146.2	9.8	0.0	**156.0**	273.0
Robert Bishton[2]	77.3	0.4	0.0	**77.7**	0.0
Paul Smith	204.2	0.0	0.0	**204.2**	200.8
Chris Tingle	224.0	7.3	0.0	**231.3**	259.0
Katherine Corich[3]	17.4	0.0	0.0	**17.4**	0.0
Marykay Fuller[3,5]	23.6	0.0	0.0	**23.6**	4.7
David Gray[3,4]	15.6	0.0	0.0	**15.6**	25.0
David King[3,4]	25.9	0.0	0.0	**25.9**	28.6
Anne Lambert[3]	22.9	0.0	0.0	**22.9**	3.7
Michael Medlicott[3,5]	20.8	0.0	0.0	**20.8**	25.0
Dr Ashley Steel[3]	0.0	0.0	0.0	**0.0**	9.2
Graham Ward[3,6]	29.7	0.0	0.0	**29.7**	32.6
AVM Ian Gale[7]	0.0	0.0	0.0	**0.0**	0.0
Board members' emoluments as per the annual accounts	**1,277.1**	**18.5**	**0.0**	**1,295.6**	**1,534.0**

1. Andrew Haines left the CAA in August 2018. He was replaced by Richard Moriarty.
2. Mark Swan left the CAA in November 2019. He was replaced by Robert Bishton.
3. Non-executive members are paid a fixed rate of £22,000. This is uprated by £3,000 for chairing Committees. In addition, a per-diem rate of £430 is paid for serving on licensing panels.
4. David Gray's and David King's salaries include remuneration for their role as Chair of the Remuneration Committee.
5. Michael Medlicott's and Marykay Fuller's salaries include remuneration for their role as Chair of the Air Travel Trust.
6. Graham Ward's salary includes remuneration for his role as Chair of the Audit Committee.
7. AVM Ian Gale is a MoD nominee holding an ex-officio post with no remuneration.

In the event of termination of a member's contract by the CAA, 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.

Report by the Remuneration Committee

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. A cap on pensionable pay increases was put in place from April 2013.

Mark Swan was a member until July 2017 when he became a CAAPS pensioner. In the same manner as other CAA employees who are members of CAAPS, executive members of the CAA whose actual pay exceeded the cap on pensionable pay could 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.

As at 31 March 2020, no executive members were either contributing members of CAAPS or CAAPS pensioners.

A description of the scheme is given on page 127 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. Paul Smith and Robert Bishton 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 from the CAA of 6%, 10% or 12% respectively.

Two years ago, 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 and Chris Tingle elected to take part in this scheme throughout this year. Mark Swan also elected to take part in this scheme, prior to leaving CAA employment, 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 80.

Board members' pension arrangements - DC scheme

	CAA contribution during the year	Board member's contribution during the year*
	£'000	£'000
Paul Smith	18.0	0.0
Robert Bishton	20.0	0.0

*The CAA DC scheme operates a salary sacrifice arrangement for employee contributions. 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 £6,000 in relation to Paul Smith and £9,981 in relation to Robert Bishton.

David King
Chair, Remuneration Committee
16 July 2020

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 the Civil Aviation Act 1982 and the Accounts Direction made thereunder by the Secretary of State for Transport.

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

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

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

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

By order of the board

Kate Staples

Kate Staples
General Counsel and Secretary
16 July 2020

Independent Auditors' Report to the Secretary of State for Transport

Opinion

We have audited the financial statements of the Civil Aviation Authority (the 'Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2020, 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 2020 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 Board members' confirmation in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- 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.

Independent Auditors' Report to the Secretary of State for Transport

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	How we addressed the matter in our audit
Capitalisation and valuation of intangible assets The Group has been 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 judgements in the impairment models 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 and the Group's accounting policies. We reviewed management's impairment models 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 external and internal supporting evidences. The internal evidences were appropriately challenged. We performed sensitivity analysis on a selection of management assumptions to check that the results are not unduly susceptible to change. We found that the valuation of intangible assets is consistent with the evidence obtained.
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 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. We are satisfied that the valuation of the defined benefit pension scheme assets and liabilities are consistent with the evidence obtained.

Independent Auditors' Report to the Secretary of State for Transport

Key audit matter	How we addressed the matter in our audit
Revenue recognition There was a significant increase in Group's revenue in the year due to the Thomas Cook repatriation activities, which accounted for £134m. The Thomas Cook repatriation activities are treated as normal trading activities within revenue, in accordance with Section 16 of the Civil Aviation Act 1982. The revenue generated from these activities was calculated on a cost-recovery basis and there is a risk that the revenue and costs may not be accounted for in accordance with the accounting standard, IFRS 15. The accounting policies, assumptions and relevant disclosures were included within the following notes of the financial statements: 1.16 and 2.	We performed the following audit procedures relating to the Thomas Cook repatriation activities: ▪ Reviewed the Civil Aviation Act 1982 to check that the Thomas Cook repatriation activities form part of normal trading activities of the Group under Section 16 of the Act; ▪ Agreed the funds received from the Department for Transport (DfT) and Air Travel Trust (ATT) into the Authority's bank account relating to Thomas Cook repatriation activities; ▪ Traced a sample of repatriation costs incurred during the year ended 31 March 2020 to underlying supporting documentation; and ▪ Agreed the balances repayable by the Authority to the DfT and the ATT amounting to £3.7m as at 31 March 2020 to direct confirmations received from the DfT and the ATT. We are satisfied that the revenue relating to the Thomas Cook repatriation activities is recorded appropriately in the Income Statement for the year ended 31 March 2020.

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	**Group - £24.8m (2019: £27.3m)** **Authority - £24.8m (2019: £27.3m)**
Specific materiality related to balances apart from defined pension benefit assets and liabilities	**Group - £3.5m (2019: £1.9m)** **Authority - £3.3m (2019: £1.7m)**
How we determined it	Overall materiality - 1.25% of Defined pension benefit assets Specific materiality - 1.25% of Revenue
Rationale for benchmark applied	Defined pension benefit assets is one of the most significant balances in the financial statements and given the level of judgement involved in valuation of these balances, 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.

Independent Auditors' Report to the Secretary of State for Transport

Our application of materiality (continued)

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.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 70% of our overall materiality (2019: a range of percentages was applied between 67.5% and 45%). We have set performance materiality at this percentage due to the past history of few misstatements indicating a lower risk of misstatement in the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £70,000 (2019: £94,000) 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 these have been subject to full scope audits for statutory reporting purposes and were audited by us. The component overall materiality levels were set in a range of £39,000 to £140,000 (2019: £36,000 to £174,000).

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

Independent Auditors' Report to the Secretary of State for Transport

Other information (continued)

- **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/auditorsresponsibilities. 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 Aviaiton Act 1982. Our audit work has been undertaken so that we might state to the 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
16 July 2020

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	**Group 2020 £'000**	Group 2019 £'000
Revenue	2	**281,928**	150,212
Operating costs			
Employment costs	3	**(92,829)**	(93,915)
Services and materials		**(17,374)**	(19,068)
Repairs and maintenance		**(4,429)**	(4,455)
Research	6	**(118)**	(143)
Depreciation, amortisation, impairments and disposals	6	**(4,639)**	(3,724)
Other gains/(losses)	6	**40**	(18)
Other expenses	2	**(163,570)**	(31,606)
Net operating costs		**(282,919)**	(152,929)
Operating loss		**(991)**	(2,717)
Finance income	7	**2,437**	5,088
Finance costs	7	**(121)**	(24)
Finance income - net		**2,316**	5,064
Profit before income tax		**1,325**	2,347
Income tax charge	8	**(364)**	(441)
Profit for the financial year		**961**	1,906

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 £257k (2019: £326k).

The supporting notes on pages 94 to 145 are an integral part of these financial statements.

Statements of Comprehensive Income

For the years ended 31 March

	Note	**Group 2020 £'000**	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Profit / (loss) for the financial year		**961**	1,906	**(257)**	(326)
Other comprehensive income					
Unrealised foreign exchange differences		**(31)**	36	**15**	54
Movement on deferred tax relating to unrealised foreign exchange differences		**(14)**	3	**(3)**	-
Effect of rate changes on deferred tax relating to unrealised foreign exchange differences		**2**	3	**-**	-
Actuarial gain on post employment benefit obligations	17	**48,189**	2,003	**48,189**	2,003
Movement on deferred tax relating to post employment benefit obligations		**(9,156)**	(340)	**(9,156)**	(340)
Effect of rate changes on deferred tax relating to post employment benefit obligations		**(4,110)**	-	**(4,110)**	-
Total comprehensive income for the year		**35,841**	3,611	**34,678**	1,391

The supporting notes on pages 94 to 145 are an integral part of these financial statements.

Statements of Financial Position

As at 31 March

	Note	**Group 2020 £'000**	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**10,509**	5,338	**10,341**	5,271
Intangible assets	10	**10,949**	11,353	**10,262**	10,818
Investments in subsidiaries	11	**-**	-	**-**	-
Trade and other receivables	12	**36**	36	**-**	-
Deferred tax assets	16	**768**	655	**750**	626
Retirement benefit assets	17	**256,138**	205,483	**256,138**	205,483
Total non-current assets		**278,400**	222,865	**277,491**	222,198
Current assets					
Trade and other receivables	12	**33,573**	20,883	**31,371**	17,077
Derivative financial instruments	19	**2**	34	**2**	34
Current income tax assets		**113**	180	**-**	-
Cash and cash equivalents	13	**8,643**	9,518	**8,487**	9,267
Total current assets		**42,331**	30,615	**39,860**	26,378
Total assets		**320,731**	253,480	**317,351**	248,576
Capital and reserves					
Retained earnings		**218,689**	183,166	**209,251**	174,891
Total capital and reserves		**218,689**	183,166	**209,251**	174,891
Total equity		**218,689**	183,166	**209,251**	174,891
Liabilities					
Non-current liabilities					
Trade and other payables	15	**6,151**	877	**6,066**	877
Deferred tax liabilities	16	**48,667**	34,932	**48,667**	34,932
Retirement benefit obligations	17	**1,255**	1,415	**1,255**	1,415
Provisions for other liabilities and charges	18	**-**	50	**-**	-
Total non-current liabilities		**56,073**	37,274	**55,988**	37,224
Current liabilities					
Borrowings	14	**-**	371	**-**	371
Trade and other payables	15	**45,868**	32,401	**52,011**	35,987
Current tax liabilities		**-**	165	**-**	-
Retirement benefit obligations	17	**101**	103	**101**	103
Total current liabilities		**45,969**	33,040	**52,112**	36,461
Total liabilities		**102,042**	70,314	**108,100**	73,685
Total equity and liabilities		**320,731**	253,480	**317,351**	248,576

The supporting notes on pages 94 to 145 are an integral part of these financial statements. The financial statements on pages 89 to 145 were authorised for issue by the Board on 16 July 2020 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 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**
Balance as at 1 April 2019 as previously stated		**183,166**	**174,891**
Impact of change in accounting policy (IFRS 16)	25	(318)	(318)
Adjusted balance as at 1 April 2019		**182,848**	**174,573**
Profit / (loss) for the financial year		961	(257)
Unrealised foreign exchange differences		(31)	15
Movement on deferred tax relating to unrealised foreign exchange differences		(14)	(3)
Effect of rate changes on unrealised foreign exchange differences		2	-
Actuarial gain on post employment benefit obligations	17	48,189	48,189
Movement on deferred tax relating to post employment benefit obligations		(9,156)	(9,156)
Effect of rate changes on deferred tax relating to post employment benefit obligations		(4,110)	(4,110)
Balance as at 31 March 2020		**218,689**	**209,251**

The supporting notes on pages 94 to 145 are an integral part of these financial statements.

Statements of Cash Flows

For the years ended 31 March

	Note	Group 2020 £'000	Group 2019 £'000	Authority 2020 £'000	Authority 2019 £'000
Cash flows from operating activities					
Cash generated from / (used in) operations	21	**3,567**	(1,447)	**3,215**	(1,414)
Provision settled in the year		**-**	(8)	**-**	-
Interest paid		**(1)**	(25)	**(50)**	(34)
Income tax (paid) / received		**(119)**	303	**-**	229
Net cash generated from / (used in) operating activities		**3,447**	(1,177)	**3,165**	(1,219)
Cash flows from investing activities					
Purchase of property, plant and equipment	9	**(1,838)**	(1,674)	**(1,838)**	(1,671)
Purchase of intangible assets	10	**(1,816)**	(3,994)	**(1,510)**	(3,994)
Interest received		**41**	78	**41**	77
Net cash used in investing activities		**(3,613)**	(5,590)	**(3,307)**	(5,588)
Cash flows from financing activities					
Repayments of borrowings		**(379)**	(356)	**(379)**	(356)
Lease contract instalments		**(630)**	-	**(563)**	-
Lease interest paid		**(112)**	-	**(108)**	-
Employee lease contributions		**412**	-	**412**	-
Net cash used in financing activities		**(709)**	(356)	**(638)**	(356)
Net decrease in cash and cash equivalents		**(875)**	(7,123)	**(780)**	(7,163)
Cash and cash equivalents at beginning of year		**9,518**	16,641	**9,267**	16,430
Cash and cash equivalents at end of year	13	**8,643**	9,518	**8,487**	9,267

The supporting notes on pages 94 to 145 are an integral part of these financial statements.

Notes to the Financial Statements

1. General information and significant accounting policies

The Civil Aviation Authority (CAA) is a public corporation in the UK, established by Parliament in 1972. The CAA is the UK's independent specialist aviation regulator and its activities include economic regulation, airspace policy, safety regulation, consumer protection and aviation security. The Group comprises the CAA (Authority) together with its subsidiary undertakings Air Safety Support International Limited and CAA International Limited. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements of the CAA have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Civil Aviation Act 1982, the Civil Aviation Act 2012 and the Accounts Directions for the year ended 31 March 2020 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.

The financial statements, prepared on the going concern basis, assume that the Group and Authority will generate sufficient working capital to continue operational existence for the foreseeable future. The Board has, at the time of approving the financial statements, an expectation that the Group and Authority has adequate resources to continue in operational existence for the foreseeable future.

The Board acknowledge the ongoing COVID-19 pandemic and the resulting collapse in aviation demand. There is still significant uncertainty about how quickly the sector will recover which has a bearing on the Group's and Authority's financial position and performance. The Authority is funded by those it regulates and in the region of 40% of the Group's revenue is derived from variable charges linked to aviation activity. In addition, many of the Authority's stakeholders are operating under extreme financial pressures and their ability to settle charges to term is likely to be negatively impacted by a prolonged downturn in the aviation sector. Given the difficulty in predicting the full extent or duration of the impact, the generation of sufficient operating cash flows to fund existing operations remains at heightened risk.

The Board is closely monitoring all aspects of the Group's and Authority's operations to mitigate the impact from the COVID-19 pandemic and have introduced a range of cost saving measures including salary reductions and a recruitment freeze.

Whilst it remains difficult to predict accurately passenger numbers and the volume of flights, industry forecasts have been utilised to stress test the revenue assumptions that form the basis of the Group's and Authority's cash projections through to 31 July 2021. A range of scenarios have been considered with reductions in activity in the industry of 90% continuing through to between July 2020 and December 2020 with a slow recovery thereafter which will result in a material reduction in revenues for the year ending 31 March 2021. Opportunities to reduce and defer overheads have been considered and the Board has undertaken a review of sources of funding available to the Group and the Authority from its bankers and the Department for Transport. Based on these stress tests and the financial support provided by the Department for Transport through to 2021/2022, the Board believes that the Group and Authority will have sufficient cash flows available to continue to operate for at least twelve months from the approval of these financial statements.

Indeed the CAA now forms an indispensable part of the aviation architecture in the UK, performing regulatory functions, enabling the Secretary of State for Transport to comply with his obligations under S1 of the 1982 Act through the provision of specialist support and advice and ensuring that the UK meets its obligations under the Chicago Convention 1944. The CAA, as the UK's aviation regulator, is critical to a well-functioning UK aviation sector, both during the current COVID-19 pandemic and in the future as the sector rebuilds and reinvents itself.

Notes to the Financial Statements

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 2020, and which have given rise to changes in the Group's accounting policies are:

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

The above amendments had a transition date of 1 April 2019. With the exception of IFRS 16, there has been no impact on the Financial Statements as a result of these amendments, nor is there expected to be any impact in the coming financial year. The impact of IFRS 16 on the Financial Statements is disclosed below:

IFRS 16 'Leases' (IFRS 16)

IFRS 16 sets out requirements for recognising and measuring lease liabilities and right-of-use assets for finance leases. This standard replaces IAS 17 'Leases'.

The impact on the Group has been to take a number of lease contracts relating to buildings, plant and equipment and vehicles, which were previously being recognised through the Income Statement as incurred, and to create lease liabilities and right of use assets in the Statement of Financial Position, which are amortised through the life of the lease. The Group has opted not to make amendments to prior-year comparative figures, as allowed by IFRS 16 and the changes have been processed at the transition date, 1 April 2019, and have been recognised as an adjustment to the opening retained earnings balance.

As a result of the adoption of IFRS 16, the Group has included a number of adjustments to balances within the Income Statement, Statement of Financial Position and Statement of Changes in Equity. The impact of these is disclosed in note 25.

In addition to the re-measurements required, on application of the standard, the notes to the Financial Statements include disclosures of the nature, amount, timing and variability of lease payments and cash flows, by providing qualitative and quantitative information.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the Group for the period beginning 1 April 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material);
- Revised Conceptual Framework for Financial Reporting; and
- Definition of a Business – Amendments to IFRS 3.

The above accounting standards are not expected to have a material impact on the Group.

Notes to the Financial Statements

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 Authority'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 gains/(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.

Right-of-use assets are initially measured at the total value of the remaining lease obligations, including lease instalments, provisions for expenditure and net of any inducements. Right-of-use assets are depreciated using the straight-line method from the start of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Notes to the Financial Statements

1.5 Property, plant and equipment (continued)

The estimated useful lives of right-of-use assets are determined on the same basis as those of similar plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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
- **Right of use assets** Length of lease (2-10 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.

Notes to the Financial Statements

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.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

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.

Notes to the Financial Statements

1.8 Financial instruments (continued)

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. In certain cases, however, 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 gains/(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 balance sheet 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 £218,689k (2019: £183,166k). The Groups'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.

Notes to the Financial Statements

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 balance sheet date.

Notes to the Financial Statements

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.

Notes to the Financial Statements

1.14 Employee benefits (continued)

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

Where a dilapidations provision is included as part of a lease contract recognised under IFRS 16, the value of the provision is included within the right of use asset and lease liability balances in the Statement of Financial Position. These are measured at their present value, discounted by the interest rate implicit in the lease contract. The right of use asset is released to the Income Statement evenly over the lifetime of the lease.

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.

Notes to the Financial Statements

1.16 Revenue recognition (continued)

(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

IFRS 16 'Leases' was adopted on 1 April 2019, replacing IAS 17.

At the inception of the contract, the Group assesses whether the contract contains any element relating to the lease of a specific asset. This is defined by the Group obtaining the right to use a specific asset for a defined period of time, in exchange for consideration. The following exception criteria have been applied when determining whether to recognise a liability for the lease contract:

- At the date of transition, 1 April 2019, if the contract has expired within the following 12 months the contract has not been considered as it is deemed as short-term at the point of transition.
- Any contract which, at the point of inception, is deemed to be short-term (i.e. expected to expire in the following 12 months) has not been considered.
- Where the contract defines the lease of an asset which is considered to be low-value the lease has not been considered. Low-value in relation to the company is any amount, or aggregate amounts, which are considered immaterial to these Financial Statements. A lease liability value of £5k has been used for this assessment.
- Where the company is not reasonably certain that a short-term lease (less than 12 months) will be extended beyond its non-cancellable term the contract has not been considered.

Any leases in line with the exception criteria above are recognised as incurred through services and materials in the Income Statement.

1.17 Leases (continued)

As a lessee, if the Group identifies a contract which contains an identifiable lease in line with the conditions above, a right-of-use asset and a lease liability are recognised. The right-of-use assets are separately identified under property, plant and equipment within the Statement of Financial Position. These are recognised at the value of the remaining lease commitments at the point of commencement of the lease. These assets are depreciated on a straight-line basis over the lifetime of the lease, or the remaining useful economic life of the asset, whichever is shorter. The lease liability is recognised within trade and other payables, with a split between the current and non-current element. The value of this is determined from the remaining lease commitments at the point of commencement of the lease, measured at amortised cost using the effective interest method. The effective interest rate for leases is the Group's incremental borrowing rate, which is in line with those advised by HM Treasury for the financial year ended 31 March 2020.

At the point of transition, 1 April 2019, and at the end of the fiscal period, 31 March 2020, there were a number of contracts identified as containing a lease being for the rental of buildings, plant and equipment and vehicles. The impact of these on the Financial Statements has been detailed in note 25.

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.

1.19 Significant accounting estimates and judgements (continued)

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
- **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 include 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.

COVID-19

The fallout from COVID-19 has had a significant impact on the UK Aviation industry with demand for passenger air travel falling significantly since March 2020. As a result of this it is expected that a number of our customers will struggle to meet their financial obligations over the coming months. The Group has taken a prudent approach to calculating the expected credit loss against trade and other receivables by increasing the risk factors associated with each category of debt.

Further detail on the impact of COVID-19 on these Financial Statements can be seen in note 1.1.

Notes to the Financial Statements

2. Segment information

The operating segments have been based on the reports reviewed by the CAA Executive Committee that are used to make strategic decisions. The Executive Committee considers the activities from a regulatory function perspective. The country of domicile is the UK for all of the Group entities. The Executive Committee does not consider the performance according to the geographic location of its customers.

The reportable operating segments derive their revenue primarily from the Regulatory Sector, comprising the activities of Safety & Airspace Regulation, Consumers & Markets, and Aviation Security, in addition to that derived from UK en route Air Traffic Services and the commercial activities of CAA International. All other results are included in the Miscellaneous Services column. In accordance with the Accounts Direction issued by the Department for Transport (DfT), disclosure is also given regarding revenue analysed between statutory scheme charges and other revenue.

Included within Miscellaneous Services are revenues and costs generated from the Thomas Cook and Monarch repatriation activities of £134,174k and £1k respectively. This value is shown in both revenue and other expenses on the Income Statement as the revenue generated from this activity was calculated on a cost-recovery basis. Last year, revenues and costs generated from the Monarch repatriation activities were included within Miscellaneous Services totalling £265k.

Grants from the DfT amounting to £2,206k during the year (2019: £2,129k), of which £177k relates to the release of a grant received for assuming control of the Aviation Security function on behalf of the DfT (2019: £254k) and £2,029k relates to work undertaken by Air Safety Support International Limited on behalf of the DfT (2019: £1,875k) 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 2020 funding of £226k has been deferred (2019: £326k deferred).

Notes to the Financial Statements

2. Segment information (continued)

The segment information for the year ended 31 March 2020 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	65,299	19,390	10,857	**95,546**	-	-	689	**96,235**
Eurocontrol service charges	-	-	-	**-**	13,359	-	-	**13,359**
Other revenue	634	4,218	981	**5,833**	-	11,244	155,257	**172,334**
Total revenue	**65,933**	**23,608**	**11,838**	**101,379**	**13,359**	**11,244**	**155,946**	**281,928**
Operating costs (excluding IAS19 pension scheme adjustments)	68,271	23,255	12,785	**104,311**	13,170	10,057	155,451	**282,989**
(Loss) / profit before IAS19 adjustments	(2,338)	353	(947)	**(2,932)**	189	1,187	495	**(1,061)**
IAS19 pension scheme adjustments	32	8	-	**40**	3	7	20	**70**
Operating (loss) / profit	**(2,306)**	**361**	**(947)**	**(2,892)**	**192**	**1,194**	**515**	**(991)**
(Loss) / profit before income tax	**(1,237)**	**618**	**(725)**	**(1,344)**	**192**	**1,302**	**1,175**	**1,325**

A reconciliation of operating loss to profit before income tax is provided as follows:	**£'000**
Adjusted operating loss for reportable segments	**(991)**
Finance income	**2,437**
Finance costs	**(121)**
Profit before income tax	**1,325**

Notes to the Financial Statements

2. Segment information (continued)

The comparable segment information for the previous 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 IAS19 pension scheme adjustments)	68,771	20,262	10,982	**100,015**	12,887	11,544	26,045	**150,491**
(Loss) / profit before IAS19 adjustments	(3,090)	814	(636)	**(2,912)**	208	2,393	32	**(279)**
IAS19 pension scheme adjustments	(1,230)	(197)	(223)	**(1,650)**	-	(125)	(663)	**(2,438)**
Operating (loss) / profit	**(4,320)**	**617**	**(859)**	**(4,562)**	**208**	**2,268**	**(631)**	**(2,717)**
(Loss) / profit 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**

Notes to the Financial Statements

3. Employment costs

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

	Note	**Group 2020 £'000**	Group 2019 £'000
Wages and salaries		**65,698**	62,846
Social security costs		**7,730**	7,487
Defined benefit pension plan costs	17	**14,305**	17,539
Defined contribution pension plan costs	17	**3,677**	3,046
Unfunded pension plan costs	17	**(204)**	5
Other employee benefits expenses		**1,623**	2,992
Total employment costs		**92,829**	93,915

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

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

	Group 2020 Year end	**Group 2020 Average**	Group 2019 Year end	Group 2019 Average
By business segment				
Safety & Airspace Regulation	**604**	**590**	563	562
Consumers & Markets	**104**	**101**	95	90
Aviation Security	**117**	**114**	110	102
CAA International	**54**	**56**	56	57
Miscellaneous Services	**335**	**325**	318	303
Total employees	**1,214**	**1,186**	1,142	1,114

Notes to the Financial Statements

4. Board members' and key management personnel emoluments

Board member emoluments:	Group 2020 £'000	Group 2019 £'000
Salaries and fees	**1,277**	1,361
Benefits	**18**	26
Performance related payments	**-**	147
Emoluments excluding pension contributions	**1,295**	1,534
Pension contributions	**38**	71
Pension payments to past Board members	**102**	101
Board member emoluments	**1,435**	1,706

Details of aggregate emoluments for each of the 13 Board members (2019: 13) 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 2020 £'000	Group 2019 £'000
Salaries and fees	**964**	841
Benefits	**10**	4
Compensation payments	**63**	-
Emoluments excluding pension contributions	**1,037**	845
Pension contributions	**174**	136
Key management personnel emoluments	**1,211**	981

There were 7 employees considered to be key management personnel in the year (2019: 5).

5. Auditors' remuneration

	Group 2020 £'000	Group 2019 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**128**	110
Audit of subsidiary company financial statements	**15**	15
Audit of the Group's Malaysia branch financial statements	**8**	8
Audit related assurance services	**10**	3
Total auditor's remuneration	**161**	136

Notes to the Financial Statements

6. Profit for the year

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

	Note	**Group 2020 £'000**	Group 2019 £'000
Net foreign exchange (gains)/losses on operating activities		**(40)**	18
Total realised other (gains)/losses		**(40)**	18
Short-term/low-value operating lease payments:			
Properties (included within services and materials)		**4,691**	7,258
Vehicles (shown within employment costs and other expenses)		**1**	18
Total short-term/low-value operating lease payments		**4,692**	7,276
Depreciation, amortisation, impairments and disposals:			
Depreciation on property, plant and equipment	9	**2,998**	1,971
Grant released on property, plant and equipment	15	**(92)**	(126)
Depreciation on leased property, plant and equipment funded by employees (vehicles)		**(401)**	-
Amortisation of intangible fixed assets	10	**1,815**	1,516
Grant released on intangible fixed assets	15	**(85)**	(128)
Profit on disposal of property, plant and equipment		**(1)**	-
Impairment of intangible fixed assets	10	**405**	491
Total depreciation, amortisation, impairments and disposals		**4,639**	3,724

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 2018, 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 2020 £'000**	Group 2019 £'000
Internal costs (included within employment costs)	**1,400**	1,679
External costs (included within research)	**118**	143
Total research expenditure	**1,518**	1,822

Notes to the Financial Statements

7. Finance income and costs

	Note	**Group 2020 £'000**	Group 2019 £'000
Finance income:			
Interest on short-term deposits		**41**	77
Employee benefit scheme - expected return on assets	17	**50,192**	54,660
Employee benefit scheme - interest charge on liabilities	17	**(47,796)**	(49,649)
Total finance income		**2,437**	5,088
Finance costs:			
National Loans Fund borrowings		**(8)**	(24)
Interest paid on underpayment of corporation tax		**(1)**	-
Lease contract interest expense	22	**(123)**	-
Interest on leased property, plant and equipment funded by employees (vehicles)		**11**	-
Total finance costs		**(121)**	(24)
Finance income - net		**2,316**	5,064

8. Income tax charge

Analysis of tax charge in the year:	**Group 2020 £'000**	Group 2019 £'000
Current tax:		
UK corporation tax at 19% (2019: 19%) on profit for year	**-**	165
Adjustment in respect of prior years	**(2)**	(3)
Tax overseas suffered	**9**	-
Withholding tax suffered	**13**	6
Total current tax charge	**20**	168
Deferred tax:		
Origination and reversal of temporary differences	**(217)**	(164)
Effect of tax rate changes relating to deferred tax expense	**(58)**	-
Adjustment in respect of prior periods	**150**	-
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	**469**	437
Total deferred tax charge	**344**	273
Income tax charge	**364**	441

Notes to the Financial Statements

8. Income tax charge (continued)

Reconciliation of effective tax rate:	Group 2020 £'000	Group 2019 £'000
Profit before income tax	**1,325**	2,347
Corporation tax calculated at 19% (2019: 19%)	**252**	446
Tax effects of:		
Fixed asset differences	**(18)**	(10)
Expenses not deductible for tax purposes	**18**	23
Adjustments to brought forward values	**150**	-
Overseas tax	**9**	-
Overseas withholding tax	**13**	5
Adjustments to tax charge in respect of previous periods	**(2)**	(3)
Effect of rate change	**(58)**	(20)
Income tax charge	**364**	441

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 2020, the Government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

This rate has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the balances recognised in these financial statements are expected to reverse over the longer term, the 19% rate which will apply from 1 April 2020, has been used to measure deferred tax balances.

Notes to the Financial Statements

9. Property, plant and equipment

Group: Cost	Freehold buildings £'000	Leasehold buildings £'000	Plant and equipment £'000	Vehicles £'000	Furniture, fixtures and fittings £'000	Right of use assets £'000	Assets in the course of construction £'000	Total £'000
At 1 April 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**
IFRS 16 transition	-	-	-	-	-	5,771	-	**5,771**
Additions	-	1,115	372	-	719	562	-	**2,768**
Disposals	(87)	(26,157)	(5,635)	(3)	(56)	-	(405)	**(32,343)**
Transfers	-	627	227	-	181	-	(1,035)	**-**
Transfer from intangible assets	-	-	-	-	-	-	37	**37**
At 31 March 2020	**22,029**	**1,742**	**3,536**	**99**	**4,839**	**6,333**	**73**	**38,651**
Accumulated depreciation								
At 1 April 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**
Charge for the year	146	997	319	6	334	1,196	-	**2,998**
Eliminated on disposal	(87)	(26,155)	(5,635)	(3)	(56)	-	-	**(31,936)**
At 31 March 2020	**21,121**	**145**	**2,679**	**99**	**2,902**	**1,196**	**-**	**28,142**
Net book value at 31 March 2020	**908**	**1,597**	**857**	**-**	**1,937**	**5,137**	**73**	**10,509**
Net book value at 31 March 2019	1,054	854	577	6	1,371	-	1,476	5,338

In December 2019 the lease on the previous London Office, CAA House, came to an end. As such, a large volume of assets, predominantly relating to leasehold improvements and plant and equipment were disposed of. The disposals are reflected in the disclosures for both the Group and Authority.

Notes to the Financial Statements

9. Property, plant and equipment (continued)

Authority: Cost	Freehold buildings £'000	Leasehold buildings £'000	Plant and equipment £'000	Vehicles £'000	Furniture, fixtures and fittings £'000	Right of use assets £'000	Assets in the course of construction £'000	Total £'000
At 1 April 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**
IFRS 16 transition	-	-	-	-	-	5,569	-	**5,569**
Additions	-	1,115	372	-	719	562	-	**2,768**
Disposals	(87)	(26,157)	(5,635)	(3)	(56)	-	(405)	**(32,343)**
Transfers	-	627	229	-	180	-	(1,036)	**-**
Transfer from intangible assets	-	-	-	-	-	-	37	**37**
At 31 March 2020	**22,029**	**1,742**	**3,508**	**99**	**4,705**	**6,131**	**72**	**38,286**
Accumulated depreciation								
At 1 April 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**
Charge for the year	146	997	315	6	311	1,122	-	**2,897**
Eliminated on disposal	(87)	(26,155)	(5,635)	(3)	(56)	-	-	**(31,936)**
At 31 March 2020	**21,121**	**145**	**2,652**	**99**	**2,806**	**1,122**	**-**	**27,945**
Net book value at 31 March 2020	**908**	**1,597**	**856**	**-**	**1,899**	**5,009**	**72**	**10,341**
Net book value at 31 March 2019	1,054	854	570	6	1,311	-	1,476	5,271

Notes to the Financial Statements

9. Property, plant and equipment (continued)

Right of use assets

On 1 April 2019 the Group adopted the accounting standard IFRS 16 'Leases'. This requires material tangible right of use assets acquired under finance leases to be included within the Statement of Financial Position. On transition, right of use assets with a net book value of £5,771k were capitalised (Authority £5,569k). These assets will be depreciated over the life of their respective leases, between 2 and 10 years. The values relevant to each category of leased asset are shown below:

	Group				Authority			
Cost	**Leasehold buildings £'000**	**Plant and equipment £'000**	**Vehicles £'000**	**Total right of use assets £'000**	**Leasehold buildings £'000**	**Plant and equipment £'000**	**Vehicles £'000**	**Total right of use assets £'000**
At 1 April 2019	-	-	-	-	-	-	-	**-**
IFRS 16 transition	5,096	85	590	5,771	4,894	85	590	**5,569**
Additions	34	-	528	562	34	-	528	**562**
At 31 March 2020	**5,130**	**85**	**1,118**	**6,333**	**4,928**	**85**	**1,118**	**6,131**
Depreciation								
At 1 April 2019	-	-	-	-	-	-	-	**-**
Charge for the year	722	26	448	1,196	648	26	448	**1,122**
At 31 March 2020	**722**	**26**	**448**	**1,196**	**648**	**26**	**448**	**1,122**
Net book value at 31 March 2020	**4,408**	**59**	**670**	**5,137**	**4,280**	**59**	**670**	**5,009**
Net book value at 31 March 2019	-	-	-	-	-	-	-	-

Notes to the Financial Statements

10. Intangible assets

Group: **Cost**	**Software development costs £'000**	**Assets in the course of construction £'000**	**Intellectual property £'000**	**Total £'000**
At 1 April 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**
Additions	483	1,370	-	**1,853**
Disposals	(964)	(97)	-	**(1,061)**
Transfers	1,799	(1,799)	-	**-**
Transfer to tangible assets	-	(37)	-	(37)
At 31 March 2020	**17,686**	**2,811**	**155**	**20,652**
Accumulated amortisation and impairment				
At 1 April 2018	7,905	98	78	**8,081**
Charge for the year	1,485	-	31	**1,516**
Impairment	218	227	46	**491**
Eliminated on disposal	(1,444)	(100)	-	**(1,544)**
At 31 March 2019	**8,164**	**225**	**155**	**8,544**
Charge for the year	1,815	-	-	**1,815**
Impairment	-	405	-	**405**
Eliminated on disposal	(964)	(97)	-	**(1,061)**
Transfers	130	(130)	-	**-**
At 31 March 2020	**9,145**	**403**	**155**	**9,703**
Net book value at 31 March 2020	**8,541**	**2,408**	**-**	**10,949**
Net book value at 31 March 2019	8,204	3,149	-	**11,353**

Notes to the Financial Statements

10. Intangible assets (continued)

Authority: **Cost**	**Software development costs £'000**	**Assets in the course of construction £'000**	**Total £'000**
At 1 April 2018	14,787	1,242	**16,029**
Additions	-	3,994	**3,994**
Disposals	(1,444)	(7)	**(1,451)**
Transfers	1,855	(1,855)	**-**
At 31 March 2019	**15,198**	**3,374**	**18,572**
Additions	192	1,355	**1,547**
Disposals	(964)	(97)	**(1,061)**
Transfers	1,799	(1,799)	**-**
Transfer to tangible assets	-	(37)	**(37)**
At 31 March 2020	**16,225**	**2,796**	**19,021**
Accumulated amortisation and impairment			
At 1 April 2018	7,426	-	**7,426**
Charge for the year	1,327	-	**1,327**
Impairment	218	227	**445**
Eliminated on disposal	(1,444)	-	**(1,444)**
At 31 March 2019	**7,527**	**227**	**7,754**
Charge for the year	1,661	-	**1,661**
Impairment	-	405	**405**
Eliminated on disposal	(964)	(97)	**(1,061)**
Transfers	130	(130)	**-**
At 31 March 2020	**8,354**	**405**	**8,759**
Net book value at 31 March 2020	**7,871**	**2,391**	**10,262**
Net book value at 31 March 2019	7,671	3,147	**10,818**

Significant software projects in relation to SAP Business ByDesign and Success Factors, End-to-End (CAAi) and BMS software upgrades totalling £1,799k (2019: £1,855k) were all transferred from 'Assets in the course of construction' to 'Software development costs' in the year in both the Group and Authority. 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.

10. Intangible assets (continued)

As part of our normal impairment review process, we have taken the decision to impair assets previously recognised as 'Assets in the course of contruction', following a reassessment of future benefits associated with the projects.

Impairment losses of £405k (2019: £491k Group and £445k Authority) are included within 'Depreciation, amortisation, impairment and disposals' on the Income Statement for both the Group and Authority. The impairment loss relates to a software project which is still under construction, however the indication at this stage is that the carrying value exceeds the value in use. In this case the full cost of the asset which had previously been capitalised has been written off. The Group is not committed to completing the project but any further costs that arise in relation to this will be recognised as revenue expenditure going forward. This project will be monitored and the relevant cost reinstated to the Statement of Financial Position if the recalculated value in use exceeds the recalculated carrying value in the future.

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 no further impairment. A decrease in the discount rate of 10 basis points (i.e. -0.1%) would result in no reversal of impairments.

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:
Aviation House
Beehive Ring Road
Crawley
West Sussex
England
RH6 0YR

Shares in Group undertakings

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

	2020	2019
	£	£
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.

Notes to the Financial Statements

12. Trade and other receivables

	Group 2020 £'000	Group 2019 £'000	Authority 2020 £'000	Authority 2019 £'000
Current receivables:				
Trade receivables	**20,354**	6,090	**19,148**	3,752
Less: provision for doubtful trade receivables	**(359)**	(287)	**(255)**	(87)
Trade receivables - net	**19,995**	5,803	**18,893**	3,665
Social security and other taxes	**594**	277	**594**	277
Prepayments	**2,773**	3,676	**2,686**	3,451
Contract assets	**10,079**	9,653	**9,067**	8,210
Other receivables	**132**	1,474	**131**	1,474
Total current receivables	**33,573**	20,883	**31,371**	17,077
Non-current receivables:				
Other receivables	**36**	36	**-**	-
Total non-current receivables	**36**	36	**-**	-
Total trade and other receivables	**33,609**	20,919	**31,371**	17,077

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 activites are 30 days, unless otherwise specified in individual contracts with customers.

As at 31 March 2020 trade receivables of £3,674k (2019: £2,569k) were past their due date but were not impaired. The ageing analysis of these is as follows:

	Group 2020 £'000	Group 2019 £'000	Authority 2020 £'000	Authority 2019 £'000
Past due:				
Up to 3 months	**3,326**	2,481	**2,895**	1,600
From 3 to 12 months	**200**	87	**153**	72
Over 12 months	**148**	1	**97**	1
	3,674	2,569	**3,145**	1,673

Notes to the Financial Statements

12. Trade and other receivables (continued)

Movements on the provision for doubtful trade receivables:

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
At 1 April	**287**	222	**87**	79
Provision for receivables impaired	**198**	235	**126**	133
Receivables written off during the year as uncollectable	**(92)**	(68)	**-**	(68)
Unused amounts reversed	**(170)**	(102)	**(58)**	(57)
Expected credit loss provision	**136**	-	**100**	-
At 31 March	**359**	287	**255**	87

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

The expected credit loss figure has been arrived at by allocating a risk probability against different categories of debt after removing balances against which a specific provision has already been made. The probabilities for each category of debt have been calculated based on the average actual loss experienced over the past three financial years. The probabilities have been increased for this financial year owing to the COVID-19 pandemic and the possible impact this may have on customers' ability to meet their obligations.

Details of this are as follows:

	Gross value		**Expected credit loss**	
	Group 2020 £'000	Group 2019 £'000	**Group 2020 £'000**	Group 2019 £'000
Trade debtors not due (1%)	**1,792**	-	**18**	-
Trade debtors overdue by 0-30 days (2%)	**2,521**	-	**50**	-
Trade debtors overdue by 31-60 days (4%)	**705**	-	**28**	-
Trade debtors overdue by 61-90 days (8%)	**82**	-	**7**	-
Trade debtors overdue by 91-365 days (16%)	**135**	-	**22**	-
Training debtors (10.5%)	**102**	-	**11**	-
Already provided and not subject for impairment	**14,658**	5,803	**-**	-
Expected credit loss provision	**19,995**	5,803	**136**	-

12. Trade and other receivables (continued)

	Gross value		Expected credit loss	
	Authority 2020 £'000	Authority 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Trade debtors not due (1%)	**1,304**	-	**13**	-
Trade debtors overdue by 0-30 days (2%)	**2,252**	-	**45**	-
Trade debtors overdue by 31-60 days (4%)	**556**	-	**22**	-
Trade debtors overdue by 61-90 days (8%)	**65**	-	**5**	-
Trade debtors overdue by 91-365 days (16%)	**96**	-	**15**	-
Already provided and not subject for impairment	**14,620**	3,665	**-**	-
Expected credit loss provision	**18,893**	3,665	**100**	-

Amounts due to be refunded from the official receiver of Thomas Cook of £14,000k to the Authority have been excluded from the expected credit loss calculation as it is not deemed to carry any risk of non-collection.

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

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
British pounds	**19,953**	5,853	**18,974**	5,139
Euros	**50**	1,309	**50**	-
Thai Baht	**134**	120	**-**	-
US dollars	**4**	28	**-**	-
Other currencies	**22**	3	**-**	-
Total trade and other receivables	**20,163**	7,313	**19,024**	5,139

The risk of currency fluctations impacting amounts receivable from third parties is not material to these Financial Statements.

Notes to the Financial Statements

12. Trade and other receivables (continued)

Contract balances:

Group:	**Contract assets 2020 £'000**	Contract assets 2019 £'000	**Contract liabilities 2020 £'000**	Contract liabilities 2019 £'000
At 1 April	**9,653**	9,358	**(9,957)**	(10,564)
Transfers in the period from contract assets to trade receivables	**(9,732)**	(9,159)	**-**	-
Excess of revenue recognised over cash (or rights for cash)	**10,158**	9,454	**-**	-
Amounts included in contract liabilities that were recognised as revenue during the period	**-**	-	**7,753**	8,680
Cash received in advance of performance and not recognised as revenue during the period	**-**	-	**(7,031)**	(8,073)
At 31 March	**10,079**	9,653	**(9,235)**	(9,957)

Authority:	**Contract assets 2020 £'000**	Contract assets 2019 £'000	**Contract liabilities 2020 £'000**	Contract liabilities 2019 £'000
At 1 April	**8,210**	8,068	**(6,982)**	(7,594)
Transfers in the period from contract assets to trade receivables	**(8,633)**	(8,177)	**-**	-
Excess of revenue recognised over cash (or rights for cash)	**9,490**	8,319	**-**	-
Amounts included in contract liabilities that were recognised as revenue during the period	**-**	-	**6,890**	7,471
Cash received in advance of performance and not recognised as revenue during the period	**-**	-	**(6,489)**	(6,859)
At 31 March	**9,067**	8,210	**(6,581)**	(6,982)

Notes to the Financial Statements

13. Cash and cash equivalents

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

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Cash at bank and in hand	**2,035**	3,706	**1,880**	3,455
Short-term bank deposits	**6,608**	4,812	**6,607**	4,812
Short-term HM Treasury deposits	**-**	1,000	**-**	1,000
Total cash and cash equivalents	**8,643**	9,518	**8,487**	9,267

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

The Group has assessed it's exposure to liquidity risk as part of the going concern assessment, details of which can be found in note 1.1. The risk of currency fluctations impacting amounts held in foreign currencies is not material to these Financial Statements.

14. Borrowings

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Current:				
National Loans Fund	**-**	371	**-**	371
Total borrowings	**-**	371	**-**	371

The borrowings were repayable to the National Loans Fund on an instalment basis, the final instalment being paid during December 2019. The borrowing rates were fixed for the entire period of the loans. These borrowings were unsecured. There were no funds owed in respect of borrowings at the end of the financial period.

The carrying amounts of borrowings were equal to their fair values at the end of the previous financial period. The fair values of borrowings are calculated by discounting the cash outflow by the rate ruling at the balance sheet date for borrowings with a similar maturity and repayment style. The fair values are based on cash flows discounted using rates relevant to the entity. For CAA the borrowing rates were 1.70% (2019: 1.70%).

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

The Authority has maximum borrowing powers of £550 million (2019: £550 million) under the Civil Aviation Act 1982 (as amended). Below are details of the Authority's undrawn and uncommitted borrowing facilities:

	2020 £'000	2019 £'000
Bank overdraft facility	**10,000**	10,000
Total undrawn and uncommitted borrowing facilities	**10,000**	10,000

Notes to the Financial Statements

15. Trade and other payables

	Note	**Group 2020 £'000**	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Current liabilities:					
Trade payables		**21,738**	7,205	**21,296**	6,869
Amounts due to related parties	23	**-**	-	**10,117**	7,780
Social security and other taxes		**2,456**	2,142	**2,277**	2,142
Accrued expenses		**9,227**	10,257	**8,683**	9,596
Contract liabilities		**9,143**	9,834	**6,489**	6,859
Other payables		**2,644**	2,963	**2,557**	2,741
Lease liabilities	22	**660**	-	**592**	-
Total current trade and other payables		**45,868**	32,401	**52,011**	35,987
Non-current liabilities:					
Other payables		**672**	754	**672**	754
Accruals and contract liabilities		**92**	123	**92**	123
Lease liabilities	22	**5,387**	-	**5,302**	-
Total non-current trade and other payables		**6,151**	877	**6,066**	877
Total trade and other payables		**52,019**	33,278	**58,077**	36,864

The carrying amount of trade and other payables is deemed to approximate their fair value. The Group is expected to meet the debts listed above as they fall due for payment. None of the debt listed above is interest bearing, therefore the Group carries no risk in relation to interest rate fluctuations. The risk of currency fluctations impacting amounts payable to third parties is not material to these Financial Statements.

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 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
No later than 1 year	**31**	177	**31**	177
Later than 1 year and not later than 5 years	**92**	123	**92**	123
Total grant outstanding	**123**	300	**123**	300

Notes to the Financial Statements

16. Deferred income tax

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

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
At 1 April	**655**	488	**626**	458
Income Statement tax credit	**125**	164	**127**	168
Other comprehensive income tax charge	**(12)**	3	**(3)**	-
At 31 March	**768**	655	**750**	626

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 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Deferred tax assets	**770**	660	**752**	631
Deferred tax liabilities	**(2)**	(5)	**(2)**	(5)
Deferred tax assets - net	**768**	655	**750**	626

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 2019	261	399	660	237	394	631
Income Statement tax credit	(12)	132	120	(6)	127	121
Other comprehensive income tax charge	-	(10)	(10)	-	-	-
At 31 March 2020	**249**	**521**	**770**	**231**	**521**	**752**

	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 2019	-	(5)	(5)	-	(5)	(5)
Income Statement tax credit	-	5	5	-	6	6
Other comprehensive income tax charge	-	(2)	(2)	-	(3)	(3)
At 31 March 2020	**-**	**(2)**	**(2)**	**-**	**(2)**	**(2)**

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 2020, the Government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

This rate has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the balances recognised in these financial statements are expected to reverse over the longer term, the 19% 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 £48,667k (2019: £34,932k) 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 £3,677k (2019: £3,046k) were charged to the Income Statement (see note 3).

Unfunded scheme: the CAA also operates an unfunded scheme for some past members of the Board. The revaluation of the unfunded scheme at the end of the period has resulted in a credit of £204k (2019: charge of £5k) to the Income Statement in accordance with the advice of a professionally qualified actuary (see note 3). A non-current liability of £1,255k (2019: £1,415k) and a current liability of £101k (2019: £103k) 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.

17. Retirement benefit obligations (continued)

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 2020 is estimated to be £1,231 million (2019: £1,425 million).

The last formal actuarial valuation of the CAA Section of the Civil Aviation Authority Pension Scheme was carried out as at 31 December 2018. 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 2018. The 2018 valuation revealed a deficit of £30.4 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 2027. In addition, the CAA will pay contributions in line with the updated Schedule of Contributions dated 9 March 2020 with effect from 1 April 2020. The funding rate was set at 28.2% of pensionable earnings for the year 2019/20 (2019: 28.2%) in respect of which the CAA paid contributions of £14.4 million (2019: £15.9 million). The expected contribution in the 2020/21 year is £14.4 million. The expected future benefit payments for 2020/21 are forecast to be £112.9 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 adjustments to the discount rate and future improvements in mortality assumptions, and the inclusion of a reserve for contingent events. The main differences in methodology are summarised below:

IAS 19 disclosures:

(i) Discount rate based on AA-rated corporate bonds
(ii) Best estimate assumptions for future improvements in mortality
(iii) No allowance for a reserve for contingent events

Measurement of liabilities for the 31 December 2018 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 1.6% p.a.
(ii) Allowance for additional future improvements in mortality above best estimate assumptions
(iii) Allowance for a reserve for contingent events

17. Retirement benefit obligations (continued)

	2020 £'000	2019 £'000
Statements of Financial Position assets for (Group and Authority):		
Post-employment benefits - fully funded pension fund	**207,471**	170,551
Total Statements of Financial Position assets	**207,471**	170,551
Statements of Financial Position obligations for (Group and Authority):		
Non-current post-employment benefits - unfunded pension scheme	**(1,255)**	(1,415)
Current post-employment benefits - unfunded pension scheme	**(101)**	(103)
Total Statements of Financial Position obligations	**(1,356)**	(1,518)
Income Statement charge for (Group):		
Pension benefits (note 3)	**14,305**	17,539
Post-employment benefits - unfunded pension scheme (note 3)	**(204)**	5
Total Income Statement charge	**14,101**	17,544

Funded pension benefits

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

	Group and Authority	
	2020 £'000	2019 £'000
Fair value of plan assets	**1,980,937**	2,184,640
Present value of future obligations	**(1,724,799)**	(1,979,157)
Surplus in funded scheme	**256,138**	205,483
Related deferred tax liability at 19% (2019: 17%) (note 16)	**(48,667)**	(34,932)
Net surplus in funded pension scheme	**207,471**	170,551

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

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	
	2020 £'000	2019 £'000
Surplus in funded pension scheme brought forward	**205,483**	200,908
Income Statement movement	**(11,909)**	(13,339)
Remeasurement effects recognised in Statements of Comprehensive Income	**48,189**	2,003
Employer contributions	**14,375**	15,911
Surplus in funded pension scheme carried forward	**256,138**	205,483

The movements in the defined benefit obligations (DBO) over the year are as follows:	Group and Authority	
	2020 £'000	2019 £'000
DBO brought forward	**1,979,157**	2,041,818
Current service cost (excluding administration costs)	**11,920**	14,313
Past service cost	**-**	1,572
Interest costs on the DBO	**47,796**	49,649
Scheme participants' contributions	**83**	97
Actuarial (gain) / loss - membership experience	**(936)**	3,870
Actuarial loss / (gain) - demographic assumptions	**4,136**	(101,949)
Actuarial (gain) / loss - financial assumptions	**(207,220)**	96,484
Benefits paid from scheme assets	**(110,137)**	(126,697)
DBO carried forward	**1,724,799**	1,979,157

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

The movements in the fair value of plan assets in the year are as follows:	Group and Authority	
	2020 £'000	2019 £'000
Fair value of assets brought forward	**2,184,640**	2,242,726
Interest income on scheme assets	**50,192**	54,660
Return on scheme assets (less) / greater than discount rate	**(155,831)**	407
Employer contributions	**14,375**	15,912
Scheme participants' contributions	**83**	97
Benefits paid	**(110,137)**	(126,697)
Administrative costs paid	**(2,385)**	(2,465)
Fair value of assets carried forward	**1,980,937**	2,184,640

The CAA provides pensions administration services to the scheme and has charged £2,385k (2019: £2,465k) over the course of the year. The CAA also charges for third party costs incurred on behalf of the scheme. These totalled £3,465k (2019: £4,728k) for the year.

The scheme assets are allocated as follows:	Group and Authority			
	2020 £m	**%**	2019 £m	%
Index Linked (UK)	**342.5**	**17.3%**	336.0	15.4%
Total Dedicated Bond Fund	**342.5**	**17.3%**	336.0	15.4%
Equity Fund	**147.4**	**7.4%**	186.9	8.6%
Total Quoted Equities	**147.4**	**7.4%**	186.9	8.6%
Insured Annuity Policies	**1,231.1**	**62.1%**	1,424.7	65.2%
Total Insured Annuity Policies	**1,231.1**	**62.1%**	1,424.7	65.2%
Other Holdings	**259.9**	**13.2%**	237.0	10.8%
Total Other Holdings	**259.9**	**13.2%**	237.0	10.8%
Fair value of scheme assets carried forward	**1,980.9**	**100.0%**	2,184.6	100.0%

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

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

The amounts recognised in the Income Statement are as follows:

	Group and Authority	
	2020 £'000	2019 £'000
Current service cost	**11,920**	13,502
Past service cost	**-**	1,572
Administrative costs paid	**2,385**	2,465
Total Income Statement charge included in employment costs	**14,305**	17,539
Net interest on defined benefit obligation	**47,796**	49,649
Expected return on funded pension scheme assets	**(50,192)**	(54,660)
Total credit to finance income (note 7)	**(2,396)**	(5,011)
Total included in Income Statement	**11,909**	12,528

Analysis of amounts recognised in the Statements of Comprehensive Income:

	Group and Authority	
	2020 £'000	2019 £'000
Actuarial (gains) / losses due to liability experience	**(936)**	3,870
Actuarial gains due to liability assumption changes	**(203,084)**	(5,466)
Return on scheme assets less / (greater) than discount rate	**155,831**	(407)
Actuarial gain recognised in the Statements of Comprehensive Income	**(48,189)**	(2,003)

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

	2020 % p.a.	2019 % p.a.
Discount rate	**2.25**	2.35
Inflation assumption (RPI)	**2.55**	3.50
Inflation assumption (CPI)	**1.85**	2.50
Rate of increase in salaries in future years	**1.85**	2.50
Rate of increase in pensions (pre 1 June 2015) *	**2.55**	3.50
Rate of increase in pensions (post 1 June 2015) *	**1.85**	2.50

* In excess of any guaranteed minimum pension

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

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 Years	Females Years
60	27.9	29.1
60 in 10 years	28.6	30.0

Additional information	**2021**
Expected contributions for the following year end:	**£'000**
Employer	**14,375**
Scheme participants	**83**
Total expected contributions for the following year end	**14,458**

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

The principal risks that the scheme is exposed to include:

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

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

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

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

Assumption	Base assumption	Sensitivity	Effect on Defined Benefit Obligation
Discount rate	2.3%	0.1% increase	1.4% reduction
Price inflation (RPI)	2.6%	0.1% increase	1.4% increase
Salary growth	1.9%	0.1% increase	0.1% increase
Mortality	98% (male) / 97% (female)	Long-term trend 1.25%	0.7% reduction

Notes to the Financial Statements

18. Provisions for other liabilities and charges

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Building repairs:				
Brought forward	**50**	129	**-**	-
Provision settled in the year	**-**	(8)	**-**	-
Overprovision in prior years	**-**	(71)	**-**	-
IFRS 16 transition	**(50)**	-	**-**	-
Total provisions for other liabilities and charges	**-**	50	**-**	-

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Analysis of provisions:				
Non-current	**-**	50	**-**	-
Total provisions for other liabilities and charges	**-**	50	**-**	-

A provision of £49,672 was included in the accounts as at the end of the prior period 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 was based on estimates of the terminal dilapidations liabilities and related professional fees that will arise.

At the start of the current financial period (01/04/2019) the Group adopted the standard IFRS 16, Leases. As such, the provision is now disclosed as part of both the right of use asset and lease liability balances associated with The Portland Building. The provision expense which has been charged to the Income Statement in prior years has been reversed and the provision element of the right of use asset will be released back to the Income Statement as the asset is depreciated across the remainder of the lease.

The associated right of use asset balances can be seen in note 9 and the lease liability in note 22.

19. Derivative financial instruments

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Forward foreign exchange contract asset	**2**	34	**2**	34

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

Notes to the Financial Statements

20. Financial instruments by category

Group:

	2020			2019		
	Assets at fair value through the Income Statement	**Other financial assets at amortised cost**	**Total**	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	**2**	**-**	**2**	34	-	34
Trade and other receivables	**-**	**20,163**	**20,163**	-	7,313	7,313
Cash and cash equivalents	**-**	**8,643**	**8,643**	-	9,518	9,518
Net book amount	**2**	**28,806**	**28,808**	34	16,831	16,865

Authority:

	2020			2019		
	Assets at fair value through the Income Statement	**Other financial assets at amortised cost**	**Total**	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Assets as per Statement of Financial Position:						
Derivative financial instruments	**2**	**-**	**2**	34	-	34
Trade and other receivables	**-**	**19,024**	**19,024**	-	5,139	5,139
Cash and cash equivalents	**-**	**8,487**	**8,487**	-	9,267	9,267
Net book amount	**2**	**27,511**	**27,513**	34	14,406	14,440

Trade and other receivables includes trade receiveables net of expected credit losses and other receivables where a contractual receipt of payment is due. Statutory amounts receivable, contract assets and prepayments have been excluded.

Notes to the Financial Statements

20. Financial instruments by category (continued)

Group:

	2020 Liabilities at fair value through the Income Statement £'000	2020 Other financial liabilities at amortised cost £'000	2020 Total £'000	2019 Liabilities at fair value through the Income Statement £'000	2019 Other financial liabilities at amortised cost £'000	2019 Total £'000
Liabilities as per Statement of Financial Position:						
Trade and other payables	-	31,101	31,101	-	10,922	10,922
Borrowings	-	-	-	-	371	371
Net book amount	-	31,101	31,101	-	11,293	11,293

Authority:

	2020 Liabilities at fair value through the Income Statement £'000	2020 Other financial liabilities at amortised cost £'000	2020 Total £'000	2019 Liabilities at fair value through the Income Statement £'000	2019 Other financial liabilities at amortised cost £'000	2019 Total £'000
Liabilities as per Statement of Financial Position:						
Trade and other payables	-	40,536	40,536	-	18,144	18,144
Borrowings	-	-	-	-	371	371
Net book amount	-	40,536	40,536	-	18,515	18,515

Trade and other payables includes trade payables, lease liabilities and other payables where a contractual payment is due. Statutory amounts payable, contract liabilities and accrued expenses have been excluded.

Financial risk management disclosures are set out in the Financial Review on pages 49 to 57.

21. Cash generated from / (used in) operations

	Group 2020 £'000	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Profit / (loss) before income tax	**1,325**	2,347	**85**	(57)
Adjustments for:				
Depreciation, amortisation, impairment and adjustment on disposal	**4,817**	3,978	**4,562**	3,710
(Profit) / loss on disposal of asset	**(1)**	7	**(1)**	7
Grant amortisation	**(177)**	(254)	**(177)**	(254)
Finance income - net	**(2,316)**	(5,064)	**(2,272)**	(5,053)
Unrealised foreign exchange differences	**(31)**	36	**15**	54
Changes in working capital:				
- Trade and other receivables	**(12,481)**	(741)	**(14,085)**	(1,074)
- Trade and other payables	**12,532**	(4,124)	**15,157**	(1,186)
IAS 19 current service costs net of cash contributions	**(70)**	2,439	**(70)**	2,439
Provisions	**-**	(71)	**-**	-
IFRS 16 transition	**(31)**	-	**1**	-
Cash generated from / (used in) operations	**3,567**	(1,447)	**3,215**	(1,414)

Notes to the Financial Statements

22. Commitments

Capital commitments

At 31 March 2020 the Group had one significant capital commitment in respect of the upgrade of its operating systems to Windows 10 totalling £568k (2019: nil).

Lease liabilities

The Group has opted to implement IFRS 16, Leases on the first day of the current financial period (1 April 2019). At both 1 April 2019 and 31 March 2020 the company was committed to a number of lease contracts for buildings, plant and machinery and vehicles.

The following amounts are included within the Statement of Financial Position for lease liabilities:

	Note	**Group 2020 £'000**	Group 2019 £'000	**Authority 2020 £'000**	Authority 2019 £'000
Brought forward		**-**	-	**-**	-
IFRS 16 transition		**6,108**	-	**5,888**	-
Additions		**569**	-	**569**	-
Interest expense	7	**123**	-	**119**	-
Lease payments		**(753)**	-	**(682)**	-
Total lease liabilities		**6,047**	-	**5,894**	-
Analysis of lease liabilities:					
Non-current		**5,387**	-	**5,302**	-
Current		**660**	-	**592**	-
Total lease liabilities		**6,047**	-	**5,894**	-

Right of use assets associated with the lease liabilities above of £5,137k for the Group and £5,009k for the Authority were included within the Statement of Financial Position at the end of the current financial period (2019: nil) (note 9).

Notes to the Financial Statements

23. 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 £79,115k (2019: £7,206k). The substantial increase in the year was primarily due to the Thomas Cook repatriation activities in 2019 that the CAA was instructed to undertake by the DfT. At the end of the year £2,261k was owed to the DfT by the CAA (2019: £502k owed to the CAA).

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 Fuller, M Medlicott, 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 £392k was owed to the ATT by the CAA in regards to Monarch repatriation funds (2019: £393k) and £489k in relation to Thomas Cook repatriation funds (2019: nil).

During the year, the CAA charged £1,745k (2019: £280k) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £63,772k (2019: £688k) to the ATT during the year for repatriation activities, legal fees, accommodation costs, accounting and other administrative services. The substantial increase in the year was primarily due to the Thomas Cook repatriation activities in 2019.

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.

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

Notes to the Financial Statements

23. Related party transactions (continued)

The following expense / (revenue) transactions with fellow Group undertakings occurred during the year:

	2020 £'000	2019 £'000
Re-charge of corporate legal, finance, IT and facilities costs:		
CAA International Limited	**848**	848
Air Safety Support International Limited	**334**	343
Re-charge of corporate Board member costs:		
CAA International Limited	**33**	33
Air Safety Support International Limited	**27**	19
Provision of Radio Licensing service:		
CAA International Limited	**-**	149
Work carried out by Group entities with regard to aviation regulatory services:		
CAA International Limited (restated)	**(456)**	(619)
Work carried out on behalf of other Group entities with regard to technical assistance:		
Air Safety Support International Limited	**8**	8
Work carried out on behalf of other Group entities with regard to commercial aviation related services:		
CAA International Limited (restated)	**2,302**	2,925
Cost of internal exams hosting and maintenance charges by other Group companies:		
CAA International Limited (restated)	**(246)**	(111)
Total inter-Group charges	**2,850**	3,595

In the prior year the charges between the Civil Aviation Authority and CAA International Limited in respect of employee time purchased and sold and exams hosting and maintenance were netted off on a single line, showing as income to the Authority of £2,195k. These have been split to show the totals of amounts purchased and sold in respect of employee time and the sale of exams hosting and maintenance by CAA International Limited.

Notes to the Financial Statements

23. Related party transactions (continued)

	2020 £'000	2019 £'000
Interest receivable on Group trading balances		
Air Safety Support International Limited	**1**	1
Interest payable on Group trading balances		
CAA International Limited	**(48)**	(11)
Air Safety Support International Limited	**(2)**	-
Net interest payable on Group trading balances	**(49)**	(10)

The year-end balances owing by the Authority to Group undertakings

	Note	2020 £'000	2019 £'000
CAA International Limited	15	**(9,140)**	(6,812)
Air Safety Support International Limited	15	**(977)**	(968)
Total payables owing to Group undertakings		**(10,117)**	(7,780)

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.

The Group has not considered it necessary to include an expected credit loss provision against amounts owing by other Group entities. This is owing to the fact that all Group entities are fully owned subsidiaries, each with an assessment that they are a going concern, therefore there is no expectation of non-recovery of intra-Group debt.

Notes to the Financial Statements

24. Current cost return on capital employed

	Operating profit £'000	Average capital employed £'000	Return on capital employed %
CAA Regulatory Sector	**(1,787)**	**36,403**	**(4.9)%**

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 33 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	01.04.19 - 31.03.20	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.

Notes to the Financial Statements

25. Changes to accounting policies

On 1 April 2019 the Group adopted the new standard IFRS 16 Leases, replacing IAS 17 Leases. The primary function of this is to disclose material lease contracts and their associated assets on the Statement of Financial Position. For the Group, this related to a large number of lease contracts for the rental of buildings, plant and equipment and vehicles.

The Group has taken advantage of the provision under the standard not to restate comparative information but to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application of 1 April 2019. In addition, it has taken advantage of the practical expedient and applied the standard on the transition date only to contracts that had previously been identified as leases or as containing a lease. The impact of the transition from IAS 17 to IFRS 16 on the Financial Statements for the year ended 31 March 2020 is disclosed below:

	Group			Authority		
Income Statement	**As reported under IAS 17 £'000**	**As reported under IFRS 16 £'000**	**Impact on these Financial Statements £'000**	**As reported under IAS 17 £'000**	**As reported under IFRS 16 £'000**	**Impact on these Financial Statements £'000**
Revenue	281,912	281,928	(16)	267,502	267,502	-
Services and materials	(18,386)	(17,374)	(1,012)	(17,177)	(16,226)	(951)
Repairs and maintenance	(4,448)	(4,429)	(19)	(4,416)	(4,398)	(18)
Depreciation, amortisation, impairments and disposals	(3,845)	(4,639)	794	(3,667)	(4,388)	721
Other expenses	(163,626)	(163,570)	(56)	(161,003)	(160,945)	(58)
Finance costs	(10)	(121)	111	(58)	(166)	108
Unaffected categories	(90,834)	(90,834)	-	(81,636)	(81,636)	-
Profit for the financial year	**763**	**961**	**(198)**	**(455)**	**(257)**	**(198)**

Notes to the Financial Statements

25. Changes to accounting policies (continued)

Statement of Financial Position	Group			Authority		
	As reported under IAS 17 £'000	As reported under IFRS 16 £'000	Impact on these Financial Statements £'000	As reported under IAS 17 £'000	As reported under IFRS 16 £'000	Impact on these Financial Statements £'000
Property, plant and equipment	5,372	10,509	5,137	5,333	10,341	5,008
Trade and other receivables (current)	33,619	33,573	(46)	31,401	31,371	(30)
Unaffected categories	276,649	276,649	-	275,639	275,639	-
Total assets	**315,640**	**320,731**	**5,091**	**312,373**	**317,351**	**4,978**
Retained earnings	218,809	218,689	120	209,371	209,251	120
Trade and other payables (non-current)	764	6,151	(5,387)	764	6,066	(5,302)
Provisions for other liabilities and charges	50	-	50	-	-	-
Trade and other payables	45,994	45,868	126	52,215	52,011	204
Unaffected categories	50,023	50,023	-	50,023	50,023	-
Total equity and liabilities	**315,640**	**320,731**	**(5,091)**	**312,373**	**317,351**	**(4,978)**

Statement of Changes in Equity	Group			Authority		
	As reported under IAS 17 £'000	As reported under IFRS 16 £'000	Impact on these Financial Statements £'000	As reported under IAS 17 £'000	As reported under IFRS 16 £'000	Impact on these Financial Statements £'000
Balance as at 1 April 2019 as previously stated	183,166	183,166	-	174,891	174,891	-
Impact of change in accounting policy (IFRS 16)	-	(318)	(318)	-	(318)	(318)
Adjusted balance as at 1 April 2019	**183,166**	**182,848**	**(318)**	**174,891**	**174,573**	**(318)**
Profit/(loss) for the financial year	763	961	198	(455)	(257)	198
Unaffected categories	34,880	34,880	-	34,935	34,935	-
Total equity	**218,809**	**218,689**	**(120)**	**209,371**	**209,251**	**(120)**

Notes to the Financial Statements

26. Events after the reporting period

The COVID-19 pandemic has caused widespread disruption to the global economy and is expected to have a negative impact on the Group's and Authority's operations and financial performance in 2020/21 through to 2021/22. Since the end of the reporting period, the Group and Authority has received a grant from the Department for Transport of £10 million to meet its current funding shortfall. This is in line with the financial support disclosed in note 1.

27. Ultimate controlling party

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

Group five-year summary

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Income Statement (historic cost accounts)					
Revenue	**281.9**	150.2	190.7	135.8	132.6
Operating (loss) / profit before finance income-net and income tax charge	**(0.9)**	(2.7)	(1.6)	4.9	(5.4)
Finance income - net	**2.3**	5.0	2.8	3.3	10.8
Income tax charge	**(0.4)**	(0.4)	(0.4)	(1.7)	(1.3)
Profit for the financial year	**1.0**	1.9	0.8	6.5	4.1
Statement of Financial Position (historic cost accounts)					
Non-current assets	**278.4**	222.9	216.5	126.4	109.5
Current assets	**42.3**	30.6	37.3	33.3	27.6
Total assets	**320.7**	253.5	253.8	159.7	137.1
Reserves	**218.7**	183.2	179.6	104.4	85.7
Equity	**218.7**	183.2	179.6	104.4	85.7
Total liabilities	**102.0**	70.3	74.2	55.3	51.4
Total equity and liabilities	**320.7**	253.5	253.8	159.7	137.1

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

	2020	2019	2018	2017	2016
CAA Regulatory Sector	**(4.9)%**	(2.2)%	0.3%	8.2%	1.1%

Civil Aviation Authority (Accounts) Direction 2020

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 2020 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) International Financial Reporting Standards ('IFRS') as adopted by the EU, taking into account IFRS Interpretations Committee interpretations; 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 18 April 2019 is hereby revoked.

Dr Rannia Leontaridi, OBE, FRSA
Director General for Aviation
Signed by authority of the Secretary of State
20 March 2020

Civil Aviation Authority (Accounts) Direction 2020

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 2020

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;
- **f)** Given the significant contribution the aviation sector makes to the UK economy, and the CAA's role in its regulation, an assessment of how its regulatory activities contribute towards the growth of the industry, and the wider economy; and
- **g)** A 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 18 April 2019 is hereby revoked.

Dr Rannia Leontaridi, OBE, FRSA
Director General for Aviation
Signed by authority of the Secretary of State
23 March 2020

Annex - Growth Duty Report

Annex - Growth Duty: What the CAA currently does

As part of its role to provide effective regulation, the CAA needs to consider carefully and account for the impact of the individual regulatory decisions that it makes across a range of issues including but not limited to: economic, social, fairness across groups, environment and efficiency of operations. The CAA takes the view that the best way that it can support growth is to create conditions for a safe, secure sector that puts consumer interests at its heart, combined with a portfolio of pro-active, growth-focussed measures. A selection of our current activities is summarised below, categorised by priority:

Priority: Regulating proportionately and reducing the burden on business

Area	Activity	Impact	Benefit
General Aviation	**'E' Conditions** - Minimising the regulatory burden on experimenters, innovators and entrepreneurs to allow them to fly their prototype and proof-of-concept aircraft.	This will stimulate growth of the UK design and production sector by allowing these activities to be performed with little or no cost to the community.	Low, ongoing
	Introduction of part M-L and Part CAO - Airworthiness related evolutions of Part-M which introduce proportionate regulations for the GA organisations and owners maintaining and operating 'EASA' aircraft.	This results in a reduction of costs, and owners are more empowered to decide how their aircraft are maintained in a more pragmatic regulatory environment.	Low, ongoing
	Single-Seat Deregulated Microlights (SSDR) - This was introduced following the Red Tape Challenge and the deregulation has significantly reduced airworthiness costs and, thus, hourly operating costs.	There has been an increase in this size of microlight aeroplane sector in the UK. The figures below show the increase in the number of single seat microlights on the UK Aircraft Register from 2013 to present. **Sep-13** **295** **Sep-14** **471** **Jul-15** **542** **Oct-17** **672** **Sep-19** **692** **Apr-20** **702**	Medium, ongoing
	Sub-70Kg Self-propelled hang gliders (SPHG) - The CAA issued an exemption (pending future regulatory review as part of the wider GA Programme) to allow wheels to be fitted to these unregulated machines.	This has resulted in a significant increase of these machines at the very light end of the GA market, an upsurge in UK production and pilots flying these machines, stimulating growth in this area of the GA Community.	Low, ongoing
	Gyroplane Certificate of Airworthiness (CofA) - The basis for ICAO recognised certification was developed by the CAA for UK organisations who forecast a sales market for this enhanced platform.	It is still early days for a measurable increase in growth of this sector by virtue of this change, but the ingredients are now in place from the CAA for the manufacturers to offer these products.	Low, ongoing

Annex - Growth Duty Report

Priority: Regulating proportionately and reducing the burden on business (continued)

Area	Activity	Impact	Benefit
General Aviation	**Balloon Operator Approvals – Declared Balloon Operators (DBO)** - The CAA have recently transitioned the commercially operated fleet of balloons that provides paid rides for passengers from a nationally based Air Operator Certificate to a much more simple and proportionated system of declaration.	This has reduced approval costs which is expected to stimulate growth in the sector.	Low, ongoing
Working with airlines	**Issuing Permits to Fly for foreign airlines** - CAA took over this function from DfT in 2015 and the CAA have streamlined the process and made it easier for foreign airlines to gain permission to fly into the UK.	Whereas, previously, airlines would have had to speak with multiple agencies and partners (including Border Force, Home Office, DfT Aviation Security and the CAA), airlines can now do everything via the CAA, which coordinates input from all parties. This is more efficient for airlines, allows all parties to see what each other is doing and stops parties being played off against each other. This also engenders a good relationship with other airports that want to fly routes to the UK, especially Chinese ones and has driven a significant increase in permits issued, with an increase from 1,500 a year when CAA took on the function in 2015, to 4,500 in 2019.	Medium, ongoing
Airports	**Proportionate approach to economic regulation** - The CAA takes a pragmatic approach to compliance while retaining the primacy of safety.	For example, working with London City Airport (LCY) to agree an alternative means of compliance for an ever larger number of operations from an airport in a challenging environment surrounded by high rise towers. LCY have agreed varied standard operating procedures, such that LCY can safely operate outside of standard ICAO requirements while allowing easy access to the City. This is a major benefit to UK plc, as it connects the financial heart of the UK with international partners. The CAA have adopted a more proportionate approach to economic regulation of Gatwick Airport; and have consistently supported airport expansion in the south east, given the clear consumer benefit derived from additional capacity.	Low, one off

Annex - Growth Duty Report

Priority: Promoting and supporting the growth of the aviation industry and skills; and ensuring the different needs of all businesses and users are understood

Area	Activity	Impact	Benefit
Skills/STEM	**STEM outreach activity** - During 2019, over 2,000 young people were reached by various strands of activity, across 10 of the CAA's capability areas. As well as supporting the wider industry's efforts, the CAA has also put in place a successful internal apprenticeship programme, and currently has 21 apprentices spread across the whole organisation.	The CAA is committed to helping to encourage, inform and educate the next generation of aviation professionals, to ensure the sector continues to flourish and grow.	Low, ongoing
Organisation	**Reports to CAA ExCo/Board** - Every report presented to either the CAA's ExCo or Board must consider the proposed approach's impact on economic growth and provide analysis of that impact for the Board to review; this is included as part of the template for Board papers.	This ensures that all CAA colleagues consider the impact of economic growth of any significant issues requiring ExCo/Board sign-off/approval.	Low, ongoing
Business Engagement	**Horizon Scanning** - By proactively establishing relationships, the CAA has been able to provide initial expertise and guidance to projects. This includes advising the Reaction Engines (SABRE) project and conducting a virtual certification for Rolls Royce Additive Layer Manufacturing research.	The CAA has worked with industry to understand and inform its future approach at a much earlier stage than a regulator traditionally would. This helps prepare staff to support future industry and reduce regulatory barriers. The CAA is currently working to develop an early regulatory position on the high levels of automation expected in future ATM systems and considering airspace requirements for potential new entrants.	Medium, ongoing
International	**Relationship with Europe** - Prior to the UK leaving the European Union, the CAA acted both to minimise additional administrative burdens for the sector where they had the ability to; and to make information available for industry as transparently as possible through a dedicated EU-Exit microsite. The CAA have offered a block permit that gives trusted ad-hoc carriers pre-approval to fly to and from the UK. Carriers then retrospectively inform the CAA of the routes they flew and what they were carrying.	One specific example concerns EU carrier operations in the UK where the CAA has given certainty to EU carriers that they will be able to sell tickets, and the confidence to make significant investments. There are 30,000 commercial ad-hoc flights (excluding private/state flights) that take place each year, carrying things like blood products, and skilled labour, which make a major contribution to growth. For ad-hoc carriers, the CAA has assured them that they will be able to continue flying reasonably seamlessly in the event of a no-deal EU-Exit. This allows simpler compliance and greater flexibility for carriers, while also ensuring that relevant data is available, for instance to inform EU negotiations.	Medium, ongoing

Annex - Growth Duty Report

Priority: Supporting innovation

Area	Activity	Impact	Benefit
Airspace	**Airspace Modernisation Strategy**	The airspace modernisation strategy will support growth at a macro, sectoral and GA level. The CAA will have a greater role in setting the strategy for modernising UK airspace that will deliver a range of benefits, including allowing the safe growth of many different forms of traffic in UK airspace.	Medium, ongoing
Security	**Promoting innovation and technology that improves outcomes** - Examples include: Next Generation Security Checkpoints, facilitating operational trials of new equipment and processes, world leading regulation in cyber security, working with Heathrow and others to ensure security is built into expansion plans; and One Stop Security to facilitate cargo flows without cargo having to be rescreened.	Effective aviation security is a pre-requisite for growth. The CAA's regulatory work aims to set the right conditions, be proportionate and to understand the impacts on business; and is about letting airports deliver the necessary security outcomes they need. The CAA has facilitated new services to enhance the consumer experience and promote new business models.	Medium, ongoing
Business Engagement	**CAA Consumer Panel** - The CAA proactively engages with the sector and its users and consumers, to understand what customers value and where things don't work. This includes putting in place a Consumer Panel, a novel regulatory think tank, and using focus groups and sentiment trackers to understand consumer perception.	This helps the CAA to understand how to prioritise regulatory interventions to enhance consumer experience, help grow the sector and minimise costs.	Low, ongoing
Innovation	The CAA established an Innovation Hub in April 2019 with the mission of enabling innovation in aviation to flourish. The Hub has achieved greater collaboration with industry through the Regulatory Sandbox, industry workshops and innovation clinics. The UK's Future Flight Challenge will be pioneering the next generation airspace system to enable integration of new technology, such as drones and urban air mobility. The Innovation Hub has been established as the focal point for the CAA and will provide dedicated resource to support this programme.	The Hub has published new guidance for advanced drone operations, giving clarity on the regulations that the CAA has not previously been able to provide and has helped the market to improve the regulatory readiness of new entrants, technologies and solutions. The CAA's Innovation team is also working internally to increase its readiness for innovations, for example by creating internal taskforce groups for current challenge focus areas such as for flying drones beyond visual line of sight. In addition, being a new focal point for Innovators, the team has freed up resource in the regulatory teams allowing them to deliver their core services to the sector more efficiently. Innovators involved directly in the Regulatory Sandbox have regularly shown their appreciation for the guidance and support provided. From start-ups to large corporations, these include UK (Altitude Angel), European (Volocopter) and international (Amazon).	Medium, ongoing

Annex - Growth Duty Report

Priority: Supporting innovation (continued)

Area	Activity	Impact	Benefit
Unmanned Aerial Systems (UAS)	**Online education and registration system for UAS operators** - Since the system was launched in November 2019 there have been nearly 100,000 successful registrations.	The system was built with simplicity, usability and accessibility in mind and went through extensive end-user testing to achieve this. This represents a simple and effective mechanism for the UAS community to comply with government-introduced requirements.	Medium, one-off
	Regulatory measures - Specific regulatory measures to promote UAS innovation include the removal of the commercial trigger for low risk drone operations. From July 2020, the CAA is implementing a new regulation which will remove the requirement for commercial drone operators to seek permission for low risk activities.	This will remove regulation for those with low risk operation and represents a reduction in regulatory burden and cost. The CAA is also working on pioneering new approaches, such as working with NATS and London City to introduce a virtual control tower at LCY, freeing up land, which is in short supply, and using it for other commercial purposes.	Medium, ongoing

Priority: Ensuring more transparency in its operations and digitalisation of operations

Area	Activity	Impact	Benefit
ATOL	**Introduction of eATOL** - The CAA introduced eATOL in 2019, which allows around 2,500 ATOL-holding companies to complete their regulatory return online.	This gives the CAA better data to target its regulation more proportionately and makes it easier and quicker for ATOL-holding companies to complete their return, saving time and resource.	Medium, one-off
	Market monitoring / financial fitness - Financially overseeing airlines in a way which balances a desire to ensure that the sector remains vibrant and competitive without undue barriers to entry, while at the same time consumers do not face excessive risk when booking.	One of the ATOL scheme's core purposes is reassuring consumers that they are booking with a licensed entity and that, were something to happen to their holiday company, their money would be protected. This supports growth and competition in the sector. The CAA is closely involved with the Department for Transport's airline insolvency reform work. In particular, honing its regulatory toolkit to support sectoral growth through enhancing consumer confidence is a key outcome.	Medium, ongoing

Annex - Growth Duty Report

Priority: Ensuring more transparency in its operations and digitalisation of operations (continued)

<table>
<tr><th>Area</th><th>Activity</th><th>Impact</th><th>Benefit</th></tr>
<tr><td>Licensing</td><td>The Shared Service Centre (SSC) is the CAA's 'one stop shop' - Providing a single point of contact for various services including issuing personnel licences.</td><td>The CAA has worked to process a significant number of licences over the past few years to enable growth. As the table below indicates, 2019 saw a surge in the number of EASA transfer requests needing to be processed (licences and medicals). The CAA flexed the SSC resourcing model and adjusted staffing levels to manage this situation.
<table>
<tr><th colspan="4">Initial Issue and Renewals</th></tr>
<tr><th>Type</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>Professional</td><td>2,116</td><td>1,966</td><td>2,119</td></tr>
<tr><td>Private</td><td>2,389</td><td>2,048</td><td>2,147</td></tr>
<tr><td>Engineer</td><td>2,452</td><td>2,635</td><td>1,985</td></tr>
<tr><td>Air Traffic Controller</td><td>2,201</td><td>2,149</td><td>2,150</td></tr>
</table>
<table>
<tr><th colspan="4">State of Licence Issue (SOLI) transfers</th></tr>
<tr><th></th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>SOLI</td><td>451</td><td>1,877</td><td>4,701</td></tr>
<tr><td>Doc 155</td><td>248</td><td>1,806</td><td>4,531</td></tr>
</table>
</td><td>Medium, one-off</td></tr>
</table>