Civil Aviation Authority

Annual Report & Accounts 2020/21

Launch

CAP2124

Annual Report & Accounts 2020/21 Civil Aviation Authority

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Statement by the Chair

Sir Stephen Hillier

In her introduction to the CAA's 2020 Annual Report, my predecessor laid out the already enormous impact of COVID-19 on global aviation. But few would have forecast then that the impact would deepen and endure for at least a further year, such that we have still yet to see an appreciable level of recovery. Progress with vaccinations, in some countries at least, is giving hope that we may now be approaching a turning point, but an enterprise as international and inter-connected as aerospace will ultimately depend on success being achieved on a global scale. In all cases, the immediate challenges associated with re-starting dormant aviation activity are significant, as are the longer-term issues and risks to identify and address, as we seek to recover to previous levels of national and international aviation activity.

What the CAA has done over the last year in response to the COVID-19 crisis is covered in significant detail in this Annual Report. From my perspective as Chair, and on behalf of the CAA Board, I can say how proud we are of the way in which the CAA has responded to this extraordinary challenge. Despite the dramatic reductions in aviation activity, and despite most of our people still having to work remotely, we have remained exceptionally busy and engaged throughout the crisis. We have consistently played a leading and highly valued role, from providing advice and assistance to Government and being part of the Global Travel Task Force, to working closely with industry and ensuring that safety, security and the interests of consumers remain at the forefront of the sector's thinking during re-start and recovery. For consumers in particular, the pandemic has brought into sharp relief some of the current limitations in our ability to safeguard their interests. Whilst we have been relentless in working on behalf of consumers within our existing authorities, particularly in relation to refunds, I am pleased to see recent confirmation from Government that it intends to enhance our powers to allow us to safeguard consumer interests better in the future.

Were it not for COVID-19, the main event of the last year would almost certainly have been the UK's withdrawal from the European Aviation Safety Agency (EASA) on 31 December 2020. Nevertheless, it remains a signal moment in the CAA's history. Our relatively smooth and successful transition back to sovereign regulator status may have been helped to some degree by the suppressed level of aviation activity, but a far more important factor was undoubtedly the four years of intense preparatory activity, coupled with our deep existing levels of knowledge and expertise. The final withdrawal agreement inevitably did not cover every aspect of our future relationship with EU nations and with EASA, so we have been working hard to address those outstanding issues, to ensure that the UK can continue to conduct international aviation activity as efficiently and effectively as possible. At the same time, we are actively pursuing the opportunities to work even more closely with a range of other nations, and to exploit the greater freedoms now available to us, to help ensure that the UK continues to be a leading place in which to do aerospace business.

COVID-19 recovery and the post-EASA environment are two of the key strategic challenges for the CAA, but there are many more besides, including: sustainable aviation; future regulation; airspace modernisation; enabling innovation and new technologies; space; remotely piloted aircraft systems; and greater international engagement. The scale of these interconnected challenges, and the need for the CAA to take both a leading role and have the flexibility and agility to adapt to a fast-changing aerospace environment, has led to the development of a new strategy, the key aspects of which are set out in this Report. The strategy aims to define the CAA of the future – the business that we will do and how we will do it – but in guiding us to that future, the essence of the strategy is ensuring that we have an organisational mindset, culture and processes which embrace flexibility and continual adaptation.

It will shortly be one year since I took over as Chair of the CAA from Dame Deirdre Hutton. I pay tribute again to her leadership during her 11 years with the CAA. I also thank most sincerely my Executive and Non-Executive Board colleagues, for their support throughout my first year in appointment, and for the excellent leadership they have shown throughout an exceptionally demanding period. And I thank and congratulate most sincerely everyone in the CAA for their outstanding commitment and achievements, ensuring that the CAA continues to be considered a world-class aviation regulator.

Sir Stephen Hillier, Chair
16 June 2021

Statement by the Chief Executive

Richard Moriarty

Aviation is certainly not unique in having as its two defining themes of the past year COVID-19 and the end of the withdrawal period for the UK's exit from the European Union. But few other sectors will have been so directly impacted by both issues. They are so critical to our year under review that we have introduced two new sections in this publication to cover them more fully.

COVID-19 has had an enormous impact on our industry, with commercial traffic volumes typically around 10 per cent of pre-pandemic levels. Nearly every aviation organisation has had to undertake very painful measures to ensure their financial viability. Regretfully this has led to a significant downsizing in jobs within the industry.

Throughout COVID-19 our senior management team have remained in very close contact with their equivalents in the industry, Government and fellow aviation regulators. To be able to fulfil our duties and help both the industry and the consumers we serve, we have to understand the situation and adapt where appropriate. At all times our conversations have been open and frank. This close and constructive engagement and open information sharing is key to enabling us to do our job properly. In addition to working with organisations bilaterally to understand and help with their individual issues, we have also focused on examining system-wide issues given the interconnected nature of UK aviation. Alongside this we have published guidance material throughout the year, aiming to alert organisations and individuals to risks, opportunities and best practice in dealing with the challenging operational and financial context.

I'm pleased to say that all parties we have engaged with have stressed the importance of maintaining high levels of aviation safety during the period. We have also had detailed conversations to plan for how to continue to ensure high safety standards once aviation starts to recover and volumes increase.

Our close engagement with industry and Government throughout the pandemic has not diluted our overall commitment to do what's right for consumers. In some cases, and especially earlier in the year, we had to robustly but proportionately step in to protect consumers in getting refunds for travel. We were the first regulator in Europe to issue guidance to airlines on their refund obligations in the pandemic. We subsequently launched a review of airline practices, which included commitments given by some airlines to improve their practices; and we closely monitored airline compliance with those commitments to make sure they were achieved. Since then, generally we have seen the majority of the industry doing the right thing in challenging circumstances.

Although we have made best use of our approach to enforcing consumer rights, our experience in using our more formal legal powers has demonstrated that there is a compelling case for their modernisation. Where we take formal legal action the route to a conclusion in Court can be protracted and take years. For example, the High Court recently upheld in favour of the CAA a case we brought against an airline for delays and cancellations owing to industrial action in 2018. I therefore welcome the Government's recent commitment to review how best to enhance our consumer powers for the future.

Like other entities, COVID-19 has also had a profound impact upon our own organisation. We have successfully operated away from our offices, whilst ensuring that our inspection teams have been able to complete necessary work on site. Our people have shown enormous commitment, creativity and resilience throughout; and have gone the extra mile to do what it takes to help the industry and consumers during this period. They have also borne personal sacrifice, with all colleagues within scope accepting a voluntary pay cut for the first half of the year.

The collapse in aviation activity this year has had a profound impact on our finances. We lost about £38 million in regulatory revenue compared to our original pre-COVID-19 budget. I am extremely grateful to the Department for Transport for providing the necessary financial support to ensure that our operations could continue throughout the year.

Statement by the Chief Executive

Richard Moriarty

The end of the EU withdrawal period was the other defining theme of the year. When it came, on 31 December 2020, we were well prepared having worked closely with industry and Government on the planning to minimise possible disruption. All of the capabilities and processes that the CAA agreed to have in place by the transition point were ready and operational, including a new State of Design capability, a new Foreign Carrier Permits process, and a new Aviation Security database. We also worked very closely with colleagues in Government to prepare all the necessary legal instruments and to support their negotiating teams. Communications were vital and we set up a popular dedicated microsite to offer bespoke guidance and technical information so that everyone with an interest would have clarity about what the transition point would mean for them.

Post the transition date, we have continued to work with the European Aviation Safety Agency (EASA) to finalise the Technical Implementing Procedures of the new Trade and Cooperation Agreement so that aviation organisations have clarity on how the new procedures will work in practice. We have also reached agreement with EASA over the sharing of safety intelligence arising from our respective ramp inspection programmes for foreign aircraft.

Given the international aspect of aviation, it is important to the CAA's ability to enhance safety standards that we continue to work closely with partner regulators. This year we have focused on deepening our relationships with national regulators across Europe and around the world. We have safety agreements with regulators in the USA, Canada, Brazil, Japan and Singapore. We have continued to invest in our work with the International Civil Aviation Organisation (ICAO), the global body for setting aviation safety standards. This year we have been heavily involved in helping ICAO to develop and pilot an assurance framework for airports to demonstrate that their COVID-19 security arrangements are appropriate.

One of the first major national decisions we made after the end of the EU-Exit transition period was to remove the safety restrictions on the Boeing 737 MAX aircraft. These had been put in place following the two tragic accidents and subsequent investigation findings. Our decision mirrored that taken by other national regulators around the globe. The wider issues around the Boeing 737 MAX certification and the relationship between the manufacturer and regulator demonstrated both the great importance of the independence of regulators and also the complexity of a modern aircraft certification process.

From my perspective, the work to approve a return to passenger flight for the aircraft highlighted how important it is for nations to continue to work together on aviation safety. In coming to our decision, we were in constant engagement with Boeing; the Federal Aviation Administration in the USA; EASA; the operators of the aircraft; and other national aviation regulators. Each of these conversations saw the sharing of significant levels of data, findings and experience. All of this was absolutely necessary for us to be able to reach a decision on whether to lift our restrictions in a coordinated way.

The CAA has to be an agile and ambidextrous organisation. On the one hand we must deal effectively with the issues of the day and oversight of the aviation system in terms of safety, security, and consumer rights. On the other hand, we must also look to the future and ensure that we play our full role in enabling innovations and new technologies to integrate into the aviation system and airspace. Despite the significant challenges we have addressed this year, we have continued to develop capabilities aimed at positioning both us and the aviation and aerospace industries for the future.

Statement by the Chief Executive

Richard Moriarty

As part of this, I was pleased that our Board approved a new refreshed strategy to guide our work and prioritisation over the next few years. As part of our Project Horizon (see page 17 for more details) we challenged ourselves on what sort of organisation we need to be in the future to serve our stakeholders and meet our duties. Although much of the new strategy shows a continuity with our current strategy, for example in terms of ensuring that we continue to pursue a leading position in risk-based oversight for safety, security and consumer rights, there are also some important inflexion points like ensuring that we play our full role in reducing aviation's environmental impacts and enabling new technologies.

> We support the Government's ambition for the UK to be the best country in the world for General Aviation (GA).

This year we put in place a new Spaceflight team to provide technical, policy and regulatory expertise to support the Government's ambitions of enabling commercial space launch activities from the UK.

As a result it is now our responsibility to issue commercial and large rocket permissions for rocket launch activities in the UK and we will also play a key role in developing a new regulatory framework as part of the Government's programme to enable satellite launches from UK spaceports.

We have also worked with a number of innovators looking to develop new technologies, including some aimed at de-carbonising flight. For example, we helped in the successful test flight in the UK of the world's first hydrogen powered engine on a commercial grade aircraft.

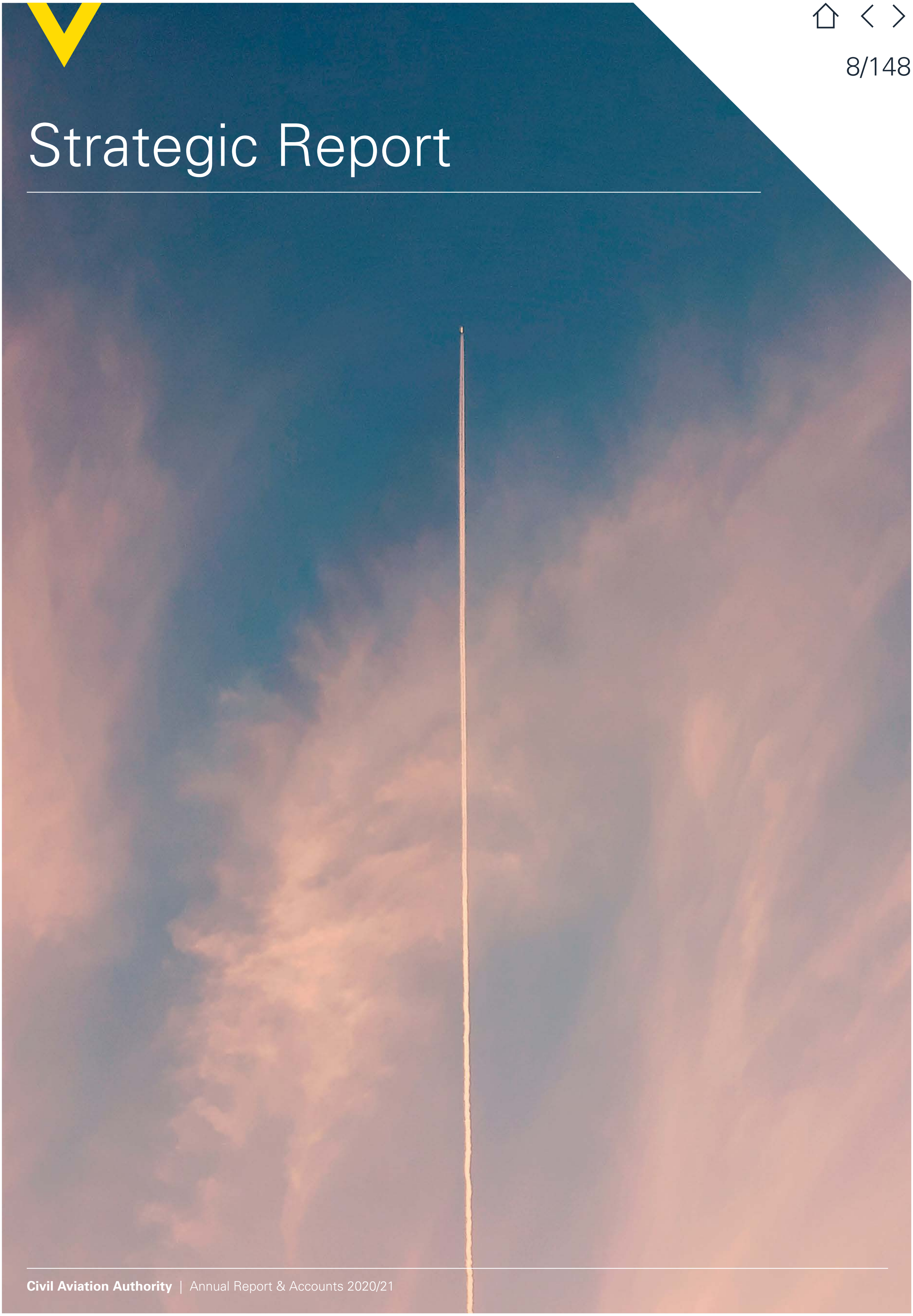
Linked to this, operators of remote piloted aircraft systems (RPAS), including drones, have been able to launch flights that go beyond the visual line of sight (BVLOS); including some flights used to carry medical supplies to reach islands off the UK mainland during the pandemic.

I am pleased that the UK continues to benefit from having a wonderful and varied grass roots aviation community who undertake aviation activities for sport or leisure. We support the Government's ambition for the UK to be the best country in the world for General Aviation (GA). This year we have led a number of initiatives aimed at pursuing this goal. With funding from Government, we launched a rebate scheme for private pilots to buy devices that allow them to send and receive electronic signals to and from other nearby airspace users, to create a better 'known environment' to improve safety and reduce the risks of a mid-air collision. Now that the CAA is no longer part of the EASA system, we have launched a red tape challenge to ensure that our approach to GA regulation is risk-based and proportionate. We have used our new freedoms and capabilities post EASA to certify for service two new balloon types. We have also set up a new team to advise GA airfields and aerodromes on how to engage with the planning system.

Finally, may I take this opportunity to express my sincere thanks to my colleagues at the CAA who have worked tirelessly to pursue our objectives in what has been an exceptionally challenging context. They are driven by a real sense of public duty, a passion for doing the right thing and a desire to collaborate with others to get the job done. It is a privilege to lead such professional and talented colleagues.

Richard Moriarty, Chief Executive Officer
16 June 2021

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;
- COVID-19;
- UK-EU transition;
- Project Horizon;
- Review of our business;
- Companies Act s.172 statement;
- Growth duty;
- Our environmental performance;
- Our efficiency report;
- Key performance indicators;
- Principal risks and uncertainties; and
- Financial review.

This strategic report was approved by the Board on 16 June 2021.
By order of the Board.

Kate Staples, General Counsel and Secretary
16 June 2021

CAA Business Model

Our Stakeholders

Those we PROTECT

- Aviation consumers
- The overflown

Those we REGULATE

- Airlines and airports
- Aircraft maintenance organisations
- Approved training organisations
- Air navigation service providers
- Individual licence holders
- General aviation
- Remotely piloted aircraft systems
- Commercial space industry

Those who WORK WITH us

- Competition and Markets Authority
- The Police
- The Health and Safety Executive
- National Cyber Security Centre
- UK Space Agency
- Other regulators, nationally and internationally

Those who OVERSEE our work

UK Parliament

ICAO · OACI · ИКАО

Department for Transport

Our Statutory Functions

- Regulating civil aviation safety
- 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 RPAS 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
- Overseeing commercial and large rocket permissions

The Risk Principles we apply

1. We will seek to protect the consumer and the public from harm where there is a clear justification for CAA involvement.
2. We will be clear at all times about the risks for which we are accountable.
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.
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.

Our Strategy at a Glance

Our Mission

Improving aviation and aerospace for consumers and the public

Our Vision

We constantly challenge ourselves and our stakeholders to improve safety, security and consumer protection outcomes.

We strive to be a diverse, innovative and future-focused regulator, dedicated to enabling thriving aviation and aerospace sectors.

Our Purpose

To help deliver high standards of safety, security and consumer protection for the benefit of consumers and the public.

To uphold consumer choice, value and fair treatment.

To enhance vibrant, competitive and innovative aviation and aerospace sectors.

To share with and learn from others, working with partners to ensure our regulatory expertise is used to improve standards and innovation worldwide and build the UK's global influence.

To cultivate an agile, diverse, high-performing and values-based organisation that is greater than the sum of its parts and committed to continually improving our services.

To support the sectors as they manage and reduce their negative environmental impacts, including emissions and noise.

Our Values

- Do the right thing
- Never stop learning
- Build collaborative relationships
- Respect everyone

Our Strategic Focus Areas

- Leading risk-based oversight and regulatory stewardship
- Enabling recovery, innovation and growth
- Developing relationships to support ongoing global improvement in aviation and aerospace
- Improving environmental performance
- Enhancing organisational diversity and capability for the future

Our Regulatory Approach

We will be guided by our regulatory principles in making independent regulatory decisions to deliver on our vision, acting within the legislative and policy framework set by Parliament and Government.

Board Priorities for 2021/22

Based on the strategic focus areas and high-level ambitions these are the **agreed** in year business plan items which will be a priority for 21/22.

Enable a safe, secure and consumer-focused response to, and recovery from, the COVID-19 pandemic

Key initiatives:

- COVID-19 Response Safety, Security & Consumer (incl. COVID-19 enforcement activities)
- Crisis Management
- Heathrow & NERL Economic Regulation
- Working with ICAO

Develop the CAA's capability as a leading international regulatory authority in light of leaving the EASA system

Key initiatives:

- International Strategy
- ICAO Universal Safety & Security Oversight Audit Programme
- Renew industry, Government and international partners relations post UK-EU Transition

Enable the modernisation of aviation and aerospace to enable growth and innovation, whilst realising benefits for consumers and the public

Key initiatives:

- UK Aviation Regulatory Framework Reform
- Spaceflight Regulation
- Innovation
- Airspace Modernisation
- Science, Technology, Engineering & Maths

Identify the next wave of priority actions for Project Horizon to strategically position the CAA for the future and embed the progress to date

Key initiatives:

- CAA's Aviation Sustainability Strategy
- Strategy Development
- Target Operating Model Design
- Finance Sustainability & Funding Model
- Regulatory Approach

Progress work to achieve Tier One Cyber Assessment Framework compliance and to appropriately protect CAA's information

Key initiatives:

- CAA Security Maturity (Cyber)

"Ensuring we pursue effective safety, security and consumer regulation given the ongoing COVID-19 context will remain a priority as well as a number of initiatives aimed at preparing the CAA to be well positioned in the future as an effective, relevant and high-value organisation.

Richard Moriarty,
Chief Executive,
UK Civil Aviation Authority

Successfully implement our People Strategy

Do the right thing

Never stop learning

Build collaborative relationships

Respect everyone

Creating a one-CAA approach - a high performing, values-based organisation, greater than the sum of our parts

An organisation that can adapt & flex to whatever comes our way

People take accountability & apply expertise in a way aligned to our values

Offer an employee experience where people are included & cared for

Personal & organisational learning & growth keep us at the leading edge

Effective & respected leaders & managers

Key Enablers

Regulatory income

For the year ended 31 March 2021 our total income was £128.0m of which £58.4m was statutory income generated under the schemes of charges. £13.4m was in respect of Eurocontrol service charges.

To replace the regulatory income lost as a result of the downturn in activity due to the COVID-19 pandemic, the DfT provided £37.0m in section 12 grants during 2020/21.

Additional income sources

£5.5m 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.

£10.3m for other services, which included income for activities funded directly by the DfT (e.g. State Safety Programme, ASSI, environmental research).

Transforming our systems and processes

We are normally 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 are active in applying the Government's better regulation principles.

We strive to be evidence based in all our actions.

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.

COVID-19

COVID-19 has impacted individuals, organisations and countries across the world, with the aviation industry being probably one of the most severely affected sectors of business. By its very nature aviation is an international business and community. Under COVID-19, however, the very principle of international movement, certainly for passengers, has been severely restricted and, for many, stopped completely.

UK airlines, airports, manufacturers, supply and supporting organisations have posted record losses. Thousands working in the sector have been furloughed or lost their jobs and it may be several years before we see aviation return to the level of activity it was experiencing prior to the pandemic.

The long list of those impacted includes consumers, who have seen the usual freedom to travel that aviation brings, whether for business or pleasure, taken away. Also, those training for a career in aviation and the many thousands that enjoy aviation for recreation have been unable to pursue these activities.

There is, however, confidence that the underlying demand for aviation remains high and that this will play a significant role in the industry's recovery.

Our approach

Throughout this period we have concentrated on creating the conditions for aviation to continue to meet high levels of safety and for consumer interests to continue to be protected; and ensuring that we do all we can to facilitate aviation in all its forms during the crisis and in its recovery, and that we care for our colleagues and their safety.

We have sought to support the Government's efforts to keep the population safe and to facilitate aviation. This has included enabling the use of innovative technology, such as drones, to support the NHS and others combatting the virus, as well as providing regulatory flexibility where it is possible and safe to do so.

Work with industry

We quickly sought to assist organisations and individuals that we regulate where it was consistent with our regulatory duties. This included issuing exemptions and alleviations so that licences and approvals could be maintained. For example, extending pilot ratings and medical certificates where it was otherwise impossible to maintain their currency. In doing so we have been mindful of the return to a more normal situation and the requirement for individuals and organisations to be back up to speed safely.

We have been proactive in our efforts to assist industry to maintain high levels of safety and security, while being open to opportunities and proposals for new approaches during these challenging times. Facilitating aviation's role in helping to combat the crisis has been a key objective for us. Our innovation and safety teams were able to approve a number of trials and programmes to help with the COVID-19 relief effort. These included helping to coordinate commercial operators, primarily in the helicopter industry, to move vital equipment and personnel. Some industry, for example cargo flying, has remained very active and so it has been important that we continue in our oversight role. We have changed the way we work, for example still undertaking operational inspection where required, but also being flexible and realistic in our requirements, whilst not reducing aviation safety. We have taken significant measures to keep our colleagues and those we regulate safe.

Impact on the CAA

The CAA's finances have been impacted significantly by COVID-19, with our regulatory income down by around 44% compared to our budget.

We quickly managed our internal costs and deferred increases to our charges. Initially for a three-month period, then extended to cover the next financial year.

All members of the CAA Board, Executive Committee and many colleagues took pay cuts and we froze all recruitment and paused all capital-intensive projects for five months.

The Department for Transport agreed to provide additional grant funding to cover our shortfall so that we could maintain our regulatory oversight.

Work with Government

We took on the responsibility of enforcing requirements on air carriers to make sure incoming passengers have undertaken the required medical tests and carry the appropriate Passenger Locator Forms (PLFs) for Border Force teams to check at arrivals. This can result in warnings, fixed penalty notices and, in some cases, prosecution.

Working alongside our DfT colleagues, we are a lead player in the International Civil Aviation Organisation's (ICAO) Council Aviation Recovery Taskforce. For this we worked with UK industry to test the ICAO Public Health Corridor concept and to influence its guidance on COVID-19 security measures. With Public Health England and with the support of a small group of our industry, we designed a proof of concept for an assurance scheme whereby UK airlines and airports would receive a voluntary assessment of their implementation of the ICAO guidance from a CAA inspector, a CAA medical professional and a public health expert. Roll out of the scheme began in March 2021.

COVID-19

Protecting consumers

Throughout the period we have provided advice and clarification to consumers on their rights and the role industry should play in supporting them.

Initially this focused on advice to passengers directly affected by the virus about their rights to refunds and alterations to bookings.

It became clear in the summer of 2020 that some airlines were systematically failing to provide customers with refunds within a reasonable period of time. We conducted a review which showed that some airlines were not paying refunds, with others facing potential backlogs of numerous months. As a result of our interventions all UK airlines are now paying refunds. Unfortunately, during the year, several tour operators ceased trading and we processed refunds for protected consumers.

We helped the Competition and Markets Authority in its work encouraging tour operators to provide timely refunds, as well as its review of frustrated contracts between airlines and their customers.

As consumers look to travel again, we have issued advice, via our website and the media, on the protection and rights that different options deliver, including the financial protection delivered by booking a package holiday under the ATOL scheme.

Supporting colleagues and keeping them safe

A key role for us is supporting our colleagues in any way we can and helping to keep them safe, including those required to work operationally with industry and in our offices.

We have followed Government advice, with the majority of colleagues working from home since March 2020. Our buildings were made COVID-19 compliant for those required to attend and strict procedures were put in place for those undertaking direct contact with industry.

In more normal times, our colleague well-being is a high priority for the CAA. During COVID-19 this has taken on an even higher profile with specific actions, advice, training, events and resources being made available.

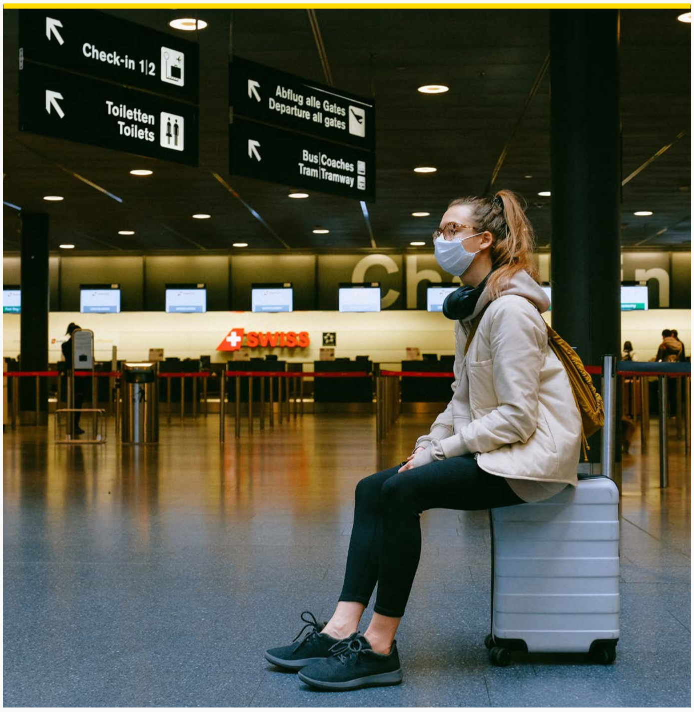
We invested in improved IT to support colleagues working at home and have sought to digitise more of our licensing processes to facilitate remote working.

Aviation's recovery from COVID-19

Achieving a safe return to service for all areas of civil aviation is a high priority for all the organisations in the sector.

The impact on the overall system has been significant. It is the responsibility of the organisations and individuals to make sure that they are fit and safe to return. We do, however, have a significant role to inform, advise and check to help to make sure that our aviation industry continues to enjoy a high level of safety and respect.

The impact of the crisis has stretched far beyond the commercial industry, with other aspects such as recreational aviation affected. The restrictions on movement have meant that many recreational pilots have had limited opportunities to fly. To help them, we have provided extensive safety advice and guidance on returning to flying, ranging from podcasts and online seminars to the direct mail of a safety magazine to over 10,000 aircraft owners.



UK-EU transition

Leaving the European Union, especially the decision to leave the European Union Aviation Safety Agency (EASA), has had a significant impact on the CAA and the UK aviation community.

As a safety regulator, we were an integral part of EASA and many of our consumer protection rules were grounded in EU law. Our withdrawal from the European aviation system has, therefore, been a significant piece of work for both us and the wider aviation community for several years.

Our priorities and approach

Our key priorities were to make sure that, as an organisation, we could fulfil whatever was asked of us after leaving the European system and to assist the aviation community as much as possible with understanding the regulatory implications of its own transition. We stood up a dedicated project team to undertake this significant area of work.

The break from EASA meant we would need to assume new responsibilities, primarily once again becoming a 'State of Design' authority and also setting policy in many areas. As a result we have employed specialists, mainly in our airworthiness team.

Based on the current UK aviation industry, it is likely that most of our initial certification work will service the innovation and general aviation markets.

Continuity and the ability to continue trading and flying were key challenges. We quickly notified the aviation industry and licence holders that we would be recognising existing current EASA licences and approvals for two years, providing extra clarity and stability for the industry. Recognising that leaving the European system would also affect their ability to operate or maintain EU-registered aircraft, we have also been assisting UK-registered pilots and engineers in transferring their licences to European member states. The volume of such requests has been significant. We also introduced a streamlined approach to allow these individuals to regain their UK licences (in addition to holding their European licences).

Our engagement with industry

We set up an extensive EU-Exit online microsite dedicated to providing all stakeholders with up-to-date information. This was continually updated as new information became available and it became a one-stop-shop for all involved.

We used our Skywise stakeholder alerting system to target certain sectors with notification of key updates, as well as using direct email and close contact with representative groups.

For stakeholder groups that were significantly affected, such as manufacturing organisations and also those with less corporate support, such as General Aviation, we held a series of very successful webinars.

In addition, recognising that European regulations ceased being an accurate reflection of individuals' and organisations' rights under UK law at the beginning of 2021, we launched a dedicated website which contains the UK's legislative and regulatory framework for the aviation industry. This was all backed up by our regular and ongoing oversight interactions by our inspecting teams.

Our work around the UK-EU trade deal

The UK-EU Trade and Cooperation Agreement (TCA), announced on 24 December 2020, includes agreements on air transport and aviation safety which came into effect when the UK ceased to take part in EASA and other EU institutions.

While the agreements provide some continuity, they do not replicate the UK's previous regulatory arrangements as part of the EASA / EU framework, with many sections of the aviation and aerospace industries experiencing changes after 31 December 2020.

We have continued to provide advice and publish new recommendations that build on the basic law and replace similar material that was previously used under the EASA system.

Our international role

We continue to play a full and leading role in ICAO, working to improve aviation on a global scale. Not being part of the overall EASA / EU system meant that we needed to negotiate new working arrangements with other nations. The UK now has these safety agreements in place with the major aerospace nations, including the US, Canada, Brazil, Singapore and Japan.

A further result of leaving the EU system has been the need to issue UK 'Third Country Operator' (TCO) certificates for those airlines wishing to arrive in the UK. We have also created the Air Safety Unit to support the UK's legal obligation to manage its own Air Safety List of those airlines barred from UK airspace.

Our next steps

For many areas of aviation high levels of international harmonisation are a priority. There are, though, some areas, including General Aviation and new technologies, where there may be opportunities to adopt different practices post EU-Exit. Along with industry and Government, we will continue to explore these possibilities.

Project Horizon

We set up Project Horizon to consider in depth our strategic context. It will improve our understanding of the world in which we expect to be operating, set out clearly and transparently the difference we intend to make and define the changes we need to make to achieve that.

In recent years, much has changed in our operating environment: we have witnessed and participated in seismic shifts, such as the UK exiting the European Union, a global pandemic that severely impacted aviation and major technological advances, including drones and spaceflight, changing the very nature of the aviation and aerospace sectors we regulate.

We have evolved and adapted our work better to reflect these developments, and will continue to do so, so that we can realise our vision by challenging ourselves and our stakeholders to maintain safety, security and consumer protection; and continually improving and innovating.

We firmly expect to be operating in a changing and challenging external context over the coming years that is likely to require us to enhance our agility and responsiveness: the recovery from the COVID-19 crisis; using wisely the freedoms the UK has outside the EU; creating a safe and encouraging framework for new innovation; playing our role in sustainability; and dealing with other crises. We expect our role to continue to grow in scale, complexity and diversity; and accelerating change to be a constant context, not a one-off event.

In this rapidly evolving external environment, our ability to continue to deliver successfully will, therefore, depend heavily on how well we are set up to understand and quickly adapt to unexpected situations as they emerge, across both our new areas of work and our established activities.

Our ability to be flexible will have some constraints: many of our legal obligations will not change and our funding model typically has charges for specific sums for specific tasks. Nevertheless, we will need the ability to be as flexible as possible within this framework.

Over the last five years, we have made good progress in many areas: including significant improvements to our IT estate, introducing new regulatory services, creating a more diverse and capable workforce, bringing to bear resource to deal with some common issues such as the EU-Exit and responding well to crises (for example, the repatriation of travellers following the failures of Monarch and Thomas Cook, and COVID-19).

To build on this and strengthen our ability to deliver our objectives, we have structured Project Horizon across five interlinked pillars which will update our organisation strategy, refine our regulatory approach, review and enhance our operating and financial models and ensure that, across all of those areas, our people are at the forefront of our thinking.

In early June 2021 we published our new organisational strategy. We expect this strategy to guide our prioritisation and inform how we use our resources to achieve best outcomes. We know from the past five years that it is not realistic to expect our strategy to remain fixed as everything around us changes, so we intend to update it to reflect changing content both internally and externally. An initial priority in this area will be to define a clearer articulation of our role in improving aviation's environmental impact in a complex national and international framework supporting sustainability.

Alongside the strategy, we also published the first deliverable from Project Horizon's work on our regulation: a set of regulatory principles which will inform our work when designing, prioritising or implementing regulation to help to ensure that stakeholders experience consistent, proportionate and transparent regulatory oversight.

To deliver our strategy effectively and implement our regulatory approach, we have also designed our target operating model: that of a CAA which works seamlessly as an integrated, adaptive organisation where decisions, resources and actions are all driven by a single central set of priorities based on achieving our enduring strategic ambition in the operating circumstances of the moment. Moving towards an organisational model that achieves this will happen over a period of several years. With this in mind as a lode star, we will ensure that all organisational change is linked to this key ambition.

This coming year, we intend to implement three standalone enhancements to our operating model, coordinated with delivery of our people strategy. The enhancements will introduce a stronger mechanism for CAA-wide strategy, prioritisation and resourcing decisions; start a journey towards a hub and spoke model for data management and insight to support better regulatory decisions; and create more effective mechanisms for horizontal CAA working on issues that are relevant across multiple groups, for example considering sustainability, airspace modernisation and COVID-19 recovery.

Through Project Horizon, we will review our current financial strategy and design a resilient, proportionate and transparent long-term funding model, returning us to a more fully user-pays model following Government support during the COVID-19 period and providing the resources we need to fulfil our obligations in line with stakeholder expectations.

Review of Our Business

As a regulator we exist to protect consumers and citizens by regulating UK civil aviation. We also aim to enhance their safety wherever they may be travelling globally.

We aim to place our emphasis on where it will have the most impact.

This section is based on our previous corporate strategy to provide an accurate reflection of the year under review. Our new strategy is set out in the Business Model on pages 10 to 13.

Risk-based regulation

We take a risk-based approach in most areas that we regulate. This allows us to have an informed and comprehensive understanding of present and emerging risk.

In all our work we aim to be proportionate, timely and targeted. Safety is always our first guiding principle.

The biggest international safety challenge in the year under review has been the safe return to service of the Boeing 737 MAX aircraft. The aircraft had been grounded following two accidents (Lion Air Flight 610 on 29 October 2018 and Ethiopian Airlines Flight 302 on 10 March 2019). The UK was one of the first countries to act, preventing the aircraft from using its airspace.

In January 2021 we announced that we would allow UK airlines to resume operating passenger flights with the Boeing 737 MAX aircraft, subject to our close oversight. Simultaneously, the ban on the aircraft operating in UK airspace was removed. Our decision followed similar moves by the EASA, US Federal Aviation Administration (FAA) and Transport Canada.

We would not have allowed a return to service for UK operators, or lifted the ban on the aircraft operating in UK airspace, unless we were satisfied that the aircraft type is airworthy and can be operated safely.

Our decision followed the approval of design modifications to the aircraft itself, how it is flown and to pilot training. This included modification to the aircraft's Manoeuvring Characteristics Augmentation System (MCAS) and other key safety changes aimed at preventing further accidents. We worked collaboratively in this international approval process, while maintaining independent decision-making status. This safety exercise has been the most extensive project of this kind ever undertaken in civil aviation and shows how important the cooperation between states and regulators is to maintaining safety.

There were few immediate flights in Europe with airlines needing to go through the necessary steps to return the aircraft to service, including pilot training.

We based the decision to allow a return to service on detailed information from EASA, the FAA and Boeing, in addition to extensive engagement with airline operators and pilot representative organisations. We worked alongside EASA, as our technical agent, reviewing its work as the validating authority. During this process the UK has been fully sighted on the technical assurance activity conducted by EASA. Additionally, the UK participated in pilot training forums and simulator evaluations.

We will continue this close oversight as the UK's only operator of the aircraft, TUI, plans its return to service.

At the end of 2020 the UK's drone safety rules changed to align with the introduction of similar cross-European legislation. Although for many operators this has not resulted in a significant change to their day-to-day flying, it has moved the oversight to being more risk-based, which we supported.

We introduced new work during the year to target illegal public transport activity, where a flight is offered on a commercial basis, without the required safety permissions in place; for example, the right pilot qualifications. As well as a major awareness campaign that targeted where people may be taking these flights (primarily in the General Aviation and business transport sectors) we have also increased our inspection and enforcement work.

A targeted review of the UK's aviation security measures is underway covering 21 specific areas prioritised with input from industry. We are collecting evidence from industry and providing risk assessment and recommendations to the DfT to remove, amend or retain the current UK measures.

Our cyber security team has supported the aviation industry by adopting a risk-based approach to compliance, which is targeted, proportionate, and incremental. The focus is to deliver cyber security oversight and encourage progress to protect against extant cyber threats, while recognising the significant financial and operational challenges industry currently faces.

In January 2021, six entities formed part of the Security Management Systems (SeMS) trial to both support and evidence baseline performance, which will subsequently allow progression towards Performance Based Oversight for aviation security.

In partnership with Cranfield University, in January 2021 we launched a new Master of Science in Aviation Safety Management, Risk and Regulation. This unique course considers the regulatory background of all aspects of safety across the aviation industry. UK employers are able to access the part-time MSc through their Apprenticeship Levy funding, with the non-apprenticeship route available to both UK and international delegates.

Our new Airfield Advisory Team (AAT), funded by the DfT, was set up in October 2020 to provide assistance and support to General Aviation airfields on a wide range of matters with the aim of helping the sector to thrive, in line with the Government's commitment to the UK being the best place in the world for General Aviation. It will keep the DfT informed on developing trends and challenges faced by the sector. The AAT is separate from the regulatory arm of the CAA and has enjoyed a positive response from industry and the DfT in the early phases of its engagement work.

Review of Our Business

Empowering consumers

Protecting and empowering consumers of aviation is fundamental to our role as the regulator.

At the beginning of the year under review we announced that we had settled over 99% of all claims made by those who lost future holiday bookings when Thomas Cook ceased trading. This equates to around 340,000 compensation claims, at a value of almost £350 million. This is the largest amount ever paid out by the ATOL scheme since its creation in the 1970s. Claims for cancelled holidays continued to arrive until the closing date in September 2020.

To mark International Disability Day in December we highlighted the progress that airports have made on accessibility to aviation. We strongly believe that everyone should have access to air travel and we welcome the substantial improvements that airports have made for those passengers that are living with a disability or reduced mobility. The industry has worked alongside consumer and disability groups to improve every part of the consumer journey, considering the individual needs of each passenger.

Since 2015, the number of passengers requesting assistance at UK airports has almost doubled, with four million requests in the latest year (to March 2020). In total, UK airports have received more than 10 million assistance requests in the past five years.

For the second year running, no UK airport has been ranked as ‘poor’ for their accessibility services provided to passengers living with a disability (1 April 2019 to 31 March 2020). The report also shows that 15 airports have been classified as ‘very good’, with a further 13 classified as ‘good’. Three airports have been listed as requiring improvements.

Our ambition is to encourage even more passengers with reduced mobility and hidden disabilities to feel confident to fly, as the industry looks to recover from the COVID-19 pandemic and consumers once again think about booking future flights. Part of this effort has stemmed from the introduction of our accessibility framework for improving access to air travel, which is the first of its kind globally. Since its introduction, it has overseen millions of pounds of investment made by airports toward improving consumers’ experiences.

Our economic regulation of airports with significant market power and of air traffic management services continued at pace this year. The CMA’s investigation into our most recent price control for NATS En-Route Ltd (NERL), in 2019, requested that we consider the issues that the COVID-19 pandemic has posed for NERL’s financing arrangements. As such, we are now well underway in developing a new regulatory settlement for NERL, which we expect to come into force in 2023.

Meanwhile, our work in developing the regulatory framework to allow for capacity expansion at Heathrow was paused following the High Court’s decision that the Airports National Policy Statement was unlawful. While this decision was subsequently overturned by the Supreme Court, Heathrow’s programme of developing another runway remains delayed owing to the impact of the pandemic. We have, however, set out our views and consulted on how the costs that Heathrow has already incurred in relation to the project can be recovered.

In response to the revenue losses accrued as a result of the pandemic, Heathrow requested that we make a significant readjustment to its regulated asset base (RAB) to allow it to recoup from its airline customers a significant portion of these losses. Our team has been working with both Heathrow Airport Limited (HAL) and the airlines to identify a way forward but has rejected the operator’s request, as we do not believe it to be in the interest of consumers. We have, however, concluded that a smaller adjustment be made to its regulatory asset base, primarily to make sure the airport is ready for any return to more normal levels of capacity in 2021.

Review of Our Business

Innovation

Facilitating safe innovation across all aspects of aviation is one of our key priorities.

The pace of innovation in aviation is relentless. Technology advances, large private and public investments, the rise of entrepreneurship, the explosion of new entrants in the aviation sector, and the adoption of agile innovation methodologies are all driving factors. Our innovation team is facilitating innovation in aviation to flourish in line with our safety and regulatory principles, by making it easier for innovators to access our expertise, maximising readiness for the demonstration of their aviation systems by testing them in safe environments via our aviation sandbox; and accelerating the development of new policies and regulations.

Much of the team's current work involves Future Air Mobility and Remotely Piloted Aircraft Systems (RPAS). Significant progress has been made in 2021 with key case studies and trials taking place.

This work included the launch of a concept of operations study led by a consortium of urban air mobility and aviation companies for integrating air taxis and electric vertical take-off and landing vehicles (eVTOLs) into the UK's airspace. The consortium, which is led by Eve, will examine how eVTOLs could operate in transporting passengers and cargo over urban and regional areas using a Heathrow to London City Airport example.

We are fully supporting the Government's work on the UK's Future Flight Challenge. This is an exciting initiative and we have been engaged by UK Research and Innovation to assist the successful consortia. We will simplify the way they work with us and help them to identify the regulatory pathways for the demonstration of their aviation systems.

We have worked with a number of airports on trials to support the introduction of new security screening technologies that have the potential to improve the passenger experience and deliver operational benefits while also enhancing security.

Towards the end of the year under review the Government confirmed that they are tasking us with taking on the role of space safety regulator for the UK. We will be working closely with the UK Space Agency to facilitate the safe expansion of the industry in the UK.

Several organisations have expressed an interest in carrying out sub-orbital space flights from the UK. These would be for spaceflight experience and the carriage of scientific payloads. There is also the opportunity for the launch of satellites from an airborne platform. This is a rapidly growing sector with innovative solutions, such as spaceplanes enabling low cost access to space.

Infrastructure optimisation

In November we launched a new procedure to review the classification of airspace. This allows us to help to make the amount of controlled airspace in the UK the minimum required to maintain a high standard of safety, while making sure that the needs of all airspace users are reflected on an equitable basis; it follows the Government giving the CAA the function to review airspace classifications and to amend them where appropriate.

This new function means that we must regularly consider whether to review the current classifications of airspace, consult airspace users as part of any review and, where we consider a change to classification might be made, amend it in accordance with the new procedure.

As part of our work to support the General Aviation infrastructure, we are running a DfT funded project to increase the number of Global Navigation Satellite System (GNSS) approaches at UK airfields. These allow aircraft to fly approaches when the visibility does not meet normal visual requirements. Our work aims to help airfields to develop the GNSS route that aircraft would fly. In part this will be impacted by the UK leaving the European Geostationary Navigation Overlay Service.

During the year we started to administer the new Airfield Development Advisory Fund. This allows UK airfields and associated businesses to apply for access to Government funded professional and business advice on a range of topics, aimed at supporting future airfield development. The advice available includes, among other things, planning and conservation policy, finance, business model development, marketing strategy and innovation.

To use our airspace efficiently, allow as much access to users as possible and safely integrate drones, we ideally need more airspace users to be transmitting data on their position to air traffic control and other airspace users. To help achieve that aim we have been working with the DfT to run a rebate scheme for General Aviation pilots and RPAS operators purchasing electronic conspicuity devices. As of the end of March 2021 over 3,500 devices had been supported. The scheme has been extended to run to September 2021.

Review of Our Business

Service excellence

We have continued to enhance our offering to stakeholders, moving more systems to online and digital options. We launched the ASSURE Scheme, which provides accredited Qualified Entities to conduct cyber security audits on the CAA's behalf. This provides a scalable, cost effective and resilient independent validation.

Our Aviation House office has remained open to key colleagues throughout the pandemic, with a minimum level of staff supporting key licence activities which require a presence in the office. Our service levels for licensing have remained within targets for most of the year.

During this year, we have migrated over 90% of CAAi's training from face-to-face training to virtual. This transformation offers more flexibility, the ability to reach more geographical areas and financial efficiencies for trainees. The team have, for the second year in succession, received a 'Feefo Gold Award' for achieving an average delegate feedback score in excess of 4.5/5.

As COVID-19 prevented us from undertaking our planned national roadshow to reach GA stakeholders, we held a series of online sessions. These 'Virtual Voyage' webinars allowed us to reach up to 900 stakeholders per session. The community were able to lodge questions in advance, which were then answered as part of the webinar presentations. We also run online polls to help to develop our thinking on issues such as the schedule of rolling out changes post EU-Exit.

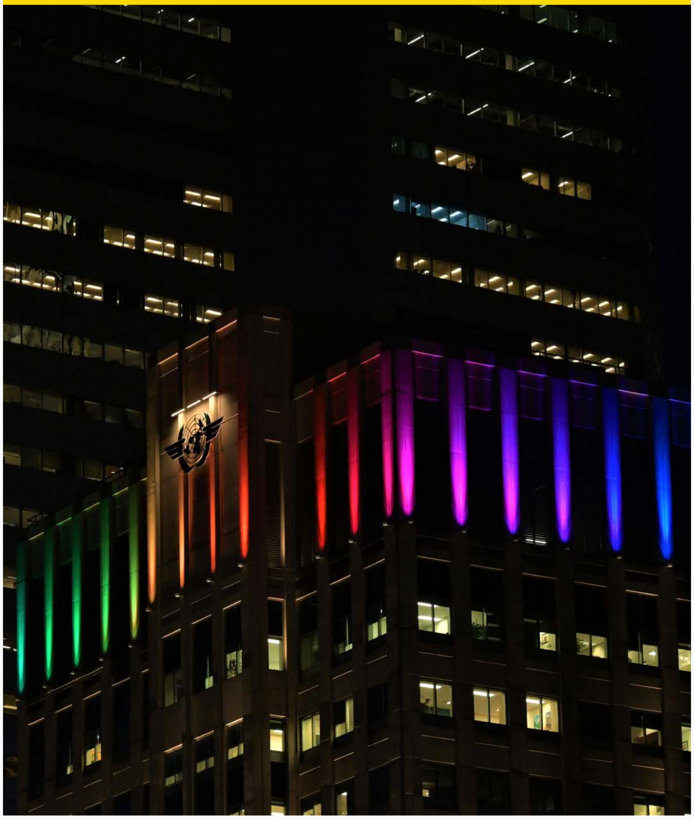
International

We have continued to support improvement of international aviation standards through CAA International's (CAAi) work with Thailand, Malaysia, Ukraine, Kazakhstan, Cyprus, and Armenia and our State Safety Partnership Team have continued to work with a number of States on safety issues of mutual interest.

To support industry and Civil Aviation Authorities through challenging times, the International Civil Aviation Organisation (ICAO) and CAA International (CAAi) have jointly developed a unique virtual training classroom course entitled "CAA Preparation for Restarting Operations during a Pandemic". To date we have successfully delivered three courses, with more dates scheduled in the forthcoming months.

When possible during COVID-19, CAAi has continued delivery of pilots' and engineers' examinations in our international centres.

We are supporting the DfT in an ambitious programme to enhance existing close collaboration and support mutual recognition of UK and US aviation security standards. We are leading work on quality assurance, oversight and testing, as well as work to compare and assess respective security regimes, as the basis for potential agreement on formal recognition of equivalence. Internationally we are taking a leading role, through participation in Cyber Security forums in ICAO, ECAC and the NATO-Eurocontrol ATM Security Co-ordination Group.



Companies Act s.172 Statement

The following paragraphs explain how we have, over the course of the year under review, fulfilled our obligations set out in Section172(1) (a) to (f) of the Companies Act 2006.

Our approach

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

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 considers 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.

During the COVID-19 pandemic this has been even more important. We use a variety of channels to communicate, choosing on a case by case basis those which best target the intended audience and subject.

Our consultations are a key part of our engagement. Ranging from snapshot surveys to provide instant feedback to formal regulatory consultations on major rule changes they all enable us to get direct inputs from those we regulate. These responses are taken into account when we determine our final decisions.

Those we regulate

Timely and appropriate engagement with those we regulate is key to achieving our priorities and the safety and success of the aviation industry. We constantly keep our rules and regulations under review to make sure they remain fit for purpose as aviation is a dynamic and changing industry. We therefore have a frequent need to alert those we regulate to requirements and changes and to offer advice in our role as regulator. We use multiple channels to achieve this based on what is most appropriate for the audience and message. This includes our Skywise alerting system that allows quick and digestible information to be disseminated by app or email to targeted sections of the industry.

At all levels we have direct engagement with stakeholders to hear their views and exchange information. This ranges from our Board meeting with representatives from the GA community and UK airlines and airports to the virtual roadshows we ran during COVID-19.

Consumers

We exist to protect consumers and those affected by aviation. One key aspect of this work, where we communicate more directly with consumers, is their consumer rights and financial protection. Having clear and available information helps consumers to make informed choices and understand their rights. We make use of a variety of channels from the media to online resources and our social media feeds to make this information available. All of this is also influenced by the independent Consumer Panel that advises the CAA on its work.

Companies Act s.172 Statement

Colleagues

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 is 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 normally meet CAA colleagues at least twice a year. Although this has not been possible during COVID-19, virtual Town Hall events have been arranged to allow colleagues to hear from and connect with Board members.

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, a key focus has been on supporting colleagues working remotely and ensuring that we are well-placed to work from our offices again when the COVID-19 situation allows. In addition, 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.

Increasing diversity in decision making has been found by many studies to have positive benefits for organisations, which is why we launched a new Skyline Board on 1 April 2021. The Skyline Board is comprised of 10 colleagues from across the business, from a range of different roles that sit below leadership team level. They will work alongside ExCo to help establish greater diversity of thought at Board level. Members will share not only their knowledge, areas of expertise and qualifications, but also their experiences from a variety of different backgrounds which will all help to play a big part in how we develop leadership throughout our organisation.

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, chaired by the CAA's International Director and the Wellbeing Manager, meets monthly and is responsible for the implementation of all necessary actions, supported by a network of representatives from each group.

A new colleague survey took place early in 2021 which was designed to set a fresh baseline for engagement and all key aspects of our refreshed People Strategy priority areas. 958 colleagues (78% of the population) provided responses to the survey. We are now looking at the findings from this survey in the context of our People Strategy, to make sure that we address areas where we could do better and to build upon the areas where we are performing strongly.

Government

As well as our sponsoring department (the Department for Transport (DfT)) we have extensive coordination with a range of Government departments and projects. Teams from across the organisation at all levels are in constant contact with counterparts in the DfT. These channels are well developed and effective and range from regular meetings to more formal processes. We play a key role in many cross-Government groups. A current example is our work to aid innovation in aviation. This sees us playing an active role in projects such as the Future Flight Challenge run by UK Research and Innovation but involving multiple Government partners.

In response to COVID-19 we have worked closely with Government bodies over the past year to put in place new safety and security measures for aviation (e.g. passenger locator form).

Those we work with

Aviation is an international industry and so we have counterparts and partners across the world. This ranges from global bodies, such as the International Civil Aviation Organisation (ICAO), to other national regulators. We use a variety of fora, working groups and project team contacts to coordinate work and information and share best practice. At ICAO level we have colleagues seconded to support the organisation's work in situ as part of the UK delegation. Following EU-Exit we are seeking even closer working relationships with other national aviation regulators around the world. On a national level we use working groups and team partnerships with bodies such as the Military Aviation Authority and Health and Safety Executive to make sure there is close coordination on shared areas of regulation.

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.

Examples demonstrating how important our stakeholders are in the Board's decision making process, and how we have engaged with those stakeholders, can be found in the COVID-19 (pages 14 to 15) and UK-EU transition (page 16) sections of this report.

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; and
- 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.

To ensure transparency, the CAA reports annually on how our work has promoted economic growth and supported aviation and aerospace. Over the past year, due to the COVID-19 pandemic, this support has been more necessary than ever.

The CAA contributes to growth by carrying out work to facilitate the businesses we regulate being able to innovate, grow and work in new ways without compromising the safe, secure and consumer-focused regulatory framework that we have put in place.

An example of this is our work on supporting innovation through the creation of the Innovation Hub, including a regulatory sandbox where the CAA and innovators develop a common understanding of innovation and the regulations that apply to it. The Innovation Hub has been established as a focal point and dedicated resource for projects such as the Future Flight Challenge initiative: this aims to pioneer the next generation of airspace systems, enabling the integration of new technologies such as drones and urban air mobility. The CAA is also part of the Jet Zero Council, aiming to facilitate the ambitious delivery of new technologies and innovative ways to cut aviation emissions.

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

Our full Growth Duty Report is included as an Annex to this document.

[1] The CAA's economic regulatory functions are exempted from coverage by the Growth Duty.

Our Environmental Performance

During the last five years the CAA has run an internal environmental programme called “Greening the CAA 2020”. The programme managed the environmental impacts from our operations (impacts over which the CAA has direct control).

During this cycle we focused on: using appropriate new and more efficient technology to drive environmental efficiencies; engaging with and informing colleagues; and facilitating a working environment that empowers colleagues to make choices that support a substantial and sustained difference to the organisation and its environmental footprint. We also continue to monitor our performance against reduction of Greenhouse Gases emissions, energy use, waste and water. Some of the initiatives undertaken to reduce our environmental impact included moving from CAA House, London, to a smaller office area in Westferry and introducing new ways of working. Other actions included the boiler replacement at Aviation House, Gatwick, LED lighting installation and a campaign to reduce printing with the introduction of a monitoring tool to check progress.

As the CAA’s strategic cycle is coming to an end this financial year, our environmental programme is also being reviewed. Over the last year we have undertaken a review of the current programme in line with ISO 14001:2015 Environmental management systems[2] and CDP[3] requirements. We have also started to develop the new environmental strategy for our operations, taking into consideration the need to promote transparency to a wide range of stakeholders, reduce our environmental impacts, provide mid-term cost savings and attract talent. The initial steps in setting up the new strategy have been undertaken. The confirmation of governance arrangements, targets, KPIs, and an action plan for the strategy for managing the environmental impacts of our operations will be completed in FY2021/22.

[2] ISO 14001:2015 specifies the requirements for an environmental management system that organisations can use to enhance its environmental performance. ISO 14001:2015 is intended for use by an organisation seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability.

[3] CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The world’s economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action.

Our Environmental Performance

Streamlined Energy and Carbon Reporting (SECR)

In FY2020/21 our total net greenhouse gases (GHG) emissions were 968.2 tonnes carbon dioxide equivalent (tCO_{2e}). This represents a decrease of 47% compared with 1,824.0 tCO_{2e} in FY2019/20.

Aspect	FY2020/21	FY2019/20	% Change
		GHG Emissions (tCO_{2e})	
Total emissions from combustion of gas (Scope 1)	375.0	371.5	1%
Emissions from combustion of fuel for transport purposes (Scope 1)	33.2	55.5	-40%
Emissions from purchased electricity (Scope 2)	382.0	714.8	-47%
Emissions from business mileage claimed by employees and from car rentals (Scope 3)	178.0	682.2	-74%
Total gross GHG emissions	**968.2**	**1,824.0**	**-47%**
		Energy (MWh)	
Total annual gas consumption for combustion purposes	2,039.6	1,978.2	3%
Total annual transport fuel	255.9	417.9	-39%
Total annual purchased electricity consumption	1,638.7	2,796.7	-41%
Total from business travel mileage claimed by employees and from car rentals	717.7	2,662.9	-73%
Total annual energy consumption used to calculate emissions	**4,651.9**	**7,855.7**	**-41%**
Intensity ratio: tCO_{2e} (gross Scope 1 + 2) / gross internal area (m_2)	**0.07**	**0.10**	**-30%**

We are reporting on SECR on a voluntary basis as the CAA is a Public Corporation. The reporting period that this submission covers is 1 April 2019 to 31 March 2021. We have followed the GHG Protocol Corporate Accounting and Reporting Standard, 2019 UK Government Conversion Factors for Company Reporting, 2020 UK Government Conversion Factors for Company Reporting and manufacturer emission factors for company cars. We have utilised an operational control approach, including activities from the CAA's two subsidiaries. We have measured our scope 1 (excluding fugitive emissions), scope 2 and scope 3 (transport consumption and emissions). The intensity ratio chosen was tCO_{2e} per gross internal area. This was chosen as it is deemed to be the best metric which could be used consistently year-on-year. We have reported our emissions of CO_2 on a carbon dioxide equivalent basis. We have no emissions of methane, nitrous oxide and fluorinated gases. Energy use during the period has a reduction of 30% due to energy efficiency improvements, the COVID-19 pandemic and changes to remote working. The principal measures undertaken to improve energy efficiency included reducing our offices' footprint, introducing new ways of working, boiler replacement and retrofitting LED lights at Aviation House. The FY2019/20 and FY2020/21 scope 1, 2 and 3 energy consumption and associated emissions within our report have been independently assured through a limited assurance engagement conducted in accordance with the International Standard on Assurance 3410 "Assurance engagements on greenhouse gas statements" (ISAE 3410).

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 unnecessary '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

The table below sets out financial efficiency targets that we set for ourselves and our performance against those targets.

Target	Outcome
Below inflation increases in fees and charges for the majority of those we regulate.	No general increase was applied to charges for 2020/21 (RPI was 1.5%); charges were held at 2019/20 levels as a consequence of COVID-19.
Reducing expenditure in real terms and ensuring that operating costs do not exceed 2020/21 budgeted levels within the regulatory sector.	The regulatory budget was significantly reduced compared to the previous year in response to COVID-19. Further savings of £1.7m were found against the budget, primarily within employment costs, travel and related expenditure and bad debt write offs.
Managing our pension costs.	The overall pension cost in the Income Statement has decreased by £3.1m although this is largely due to the impact of the IAS 19 valuation adjustment. Average actual contribution per employee, however, has reduced by 3.8% year-on-year as the proportion of defined benefit members decreases due to staff turnover.

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

- No increases in fees and charges for those that we regulate;
- Reducing expenditure in real terms and ensuring that operating costs do not exceed 2021/22 budgeted levels within the regulatory sector;
- Manage our pension costs; and
- Manage our cash flows effectively, so as not to utilise the overdraft facility during the year.

Our Efficiency Report

Schemes of charges

We are normally funded directly by charges paid by those we regulate and, accordingly, are required fully to recover our costs.

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/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	Cumm %
General Price Movements	0.0%	3.0%	2.0%	0.0%	0.0%	(1.3%)	0.0%	1.5%	2.6%	2.4%	0.0%	0.0%	10.6%
Other Price Movements:													
Safeguarding Competition in Air Transport											0.0%		0.0%
Market Power Determination											0.0%		0.0%
Innovation Hub (option 1)											0.0%		0.0%
Cyber									0.6%	0.3%	0.0%		0.9%
CAAI Profit Contribution Reduction										0.3%			0.3%
Airworthiness Part 21G approvals								(1.2%)		0.7%			(0.6%)
RPAS (Drones)								0.6%	0.3%				1.0%
Legal									0.3%				0.3%
Airspace Change								1.1%		0.5%	(1.6%)		0.0%
Avsec Incease 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%**	**(1.6%)**	**0.0%**	**10.6%**
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%**	**(1.6%)**	**0.0%**	**12.5%**
Inflation (CPI)	**3.5%**	**3.1%**	**2.5%**	**1.5%**	**0.3%**	**0.8%**	**2.3%**	**2.3%**	**2.3%**	**2.4%**	**1.5%**	**0.6%**	**25.6%**

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 the severe financial impact it is having on the aviation industry we waived the proposed charges increase for the financial year 2020/21. We also agreed that there would be no general charge increase for 2021/22, so charges remain at 2019/20 levels.

Our Efficiency Report

Pension changes

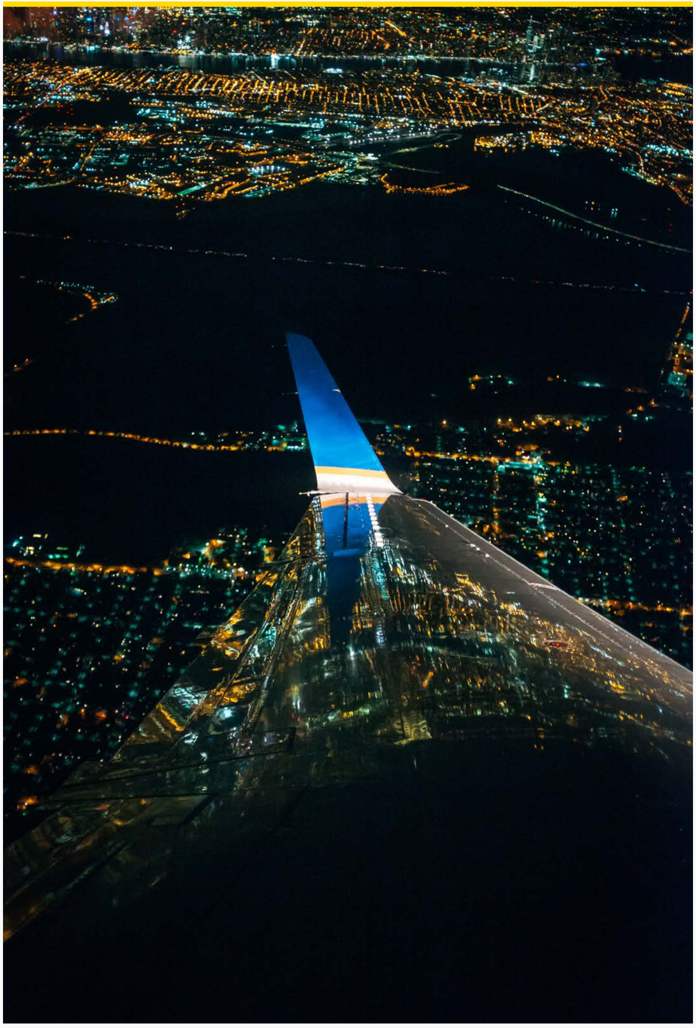
Employment costs represent the majority of our total expenditure and a key element within this is pension costs. Our defined benefit scheme was closed to new entrants in 2012 and well over half of our colleagues are now within our defined contribution scheme. The 2018 triennial actuarial valuation for the defined benefit scheme was completed last 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. Market volatility following COVID-19 continues to impact the level of scheme deficit, which is being closely monitored on an ongoing basis.

Modernisation of IT infrastructure

The CAA continues to modernise and update its infrastructure and technology, decommissioning over 40 legacy applications this year and continuing the transition to increasingly cloud-based services. Work in this area put our organisation in a strong position for the unexpected transition to >97% home working in March 2020 and that transition was relatively smooth. The CAA accelerated its adoption of Microsoft Teams in response to the COVID-19 crisis, has completed its transition to the cloud-based D365 version of Microsoft Dynamics and has also completed the migration to Windows 10 for the majority of colleagues. These changes have realised significant productivity improvements, with all users seeing faster boot times and more responsive applications. The shift to D365 allowed for the realisation of significant cost savings compared to the previous "on-premise" version which was, however, hosted on cloud-based infrastructure. Provision of this new version also allowed us to deliver new systems in house for workflow management, including the COVID-19 Enforcement system, the Electronic Conspicuity Rebate service, the SAFA Ramp Inspection system and the CAA Innovation Hub.

Building a CAA "powered by data"

In service of the CAAs strategic goal of improving its capability to use its data, a number of key foundational elements have been established in 2020. The development of a common data platform with cloud-based storage capability and sophisticated modern analytical tools has been put in place, and the first key data sources entered, realising significant time saving in key processes. Visualisation tools have been established and rolled out across the business to enable utilisation of important new datasets and the education of the CAA in the capabilities of these new tools and techniques has been accelerated, with over 30 colleagues undertaking a Data Analysis Fellowship (level 7) under the apprenticeship scheme. All of these activities help to develop our people and technology capabilities in this critical area and we are already seeing significant efficiency gains through effective automation of previously manual analysis processes. We are now pushing forward with the establishment of a "Hub and Spoke" model for data analysis resources, with a shared central data and analysis capability supporting specialist subject matter expertise in various parts of the organisation.



Our Efficiency Report

Ensuring we continuously improve transactional engagement with stakeholders

Licensing

Our work this year has focused on tactical improvements to existing services. This resulted in the delivery of 15 new or overhauled interactive online forms to replace previous PDF forms, allowing for online payment and a greater "right first time" performance in the completion of those forms which, in turn, has delivered operational efficiencies in processing. In addition, the introduction of digital signatures and, where regulations permit, issuing electronic versions of licences rather than paper, has reduced our reliance on legacy licensing printers.

Drone and Model Aircraft Registration and Education Scheme

The CAA's on-line education and registration system for Remotely Piloted Aircraft System (RPAS) operators has been extremely successful, attracting over 30% more registrations cumulatively to 31 March 2021 than had been forecast. Improvements and extensions to the system have continued to be released and both adoption and user sentiment remain high. The ability to deliver this service, which enables us to train, examine, evaluate and issue licences to stakeholders without any human intervention at any stage, demonstrates very clearly the user and CAA benefits of delivery of a user-centric automated system.

Airspace Change Process and Portal

The Airspace Change On-line Portal was this year transitioned to an in-house support team and has since undergone significant improvement. A number of security, performance and user experience improvements have been rolled out and a new change consultation type has been implemented. Improved user analytics, search capabilities, and feedback mechanisms have given us greater insight into future improvement priorities. Insourcing has also allowed us to realise some significant financial savings over supporting and enhancing the service using an external consultancy.

EU-Exit

Minimising burdens on businesses and new barriers to competition were 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 2020/21. The CAA has engaged extensively with stakeholders throughout our EU-Exit preparations via both 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 the impact of uncertainty.

We have also created new systems to replace those for which access is being withdrawn by EASA following transition, including the Secure Supply Chain system and the SAFA Ramp Inspection system. Both of these were developed in house with our recently established software engineering function, realising significant savings over external delivery and support.

COVID-19 Enforcement Support

This year the CAA has taken on a role in the enforcement of compliance with various COVID-19 related regulations associated with air travel, including negative test evidence, passenger locator forms and quarantine booking arrangements and penalties applicable to airlines as a result of non-compliance. In order to manage the large amount of data involved in the recording and processing of violations, a new data management and workflow solution was rapidly developed to reduce the number of staff that would otherwise have been required to administer the volume of cases. This system continues to evolve to meet the changing needs of this process including automation of the issuance of fixed penalty notices. Over 5,000 violations had been reported to the CAA for processing up to the end of April 2021.

Digitisation and Automation

The DfT recognises the importance of digitisation and automation and shares the CAA's ambition to be a modern and efficient regulator that delivers world class services. This requires investment to enable the CAA to deliver high quality services with minimal human error and inform regulatory decisions with all available relevant data. The DfT agreed to provide funding to the CAA in 2020/21, to take forward its digitisation and automation programme, which will support the CAA to become a more efficient and modern regulator and better serve the needs of the aviation sector. The total sum provided is £1,140,000. This will cover the following project costs:

- digitisation of CAA application forms;
- improving digital licensing services;
- improving digital medical services;
- automation of customer contact via email; and
- improving the customer portal.

Our Efficiency Report

ATOL (Air Travel Trust Claims Portal)

Driven by the lessons learned from the Thomas Cook failure and the threat of more potential failures arising from the COVID-19 pandemic, a new claims management portal was rapidly and pre-emptively developed during 2020 to improve the experience of consumers. The solution provides a front-end portal, used by consumers to capture all relevant information necessary to process a claim, as well as providing back-end functionality to be able to export data, based on user driven rules, to claims agencies for them to process. It also provides the ability to import master booking data and claims statuses to ensure the validity of the claims and keep the claimant informed of their claim status. Additionally, the solution provides a means to bulk email instructions to claimants, as well as giving them the ability to contact us.

Having a well-constructed portal, with numerous validation checks, has ensured data quality and thus reduced the cost of non-conformance. The fully functioning portal also gives the CAA a professional front end solution and has the potential to reduce the transactional claim fees charged by agencies. By the end of May 2021 almost 11,000 claims had been received via the new portal.

PPL theoretical knowledge exams on-line

Provision of on-line exams for private pilots was launched in 2020 with strong demand and adoption from the outset. The principal benefit of this move is greater control over the exam content, ensuring new questions are not exposed inappropriately to those preparing for exams. The change also saves considerable time, however, as it removes the need for manual handling and marking of different exam papers. Exams are now completed on-line, automatically delivering an immediate result to the candidate and to the training organisation, thereby delivering efficiency improvements to industry.

Medical system replacement (Cellma)

A new medical system has been implemented at the end of March 2021, providing the CAA and certificated aeromedical examiners with a new on-line medical records database and workflow system, which provides improved efficiency by streamlining the medical assessment process. Applicants are able to 'self-serve' by completing their application form on-line and reviewing the progress of their application and any casework that is referred to the CAA medical team.

Electronic Conspicuity Rebate

In October 2020 we launched the Electronic Conspicuity (EC) Rebate Scheme. The scheme strengthens the principle of 'see and avoid' by promoting the ability to 'detect and be detected'. It encourages the use of EC devices by providing rebates of up to £250 against the cost of carry-on or aircraft-fitted EC devices. The implementation of a digital service has from the outset led to a more efficient and effective end to end service which includes the distribution of funds.

Our Efficiency Report

Complaints about the CAA

We are committed to providing a high standard of service to everyone with whom we deal and welcome complaints as this feedback enables us continuously to improve. Below is a table highlighting the number of complaints received during the last four years, split by category. The number of complaints received this financial year has risen by 46% compared to last year. This can be attributed to impacts on some services due to COVID-19, where staff have been required to work remotely to protect their health, wellbeing and safety, as well as the UK's exit from the EU, with pilots not giving themselves, and us, enough time to change their state of licence issue. There was an increase in the number of complaints where there has been a perceived lack of action by the CAA to respond in a timely way to issues concerning the UK's departure from the EU.

We will continue to monitor and look for ongoing improvements as we return to post-COVID-19 services.

Complaints about the CAA	FY2020/21	FY2019/20	FY2018/19
Number of complaints in line with our complaints policy	153	105	231
Upheld in full or in part	103 (67%)	74 (70%)	180 (78%)
The categories of upheld complaints are:			
Poor service, including:	70 (68%)	61 (82%)	161 (89%)
application processing delays	35 (50%)	12 (20%)	123 (68%)
failure to respond to enquiries	4 (6%)	11 (18%)	10 (5%)
other (quality and systematic issues)	31 (44%)	38 (62%)	28 (16%)
Charges/fees	2 (2%)	2 (3%)	5 (2%)
Staff behaviour	-	1 (2%)	3 (2%)
Lack of CAA action	22 (21%)	2 (3%)	3 (2%)
Unfair treatment/bias	4 (4%)	2 (3%)	1 (1%)
Over regulation/gold plating	-	1 (2%)	3 (2%)
Incorrect advice	5 (5%)	5 (7%)	4 (2%)

Our Efficiency Report

Ensuring regulation is proportionate to the risks being managed

Exemptions

As at 31 March 2021, 290 COVID-19 related exemptions and 4 general permissions and authorisations had been issued; many were sector wide 'blanket' exemptions. These exemptions have allowed those affected more flexibility in their operating models. This added flexibility also realises efficiencies, often through extensions to renewals of permissions, exemptions or variations of existing exemptions.

Virtual oversight

All oversight audits conducted by the Safety and Airspace Regulation Group during COVID-19 travel restrictions were assessed for their criticality (safety related assessments and position in audit cycle) to assess whether on-site audit was necessary. A significant amount of oversight activity was transferred to virtual auditing. This response was built on earlier action to reduce oversight to the minimum safely permissible under the entity complexity matrix assessments as detailed in our Performance Based Oversight (PBO) model. This combination of safe, minimum and virtual oversight adjustments realised efficiencies for both an industry under stress and regulators, as less time was spent on site and in engagement with inspectors. The transition to increased virtual oversight methods would not have been possible without modern IT services, software and hardware. The intention is to learn lessons from these adjustments to oversight techniques with a view to making longer-term efficiencies where possible.

General Aviation

The General Aviation (GA) Unit has implemented a number of improvements during the year:

- Improved SARG performance reporting, through the implementation of MI tools for resource capacity and oversight activity.
- Improved ability to demonstrate / evidence resource to risk, through implementation of MI tools and standardised approach to PBO future oversight reporting.
- Standardisation of records management and oversight recording, as a result of review by Business Assurance following the BSI ISO9001:2015 non-conformance.
- Ability to demonstrate 10 working day service level performance for incoming correspondence.

Remotely Piloted Aircraft Systems (RPAS)

The RPAS unit has implemented several procedural changes to increase efficiencies for the applicant:

- New desktop audit procedure for operational authorisations, concentrating more closely on requirements in CAP722A. This has speeded up processing of initial applications.
- New procedure for 'team' based audits, removing the existing process that required an independent peer review. This has speeded up all applications.
- Improved and quicker renewal and variation desktop audit procedures focused on compliance with regulation and documents. The time to do a renewal audit is now reduced by more than half.
- Improved renewal audit scheme for Recognised Assessment Entities. Renewal processes are now completed in about a quarter of the previous time.
- Full introduction of Q-Pulse for all audits. Q-Pulse is an oversight management system that the CAA uses to record and manage audits and inspection findings of regulated entities.

Heathrow

The H7+ price control programme is focused on developing the framework for the economic regulation of Heathrow Airport Limited (HAL). Between late 2016 and early 2020, the principal focus of the programme was on the regulation of capacity expansion as HAL prepared its planning application for a third runway at the airport.

In February 2020, the Court of Appeal delivered its judgment that the Airports National Policy Statement (ANPS) had not been lawfully adopted. This judgment removed the underpinning, under the Planning Act 2008, which HAL was using to support an application for consent to expand Heathrow airport. While the Supreme Court has since held that the ANPS is lawful, the impact of COVID-19 has brought about very considerable uncertainty to the aviation sector as a whole and, in particular, the regulation of HAL.

In the light of these important developments, we acted quickly to alter the scope of the H7 programme to ensure that it would be focused on a 2-runway scenario. This included identifying areas of activity that would no longer be necessary and trimming our budget accordingly; the savings identified were primarily in respect of consultancy support in areas such as corporate finance advice, efficiency reviews and assessments and the funding of the Consumer Challenge Board. The external budget for 2020/21 originally in place in January 2020 was £4.2m; following a detailed review, this was reduced to £0.77m in April 2020. The programme, as a result, has achieved a cost saving of approx. £3.4m (78%).

Our Efficiency Report

Aviation Security

Work in the past year has been dominated by the impacts of COVID-19 on the aviation industry.

The CAA has worked alongside the DfT in its support of the industry during the downturn in activity, while ensuring that security risks continue to be addressed and standards maintained. This work has included:

- Providing alleviations and variations against normal regulatory requirements, where flexibility exists and can be justified;
- Contributing to public health-related guidance to industry on the safe operation of security controls;
- Assessing the potential risks associated with the impacts and structural changes seen, and issuing guidance on how to manage and assess those risks, including as activity restarts; and
- Conducting a targeted review of a number of long-standing measures in the UK security programme, based on a prioritised list agreed with industry.

A great deal of work has also been done to ensure that UK aviation is ready for the end of the EU-exit transition period, including the integration of EU security regulation into UK legislation, the development of new UK processes where needed and regular briefings for industry.

Aviation Security Compliance activity has continued throughout the COVID-19 crisis and all periods of lockdown. CAA compliance auditors have been focused on Government strategic priorities and key security functions, ensuring a reasonable and proportionate oversight programme in the context of significantly reduced industry operating volumes.

This compliance oversight has consisted of traditional site visits and the introduction of remote monitoring. Remote monitoring is an area of work which will be further developed to explore enhanced techniques, with the aim of reducing the burden on industry and generating further efficiencies in our auditing process. Additional work has been conducted in reviewing the current compliance operating model to both position and ensure future compatibility with developing techniques and the broader aviation security modernisation programme.

Towards a New Regulatory Framework

The CAA continues to support the modernisation of aviation security, making positive moves towards a Performance Based Oversight (PBO) regime. Utilising the Security Management System (SeMS) as a precursor, this innovative change will bring with it both improved security performance and further business efficiencies; ensuring that we are making the best use of resource, for both industry and ourselves. SeMS assists by identifying where the risk is greatest and allows focused deployment of key resource to combat poor security performance, further enhancing an entity's ability to oversee its security performance. Transitioning to PBO will enable a bespoke risk-based assessment of an entity, allowing for a tailored individual oversight programme, targeting intervention where it is most needed. By having this single comprehensive systematised approach, we can utilise both a broader set of data and oversight tools, which will allow for further efficiencies to 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 (wherever possible) to operate one single harmonised oversight process for cyber security (detailed in CAP1753), aligning various regulatory requirements. This is resulting 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. The CAA's newly established Cyber Security Oversight Team act as specialist senior decision makers and provide guidance to aviation entities to enable them to manage their cyber security risks without impacting aviation safety, security or resilience.

The creation of a third-party accreditation scheme (ASSURE) has also meant that cyber security audits are undertaken in an efficient and cost effective manner, on behalf of the CAA. The CAA's ASSURE Scheme provides a pool of Qualified Entities who have met stringent requirements, thus giving the CAA flexibility and scalability in audit activity without needing to maintain a large internal audit team funded through the Scheme of Charges.

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 2021 (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 2020/21 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 77 to 82.

BDO LLP

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

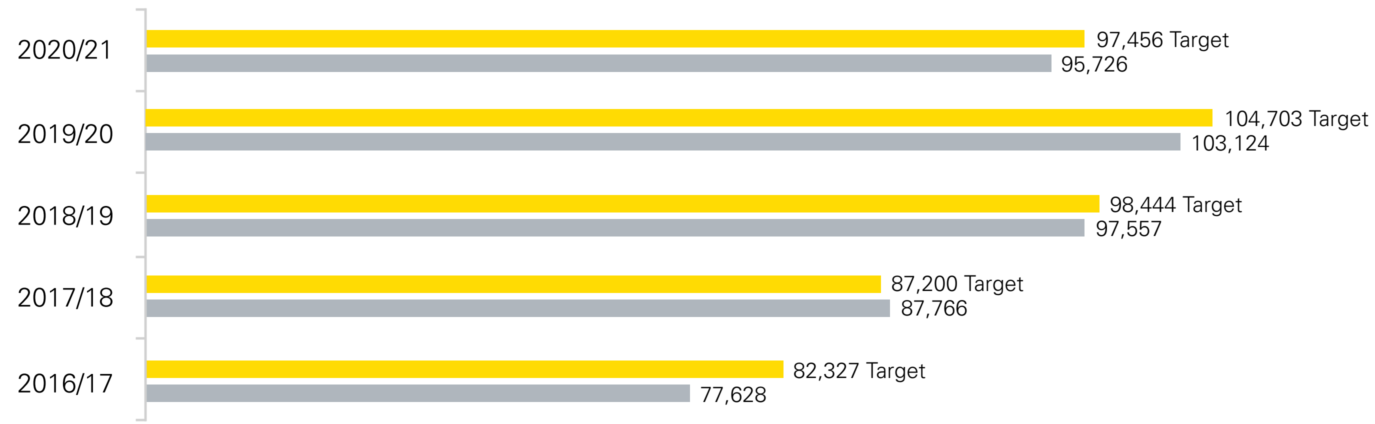
16 June 2021

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 (£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 result achieved by CAA International Limited.

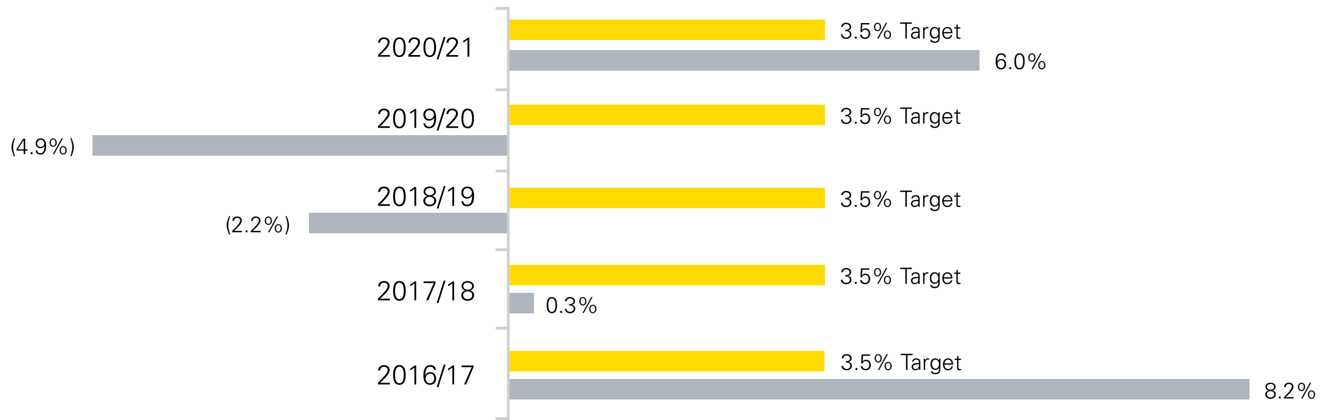
Analysis

Regulatory costs have reduced considerably compared to the previous year for a number of reasons: voluntary pay cuts for higher earning staff for five months, a pause on certain major projects, a reduction in travel and related expenditure and reductions in external spend. Costs were lower than budgeted primarily due to lower than planned average headcount numbers, significant further reductions in travel and related expenditure and bad debt levels not being as severe as anticipated.

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

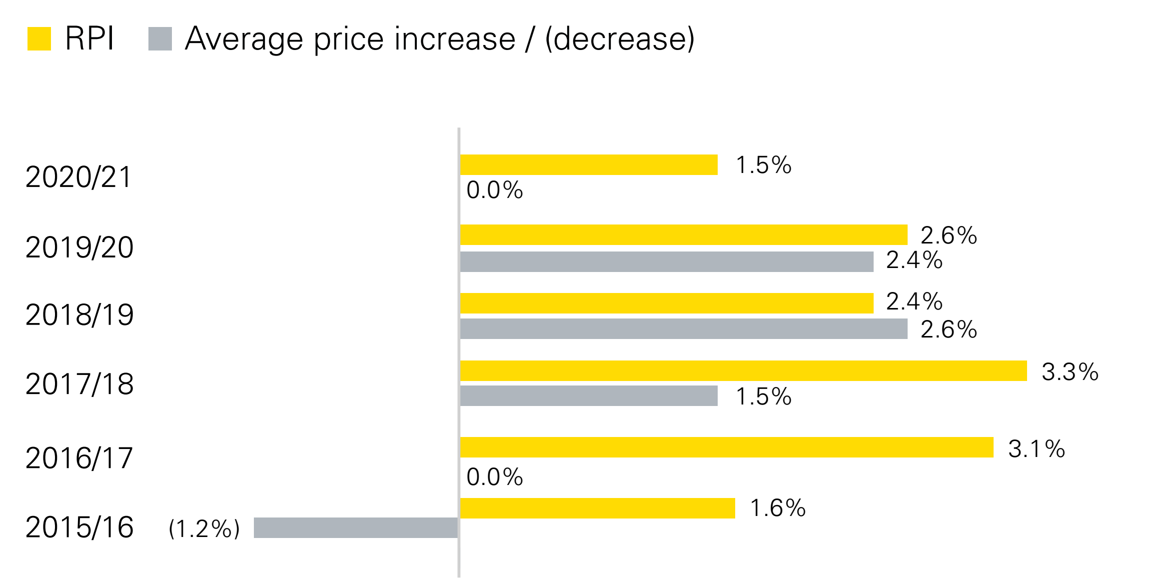
The rate of return for 2020/21 was 6.0%, which is 2.5% above the target rate. This reflects the partial rebuilding of our reserves following the significantly lower than targeted rates achieved in the previous three years. The CAA Board previously took the decision to fund certain project related expenditure, such as the Accommodation project, in 2017/18, 2018/19 and 2019/20 from surplus reserves created in 2016/17.

On a rolling 5-year basis the average rate of return for the last five years was 1.5%.

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.

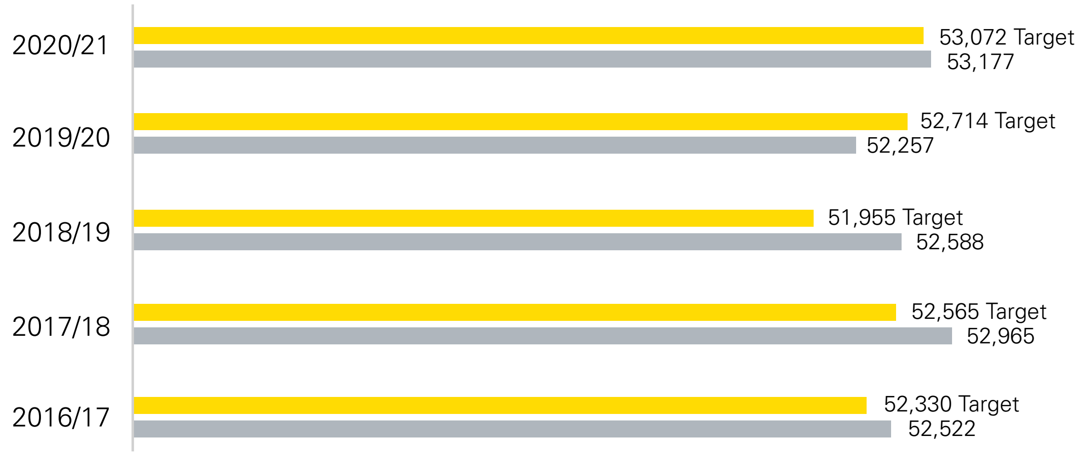
Analysis

In the light of COVID-19 and the severe financial impact of the pandemic on the aviation industry, the charges increase proposed for the financial year 2020/21 was waived. Charges have been held again at 2019/20 levels for the financial year 2021/22. Previously, average increases in charges had been applied for three years in a row through to 2019/20, with prices remaining 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.

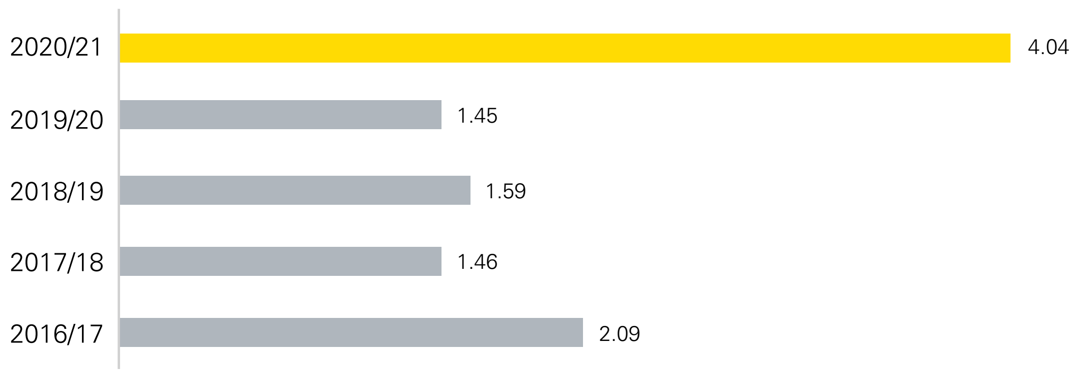
Analysis

The average cost per employee has increased by 1.8% when compared to 2019/20. This is largely attributable to a significant reduction in lower paid airport survey staff following a redundancy program part way through the year, which in turn has driven up the average cost per employee figure. This was partially offset by the savings from the voluntary pay cuts taken by Board members and higher paid staff for five months of the year.

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.

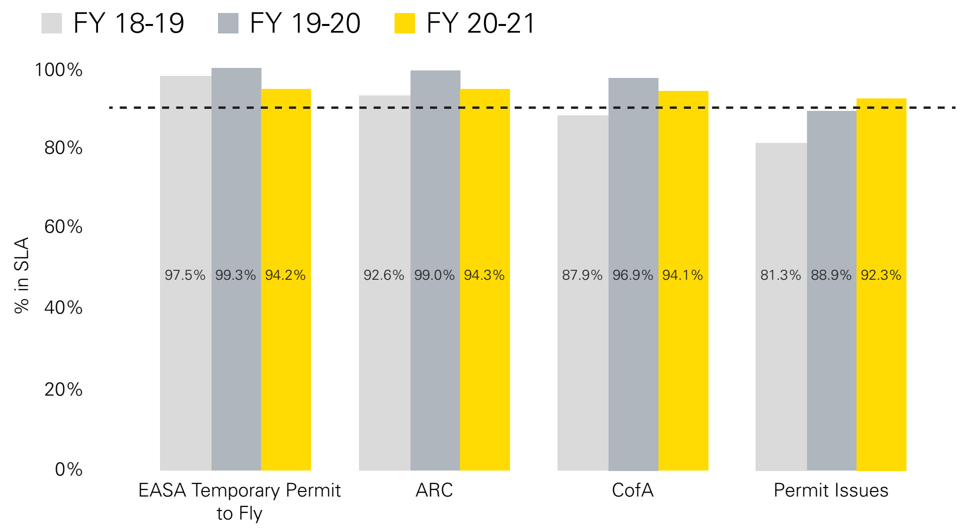
Analysis

The cash balance was £13.7m at the end of March 2021; this was higher than anticipated, primarily due to section 12 grant funding received from the DfT during the year to support the CAA Group's working capital position through the challenges presented by COVID-19. The year end balance also includes the receipt of s.16 funding from the DfT for costs that will not be incurred until 2021/22. In addition, a sizeable advance payment was received from one of our charge payers to be utilised against recharged costs, the majority of which will be paid during 2021/22.

Key Performance Indicators

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

% inside service level agreement (SLA)



EASA Temporary Permit to Fly

Despite high demand for EASA Temporary Permits to Fly in the past 12 months, performance against the service standard has been maintained. Temporary Permits to Fly are treated as a priority over other applications as the aircraft are grounded and need 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 the team has the required skill set to perform these applications and have trained an additional 3 Technical Standards Surveyors which has ensured we have maintained service levels for the last 12 months.

Certificates of Airworthiness

Performance against the service standards for Certificates of Airworthiness (C of A) has been consistent over the last 12 months. We have had 1 new Technical Standards Surveyor signed off on this process and currently we have 2 Technical Standards Surveyors undergoing training.

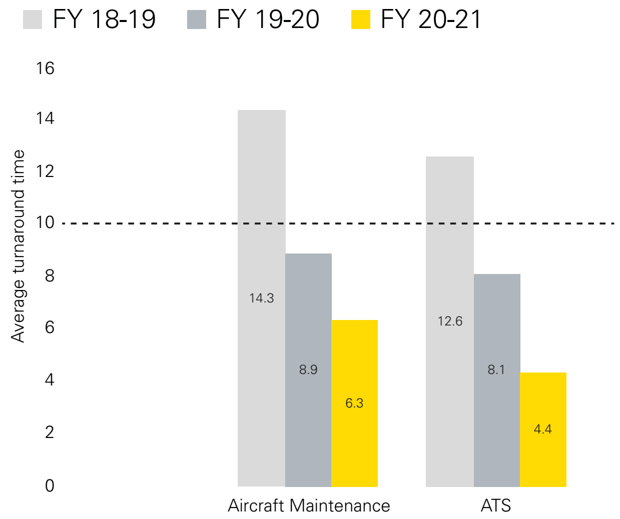
National Permit Issues

Performance against the service standards for National Permit Issues has improved over the last 12 months. We have highlighted a training requirement for an additional team member to be trained which will improve operational resilience.

Key Performance Indicators

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

Average turnaround time of application against 10 day service level agreement



Aircraft Maintenance

Aircraft Maintenance applications (Part 66) average turnaround times have dropped from 8.9 working days in FY 2019-20 to 6.3 working days for FY 2020-21. This represents a significant reduction in average turnaround times over the last 12 months. This has been achieved as a result of more team members now being fully trained and the team having a more flexible resource plan that allows staff to be diverted to activities where the need is greatest.

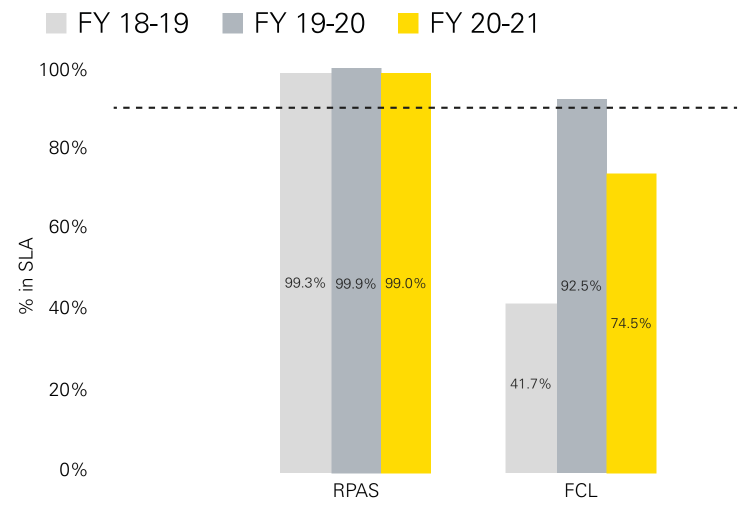
ATS

Air traffic services licence issues remained within agreed service levels, with average turnaround time reducing from 8.1 working days in FY 2019-20 to 4.4 days in FY 2020-21.

Key Performance Indicators

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

% inside service level agreement (SLA)



RPAS Permission for Commercial Operations (PfCO)

Despite the challenges we have all faced surrounding COVID-19 and the significant impact it has had on the wider industry, we have had our busiest year on record, receiving 6,236 applications compared to the previous year's 5,743 applications. In addition to this work, we inherited the Drone and Model Aircraft Registration and Escalation Service (DMARES) mailbox, which has received thousands of emails over the course of the year (3,012 between Jan-March 2021) and have spent a significant amount of time supporting the EU RPAS Regulations project, which further highlights the challenges that the team has faced. As we continue to ease out of lockdown, we expect to see similar growth throughout the next fiscal year.

Flight Crew Licensing (FCL)

The onset of COVID-19 in 2020 and the need to shift from an office-based service to a remote working model at very short notice impacted our ability to meet service standards. Significant adjustments to working practices, for example scanning paper applications and logbooks to enable them to be processed by staff working from home, introduced delays into our processes. Once process adjustments were made the team were able to process >90% of applications within 10 working days however the overall annual performance of 74.5% is a reflection of periods of time where our processes have been impacted by COVID-19 remote working. During this time the licensing teams have also processed more than 2,000 pilot transfer application requests associated with the UK's exit from the EU.

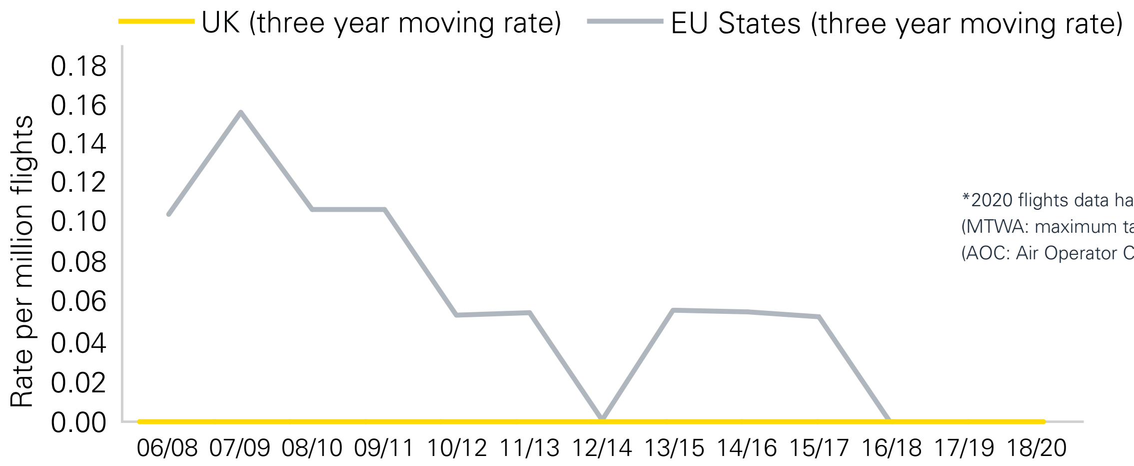
Key Performance Indicators

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

Fatal Accident Rate



*2020 flights data has been estimated
(MTWA: maximum take-off weight authorised)
(AOC: Air Operator Certificate)

Analysis

A three-year moving rate of fatal accidents for passenger aeroplanes with a maximum authorised take-off weight (MTWA) for UK operators has been produced and compared to the rate for the same types of aircraft registered in EU member states[4].

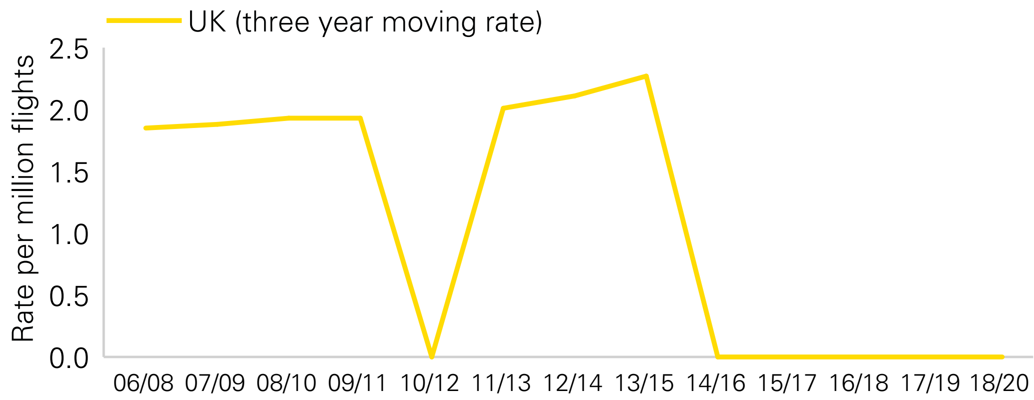
In the three-year period between 2018-2020 there were no fatal accidents involving UK operators and none involving an EU member state. The UK fatal accident rate in this category has remained at zero since 1999, when a Boeing 757 experienced a heavy landing in Girona, Spain, resulting in one fatality.

[4] EU member states for each year are taken to be the current members (correct as of April 2021)

Key Performance Indicators

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

Fatal accident rate



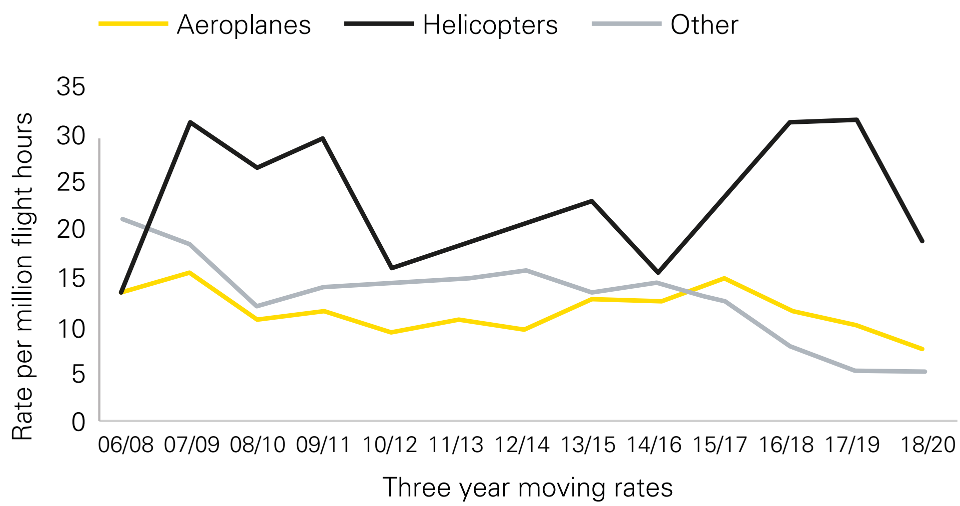
Analysis

The fatal accident rate for UK commercial air transport helicopter operations remained at zero for the three-year period from 2018 to 2020, which is consistent with the level recorded between 2017 to 2019. 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

Fatal accident rate



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 2019 and 2020 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 9 fatal accidents reported during 2018-2020 involving UK registered aeroplanes, with 3 fatal accidents in 2020. There were 14 fatal accidents in the previous 3-year period between 2017-2019, with 3 of these fatal accidents occurring during 2019. The COVID-19 pandemic has influenced the fatal accident rate in the 2018-2020 period due to flying restrictions; nevertheless, in absolute figures the number of fatal accidents has not decreased as much.

Helicopters

The rate of fatal accidents involving UK registered helicopters has decreased due to no fatal accidents in 2019 and 2020.

Other

There were 4 reported fatal accidents involving other sector aircraft reported between 2018-2020, with 2 fatal accidents reported during 2020.

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. During the year we enhanced these arrangements by increasing the frequency of risk reporting to the Board. The Board now receives monthly updates on any key changes to our top risks.

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

We have reviewed risks in all three categories in the light of COVID-19. Our overall 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:

A. Air transport safety risks

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

Mitigations

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

We also regulate UK airspace to support safe and efficient operations and 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 throughout to provide support while maintaining our focus on safety. This includes continuing to apply a risk-based approach to the decisions and actions taken by industry during the crisis.

COVID-19 has required the CAA 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). Our key activity, as we reach the end of the financial year and over the months that follow, is to work with industry to support restart and recovery while continuing to focus on the need for safety standards to be maintained. Specifically, we are concentrating our efforts on assessing compound skills fade, and the resultant risk to human performance, across the total aviation system, rather than contained or isolated incidents within entities, operators or sectors.

Principal Risks and Uncertainties

B. Aviation security risks (including cyber security)

- An attack at a UK airport or on an aircraft.

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 assist 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.

Our Cyber Security Team continues to support industry. This includes promoting the need to include cyber security in existing industry management systems.

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 continue actively to monitor these and all relevant security risks.

During the initial phases of the COVID-19 pandemic (and to date) we have been providing assistance to airports, airlines, inflight supply organisations, cargo operators and known consigners 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. We will continue to work closely with and assist the industry during the restart and recovery phase providing assurance that all applicable security requirements continue to be met.

C. Consumer choice, value and fair treatment risks

- Consumers are provided with air transport services that do not 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 and have recently made changes to our ADR policy to support this. ADR 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 Air Travel Organisers' Licensing (ATOL) scheme to protect consumers in the event of a failure of a UK tour operator irrespective of its size. This includes repatriation and payment of claims, for which we have contingency plans in place. 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 the consequences of failures. We have invested, with the ATT, in a new claims portal to manage ATOL claims.

We continue to monitor the aviation sector more broadly, including UK licensed airlines that are not part of the ATOL scheme. We have worked closely with the DfT and wider Government in the light of the current challenges facing the sector.

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.

We will continue to provide assistance to the industry throughout each phase of the pandemic, while ensuring that consumers remain protected. This includes the payment of refunds for cancelled flights. Following our review of airline refund policies and wide-ranging engagement, all UK airlines are now paying refunds and doing so quicker and in line with the commitments they gave to us.

As we progress through the restart and recovery phase, we will work with industry as it strives to ensure that sufficient preparations are being made to meet demand, so that consumers experience a good service that is in line with applicable regulations and legislation, particularly for consumers needing extra support to access services. We have also been given, and will exercise as necessary, new enforcement powers in relation to COVID-19 and protecting public health. This work includes overseeing compliance by airlines with new requirements for passengers entering the UK.

Principal Risks and Uncertainties

D. Climate Change

- Climate change might result in 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 also could result in higher insurance costs for our offices.
- Transition risks could arise in relation to the speed, scale and cost of moving towards a greener, low carbon economy.
- There is growing interest from the public to have greater information on the environmental impacts of aviation, which we are considering in the 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

COVID-19 has demonstrated our ability as an organisation to continue to operate remotely (from home). In future, should climate change cause issues with public transport (or at our offices) home working will remain available as an alternative. In terms of the more immediate short to medium term, we do not consider that climate change poses a significant threat to the CAA's viability but we will continue to monitor this.

For the sector more widely, we remain focused on how aviation impacts the environment, consumers and the public. Last year, we initiated a project to consider if there are further actions that we should take to meet growing consumer demand for information relating to the carbon impact of aviation. During the year this project has progressed, with research undertaken with consumers to understand better what information they require and what is currently available.

Our Innovation Team are reviewing the CAA's activities to date, including the opportunities that might arise in future, in relation to rising demand from Government and industry for the development of net-zero emission aviation. We have been, and will remain, engaged with the DfT on any new Government policies in relation to this and to the environment and sustainability as a whole.

We also continue to engage with the Aerospace Technology Institute (ATI). The ATI promotes transformative technology in air transport, including the use of more efficient aircraft propulsion systems that lower the impact on the environment.

E. 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, such as the impact of COVID-19 on air traffic levels, might reduce our income.

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.

During the year the emergence of COVID-19 and the resulting reduction in aviation activity significantly affected the CAA's income and financial position. Mitigations were taken covering the rest of the financial year. These primarily included grant funding from the DfT which also paid for work in advance. Additionally, we took a range of measures internally, including placing a freeze on recruitment, salary reductions, an overtime freeze and a pause on capital projects.

Our financial control framework has continued to operate with no reductions in effectiveness, despite the challenges that have arisen due to COVID-19.

Looking ahead, we have received confirmation from the DfT that we will receive financial support for the coming financial year (2021/22). We are also exploring alternative sustainable future funding options as part of a wide-ranging internal change initiative.

Principal Risks and Uncertainties

F. 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 include but are not limited to: prioritisation of workloads, recruitment, 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, which we have continued to manage throughout the year.

G. Cyber Security

- CAA held data might be compromised 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.

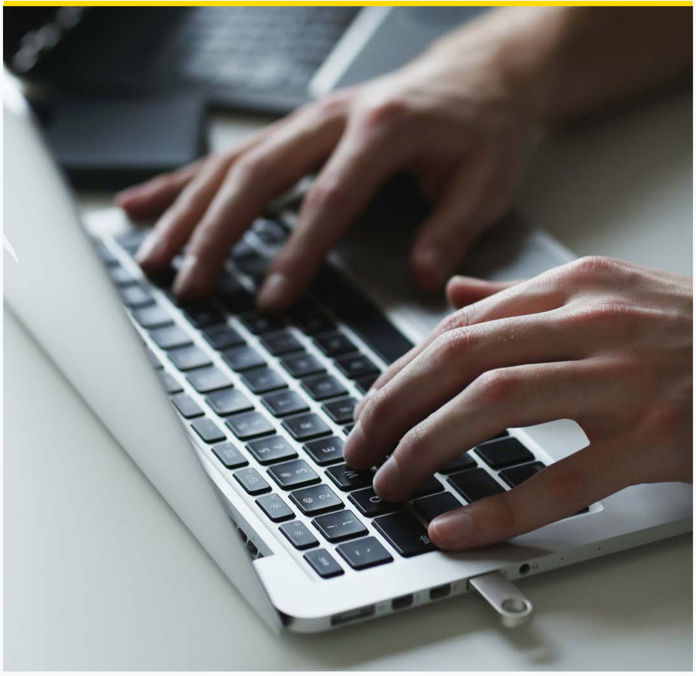
The CAA remains aware and focused on these risks and has a range of measures in place to help to protect the organisation. This includes but is not limited to: network security controls, such as the use of firewalls to detect/block attacks and a 'security by design' process for both new systems and applications and upgrades to existing ones. During the year, we also updated our endpoint security controls. The outcome is better protection for our systems and improved data for analysis and investigation of incidents related to this risk. We are also now protected by services provided by the National Cyber Security Centre, which identify and alert the CAA to the presence of malicious activity which we may not otherwise detect.

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 and against the aviation industry standard 'Cyber Assessment Framework'. Any improvements identified by this or other reviews are duly considered, prioritised and acted upon.

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. The Team also has a horizon scanning process.
- **A Communications Team** - that monitors media channels for any emerging issues that could affect either aviation or 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.



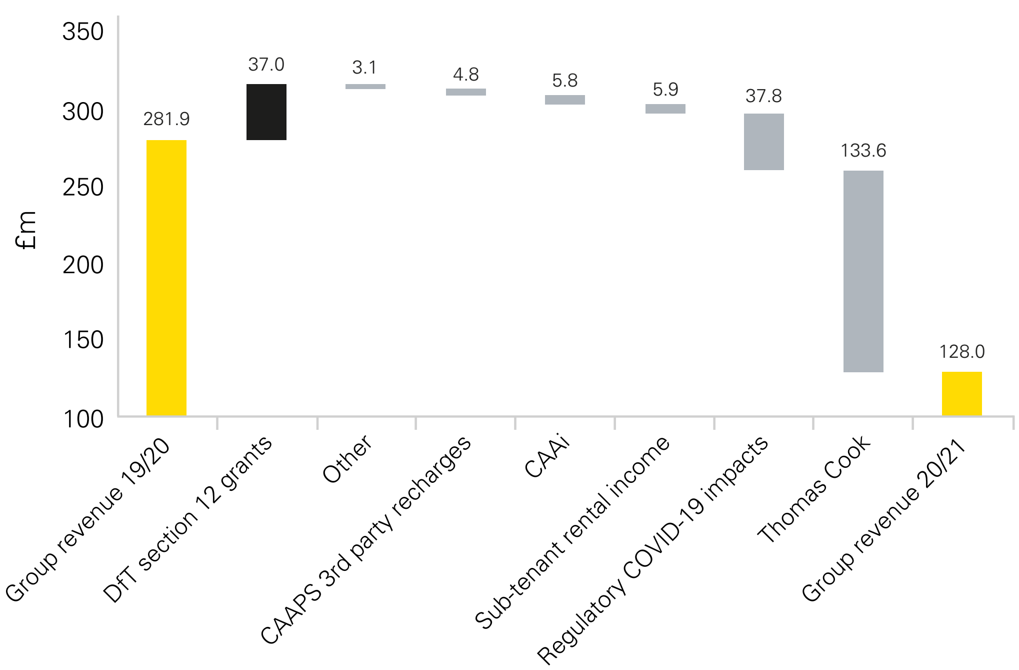
Financial Review

Chris Tingle

Significant Financial Developments

- **Total revenue:** £128.0m, down by 54.6% (2020: £281.9m)
- **Operating profit:** £5.0m (2020: operating loss £1.0m)
- **Pension surplus:** £212.6m, down by 17.0% (2020: £256.1m)

Movement in Group Revenue



The CAA is funded by those it regulates, with in the region of 40% of its income normally derived from variable charges linked to aviation activity. As a result of the response to the COVID-19 pandemic, aviation demand collapsed in the spring of 2020. Despite a level of increased activity through the summer, the second wave in autumn 2020, together with a range of pandemic responses internationally, has had a severe impact on the aviation industry. Whilst there have been positive developments in relation to vaccines, the emergence of new strains of the virus has resulted in further lockdowns and restrictions to international travel, putting further financial strain on the industry.

At the outset of the pandemic we deferred the planned increase in charges for an initial period of six months from 1 April 2020. This was subsequently extended for the remainder of 2020/21 and the following financial year. In addition, we implemented a recruitment and pay freeze, pay cuts for higher earning staff for five months, a pause on certain major projects and capital spend, a reduction in travel and related expenditure and a review, and reduction where possible, of all external spend. In total, savings of £8.2m were achieved. Nevertheless, much of the cost base of the CAA is broadly fixed and we were unable to respond sufficiently in the timescale required with the cost cutting measures available to us to mitigate fully the reduction in income.

Following discussions with the Department for Transport (DfT) during the spring of 2020, an initial section 12 grant of £10m was provided together with an upfront payment of section 16 funds for the year of £5.3m. This was followed in July with a funding support letter committing up to £41m of further section 12 grant funds for the financial year, which was aligned to the CAA's latest cash flow forecasts at the time. The letter also confirmed the DfT's intention to provide further taxpayer funding if required as a result of the continuing impact of COVID-19, to ensure the CAA's ability to continue to carry out its statutory duties.

Financial Review

Chris Tingle

As we progressed through to the end of the financial year, statutory income was ahead of projections and the level of bad debts was significantly lower than feared. This, together with close management of expenditure and careful working capital management, resulted in a total drawdown of only £37m of the £51m available DfT section 12 funding.

The CAA is directed by the 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 6.0% for the Regulatory Sector, which was above the 3.5% target rate of return set by the Secretary of State for Transport. Further analysis is provided on page 36.

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 its 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 2021 is estimated to be £1,368.3m (2020: £1,231.1m), the increase being mainly due to a further buy-in transaction during the year to cover the uninsured pensioner population at 31 August 2020.

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 was 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.

Overall Financial Performance

In the year ended 31 March 2021, the CAA recorded an operating profit before interest and tax of £5.0m (2020: operating loss £1.0m). These results included the effects of IAS 19. Within the operating result, the Regulatory Sector, comprising the activities of Safety and Airspace Regulation, Consumers and Markets and Aviation Security, as well as the result achieved by CAA International (CAAi), made a break-even result before IAS 19 adjustments (2020: £1.7m loss) and a profit after adjustments for IAS 19 pension costs and net interest, but before tax, of £2.0m (2020: £1.7m loss).

CAA Financial Performance Results	**2021 £m**	**2020 £m**
Group revenue	128.0	281.9
Operating costs (excluding IAS 19 pension scheme adjustment)	(125.7)	(283.0)
Group operating profit / (loss)	2.3	(1.1)
IAS 19 pension scheme adjustment	2.7	0.1
Group adjusted operating profit / (loss)	5.0	(1.0)
Net interest	5.7	2.3
Profit before taxation	10.7	1.3
Taxation	(2.1)	(0.3)
Profit after taxation	**8.6**	**1.0**

Financial Review

Chris Tingle

Revenue

Group revenue for the year ended 31 March 2021 was £128.0m (2020: £281.9m), a decrease of £153.9m (54.6%). The primary reason for the decrease in revenue was that the prior year included income relating to the Thomas Cook repatriation activities (£134.2m); funding was provided by the DfT and the Air Travel Trust to fully cover these costs. The Regulatory Sector saw a decrease of £3.4m (3.4%) to £98.0m (2020: £101.4m). This decrease in income has arisen primarily as a result of the negative impact of COVID-19 on activity levels in the aviation industry for the entirety of the last financial year; revenue received through our statutory charges schemes is heavily dependent on industry volumes. This impact on the Regulatory Sector was largely mitigated by the grant funding provided by the DfT.

Miscellaneous Services income decreased by £144.9m to £11.0m (2020: £155.9m); 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. The reduction was also contributed to by the loss of rental charges to sub-tenants following the vacation of CAA House in December 2019 and the discontinuation of paying for, and subsequently recharging, third-party costs to CAAPS, who have been paying these charges directly themselves from January 2020 onwards.

CAAi revenues reduced to £5.5m (2020: £11.2m). The decrease is primarily due to the impact COVID-19 travel restrictions had on the delivery of international projects and the expiration of the EASA framework contract following the UK's exit from the EU.

Group revenue for the year ended 31 March 2021 was £128.0m.

Operating Costs

Operating costs for the year ended 31 March 2021 decreased to £123.0m (2020: £282.9m). The main reason for the decrease was the cost of Thomas Cook repatriation activities (£134.2m) that was incurred last year. The significant areas of change are described below:

- Employment costs were £89.9m, showing a decrease of £2.9m (3.1%) compared to the prior year. The average number of employees in the Group reduced by 11 in the financial year to 1,175 (2020: 1,186) as disclosed in note 3, which contributed to the decrease in total 'Wages and salaries' and 'Social security costs' of £0.8m. Board members and higher paid staff also voluntarily agreed to take temporary pay cuts of between 5% and 15% for five months. Defined benefit pension costs reduced £3.8m to £10.5m, the decrease being attributable to the treatment of defined benefit pension costs in accordance with IAS 19. The financial results of the Group are, however, assessed by reference to financial targets agreed with the Secretary of State for Transport. This target excludes the effects of IAS 19 on pension costs and reflects instead the amount of employer cash contributions paid to CAAPS during the financial year. The cash contribution to the scheme decreased to £13.3m (2020: £14.4m), a reduction of £1.1m (7.6%). Organisation design activities in 2020/21 in response to the COVID-19 situation resulted in termination payment costs of £1.5m (2020: £0.1m).
- Services and materials expenditure reduced by £7.9m to £9.5m (2020: £17.4m). The significant majority of this decrease is attributable to rent, rates and service charge costs no longer being payable on the previous CAA House office in Kingsway after the lease expired in December 2019, as well as the savings of associated ancillary costs such as security, utilities, telecommunications and cleaning.
- Other expenses costs were £15.6m (2020: £163.6m). The majority of this decrease is due to the costs (primarily chartering aircraft) relating to the repatriation of Thomas Cook customers in 2019/20 following the collapse of their business in September 2019. Other key areas where spend was significantly reduced on the previous year were travel and related expenditure, legal and professional fees and third-party costs associated with the defined benefit pension scheme as CAAPS started paying these directly from January 2020 onwards.

Financial Review

Chris Tingle

Corporation Tax

The estimated tax charge for this year is £2.1m (2020: £0.3m). A net deferred tax asset of £641k (2020: £768k) is included within the Statements of Financial Position, a decrease of £127k as compared to the prior year.

Capital Expenditure

Capital expenditure additions during the year totalled £0.6m (2020: £4.6m). The expenditure this year principally related to laptop computers for our Microsoft Windows 10 upgrade rollout. The net book value of the Group's capitalised assets at 31 March 2021 decreased in the year by £3.6m to £17.9m (2020: £21.5m); this balance includes right of use assets with a net book value of £4.9m (2020: £5.1m).

Financial Management

Treasury Policy

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

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

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

We primarily place our surplus sterling funds with either HM Treasury debt management office or on short-term or overnight deposit at banks that have money market credit ratings of at least 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 counterparties by reviewing credit ratings and closely monitoring aggregate exposures. The majority of our expenditure is settled in sterling. There is a small amount of foreign currency exposure on some revenue earned by CAA International Limited, although this exposure is minimised through hedging contracts where the cash flows are reasonably certain.

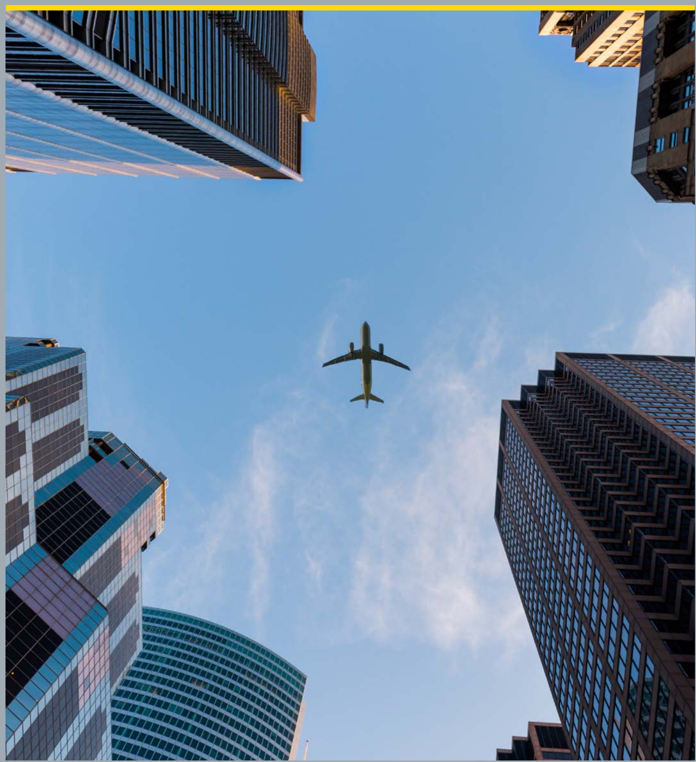
An analysis of our debt can be found in note 14 to the accounts on page 115.

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. We repaid the final instalment of previous loans in December 2019 and have not drawn down any new loans since. We also had a £10.0m overdraft facility with our bankers, NatWest, which we did not utilise during the financial year. We reduced this overdraft facility to £5.0m after the reporting date, effective from 18 April 2021.

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 2020/21 was 6.0%, which is 2.5% above the target rate. This reflects the partial rebuilding of our reserves following the significantly lower than targeted rates achieved in the previous three years. The CAA Board previously took the decision to fund certain project related expenditure, such as the Accommodation project, in 2017/18, 2018/19 and 2019/20 from surplus reserves created in 2016/17. On a rolling 5-year basis the average rate of return for the last five years was 1.5%.



Financial Review

Chris Tingle

Our Equality and Diversity Policy

Diversity and inclusion (D&I) is a strategic priority for the CAA. We are proud of the progress we have made over the last year; we have reduced our gender pay gap, increased all our declaration rates, and implemented improvements in the light of an independent equal pay audit. We have also continued to publish our gender pay gap figures to hold ourselves to account, despite statutory reporting requirements in respect of gender pay gaps being paused due to the COVID-19 pandemic. The improvements in our declaration rates have enabled us to expand our pay gap reporting to include ethnicity.

We know we have more work to do and we are keen to accelerate the pace of change. Events of the past year led us to put in place listening sessions to look at inclusion from the perspectives of colleagues, based on their views and experiences of working at the CAA.

Several strengths were identified, including:

- There is clear vision from leaders around D&I, fostering the sense that inclusion is being taken seriously.
- Recognition that improvements have been made and belief that this momentum will be continued.
- Friendly colleagues - people in the CAA are welcoming and there is a feeling that people want to be inclusive.

There were also areas identified for improvements and recommendations were made on these:

- Ensuring that inappropriate behaviours are not a barrier to creating an inclusive CAA where everyone has a voice.
- Mitigating any concerns around favouritism or exclusion behaviours by helping everyone, but especially managers, to be inclusive.
- Ensuring our people processes are transparent and inclusive.

Using this feedback, we are refreshing our D&I strategy with a clear roadmap of activities for the next 3 years. This will be published in 2021.

We are determined not only to improve our own diversity and to work on our culture to ensure it is inclusive but also, as the sector regulator and a service provider, we are committed to inclusivity in the broader context. We have, therefore, adopted a wide definition of consumer vulnerability which informs our work, including as we carry out core regulatory functions such as obtaining insight, policy making, enforcement activities and remedy design; when we provide services such as issuing licences; and in the provision of information. This year we plan to continue to work with colleagues, industry, and the UK Regulators Network to understand further how we can embed our obligations under the Equality Act, including the Public Sector Equality Duty, across the organisation to enable better and fairer regulatory and consumer outcomes.

We also know that creating a workplace environment where people can be themselves can have only a positive impact on our people's wellbeing.

Wellbeing

Our wellbeing work in 2020 was of course dominated by COVID-19. As the sweeping implications of the pandemic, on both the organisation and each of us as individuals, became apparent, the Wellbeing Board with support from ExCo reviewed our wellbeing strategy in-year to ensure that we pivoted appropriately to the new challenges and requirements.

Whilst COVID-19 led to unimaginable shifts in wellbeing challenges and the CAA's operating environment, our four-priority framework enabled us to assess the wellbeing impacts of what we delivered and how:

- **Musculoskeletal Health and Movement** became an even more complex and central issue. Learning events and resources have all been delivered and coordinated work is ongoing to support colleagues in working safely and comfortably.
- **Enabling Wellbeing** has meant ensuring colleagues were given a new set of tools and guidance around self-care and CAA support to meet their new needs working and living in entirely new circumstances. We have also supplied managers with a suite of guides to enable them to support colleagues remotely.
- **Early Intervention:** The Wellbeing Board and Exco have constantly monitored the mental health impact; our Mental Health First Aiders (MHFA) network was expanded and we have delivered a range of new guides and resources, including the Headspace App. Wellbeing events have been held focussing on pertinent issues such as home-schooling, loneliness, maintaining physical movement and mental health.
- **Wellbeing Culture** has been at the forefront of the CAA's response to the pandemic. We conducted two wellbeing surveys in 2020 to ensure that decision making has been informed by up to date insight and data.

April 2021 saw the introduction of our second wellbeing strategy (2021-23). Continuing to be based on our four wellbeing pillars (as above), the strategy has been designed with consideration of the immediate and long-term impacts of the pandemic, as well as considering the opportunities to capitalise on our learning and the reintroduction of considered choice as to where and how we work in the future.

Financial Review

Chris Tingle

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; flight test examiners; experts in flight training, leisure and recreational aviation activities; aircraft maintenance surveyors; surveyors who are fully up-to-date with the latest design and manufacturing techniques; 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 2021 (excluding the effects of IAS 19 pension scheme adjustments) were £64.6m (2020: £68.2m), a decrease of £3.6m (5.3%). Revenue for the year was £66.6m (2020: £65.9m), an increase of 0.7m (1.1%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £2.0m (2020: loss of £2.3m). Average staff numbers for the year were 585 (2020: 590), a decrease of 5.

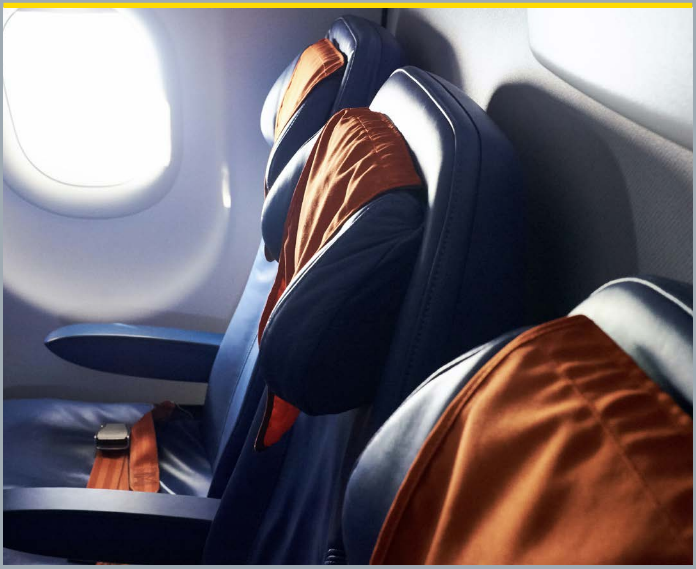
Consumers and Markets

Our Consumers and Markets Group's (CMG) 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.

CMG is also responsible for implementing 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 2021 (excluding the effects of IAS 19 pension scheme adjustments) were £19.8m (2020: £23.2m), a decrease of £3.4m (14.7%). Revenue for the year was £20.6m (2020: £23.6m), a decrease of £3.0m (12.7%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.8m (2020: £0.4m). The average number of staff in the year ended 31 March 2021 was 123 (2020: 101). In addition, the CAA employed, on average, 44 survey staff at airports, mostly on a part-time basis.



Financial Review

Chris Tingle

Aviation Security

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

Aviation Security achieved an operating profit (excluding the effects of IAS 19 pension scheme adjustments) of £0.3m (2020: £0.9m loss). Operating costs for the year ended 31 March 2021 (excluding the effects of IAS 19 pension scheme adjustments) were £10.5m (2020: £12.7m). Revenue for the year was £10.8m (2020: £11.8m), a decrease of £1.0m (8.5%). The average number of Aviation Security staff in the year ended 31 March 2021 was 115 (2020: 114).

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 2021 were £13.3m (2020: £13.2m). 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 (2020: £13.4m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.1m (2020: £0.2m).

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, the Ministry of Defence and UKRI (UK Research and Investment). Our activities covered all regulatory areas including: aviation safety, security, environment, economic regulation and consumer choice and value. CAAi regularly supports EASA and ICAO at events throughout the year.

The company also provides open access courses and in company training programmes for Civil Aviation Authorities and industry; in addition it has 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 £5.5m (2020: £11.2m). The decrease is primarily due to the impact COVID-19 travel restrictions had on the delivery of international projects and the expiration of the EASA framework contract following the UK's exit from the EU. The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating loss of £0.9m (2020: £1.2m profit). The company employed an average of 50 staff (2020: 56) during the financial year, with a further 16 full time equivalents being supplied from other areas within the CAA (2020: 25). 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 £0.7m (2020: £3.8m).

Financial Review

Chris Tingle

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 £11.0m (2020: £155.9m), a decrease of £144.9m (92.9%). The primary reason for the decrease in revenue was the funding received for the Thomas Cook repatriation activities (£134.2m) last year, together with the loss of sub-tenant rental income (£5.9m) and cessation of recharging third-party costs to CAAPS (£4.8m). The net operating loss for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was £0.1m (2020: £0.5m profit). The average number of staff in the year ended 31 March 2021 was 322 (2020: 325).

Financial Outlook

The CAA took part in the Government's Comprehensive Spending Review (SR20) and worked closely with the DfT to submit a claim for funding for 2021/22 and beyond at the end of August 2020. The Government subsequently reduced the scope of the Spending Review to one year (2021/22). The DfT has confirmed to us that £24.8m of funding for the CAA has been approved and incorporated within their overall budget for the coming year. This is in line with the base funding request submitted linked to our medium scenario cash flow at the time. A formal letter confirming the section 12 funding of £24.8m was received in March 2021. We have been regularly reviewing and updating our cash flow forecasts in conjunction with the DfT since the Spending Review submission to identify any possible further funding shortfalls as the pandemic has evolved. In addition to the section 12 funding letter, the DfT has issued the CAA with a letter confirming ongoing financial support to ensure the CAA can continue to carry out its statutory duties. In addition to the grant funding provided by the DfT, the CAA has access to a £5m overdraft facility with NatWest. It is not envisaged that this facility will be used during the coming year, although this provides further headroom if required.

Chris Tingle, Chief Operating Officer
16 June 2021

CAA Consumer Panel: Summary of 2020/21 Annual Report

The Rt. Hon Jenny Willott OBE

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. We publish our own Work Programme and Annual Report, which are available on the Consumer Panel page of the CAA website.

Over the year to 31 March 2021 we focused on our core work programme themes of building the evidence base, driving better outcomes for consumers, and influencing future frameworks. At the same time we reprioritised planned work to take into account the impacts of COVID-19. In particular, we devoted a lot of time to researching and evaluating how to rebuild consumer confidence as the sector reopens to ensure a rapid and consumer-focused restart. This was something we were asked to do by the CAA Chief Executive and Board.

To this end we reviewed the available evidence and published a paper setting out our views and recommendations. We set out three areas where consumer confidence could be supported as recovery takes place: physical confidence in health measures; the ability to easily find relevant, timely information; and financial security. As the CAA's specialist Consumer Panel, our recommendations were targeted to areas where the regulator has locus. However, we also recognised that in many cases the CAA will need to work collaboratively and not all of the areas explored fall within the CAA's remit. Where others are best placed to act, or have a role to play, we highlighted this and targeted our recommendations to those organisations.

In addition, this year the Consumer Panel:

- Continued to make the case for a robust evidence base upon which to build consumer policy.
- Worked with the CAA to scope, design and implement a project on the provision of environmental information to consumers.
- Continued to provide input on the regulation of Heathrow. The Panel's focus is on scrutinising how the CAA ensures the consumer interest is taken into account, rather than looking in detail at the work being done directly by Heathrow. In this respect the Panel was disappointed by the CAA's decision to close the Heathrow-dedicated Consumer Challenge Board and by the way this decision was taken and communicated.
- Contributed to work the CAA is carrying out to embed the concept of consumer vulnerability across its work, something the Panel strongly supports.
- Continued to press for improvements in the area of complaints and redress.
- Input to development of the CAA's strategic framework, including by highlighting the consumer principles and publishing a guide to their usage for staff in the regulator.

Over the next year the Panel will consider, in conjunction with the CAA, the available consumer evidence base, including any gaps, and advise on how this should be shaped and utilised going forwards. We will continue our work on supporting passenger confidence in the context of aviation sector recovery, including by working with the CAA and the Department for Transport as they respond to the work of the Global Travel Taskforce. And we will press for improvements in protection, redress and how consumer complaints are dealt with by airlines and airports.

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

Board Members

Chair

Sir Stephen Hillier

Sir Stephen 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.

Executive Board Members

Richard Moriarty

Richard was appointed as Chief Executive Officer in May 2018 having previously joined the CAA Board in January 2016 as Group Director of Consumers and Markets and Deputy Chief Executive. In that role he was responsible for airline licensing, the ATOL scheme, the economic regulation of airports and air navigation providers, our competition powers and our consumer redress and enforcement activities. Before joining the CAA Richard was the CEO of the Legal Services Board, which oversees the regulation of the legal profession in England and Wales. Richard has also held senior public and private sector roles in a number of regulated sectors including water, energy, aviation, postal communications and social housing. Richard was non-executive Board Member and Deputy Chair of the Social Housing Regulator from 2012-2019.

Robert Bishton

Appointed to the Board as Group Director of Safety and Airspace Regulation in November 2019, Robert 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 Chief Pilot of easyJet. As a commercial pilot, Robert has over 10,000 hours, currently flying the B787. Robert 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.

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 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 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 who trained as a 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.

Air Vice-Marshal Simon Edwards MBE

Simon joined the CAA Board in June 2021. He has commanded the RAF's C17 Squadron, Number 904 Expeditionary Air Wing at Kandahar Airfield, Afghanistan and RAF Brize; he gained his parachutist's wings in 2016. He graduated from the Royal College of Defence Studies in 2017 and then worked briefly in the Cabinet Office as a policy adviser in the National Security Secretariat. He took on the role of Assistant Chief of Staff for Capability Delivery at Headquarters Air Command. In that role he completed the Major Projects Leadership Academy for high-risk, high value government projects and was the Senior Responsible Owner for a wide portfolio, including the A400M Tactical Airlifter and the United Kingdom Military Flying Training System. Promoted to Air Vice-Marshal in May 2021, Simon has returned to the Ministry of Defence as Assistant Chief of the Air Staff - Strategy.

Marykay Fuller

Marykay 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

Non-Executive 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 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 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 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 2021.

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 2020 commenced in February 2020, but work was paused due to the COVID-19 pandemic. It is anticipated that this review, which is being undertaken by Flint Global, will recommence and be completed during the 2021/22 financial year.

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 2021, 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 the light of the provisions of the Corporate Governance Code 2018. Any changes to be made following completion of that review will be implemented in 2021/22 and published appropriately.

Details of Board membership, Board committees and meetings are provided on page 64.

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 appoints the Chair and sets his 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:

- Sir Stephen Hillier was appointed to the Board on 10 June 2020 and became Chair on 1 August 2020; and
- Dame Deirdre Hutton ceased to be a Board member on 31 July 2020.

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

- AVM Ian Gale ceased to be a Board member on 15 June 2021; and
- AVM Simon Edwards was appointed to the Board on 16 June 2021.

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 Sir Stephen Hillier.

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 2021	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Number of meetings held	**11**	**6**	**2**	**1**
Sir Stephen Hillier	7	*5	*1	1
Dame Deirdre Hutton	4	*2	*1	N/A
Richard Moriarty	11	*6	*2	*1
Robert Bishton	11	N/A	N/A	N/A
Katherine Corich	11	6	2	*1
Marykay Fuller	11	6	N/A	*1
AVM Ian Gale	10	N/A	N/A	*1
David King	11	N/A	2	1
Anne Lambert	11	5	2	*1
Paul Smith	11	N/A	N/A	N/A
Chris Tingle	11	*6	N/A	N/A
Graham Ward	11	6	N/A	1

* Meetings attended by invited non-members

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

Corporate Governance

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 4, 5, 18 and 50. 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 76.

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.

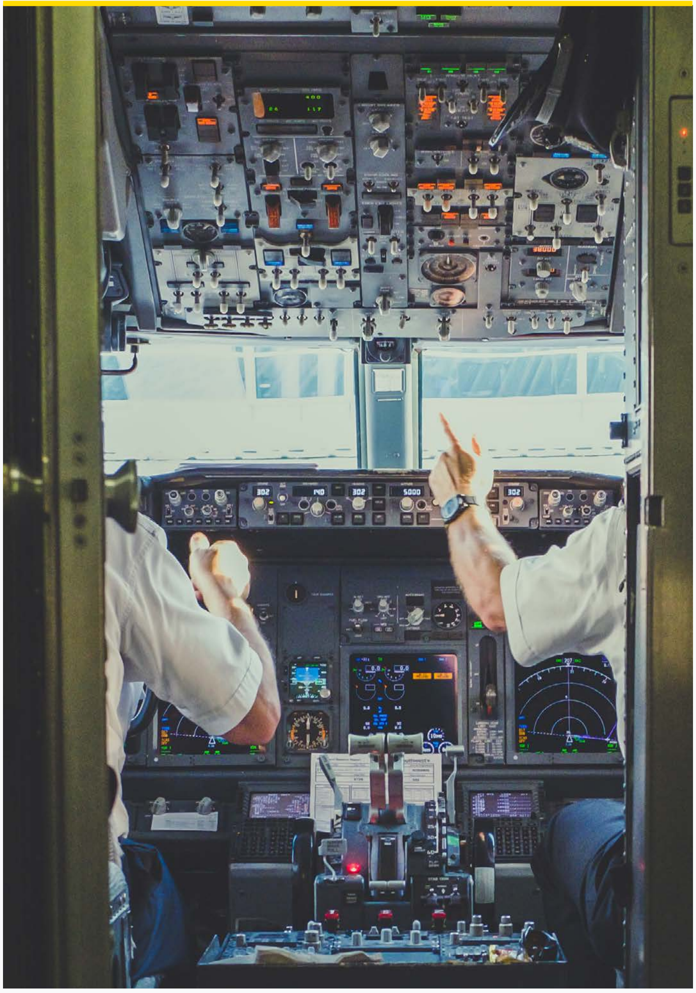
We have a robust assessment process for identifying, evaluating and managing our emerging and principal financial, operational and compliance risks. It was in place for the year ended 31 March 2021 and up to the date of approval of the annual report and accounts and is regularly reviewed by the Board. 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 result of COVID-19. See pages 46 to 49 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 2021. 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 all our key 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. Previously, the Board placed a high priority on the replacement of our finance and HR systems, however, the new SAP system has now been fully operational for some time. Using the new functionality provided, the finance function immediately made some important control improvements and has subsequently completed the majority of the further enhancements planned. The finance function is also progressing well with expanding its oversight of the financial processes and controls operating in the various service areas, with several effectiveness improvements completed or in progress as a result. The new Finance system is cloud based and this has delivered significant benefits for the last year as the finance team have been working from home and the year end audit was completed remotely by BDO.



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. Several airlines ceased to operate during the previous financial year, most notably Thomas Cook and Flybe. During the financial year 2020/21, the industry was also, and continues to be, significantly affected by the impacts of the restrictions imposed to combat COVID-19.

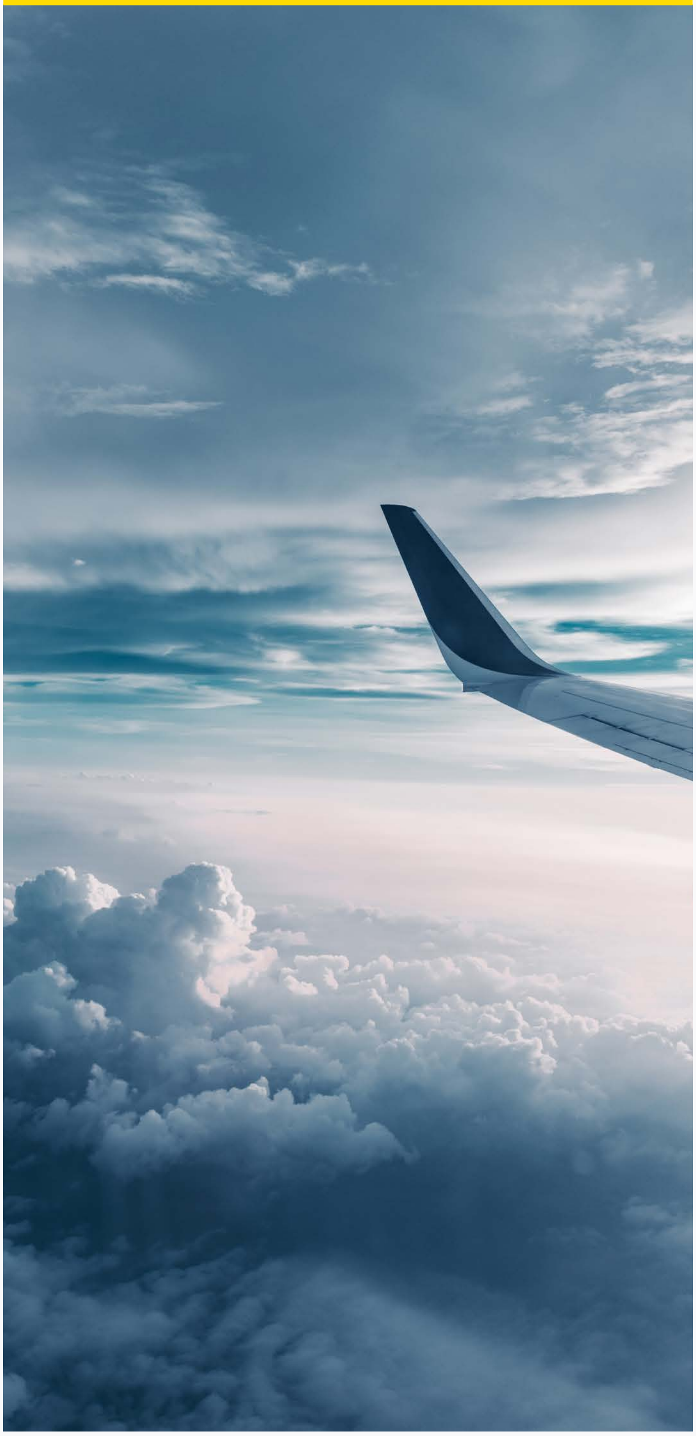
For the purposes of this Annual Report the Board has assessed the CAA's ability to continue to operate and meet its liabilities through to 30 June 2022. The Board chose this period for its review as there is a reasonable degree of certainty about our regulatory objectives and that we will have sufficient resources to achieve them.

It considered the information in the strategic plan and the approved budget for the financial year ending 31 March 2022, together with the expected activity for April to June 2022. 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 June 2022, 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 DfT through to 2022/2023, 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 30 June 2022.

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 89.



Corporate Governance

Compliance statement

We are directed by the Secretary of State for Transport to report on our compliance with the Financial Reporting Council's July 2018 UK Corporate Governance Code provisions throughout the accounting period. The Code includes 18 principles of good governance and 41 supporting provisions. The Board considers that it has complied, throughout the year ended 31 March 2021 and up to the date of approval of the annual report and accounts, with all relevant provisions of the Code, except for provisions 12,14,16, 19, 23, 33 and 41 and we have provided a full explanation below:

- **Provision 12:** there is no senior independent director appointed by the Board amongst the independent non-executive directors. All non-executive members of the CAA are appointed by the Secretary of State, who may appoint a deputy Chair from amongst them. In view of the independence of all non-executive members and the fact the Secretary of State has not opted to appoint a deputy Chair it is not thought necessary to appoint a senior independent director.
- **Provision 14:** the CAA Governance Statement, which sets out the Board's responsibilities and how the CAA functions, forms an integral part of the framework agreement with the DfT. This agreement has yet to be approved by the DfT, with attention having been focused on COVID-19 priorities. It is expected that approval will be obtained in the early part of the 2021/22 financial year after which the Governance Statement will be published on the CAA website, and annually thereafter. The Secretary of State for Transport writes annually to the Chair of the CAA setting out his priorities for the organisation. The most recent letter, covering priorities for the coming year, is available on the CAA website;
- **Provision 16:** arrangements for the appointment to and removal from the role of Company Secretary are currently a matter for the Chief Executive Officer in consultation with the Audit Committee Chair. This is considered appropriate for the size and type of organisation we are. All Board members have access to the advice of the Company Secretary;
- **Provision 19:** Dame Deirdre Hutton had been in post as CAA Chair for just over 11 years by the time she left the Board at the end of July 2020. This was due to the DfT taking the step to extend Dame Deirdre's term beyond the normal maximum nine year period to support the transition of the CAA to a new Chief Executive in 2018 and to ease the situation in the latter part of 2019 when a number of highly experienced non-executives reached the end of their Board terms. The new Chair, Sir Stephen Hillier, took office in August 2020 from which date full compliance with this provision was achieved;
- **Provision 23:** whilst the Nominations Committee is fully involved in the appointment and succession planning for both executive and non-executive Board members, people matters are discussed on a regular basis by the Board. This aligns to the new People Strategy adopted during the year, which is a key aspect of the organisation's vision and strategy and a priority for the coming year. This includes oversight of our policy on diversity and inclusion and the gender balance in the senior team;
- **Provision 33:** the CAA's Remuneration Committee reviews remuneration for the Executive Committee including the Chief Executive Officer but does not have responsibility for the remuneration of either the Chair or for senior managers. The Chair's remuneration is determined by the Secretary of State for Transport and the CAA Executive Committee is responsible for setting the policy and remuneration levels for senior management. Workforce remuneration and policies have, however, been reviewed by the Board several times during the year, reflective of management's decision to seek voluntary pay reductions and the suspension of the annual pay award due to the significant financial impact of COVID-19; and
- **Provision 41:** the Remuneration Committee does not currently have responsibility for all of the matters listed under the provision. As a regulator the CAA balances the requirement to perform its various regulatory functions and the need to recruit and retain appropriately skilled staff. The CAA does not, however, operate in a market context. Rather, the focus of the Remuneration Committee is on ensuring that, taken together, reward and recognition for executive members, senior leaders and all other CAA staff are such as to support consistent performance and delivery of strategic priorities. In that context the Remuneration Committee has worked extensively with the Executive Committee and the CAA Board to ensure an equitable approach throughout 2020/21. That approach has acknowledged the impact of COVID-19 on the aviation and aerospace sectors, the CAA's finances, the interests of those in the junior grades and also included the completion of an equal pay audit.

Report by the Audit Committee

Graham Ward

During the year ended 31 March 2021 the Audit Committee's members were:

- **Chair:** Graham Ward;
- Katherine Corich;
- Marykay Fuller; and
- Anne Lambert.

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 59 to 61) we have sufficient recent and relevant financial and other experience to fulfil the Committee's functions.

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

The Audit Committee's terms of reference

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

The Board has confirmed that we are carrying out our duties in accordance with our terms of reference, the principles and provisions of the UK Corporate Governance Code, CAA requirements and common practice. This follows the review of our performance that we conducted during the year with the assistance of the Internal Audit department and our subsequent report to the Board.

Our work this year

We reviewed the significant areas of the group's critical accounting policies, which are set out in the notes to the financial statements on pages 89 to 131. 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 2021 was £212.6 million (2020: £256.1 million), an overall decrease in the surplus of 17.0% in the past 12 months. The Committee, taking account of the external auditor's review, considered the reasonableness of the assumptions underlying the pension calculations and agreed that the assumptions are within an acceptable range.
- **Accounting principles and policies:** we scrutinised and approved the selection of significant accounting policies and practices that have, or could have, a material effect on the statement of accounts. We were satisfied that there were no new or revised accounting standards that would have a significant impact on the financial statements.
- **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 to the measures in place to mitigate these impacts and the assessment of the CAA to remain viable and to be able to meet going concern requirements as at the signing date of the accounts.
- **Impairment assessment of intangible assets:** we considered management's assessment of the carrying amounts of intangible assets using the checklist of impairment indicators provided in International Accounting Standard 36 "Impairment of Assets". As a result of revisions to the estimates of the economic performance of such assets, management had proposed an impairment write down of £719k. We were satisfied with this proposal and the way in which its effects have been reflected in the financial statements.

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.

During the year we received regular assurance updates on CAA information security controls, cyber security and internal projects being managed by our Portfolio Delivery department. We also received an update on the impact of climate change on those that we regulate.

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.

Report by the Audit Committee

Graham Ward

Audits

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

Internal audit

Our Internal Audit department's formal charter specifies two main activities for the department: risk-based assurance audits and consultancy audits. Our Head of Internal Audit proposes which risk-based assurance audits should be carried out and they are reviewed and, if thought fit, authorised each year by the Committee.

All audits are carried out independently, in accordance with the international standards for professional practice of internal auditing, by our internal auditors, as required by the UK Corporate Governance Code. Typically, the audits assess the design and operating effectiveness of the governance, risk management and control arrangements covering the specific topic area under review. Design assessments are mostly conducted versus Internal Audit's view of good or reasonable practice.

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

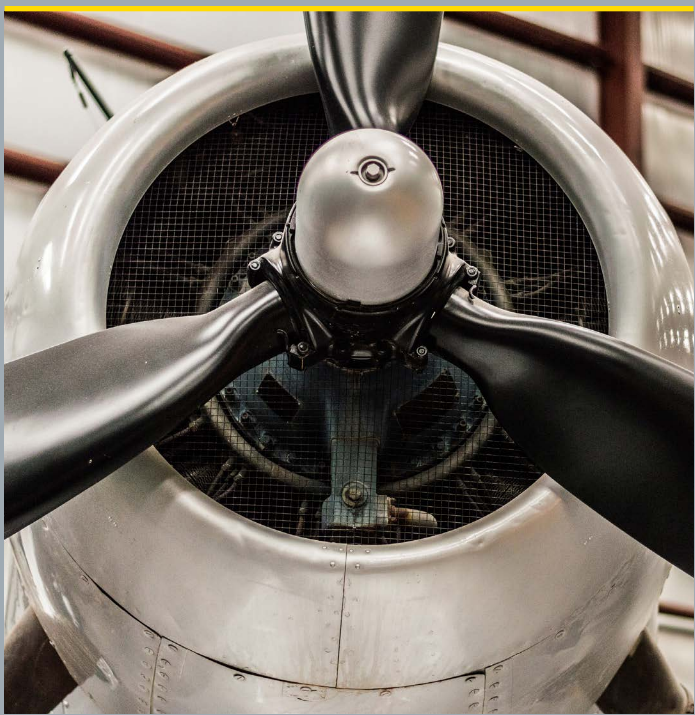
The Internal Audit department has two permanent staff members and, when required, temporary staff and internal secondments. 'Co-sourced' resources are also utilised as required and these are provided by a third-party supplier. Our Head of Internal Audit, Andrew Broadhead, is a Certified Information Systems Auditor (CISA) and holds a Master of Business Administration (MBA).

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

- Key internal audit reports;
- Stakeholder feedback on the quality of internal audit activity;
- A formal annual review of the in-house team;
- An annual private discussion between the 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 aim is to ensure that the CAA conforms as closely as possible with the standards of the Global IIA.

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, as reviewed by us, confirmed that the work of the IA function continues to conform to the professional standards of the Global IIA.



Report by the Audit Committee

Graham Ward

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 (now BDO 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 guidance "Audit Tenders: Notes on best practice". The responsible partner for the audit is Michael Simms. As permitted by the terms of its appointment, with the approval of the Board, we invited BDO LLP to continue in office for a further year, which was accepted. We are currently carrying out the next external audit tender process, which complies with the applicable parts of the FRC's guidance "Audit Tenders: Notes on best practice". We expect to have a new external audit contract in place and ready to start on 1 September 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, this year one of these meetings focused on the risks of fraud; 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 Financial Reporting Council's Ethical Standard (2019) 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. £0.017m of non-audit fees were paid to the external auditor during the year (2020: £0.010m); £0.002m was in respect of an audit-related review of the Whole of Government Accounts return (2020: £0.002m), £0.003m related to the provision of grant assurance reports (2020: £0.008m) and £0.012m was for Streamlined Energy and Carbon Reporting Assurance work (2020: £nil).

Graham Ward CBE, Chair, Audit Committee
16 June 2021

Report by the Nominations Committee

Sir Stephen Hillier

During the year ended 31 March 2021 the Nominations Committee's members were:

- **Chair:** Sir Stephen Hillier (from August 2020), Dame Deirdre Hutton (until July 2020);
- David King; and
- Graham Ward.

The Chief Executive is invited to attend our meetings, as is a representative of the Department for Transport (DfT). 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 2021.

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 59 to 61 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.

We will be reviewing our terms of reference during 2021/22.

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 the 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.

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
Sir Stephen Hillier	10 June 2020	31 July 2024
Richard Moriarty	12 January 2016	N/A
Robert Bishton	6 November 2019	N/A
Katherine Corich	1 July 2019	30 June 2023
AVM Simon Edwards	16 June 2021	Ex-officio appointment
Marykay Fuller	14 January 2019	13 January 2023
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

Sir Stephen Hillier

Changes in Board membership

I joined the Board as a non-executive member on 10 June 2020, before assuming my role of CAA Chair on 1 August 2020 following my appointment by the Secretary of State for Transport to succeed Dame Deirdre Hutton on the expiry of her term as CAA Chair. There were no other changes in Board membership during the year, although AVM Simon Edwards joined us on 16 June 2021 in an ex-officio capacity on his appointment as Assistant Chief of the Air Staff, succeeding AVM Ian Gale.

> Looking ahead to 2021/22, working with the DfT, we commenced the process of recruiting three new non-executive directors.

The Nominations Committee's work is forward focused. Looking ahead to 2021/22, working with the DfT, we commenced the process for recruiting three new non-executive directors. One will replace Graham Ward and another will replace David King, both of whom complete their final terms of office in August 2021. The third appointment will be an additional role to reflect changes in the CAA's responsibilities. All current non-executive members were invited to a NomCo meeting at the start of the new non-executive members recruitment process, to ensure a full understanding of the skills and experience which we required.

Sir Stephen Hillier, Chair, Nominations Committee
16 June 2021

Report by the Remuneration Committee

David King

During the year ended 31 March 2021 the Remuneration Committee's members were:

- **Chair:** David King;
- Anne Lambert; and
- Katherine Corich.

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 59 to 61 for Committee members' profiles.

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 on pages 63 to 67) 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. During 2020/21 we commenced a review of our Terms of Reference. This was paused due to the impacts of COVID-19 and we will conclude this in 2021/22.

The Committee would, in more settled times, ensure that remuneration policy had operated as intended and ensure that appropriate engagement with the workforce explained how executive remuneration aligns with wider company pay policy. This year, those discussions took place at full Board, given the financial circumstances the CAA found itself in, given the impact of COVID-19 on aviation and the unique situation of discussing reductions rather than increases. During the year non-executive and executive members volunteered to take pay reductions and executives also elected to forego bonuses. This information was communicated to the organisation through engagement with Trade Unions, our workforce council, the Employee Forum and by personal correspondence with each colleague from the Chief Executive.

Remuneration policy

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

Salaries and fees

When deciding on salaries, fees and the total package of benefits, we look at relevant market rates for executive Board members of the appropriate calibre. Executive and non-executive members elected to take a 10% pay reduction for the period 1 April to 30 September 2020. The CAA Chairs and CEO elected to take a 15% pay reduction for the same period in response to the financial uncertainty that COVID-19 imposed on the organisation.

Performance-related pay

We have a long-established policy of considering performance-related payments for executive Board members, based on clear individual and team objectives agreed by the Committee at the beginning of each financial year and evaluated at the end of the performance year. 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 again been overshadowed by the impact of the COVID-19 pandemic on the fortunes of the aviation sector and consequently the financial resources available. So, at the end of a year when the CAA responded to an external environment placing an exceptional workload on the CAA, as they did last year, 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, when they are made, 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

David King

Board members' emoluments

Emoluments (excluding pension arrangements) of the Chair and Board members for the financial year ended 31 March 2021 were as follows:

Board member	Note	Salary and fees	Benefits	2020/21 Performance-related payments	2020/21 Total	2019/20 Total
Sir Stephen Hillier	1	86.2	0.0	0.0	86.2	0.0
Dame Deirdre Hutton	1	36.8	0.0	0.0	36.8	130.9
Richard Moriarty		323.8	1.1	0.0	324.9	339.6
Robert Bishton	2	177.4	1.1	0.0	178.5	77.7
Paul Smith		194.7	0.0	0.0	194.7	204.2
Mark Swan	2	0.0	0.0	0.0	0.0	156.0
Chris Tingle		214.9	3.5	0.0	218.4	231.3
Katherine Corich	3	20.9	0.0	0.0	20.9	17.4
Marykay Fuller	3,5	23.9	0.0	0.0	23.9	23.6
David Gray	3,4	0.0	0.0	0.0	0.0	15.6
David King	3,4	26.3	0.0	0.0	26.3	25.9
Anne Lambert	3	21.7	0.0	0.0	21.7	22.9
Michael Medlicott	3,5	0.0	0.0	0.0	0.0	20.8
Graham Ward	3,6	29.2	0.0	0.0	29.2	29.7
AVM Ian Gale	7	0.0	0.0	0.0	0.0	0.0
Board members' emoluments as per the annual accounts		**1,155.8**	**5.7**	**0.0**	**1,161.5**	**1,295.6**

1 Sir Stephen Hiller joined the Board on 10 June 2020, before taking up the post of CAA Chair on 1 August 2020. He succeeded Dame Deirdre Hutton who left on 31 July 2020.

2 Mark Swan left the CAA in November 2019. He was succeeded by Robert Bishton.

3 Non-executive members are paid a non-pensionable fixed rate of £22,000 p.a. 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.

Report by the Remuneration Committee

David King

Board members' emoluments (continued)

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.

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. None of the executive members of the CAA were either contributing members of CAAPS or CAAPS pensioners.

A description of the scheme is given on page 119 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.

Three 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. The relevant cash alternative amounts are included within the figures in the emoluments table on page 74.

Board members' pension arrangements – DC scheme

Board member	CAA contribution during the year £000	Board member's contribution during the year* £000
Paul Smith	17.1	0.0
Robert Bishton	45.6	0.0

*The CAA DC scheme operates a salary sacrifice arrangement for employee contributions. Executive Board members were members of this arrangement and so have not directly paid contributions to the scheme since the beginning of the salary sacrifice arrangement, or since joining the CAA if later. The amount of salary sacrificed is equivalent to the employee pension contribution paid and was equal to £5,700 in relation to Paul Smith and £22,800 in relation to Robert Bishton.

David King, Chair, Remuneration Committee
16 June 2021

Statement of Board Members' Responsibilities

Kate Staples

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 of 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 the CAA will continue in business.

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

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

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

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

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

By order of the board.

Kate Staples, General Counsel & Secretary
16 June 2021

Independent Auditors' Report to the Secretary of State for Transport

Opinion on the financial statements

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 2021 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.

We have audited the financial statements of the Civil Aviation Authority (the "Authority") and its subsidiaries (the "Group") for the year ended 31 March 2021, 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 Reports 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 Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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 other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the board members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the board members' assessment of the Group and the Authority's ability to continue to adopt the going concern basis of accounting included:

- We reviewed management's assessment, budgets and forecasts, which included three scenarios, for a period covering 12 months after the proposed date of approval of the financial statements. This included consideration of the impact of COVID-19 on the Group's cash flow forecasts.
- We evaluated the accuracy and outcome of previous projections provided by management in respect of the audit for the year ended 31 March 2020 by comparing these projections to this year's actual results.
- We considered the appropriateness and adequacy of COVID-19 and going concern related disclosures and the consistency in the Group's financial statements by considering these in light of our knowledge gained through the work performed on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the board members with respect to going concern are described in the relevant sections of this report.

Independent Auditors' Report to the Secretary of State for Transport

Overview

Coverage	100% (2020: 100%) of Group profit before tax 100% (2020: 100%) of Group revenue 100% (2020: 100%) of Group total assets		
Key audit matters		**2021**	**2020**
	Capitalisation and valuation of intangible assets	•	•
	Valuation of defined benefit pension scheme assets and liabilities	•	•
	Revenue recognition		•
	Revenue recognition is no longer considered to be a key audit matter because the revenue relating to the Thomas Cook repatriation activities was recorded appropriately in the prior year and there are no material activities in the current period.		
Materiality	**Overall materiality** **Group** - £26.0m (2020: £24.8m) based on 1.25% of defined pension benefit assets **Authority** - £26.0m (2020: £24.8m) based on 1.25% of defined pension benefit assets **Specific materiality related to balances apart from defined pension benefit assets and liabilities** **Group** - £1.6m (2020: £3.5m) based on 1.25% of revenue **Authority** - £1.5m (2020: £3.3m) based on 1.25% of revenue		

An overview of the scope of our audit

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.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the board members that may have represented a risk of material misstatement.

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'). 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 the group engagement team.

Independent Auditors' Report to the Secretary of State for Transport

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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 on these matters.

Key audit matter	How we addressed the matter in our audit
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. During the year, significant amounts of intangible assets were transferred from assets in the course of construction to software development costs. There is a significant risk associated with the valuation of intangible assets. The risk relates to management's judgements in the impairment models and supporting evidence in regard to key assumptions and inputs which have the potential to cause a material misstatement to the financial statements.	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 evidence. The internal evidence was appropriately challenged. We enquired with management on the appropriateness of the projects which went live during the year ended 31 March 2021. We performed sensitivity analysis on a selection of management assumptions to check that the results are not unduly susceptible to change. **Key observations** 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 to confirm the ownership and valuation of the pension assets balances. We reviewed the scheme audited accounts for the custodian of the scheme to check that there were 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. **Key observations** 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

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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take 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 and performance materiality as follows:

Overall materiality	**Group** - £26.0m (2020: £24.8m) **Authority** - £26.0m (2020: £24.8m)
Specific materiality related to balances apart from defined pension benefit assets and liabilities	**Group** - £1.6m (2020: £3.5m) **Authority** - £1.5m (2020: £3.3m)
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.

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 for the Group and the Authority to be set at 70% (2020: 70%) of our overall materiality or £18.2m (2020: £17.4m). For balances other than defined pension benefit assets and liabilities, our judgement was that performance materiality for the Group and the Authority to be set at 70% (2020: 70%) of our specific materiality or £1.1m (2020: £2.5m) for the Group and £1.1m (2020: £2.3m) for the Authority. 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.

Component materiality

The component overall materiality levels were set in a range of £31,000 to £69,000 (2020: £39,000 to £140,000).

Reporting threshold

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £32,000 (2020: £70,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report to the Secretary of State for Transport

Other information

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

Corporate governance statement

We are required to review the board members' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Authority's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	> The board members' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and > The board members' explanation as to its assessment of the Authority's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	> Board members' statement on fair, balanced and understandable; > Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; > The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and > The section describing the work of the Audit Committee.

Responsibilities of the board members

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

Independent Auditors' Report to the Secretary of State for Transport

Auditor's 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 auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and industry, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Civil Aviation Act 1982, the Companies Act 2006, income tax, payroll tax and sales tax. The Group is also subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of relevant applicable legislation in the countries where the Group operates.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue, management bias in accounting estimates and the adoption of inappropriate accounting policies.

Audit procedures performed by the engagement team included:

- Inspecting correspondence with tax authorities and lawyers;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Discussions among the engagement team on how and where fraud might occur in the financial statements;
- Inspecting legal and professional fees for indications of non-compliance with laws and regulations;
- Evaluating management's controls designed to prevent and detect irregularities;
- Identifying and testing journals, in particular journal entries posted with unusual account combinations, journal entries posted to revenue, postings by unusual users or with unusual descriptions; and
- Challenging assumptions and judgements made by management in their critical accounting estimates.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: **frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Secretary of State for Transport, in accordance with Section 15 of the Civil Aviation Act 1982. Our audit work has been undertaken so that we might state to the Secretary of State for Transport those matters we are required to state to the Secretary of State for Transport 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 June 2021

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 2021 £'000	Group 2020 £'000
Revenue	2	**127,967**	281,928
Operating costs			
Employment costs	3	**(89,906)**	(92,829)
Services and materials		**(9,455)**	(17,374)
Repairs and maintenance		**(3,558)**	(4,429)
Research	6	**(26)**	(118)
Depreciation, amortisation, impairments and disposals	6	**(4,367)**	(4,639)
Other (losses)/gains	6	**(50)**	40
Other expenses		**(15,639)**	(163,570)
Net operating costs		**(123,001)**	(282,919)
Operating profit/(loss)	See below	**4,966**	(991)
Finance income	7	**5,893**	2,437
Finance costs	7	**(128)**	(121)
Finance income - net		**5,765**	2,316
Profit before income tax		**10,731**	1,325
Income tax charge	8	**(2,144)**	(364)
Profit for the financial year		**8,587**	**961**

The Authority has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Authority Income Statement. The profit for the Authority for the year was £9,406k (2020: loss of £257k). The profit before IAS 19 adjustments for the Authority for the year was £2,546k (2020: loss of £2,121k).

The supporting notes on pages 89 to 131 are an integral part of these financial statements.

Analysis of operating profit/(loss)	2021 £'000	2020 £'000
Profit/(loss) before IAS 19 adjustments	**2,241**	(1,061)
IAS 19 pension scheme adjustments	**2,725**	70
Operating profit/(loss)	**4,966**	(991)

Statements of Comprehensive Income

For the years ended 31 March	Note	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Profit/(loss) for the financial year		**8,587**	961	**9,406**	(257)
Other comprehensive income					
Unrealised foreign exchange differences		**(50)**	(31)	**(48)**	15
Movement on deferred tax relating to unrealised foreign exchange differences		**10**	(14)	**9**	(3)
Effect of rate changes on deferred tax relating to unrealised foreign exchange differences		**-**	2	**-**	-
Acturarial (loss)/gain on post employment benefit obligations	17	**(52,115)**	48,189	**(52,115)**	48,189
Movement on deferred tax relating to post employment benefit obligations		**9,902**	(9,156)	**9,902**	(9,156)
Effect of rate changes on deferred tax relating to post employment benefit obligations		**-**	(4,110)	**-**	(4,110)
Total comprehensive income for the year		**(33,666)**	35,841	**(32,846)**	34,678

The supporting notes on pages 89 to 131 are an integral part of these financial statements.

Statements of Financial Position

As at 31 March	Note	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Non-current assets					
Property, plant and equipment	9	**9,554**	10,509	**9,467**	10,341
Intangible assets	10	**8,380**	10,949	**7,820**	10,262
Investments in subsidiaries	11	**-**	-	**-**	-
Trade and other receivables	12	**-**	36	**-**	-
Deferred tax assets	16	**641**	768	**625**	750
Retirement benefit assets	17	**212,636**	256,138	**212,636**	256,138
Total non-current assets		**231,211**	278,400	**230,548**	277,491
Current assets					
Trade and other receivables	12	**17,842**	33,573	**15,413**	31,371
Derivative financial instruments	19	**-**	2	**-**	2
Current income tax assets		**158**	113	**-**	-
Cash and cash equivalents	13	**13,681**	8,643	**12,818**	8,487
Total current assets		**31,681**	42,331	**28,231**	39,860
Total assets		**262,892**	320,731	**258,779**	317,351
Capital and reserves					
Retained earnings		**185,023**	218,689	**176,405**	209,251
Total capital and reserves		**185,023**	218,689	**176,405**	209,251
Total equity		**185,023**	218,689	**176,405**	209,251
Non-current liabilities					
Trade and other payables	15	**5,924**	6,151	**5,925**	6,066
Deferred tax liabilities	17	**40,401**	48,667	**40,401**	48,667
Retirement benefit obligations	17	**1,301**	1,255	**1,301**	1,255
Total non-current liabilities		**47,626**	56,073	**47,627**	55,988
Current liabilities					
Trade and other payables	15	**29,772**	45,868	**34,276**	52,011
Current tax liabilities		**368**	-	**368**	-
Retirement benefit obligations	17	**103**	101	**103**	101
Total current liabilities		**30,243**	45,969	**34,747**	52,112
Total liabilities		**77,869**	102,042	**82,374**	108,100
Total equity and liabilities		**262,892**	320,731	**258,779**	317,351

The supporting notes on pages 89 to 131 are an integral part of these financial statements. The financial statements on pages 84 to 132 were authorised for issue by the Board on 16 June 2021 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 2019 as previously stated		**183,166**	174,891
Impact of change in accounting policy (IFRS 16)		**(318)**	(318)
Adjusted balanced 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
Balance as at 1 April 2020		**218,689**	209,251
Profit for the financial year		**8,587**	9,406
Unrealised foreign exchange differences		**(50)**	(48)
Movement on deferred tax relating to unrealised foreign exchange differences		**10**	9
Actuarial loss on post employment benefit obligations	17	**(52,115)**	(52,115)
Movement on deferred tax relating to post employment benefit obligations		**9,902**	9,902
Balance as at 31 March 2021		**185,023**	176,405

The supporting notes on pages 89 to 131 are an integral part of these financial statements.

Statements of Cash Flows

For the years ended 31 March	Note	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Cash flows from operating activities					
Cash generated from operations	21	**6,169**	3,567	**5,336**	3,215
Interest paid		**(3)**	(1)	**(16)**	(50)
Income tax paid		**(48)**	(119)	**-**	-
Net cash generated from operating activities		**6,118**	3,447	**5,320**	3,165
Cash flows used in investing activities					
Purchase of property, plant and equipment	9	**(486)**	(1,838)	**(465)**	(1,838)
Purchase of intangible assets	10	**(144)**	(1,816)	**(144)**	(1,510)
Interest received		**5**	41	**5**	41
Net cash used in investing activities		**(625)**	(3,613)	**(604)**	(3,307)
Cash flows used in financing activities					
Repayments of borrowings		**-**	(379)	**-**	(379)
Lease liability instalments		**(755)**	(630)	**(687)**	(563)
Lease interest paid		**(125)**	(112)	**(123)**	(108)
Employee lease contributions		**425**	412	**425**	412
Net cash used in financing activities		**(455)**	(709)	**(385)**	(638)
Net increase / (decrease) in cash and cash equivalents		**5,038**	(875)	**4,331**	(780)
Cash and cash equivalents at beginning of year		**8,643**	9,518	**8,487**	9,267
Cash and cash equivalents at end of year	13	**13,681**	8,643	**12,818**	8,487

The supporting notes on pages 89 to 131 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 accounting standards in conformity with the requirements of the Companies Act 2006, the Civil Aviation Act 1982, the Civil Aviation Act 2012 and the Accounts Directions for the year ended 31 March 2021 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 international accounting standards 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 have 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 remains 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 continue to operate under extreme financial pressures and their ability to settle charges may 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 has established good channels of communication with Aviation stakeholders and the Department for Transport (DfT).

Whilst it remains difficult to predict accurately passenger numbers and the volume of flights, industry and DfT 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 30 June 2022. A range of scenarios has been considered with the recovery of aviation activity expected to be gradual from a low point in April 2021, achieving in the region of 50% of pre-pandemic levels by summer 2022. This will continue to impact adversely revenues for the year ending 31 March 2022. Based on these stress tests and the financial grant support provided by the Department for Transport, 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 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.

1.1.1 Changes in accounting policies and disclosures

Adoption of new and revised standards

New standards impacting the Group that have been adopted in the financial statements for the year ended 31 March 2021 are:

- Definition of a Business (Amendments to IFRS 3);
- COVID-19-Related Rent Concessions (Amendments to IFRS 16);
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revised Conceptual Framework for Financial Reporting.

The above amendments had a transition date of 1 April 2020. 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.

Notes to the Financial Statements

1.1.1 Changes in accounting policies and disclosures (continued)

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 2021:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

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

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.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with those of the Authority.

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 (losses)/gains'.

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.

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 carrying value of the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the Financial Statements

1.5 Property, plant and equipment (continued)

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.

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.

Notes to the Financial Statements

1.8 Financial instruments (continued)

Classification of financial assets (continued)

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 Statements of Financial Position.

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

Impairment of financial assets

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

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

Definitions of default and write off

The Group considers a financial asset to be 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 (losses)/gains' 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.

Captial management

The capital structure of the Group consists of retained earnings only with a net surplus of £185,023k (2020: £218,689k). The Group's main objective when managing capital is to safeguard its ability to continue as a going concern.

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

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.

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.

Notes to the Financial Statements

1.14 Employee benefits (continued)

(b) Post-employment benefits - pension obligations (note 17) (continued)

The defined benefit plan, The Civil Aviation Authority Pension Scheme, is a fully funded defined benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. The plan was closed to new entrants on 30 November 2012. The asset recognised in the Statements of Financial Position in respect of the defined benefit scheme is the fair value of plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit cost method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the Statements of Comprehensive Income in the period in which they arise.

The CAA also operates an unfunded scheme for some past members of the Board. Costs associated with this scheme are charged to the Income Statement in accordance with the advice of a professionally qualified actuary. A current and a non-current liability are held in the Statements of Financial Position in respect of post employment benefits payable under this scheme.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to: either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to their present value.

1.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money at the 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 Statements of Financial Position. These are measured at their present value, discounted by the interest rate implicit in the lease contract. The carrying value of 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 prices for the majority of the Group's services are as per our published Statement of Charges and may be either fixed or variable. Additional services may be delivered under an agreed contract at a negotiated price. Revenue is shown net of value-added tax, credits and discounts and after eliminating sales within the Group.

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

(a) Statutory charges

Revenue is primarily derived from 13 statutory charges schemes approved by the Secretary of State for Transport under section 11 of the Civil Aviation Act 1982. The charges are published on the CAA website.

(b) Eurocontrol service charges

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

Notes to the Financial Statements

1.16 Revenue recognition (continued)

(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 Group 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 Group 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.

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 Statements 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 2021.

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.

Notes to the Financial Statements

1.19 Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and assumptions concerning the future are made by the Group and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The accounting standard IAS 19 requires that the Authority selects a discount rate based on yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The funding strategy actually adopted and the investment portfolio held, are ignored for the purposes of IAS 19.

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

Intangible assets

Estimates are made in relation to the value in use of the fixed assets. These are 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 approximate 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, particularly during the first quarter of 2021 following the UK's third period of lockdown. 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.

During the year, the DfT provided section 12 grants to the CAA totalling £37 million in relation to financial support following the collapse of aviation activity brought on by the COVID-19 pandemic. This had a significant impact on the Group's variable revenue streams which are directly linked to passenger and cargo volumes in the UK. The grant is not repayable to the DfT and the revenue has been included in other revenue in the table below, split between the regulatory segments in line with the loss of revenue in the year. Further detail on the financial support provided by the DfT is included within note 1.1 Basis of preparation.

Other grants from the DfT amounting to £2,087k during the year (2020: £2,206k), of which £31k relates to the release of a grant received for assuming control of the Aviation Security function on behalf of the DfT (2020: £177k) and £2,056k relates to work undertaken by Air Safety Support International Limited on behalf of the DfT (2020: £2,029k) 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 2021 funding of £493k has been deferred (2020: £226k deferred).

Included within Miscellaneous Services are revenues and costs generated from the Thomas Cook repatriation activities of £568k. 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 Thomas Cook repatriation activities were included within Miscellaneous Services totalling £134,174k.

Notes to the Financial Statements

2. Segment information (continued)

The segment information for the year ended 31 March 2021 is as follows:

	Safety & Airspace Regulation £'000	Consumers & Markets £'000	Aviation Security £'000	Regulatory Sector Subtotal £'000	UK en route Air Traffic Services £'000	CAA International £'000	Miscellaneous Services £'000	Total £'000
Revenue								
Statutory and scheme charges	44,420	9,756	3,518	**57,694**	-	-	681	**58,375**
Eurocontrol service charges	-	-	-	**-**	13,434	-	-	**13,434**
Other revenue	22,174	10,835	7,255	**40,264**	-	5,547	10,347	**56,158**
Total revenue	66,594	20,591	10,773	**97,958**	13,434	5,547	11,028	**127,967**
Operating costs (excluding IAS19 pension scheme adjustments)	64,609	19,747	10,448	**94,804**	13,334	6,469	11,119	**125,726**
Profit/(loss) before IAS19 adjustments	1,985	844	325	**3,154**	100	(922)	(91)	**2,241**
IAS19 pension scheme adjustments	1,310	286	268	**1,864**	-	117	744	**2,725**
Operating profit/ (loss)	3,295	1,130	593	**5,018**	100	(805)	653	**4,966**
Profit/(loss) before income tax	6,065	1,735	1,159	**8,959**	100	(559)	2,231	**10,731**

A reconciliation of operating profit to profit before income tax is provided as follows:

	£'000
Adjusted operating profit for reportable segments	**4,966**
Finance income	**5,893**
Finance costs	**(128)**
Profit before income tax	**10,731**

Notes to the Financial Statements

2. Segment information (continued)

The comparable segment information for the previous year ended 31 March 2020, is as follows:

	Safety & Airspace Regulation £'000	Consumers & Markets £'000	Aviation Security £'000	Regulatory Sector Subtotal £'000	UK en route Air Traffic Services £'000	CAA International £'000	Miscellaneous Services £'000	Total £'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

3. Employment costs

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

	Note	2021 £'000	2020 £'000
Wages and salaries		**64,992**	65,698
Social security costs		**7,665**	7,730
Defined benefit pension plan costs	17	**10,531**	14,305
Defined contribution pension plan costs	17	**3,957**	3,677
Unfunded pension plan costs	17	**149**	(204)
Other employee benefits expenses		**2,612**	1,623
Total employment costs		**89,906**	92,829

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

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

By business segment	2021 Year end	2021 Average	2020 Year end	2020 Average
Safety and Airspace Regulation	**585**	**565**	604	590
Consumers and Markets	**128**	**123**	104	101
Aviation Security	**114**	**115**	117	114
CAA International	**46**	**50**	54	56
Miscellaneous Services	**335**	**322**	335	325
Total employees	**1,208**	**1,175**	1,214	1,186

Notes to the Financial Statements

4. Board members' and key management personnel emoluments

	2021 £'000	2020 £'000
Board member emoluments		
Salaries and fees	**1,156**	1,277
Benefits	**6**	18
Emoluments excluding pension contributions	**1,162**	1,295
Pension contributions	**63**	38
Pension payments to past Board Members	**184**	102
Board member emoluments	**1,409**	1,435

Details of aggregate emoluments for each of the 11 Board members (2020: 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.

	2021 £'000	2020 £'000
Key management personnel emoluments		
Salaries and fees	**692**	964
Benefits	**3**	10
Compensation payments	**75**	63
Emoluments excluding pension contributions	**770**	1,037
Pension contributions	**119**	174
Key management personnel emoluments	**889**	1,211

There were 5 employees considered to be key management personnel in the year (2020: 7).

5. Auditors' remuneration

	2021 £'000	2020 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**132**	128
Audit of subsidiary company financial statements	**19**	15
Audit of Group's Malaysia branch financial statements	**10**	8
Audit related assurance services	**17**	10
Total auditors' remuneration	**178**	161

Notes to the Financial Statements

6. Profit for the year

	Note	2021 £'000	2020 £'000
Profit for the year has been arrived at after charging / (crediting):			
Net foreign exchange losses/(gains) on operating activities		**50**	(40)
Total realised other losses/(gains)		**50**	(40)
Short-term/low-value operating lease payments:			
Properties (included within services and materials)		**70**	4,691
Vehicles (shown within employment costs and other expenses)		**8**	1
Total short-term/low-value operating lease payments		**78**	4,692
Depreciation, amortisation, impairments and disposals:			
Depreciation on property, plant and equipment	9	**2,378**	2,998
Grant released on property, plant and equipment	15	**(31)**	(92)
Depreciation on leased property, plant and equipment funded by employees (vehicles)		**(413)**	(401)
Amortisation of intangible fixed assets	10	**1,697**	1,815
Grant released on intangible fixed assets	15	**-**	(85)
Profit on disposal of property, plant and equipment		**-**	(1)
Impairment of intangible fixed assets	10	**736**	405
Total depreciation, amortisation, impairments and disposals		**4,367**	4,639

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).

	2021 £'000	2020 £'000
Research expenditure (all in respect of safety regulation):		
Internal costs (included within employment costs)	**720**	1,400
External costs (included within research)	**26**	118
Total research expenditure	**746**	1,518

Notes to the Financial Statements

7. Finance income and costs

	Note	2021 £'000	2020 £'000
Finance income:			
Interest on short-term deposits		**5**	41
Employee benefit scheme - Expected return on assets	17	**43,434**	50,192
Employee benefit scheme - Interest charge on liabilities	17	**(37,546)**	(47,796)
Total finance income		**5,893**	2,437
Finance costs:			
National loan fund borrowings		**-**	(8)
Interest paid on underpayment of corporation tax		**-**	(1)
Other interest costs		**(3)**	-
Lease contract interest expense	22	**(137)**	(123)
Interest on leased property, plant and equipment funded by employees (vehicles)		**12**	11
Total finance costs		**(128)**	(121)
Finance income - net		**5,765**	2,316

Notes to the Financial Statements

8. Income tax charge

	2021 £'000	2020 £'000
Analysis of tax charge in the year:		
Current tax:		
UK corporation tax at 19% (2020: 19%) on profit for year	**368**	-
Adjustment in respect of prior years	**-**	(2)
Tax overseas suffered	**3**	9
Withholding tax suffered	**-**	13
Total current tax charge	**371**	20
Deferred tax:		
Origination and reversal of temporary differences	**190**	(217)
Effect of tax rate changes relating to deferred tax expense	**-**	(58)
Adjustment in respect of prior periods	**(53)**	150
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	**1,636**	469
Total deferred tax charge	**1,773**	344
Income tax charge	**2,144**	364

Reconciliation of effective tax rate:		
Profit before income tax	**10,731**	1,325
Corporation tax calculated at 19% (2020: 19%)	**2,039**	252
Tax effects of:		
Fixed asset differences	**80**	(18)
Expenses not deductible for tax purposes	**15**	18
Adjustments to brought forward values	**7**	150
Overseas tax	**3**	9
Overseas withholding tax	**-**	13
Adjustments to tax charge in respect of previous periods	**-**	(2)
Effect of rate change	**-**	(58)
Income tax charge	**2,144**	364

At Summer Budget 2015, the Government announced legislation setting the corporation tax main rate (for all profits except ring fenced 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 fenced profits) for the years starting 1 April 2020 and 2021 would remain at 19%. At Budget 2021 the Government announced that the corporation tax main rate (for all profits except ring fenced profits) for the years starting 1 April 2023 would increase to 25%.

The rate of 19% 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 increase to the rate of corporation tax has not been substantively enacted at the sigining date of these financial statements, the 19% rate which currently applies has been used to measure deferred tax balances.

Notes to the Financial Statements

9. Property, plant and equipment

Group	Freehold buildings	Leasehold buildings	Plant & equipment	Vehicles	Furniture, fixtures & fittings	Right-of-use assets	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:								
At 1 April 2019	22,116	26,157	8,572	102	3,995	-	1,476	**62,418**
IFRS16 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**
Additions	-	-	462	-	-	1,127	24	**1,613**
Disposals	-	-	(289)	-	(250)	(371)	-	**(910)**
Transfers	-	-	114	-	-	-	(114)	**-**
Transfer from intangible assets	-	-	-	-	-	-	136	**136**
Adjustments	-	(207)	-	-	-	-	(119)	**(326)**
At 31 March 2021	**22,029**	**1,535**	**3,823**	**99**	**4,589**	**7,089**	**-**	**39,164**
Accumulated depreciation:								
At 1 April 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**
Charge for the year	146	156	351	-	371	1,354	-	2,378
Eliminated on disposal	-	-	(289)	-	(250)	(371)	-	(910)
At 31 March 2021	**21,267**	**301**	**2,741**	**99**	**3,023**	**2,179**	**-**	**29,610**
Net book value:								
At 31 March 2021	**762**	**1,234**	**1,082**	**-**	**1,566**	**4,910**	**-**	**9,554**
At 31 March 2020	**908**	**1,597**	**857**	**-**	**1,937**	**5,137**	**73**	**10,509**

Notes to the Financial Statements

9. Property, plant and equipment (continued)

Authority	Freehold buildings £'000	Leasehold buildings £'000	Plant & equipment £'000	Vehicles £'000	Furniture, fixtures & fittings £'000	Right-of-use assets £'000	Assets in the course of construction £'000	Total £'000
Cost:								
At 1 April 2019	22,116	26,157	8,542	102	3,862	-	1,476	**62,255**
IFRS16 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**
Additions	-	-	440	-	-	1,126	25	**1,591**
Disposals	-	-	(285)	-	(250)	(371)	-	**(906)**
Transfers	-	-	114	-	-	-	(114)	**-**
Transfer from intangible assets	-	-	-	-	-	-	136	**136**
Adjustments	-	(207)	-	-	-	-	(119)	**(326)**
At 31 March 2021	**22,029**	**1,535**	**3,777**	**99**	**4,455**	**6,886**	**-**	**38,781**
Accumulated depreciation:								
At 1 April 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**
Charge for the year	146	156	345	-	347	1,281	-	2,275
Eliminated on disposal	-	-	(285)	-	(250)	(371)	-	(906)
At 31 March 2021	**21,267**	**301**	**2,712**	**99**	**2,903**	**2,032**	**-**	**29,314**
Net book value:								
At 31 March 2021	**762**	**1,234**	**1,065**	**-**	**1,552**	**4,854**	**-**	**9,467**
At 31 March 2020	**908**	**1,597**	**856**	**-**	**1,899**	**5,009**	**72**	**10,341**

Notes to the Financial Statements

9. Property, plant and equipment (continued)

In the prior year £207k of additions were included in the leasehold buildings category in relation to accrued expenditure which was never realised. The reversal of this accrual is showing as a negative value in the adjustments line for the Group and Authority. This has not resulted in an impact on the Income Statement. Additions of £119k have been included in the assets in the course of construction category in previous years which have latterly been reclassified as revenue expenditure. These costs have been taken through the income statement under other expenses and the reclassification of this expenditure is showing in the adjustments line for the Group and Authority in the current year.

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 for the prior year.

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 Statements 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			
	Leasehold buildings	Plant & equipment	Vehicles	Total	Leasehold buildings	Plant & equipment	Vehicles	Total
	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000
Cost:								
At 1 April 2019	-	-	-	**-**	-	-	-	**-**
IFRS16 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**
Additions	193	-	934	**1,127**	192	-	934	**1,126**
Disposals	(97)	-	(274)	**(371)**	(97)	-	(274)	**(371)**
At 31 March 2021	**5,226**	**85**	**1,778**	**7,089**	**5,023**	**85**	**1,778**	**6,886**
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**
Charge for the year	808	26	520	**1,354**	735	26	520	**1,281**
Eliminated on disposal	(97)	-	(274)	**(371)**	(97)	-	(274)	**(371)**
At 31 March 2021	**1,433**	**52**	**694**	**2,179**	**1,286**	**52**	**694**	**2,032**
Net book value:								
At 31 March 2021	**3,793**	**33**	**1,084**	**4,910**	**3,737**	**33**	**1,084**	**4,854**
At 31 March 2020	**4,408**	**59**	**670**	**5,137**	**4,280**	**59**	**670**	**5,009**

Notes to the Financial Statements

10. Intangible assets

Group	Software development costs £'000	Assets in the course of construction £'000	Intellectual property £'000	Total £'000
Cost:				
At 1 April 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**
Additions	144	-	-	**144**
Disposals	(138)	-	-	**(138)**
Transfers	2,111	(2,111)	-	**-**
Transfer to tangible assets	-	(136)	-	**(136)**
Adjustments	-	(144)	-	**(144)**
At 31 March 2021	**19,803**	**420**	**155**	**20,378**
Accumulated amortisation and impairment:				
At 1 April 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**
Charge for the year	1,697	-	-	**1,697**
Impairment	719	17	-	**736**
Eliminated on disposal	(138)	-	-	**(138)**
At 31 March 2021	**11,423**	**420**	**155**	**11,998**
Net book value:				
At 31 March 2021	**8,380**	**-**	**-**	**8,380**
At 31 March 2020	**8,541**	**2,408**	**-**	**10,949**

Notes to the Financial Statements

10. Intangible assets (continued)

Authority	Software development costs £'000	Assets in the course of construction £'000	Total £'000
Cost:			
At 1 April 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**
Additions	144	-	**144**
Disposals	(138)	-	**(138)**
Transfers	2,111	(2,111)	**-**
Transfer to tangible assets	-	(136)	**(136)**
Adjustments	-	(144)	**(144)**
At 31 March 2021	**18,342**	**405**	**18,747**
Accumulated amortisation and impairment:			
At 1 April 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**
Charge for the year	1,587	-	**1,587**
Impairment	719	-	**719**
Eliminated on disposal	(138)	-	**(138)**
At 31 March 2021	**10,522**	**405**	**10,927**
Net book value:			
At 31 March 2021	**7,820**	**-**	**7,820**
At 31 March 2020	**7,871**	**2,391**	**10,262**

Notes to the Financial Statements

10. Intangible assets (continued)

In the prior year £144k of additions were included in the assets in the course of construction category in relation to accrued expenditure which was never realised. The reversal of this accrual is showing as a negative value in the adjustments line for the Group and Authority.

Significant software projects in relation to SAP Business ByDesign and Success Factors, CRM Strategic Platform and InfoStrat (Sharepoint) totalling £2,111k (2020: £1,799k) 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.

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

Impairment losses of £736k for the Group and £719k for the Authority (2020: £405k Group and Authority) are included within 'Depreciation, amortisation, impairment and disposals' in the Income Statement. The impairment loss of £719k in the 'Software development costs' category relate to a long-running software project which has been active within the CAA for a number of years. In this financial year it has become apparent that some of the future economic benefits previously expected to be realised from the software are now unlikely to materialise. As such, the carrying value of the software exceeded the value in use, resulting in an impairment.

The smaller impairment of £17k within 'Assets under the course of construction' relates to a software project which was still under construction, however this relates to software integration costs that will no longer be utilised. As such, the carrying value of the asset has been written down to nil.

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

A rise in the discount rate by 10 basis points (i.e. +0.1%) would result in a further impairment of £5k. A decrease in the discount rate of 10 basis points (i.e. -0.1%) would result in a reversal of impairments totalling £3k.

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

Notes to the Financial Statements

11. Investments in subsidiaries (continued)

Shares in Group undertakings

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

	2021 £	2020 £
Beginning and end of the financial year	**2**	2

Investments in Group undertakings are recorded at cost which is the fair value of the consideration paid.

12. Trade and other receivables

	Note	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Current receivables:					
Trade receivables		**2,721**	20,354	**2,126**	19,148
Less: provision for doubtful trade receivables		**(408)**	(359)	**(379)**	(255)
Trade receivables - net		**2,313**	19,995	**1,747**	18,893
Social security and other taxes		**176**	594	**175**	594
Prepayments		**2,840**	2,773	**2,722**	2,686
Contract assets		**12,109**	10,079	**10,210**	9,067
Amounts due from related parties	23	**-**	-	**189**	-
Other receivables		**404**	132	**370**	131
Total current receivables		**17,842**	33,573	**15,413**	31,371
Non-current receivables:					
Other receivables		**-**	36	**-**	-
Total non-current receivables		**-**	36	**-**	-
Total trade and other receivables		**17,842**	33,609	**15,413**	31,371

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.

Notes to the Financial Statements

12. Trade and other receivables (continued)

As at 31 March 2021 trade receivables of £1,820k (2020: £3,674k) were past their due date but were not impaired. The ageing analysis of these is as follows:

	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Past due:				
Up to 3 months	**1,392**	3,326	**1,074**	2,895
From 3 to 12 months	**379**	200	**378**	153
Over 12 months	**49**	148	**37**	97
	1,820	3,674	**1,489**	3,145
Movements on the provision for doubtful trade receivables:				
At 1 April	**359**	287	**255**	87
Provision for receivables impaired	**228**	198	**217**	126
Receivables written off during the year as uncollectable	**(74)**	(92)	**(74)**	-
Unused amounts reversed	**(112)**	(170)	**(46)**	(58)
Expected credit loss provision	**7**	136	**27**	100
At 31 March	**408**	359	**379**	255

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.

Notes to the Financial Statements

12. Trade and other receivables (continued)

Details of this are as follows:

	Gross value		Expected credit loss	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Group:				
Trade debtors not due (2%) (2020: 1%)	**64**	1,792	**1**	18
Trade debtors overdue by 0-30 days (4%) (2020: 2%)	**947**	2,521	**38**	50
Trade debtors overdue by 31-60 days (8%) (2020: 4%)	**240**	705	**19**	28
Trade debtors overdue by 61-90 days (16%) (2020: 8%)	**171**	82	**27**	7
Trade debtors overdue by 91-365 days (32%) (2020: 16%)	**182**	135	**58**	22
Training debtors (0%) (2020: 10.5%)	**131**	102	**-**	11
Already provided and not subject for impairment	**578**	14,658	**-**	-
Expected credit loss provision	**2,313**	19,995	**143**	136
Authority:				
Trade debtors not due (2%) (2020: 1%)	**60**	1,304	**1**	13
Trade debtors overdue by 0-30 days (4%) (2020: 2%)	**722**	2,252	**29**	45
Trade debtors overdue by 31-60 days (8%) (2020: 4%)	**175**	556	**14**	22
Trade debtors overdue by 61-90 days (16%) (2020: 8%)	**157**	65	**25**	5
Trade debtors overdue by 91-365 days (32%) (2020: 16%)	**180**	96	**58**	15
Already provided and not subject for impairment	**453**	14,620	**-**	-
Expected credit loss provision	**1,747**	18,893	**127**	100

In the prior year, amounts due to be refunded from the official receiver of Thomas Cook of £14,000k to the Authority were excluded from the expected credit loss calculation as it was not deemed to carry any risk of non-collection. This amount has been repaid in full in the current financial year.

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.

Notes to the Financial Statements

12. Trade and other receivables (continued)

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

	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
British Pounds	**2,680**	19,953	**2,113**	18,974
Euros	**4**	50	**4**	50
Thai Baht	**26**	134	**-**	-
US Dollars	**6**	4	**-**	-
Other currencies	**1**	22	**-**	-
Total trade and other receivables	**2,717**	20,163	**2,117**	19,024

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

Contract Balances	Contract assets 2021 £'000	Contract assets 2020 £'000	Contract liabilities 2021 £'000	Contract liabilities 2020 £'000
Group:				
At 1 April	**10,079**	9,653	**(9,235)**	(9,957)
Transfers in the period from contract assets to trade receivables	**(8,130)**	(9,732)	**-**	-
Excess of revenue recognised over cash (or rights for cash)	**10,160**	10,158	**-**	-
Amounts included in contract liabilities that were recognised as revenue during the period	**-**	-	**7,045**	7,753
Cash received in advance of performance and not recognised as revenue during the period	**-**	-	**(14,533)**	(7,031)
At 31 March	**12,109**	10,079	**(16,723)**	(9,235)
Authority:				
At 1 April	**9,067**	8,210	**(6,581)**	(6,982)
Transfers in the period from contract assets to trade receivables	**(7,559)**	(8,633)	**-**	-
Excess of revenue recognised over cash (or rights for cash)	**8,702**	9,490	**-**	-
Amounts included in contract liabilities that were recognised as revenue during the period	**-**	-	**5,619**	6,890
Cash received in advance of performance and not recognised as revenue during the period	**-**	-	**(12,901)**	(6,489)
At 31 March	**10,210**	9,067	**(13,863)**	(6,581)

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 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Cash at bank and in hand	**13,680**	2,035	**12,817**	1,880
Short-term bank deposits	**1**	6,608	**1**	6,607
Total cash and cash equivalents	**13,681**	8,643	**12,818**	8,487

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

The Group has assessed its 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

The Authority has maximum borrowing powers of £550 million (2020: £550 million) under the Civil Aviation Act 1982 (as amended). Below are details of the Authority's undrawn and uncommitted borrowing facilities at the reporting date:

	2021 £'000	2020 £'000
Bank overdraft facility	**10,000**	10,000
Total undrawn and uncommitted borrowing facilities	**10,000**	10,000

The Group has reduced the overdraft facility to £5 million after the reporting date, effective from 18 April 2021.

Notes to the Financial Statements

15. Trade and other payables

	Note	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Current liabilities:					
Trade payables		**3,056**	21,738	**2,797**	21,296
Amounts due to related parties	23	**-**	-	**8,067**	10,117
Social security and other taxes		**-**	2,456	**-**	2,277
Accrued expenses		**6,031**	9,227	**5,739**	8,683
Contract liabilities		**16,662**	9,143	**13,802**	6,489
Other payables		**2,802**	2,644	**2,735**	2,557
Lease liabilities	22	**1,221**	660	**1,136**	592
Total current trade and other payables		**29,772**	45,868	**34,276**	52,011
Non-current liabilities:					
Other payables		**699**	672	**700**	672
Contract liabilities		**61**	92	**61**	92
Lease liabilities	22	**5,164**	5,387	**5,164**	5,302
Total non-current trade and other payables		**5,924**	6,151	**5,925**	6,066
Total trade and other payables		**35,696**	52,019	**40,201**	58,077

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 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
No later than 1 year	**31**	31	**31**	31
Later than 1 year and not later than 5 years	**61**	92	**61**	92
Total grant outstanding	**92**	123	**92**	123

Notes to the Financial Statements

16. Deferred income tax

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

	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
At 1 April	**768**	655	**750**	626
Income statement tax (charge) / credit	**(137)**	125	**(134)**	127
Other comprehensive income tax credit / (charge)	**10**	(12)	**9**	(3)
At 31 March	**641**	768	**625**	750

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 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Deferred tax assets	**641**	770	**625**	752
Deferred tax liabilities	**-**	(2)	**-**	(2)
Deferred tax assets - net	**641**	768	**625**	750

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

	Group			Authority		
	Accelerated tax depreciation	Other	Total	Accelerated tax depreciation	Other	Total
Deferred tax assets	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2020	249	521	**770**	231	521	**752**
Income statement tax charge	(69)	(68)	**(137)**	(67)	(67)	**(134)**
Other comprehensive income tax credit	-	8	**8**	-	7	**7**
At 31 March 2021	**180**	**461**	**641**	**164**	**461**	**625**

Notes to the Financial Statements

16. Deferred income tax (continued)

	Group			Authority		
	Accelerated tax depreciation	Other	Total	Accelerated tax depreciation	Other	Total
Deferred tax laibilities	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2020	-	(2)	**(2)**	-	(2)	**(2)**
Income statement tax credit	-	-	**-**	-	-	**-**
Other comprehensive income tax credit	-	2	**2**	-	2	**2**
At 31 March 2021	**-**	**-**	**-**	**-**	**-**	**-**

At Summer Budget 2015, the Government announced legislation setting the corporation tax main rate (for all profits except ring fenced 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 fenced profits) for the years starting 1 April 2020 and 2021 would remain at 19%. At Budget 2021 the Government announced that the corporation tax main rate (for all profits except ring fenced profits) for the years starting 1 April 2023 would increase to 25%.

The rate of 19% 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 increase to the rate of corporation tax has not been substantively enacted at the sigining date of these financial statements, the 19% rate which currently applies has been used to measure deferred tax balances.

On the face of the Statements of Financial Position, the deferred income tax liability of £40,401k (2020: £48,667k) relates to the pension scheme surplus (see note 17).

Notes to the Financial Statements

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 £3,957k (2020: £3,677k) were charged to the Income Statement (see note 3).

Unfunded scheme: the CAA also operates an unfunded scheme for some past members of the Board. The revaluation of the unfunded scheme at the end of the period has resulted in a charge of £149k (2020: credit of £204k) to the Income Statement in accordance with the advice of a professionally qualified actuary (see note 3). A non-current liability of £1,301k (2020: £1,255k) and a current liability of £103k (2020: £101k) are held in the Statements of Financial Position in respect of post employment benefits payable under this scheme.

Defined benefit plan: a defined benefit plan is a pension arrangement under which participating members receive a pension benefit at retirement determined by the plan rules dependent upon factors such as age, years of service, and pensionable pay and it is not dependent upon the contributions made by the Group or members. The Income Statement service cost in respect of the defined benefit plan represents the increase in the defined benefit liability arising from pension benefits earned by active members in the current period. The CAA is exposed to investment and other experience risks. The pension cost relating to the scheme is assessed in accordance with the advice of independent qualified actuaries and is such as to spread the cost of pensions over the working lives of the employees who are scheme members.

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

In July 2015, the Trustee of the scheme, with the support of the CAA, agreed to purchase a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014, 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. During the current financial year an additional contract was placed, this time with Legal and General, covering the uninsured pensioner population at 31 August 2020. 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 2021 is estimated to be £1,368 million (2020: £1,231 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 2020/21 (2020: 28.2%) in respect of which the CAA paid contributions of £13.3 million (2020: £14.4 million). The expected contribution in the 2021/22 year is £13.3 million. The expected future benefit payments for 2021/22 are forecast to be £112.8 million.

The methodology underlying the formal valuation differs from that used for annual IAS 19 disclosures, particularly in relation to the financial assumptions used. The formal valuation has a more prudent basis than IAS 19 disclosures and this is allowed for by means of 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

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2021 £'000	2020 £'000
Statements of Financial Position assets for (Group and Authority):		
Post employment benefits - fully funded pension fund	**172,235**	207,471
Total Statements of Financial Position assets	**172,235**	207,471
Statements of Financial Position obligations for (Group and Authority):		
Non-current post employment benefits - unfunded pension scheme	**(1,301)**	(1,255)
Current post employment benefits - unfunded pension scheme	**(103)**	(101)
Total Statements of Financial Position obligations	**(1,404)**	(1,356)
Income Statement charge for (Group):		
Pension benefits (note 3)	**10,531**	14,305
Post employment benefits - unfunded pension scheme (note 3)	**149**	(204)
Total Income Statement charge	**10,680**	14,101

Funded pension benefits		
The amounts recognised in the Statements of Financial Position are determined as follows:		
Fair value of plan assets	**2,078,987**	1,980,937
Present value of future obligations	**(1,866,351)**	(1,724,799)
Surplus in funded scheme	**212,636**	256,138
Related deferred tax liability at 19% (2020: 19%) (note 16)	**(40,401)**	(48,667)
Net surplus in funded pension scheme	**172,235**	207,471

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.

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2021 £'000	2020 £'000
The movements in surplus in funded pension scheme are as follows:		
Surplus in funded pension scheme brought forward	**256,138**	205,483
Income Statement movement	**(4,643)**	(11,909)
Remeasurement effects recognised in Statements of Comprehensive Income	**(52,115)**	48,189
Employer contributions	**13,256**	14,375
Surplus in funded pension scheme carried forward	**212,636**	256,138
The movements in the defined benefit obligations (DBO) over the year are as follows:		
DBO brought forward	**1,724,799**	1,979,157
Current service cost (excluding administration costs)	**8,578**	11,920
Interest costs on the DBO	**37,546**	47,796
Scheme participants' contributions	**72**	83
Actuarial gain - membership experience	**(762)**	(936)
Actuarial (gain)/loss - demographic assumptions	**(3,326)**	4,136
Actuarial loss/(gain) - financial assumptions	**212,290**	(207,220)
Benefits paid from scheme assets	**(112,846)**	(110,137)
DBO carried forward	**1,866,351**	1,724,799
The movements in the fair value of plan assets in the year are as follows:		
Fair value of assets brought forward	**1,980,937**	2,184,640
Interest income on scheme assets	**43,434**	50,192
Return on scheme assets greater/(less) than discount rate	**156,087**	(155,831)
Employer contributions	**13,256**	14,375
Scheme participants' contributions	**72**	83
Benefits paid	**(112,846)**	(110,137)
Administrative costs paid	**(1,953)**	(2,385)
Fair value of assets carried forward	**2,078,987**	1,980,937

The CAA provides pensions administration services to the scheme and has charged £1,021k (2020: £1,047k) over the course of the year. The CAA also charges for third party costs incurred on behalf of the scheme. These totalled £5k (2020: £4,803k) for the year, the decrease relating to the transfer of the CAAPS accounts payable function away from the Group.

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2021		2020	
	£m	%	£m	%
The scheme assets are allocated as follows:				
Index Linked (UK)	**173.0**	**8.3%**	342.5	17.3%
Total Dedicated Bond Fund	**173.0**	**8.3%**	342.5	17.3%
Equity Fund	**115.9**	**5.6%**	147.4	7.4%
Total Quoted Equities	**115.9**	**5.6%**	147.4	7.4%
Insured Annuity Policies	**1,368.3**	**65.8%**	1,231.1	62.1%
Total Insured Annuity Policies	**1,368.3**	**65.8%**	1,231.1	62.1%
Other Holdings	**421.8**	**20.3%**	259.9	13.2%
Total Other Holdings	**421.8**	**20.3%**	259.9	13.2%
Fair value of scheme assets carried forward	**2,079.0**	**100.0%**	1,980.9	100.0%

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

	2021 £'000	2020 £'000
Amounts recognised in the Income Statement are as follows:		
Current service cost	**8,578**	11,920
Administrative costs paid	**1,953**	2,385
Total Income Statement charge included in employment costs	**10,531**	14,305
Net interest on defined benefit obligation	**37,546**	47,796
Expected return on funded pension scheme assets	**(43,434)**	(50,192)
Total credit to finance income (note 7)	**(5,888)**	(2,396)
Total included in Income Statement	**4,643**	11,909
Analysis of the amounts recognised in Statements of Comprehensive Income:		
Actuarial gains due to liability experience	**(762)**	(936)
Actuarial losses/(gains) due to liability assumption changes	**208,964**	(203,084)
Return on scheme assets (greater)/less than discount rate	**(156,087)**	155,831
Actuarial loss/(gain) recognised in Statements of Comprehensive Income	**52,115**	(48,189)

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2021 % p.a.	2020 % p.a.
The principal actuarial assumptions used for the purpose of IAS 19 were as follows:		
Discount rate	**1.95**	2.25
Inflation assumption (RPI)	**3.25**	2.55
Inflation assumption (CPI)	**2.70**	1.85
Rate of increase in salaries in future years*	**1.75**	1.85
Rate of increase in pensions (pre 1 June 2015) **	**3.25**	2.55
Rate of increase in pensions (post 1 June 2015) **	**2.70**	1.85

* 0% for two years and 1.75% thereafter
** In excess of any guaranteed minimum pension

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

	Males Years	Females Years
Age		
60	**27.8**	27.9
60 in 10 years	**29.1**	28.6

Additional information	2022 £'000
Expected contributions for the following year end:	
Employer	**13,300**
Scheme participants	**72**
Total expected contributions for the following year end	**13,372**

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

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

The principal risks that the scheme is exposed to include:

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

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

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

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

Assumption	Base assumption	Sensitivity	Effect on Defined Benefit Obligation
Discount rate	2.0%	0.1% increase	1.5% reduction
Price inflation (RPI)	3.3%	0.1% increase	1.3% increase
Salary growth*	1.8%	0.1% increase	0.1% increase
Mortality	98% (male)/97% (female)	Long-term trend 1.25%	0.4% reduction

* 0% for two years and 1.75% thereafter

18. Provisions for other liabilities and charges

Building repairs	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Brought forward	-	50	-	-
IFRS 16 transition	-	(50)	-	-
Total provisions for other liabilities and charges	-	-	-	-

During the previous financial year, an estimated cost of £50k for The Portland Building property dilapidations was removed from provisions as a result of the implementation of 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 element of the right-of-use asset will be released 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.

Notes to the Financial Statements

19. Derivative financial instruments

	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Forward foreign exchange contract asset	-	2	-	2

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. Due to the reduction in foreign currency cash receipts over the past year the Group did not have any active forward foreign exchange contracts at the end of the period, as the risk is deemed to be very small.

20. Financial instruments by category

	2021			2020		
	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
Group:						
Assets as per Statement of Financial Position						
Derivative financial instruments	-	-	**-**	2	-	**2**
Trade and other receivables	-	2,717	**2,717**	-	20,163	**20,163**
Cash and cash equivalents	-	13,681	**13,681**	-	8,643	**8,643**
Net book amount	**-**	**16,398**	**16,398**	**2**	**28,806**	**28,808**
Authority:						
Assets as per Statement of Financial Position						
Derivative financial instruments	-	-	**-**	2	-	**2**
Trade and other receivables	-	2,306	**2,306**	-	19,024	**19,024**
Cash and cash equivalents	-	12,818	**12,818**	-	8,487	**8,487**
Net book amount	**-**	**15,124**	**15,124**	**2**	**27,511**	**27,513**

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)

	2021			2020		
	Liabilities at fair value through the Income Statement	Other financial liabilities at amortised cost	Total	Liabilities at fair value through the Income Statement	Other financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group:						
Liabilities as per Statement of Financial Position						
Trade and other payables	-	12,942	**12,942**	-	31,101	**31,101**
Net book amount	**-**	**12,942**	**12,942**	**-**	**31,101**	**31,101**
Authority:						
Liabilities as per Statement of Financial Position						
Trade and other payables	-	20,599	**20,599**	-	40,536	**40,536**
Net book amount	**-**	**20,599**	**20,599**	**-**	**40,536**	**40,536**

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 50 to 57.

Notes to the Financial Statements

21. Cash generated from operations

	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Profit before income tax	**10,731**	1,325	**11,542**	85
Adjustments for:				
Depreciation, amortisation, impairment and adjustment on disposal	**4,398**	4,817	**4,168**	4,562
Profit on disposal of asset	**-**	(1)	**-**	(1)
Grant amortisation	**(31)**	(177)	**(31)**	(177)
Finance income - net	**(5,765)**	(2,316)	**(5,755)**	(2,272)
Unrealised foreign exchange difference	**(50)**	(31)	**(48)**	15
Changes in working capital:				
Trade and other receivables	**16,270**	(12,481)	**16,463**	(14,085)
Trade and other payables	**(16,659)**	12,532	**(18,278)**	15,157
IAS19 current service cost net of cash contributions	**(2,725)**	(70)	**(2,725)**	(70)
IFRS 16 transition	**-**	(31)	**-**	1
Cash generated from operations	**6,169**	3,567	**5,336**	3,215

Notes to the Financial Statements

22. Commitments

Capital commitments

At 31 March 2021 the Group had no material capital commitments that were contracted for but not provided (2020: £568k).

Lease liabilities

At both 31 March 2020 and 31 March 2021 the Group was committed to a number of lease contracts for buildings, plant and machinery and vehicles.

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

	Note	Group 2021 £'000	Group 2020 £'000	Authority 2021 £'000	Authority 2020 £'000
Brought forward		**6,047**	-	**5,894**	-
IFRS 16 transition		**-**	6,108	**-**	5,888
Additions		**1,193**	569	**1,193**	569
Early terminations		**(100)**	-	**(100)**	-
Interest expense	7	**137**	123	**135**	119
Lease payments		**(892)**	(753)	**(822)**	(682)
Total lease liabilities		**6,385**	6,047	**6,300**	5,894
Analysis of lease liabilities					
Non-current		**5,164**	5,387	**5,164**	5,302
Current		**1,221**	660	**1,136**	592
Total lease liabilities		**6,385**	6,047	**6,300**	5,894

Right-of-use assets associated with the lease liabilities above of £4,910k for the Group (2020: £5,137k) and £4,854k for the Authority (2020: £5,009k) were included within the Statements of Financial Position at the end of the current financial period (note 9).

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 £43,792k (2020: £79,115k). The higher figure in the prior year was primarily due to the Thomas Cook repatriation activities in 2019 that the CAA was instructed to undertake by the DfT. In the current year, the DfT provided £37 million in section 12 funding directly linked to supporting the Group financially through the COVID-19 pandemic. At the end of the year nothing was owed to the DfT by the CAA (2020: £2,261k). The CAA also purchased £41k of services from the DfT in the year (2020: nil), primarily in relation to a staff secondment. Further detail on the financial support provided by the DfT is included within note 1.1 Basis of preparation.

Notes to the Financial Statements

23. Related party transactions (continued)

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, P Smith and C Tingle (Board members of the CAA) and K Staples (Secretary to the CAA) were Trustees of the ATT for 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 nothing was owed to the ATT by the CAA in regards to Monarch repatriation funds (2020: £392k), £300k was owed by the ATT to the CAA in relation to Thomas Cook repatriation funds (2020: £489k owed by the CAA to the ATT) and £237k was owed by the ATT to the CAA in relation to failure administation and recharged expenditure (2020: nil).

During the year, the CAA charged £978k (2020: £1,745k) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £1,771k (2020: £63,772k) to the ATT during the year for repatriation activities, legal fees, accommodation costs, accounting and other administrative services. The substantially higher figure in the prior year was primarily due to the Thomas Cook repatriation activities in 2019.

During the year revenue of £14k (2020: £50k) was invoiced to The Royal Air Force (RAF) by the CAA, primarily in respect of desk rental at CAA's offices. Ian Gale, a non-executive member of the CAA Board, also served as Assistant Chief of the Air Staff on the RAF Board.

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.

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

	2021 £'000	2020 £'000
Re-charge of Corporate legal, finance, IT and facilities costs:		
CAA International Limited	**857**	848
Air Safety Support International Limited	**334**	334
Re-charge of Corporate Board Member costs:		
CAA International Limited	**33**	33
Air Safety Support International Limited	**27**	27
Work carried out by Group entities with regard to aviation regulatory services:		
CAA International Limited	**(673)**	(456)
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	**1,531**	2,302
Cost of internal exams hosting and maintenance charges by other Group entities:		
CAA International Limited	**(203)**	(246)
Total intra Group charges	**1,914**	2,850

Notes to the Financial Statements

23. Related party transactions (continued)

	2021 £'000	2020 £'000
Interest receivable on Group trading balances		
Air Safety Support International Limited	**-**	1
Interest payable on Group trading balances		
CAA International Limited	**(12)**	(48)
Air Safety Support International Limited	**(1)**	(2)
Net interest payable on Group trading balances	**(13)**	(49)

The year-end balances owing (by)/to the Authority (to)/by Group undertakings:

	Note	2021 £'000	2020 £'000
CAA International Limited	15	**(8,067)**	(9,140)
Air Safety Support International Limited	12	**189**	(977)
Total payables owing to Group undertakings		**(7,878)**	(10,117)

As part of the treasury function, the Group operates a cash pooling arrangement for the Authority and CAA International Limited. 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	2,210	36,782	6.0%

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 36 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	01/04/2020 - 31/03/2021	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.

25. 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

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Income Statement (historic cost accounts)					
Revenue	**128.0**	**281.9**	**150.2**	**190.7**	**135.8**
Operating profit/(loss) before finance income - net and income tax charge	4.9	(0.9)	(2.7)	(1.6)	4.9
Finance income - net	5.8	2.3	5.0	2.8	3.3
Income tax charge	(2.1)	(0.4)	(0.4)	(0.4)	(1.7)
Profit for the financial year	**8.6**	**1.0**	**1.9**	**0.8**	**6.5**
Statement of Financial Position (historic cost accounts)					
Non-current assets	231.2	278.4	222.9	216.5	126.4
Current assets	31.7	42.3	30.6	37.3	33.3
Total assets	**262.9**	**320.7**	**253.5**	**253.8**	**159.7**
Reserves	185.0	218.7	183.2	179.6	104.4
Equity	**185.0**	**218.7**	**183.2**	**179.6**	**104.4**
Total liabilities	77.9	102.0	70.3	74.2	55.3
Total equity and liabilities	**262.9**	**320.7**	**253.5**	**253.8**	**159.7**

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

	2021	2020	2019	2018	2017
CAA Regulatory Sector	**6.0%**	**(4.9)%**	**(2.2)%**	**0.3%**	**8.2%**

Civil Aviation Authority (Accounts) Direction 2021

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 2021 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 Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 who are appointed, after consultation with the CAA, for each year by the Secretary of State, 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 Chartered Certified Accountants;
- Chartered Accountants 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 20 March 2020 is hereby revoked.

Dr Rannia Leontaridi, OBE, FRSA, Director for Aviation
Signed by authority of the Secretary of State
29 March 2021

Civil Aviation Authority (Accounts) Direction 2021

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;

   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 2021

The Secretary of State for Transport, in exercise of his 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 CAAs 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.

The Report Direction issued to the Civil Aviation Authority dated 23 March 2020 is hereby revoked.

Dr Rannia Leontaridi, OBE, FRSA, Director for Aviation
Signed by authority of the Secretary of State
29 March 2021

Annex - Growth Duty

ANNEX A - Growth Duty: What the Civil Aviation Authority (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-focused measures. Until this year, this was achieved in part through cooperation and engagement with the European Union Aviation Safety Agency (EASA) and the European aviation rulemaking programme. Given the UK's exit from the European Union, from 1 January 2021, this is being achieved via a UK rulemaking programme aimed at safely enabling recovery, innovation and growth of the UK's aviation and aerospace industry. In response to the COVID-19 pandemic the CAA has put into place measures to assist industry and is working with Government to enable a safe recovery.

A selection of our current activities, by area, is summarised below, including the work that the CAA has done to assist industry during the pandemic:

Priority: Enabling Recovery from COVID-19:

Activity	Description	Impact	Benefit[1]
Exemptions and Approvals	**Exemptions, Approvals and Permissions** issued by the CAA in response to the COVID-19 pandemic.	Approximately 172 exemptions were issued in 2020 under CAA Official Record Series 4 (OSR4). Guidance on exemptions was also provided via the CAA website for pilots, engineers and holders of medical certificates, along with FAQs for situations not covered by exemptions.	Medium, one off
Oversight	**Change in oversight philosophy due to COVID-19 restrictions.** With the reduced amount of onsite oversight being possible the strategy was changed to assist industry.	Assistance has been primarily through regular online meetings with stakeholders to understand the changes they are facing, how they are managing them and mitigating any associated risks. A more agile approach to the audit programme has been taken to reflect the virtual nature of this work. Specifically, on medical oversight, as facilities were repurposed or closed in response to the COVID-19 pandemic, we have moved to a remote oversight model. We provided guidance and risk assessments that allowed essential aeromedical activity to continue during the various lockdowns.	Medium
	Pilot fitness assessments	We have provided guidance on fitness assessments from pilots and Air Traffic Controllers (ATCOs) suffering conditions which are the consequence of a previous disease or injury (the 'sequelae' of COVID-19). We are also focusing on the potential mental health consequences of the pandemic.	Medium, one off
	ICAO (International Civil Aviation Organisation) and public health corridors: The International Group (IG) worked with UK industry partners to test the International Civil Aviation Organisation (ICAO) Public Heath Corridor Concept and to influence ICAO's guidance on COVID-19 security measures. The result is a good alignment between UK and ICAO guidance. IG subsequently worked with the Safety and Airspace Regulation Group (SARG) and Public Health England to design a proof-of-concept for an assurance scheme, whereby UK airlines and airports would receive a voluntary, free assessment of their implementation of the ICAO guidance by a CAA inspector, a medical professional and a public health expert.	IG engaged actively within the European Civil Aviation Conference (ECAC) to promote the ICAO CART report and associated guidance as the global baseline. This provides public confidence in its implementation via the voluntary assurance process.	High, one off

[1] Qualitatively assessed High, Medium, Low or One-off benefit to economic or aviation and aerospace growth.

Annex - Growth Duty

Priority: Enabling Recovery from COVID-19 (continued):

Activity	Description	Impact	Benefit[1]
CAA preparation for restarting operations	To support industry and Civil Aviation Authorities, ICAO and IG have jointly developed a unique virtual training classroom course 'Preparation for Restarting Operations during a Pandemic'.	To date we have successfully delivered three courses, with more dates scheduled in the forthcoming months. Aimed at achieving a safe recovery and in time prompting further sustainable growth.	Medium, one off
Passenger rights	**Flight cancellations:** The CAA has worked with airlines on publishing a list of flight cancellations that were due to the pandemic.	Our response helped the participating airlines in their complaint handling work and reduced the workload of their contact centres. We have also contacted other airlines to ask them whether they would like to participate.	Medium, one off
	Guidance for airlines on the application of Regulation EC261/2004 - when an airline cancels a flight, it must offer passengers the choice of a refund, re-routing at the earliest opportunity or re-routing at a later date (subject to availability).	We accepted that, given the difficult operating environment (lockdowns, border closures), there might be significant practical difficulties in providing alternative flights and that a refund could, therefore, be the only option. In addition, we set out our view that airlines could offer passengers the choice of a voucher to fly at a later date, as long as a cash refund was offered at the same time.	Medium, one off
	Refunds: We noted the challenges that airlines faced: initially due to availability of staff, staff illness and a fundamental change in working practices due to lockdown and social distancing requirements. These would contribute to a significant backlog of refunds to process.	We accepted that there would need to be extended time periods to process refunds. The CAA's website was regularly updated to clarify consumers rights in line with the progress in the pandemic.	Medium, one off
	Airport Accessibility Framework: The CAA runs an airport accessibility framework, where we set quality standards for UK airports in terms of accessibility for disabled and less mobile passengers.	We have alleviated many of the standards, so that airports could install new health protocols (without the risk of not meeting our standards). These alleviations are ongoing. We have also allowed airports to postpone commitments for capital spend on enhancements to infrastructure needed to meet the quality standards and have suspended our programme of accessibility inspections of airports.	Medium, one off
	Repatriation flights: At the beginning of the pandemic when many passengers were stranded abroad, we helped airports in providing assistance to passengers on 'repatriation flights' by coordinating passenger information-sharing between the Foreign, Commonwealth & Development Office and airports.	This helped to ensure that satisfactory levels of assistance were available for these passengers. Approximately 10% of passengers on repatriation flights needed assistance (compared to 1.5% normally).	Low, one off
Stakeholder engagement	**A SARG stakeholder feedback survey** has been developed to give stakeholders an opportunity to provide feedback through a neutral process; the survey is currently completed via Skype/Teams/telephone in order to give a personal experience and obtain detailed feedback. The survey also covers feedback on assistance from the CAA during the pandemic.	The feedback to date has been largely positive, especially around the help that our organisations have received during the pandemic. It has also highlighted a few trends and areas of improvement which are being worked through. One of these is a perceived lack of stakeholder engagement across some capability areas. This is being addressed by the development of a one-day stakeholder engagement training course to provide our colleagues with additional skills in managing stakeholder relationships.	Low, ongoing

Annex - Growth Duty

Priority: Enabling Recovery from COVID-19 (continued):

Activity	Description	Impact	Benefit[1]
Security	Effective security is a pre-requisite for growth. We have been proactive in our efforts to work with and to assist industry in maintaining high levels of security during the pandemic period, whilst being open to opportunities and proposals for new approaches.	The CAA has worked with the Department for Transport to assist industry by: > Providing alleviations and variations against normal regulatory requirements, where flexibility exists and can be justified based on thorough risk assessment; > Assessing the potential risks associated with the impacts and structural changes seen, and issuing guidance on how to manage and assess those risks, including as activity restarts; > Conducting a targeted review of a number of long-standing measures in the UK security programme, based on a prioritised list agreed with industry. As aviation activity begins to restart, we will be using our auditor workforce to engage, making the best use of both CAA and industry resources.	Medium, one off

UK-EU Transition

Activity	Description	Impact	Benefit
UK-EU transition	**Industry communications:** The CAA provided guidance on preparations UK businesses would need to consider, in continuing to operate in both the UK and the EU.	UK businesses which applied CAA guidance to make their decisions will increase their growth opportunities following the UK leaving the EU.	High, one off
	Policy development & implementation: A new function was set up to develop and deliver UK rule making.	This function will deliver UK regulatory changes from both mandatory implementation requirements and development opportunities, thereby ensuring industry is well placed to take advantage of any required and agreed changes and promote growth.	Medium, ongoing
	Licence changes: In preparation for leaving the EU the CAA dealt with large numbers of licence applications from pilots and engineers, enabling them to take advantage of the opportunities presented to them and to industry as a result of the UK leaving the EU.	Totals: Airline licensing applications 545 Aircraft maintenance licences 3,100 Pilot licences 7,500 Medicals 8,500	Medium, one off
	New Air Operator Certificates (AOC) applications	Focus on new AOC applications to encourage and support new applications, bringing more operators into the UK system to take advantage of the opportunities offered by an independent UK system. This includes a number of operators that currently work within the EU system.	Medium, ongoing
	Systems changes: In preparation for leaving the EU changes were made to a number of systems, templates and forms to ensure that the CAA and industry were well placed to develop growth opportunities offered by EU exit.	12 CAA IT systems were amended to ensure UK badged certificates/approvals/licences templates were ready, with some of these systems requiring more than one template change. Approximately 60 forms were changed, including in PDF and online formats.	Medium, ongoing

Annex - Growth Duty

Priority: Innovation

Activity	Description	Impact	Benefit
Sandbox	Where an innovation comes with significant regulatory challenges, the Sandbox helps innovators to maximise the regulatory readiness of their innovation before a regulatory application has started.	CAA and innovators develop a common understanding of innovation and the regulations that apply to it. At the same time, the CAA clarifies the unknowns and uncertainties that innovation brings with regards to safety, security and consumer protection. The innovative solutions that the industry proposes are then explored through trials and simulations in safe environments to encourage learning and safe development. Short iterative cycles of 'planning, testing and learning' are favoured to eliminate unknowns and uncertainties, and rapidly to converge towards clarity and focus on how innovation addresses the fundamentals of safety, security and consumer protection.	High, ongoing
	Observing that innovators require assistance in completing technical documentation to the required standard, we have published guidance for drafting Concepts of Operations for the Performance Based System (ConOps) and test plans.	Guidance to the Sandbox processes has smoothed and expedited innovators' journeys through the process, enabling them to move to trial faster and with less contact points.	Medium, ongoing
Regulatory Laboratory	Step-by-step guidance has been produced for using the Airspace Trials process within CAP 1616 (Airspace Change), written for the use of innovators.	Guidance will help innovators wishing to apply for an airspace trial with a smoother and quicker path to approval by providing them with a clear summary of the requirements they must meet to be granted a trial.	Medium, ongoing
	The Regulatory Laboratory has produced position papers and an evidence framework on enabling Beyond Visual Line of Sight (BVLOS) in non-segregated airspace. This sets out the challenges to be overcome in enabling its widespread use, such as the development of detect and avoid systems. A detect and avoid framework has been developed and guidance published.	Enabling BVLOS in non-segregated airspace will allow remotely piloted aircraft (drones) to operate beyond visual line of sight, opening up new commercial opportunities for growth for this technology to operate safely alongside existing airspace uses.	High, ongoing
	CAA sought the views of stakeholders on the challenges that will need to be addressed to enable the safe operation of Advanced Air Mobility (AAM) systems, such as Vertical take-off and landing (e-VTOL) Air Taxis.	By understanding the risks and regulatory barriers to AAM we are able to set out paths to obtaining airworthiness approvals for manufacturers of AAM vehicles and services. These paths will set the foundations for the assessment of the eventual regulatory suitability of innovative new vehicles.	Medium, ongoing
	Working with international regulators we have developed and promoted the concept of obtaining, then maintaining, a 'Social Licence to Operate'. Additionally, we have developed a proposal for associated information mapping and sharing.	By recognising a social good derived from air operations: for example, by using drones to transport medical supplies (such as transplant organs) between hospitals; communities are more likely to be open to these operations. Social Licence encourages innovators to engage proactively with all affected stakeholders, thereby improving transparency and communication. In turn, this will improve the chances of successfully introducing innovative new services allowing significant growth.	Medium, ongoing

Annex - Growth Duty

Priority: Innovation (continued):

Activity	Description	Impact	Benefit
	We have set out a strategy for Remotely Piloted Aircraft Systems Traffic Management (RPAS UTM). This includes analysis of existing policy and regulatory gaps and a review of international regulatory approaches, in order to share insight and best practice. We are working to establish the short, medium and long-term view of what UTM means for UK airspace modernisation, together with a formal plan for how we will develop the necessary regulatory frameworks.	We will publish a detailed proposal for this in the upcoming Airspace Modernisation Strategy. This will have the aim of enabling innovation to integrate safely with other airspace users, opening up airspace to new entrants/ technologies, while providing existing airspace users with access to new air traffic services.	Medium, ongoing
	We are sharing our learning across all Innovation topics, industry and Government research and development projects e.g. the Asset Allocation Management Company Market Outlook Survey 2021, with Aerospace Defence Security (ADS), Department for International Trade (DIT), Future Flight Challenge Aerospace Technology Institute (ATI) and others.	This helps Government and industry to draw together a more accurate Market Outlook, supporting future economic opportunities to be identified for the nascent Advanced Air Mobility market.	Medium, ongoing
Future Flight challenge	The Future Flight Challenge will pioneer 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 assist this programme.	To date 34 consortia have applied for funding to UK Research and Innovation (UKRI). 31 were approved and cleared UKRI governance and the remaining 3 are work in progress. The main areas covered are RPAS and Urban Air mobility.	High, ongoing
Guidance	A regulatory toolkit has been developed, compiling key pieces of guidance for innovators working in aviation. There is also accessible guidance for innovators to CAA processes, such as the Safety Management System.	The regulatory toolkit combines existing guidance by theme (i.e. Airworthiness, Flight Ops) to save innovators time in searching for the relevant requirements for their innovation. This facilitates regulatory requirements being easily found and understood, so that the required regulatory assessment does not act as a blocker or delaying factor.	Medium, ongoing

Annex - Growth Duty

Priority: Leading Risk-Based Oversight and Regulatory Stewardship

Activity	Description	Impact	Benefit
Regulatory oversight	The oversight of approved airworthiness organisations has continued throughout the pandemic, using a balance of remote oversight techniques and onsite visits, where these have been deemed necessary. Whilst we have maintained a schedule of activities to meet regulatory compliance, we remained aware of the need not to burden industry with additional workload. Other activities, such as aircraft surveys for the purposes of issuing Certificates of Airworthiness, have used desktop processes for reviewing records and deferred physical inspection as part of the Aircraft Continuing Airworthiness Monitoring (ACAM) programme, where organisational performance permits.	There is recognition through our work that further development of our Performance Based Oversight should include giving more recognition to high-performing, low-risk organisations. These have the capability of applying levels of self-declared activities and indirect approvals of their manuals. We are engaged through industry forums to deliver these projects through 2021- 2022.	Medium, ongoing
Performance based regulation	Performance based regulation adapts and targets oversight plans to achieve the best possible safety performance and outcomes for both industry and the consumer. The model that the CAA has adapted lends itself to delivering proportional, targeted and focused activity, which is in the best interest of organisations' safety accountabilities, the cost to the industry and the utilisation of resource by the regulator.	Having a system which allows and encourages an open and transparent risk-based conversation with industry has opened the doors to discussing business opportunities; business changes; expansion projects to recognise where growth may be restricted or encouraged based on safety outcomes; and proximity to risk. Allowing mitigations to be built into a plan, rather than as an expensive post implementation project, is beneficial to both industry growth and the assurance of the regulator.	Medium, ongoing
The Airfield Advisory Team (AAT)	The AAT was set up in 2020 to assist General Aviation airfields on a wide range of matters which help the sector to thrive. The AAT keeps the DfT informed on developing trends and challenges faced by the sector. The AAT is separate from the regulatory arm of the CAA and has enjoyed a positive response from industry in the early phases of its engagement work.	In its first few months, the AAT has been involved with plans for a new general aviation aerodrome in the south-east of England, providing technical and planning advice to those behind the scheme. The aerodrome proposal includes plans for a glamping area on site and for green initiatives, with the advent of electrically powered flight on the horizon. Additionally, the AAT has provided assistance to an established, licensed aerodrome in the south of England, providing technical expertise on several operational matters as well as improved stakeholder engagement. They are also trialling new 'track over the ground' focussing on safety and noise abatement principles. The AAT is also providing help to several other aerodromes and their stakeholders on a range of planning matters relating to both the threat of housing development and national infrastructure development.	Medium, ongoing

Annex - Growth Duty

Priority: Leading Risk-Based Oversight and Regulatory Stewardship (continued):

Activity	Description	Impact	Benefit
General Aviation Change Programme	We have allowed the British Microlight Aircraft Association (BMAA) to issue initial microlight pilot licences.	This has removed an element of regulatory burden and helps to expedite the issuance of these licences.	Medium, ongoing
	We have transferred "Registered Flight Training Facilities" to "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.	Medium, ongoing
	Safety Standards Acknowledgement and Consent (SSAC) Class 4: We introduced a new class of ex-military aircraft that was eligible for paid passenger flying under the safety standards acknowledgement and consent framework.	This is helping to support the economic sustainability and on-going safety of this fleet of aircraft, ensuring UK aviation heritage is secured for future generations.	Medium, ongoing
	We have allowed the BMAA to issue initial permits to fly.	This has removed an element of regulatory burden and helps to expedite the issuance of these permits.	Medium, ongoing
	We have allowed the Light Aircraft Association (LAA) to issue permits to fly.	This has removed an element of regulatory burden and helps to expedite the issuance of these permits.	Medium, ongoing
	Permits to fly amateur built microlights and ex-military and ex Certificate of Airworthiness aeroplanes for ab-initio training: we have made the decision to permit this activity and have commenced work to implement it.	This should offer a much wider choice of training platforms to the consumer and, as the cost base for a permit aircraft is lower, it is hoped this will result in cheaper costs when learning to fly, thereby providing a stimulus potential for growth in the sector.	Medium, ongoing
	450-600kg fleet opt-out from EASA Regulations for Airworthiness: This allows aeroplanes up to 600kg to be classed as microlights.	This will improve the availability to the UK market of many modern, light two-seat aircraft, streamlining their regulation and helping to modernise and refresh the UK fleet. It will also allow more proportionate rules for airworthiness.	Medium, ongoing
	SSAC Framework: The Safety Standards Acknowledgement and Consent framework allows paid for passenger flights on certain types of ex-military aircraft. The CAA continues to expand and implement this framework.	This is helping to support the economic sustainability and on-going safety of this fleet of aircraft, ensuring UK aviation heritage is secured for future generations.	Medium, ongoing
Security Management System (SeMS)	The CAA continues to support the safe and secure growth of aviation by adopting and facilitating innovative approaches and technologies.	Utilising the Security Management System (SeMS) as a precursor to Performance Based Oversight, this innovative change will bring with it both improved security performance and further business efficiencies; ensuring that we are making better use of both CAA and industry resources.	Medium, ongoing

Annex - Growth Duty

Priority: Managing Environmental Impacts

Activity	Description	Impact	Benefit
Net Zero	**Airworthiness and certification:** design and certification of UK products, including aircraft, engines and components.	The team's capability supports innovation, including future fuel technologies, hybrid air vehicles, eVTOL and RPAS. It is highly likely that combinations of new fuel types on existing platforms and smaller electrical or hybrid vehicles will form a considerable part of our strategy to reduce aviation's carbon footprint through the certification of these products as safe to use. The CAA also sits as a member of the Jet Zero Council.	Low, ongoing
Environmental Information provision project	The feasibility and possibility of sharing information with consumers on the environmental impacts of aviation, to enable better decision-making and support the Government's decarbonisation programme.	The Civil Aviation Act 2012 gives the CAA powers relating to provision of information to help consumers compare services regarding air travel's environmental effects. We plan to investigate an incremental approach in making more information available to consumers, allowing us to test their behaviour in more detail. We will use third parties with existing consumer relationships to provide this information, rather than the CAA providing it directly.	Low, ongoing
Airspace Modernisation Strategy	The emissions savings that airspace modernisation can deliver are a component of the UK's commitment to reach net zero by 2050.	Through the coordinated redesign of upper and terminal airspace across the UK, there is an opportunity to reduce aviation emissions by up to 20% by 2050[2] through straighter routes, less holding and fuel-optimised continuous descent and departure flight profiles. Reducing the segregation of UK's airspace through a combination of re-design and ensuring that all aircraft are electronically conspicuous to each other, may also contribute to straighter and, therefore, more fuel-efficient routes.	High, ongoing

[2] NATS Feasibility Report, May 2018, page 21.

Annex - Growth Duty

Annex B - Growth Duty: Updates for ongoing activity reported in the 2020 CAA Growth Duty report.

Priority: Regulating proportionately and reducing the burden on business

Area	Activity	Impact	Benefit	Update
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	In place (no longer a project) and on going.
	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	In place (no longer a project) and on going.
	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 the microlight aeroplane sector in the UK. September 2013 295 September 2014 471 July 2015 542 October 2017 672 September 2019 692 January 2021 718	Medium, ongoing	The number of SSDRs has continued to increase. As of 1st January 2021, there were 718 SSDRs on the UK Aircraft Register.
	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	Exemption in place and ongoing. Further work to establish the long-term basis for this activity will form part of the FY21/22 GA Change Programme.
	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	In place (no longer a project) and on going.
	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 proportionate system of declaration.	This has reduced approval costs, which is expected to stimulate growth in the sector.	Low, ongoing	In place (no longer a project) and on going.

Annex - Growth Duty

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	Update
Skills/ Science, Technology, Engineering and Maths (STEM)	**STEM outreach activity:** During 2019, over 2,000 young people were reached, by various strands of activity, across the CAA's capability areas. As well as assisting the wider industry's efforts, the CAA has also put in place a successful internal apprenticeship programme, and currently has 21 apprentices across the organisation.	The CAA is committed to helping to encourage, inform and educate the next generation of aviation professionals, to help the sector to continue to flourish and grow.	Low, ongoing	Throughout 2020, virtual events have been held to support young people across a range of the CAA's capability areas. Initiatives are also planned for 2021. A dedicated STEM website is due to launch with the aim of providing resources and content for young people and schools.
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	CAA is currently considering its Operating Model, including aspects of its decision-making and governance forums. Ensuring that growth is considered by relevant governance groups at appropriate times will be one objective of this work.
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 assist 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	The Innovation Team gather, validate and report on signals and trends within aviation. The team transforms this information into programmes of activities to assist innovation. These early indications of change will help the organisation to manage potential risks at an early stage and to secure any opportunities, in relation to these changes. Signals and trends are effectively the starting point of the CAA's Corporate Horizon Scanning framework.
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 has 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 adhoc flights (excluding private/state flights) that take place each year, carrying skilled labour and things like blood products, which make a major contribution to growth. For ad-hoc carriers, the CAA assured them that they would 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	Colleagues from across the CAA worked with industry and Government to ensure that industry's challenges and needs were represented in advice to the UK-EU exit negotiating team. This was intended to enable them to negotiate the best possible deal.

Annex - Growth Duty

Priority: Innovation

Area	Activity	Impact	Benefit	Update
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 and enabling a reduction in overall emissions from aviation.	Medium, ongoing	The timescales in which airspace modernisation will take place will change as a result of the pandemic. We will also need to consider what may be required to allow organisations to progress their individual airspace changes; and how they will interact with National Air Traffic Services (NATS) and the Airspace Change Organising Group (ACOG).
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	The CAA has committed to operate (wherever possible) one single harmonised oversight process for cyber security, in order to deliver a range of different regulatory requirements that apply to the aviation industry.
Consumer Panel	**The CAA Consumer Panel** enables the CAA to engage proactively 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	The Consumer Panel have continued to work on the priority areas outlined in their Annual Report. They have also been asked to contribute to work in support of consumer confidence as the aviation sector begins to recover.

Annex - Growth Duty

Priority: Innovation (continued)

Area	Activity	Impact	Benefit	Update
Innovation Hub	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 help provided. From start-ups to large corporations, these include UK (Altitude Angel), European (Volocopter) and international (Amazon).	Medium, ongoing	The Innovation Hub has achieved greater collaboration with industry through the Regulatory Sandbox, industry workshops and innovation clinics. As a focal point for Innovators, the team has freed up resource in the CAA's regulatory teams, allowing them to deliver their core services to the sector more efficiently. To date, the Hub has serviced 272 aviation innovators with support and advice, helping them progress their ideas to market.
Remotely Piloted Aerial Systems (RPAS)	Regulatory measures: Specific regulatory measures to facilitate RPAS 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 operations 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 (LCY) which has introduced a virtual control tower at LCY, freeing up land, which is in short supply, and using it for other commercial purposes.	Medium, ongoing	Details of these regulatory measures published in the 8th edition of CAP 722 'Unmanned Aircraft System Operations in UK Airspace – Guidance'.

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

Area	Activity	Impact	Benefit	Update
ATOL	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	The CAA is assisting the DfT on Airline Insolvency. The work has been paused during the pandemic but we look forward to continuing to engage on this important area as early as possible.

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