Annual Report & Accounts 2015/16
Civil Aviation Authority

CAP 1421

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www.caa.co.uk/CAP1421

CAA House, 45-59 Kingsway, London WC2B 6TE
www.caa.co.uk

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Statement by the Chair

In the past year the diversity of challenges and volume of regulatory activities undertaken at the CAA has been immense. We live in times where we are presented with enviable opportunities to embrace technological advancements and improve the consumer experience. Yet we also face threats on multiple fronts and must maintain a constant focus on enhancing safety standards and staying one step ahead of those who wish us harm. We have seen and responded to a myriad of events and grappled with wide ranging issues throughout the year. Now, as we reflect on that work, we also take time to think of those who have been directly impacted or involved in accidents or acts of terrorism in the year behind us.

Air displays

In August 2015, we were all stunned by the tragic accident at the Shoreham Air Show. Nobody could fail to be moved by the personal stories of the 11 victims that died and the thoughts of everyone at the CAA remain with those affected. In the wake of this accident it was right that we should review the regulations that govern air displays

‘We live in times where we are presented with enviable opportunities to embrace technological advancements and improve the customer experience’

and to explore every aspect of safety. This has led to the introduction of additional measures to strengthen further the existing regulatory framework within which air displays operate. Enhanced risk assessments, tighter checks on pilots and show organisers, improved post-event reporting processes and increasing the distance between the crowd and displays are amongst the new measures we have introduced.

Safety remains the top priority in all areas of our work. We understand that many people care passionately about air shows and we want them to continue to be able to enjoy them in a safe environment. We recognise that the changes we have introduced will require significant work from the air show community but we believe that they are essential and proportionate. Our work in this area will continue during the coming year’s display season, after which we will carry out a full review of the new measures we have introduced. Shoreham was the first air display accident since 1952 that led to members of the public being killed but this awful tragedy demonstrates that we must strive to make them safer still.

Security

Acts of terrorism in Egypt, Tunisia, Paris and Brussels have shocked the world and the security of people travelling has rarely been more under the spotlight. These events show us that terrorists will seek to inflict their violence upon an unsuspecting public at any time, in any place and our level of vigilance must remain as high as possible. Our work with Government, airports and airlines to implement the highest levels of security continues as we focus on keeping the public safe, whether they are in the air or on the ground.

Offshore helicopters

The safety of those who travel on offshore helicopter flights is a key priority for the CAA. Although outside our jurisdiction, the accident

in Norway in April 2016 underlined the need to keep the safety of these operations as one of our key priorities. In 2013 we launched a comprehensive review of offshore helicopter flying, resulting in a step change in safety that was welcomed by everyone involved. This work continues to provide important safety enhancements with an emphasis this year on pilot training and working with other parties, such as EASA and helicopter manufacturers, on longer-term projects focussed on helicopter design. We will continue to work with the helicopter operators, the offshore industries, international regulators, unions and pilot representatives to enhance offshore safety standards still further.

Capacity

There has been much discussion and debate about whether the South East should have a new runway and, if so, at which airport it should be located. As the UK's independent aviation regulator, we have consistently made the case that the UK needs more aviation capacity in order to prevent consumers facing higher airfares, less choice and more disruption in the future. The CAA will have a significant role to play following any

Government announcement about a new runway and will manage the complex requirements around economic regulation, as well as working closely with all parties to implement the appropriate safety and operational framework to enable it to prosper.

We have also been clear, however, that it is equally important for industry to improve its action on tackling aviation's environmental challenges. This includes much better support for communities who are regularly disturbed by aviation noise, with whom we have been meeting regularly; we are encouraged that, in making its report, the Airport Commission put this at the heart of its recommendations.

Airspace

Our airspace is a key part of our national infrastructure. Although you cannot physically see it, the airspace above our heads is divided into complex structures to enable its many different users, from commercial airliners to military jets and private pilots, to fly safely.

Its structure was developed over forty years ago. Since then there have been significant developments, including a dramatic increase in demand for aviation and extraordinary technological changes and developments, including the use of satellites and higher performance aircraft. Throughout Europe, through the Single European Sky project, there is a move to simplify and harmonise the way that airspace and air traffic control is used. In the UK and Ireland we are meeting those and other issues through the Future Airspace Strategy (FAS), which sets out a plan to modernise airspace by 2030. Making our airspace more efficient will decrease journey times, the amount of fuel aircraft use and carbon emissions.

We understand that aircraft noise has significant impact and that when airspace is revised or routes are moved it can be a concern for those living close to airports. The significant public reaction to route changes around Gatwick Airport in 2013 was a clear example. Those affected by aircraft noise are important stakeholders in the airspace process and local communities must, therefore, be involved in decisions on significant future changes. Linked to that is a responsibility on the aviation industry to be clear and transparent about aims and decisions.

To help to advance that aim we launched a consultation in the spring of 2016 on major improvements to the airspace change process, which is used to decide whether a change goes ahead or not or whether it should be subject to modifications. We value and respect the views and opinions of local communities but in an area as well populated as the South East of England it is simply not possible to meet the demands of every community when managing airspace.

Disruption/passenger complaints

The welfare of passengers is a central function for the CAA and there have been many developments over the year which should be to their benefit, whether it is greater clarity around European regulations, new approaches to compensatory arrangements, the establishment of aviation ombudsmen services, or continued developments in the ATOL scheme.

The year ahead

The aviation industry is not one to stand still and we expect the year ahead to be just as demanding as the last. There will be new challenges in areas where we are already active and engaged, such as the increasing activity of drones; there will be brand new areas to develop and progress, such as space planes and ports, as outlined in the Queen's Speech; there will be the inevitable events for which we cannot prepare but which we must be ready to manage.

Following a public consultation, we launched our new five-year strategic plan in April. At the highest level, the strategy is very simple, it is about making aviation better for those who choose to fly and for those who do not. There is a world of complexity within this and we have chosen to build the strategy around five themes that will be the focus of our work between now and 2020. These are: risk-based regulation; empowering consumers; infrastructure optimisation; service excellence; and technological innovation.

We believe that these themes provide a sound platform from which to deal with the key issues the organisation will face and we are now in the process of aligning our business plans and the individual objectives of colleagues across the CAA to underpin this.

Conclusion

We have been well supported by a committed group of non-executive directors on the Board and I am very grateful to them for their diligence and thought. I was delighted to see the re-appointment of two of them in November: David Gray and Michael Medlicott have both served the Board with distinction and we continue to benefit from their contribution. Later in the year the Department for Transport also confirmed the re-appointment of David King and Graham Ward for a further three years. These re-appointments do not take effect until September 2016 but, again, both have made a considerable contribution to the CAA Board and I am delighted that we will be able to retain their services. We were also pleased to welcome Dr. Ashley Steel as a new non-executive director in September. Ashley brings a wealth of experience from her many years working within and advising the transport sector and it is already obvious that her appointment will significantly benefit the Board.

As we look to the year ahead, it is clear that there will be many opportunities to embrace new technology, enhance safety, create more consumer choice and drive forward our new five-year strategy. There will also be new issues and events. What we can be sure of, is that it will be an interesting and challenging year and one where the skills and expertise of all at the CAA will be engaged.

Dame Deirdre Hutton DBE
Chair
15 June 2016

Statement by the Chief Executive

Our ambition to modernise and ensure that every part of the CAA is fit for purpose has continued in the last year, conscious that in discharging our duty to protect the public we must be alert to emerging threats to their harm in terms of safety, security, markets or the environment.

The aviation industry continues to evolve and the year has been one of significant growth, especially in the South East and it is forecast to continue in the coming year. This is good news for consumers, as it delivers even greater choice and value. We are, however, noticing increasing congestion in the South East in particular. Managing this increasingly congested network will become a growing challenge for the sector and for the CAA.

As part of our role of regulating the provision of airside security during an era of heightened security requirements, we continue to work closely with airports on their transition to the use of security management systems (SeMS). The principle of these systems is already successfully used by many other areas of the industry, such as airlines with their equivalent safety processes and this way of working is being rolled out internationally throughout the aviation industry. It ensures that organisations have thoroughly considered their risks and are prioritising and focussing efforts in those areas where they are most required.

There are numerous safety threats to aviation and during 2015 we recorded 1,439 laser incidents, each one an unnecessary potential risk to air travel. Shining a high powered laser at an aircraft poses a health hazard for the pilot and affects the safety of the flight. We continue to work with the aviation industry, both to explain the risk and to investigate other options to tackle this issue. We continue to work with the Government as it explores the legislative options available that will lead to a change in the law to re-categorise lasers as offensive weapons.

In the past year the profile of, and focus on, drones has continued to increase. There is no doubt that this technology has a significant role

to play in the future of aviation, with many positive uses already well documented. Irresponsible use of drones today may well, however, jeopardise their development tomorrow and anyone flying one must do so sensibly and in line with our drone code that offers an overview of the rules for safe drone operation.

The term drone applies to a wide range of technology, from very small toys that fit in the palm of your hand through to the larger devices that are already in commercial use across a range of sectors, including emergency services, humanitarian aid, geological surveys, property and the media. Introducing even larger commercial drones into our airspace system to fly safely alongside airliners is a longer term aim but tests have already successfully taken place. The drone and aviation industries are now working together to develop the technology required to make this a safe and everyday occurrence.

As a regulator we take an active interest in these developments and are working with the Government, aviation industry and numerous agencies to address the issues associated with the proliferation of this technology. Many of the issues surrounding drones are not aviation related and, therefore, not in our purview. To bring clarity to this area we signed a memorandum of understanding with the police, Department for Transport and Home Office to ensure that the areas of responsibility are defined. We have developed, and continue to promote, our educational campaign to highlight the importance of safe drone operation and continue to explore the potential dangers of collisions between a drone and aircraft. We are also actively promoting the introduction of geo-fencing as a European standard and ground-based protection for particularly important sites.

‘We have now reviewed 90 per cent of the UK airline market and...helped ensure that airlines improve the way they support passengers experiencing disruption’

The UK’s general aviation (GA) community is a key element of our overall aviation sector. Throughout the year we continued our work to ensure that our regulation of recreational GA is proportionate and fit for purpose. A number of key improvements have been introduced this year, including changing recreational private pilot medical requirements to make them more in keeping with our regulatory aims for the sector; introducing a new experimental aircraft category to make it easier for innovative designs to be developed; and working with avionic manufacturers and the GA community to make it easier for aircraft owners to fit safety devices that alert other aircraft to their position, reducing the risk of mid air collisions.

In November we approved a proposal from NATS for a substantial airspace change in Eastern and Southern England as the first significant part of FAS changes. This will bring major benefits to both air passengers and many communities currently overflown by aircraft. We understand very well that aircraft noise disturbs many people. These changes move significant numbers of flights away from populated areas and will reduce overall emissions, but we recognise that few such changes take place without a degree of detriment being felt in some communities. As we have done with this decision, we will continue to consider the environmental impact of all our airspace decisions and have called on the aviation industry and other decision-makers to be much more ambitious in confronting aviation’s environmental challenges.

European-wide regulations exist to ensure that airlines support passengers experiencing disruption, including paying compensation when the disruption was in the airline’s control. In recent years the regulations have been the subject of much legal debate. With the courts making a number of high profile binding decisions, however, airlines now have all the clarity they need and should be clear about the support they must provide to passengers. We have had to use our enforcement powers to force airlines to comply with the law and in the past year Aer Lingus, Jet2, Ryanair and Wizz Air have all changed their policies in this area as a result of our action.

We have now reviewed 90 per cent of the UK airline market and through our enforcement action and ongoing work, we have helped ensure that airlines improve the way they support passengers experiencing disruption. It is an issue we continue to keep under review and will not hesitate to take further action if we see evidence that airlines are not complying with consumer law.

We have also acted to improve the way in which passengers can complain about airlines. Despite not having the power to force airlines to pay compensation in individual cases, our own complaints service has helped to achieve over €17 million in compensation for passengers over the last three years. This still, however, means that many passengers who cannot resolve their complaint with their airline have little option but to go to court. We do not believe that is acceptable for passengers and we have been working throughout the year to establish Alternative Dispute Resolution (ADR) in aviation. This involves the CAA overseeing approved ADR bodies that can take on passengers' complaints against airlines and provide fair, timely and binding decisions on cases. There are currently two approved ADR bodies in the UK and we are actively working to encourage more airlines to sign-up to ADR providers.

The travel industry remains one of the most dynamic and competitive industries, offering huge choice to consumers looking to book trips abroad. The vast majority of consumers enjoy their well-earned holidays as planned but every year thousands of UK holidaymakers are affected by travel companies ceasing trading. The CAA is responsible for the Air Travel Organiser's Licence (ATOL) scheme which protects consumers who find themselves in this situation where the company is ATOL protected. Awareness of ATOL is high but understanding of the scheme historically has been low and so we have continued our "Pack Peace of Mind" campaign to increase consumers' understanding of ATOL and make it easy for them to know how to check for protection when booking their package holiday. There are encouraging signs that ATOL protection is now much more embedded in the minds of the British public and our popular culture, with ATOL protection even meriting its own song on Channel 4's Peep Show.

We have also introduced changes to our oversight of travel companies in the ATOL scheme to make sure that our regulation is fair, proportionate and manages risk effectively. One key outcome was the introduction of improved financial ratios that will better identify businesses that carry potentially significant financial risks. We also introduced an online training package to help ATOL holders to understand and meet their responsibilities under their ATOL licence more effectively, as well as working with professional accountancy bodies to help to ensure that all accountants reporting on ATOL holders have the right knowledge and skills to do so reliably. These measures lead to a fairer distribution of regulatory costs between businesses and have improved our ability to identify and act against businesses creating greater consumer risk.

Further changes to financial protection for holidaymakers are likely in the coming years, now that a new European Package Travel Directive has been agreed. The Government is likely to consult with industry on implementing the new directive in the UK, later this year.

Transforming the CAA

We made a number of changes to staffing and structures across the CAA in 2015/16, including at the most senior level. Richard Moriarty re-joined us at the start of this year to head up a new directorate that brings together all of our work related to consumers and markets, including economic regulation and ATOL. The Board also agreed to the creation of a Chief Operating Officer role that takes on responsibility for finance, corporate services, the Shared Service Centre and significant projects such as the Transformation Programme. Chris Tingle was appointed to this role and joined us in January.

In addition, we brought together all of our international work, including our links with EASA and ICAO and our commercial work overseas, with the foundation of a single directorate that launched at the end of the year under the leadership of Ben Alcott. These changes achieved a number of benefits for us, principally giving us the opportunity to improve alignment across the CAA while also reducing the number and cost of senior roles overall.

We carried out a review of our Transformation Programme to ensure that we had the right portfolio of projects, organised in the right way, delivering to robust and comprehensive plans. Following on from this, we concentrated our efforts in the year on a number of priority projects. These included the following:

- The 'Entity Performance Tool', which supports our performance-based approach to regulation by improving the way we capture safety-related data and judgements. This was launched in August.
- Our new public-facing website, which makes it easier for stakeholders to find the information they need and improves our ability to manage and maintain the site's content. The site launched in December.

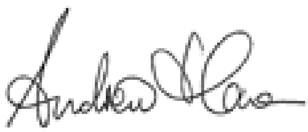
- A new system for collecting aviation data from airlines and airports ('AvStats') which will automatically verify stakeholders' data, thus allowing us to collect and manage it more efficiently. This system was launched in May 2016.
- An online ATOL licensing system, where we continue to work towards its launch.

Also related to transformation, in March we completed the initial two-year project phase of the 'PBR' programme that supported our move towards performance-based regulation in safety. This project continues to bring about significant changes in the way we engage with regulated entities, as well as in our internal systems and processes. We have now moved to the next phase of this activity as we continue fully to embed this approach. We also continued to integrate our Shared Service Centre over the course of the year, putting a new structure in place, improving many of our business processes and working towards increased levels of customer service across its functions, whilst achieving further significant reductions in headcount. The scale and volume of change has meant that we have had occasional setbacks and I want to acknowledge the patience and support of both colleagues and stakeholders as we have worked through these.

We said goodbye to two long-serving members of the CAA executive team. Richard Jackson had spent 10 years at the CAA as our Group Director of Consumer Protection. During his time, Richard transformed the ATOL scheme, overseeing the implementation of major reforms that increased the number of consumers protected by ATOL, following the introduction of 'flight-plus' bookings to the scheme. Chris Jesnick spent

20 years at the CAA and as our Finance & Corporate Services Director was involved in many aspects of our organisation, serving with distinction. We wish them both well in the future and thank them for their tireless efforts and collegiate spirit.

We are well served by a committed team of professionals across the CAA and it would be impossible to do our jobs without the constant support and dedication demonstrated by our team. As we start to implement the new five-year strategy of the organisation we can be confident that we are entering an exciting period for aviation.



Andrew Haines OBE
Chief Executive
15 June 2016

Key events

2015

MAY

The CAA announces plans for certification of all offshore helidecks in UK waters.

JUNE

CAA research finds disabled passengers still have air travel concerns, despite good special assistance.

The Pack Peace of Mind campaign research reveals consumer understanding of the CAA's ATOL scheme is on the rise. Air Travel Trust reports increase in surplus. The ATOL scheme protected 23.8 million holidaymakers last year, up from 21.5 million the year before.

JULY

The Airports Commission's recommendations are welcomed by the CAA. They represent an important step towards increasing the UK's aviation capacity.

In conjunction with NATS and pilots' union, BALPA, the CAA launches a new drone awareness initiative targeting the increasing number of recreational drone users in the UK, to make it easy for them to operate their devices as safely as possible at all times.

The General Aviation Unit of the CAA launches a new initiative to improve the skills of private pilots. The Pilot Recognition for Operational Up-skilling and Development (PROUD) scheme encourages general aviation organisations to provide life-long learning programmes for their members and other pilots to help to improve safety.

Enforcement action by the CAA, started in March as a result of an extensive review of airlines' approach to paying compensation for delayed and cancelled flights, brings about policy changes from Jet2, Aer Lingus and Wizz Air, who will now offer passengers better support during disruption.

AUGUST

Following the tragic accident at Shoreham on 22 August the CAA announces new restrictions and changes to future air displays and begins an urgent review into UK air show safety.

SEPTEMBER

As part of its on-going campaign to safeguard the rights of UK air passengers, the CAA launches enforcement action against Ryanair.

NOVEMBER

A series of major airspace changes covering Eastern and Southern England is approved by the CAA. These changes enable aircraft to fly more efficiently and reduce the environmental impact of aviation.

DECEMBER

An investigation is launched by the CAA into the website and pricing practices of two leading online travel agents responding to a number of issues concerning price transparency.

The CAA launches new website and industry alerting system.

2016

JANUARY

The CAA publishes an action report from the ongoing review of air displays.

Richard Moriarty is appointed as the Group Director of Consumers and Markets and Deputy Chief Executive; and Chris Tingle is appointed as the CAA's Chief Operating Officer.

FEBRUARY

300 holidaymakers are assisted by the ATOL protection scheme, after the failure of London-based travel business Elixir Holidays Ltd.

MARCH

Following a public consultation, the CAA amends its proposals for fees regarding the oversight of air displays to reduce the burden on display organisers.

Local communities affected by aircraft noise and the aviation industry are invited to respond to a major consultation aimed at making the decision-making process for changes to airspace more transparent.

APRIL

The final report of the CAA's review of air displays is published. It confirms a series of measures aimed at making UK civil air displays even safer.

Following the Norwegian offshore helicopter accident, the CAA works closely with its Norwegian counterpart to introduce safety restrictions on UK operators using EC225LP and AS332L2 and also takes the decision to ground the UK fleet.

Strategic report

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

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

Our strategic report comprises the following sections:

- CAA business model;
- Review of our business;
- Our efficiency report;
- Key performance indicators;
- Principal risks and uncertainties; and
- Financial review.

This strategic report was approved by the Board on 15 June 2016.
By order of the Board

Kate Staples

Kate Staples
General Counsel & Secretary
15 June 2016

CAA business model

Our stakeholders

Those we PROTECT

- Aviation consumers
- The overflown

The ones who HELP us

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

The ones we REGULATE

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

The ones who CONTROL us

- European Aviation Safety Agency
- Department for Transport

The ones we seek to INFLUENCE (leadership beyond authority)

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

Our statutory functions

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

The risk principles we apply

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

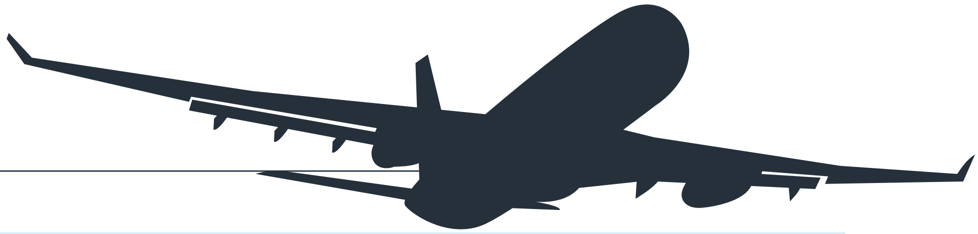
Principle 2: We will be clear at all times about the risks for which we are accountable and only seek to be accountable for risks that we can manage or oversee.

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

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

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

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



Key strategic priorities

Risk based regulation

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

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

Empowering consumers

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

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

Technological innovation

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

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

Infrastructure optimisation

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

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

Service excellence

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

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

Key enablers

Regulatory income

For the year ended 31 March 2016 our total income was £132.6m of which £78.1m was statutory income generated under the statutory charges schemes. £13.3m was in respect of Eurocontrol service charges.

Transforming our systems and processes

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

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

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

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

Additional income sources

£15.7m 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 standards worldwide.

£25.5m for other services, which included rental income from subletting London properties.

Our people

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

Review of our business

We are committed to the principles of better regulation and applying them transparently, proportionately and consistently.

We are transforming our business and improving our efficiency so we can meet future challenges and improve our stakeholders' experience.

Enhancing aviation safety

Our focus is the safety of UK citizens. The sector is becoming increasingly complex, which means that our focus on effective, risk-based safety regulation is critical to maintain the UK's excellent safety record.

We work with all our stakeholders to improve aviation safety through improvements to systems, culture, processes and capability.

We base our work on the worldwide regulations set out by the International Civil Aviation Organisation (ICAO) and the European Aviation Safety Agency (EASA) and we continue to develop our close working relationship with them.

Air show safety review

The accident at Shoreham Air Show on Saturday 22 August 2015 tragically resulted in 11 members of the public losing their lives. Our hearts and thoughts remain with those affected. Until this tragedy, no members of the public had lost their lives as a result of a UK air display since 1952, which made this accident all the more shocking.

The Air Accidents Investigation Branch and Sussex Police are continuing their investigations, so it has not been appropriate to speculate on the cause. We did, however, immediately scrutinise the type of aircraft involved and the risk assessment criteria for future air displays. We also launched a comprehensive review to make sure that public air displays in the UK are required to operate to the very highest safety standards. This review is supported by Transport Ministers and the Military Aviation Authority and is overseen by a challenge panel of experts.

In October 2015 we published a brief progress report on the review, setting out three core themes and explaining the next steps that we would be taking. In January 2016 we published an action report, giving all those involved advance notice of our intentions. This was followed in April by the final report, confirming a series of measures aimed at making UK civil air displays even safer.

We launched a consultation in February 2016 on increases to fees to fund our additional air show work. As we are not funded by the taxpayer, these charges must be met by the industry.

To reduce the impact on the air display community, we decided to phase in the introduction of the new air display post event charges. The 2016/17 charges will recover £100,000 of the expected £200,000 of additional costs, while we will absorb the remaining £100,000.

Performance-based regulation (PBR)

We work in a fast moving sector and we are not alone in recognising the need to change. Regulators around the world are introducing PBR, including EASA and ICAO. The idea that regulators should gather better information about safety risks and use it to allocate resources in a more proportionate and targeted way is well established and aligns strongly with the UK Government's principles for better regulation.

PBR means that, by working with the organisations we regulate, we are developing a comprehensive picture of risk. By building this bank of knowledge and data, we can target regulation in the areas where it will make the biggest difference. Our transformation into a performance-based regulator affects a wide range of regulatory processes and functions, including the way we assess risks, prioritise resources, deliver safety improvements and carry out oversight.

This new way of working gives our inspectors a detailed overview of the safety aspects of all of an organisation's operations, allowing them to make more informed assessments. For example, new software allows inspectors to modify the risk picture as new information comes to light, so updates can be shared immediately.

We are working with over 200 aviation organisations to develop and refine the process. We will be able to reduce the regulatory burden on strong performers who are managing risks effectively and to allocate more resources to focus on those that need more detailed attention.

Drones

The rapid growth in the use of drones poses a series of challenges and opportunities. There has been significant media and public interest in the reported collision between an aircraft and a drone at Heathrow in April 2016, although the subsequent investigation found that a drone was probably not involved.

While our aim is to ensure that drones do not cause any serious aviation accident, we also want to allow the development of drone use to reach its full potential. So our work in this area covers both consumer awareness and engagement across the industry.

Many recreational drone users have little knowledge or understanding of the regulations that exist to avoid the risk of a mid-air collision between a drone and conventional aircraft; and to protect people and property on the ground.

To explain the risks of drones and users' safety obligations, we introduced the drone code, a common sense interpretation of the regulations. Working with major manufacturers and resellers, including DGI, Parrot, Maplins, Currys and Argos, we made sure that the code would be passed on to new purchasers.

In July 2015 we launched a drone awareness day. Working with NATS and the British Airline Pilots Association (BALPA) we reached a significant audience across the UK through media work that highlighted key safety messages. Regular print and broadcast media work throughout the year has also helped to promote the safe use of drones. We have also developed new online material - the twitter tag *#droneaware* was used over two million times during the course of the year.

We attended major drone shows and events and made sure that the public know that they should contact the police directly about an incident, rather than contact us.

We have also engaged with industry to ensure that future opportunities for civil drone use can be embraced. Work to extend consumer awareness campaigns, to involve significantly more of the aviation industry, began in May 2016.

We continue to work closely with the military, police, NATS, BALPA, manufacturers, resellers and drone associations to explore education and technical solutions to counter key safety risks.

At the same time, we advise the Government on future drone policy and will be involved in the work on legislation of drones. Other related work includes studying the safety implications of drones and how they can be successfully incorporated into the UK aviation system. We are also working with EASA on its plans for Europe-wide drone regulation.

Offshore helicopters

This year we launched two initiatives to improve the safety of offshore helicopter operations, addressing the causes of potential accidents. We developed a new strategy to reduce the risk of fire on unattended offshore installations in the North Sea, based on research we commissioned from Cranfield University.

We also launched a consultation on introducing legally binding safety standards for helidecks in UK waters.

Recreational aviation

We remain committed to supporting and encouraging a dynamic general aviation (GA) sector in the UK. We continue to develop a safety regulation system that imposes the minimum necessary burden and empowers individuals to make responsible and safe decisions.

April 2016 saw the second anniversary of our dedicated GA unit. The CAA Board's overarching principle for aviation safety is about protecting third parties. Our specific top-level principles for GA regulation are:

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

During the year we announced a number of improvements, which included:

- Working with leading instructors and training experts to introduce a new syllabus for pilot training;
- Extending introductory flight rules to include approved microlights and gyroplanes; and
- Allowing more private pilots to undertake charity flights.

We carried out a review of the GA elements of the Air Navigation Order, looking at simplifying the regulations on pilot licensing, operation and airworthiness rules.

We also held a consultation on making private pilot medical requirements more proportionate, proposing that holding a current DVLA group 1 ordinary driving licence should be sufficient for UK private pilots. This consultation attracted the highest number of responses to any of our consultations, the majority agreeing with the new approach.

Another consultation asked for views on simplifying the procedures on the initial testing of experimental aircraft.

Airspace policy

Airspace is a key part of our national infrastructure, yet its basic structure was developed over forty years ago. Since then there have been huge developments, including a significant increase in demand and expectation. Simplifying our airspace will enable aircraft to fly more efficiently; and the UK as a whole will benefit from reduced carbon emissions and noise.

Throughout Europe the Single European Sky project aims to simplify and harmonise the way airspace and air traffic control are used. In the UK the Future Airspace Strategy (FAS) project continues to improve the efficiency and structure of airspace.

This year we completed a post implementation review of the 2013 changes to Gatwick departures.

We also reviewed and approved a significant change to the way airspace is managed in South East England - the London Airspace Management programme.

In spring 2016 we launched a major consultation on how we go about making decisions on airspace change applications. Those affected by aircraft noise are important stakeholders in the airspace process and local communities must be involved in decisions on significant future changes. In many cases communities feel that they cannot trust those proposing or deciding on these changes, so we must be clear and transparent about aims and decisions.

Specialist consultants Helios carried out an independent review of the process in 2015 and the findings fed into the proposals. They suggested changes to how a proposal is progressed, including how a consultation should be conducted with local communities and airspace user groups; and also how it can be made more open and transparent.

Airport capacity

We have consistently made the case that the UK needs more aviation capacity to prevent consumers facing higher airfares and more disruption, and that the industry must improve the way it tackles aviation's environmental challenges. This includes much better support for communities who are regularly disturbed by aviation noise.

We continue to engage with stakeholders on two significant changes: the Airport Commission's on-going determination on increasing the UK's aviation capacity; and the expiry of the current economic regulatory controls on Heathrow Airport at the end of 2018.

Aviation security

The security of our airports and skies is critical. We are responsible for some aspects of aviation security, including monitoring organisations' compliance with security regulations and their security vetting.

Worldwide there have been several distressing aviation incidents as a result of terrorist action that highlight the overall importance of aviation security. Following any such incident our security experts work with the Government to ensure the highest possible levels of security for passengers and the UK aviation industry.

In addition, our regulatory team provides advice to the Secretary of State for Transport on the future evolution of the regulatory framework; and day-to-day assistance on security policy to Department for Transport (DfT) officials.

We also help the aviation industry interpret and understand security regulations. Our security compliance team is responsible for overseeing how the industry meets UK and international security requirements.

We expect, however, that aviation organisations will go beyond mere compliance. That is why we actively promote the development of security management systems (SeMS), encouraging organisations to take a systemic approach to managing aviation security, embedding it in day-to-day activities.

The continued development and roll out of this approach has been a priority throughout the year.

Protecting the consumer

We play a key role in protecting passengers' consumer rights, helping the public to understand their rights, while working with industry to improve practice.

In April 2016 we confirmed plans to reform the way that air travel complaints are handled, by handing over responsibility for passenger complaints to alternative dispute regulation (ADR) schemes. This new ombudsman approach represents a major step forward for consumers seeking a fast and fair resolution to a dispute, as ADR findings will be binding on airlines.

We carried out an extensive review of airlines' approach to compensation for delayed and cancelled flights, and took enforcement action in July 2015. This led to Jet2, Aer Lingus and Wizz Air changing their policies to ensure that they comply with the regulations and support passengers better during disruption.

More enforcement action followed against Ryanair in August, after our review found that the airline was not complying fully with European consumer law on flight disruption. In December we began an investigation into the website and pricing practices of two leading online travel agents in response to concerns over price transparency.

This year we began monitoring 14 more UK airports for on-time performance and the average length of delay during the year. Passengers can now compare flight punctuality at 24 of the UK's busiest airports.

We handle complaints about disability and mobility issues. Our latest research revealed that passengers with a disability or reduced mobility are significantly less likely to fly than others, though those who had flown in the last 12 months were confident flyers and pleased with the special assistance provided by airports and airlines.

We have improved the quality of special assistance information on major airline and all UK airport websites. In November we launched a new CAA web directory to make it easier for passengers to find out about special assistance services.

One of our principal consumer responsibilities is managing the Air Travel Organisers' Licensing (ATOL) scheme. If an ATOL holder fails, its customers are either repatriated to the UK or receive a refund for future flights or air holidays that have been booked.

The scheme protected 23.8 million holidaymakers last year, up from 21.5 million the year before. In addition, thanks to our public-facing Pack Peace of Mind campaign, awareness and understanding of the ATOL scheme is on the rise.

Environmental information

The aviation sector will only be able to grow if it tackles its environmental impacts. From climate change to noise and air quality, environmental concerns are central to policy debate and discussions on the sector's sustainability.

Our Strategic Plan and future priorities

We held a consultation on our Strategic Plan for the next five years, setting out what we want to achieve and how we plan to do it.

We have established the following principles to support our vision and shape our strategy:

- Align our activities with our purpose, with a focus on managing risk and achieving benefit for consumers and the public;
- Apply better regulation principles to all our activities;
- Engage pro-actively with our stakeholders;
- Ensure our systems are fit for purpose, and our people have experience, expertise and the ability to innovate and shape the future; and
- Measure our performance so we learn from it and share lessons with others.

Our future challenges include:

- Completing the transition to performance-based safety regulation and taking significant steps towards refining the way we regulate security;
- Creating a robust approach to new infrastructure funding and effective management of the costs to users;
- Helping to facilitate the biggest series of airspace changes ever seen in the UK, while taking into account the views of all impacted stakeholders;
- Radically overhauling our approach to holiday protection and giving consumers information to inform their decisions; and
- Developing more effective consumer redress.

We have defined five strategic priorities that are key to delivering our vision for the future.

1. Risk-based regulation

We will target regulation where risk is highest and be adaptable to the ever-changing risk picture. We share learning where we can.

Over the next five years we will:

- Continue to implement performance-based safety regulation;
- Use evidence to identify safety risks;
- Every year assist the Government in reviewing more stringent aviation security measures;
- Implement a performance-based approach to developing aviation security legislation;
- Work with international partners on moving to performance-based security regulation;
- Continue to roll out SeMS;
- Implement a rebalanced ATOL regulatory model;
- Continue to use enforcement action to help to protect consumers; and
- Introduce a risk-based approach to the package travel directive.

2. Empowering consumers

When airlines compete on price and service, consumers drive improvement by making informed choices between different providers. We will press for passengers to have the information they need to make informed decisions and, in particular, that passengers with disabilities or special needs are well served. When things do go wrong, the system for redress should be fast and easy-to-use.

Over the next five years we will:

- Develop ways of using data to help customers to make informed safety choices;
- Respond effectively to any complaints about how security regulations are implemented;
- Facilitate the development of the voluntary ADR system;

- Encourage UK airports and airlines to assist passengers with disabilities well;
- Promote consumers having information to make better informed choices; and
- Provide better information about aviation environmental issues.

3. Infrastructure optimisation

The South East of England will remain short of runway capacity throughout the plan period. Delivering any new capacity will take at least a decade and will require decisions that take account of the interests of local residents, other airspace users, passengers and the country as a whole. Until then, aviation must get the most out of the infrastructure we already have.

Over the next five years we will:

- Continue to support the Future Airspace Strategy;
- Support the delivery of any new airport capacity;
- Work to make the terminal air navigation sector more competitive;
- Facilitate the introduction of safe new operating procedures that have environmental benefits;
- Facilitate renewable energy development; and
- Undertake environmental research on night noise, noise restrictions and the impact of noise technology.

4. Service excellence

We want to be easy to deal with, delivering a culture of service excellence and making more of our services available online.

Over the next five years we will:

- Review our international activities to maximise our influencing power;
- Continue to deliver the UK's aviation security training programme;
- Move more of our services, including ATOL, online; and
- Provide a range of information for consumers so that they can make better-informed choices.

5. Technological innovation

We will support the industry in adjusting to the growing challenges of modern aviation, whether that is from new business models or from new technology. We will also support and facilitate the Government's innovation strategies and initiatives in areas beyond aviation where we can make a beneficial contribution.

Over the next five years we will:

- Promote work on specific new technologies including drones and space planes;
- Develop regulatory frameworks with international partners to support technological innovation; and
- Support the Government's spectrum release initiative.

Our efficiency report

It is essential that we are efficient and effective in order to deliver our objectives and follow the principles of better regulation.

To us, efficiency is about providing value for money and minimising the costs to the organisations we regulate. We do this by always considering the cost, speed and ease of dealing with us, keeping an eye on our direct costs and charges and ensuring that we deliver the best outcomes for consumers.

To be effective we need to ensure that we have the right resources and capabilities, are organised in the right way and have suitable processes to support our regulatory decision making and consumer work.

We also need to take into account the latest Government initiatives:

- The Business Impact Target should come into force in the autumn. We will have to complete impact assessments for all of our regulatory activities. These will be verified by the Regulatory Policy Committee; and will give us much better oversight of the economic impact of our work and make our decision making more transparent.
- The Growth Duty should also be implemented in the autumn. It requires us to consider the impact of our regulatory duties on our business environment, with a focus on minimising burdens and proportionate decision making.
- The DfT require us to support innovation. This includes how we could use new technologies better to generate efficiency savings and reduce our burden on business.

Service activity efficiency

Improving our service delivery

We continued to develop our Shared Services Centre (SSC) this year. It allows us to provide a more efficient, cost effective and customer-focussed service through centralised processing of many of our services.

For example, we have moved our Safety and Airspace Regulation Group (SARG) desk-based teams to the SSC so that we can focus on the core technical activities in the field. The new organisational structure has delivered significant efficiencies, including a reduction in employment costs equivalent to 21 full time employees.

We have instituted new processes at the SSC for tracking and prioritising licence applications, so that we can meet the service level agreement (SLA) target of issuing licences within 10 working days.

We are also continuing our Operational Excellence programme, which includes best practice training to management and staff, to improve our service and cost efficiency.

In mid-2015 we developed a recovery plan to deal with the backlog of licence applications, setting different priority levels for different groups: professional licensing, private licensing and administrative changes to licences.

We decided to prioritise meeting the SLA initially for applications from the professional licensing group, while developing and implementing action plans to bring performance up to the desired standard for the other groups.

This meant that, although service levels for the private licensing and administrative changes groups suffered in February and March as a result of resources being diverted, we could then meet the SLA standard for these groups within a few months. We are taking action to ensure that we consistently meet service level targets on an ongoing basis.

Our performance since the introduction of the licence recovery plan

Month	Application priority	Applications completed	# within 10 working days	% issued within 10 working days
Jul-15	P1*	1,539	489	31.8%
	P2*			
	P3*			
Aug-15	P1*	1,398	395	28.3%
	P2*			
	P3*			
Sep-15	P1*	344	344	100.0%
	P2*	558	8	1.4%
	P3*	281	10	3.6%
Oct-15	P1*	364	364	100.0%
	P2*	672	291	43.3%
	P3*	660	152	23.0%
Nov-15	P1*	326	326	100.0%
	P2*	590	490	83.1%
	P3*	633	522	82.5%
Dec-15	P1*	280	280	100.0%
	P2*	478	478	100.0%
	P3*	472	472	100.0%
Jan-16	P1*	312	312	100.0%
	P2*	499	499	100.0%
	P3*	363	350	96.4%
Feb-16	P1*	333	315	94.6%
	P2*	444	219	49.3%
	P3*	389	314	80.7%
Mar-16	P1*	349	349	100.0%
	P2*	725	489	67.4%
	P3*	750	278	37.1%

P1* - typically relate to professional licensing

P2* - typically relate to private licensing

P3* - typically relate to administrative changes to licences

Passenger advice and complaints

We deal with passengers' complaints about an airline or airport. They can contact us through our Passenger Advice and Complaints service when they have already made a written complaint to an airline or airport and are not satisfied with the outcome, or have not received a reply within eight weeks.

We advise on whether they have a valid complaint and, if so, will take it up with the business concerned. We do not, however, have the legal powers to impose a solution on an airline or airport. We have an SLA of 10 weeks to give the passenger a final response.

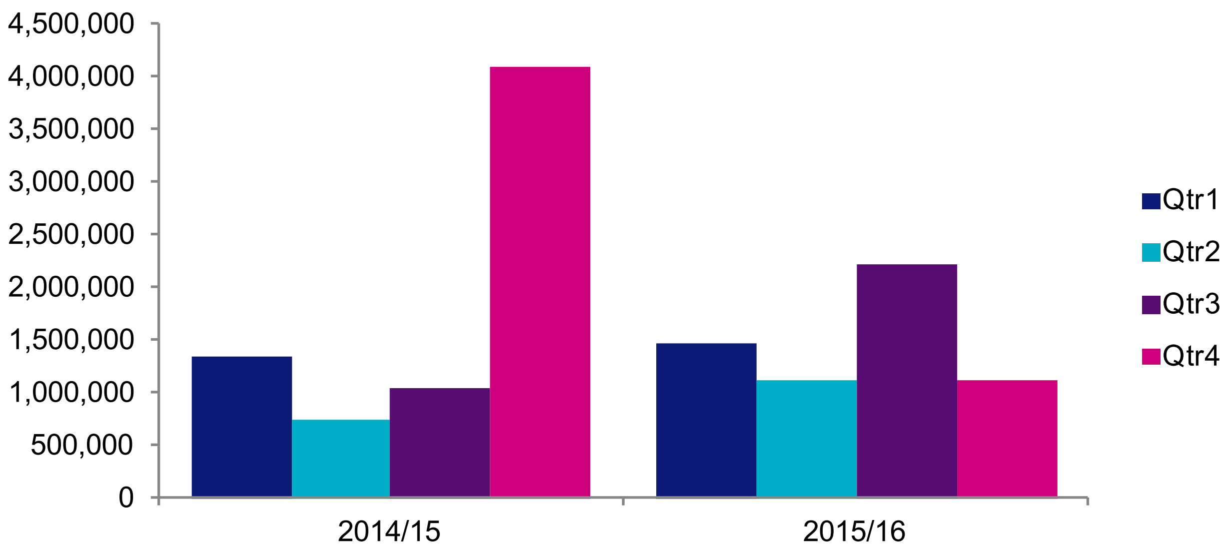
Number of cases dealt with and closed within the targeted SLA 2015/16

	Q1 15/16	Q2 15/16	Q3 15/16	Q4 15/16
Total cases	4,084	3,719	4,723	3,562
Cases closed within SLA	2,118	2,257	2,619	2,064
% closed within SLA	52%	61%	55%	58%

If we decide that the passenger has a valid complaint against the airline or airport and that compensation is due, we calculate the compensation that should be paid in accordance with the relevant legislation.

During 2015/16 we secured €5.9m of EC compensation for passengers, a 18% reduction compared to the previous year. This reduction is due to clearer legislation that makes airlines and airports more aware of their obligations to pay compensation to passengers, so there is less need for passengers to seek our help.

EC compensation secured 2014/15 and 2015/16



In addition, we secured a further £134k of non-EC compensation assessments in 2015/16, an 81% increase on the previous year.

Since August 2015 we have carried out regular consumer service satisfaction surveys with passengers who have used our Passenger Advice and Complaints service. 81% of the respondents stated that they were 'very satisfied' with the overall way we handled their complaint case.

New CAA website

We launched our new website in December 2015. We have significantly redeveloped it to improve its content and the user experience.

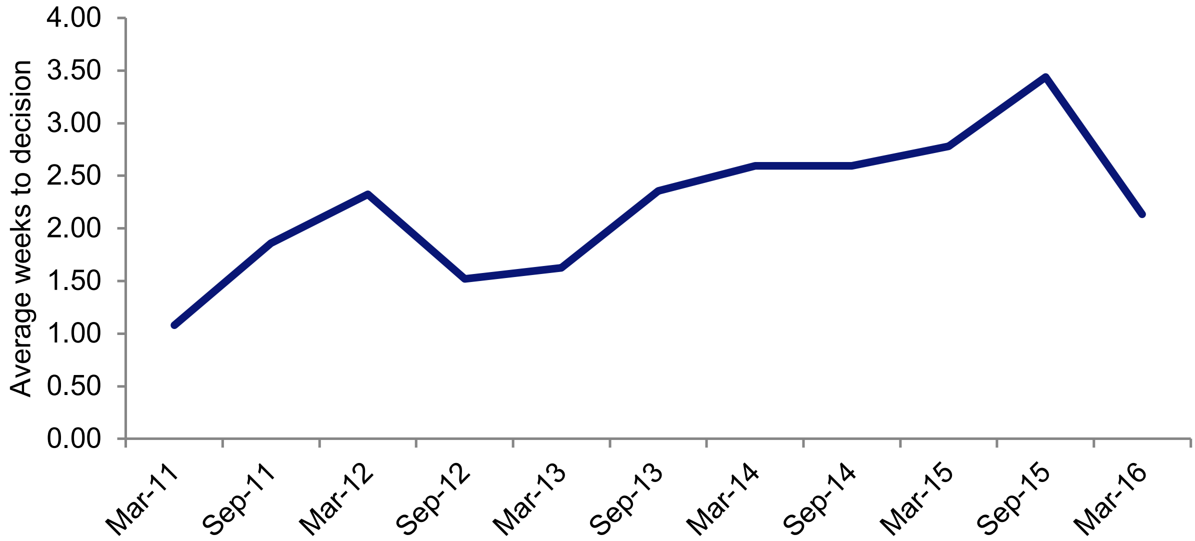
At the same time, we launched our new Skywise stakeholder alerting system, which included changes to the way we produce and issue information.

Licensing Automated Decision System (LADS)

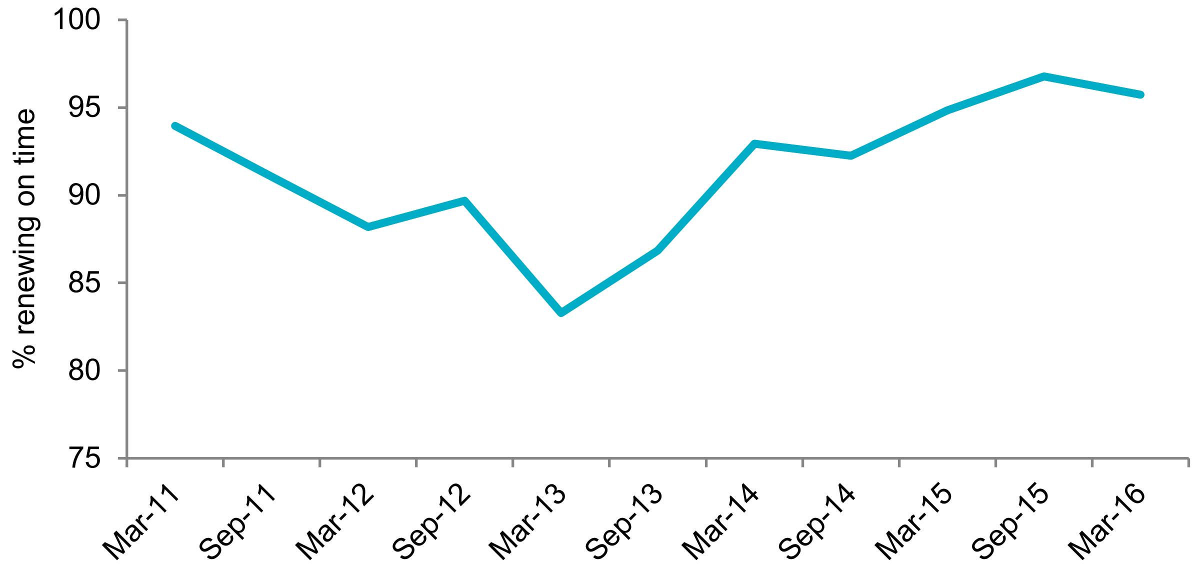
We have developed LADS as an interim IT solution, pending the completion of the new ATOL licensing system. It is a low cost in-house IT solution and automates some of our internal processing.

With LADS in place the ATOL licensing team can process licence applications more efficiently, with turnaround times of 2.31 weeks by March 2016. In addition, LADS improves the team's communications with ATOL holders, leading to an improvement in the numbers renewing their licence before it expires, so consumers remain protected.

Turnaround times of ATOL licence applications 2015/16



Percentage of ATOL licences renewed on time 2015/16



The success of LADS has also enabled us to bring forward resource reductions of four full time equivalent employees (FTE) by the end of 2015. This means we have achieved our projected IT savings at an earlier date than expected. In addition, with the introduction of LADS, the eventual transition to the full IT system will be easier to absorb.

Foreign carrier permits: process evaluation, online and verification

We took responsibility for this work in April 2014 and since then we have taken actions to reduce the regulatory burden on the industry and to use our resources more efficiently, streamlining the application process by:

- Reducing the number of supporting documents to a maximum of five, down from a previous average of 22;
- Including the requirements of ATOL, CAA aviation security, UK Border Force and the safety assessment of foreign aircraft teams in the approval process to improve industry compliance; and
- Establishing a one-stop shop for UK and Crown Dependency applications.

Electronic exams

We have introduced electronic examinations for eight UK and 13 overseas clients, including UK professional flight crews and aircraft maintenance engineers.

This has improved the quality, security and integrity of our examinations and gives our stakeholders more flexibility. It also allows us to monitor the performance of candidates better so we can identify areas of weakness in training and safety.

Complaints

We are committed to providing a high standard of service for everyone we deal with and welcome comments, including when we get things wrong. We learn from complaints to improve our services.

The numbers and types of formal complaints 2015/16

CAA complaints	2015/16
Numbers of complaints in line with our complaints policy	143
Upheld in full or in part	53%
Categories of upheld complaints	
Poor service	96%
Over regulation	3%
Incorrect advice	1%

Enforcement activites

Our Investigations and Enforcement Team (IET) piloted a fast-track approach for low-impact airspace infringements. We wanted to make better use of our experts' time in their investigations and reports to SARG and SSC decision-makers. When we reviewed the pilot after three months we found that we had achieved our aim, with no detrimental effects on the quality of IET's service. The fast-track approach is now standard practice for low-impact incidents.

IET stopped using paper files and records this year, moving to electronic format for witness statements, exhibits and other investigative records, which has improved ease of access. The team has also created a new database to provide clearer and more accessible data on cases.

Regulatory activity efficiency

Reducing regulatory burden

We are aware of the burden and cost of regulation to industry and this year we have worked to reduce this. There are many examples of this. The most significant ones are the following:

Aerodrome rescue and firefighting services

The responsibility for the aerodrome rescue and firefighting services' learning and assessment programmes transferred from us to aerodrome operators on 31 March 2016. This followed EASA rule changes and the consultation we held with the industry.

Interoperability

In December 2014 we set up the interoperability project in order to establish a process for ad hoc dry leasing[1] applications. This followed TUI wanting to introduce interoperability across its Boeing 787 fleet, which is operated by four airlines across four countries, including the UK. They have indicated that this arrangement has saved TUI Group £1 million to date.

General aviation

Since the formation of the General Aviation Unit we have delivered a significant number of projects that have reduced the regulatory burden on our stakeholders. These include:

- UK private pilot licence and national private pilot licence holders now only need to conform to the DVLA group 1 ordinary driving licence standard to meet our medical requirements; and holders will only have to make one self-declaration to us before the age of 70;
- Taking a proportionate approach to regulation when giving approval to a UK microlight manufacturer to sell finished factory-built aircraft rather than amateur-build kits, making it financially viable;
- Allowing owners of light aircraft to choose which approved fuel they use;
- Removing the long-standing requirement for periodic re-weighing of microlights;
- Relaxing the need for GA aircraft to carry certain equipment when flying under Instrument Flight Rules;

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

- Introducing new, simple requirements for the initial testing process for experimental aircraft, so reducing the red tape and financial burdens for small-scale aircraft designers; and
- Allowing joint-owners of non-EASA aircraft, who wish to pay for flying training in their aircraft, to use private flight airworthiness requirements.

Wet leasing of aircraft

We have developed new policy and processes for wet leasing[2]. This enables us to regulate and audit UK operators who wet lease, to ensure the safety of UK citizens. There have been over 150 applications to wet lease since we set up the new process in April 2015.

Doing business with us

This year we have continued to develop a lighter touch approach to our interactions with stakeholders where possible. This is particularly noticeable within general aviation where we have:

- Conducted a review of the GA elements in the UK Air Navigation Order covering pilot licensing, operations and airworthiness, with a view to deregulating or delegating where possible;
- Made repeat applications for air displays easier;
- Demonstrated a flexible approach by remotely issuing a Permit to Fly for a pilot currently attempting to be the first to fly around the world in a gyroplane;
- Issued guidance on the changes introduced by EASA to simplify aircraft maintenance; and
- Issued an exemption to the requirement for balloon pilots to hold a radio telephony operator licence.

Competition enforcement

In order to carry out our duty to regulate competition in the industry efficiently, we share resources with other authorities and regulators, such as Ofgem's Enforcement Decision Panel.

2 Wet leasing is when an airline provides the aircraft, crew, maintenance and insurance to another airline or lessee.

We have also reviewed how we prioritise our competition work so that we only conduct cases where we can see a clear benefit to consumers. We currently have one investigation in progress into anti-competitive conduct at an airport.

Price control

We have started the process of reviewing price control and associated regulatory arrangements for Heathrow Airport Limited. A new price control regime must be in place on 1 January 2019.

We are focussed on a move towards regulation that delivers the best possible service for passengers within the available infrastructure. We want to free up the industry to innovate, and not impede technological development and change.

We will be looking for the airport and its airline customers to understand thoroughly the priorities of passengers, and to develop a business plan which responds to these requirements.

Financial efficiency

We are funded directly by charges paid by those we regulate. We fully understand the challenges the industry continues to face and recognise this when setting our charges. While we face significant cost pressures, including increases in our cost base and the need to invest in modernising our systems, we are determined to deliver long-term efficiencies and value for money for those we regulate.

Over the last 10 years we have reduced our operating costs in real terms by more than 25% and resources in the regulatory sector by 29%[3] . This has allowed us either to freeze our charges or to increase them below inflationary levels. During 2015/16 we reduced our safety regulation charges by 1.3% and cut our Air Operator Certificate variable charges by 3.7%.

Employment costs represent the majority of our total costs, at 59%, so if we are to deliver efficiencies, we have to look at these costs. The average cost per FTE has fallen for the second successive year. Pension costs have also shown a downward trend, reflecting the closure of our defined benefit scheme to new members and the movement to a lower cost defined contribution scheme.

As part of our previous five-year Strategic Plan (2011/12 to 2015/16) we set ourselves ambitious financial targets. These included substantially curtailing growth in employment costs, including on-going pension costs, with a target of saving at least £16m over the five-year period. By 31 March 2016, we had exceeded the target by £3.9m.

We are also set a financial target for our regulatory sector by the Secretary of State. This target is to achieve the higher of an annual 3.5% rate of return on average current cost of capital employed or break-even after charging interest and tax. During the financial year ended 31 March 2016 we achieved a return of 1.1%.

Our Transformation Programme will improve our stakeholders' experience of interacting with us. It will also improve our safety oversight, with a single pool of industry safety intelligence available to our technical safety

3 Excluding the effect of aviation security's move from the DfT to the CAA.

experts and inspectors. This significant programme, now in its third year, represents £47 million of expenditure over 10 years; it is funded from existing reserves and the savings generated by the programme.

The programme's principal savings come from reductions in employment costs. The minimum requirement in headcount reduction is 120 FTEs within four years. By 31 March 2016 we had reduced our average headcount by 96 FTEs. These savings have come mainly from efficiency improvements in back office activities.

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

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

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

- Zero increases in fees and charges for the majority of those we regulate, except in situations where material cross-subsidies reside;
- Reducing expenditure in real terms and ensuring that operating costs do not exceed 2016/17 budgeted levels within the regulatory sector;
- Reducing our pension costs;
- Continued funding of the Transformation Programme from existing reserves and savings generated from the programme; and
- Improving the transparency of charging mechanisms to ensure that costs are fairly allocated against the activities they support.

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 2016 (the “Efficiency Statement”) and to have it independently assessed. As noted in our audit report on the financial statements, as the Authority’s auditors we read all the financial and non-financial information in the Annual Report & Accounts 2016 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 107 to 115.

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

22 June 2016

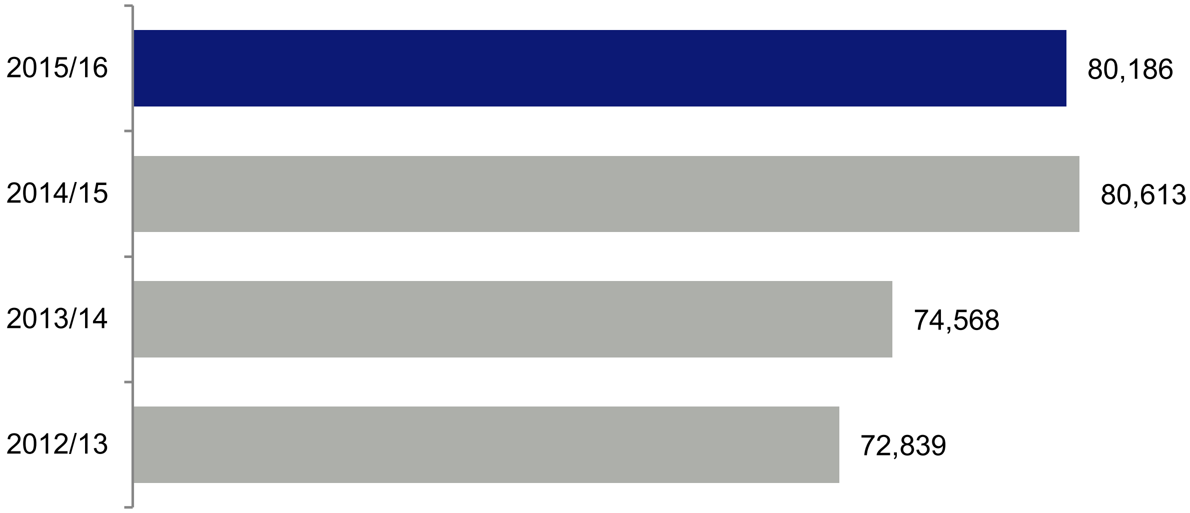
Key performance indicators

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

Financial key performance indicators

Operating costs – regulatory sector

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



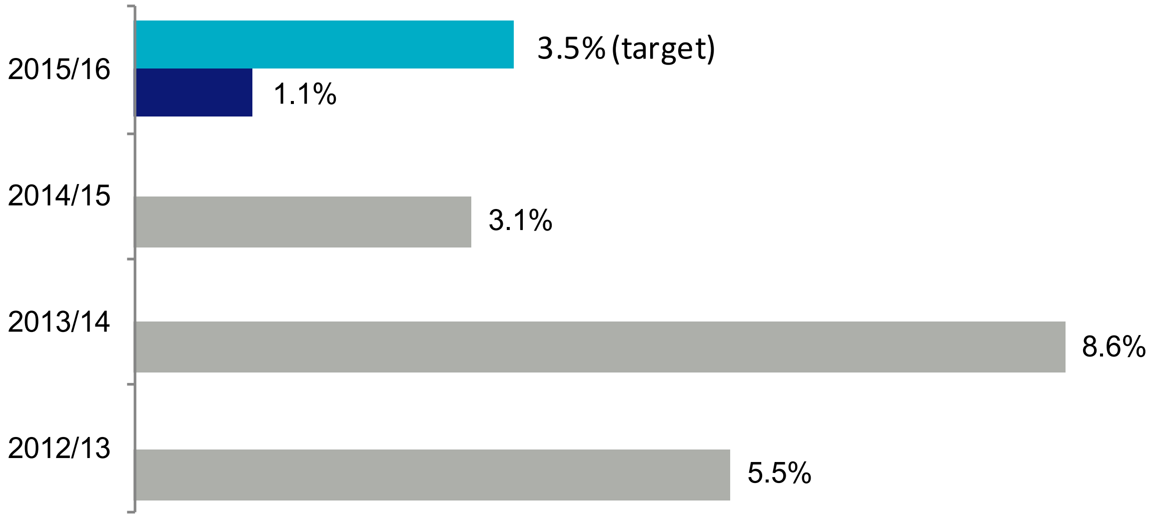
This KPI is the adjusted operating costs for the regulatory sector, which is made up of the activities of safety regulation, regulatory policy, consumer protection and aviation security. The operating costs have been adjusted to exclude the contribution received from CAA International Limited (CAAi) and research costs where direct funding is received.

Analysis

Total operating costs have remained below 2014/15. We have achieved this through a tight fiscal policy of constraining costs to 2014/15 levels, despite upward pressures on employment costs through payroll and pension cost inflation.

Target rate of return

Rate of return (%)



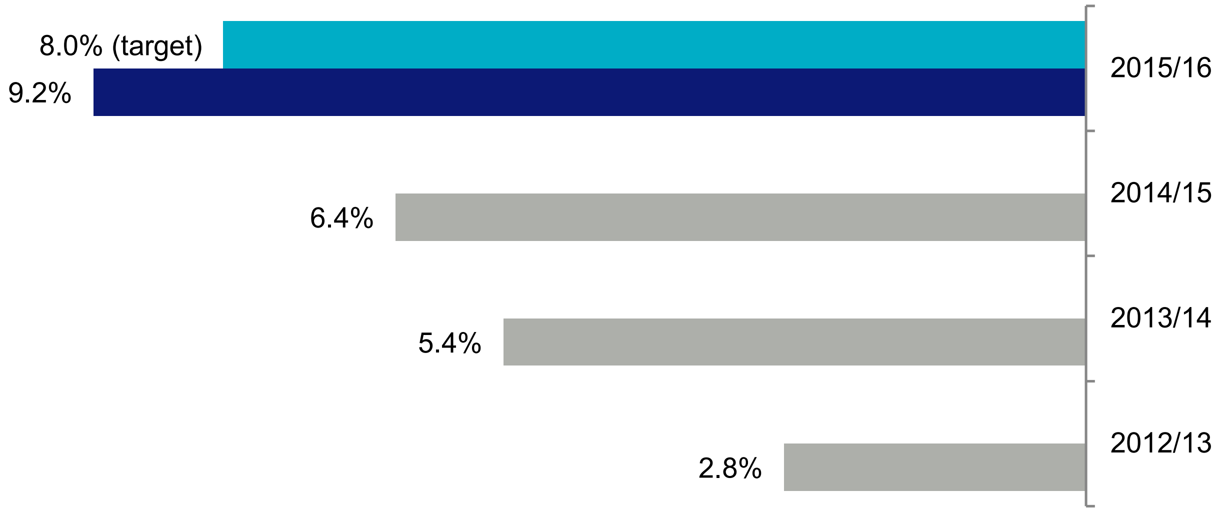
We are required by the Secretary of State for Transport to achieve for the regulatory sector the higher of a 3.5% rate of return on the current cost of capital employed or a break-even result after loan interest and corporation tax. Following a review of our target rate of return, the Secretary of State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

Analysis

The rate of return for 2015/16 was 1.1%, 2.4% below the required 3.5% return. The shortfall represents the lower than expected levels of statutory income in respect of safety regulation activities.

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

Price increase (%)



We are required to set statutory charges to recover our operating costs. The average increase in charges excludes the new charges that are subject to industry consultation within the financial year.

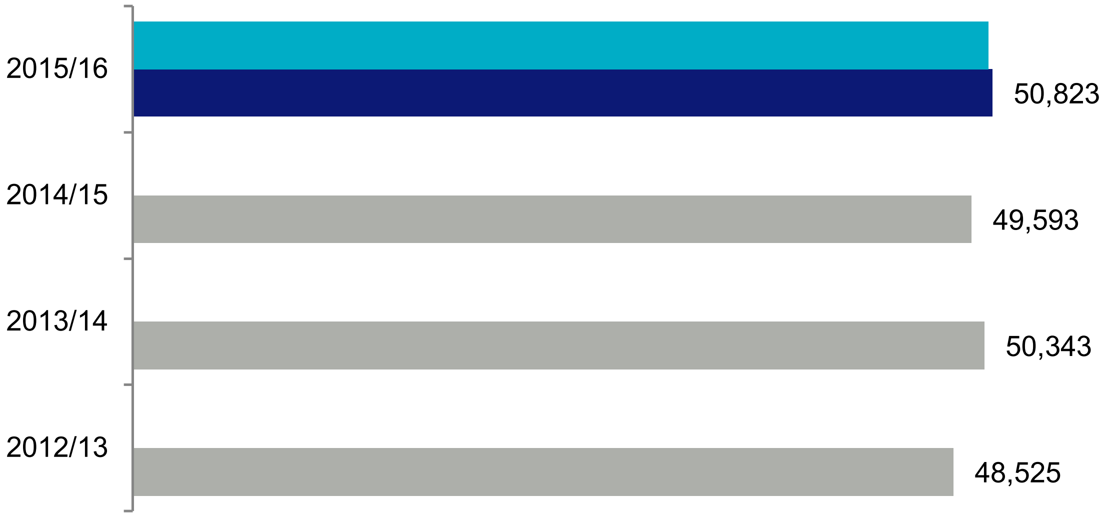
Analysis

The 2015/16 charges review saw further reductions in Air Operator Certificate variable charges of 3.7% with all other safety regulation charges reduced by 1.3%. All other charges remained unchanged for the fifth year in succession.

Cost per employee including CAA Board

Cost per employee represents an average employment cost.

Cost per employee (£)



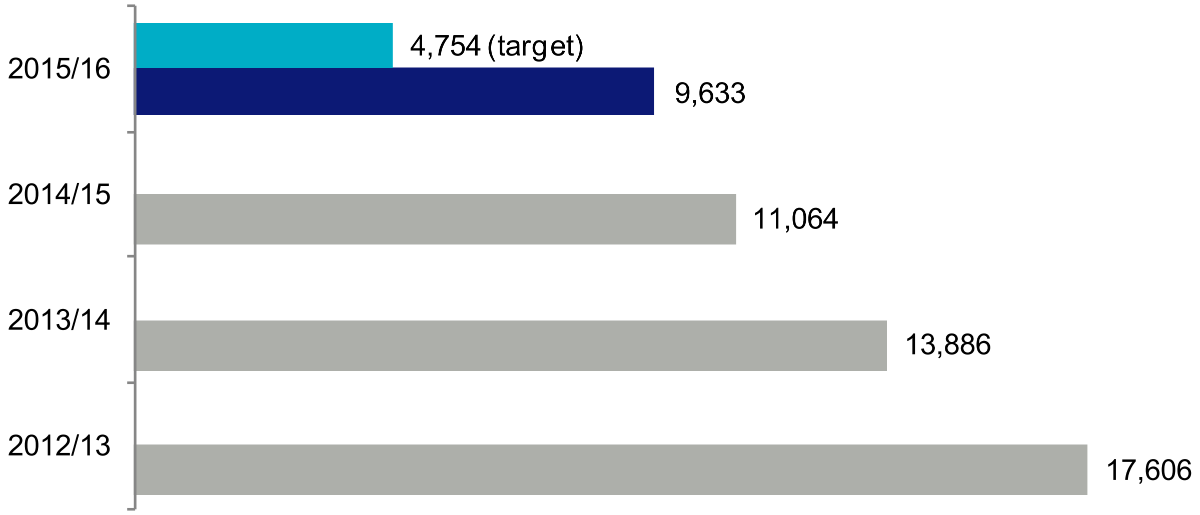
The cost per employee represents an average employment cost. All employees, including our Board members, are included within the cost per employee.

Analysis

The average cost per employee has increased by 2.5% when compared to 2014/15. During 2015/16, we reduced the number of employees to 911 FTEs (2015: 966), a reduction of 55. As the reduction in FTEs arose on 31 March 2016 it is not wholly represented in average cost per employee.

Cash balance

Cash balance (£'000s)



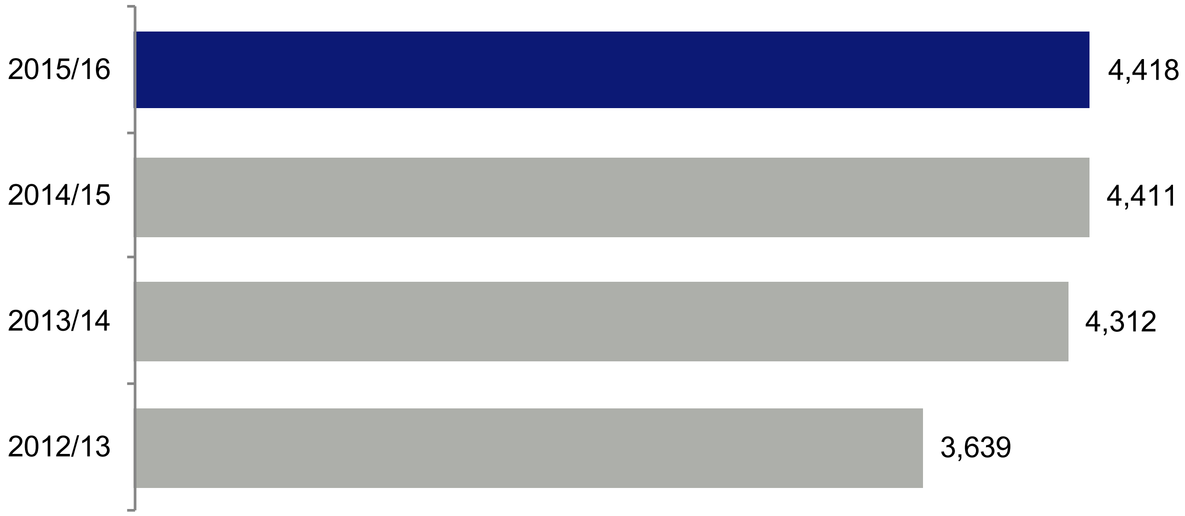
The cash balance is defined as cash in hand, deposits held at call with banks or HM Treasury and other short-term highly liquid investments with original maturities of three months or less.

Analysis

The cash balance continued to fall in 2015/16 as a consequence of expenditure on the Transformation Programme. It was, however, significantly above the target amount due to early receipt of income from an overseas contract and tight cash management during the financial year.

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

Number of licences issued per average staff FTE



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

Analysis

Taking into account the efficiencies generated by the establishment of our Shared Services Centre this year, the number of licences we issued is consistent with 2014/15.

Fatal accident rates

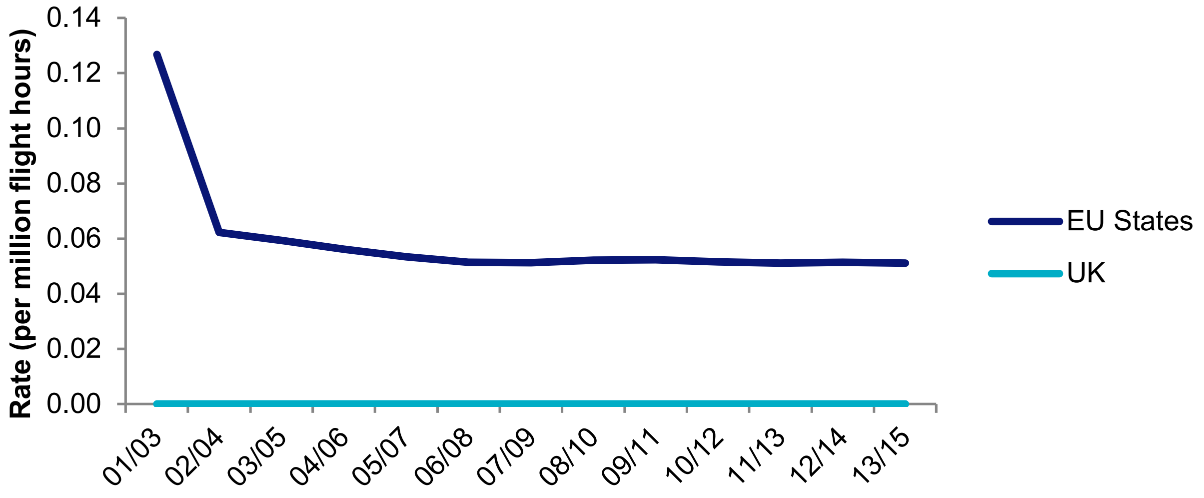
This year's figures include the accident at Shoreham Air Show in August 2015 in which 11 members of the public lost their lives. In the wake of this tragic event, we conducted an extensive review of the regulations that govern air shows, and introduced a wide variety of additional measures to ensure the safety of the public at air shows.

Safety performance indicators are shown for UK-registered or operated passenger aircraft, using a three-year moving rate (based upon calendar years) of fatal accidents per million flight hours. 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.

Overall, the fatal accident rate has remained stable in the period 2013-2015.

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

Fatal accident rate (3 year moving rate)



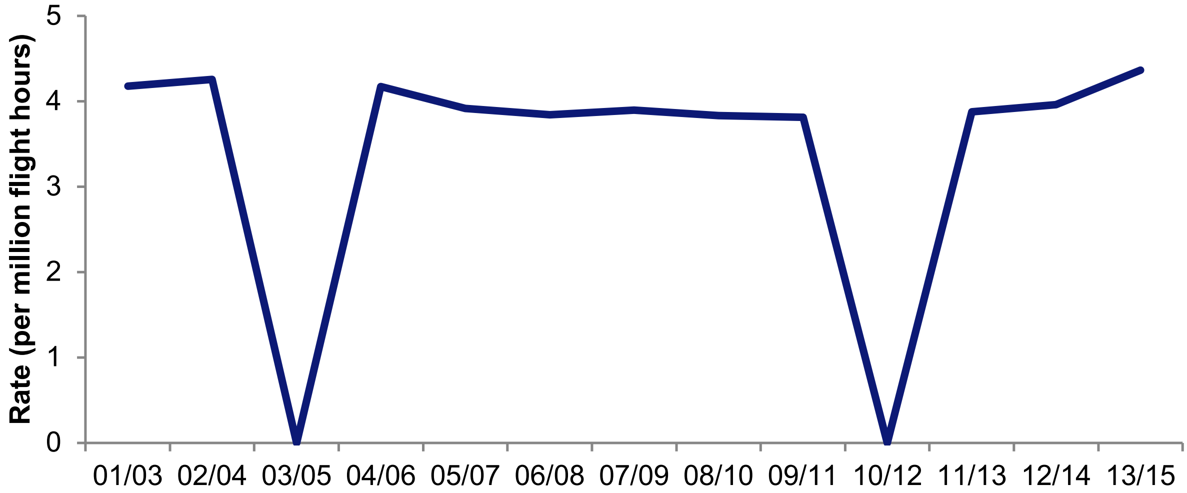
(MTWA: Maximum Take-off Weight Authorised)

Analysis

We have compared the three-year moving rate of fatal accidents for passenger aeroplanes above 5,700kg MTWA for UK operators with that of operators from the EU. In the three-year period from 2013-2015, there were no fatal accidents involving UK operators and two involving operators from EU Member States. The UK fatal accident rate in this category has remained at zero in recent years; the last fatal accident occurred in 1999 when a Boeing 757 made a heavy landing in Girona, Spain, resulting in one fatality.

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

Fatal accident rate (for UK 3 year moving rate)

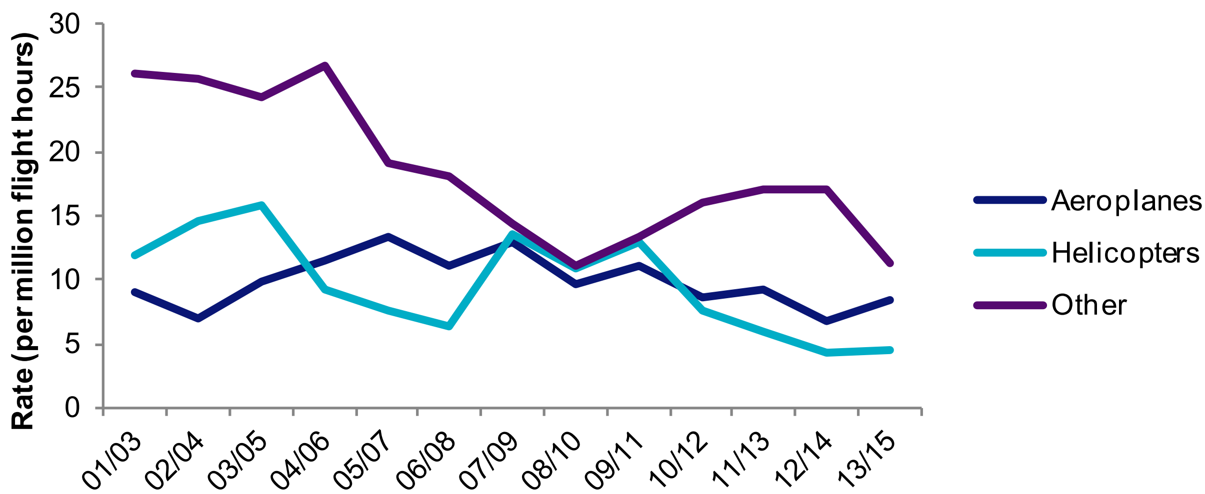


Analysis

The fatal accident rate for UK commercial air transport helicopter operations rose to 4.4 per million flight hours for the three-year period from 2013 to 2015. The last fatal accident involving this category of aircraft occurred in 2013; an AS332 Super Puma crashed into the North Sea, resulting in four fatalities.

UK general aviation

Fatal accident rate (3 year moving rate)



We have separated the three-year moving rate (based upon calendar years) of fatal accidents for UK general aviation into three classes of aircraft: fixed wing aeroplanes, helicopters and other. The other category includes airships, balloons, gliders (including self-launching motor gliders), gyroplanes and microlights.

The rates are calculated based upon the estimated annual number of hours flown and the annual number of fatal accidents involving G-registered aircraft for each of the groups mentioned above aggregated accordingly (fatal accidents per million flight hours flown). The lines represent the three-year moving rates by aircraft category.

Analysis

Aeroplanes

The period 2013-2015 totalled 17 fatal accidents, with seven fatal accidents in 2015. This includes the Hawker Hunter accident at Shoreham in August 2015, in which 11 members of the public lost their lives.

The previous three-year period, from 2012 to 2014, had seen 14 fatal accidents, with four in 2014. This explains the light fluctuation observable for the current period.

Generally, there has been a progressive declining trend, which is observable, particularly, from 2007 onwards. The fatal accident rate improved from approximately 16 fatal accidents per million flight hours in 2007 to 10 fatal accidents per million flight hours in 2015.

Helicopters

There has been a progressive decline in the fatal accident rate from 2011 onwards. In 2015, the fatal accident rate was approximately seven fatal accidents per million flight hours.

Other

A progressive decline in the fatal accident rate is observable from 2000 onwards, culminating in three fatal accidents in 2015.

Principal risks and uncertainties

The principal risks[1] informed the development of the CAA's new five year strategic plan and were reviewed and agreed by the Board as part of this process. During the year the CAA undertook a comprehensive review of its Risk Management Framework (RMF). This resulted in a new and improved RMF, which has been reviewed by the Audit Committee, endorsed by the CAA Board and is being rolled out across the CAA. Additional information on the CAA's internal control and risk management processes is set out in the Corporate Governance report.

This section describes the principal risks and uncertainties facing the CAA. It also explains how we mitigate those risks.

1. Air transport safety risks

These include:

- commercial air transport (including offshore helicopters) accident in the UK;
- commercial air transport accident involving an airline holding a UK Air Operator Certificate;
- commercial air transport accident involving UK passengers; and
- general aviation (including air displays) accident in the UK.

Mitigations

Safety standards are high across the UK aviation sector but we are committed to improve current levels of safety performance wherever possible.

We continue to work to influence safety outcomes worldwide to reduce risks of harm to UK passengers. This includes establishing international partnerships, delivering work through our International Division, supporting the European Aviation Safety Agency and proactive involvement in the International Civil Aviation Organisation.

We continue to ensure that UK civil aviation standards are set and we actively assess compliance with them in a co-operative and cost-effective manner. Our work includes establishing whether aircraft are properly designed, manufactured, operated and maintained; whether airlines are competent; whether flight crews, air traffic controllers and aircraft maintenance engineers are fit and competent; whether licensed aerodromes are safe to use; and whether air traffic services and general aviation activities meet required safety standards.

1 Principal risks are those that affect the consumer and the public that the CAA seeks to manage, oversee or influence.

We are also responsible for the planning and regulation of all UK airspace, including the navigation and communications infrastructure to support safe and efficient operations.

During the year, we have made significant progress in implementing a performance-based approach to safety regulation. The performance-based approach is designed to minimise aviation safety risk across the sector and enables the CAA to target its resources to those areas that need most attention.

We have also introduced a number of measures to strengthen public safety at air display events following the tragic accident at Shoreham in August 2015. These included promptly introducing precautionary measures in the immediate aftermath of the accident and developing a series of enhancements for this year's display season. If there are further changes that we should consider following the publication of the AAIB's[2] final report, we will do so. We will also conduct a post-implementation review of the impact of the changes we have made at the end of the 2016 display season.

2. Aviation security risks

These include principally - a successful terrorist attack at a UK airport or on any aircraft flying from one.

Mitigations

Robust aviation security governance and Department for Transport (DfT) / CAA joint working arrangements are helping to ensure that the CAA operates successfully as the Government's specialist advisor on aviation security. Maintaining a strong co-operative relationship with DfT is ensuring that there is coherence between the making of policy, its implementation through regulation and the monitoring of compliance (and where necessary enforcement action).

2 Air Accidents Investigation Branch

The CAA continues to promote and support the adoption by industry of a Security Management System (SeMS) approach to quality assurance, as a means of further enhancing aviation security performance. Good progress has been made this year, as an increasing number of regulated entities have chosen to join the SeMS initiative.

The CAA's Aviation Security team also continues to provide support and advice to DfT in the development of EU and ICAO[3] security regulation and in the delivery of programmes designed to improve aviation security in and beyond Europe.

3. Consumer choice, value & fair tratment risks

These include situations when consumers:

- are not provided with air transport services that perform as they have been led to expect;
- could be unfairly discriminated against; and/or
- have difficulties seeking redress when things go wrong.

Mitigations

The CAA has approved independent Alternative Dispute Resolution (ADR) providers to handle passenger complaints, which provide access to quick, fair and binding solutions should something go wrong. In the event of an unresolved complaint, an airline must inform the passenger whether or not ADR is available. To ensure that all passengers have access to a complaints handling service for statutory complaints, passengers of airlines that have not signed up to ADR will have access to the CAA's Passenger Advice & Complaints Team.

The CAA continues to enforce passenger rights and protect the consumer in line with its consumer champion role. During the year, this work has included launching investigations into the pricing practices of on line travel agents and initiating enforcement action against airlines to ensure that they fully comply with consumer law. The CAA also enforces competition law and, where appropriate, protects consumers through economic regulation of airports and air traffic services through a licence. The CAA provides general oversight of the performance of aviation markets and works with other government bodies to promote effective competition in the interests of consumers.

The CAA operates the Air Travel Organisers' Licensing (ATOL) scheme to provide protection to consumers in the event of a tour operator failure. During the year, we announced the implementation of new regulatory

3 International Civil Aviation Organisation

measures arising from our "Rebalancing ATOL" consultation, designed to improve the system's financial resilience.

Looking ahead, from 2018 all Member States (including the UK) will be required to comply with the requirements of the EU Package Travel Directive (PTD)[4]. The CAA has already started considering the risks associated with this, with a view to mitigating these as far as possible. The risks include travel providers failing to comply with the information disclosures required by the PTD, which are designed to help consumers to make informed purchasing decisions.

4. Environmental risks

These include:

- consumers are adversely affected by decisions involving environmental issues;
- local communities are not aware of proposed changes to the airspace change process and cannot engage meaningfully in the process; and
- the public and communities are adversely affected by climate change and noise from aviation activities.

Mitigations

During the year, the CAA has continued its programme of work to review its airspace change decision-making process. The aims of the review include improving how we take account of, and how sponsors of changes engage with, the wide range of public and aviation stakeholders affected by an airspace change proposal. There are also proposals to strengthen the evidence the CAA uses to take account of climate change and noise impacts, in line with the Government's policy and guidance to the CAA on this matter. A revised process, which includes these improvements, was consulted on in March 2016.

The CAA continues to undertake noise research and airport specific monitoring. In addition, this year the CAA set up its first consumer tracker survey, which includes specific questions to monitor consumer sentiment about the environment and the importance of environmental information.

4 The EU Package Travel Directive is designed to improve consumer protection across all implementing states and will be applicable from July 2018.

5. CAA Transformation Programme

Risks 1 – 4 above are the principal risks to the consumer and the public that the CAA seeks to manage, oversee or influence. The CAA also manages risks to the delivery of its strategies, programmes and business plan activities.

The CAA's Transformation Programme is exposed to a number of risks as it continues its work to help to ensure that the CAA is an efficient, modern and effective organisation that external stakeholders find easy to transact and engage with. Challenges and risks to the programme include ensuring that the right levels of resources and capabilities are available to help to deliver the required outputs and the right governance structures are in place to oversee and maximise the performance of all involved.

Mitigations

A review of the Programme's governance structure has been undertaken and new governance arrangements are now in place, with improved processes to ensure that there is a more consistent and coherent approach to the management of the Programme.

The Programme continues actively to identify and address capability gaps, has undertaken a review of all Programme level risks and continues to receive advice and challenge from an independent Risk Assurance Board. The performance of the Programme is regularly reviewed by the CAA Board and by the Audit Committee.

During the year, the Programme delivered an Entity Performance Tool to help to enable a performance-based approach to regulation and a new CAA website which received very positive feedback from our stakeholders.

Note: risks specifically relating to CAA's liquidity and solvency are covered in the Corporate Governance report.

Financial review

Significant financial developments

The financial year ended 31 March 2016 was set against a continuing challenging environment for the CAA from a financial perspective. While global economic climate conditions improved, the CAA did not increase regulatory charges and continued to fund its Transformation Programme from existing reserves combined with exerting significant pressure to drive down costs throughout the business.

The CAA is directed by the DfT to prepare the financial statements in accordance with the accounting and disclosure requirements of companies' legislation currently in force and international generally accepted accounting practice. The financial results of the Group are assessed, however, by reference to financial targets agreed with the Secretary of State for Transport. As from 1 April 2015, following extensive work with the aviation industry, we were also successful in gaining consent from the Secretary of State for Transport to reduce the targeted rate of return requirement from 6.0% to 3.5%. The effects of these changes, combined with an overall zero based budget approach to the CAA financial plan, had meant that for 2015/16, charges were reduced by at least 1.3% for Safety Regulation charges and held at 2011/12 levels, for the fourth year running, in the other regulatory areas.

The CAA achieved a rate of return of 1.1% for the Regulatory Sector, which was below the 3.5% target rate of return set by the Secretary of State for Transport. The reduction as compared to target reflected the lower than expected revenues for airworthiness and personnel licensing activities, partially offset by the CAA continuing to implement cost saving measures.

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

In July 2015, the Trustee of the Scheme, with the support of the CAA, agreed to purchase a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014. The value of the buy-in policy held on behalf of the members is equal to the value of the benefits covered by the policy and is included under the asset class 'insured annuity policies'. The value of these benefits as at 31 March 2016 is estimated to be £1,397,903,000.

The last formal actuarial valuation of the CAA Section of the Civil Aviation Authority Pension Scheme was carried out as at 31 December 2012. It revealed a small deficit of £8.0 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 discount rates used for the 2012 formal valuation were largely based on Government bond (gilt) yields. This reflects the actual investment strategy of the Scheme where the majority of the assets (about 82.5% as at 31 December 2012) are held in a portfolio designed to match, as closely as possible, projected payments to current pensioners and deferred members. However, IAS 19 requires that projected future benefits are discounted at the yield on AA-rated corporate bonds; at 31 December 2012 these were about 1.2% p.a. higher than gilt yields resulting in a substantial reduction in the present value of benefit obligations compared with the formal actuarial valuation.

During the financial year, we continued with our Transformation Programme. It will deliver a positive step change in the experience of our stakeholders when they interact with us and enable the target efficiencies to be achieved. The benefits of this programme have so far delivered savings of 96 full time equivalent posts. The financial savings have been used to fund later stages of the Transformation Programme's £47m anticipated spend.

Overall financial performance

In the year ended 31 March 2016, the CAA recorded an operating loss before tax of £5.4m (2015: operating loss £4.3m). These results included the effects of IAS 19. Within the operating result the Regulatory Sector, comprising the activities of Safety Regulation, Regulatory Policy, Consumer Protection and Aviation Security, as well as the result achieved by CAAi, made an operating profit before IAS19 adjustments of £1.1m (2015: £2.0m) and a loss after adjustments for IAS 19 pension costs and net interest, but before tax, of £1.1m (2015: £1.1m).

CAA financial performance results		
	2016 (£m)	2015 (£m)
Group revenue	**132.6**	134.0
Operating costs (excluding IAS 19 pension scheme adjustment)	**(135.1)**	(134.2)
Group operating loss	**(2.5)**	(0.2)
IAS 19 pension scheme adjustment	**(2.9)**	(4.1)
Group adjusted operating loss	**(5.4)**	(4.3)
Net interest	**10.8**	11.4
Profit before taxation	**5.4**	7.1
Taxation	**(1.3)**	(1.8)
Profit after taxation	**4.1**	5.3

Revenue

Group revenue for the year ended 31 March 2016 was £132.6m (2015: £134.0m), a decrease of £1.4m (1.0%). The Regulatory Sector saw a decrease of £1.2m (1.4%) to £81.6m (2015: £82.8m). The decrease in income has arisen primarily as a result of reductions in regulatory charges and lower volumes of activity within safety regulation. UK enroute air traffic services saw a further decrease of £0.8m to £13.3m (5.7%), reflecting planned reductions as specified in the Single European Sky Charging Regulation and Performance Scheme. Miscellaneous services rose by £1.0m principally reflecting increased income from subletting of London properties.

CAAi revenues reduced to £15.7m (2015: £16.2m). The reduction reflects challenging market conditions in the global consultancy market.

Operating costs

Operating costs for the year ended 31 March 2016 remained at £138.1m (2015: £138.3m). The significant areas of change are described below:

- Employment costs were £82.3m, showing an increase of £2.7m (3.4%) compared to the prior year. The increase was principally due to additional social security costs as new employees to the CAA join the defined contribution pension scheme and severance costs in relation to the transformation programme of £2.1m. Within this figure defined benefit pension costs decreased by £0.8m to £19.3m, the decrease being attributable to the treatment of defined benefit pension costs in accordance with IAS 19. The financial results of the Group are, however, assessed by reference to financial targets agreed with the Secretary of State for Transport. This target excludes the effects of IAS 19 on pension costs and reflects instead the level of employer cash contributions paid to the CAA Pension Scheme during the financial year. The cash contribution to the Scheme increased to £16.4m (2015: £16.1m), an increase of £0.3m (1.9%). The number of employees disclosed in note 3 shows a decrease of 55 full time equivalents as at 31 March 2016.
- Services and materials costs were £18.1m (2015: £16.7m), an increase of £1.4m (8.4%). The increase was principally due to increased rent and services charges on sub-let London properties.
- External research and development costs were £0.8m (2015: £0.8m). In addition to third party expenditure, the CAA incurred £1.4m (2015: £0.9m) of internal costs, bringing the total research and development expenditure to £2.2m, an increase of £0.5m (29.4%) compared to the prior year. The CAA involves the aviation industry in determining the Group's research and development programme, which concentrated on aircraft safety during the year.
- Other expenses were £29.9m, a decrease of £5.1m (14.6%). The decrease was primarily due to a reduction in professional fees (£2.5m) including HM Government funded programmes (£1.4m), international consultancy projects (£0.5m) and transformation projects requiring external resources (£0.6m). Other expenses were also significantly reduced including travel (£0.5m), publicity costs (£0.5m), training costs (£0.3m) and agency staff costs (£0.5m). Other expenses also include irrecoverable VAT of £3.4m that CAA incurs as a consequence of the Group's VAT status.

Corporation tax

The estimated tax charge for this year is £1.3m (2015: a charge of £1.8m). A net deferred tax asset of £375k (2015: £125k) is included within the balance sheet, an increase of £250k as compared to the prior year.

Capital expenditure

Capital expenditure during the year totalled £2.8m (2015: £2.9m). The expenditure primarily included expenditure related to IT development projects. The net book value of the Group's fixed assets at 31 March 2016 decreased in the year by £1.5m to £14.9m (2015: £16.4m).

Financial management

Treasury policy

The Board has established terms of reference for treasury policy, covering 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.

The CAA does not enter into speculative treasury arrangements; all transactions in financial instruments are matched to an underlying business requirement. The CAA's Internal Audit function regularly reviews treasury activities. The treasury department works in close liaison with the various business areas within the CAA to manage and minimise all material financial exposures and to anticipate the CAA's funding requirements.

The CAA's policy towards funding is to ensure that it is not constrained by lack of funds needed to meet its operational requirements and is not unreasonably or imprudently bound by restrictive covenants or liquidity risks. Working within the constraints of the public sector, the CAA seeks to ensure that all of its forecast cash needs for a period of at least 12 months ahead are capable of being met within the targets agreed with Her Majesty's Treasury.

An analysis of the CAA's debt is shown in note 15 to the accounts. The CAA makes its primary placement of surplus Sterling funds with Her Majesty's Treasury Debt Management Office. Surplus funds available for less than one month are placed on short-term or overnight deposit at banks. All deposits are made with banks with money market funding of at least a BBB+ credit rating. The institutions used are kept under constant review to secure the best returns available consistent with the minimum credit rating we require. The CAA takes steps to limit its credit exposure to individual banks and other counter-parties. Exposure limits are set following a review of credit ratings and aggregate exposures are closely monitored. The majority of the CAA's expenditure is settled in Sterling.

Financing

The CAA borrows sums from the National Loans Fund at fixed rates of interest over specific periods, repaying on an instalment basis. During the year the CAA repaid £1.2m of existing loans. The carrying value of the CAA's outstanding borrowings stood at £3.0m as at 31 March 2016 (2015: £4.2m). The CAA also has in place a £10.0m overdraft facility with its bankers, Royal Bank of Scotland, which was not utilised during the financial year.

Financial target

The CAA is set a financial target by the Secretary of State for Transport for the Regulatory Sector, comprising the activities of Safety Regulation, Regulatory Policy, Consumer Protection and Aviation Security, as well as the result achieved by CAAi. This is to achieve the higher of an annual 3.5% rate of return on average current cost of capital employed or break-even after charging interest and tax. In the year ended 31 March 2016, a rate of return of 1.1% was achieved (2015: 3.1%).

CAA equality and diversity policy

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

In terms of recruitment, career progression and development, the CAA will ensure that no requirement or condition is put in place that could disadvantage someone on the grounds of disability, sex, gender re-assignment, pregnancy or maternity, race, sexual orientation, religion or belief, marriage or civil partnership, or age. To help us to measure how we are meeting our equality and diversity commitments, and for no other purpose, we maintain records of employees and job applicants according to these characteristics. We monitor and analyse this information with a view to identifying and removing unnecessary and unjustifiable barriers and providing appropriate facilities and employment conditions to create and support a diverse workforce where everyone feels able to give of their best.

To help to embed diversity in the CAA we take steps to:

- Understand, value, welcome and actively encourage equality and diversity in our workforce;
- Ensure that all relevant policies reflect our commitment to action;
- Promote positive behaviours by treating people with respect, consideration and without prejudice; and
- Support the use of flexible working patterns wherever possible to enable employees to balance work and home responsibilities.

In light of the CAA's new Strategic Plan, we are in the process of identifying and introducing a new strategy aimed at ensuring that we continue to improve our approaches to diversity and inclusion, both as an employer and as a service provider. This will include our duty to eliminate unlawful discrimination, harassment and victimisation; advance equality of opportunity; and foster good relationships between those who share a protected characteristic (the nine listed above) and those who do not.

Business sector review

The CAA's activities are divided into seven sectors, each of which is described below:

Safety Regulation

The CAA's Safety Regulation activities ensure that UK civil aviation safety standards are set and achieved in a co-operative and cost-effective manner. It must satisfy itself that aircraft are properly manufactured, operated and maintained; that airlines are competent; that flight crews, air traffic controllers and aircraft maintenance engineers are fit and competent; that licensed aerodromes are safe to use; and that air traffic services and general aviation activities meet required safety standards.

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

The operating costs of the Safety Regulation activities for the year ended 31 March 2016 (excluding the effects of IAS 19 pension scheme adjustments) were £59.9m (2015: £59.3m), an increase of £0.6m (1.0%). Revenue for the year was £57.1m (2015: £59.9m), a decrease of £2.8m (4.7%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating loss of £2.8m (2015: profit of £0.6m). Average staff numbers for the year were 475 (2015: 489), a decrease of 14.

Regulatory Policy

The Regulatory Policy activities include the economic regulation of airports and en route air traffic services provided by National Air Traffic Services (NATS). They include advising the Government on aviation policy, including the liberalisation of airline markets, issues of economic regulation and competition in the supply of aviation services and infrastructure and economic aspects of environmental policy. They also compile statistical information on airlines, airports and passengers, which is published by the CAA. In pursuing regulatory responsibilities, the approach is, in general, to consider the extent of competition and its implications for regulation and then to involve, to the greatest extent possible, the commercial parties in the regulatory process.

Operating costs of Regulatory Policy activities for the year ended 31 March 2016 (excluding the effects of IAS 19 pension scheme adjustments) were £8.3m (2015: £8.1m), an increase of £0.2m (2.5%). Revenue for the year was £8.7m (2015: £8.0m), an increase of £0.7m (8.8%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.4m (2015: £0.1m loss). The average number of staff in the year ended 31 March 2016 was 55 (2015: 56). In addition, the CAA employed, on average, 100 survey staff at airports (2015: 100), most on a part-time basis.

Consumer Protection

Consumer Protection is responsible for the implementation of European and UK legislation on the licensing of airlines. It also administers the Air Travel Organisers' Licensing (ATOL) scheme - the licensing of air travel organisers selling flights and package holidays in the UK. Consumer Protection is responsible for managing the consequences for consumers when an ATOL holder becomes insolvent. The activities include organising repatriation flights, dealing with hotels and paying refunds where appropriate to those who have not yet travelled.

Consumer Protection achieved an operating profit (excluding the effects of IAS 19 pension scheme adjustments) of £0.6m (2015: £0.6m). Operating costs for the year ended 31 March 2016 (excluding the effects of IAS 19 pension scheme adjustments) were £6.7m (2015: £6.8m). Revenue for the year was £7.3m (2015: £7.4m), a decrease of £0.1m (1.4%). The average number of Consumer Protection staff in the year ended 31 March 2016 was 54 (2015: 57).

Aviation Security

Aviation Security is responsible for overseeing how the aviation industry meets the security requirements set out in UK and international law, while our regulatory team provides advice and assistance to the Secretary of State for Transport in respect of security policy-making and the future evolution of the regulatory framework in accordance with Better Regulation principles; and to industry on interpretation and understanding of the regulations.

Aviation Security suffered an operating loss (excluding the effects of IAS 19 pension scheme adjustments) of £0.2m (2015: £1.1m). Operating costs for the year ended 31 March 2016 (excluding the effects of IAS 19 pension scheme adjustments) were £8.7m (2015: £8.5m). Revenue for the year was £8.5m (2015: £7.4m), an increase of £1.1m (14.9%). The average number of Aviation Security staff in the year ended 31 March 2016 was 83 (2015: 77).

UK en route Air Traffic Services (UKATS)

The Single European Sky Regulation and the Eurocontrol charging convention require that the costs of providing en route air navigation services be passed on to users of that service; it also governs UK air traffic charges. The UK en route charges to aircraft using UK airspace recover the costs of four entities: NATS (En Route) plc, which incurs the vast majority of costs recovered through en route charges; the Met Office; the CAA; and the DfT.

Income is collected by Eurocontrol and disbursed to each of the four entities. The pricing mechanism is regulated by the Single European Sky Charging Regulation and Performance Scheme. The current reference period covers a five year period from 2015 to 2019. As a regulatory body, the CAA's income is not volume related but is a fixed charge, based on budgeted costs within the reference period.

Costs of UKATS for the year ended 31 March 2016 were £13.0m (2015: £12.6m), an increase of £0.4m (3.2%). The CAA's UKATS costs arise from the Safety and Airspace Regulation Group, 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 £13.3m (2015: £14.1m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.3m (2015: £1.5m).

CAA International (CAAi)

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

The company's principal business activities include independent advisory services, training and examinations for pilots and engineers. Throughout the year, CAAi has been providing regulatory advice mainly to the European Aviation Safety Agency (EASA), Civil Aviation Authorities in Southeast Asia and the Middle East and the Ministry of Defence in the UK. The company's activities covered all regulatory areas including: aviation safety oversight, security, environment, economic regulation and consumer choice and value. CAA International Limited regularly supports EASA and International Civil Aviation Organization (ICAO) at events throughout the year.

The company also provides open-access courses and tailored training programmes for Civil Aviation Authorities and industry. In 2015, we launched a new online booking system and training portal. The training portal plays host to a suite of new online learning technologies; so far two e-learning courses have been launched: Just Culture and Air Law.

The company continues to support Civil Aviation Authorities and industry with flight crew licensing examinations (Part-66 and Part-FCL) through providing an electronic examination system. To support States challenged with limited resources or expertise, the system helps enhance examination standards and streamline the licensing process. In 2016, the company opened 5 new exam centres, 4 client dedicated Flight Crew Licensing exam centres in Malaga , Dubai , San Diego and Florida, and 1 open access Aircraft Maintenance Licence (AML) exam centre in Trinidad and Tobago.

CAAi also set up and opened a new client dedicated AML exam service for Brunei DCA (part of the company's Advisory Technical Consultancy Contract).

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

The company follows the remuneration policies of its parent undertaking, the Civil Aviation Authority. The highest paid employee's remuneration (including pension contributions, other benefits and performance related payments) was £127.7k (2015: £125.6k).

The company will continue to focus on growing business through its advisory, training and exams service lines in target markets of South East Asia, the Middle East and Africa. During the financial year ending 31 March 2017 the company will focus on consolidating current business lines and growing the technology solutions (e-exams, e-licensing and e-learning), in full alignment with the CAA's strategy and also securing robust advisory services contracts with National Aviation Authorities.

The company achieved revenues of £15.7m (2015: £16.2m). The reduction reflects challenging market conditions in the global consultancy market. The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating profit of £3.2m (2015: £2.0m). The company employed an average of 52 staff (2015: 64) during the financial year with a further 29.1 full time equivalents being supplied from other areas within the CAA (2015: 26.9). A combination of staff supplied from the Authority 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 £6.8m (2015: £5.8m).

Miscellaneous Services

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

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

Turnover for the year increased to £22.0m (2015: £21.0m), an increase of £1.0m (4.8%). The net operating loss for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was £4.0m (2015: £3.7m). The operating loss was principally due to the costs incurred within the CAA Transformation Programme. In order to finance these transition activities the DfT and HM Treasury agreed that the associated costs should not be borne by UK industry but financed from existing CAA reserves. The average number of staff in the year ended 31 March 2016 was 249 (2015: 229).

Financial outlook

As most of the CAA's costs are recovered from those that it regulates via Statutory Charges Schemes, the aviation industry and consumers expect the CAA to use the statutory income it receives efficiently and effectively. Our challenge is to ensure that the CAA is highly efficient without jeopardising the role it undertakes as the UK aviation regulator. The CAA is committed to controlling costs, while investing to deliver savings and improvements in the medium to long-term. The CAA continues to set efficiency targets in its budgets and plans. As employment costs represent 59% of our total costs, this must be a primary source of efficiencies if we are to deliver an acceptable outcome. For the next financial year, 2016/17, we have, for the fifth successive year, frozen our statutory charges to the majority of the aviation industry.

During 2016/17 and beyond, our Transformation Programme will deliver a positive step change in the experience of our stakeholders when they interact with us and enable the target efficiencies to be achieved. It is planned that the benefits of this programme will shortly start to realise a reduced cost of delivering our core processes and, in addition, streamline current processes whilst delivering a more flexible resource management model.

Additionally in 2016/17 we aim to:

- Improve the management of our regulatory teams to work more efficiently; and
- Continue to invest in our people and manage our costs effectively, to support the delivery of our strategic plan.

Christopher Tingle
Chief Operating Officer
15 June 2016

Board Members

Chair

Dame Deirdre Hutton DBE

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

Executive Board Members

Andrew Haines OBE

Andrew Haines OBE was appointed as a Board Member and Chief Executive in August 2009 and for a further 5 years in August 2012. He sits as a Non-Executive on the Board of European Rail Finance (GB) Limited. He joined the CAA after a wide-ranging career in the rail industry, latterly as Managing Director of South West Trains, and then as Managing Director of the Rail Division for First Group plc. He was appointed OBE in the New Year Honours list 2016 for services to transport.

Richard Moriarty

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

Mark Swan

Appointed to the Board as Group Director Airspace Policy in March 2009, Mark previously held numerous appointments in the Royal Air Force since joining as a pilot in 1979; he was formerly Director of Operational Capability for the Ministry of Defence from 2006 to 2009. In July 2013 he was charged with merging the Airspace and Safety groups and re-structuring the combined group to focus on performance-based regulation. He is currently Director Safety and Airspace Regulation.

Christopher Tingle

Chris is currently Chief Operating Officer, a Trustee of the Air Travel Trust Fund and a Member of the Chartered Institute of Management Accountants. Chris joined the CAA in January 2016, previously having a career in a variety of financial and operational roles within the private sector, predominantly in the rail freight and consumer goods industries.

Non-Executive Board Members

David Gray

Appointed as a Non-Executive Member of the Board in November 2009 and is Chair of the Remuneration Committee. He is Chairman of the Gas & Electricity Markets Authority (Ofgem), and a Governor of the Central School of Ballet. He was a member of the Panel of Experts which advised the Department for Transport on its review of airport regulation in 2008/09 and in 2010/11 led a review of the water regulator, Ofwat, on behalf of DEFRA and the Welsh government.

David King

Appointed to the Board as a Non-Executive Member on 1 September 2013. He also serves as Chairman of the Board Safety Review Committee for Cathay Pacific Airways and is a visiting Professor at Cranfield University. Dr King 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.

Air Vice-Marshal Richard Knighton

AVM Knighton was appointed as a Non-Executive Member of the Board in January 2015. As Assistant Chief of the Air Staff, AVM Knighton is a member of the Air Force Board and is the policy and strategy lead for the Royal Air Force within the MOD. His breadth of responsibility includes the development of policy for the UK Military Low Flying System, the development of MOD policy for the continued use of Joint and Integrated UK Airspace and also the Release to Service Authority for the RAF's military registered aircraft.

Michael Medlicott

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

Dr Ashley Steel

Appointed to the Board as a Non-Executive Member on 1 September 2015. Ashley is also a Non-Executive Board member of National Express plc and Ince & Co, an international law firm. She is on the Global Advisory Board of Mercater, a transport business process outsourcing provider, owned by Warburg Pincus and of Out Leadership, a New York based business aimed at supporting CEOs of global financial services and law firms on LGBT matters. Ashley is also a member of the International Business Advisory Board of British Airways.

Graham Ward CBE

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

Corporate governance

The Board recognises the importance of good corporate governance and has ensured that appropriate corporate governance procedures are in place within the CAA and are kept under regular review. Throughout the year ended 31 March 2016, the CAA has applied the principles and has complied with the Code provisions set out in the September 2014 Financial Reporting Council's UK Corporate Governance Code as is deemed appropriate for a Public Corporation.

In November 2014, the CAA Board commissioned a formal evaluation of its effectiveness, facilitated by an external independent body. The evaluation highlighted a number of potential procedural enhancements as well as strengths in the way the Board operates, including instances where the Board demonstrated leading practices when compared with other organisations. The principal finding of the external review was that the Board was operating well, but the identification and effective reporting of risk within the CAA could be improved. Following the external review, an internal CAA Board effectiveness survey was concluded in January 2016 and discussed at the CAA Board meeting held on 16 April 2016. In addition, the CAA Audit Committee conducted its annual assessment of the governance of the CAA against the requirements of the UK Corporate Governance Code and of its own work against the Committee's terms of reference, the results of which were reported to the CAA Board. It is the intention of the CAA Board to continue to review its performance and that of its Board Members regularly. The terms of reference of all Board committees can be accessed via the CAA website (www.caa.co.uk).

Set out below is a statement on how the CAA has applied the principles of the Code and the extent to which the provisions in the Code have been complied with.

Statement

The Code establishes 18 principles of good governance, 15 of which apply to the CAA. The three that do not apply cover: re-election of directors by shareholders (B7); dialogue with shareholders (E1); and the constructive use of the Annual General Meeting (E2). The principles that apply are described below.

The Board

The Board comprises the Non-Executive Chair, four Executive Board Members and six independent Non-Executive Members of the Board, whose role is analogous with that of Non-Executive Directors in a listed company. The Secretary of State for Transport appoints Non-Executive Board Members on fixed term contracts and also sets the Chair's objectives within the CAA statutory objectives. On appointment and throughout their period of office Members of the CAA must declare all their interests and memberships, and the CAA ensures that any actual or perceived conflicts are actively and appropriately managed at all times. The Board considers all Non-Executive Members of the Board appointed by the Secretary of State to be independent.

During the reporting period there were the following changes to the composition of the Board as detailed below:

- Iain Osborne resigned on 31 July 2015;
- Ashley Steel was appointed on 1 September 2015;
- Richard Moriarty was appointed on 12 January 2016;
- Chris Jesnick resigned on 25 January 2016;
- Chris Tingle was appointed on 25 January 2016; and
- Richard Jackson resigned on 31 January 2016.

Board meetings and attendance

The Board is assisted by three committees and these are:

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

The attendance of individual Board Members at Board and Committee meetings of which they are a member is shown below. Board Members

may also attend meetings of Committees of which they are not a member, at the invitation of the Chair of the Committee.

Attendance for the 12 months to 31 March 2016	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nominations Committee Meetings
Number of meetings held	**11**	**4**	**3**	**3**
Dame Deirdre Hutton	11	*4	*3	3
A Haines	11	*3	*3	*2
D Gray	11	N/A	3	3
R Jackson	8(1)	N/A	N/A	N/A
C Jesnick	8(2)	*3	N/A	N/A
D King	9	3	N/A	2
AVM R Knighton	7	N/A	N/A	N/A
R Moriarty	3(3)	N/A	N/A	N/A
M Medlicott	11	4	3	*1
I Osborne	4(4)	N/A	N/A	N/A
A Steel	7(5)	N/A	N/A	*1
M Swan	11	N/A	N/A	N/A
C Tingle	2(6)	1	N/A	N/A
G Ward	11	4	3	*2

* Meetings attended by invited non-members
(1) of the 9 possible meetings prior to resignation
(2) of the 9 possible meetings prior to resignation
(3) of the 3 possible meetings post appointment
(4) of the 4 possible meetings prior to resignation
(5) of the 7 possible meetings post appointment
(6) of the 2 possible meetings post appointment

Reporting to the Board are Executive Board Members who have delegated responsibility for operations and management and for the development of strategy and policies, subject to approval by the Board. The Board is kept informed of developments within each business sector through regular presentations by Executive Board Members and

management. The Board has a formal schedule of matters reserved to it. In advance of meetings, appropriate and timely information is provided to the Board in a form and quality to enable it to maintain the strategic direction, approve major capital expenditure, consider significant financing matters and monitor the overall performance of the CAA and key business risks.

Board Members have access to the advice and services of the General Counsel and Secretary, who is responsible for ensuring that Board procedures are followed and that Board Members are offered appropriate training so that applicable rules and regulations are complied with.

The Non-Executive Members of the Board have responsibility to ensure that strategies proposed by the Board are fully discussed and critically examined. Their different backgrounds and experience complement those of the Executive Board Members and bring an independent judgement to Board decisions. They also comprise the Audit, Nominations and Remuneration Committees' membership. The Non-Executive Board Members are detailed within the 'Report by the Remuneration Committee'. A senior Non-Executive Member was not appointed, as it was considered it would not add value to the CAA, which is sponsored by the DfT and has no shareholders.

Accountability and audit

Financial reporting

Detailed reviews of the performance and financial position of each business sector are included in the 'Review of our business'. The Board uses this, together with the Statement by the Chair and Statement by the Chief Executive, to present a balanced and understandable assessment of the CAA's position and prospects. The Board Members' responsibilities for the financial statements are described within the 'Statement of Board Members' responsibilities'.

Risk management and internal control

The Board is responsible for the CAA's systems of risk management and internal control and for monitoring and reviewing their effectiveness.

Internal control systems are designed to manage, and cannot be expected to eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that the actions it considers necessary have been taken to remedy any failings and weaknesses, which it has determined to be significant from its review of internal controls. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. The Board also confirms that it has not been advised of material weaknesses in that part of the internal control system that relates to financial reporting. Only limited assurance, however, could be provided that the internal controls in the CAA are well designed and operating effectively. This is largely due to the lack of system-generated integrated monitoring processes and monitoring controls, requiring manual workarounds, interventions and detection controls. The delays in implementing a replacement for the CAA's current finance and HR systems continue to have a major impact on the CAA's ability to make improvements in its financial control environment. The implementation of replacements for those systems is considered a high priority for the CAA. In the interim, the Internal Audit function conducts quarterly unannounced audits of selected key financial controls.

There is a robust assessment process which is embedded and on-going for identifying, evaluating and managing the CAA's principal financial, operational and compliance risks; it has been in place for the year ended 31 March 2016 and up to the date of approval of the Annual Report and Accounts, is regularly reviewed by the Board and accords with the internal control guidance for directors of the UK Corporate Governance Code. The principal risks, and an explanation of how they are being mitigated, are described in the Strategic Report (pages 61 to 65).

The Board receives reports from Executive Directors, which consider possible control issues brought to their attention by early warning mechanisms embedded within operational units. The Audit Committee receives regular reports from Internal Audit, which include recommendations for improvement; and monitors the implementation of those recommendations.

The Board's agenda includes a regular item for the consideration of risk and control. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

The Board carried out its annual review of the effectiveness of the CAA's risk management and internal control systems in June 2015. There was substantial assurance that the risk management processes are working well, with there being continuing good progress in the maturing of risk management framework and approach. As explained above only limited assurance, could be provided that the internal controls in the CAA are well designed and operating effectively.

Viability statement

The CAA's business model and its strategy are a key part of understanding the prospects of the organisation and an overview of this can be found on pages 20 and 21. The organisation exists to protect the interests of the public in its core role as the UK aviation regulator. The nature of the activities required to be undertaken in support of this are evidently long-term and open-ended and there is no indication that any alternative aviation regulation provision options are being considered by the CAA's sponsor, the Department for Transport.

The Board has carried out an assessment of the CAA's ability to continue in operation and meet its liabilities as they fall due over the period of that assessment. The period of assessment is that covered by the Group's new Strategic Plan, which covers the five years from 2016 to 2021, this period being that to which the Board deems able to attach a reasonable degree of certainty, in respect of both its regulatory objectives and the availability of sufficient resources to achieve them. In reaching its conclusion the Board has considered the information contained within the Strategic Plan and the approved budget for the financial year ending 31 March 2017, as well as the impact of the CAA's Transformation Programme, industry activity and the overall funding model. It has also carried out a robust assessment of the principal risks that would threaten the CAA's business model, future performance and solvency.

Based on their assessment of prospects and viability, the Board Members confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period 2016 to 2021.

Going concern

The CAA Board Members also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the 'Basis of preparation' paragraphs in note 1.1 to the accounts.

Compliance statement

The CAA is directed by the Secretary of State to report on compliance with the Corporate Governance Code provisions throughout the accounting period. The Board considers that it has complied throughout the year ended 31 March 2016 and up to the date of approval of the Annual Report and Accounts with the September 2014 Financial Reporting Council's UK Corporate Governance Code, except in those areas not deemed appropriate for the CAA, which are disclosed and explained below.

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

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

The provision of non-audit services by the external auditor

It is the CAA's policy not to preclude its external audit firm from providing non-audit services as long as the independence and objectivity of the audit are not impaired. The external auditor shall not provide a service which results in the external auditor auditing its own firm's work; the external audit firm making management decisions for the CAA; a common interest being created; or the external audit firm being put in the role of advocate for the CAA. In addition, it would not be in the interests of the CAA to engage its external auditor to carry out other services where there is a conflict of interest due to a relationship with another client of the external auditor.

Non-audit services which are permitted by the Ethical Standards for Auditors issued by the Financial Reporting Council may be provided by the external auditors without reference to the Audit Committee, subject to fees, excluding VAT, being less than £20,000 for each assignment and the cumulative annual total to which the assignment under consideration would bring such fees being less than 50% of that year's audit fee. Where the fees, excluding VAT, for the engagement of services for a single assignment are over £20,000 or would take the cumulative total of non-audit fees paid to the external auditors to over 50% of that year's audit fees, the engagement must be pre-approved by the Audit Committee.

Report by the Audit Committee

The Committee was chaired throughout the year by Graham Ward. David King and Michael Medlicott were also members of the Committee throughout the year. All Committee Members are independent Non-Executive Members of the CAA Board.

The Committee's terms of reference include the review of the annual financial statements, internal financial control and risk management systems, statutory and other external compliance requirements; and the planning, scope and results of both the internal and external audit programmes. The Committee members have considerable financial and business experience and the Board considers that the Committee's membership as a whole has sufficient recent and relevant financial experience to discharge its function and competence in the aviation and regulation sectors; and that I, a Chartered Accountant, have competence in accounting and auditing.

The Committee reviewed the significant areas of judgement in line with the Group's critical accounting policies as set out within the financial statements with particular focus on the following:

1. Pensions estimate: A significant estimate in the financial statements is in the valuation of net pension surplus for employees in the CAA Pension Fund. The net pension surplus at 31 March 2016 was £94.2 million (2015: £322.6 million), an overall decrease in the surplus by 70.8% 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.

2. Accounting principles and policies: significant accounting principles and policies are disclosed in the notes to the financial statements. The Committee considered and approved the selection of significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts, in particular those relating to the capitalisation and impairment of assets in respect of the Transformation Programme and was satisfied that no changes were required.

The Committee considered whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Secretary of State for Transport to assess the Group's performance, business model and strategy; it reported to the Board that, in the Committee's opinion, this is the case.

The Committee meets regularly with both the internal and external auditors to review internal control and audit procedures and to receive reports from management on internal financial controls. The internal and external auditors, together with the Chair, Chief Executive and other senior management, attend meetings as required at my invitation, as Chair of the Committee.

The Committee, assisted by CAA Internal Audit, conducted a review of its performance and reported this to the Board. Having examined this work, the Board concluded that the Committee is carrying out its duties in accordance with its terms of reference, the principles and provisions of the UK Corporate Governance Code, CAA requirements and common practice.

The Committee assesses the effectiveness of the external audit process annually by reviewing: partner rotation, audit and non-audit fee levels and trends, audit plans, reports, other communications and independence. Our review during the year, which was carried out having regard to the publication "Audit Quality: Practice aid for audit committees", issued by the Financial Reporting Council, confirmed our satisfaction with all aspects except for timeliness and quality of communication. Our concerns were discussed with the external auditors, who have taken appropriate remedial action. The external auditors are appointed on a three year basis, at the end of which a full tender process is undertaken. This last occurred in 2014 and will be undertaken again in 2017.

CAA Internal Audit has a formal Charter, which was approved by the Audit Committee and by the CAA Executive Committee and finalised during April 2016. Internal Audit, in accordance with this Charter, conducts two main categories of activity within the CAA, being 'risk based' assurance audits and consultancy audits. The risk-based assurance audits are proposed by the CAA Head of Internal Audit (HIA) and authorised on an annual basis by the CAA Audit Committee.

All audits are independently carried out, in accordance with the Standards for Professional Practice of Internal Auditing, by the Internal Audit function, as required by the UK Corporate Governance Code. The resulting individual assurance ratings feed into the annual HIA Opinion to the CAA Audit Committee regarding CAA's governance, risk and control arrangements.

Consultancy audits are typically carried out by Internal Audit for local management regarding specific areas of concern relating to procedures and processes. Often, examples of wider or industry 'good practice' are considered in advising the audit sponsor. These audits may be requested on an ad-hoc basis by management.

The Internal Audit department consists of three permanent staff members: 'co-sourced' resources provided as required by a third party provider; plus short and long-term secondments from in-house CAA staff.

Graham Ward CBE
Chair, Audit Committee
15 June 2016

Report by the Nominations Committee

The provisions governing the appointment of Members of the CAA are set out in the Civil Aviation Act 1982, as amended by the Civil Aviation Act 2012. In summary:

a) the Secretary of State appoints the Chair and Non-Executive Members;

b) the Non-Executive Members appoint the Chief Executive, subject to approval by the Secretary of State; and

c) the Chief Executive appoints other Executive Board Members, subject to the approval of the Chair and at least one other Non-Executive Member.

The terms of reference of the Nominations Committee were approved by the CAA Board in February 2013. Under those terms of reference, the Nominations Committee considers and, where appropriate, makes recommendations to the relevant appointing body in respect of the appointment of Executive and Non-Executive Members of the CAA. Among its duties, the Nominations Committee is required to regularly review the CAA Board's composition and size and make recommendations to change the Board as necessary having regard to achieving an overall balance of skills, knowledge, experience and diversity on the Board, ensuring that any nominations or appointments are made against objective criteria contained in role descriptions and are made in accordance with the agreed appointment process. The Committee also ensures that new Non-Executive Members receive an appropriate induction.

The Committee met three times during the financial year and was chaired by Dame Deirdre Hutton. The other members of the Committee were David Gray and David King. The Chief Executive attended meetings at the invitation of the Chair when the post of CAA Chair or Chief Executive was not under consideration. Other Committee Members absented themselves from Committee meetings when their own appointment was under consideration.

The Nominations Committee proposed and the CAA Board agreed that the Non-Executive role, which had been held in abeyance during the financial year 2014/15 after Catherine Bell's departure in March 2014, would be filled in the interests of the CAA Board's composition and overall balance of skills, knowledge, experience and diversity. This was agreed by the Secretary of State and Dr Ashley Steel was appointed on 1 September 2015. David Gray and Michael Medlicott were appointed by the Secretary of State for further terms until November 2019 and January 2020 respectively. Also during 2015/16, but to take effect in 2016/17, Graham Ward and David King were both appointed by the Secretary of State for further terms until 31 August 2019. There were no other changes among the Non-Executive Members during 2015/16.

There were a number of changes to the group of Executive Members during 2015/16. Following a review of the corporate structure of the CAA the Nominations Committee agreed a proposition from the Chief Executive, which was subsequently approved by the Board, to merge the Consumer Protection and Markets and Consumers Groups into the Consumers and Markets Group upon the expiry of the term of one Executive Member, Richard Jackson, and the resignation of another, Iain Osborne; both during 2015/16. The merged Executive Member role was filled in January 2016 by Richard Moriarty as Director, Consumer and Markets Group and Deputy Chief Executive. The review of the corporate structure also resulted in the creation of the Executive Member role of Chief Operating Officer. This role was filled in January 2016 by Chris Tingle. In completing the governance changes occasioned by the Civil Aviation Act 2012 Mark Swan's contract as Group Director of Safety and Airspace Regulation was converted to open-ended rather than fixed term. Richard Moriarty and Chris Tingle were similarly appointed on an open-ended rather than fixed term basis.

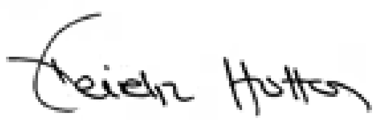
The Nominations Committee continues to seek opportunities to improve the representation of women and ethnic minorities on the Board. Opportunities to further address the diversity profile in the short to medium term are limited by the cyclical nature of CAA Non-Executive appointments. The Nominations Committee will keep a watchful eye on the issue of Board diversity in considering future appointments and take opportunities to improve the representation on the CAA Board of minority groups.

CAA Members' contracts

All current CAA Non Executive Members have fixed term contracts of between three and five years' duration. Non-Executive Members are appointed by the Secretary of State for Transport according to the Code of Practice set out by the Commissioner for Public Appointments. The maximum term of office for any Non-Executive Member is 10 years. Following enactment of the Civil Aviation Act 2012, the terms of office of Executive Member appointments are now a matter for the CAA. The terms of office of individual Executive Members are therefore reviewed in the normal course of events when the expiry dates are approaching. Richard Jackson's term expired on 31 January 2016. With the exception of Andrew Haines, who is on a fixed term contract, all remaining Executive Members are on open-ended (permanent) employment contracts. The periods of notice required for contract termination of any Member are set at one year or less.

CAA Member	Date of first appointment	Date of expiry
Dame Deirdre Hutton	14 April 2009	31 July 2019
A Haines	6 August 2009	5 August 2017
D Gray	16 November 2009	15 November 2019
D King	1 September 2013	31 August 2019
AVM R Knighton	19 January 2015	Ex officio appointment
M Medlicott	1 February 2010	31 January 2020
R Moriarty	12 January 2016	N/A
Dr A Steel	1 September 2015	31 August 2018
M Swan	1 March 2009	N/A
C Tingle	25 January 2016	N/A
G Ward	1 September 2013	31 August 2019

In the event of termination of a Member's contract, the Member would not be entitled to any compensation, with the exception of A Haines, R Moriarty, M Swan and C Tingle, who would receive compensation on broadly similar terms as those applicable to a CAA employee.

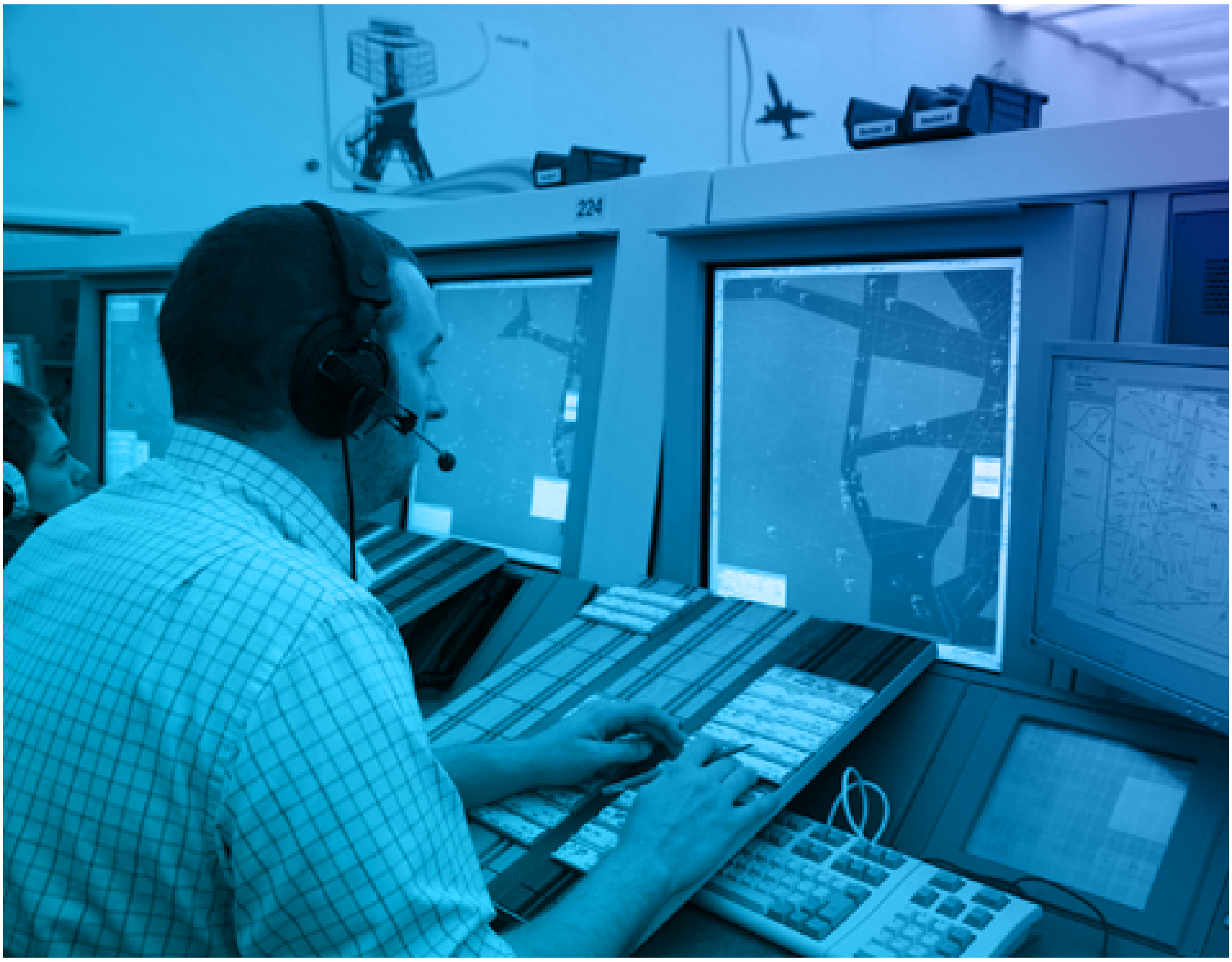


Dame Deirdre Hutton DBE
Chair, Nominations Committee
15 June 2016

Report by the Remuneration Committee

The Remuneration Committee consists of independent Non-Executive Board Members. The Committee is responsible for ensuring that effective performance management arrangements are applied in respect of the CAA Chair and Executive Board Members and for approving any salary changes and performance related payments made to Executive Board Members. Responsibility for the appointment and remuneration of Non-Executive Board Members, including the CAA Chair, is a matter for the Secretary of State for Transport.

Throughout the year the Committee was chaired by David Gray. The other members of the Committee were Michael Medlicott and Graham Ward. The CAA Chair and Chief Executive both attend meetings at the invitation of the Committee when matters pertaining to them are not under discussion.



The Committee has followed the provisions of the UK Corporate Governance Code as disclosed in the CAA's Corporate Governance Statement and has complied with the Directors' Remuneration Regulations 2002, in so far as applicable to a Public Corporation. It has also applied the principles of good governance relating to Executive Board Members' remuneration.

Remuneration policy

In considering appropriate levels of remuneration, it is the Remuneration Committee's policy that reward should be appropriate to recruit, retain and motivate Executive Members to deliver the CAA's objectives effectively, and that value for money will be maximised by varying pay by reference to the markets from which each member is recruited and the performance of each Member in delivering CAA's strategic objectives. Each year, the Remuneration Committee reviews base pay and performance related pay for the Executive Members.

The current elements of the remuneration packages are summarised below.

Salaries and fees

Salaries and fees are considered within the framework of what the market determines is required to recruit, retain and motivate Board Members of the appropriate calibre. When considering salaries, the total package of benefits is weighed against that normally available in the market place. Other than for the CAA Chair, fees payable to Non-Executive Board Members may vary from year to year by reason of payment of per diem fees for serving on panels that determine licensing decisions.

Performance related pay

The Remuneration Committee's long established policy framework has been to consider performance related payments for individual Executive Board Members. The maximum performance related payment available is normally 25% of basic annual salary for the Chief Executive and 20% of basic annual salary for the other Executive Board Members. However, in the light of the need for ongoing financial restraint, for 2015/16 the maximum performance related payments were reduced to 20% for the CEO and 15% and for the other Executive Board Members. The Chair is not eligible for performance related pay. Performance related payments are not pensionable.

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

Benefits

Benefits paid to the Executive Board Members predominantly relate to benefit cars, accommodation and health cover.

Board Members' emoluments

Emoluments (excluding pension arrangements) of the Chair and Board Members for the financial year ended 31 March 2016 were as follows:

	Salary & fees	Benefits	Compensation payments	2015/16 Performance related payments	2015/16 total	2014/15 total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Dame Deirdre Hutton	130.0	0.0	0.0	0.0	**130.0**	130.0
A Haines	294.7	0.0	0.0	56.0	**350.7**	367.9
R Moriarty	43.7	0.2	0.0	0.0	**43.9**	0.0
M Swan[1]	200.6	45.2	0.0	28.0	**273.8**	297.0
C Tingle	34.5	0.2	0.0	0.0	**34.7**	0.0
D Gray[2]	25.0	0.0	0.0	0.0	**25.0**	25.0
D King	25.2	0.0	0.0	0.0	**25.2**	24.8
AVM R Knighton[3]	0.0	0.0	0.0	0.0	**0.0**	0.0
M Medlicott[4]	26.9	0.0	0.0	0.0	**26.9**	25.0
Dr A Steel	12.8	0.0	0.0	0.0	**12.8**	0.0
G Ward[5]	26.1	0.0	0.0	0.0	**26.1**	26.2
R Jackson[6]	134.4	0.7	145.0	13.2	**293.3**	194.5
C Jesnick[6, 7]	162.5	2.1	236.7	15.0	**416.3**	195.9
I Osborne[8]	60.8	0.4	0.0	0.0	**61.2**	201.1
Board Members' emoluments as per the Annual Accounts	**1,177.2**	**48.8**	**381.7**	**112.2**	**1,719.9**	**1,487.4**

1. M Swan became Group Director Safety and Airspace Regulation in July 2013 following the merger of the Safety Regulation and Airspace Policy Groups. This

wider role requires presence at both London and Gatwick offices resulting in additional accommodation and travel costs. Mr Swan receives additional payments to cover these costs and these payments are included within the benefits column of the table. Salary and fees include an element of grossing up to cover the tax liabilities on the additional payments.

2. D Gray's salary includes remuneration for his role as Chair of the Remuneration Committee.
3. AVM R Knighton is a MoD nominee holding an ex officio post with no remuneration.
4. M Medlicott's salary includes remuneration for his role as Chair of the Air Travel Trust.
5. G Ward's salary includes remuneration for his role as Chair of the Audit Committee.
6. R Jackson and C Jesnick received compensation payments on their departures from the CAA. This was in keeping with their contracts of employment.
7. C Jesnick was not a Member of the Authority but was a Board Member of the CAA. Her salary included remuneration for her role as Chair and Director of CAA International Limited, a subsidiary of the CAA.
8. I Osborne resigned with effect from 31 July 2015.

In the event of termination of a Member's contract, the Member would not be entitled to any compensation, with the exception of A Haines, R Moriarty, M Swan and C Tingle, who would receive compensation on broadly similar terms to those applicable to a CAA employee.

Pension arrangements

Executive Board Members who were formerly employees of the CAA immediately prior to their appointment to the Board may continue to be members of the Civil Aviation Authority Pension Scheme (CAAPS), which is a defined benefit scheme governed by an independent trust. A description of the scheme can be found in note 18 to the consolidated financial statements. These Executive Board Members accrue pension entitlement in the year at an annual rate of 1/59 of final pensionable salary (subject to a cap on pensionable pay increases), up to a limit of 2/3 final pensionable salary, in exactly the same manner as other CAA employees who are members of CAAPS. CAAPS has been closed to new members since December 2012. From April 2013 a cap on pensionable pay increases was introduced. In exactly the same manner as other CAA employees who are impacted by the pensionable pay cap in CAAPS, Executive Board Members may also join the CAA's Defined Contribution Pension Scheme. Mark Swan has opted to do this.

CAAPS pension payments increase in line with the Retail Price Index for service accrued up to 30 June 2015 and in line with the Consumer Price Index for service accrued after that date Death in Service cover of four times salary and spouse's pension at the rate of 2/3 of the member's pension are provided at death. As at 31 March 2016, Andrew Haines and Mark Swan were members of CAAPS.

Chris Tingle and Richard Moriarty were members of the CAA's Defined Contribution (DC) Scheme. Like other CAA employees who are members of the CAA's DC Scheme, these Executive Board Members can elect to pay 3%, 5%, or 6% of their pensionable pay into this Scheme and receive a contribution of 6%, 10% or 12% respectively from the CAA.

Board Members’ pension arrangements - CAAPS

	Accrued pension as at 31/03/16	Increase in accrued pension during the year	CAA contribution during the year	Board Member’s contribution during the year*
	£’000	£’000	£’000	£’000
A Haines	31.5	4.7	72.6	0.0
M Swan	20.8	2.9	44.0	0.0

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

Board Members’ pension arrangements - DC Scheme

	CAA contribution during the year	Board Member’s contribution during the year*
	£’000	£’000
R Moriarty	6.5	0.0
M Swan	4.0	0.0
C Tingle	5.5	0.0

* The CAA Section of the CAAPS and the CAA DC Scheme operate a salary sacrifice arrangement for all of the above. Board Members were members of this arrangement and so have not directly paid contributions to the Scheme since the commencement of the salary sacrifice arrangement, or since joining the CAA if later. The amount of salary sacrificed is equivalent to the employee pension contribution paid and was equal to £10,758 in relation to Andrew Haines, £2,500 in respect of Richard Moriarty, £7,840 in relation to Mark Swan, and £1,850 in respect of Chris Tingle.

David Gray
Chair, Remuneration Committee
15 June 2016

Statement of Board Members' responsibilities

The Board Members are responsible for preparing the financial statements in accordance with applicable law and regulations and keeping proper accounting records. Detailed below are statements made by the Board Members in relation to their responsibilities, disclosure of information to the Group's auditors, going concern and management's report on internal control over financial reporting.

Financial statements and accounting records

The Accounts Direction from the Secretary of State for Transport, requires the Board Members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the CAA and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing these financial statements the Board Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; state whether the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU and Article 4 of the EU IAS Regulations. The Board Members also ensure that the consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ('IASB');
- state for the Group's financial statements whether applicable UK accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that 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 transactions and which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Civil Aviation Act 1982 and the Accounts Directions made thereunder by the Secretary of State for Transport. They are also responsible for the Group's system of internal financial controls, including the propriety and regularity of the public finances, and for safeguarding the assets of the Group, 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 (Authority) website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Board Members' responsibility statement

The Board confirms to the best of its knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Authority's financial statements, prepared in accordance with United Kingdom generally accepted accounting practice, give a true and fair view of the assets, liabilities, financial position and profit of the Authority; and
- the 'Strategic report' includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

The Board Members are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for the Secretary of State for Transport to assess the Group's performance, business model and strategy.

Neither the CAA nor the Board Members accept any liability to any person in relation to the annual report except to the extent that such liability could arise under English law.

Disclosure of information to the auditor

Having made the requisite enquiries, so far as the Board Members are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the CAA's auditor is unaware and the Board Members have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Going concern

The Group's activities, performance, position and principal risks and uncertainties and how these are managed or mitigated are set out in the 'Strategic report' on pages 19 to 79.

In addition, the financial position of the Group is included within the 'Financial review' and the notes to the consolidated financial statements, which include disclosure in relation to the Group's objectives, policies and processes for managing its cash resources, details of its financial instruments and hedging activities and liquidity risk.

The Group has considerable financial resources and the Board Members believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Board Members have a reasonable expectation that the Authority and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board Members continue to adopt the going concern basis in preparing the Annual Report and Accounts.

By order of the Board

Kate Staples
General Counsel & Secretary
15 June 2016

Independent auditors' report to the Secretary of State for Transport

Report on the financial statements

Our opinion

In our opinion:

- Civil Aviation Authority's Group ("the Group") financial statements and Authority financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Authority's affairs as at 31 March 2016 and of the Group's profit and the Group's and the Authority's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Authority financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Civil Aviation Act 1982 and the Report and Accounts Direction made thereunder by the Secretary of State for Transport.

What we have audited

The Civil Aviation Authority's financial statements, included within the Annual Report and Accounts ("the Annual Report") comprise:

- the Group's Income Statement for the year ended 31 March 2016;
- the Group's and the Authority's Statements of Comprehensive Income for the year ended 31 March 2016;
- the Group's and the Authority's Balance Sheets as at 31 March 2016;
- the Group's and the Authority's Statements of Changes in Equity for the year ended 31 March 2016;
- the Group's and the Authority's Statements of Cash Flow for the year ended 31 March 2016; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview

- Overall Group materiality: £2.2 million which represents 2% of total revenues.
- The Group comprises the Civil Aviation Authority and two subsidiary companies. We performed an audit of the complete financial information of all three entities.
- Capitalisation and valuation of intangible assets capitalised as a result of the Transformation Programme.
- Valuation of defined benefit pension scheme assets and liabilities.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Capitalisation and valuation of intangible assets capitalised as a result of the Transformation Programme *See note 10 'Intangible assets' in the Group's notes to the consolidated financial statements.* The Group is investing in its systems and operations as a result of an ongoing Transformation Programme. During the year £2m has been capitalised as intangible assets (predominantly internally developed software costs) and in total £4m is recorded in the balance sheet in relation to the Transformation Programme. We considered the risks to be in relation to management's judgement as to whether the costs should be capitalised and the valuation of amounts already capitalised. The valuation of items already capitalised is supported by an annual impairment review performed on a value in use basis. No impairment charge has been recorded against these balances in the current financial year. The value in use assessment to support the continued carrying value for the capitalised Transformation Programme involves the application of subjective judgement about future performance. Certain assumptions made by management in the impairment review are considered by the engagement team to be key areas of judgement, notably the FTE saving and the discount rates applied.	We evaluated the appropriateness of the capitalisation policy for the intangible assets in relation to the Transformation Programme to check it is in accordance with IAS 38 'Intangible assets'. We tested a sample of costs which were capitalised. We found that these costs were appropriately capitalised in line with the standard. We reviewed the impairment assessment performed by management for the intangible assets in relation to the Transformation Programme. We evaluated the Group's future cash flow forecasts and the process by which they were drawn up, and tested the underlying value in use calculations. We evaluated: ▪ The Board Members' key assumptions for the forecasted benefits (the FTE savings) resulting from a sample of projects in the Transformation Programme; and ▪ The discount rate by assessing the cost of capital of the Authority, with reference to the target rate of return set by the Secretary of State for Transport and historic trend, and assessed the assumptions used for this assessment. We determined that a movement arising to the extent in these key assumptions to result in a material impairment was unlikely.

Area of focus	How our audit addressed the area of focus
Recognition of defined benefit pension scheme assets and liabilities *See note 18 'Retirement benefit obligations' in the Group's notes to the consolidated financial statements.* The Civil Aviation Authority Pension Scheme, a defined benefit pension scheme, has a net surplus of £94m at 31 March 2016 (2015: £323m). The defined benefit obligations at 31 March 2016 were £2,083m (2015: £2,157m). This is against total scheme assets valued at £2,177m (2015: £2,480m). This represents a significant balance in the Authority's financial statements. The assumptions used in the valuation of the defined benefit obligation represent significant management estimates. The key assumptions applied are disclosed in note 18 of the Group's financial statements under 'The principal actuarial assumptions used for the purpose of IAS 19'. In July 2015 a management buy-in of the CAA Pension Scheme was completed with Rothesay Life to insure the benefits of approximately two-thirds of its members. We identified that this transaction may impact the valuation of the net retirement benefit asset at 31 March 2016.	We used our pensions specialists to satisfy ourselves that the assumptions used in calculating the pension scheme liabilities were appropriate, including confirming that salary increases and mortality rate assumptions were consistent with relevant national and industry benchmarks. We considered whether the discount and inflation rates used in the valuation of the pension liabilities were consistent with our internally developed benchmarks. In each case we determined the assumptions made by management to be reasonable in light of the available evidence. We agreed membership data used by the actuary to calculate the pension liabilities back to payroll records without exception. Consistent with the year end assumptions we used our pensions specialists to satisfy ourselves that the approach and assumptions used in the valuation of the July 2015 management buy-in of the CAA Pension Scheme were appropriate.

How we tailored the audit scope

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

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

Materiality

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

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

Overall Group materiality	**£2.2 million (2015: £2.3 million)**
How we determined it	2% of total revenues
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted measure when auditing a Public Corporation such as the Group. We note that revenue is a key measure used both internally by management and, we believe, externally by entities regulated by the Authority in evaluating the performance of the Group, particularly given that all surpluses are re-invested.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £110,000 (2015: £115,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

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

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

Other required reporting

ISAs (UK & Ireland) reporting

As a result of the Board Members' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

▪ information in the Annual Report is: ▪ materially inconsistent with the information in the audited financial statements; or ▪ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Authority acquired in the course of performing our audit; or ▪ otherwise misleading.	We have no exceptions to report.
▪ the statement given by the Board Members on pages 104 to 106, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and the Authority's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Authority acquired in the course of performing our audit.	We have no exceptions to report.
▪ the section of the Annual Report on pages 92 to 94, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Board Members' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Board Members' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

▪ the Board Members' confirmation on pages 88 to 90 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
▪ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
▪ the Board Members' explanation on page 90 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate governance statement

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Board Members

As explained more fully in the Statement of Board Members' responsibilities set out on pages 104 to 106, the Board Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the Group's and the Authority's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the Board Members; and
- the overall presentation of the financial statements.

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 June 2016

Financial statements

Income statement

Year ended 31 March 2016

	Note	**Group 2016 £'000**	Group 2015 £'000
Revenue	2	**132,619**	134,057
Operating costs			
Employment costs	3	**(82,303)**	(79,584)
Services and materials		**(18,115)**	(16,660)
Repairs and maintenance		**(2,872)**	(3,103)
Research	6	**(860)**	(834)
Depreciation, amortisation and disposals	6	**(4,041)**	(2,957)
Other gains / (losses) - net	6	**62**	(167)
Other expenses		**(29,922)**	(35,013)
Operating costs		**(138,051)**	(138,318)
Operating loss		**(5,432)**	(4,261)
Finance income	7	**10,934**	11,646
Finance costs	7	**(121)**	(222)
Finance income - net		**10,813**	11,424
Profit before income tax		**5,381**	7,163
Income tax charge	8	**(1,297)**	(1,830)
Profit for the financial year	14	**4,084**	5,333

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 £814k (2015: £3,743k restated).

The notes on pages 122 to 163 are an integral part of these consolidated financial statements.

Statements of comprehensive income

Year ended 31 March 2016

	Note	**Group 2016 £'000**	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Profit for the year (restated)		**4,084**	5,333	**814**	3,743
Other comprehensive (losses) / income:					
Unrealised foreign exchange differences		**(296)**	133	**-**	133
Actuarial (loss) / gain on post employment benefit obligations	14,18	**(236,312)**	52,989	**(236,312)**	52,989
Movement on deferred tax relating to post employment benefit obligations	14	**47,262**	(10,598)	**47,262**	(10,598)
Effect of tax rate changes relating to post-employment benefit obligations		**1,884**	-	**1,884**	-
Total comprehensive (losses) / income for the year		**(183,378)**	47,857	**(186,352)**	46,267

All other comprehensive (losses) / income will not be reclassified subsequently to profit or loss.

Balance sheets

As at 31 March 2016

	Note	Group 2016 £'000	Group 2015 £'000	Authority 2016 £'000	Authority 2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**9,470**	12,225	**9,456**	12,225
Intangible assets	10	**5,411**	4,206	**4,394**	3,502
Investments in subsidiaries	11	**-**	-	**-**	-
Deferred income tax assets	17	**376**	125	**341**	100
Retirement benefit assets	18	**94,215**	322,598	**94,215**	322,598
Total non-current assets		**109,472**	339,154	**108,406**	338,425
Current assets					
Trade and other receivables	12	**17,490**	18,459	**12,642**	14,125
Derivative financial instruments	20	**-**	18	**-**	18
Current income tax assets		**524**	445	**-**	-
Cash and cash equivalents	13	**9,633**	11,064	**9,501**	10,867
Total current assets		**27,647**	29,986	**22,143**	25,010
Total assets		**137,119**	369,140	**130,549**	363,435
Equity					
Capital and reserves					
Retained earnings	14	**85,678**	269,056	**69,929**	256,281
Total equity		**85,678**	269,056	**69,929**	256,281
Liabilities					
Non-current liabilities					
Borrowings	15	**1,905**	3,047	**1,905**	3,047
Trade and other payables	16	**1,605**	1,989	**1,605**	1,989
Deferred income tax liabilities	17,18	**16,959**	64,520	**16,959**	64,520
Retirement benefit obligations	18	**1,540**	1,594	**1,540**	1,594
Provisions for other liabilities and charges	19	**-**	1,401	**-**	1,323
Total non-current liabilities		**22,009**	72,551	**22,009**	72,473
Current liabilities					
Borrowings	15	**1,142**	1,108	**1,142**	1,108
Trade and other payables	16	**27,836**	26,212	**37,093**	33,477
Derivative financial instruments	20	**279**	-	**279**	-
Current income tax liabilities		**-**	117	**-**	-
Retirement benefit obligations	18	**97**	96	**97**	96
Provisions for other liabilities and charges	19	**78**	-	**-**	-
Total current liabilities		**29,432**	27,533	**38,611**	34,681
Total liabilities		**51,441**	100,084	**60,620**	107,154
Total equity and liabilities		**137,119**	369,140	**130,549**	363,435

The notes on pages 122 to 163 are an integral part of these consolidated financial statements. The financial statements on pages 117 to 121 were authorised for issue by the Board on 15 June 2016 and were signed on its behalf.

Andrew Haines
Chief Executive

Christopher Tingle
Chief Operating Officer

Statements of changes in equity

Year ended 31 March 2016

	Note	Group Retained earnings £'000	Authority Retained earnings £'000
Balance as at 1 April 2014	14	221,199	210,014
Comprehensive income: profit for the year (restated)		5,333	3,743
Other comprehensive income / (losses):			
Unrealised foreign exchange differences		133	133
Actuarial gain on post employment benefit obligations	18	52,989	52,989
Movement on deferred tax relating to post employment benefit obligations	14	(10,598)	(10,598)
Total other comprehensive income		42,524	42,524
Total comprehensive income		47,857	46,267
Balance as at 1 April 2015		**269,056**	**256,281**
Comprehensive income: profit for the year	14	**4,084**	**814**
Other comprehensive (losses) / income;			
Unrealised foreign exchange differences		**(296)**	**-**
Actuarial loss on post employment benefit obligations	18	**(236,312)**	**(236,312)**
Movement on deferred tax relating to post employment benefit obligations	14	**47,262**	**47,262**
Effect of tax rate changes relating to post-employment benefit obligations		**1,884**	**1,884**
Total other comprehensive losses		**(187,462)**	**(187,166)**
Total comprehensive losses		**(183,378)**	**(186,352)**
Balance as at 31 March 2016		**85,678**	**69,929**

Statements of cash flows

Year ended 31 March 2016

	Note	**Group 2016 £'000**	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Cash flows from operating activities					
Cash generated from operations	22	**2,755**	2,422	**2,152**	1,374
Interest paid		**(119)**	(191)	**(121)**	(155)
Net income tax paid		**(190)**	(424)	**-**	-
Net cash generated from operating activities		**2,446**	1,807	**2,031**	1,219
Cash flows from investing activities					
Purchase of property, plant and equipment		**(730)**	(980)	**(220)**	(980)
Purchase of intangible assets		**(2,122)**	(2,665)	**(2,122)**	(2,060)
Interest received		**83**	90	**53**	64
Net cash used in investing activities		**(2,769)**	(3,555)	**(2,289)**	(2,976)
Cash flows from financing activities					
Repayments of borrowings		**(1,108)**	(1,074)	**(1,108)**	(1,074)
Net cash used in financing activities		**(1,108)**	(1,074)	**(1,108)**	(1,074)
Net decrease in cash and cash equivalents		**(1,431)**	(2,822)	**(1,366)**	(2,831)
Cash and cash equivalents at beginning of year		**11,064**	13,886	**10,867**	13,698
Cash and cash equivalents at end of year	13	**9,633**	11,064	**9,501**	10,867

Notes to the consolidated financial statements

1. General information and significant accounting policies

The Civil Aviation Authority (CAA) is a public corporation in the UK, established by Parliament in 1972. The CAA is the UK's independent specialist aviation regulator and its activities include economic regulation, airspace policy, safety regulation, consumer protection and aviation security. The Group comprises the CAA (Authority) together with its subsidiary undertakings Air Safety Support International Limited and CAA International Limited.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements of the CAA have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Civil Aviation Act 1982, the Civil Aviation Act 2012 and the Report and Accounts Directions for the year ended 31 March 2016 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.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 1.19.

1.1.1 Changes in accounting policies and disclosures

Adoption of new and revised standards

The following standards, amendments and interpretations to existing standards, issued by the IASB and endorsed by the EU, are applicable to the Group for the first time in the current year and have been adopted by the Group with no impact on the Group's accounting policies or on its results or net assets included within these financial statements:

Amendments to IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interests in other entities';

IAS 27 'Separate financial statements' revised;

Amendments to IAS 32 'Financial instruments: presentation'; and

Amendments to IAS 36 'Impairment of assets'.

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

IAS 28 'Associates and Joint Ventures';

Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities;

Amendment to IAS 39 'Financial instruments: recognition and measurement'; and

IFRIC 21 'Levies'.

1.2 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, see note 11. Shareholding of more than one half of the voting rights, the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Air Travel Trust (ATT) does not operate for the benefit of the Authority and its exclusion from the consolidated financial statements has been directed by the Secretary of State for Transport.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the CAA Executive Committee. The Executive Committee is responsible for strategic decisions, the allocation of resources and assessing performance of these operating segments.

1.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses resulting from the movement in the fair value of foreign currency derivative instruments are recognised in the statement of comprehensive income. All other foreign exchange gains and losses are presented in the income statement within 'Other gains / (losses) - net'.

1.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount, or recognised as separate assets, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate assets' costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	10-30 years
Leasehold buildings	over the remaining life of the lease

Plant and equipment	3-10 years
Furniture, fixtures and fittings	10 years
Vehicles	5 years

Assets in the course of construction and installation are not depreciated.

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

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

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

The Authority has taken advantage of the exemption provided in paragraphs 27 and 28 of IAS 23 (revised): Borrowing Costs, to adopt the Standard prospectively for property, plant and equipment assets whose commencement of capitalisation is on or after 1 January 2009, as permitted by paragraph 251 of IFRS 1.

1.6 Intangible assets

Intangible assets are stated at historic cost less amortisation. Historic cost includes expenditure that is directly attributable to the generation of the items.

Subsequent costs are included in the asset's carrying amount, or recognised as separate assets, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

The carrying amount of any replaced part is derecognised. All other maintenance costs are charged to the Income Statement during the financial period in which they are incurred.

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

Software development costs	5-10 years
Intellectual property	5 years

Assets in the course of construction are not amortised.

1.7 Impairment of non-financial assets

Assets that are subject to 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 value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.8 Financial assets

1.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

1.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within 'Other gains / (losses) - net' in the period in which they arise.

Impairment testing of trade receivables is described in note 1.10.

1.9 Derivative financial instruments and hedging activities

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

1.10 Trade receivables

Trade receivables are recognised at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Indicators that the trade receivable is impaired are: significant financial difficulties of the debtor; probability that the debtor will enter bankruptcy or financial reorganisation; and default or delinquency in payments (more than 365 days overdue). The carrying amount of trade receivables is reduced through the use of a provision account, and the amount of the loss is recognised in the Income Statement within 'Other expenses'. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Other expenses' in the Income Statement.

1.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks or HM Treasury, and other short-term highly liquid investments with original maturities of three months or less.

1.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management established a provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries, as the timing of the reversal of the temporary differences associated with the investment, including dividend policy, is controlled by the Group.

1.14 Employee benefits

(a) Short-term employee benefits

The cost of short-term employee benefits (wages, salaries, social security contributions, annual leave, bonuses and non-monetary benefits) is recognised in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement, or in the case of non-accumulating absences, when the absences occur.

(b) Post-employment benefits - pension obligations (note 18)

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

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

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

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

(c) Termination benefits

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

1.15 Provisions

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

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money at the balance sheet date, and the risks specific to the obligation. The movement in the provision is recognised within 'Finance income - net'.

1.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, credits and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its accrued income estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

(c) *Other service charges*
The Group derives revenue from non-statutory aviation related activities which are either for a fixed price, or derived on a time and materials expended basis. The Group also derives revenue from its commercial aviation related services in providing examination services, training courses and aviation consultancy services.

(d) *Rental income*
Rental income arises from the letting of leased property in London, based on an open market rate.

(e) *Pensions administration*
Revenue is derived from the recharging of the cost of providing services to the Civil Aviation Authority Pension Scheme.

(f) *Interest income*
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

1.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor and excluding costs for services such as insurance and maintenance) are charged to the Income Statement on a straight-line basis over the period of the lease. Lease rental charges for vehicle agreements entered into from 2012 are reimbursed by the member of staff responsible for each vehicle.

Payments received under operating leases in respect of sub-let office space (net of any incentives given to the lessee) are credited to the Income Statement on a straight-line basis over the period of the lease.

1.18 Government grants

Government grants are recognised in the Income Statement on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.

Under the direction of the Secretary of State for Transport, Air Safety Support International Limited, a subsidiary of the CAA, carries out enhancement of regulatory oversight of aviation safety in the UK's Overseas Territories providing further assurance of safety standards. The operating costs are met primarily by way of a grant from the Department for Transport.

1.19 Critical accounting estimates and judgements

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

Estimates and assumptions concerning

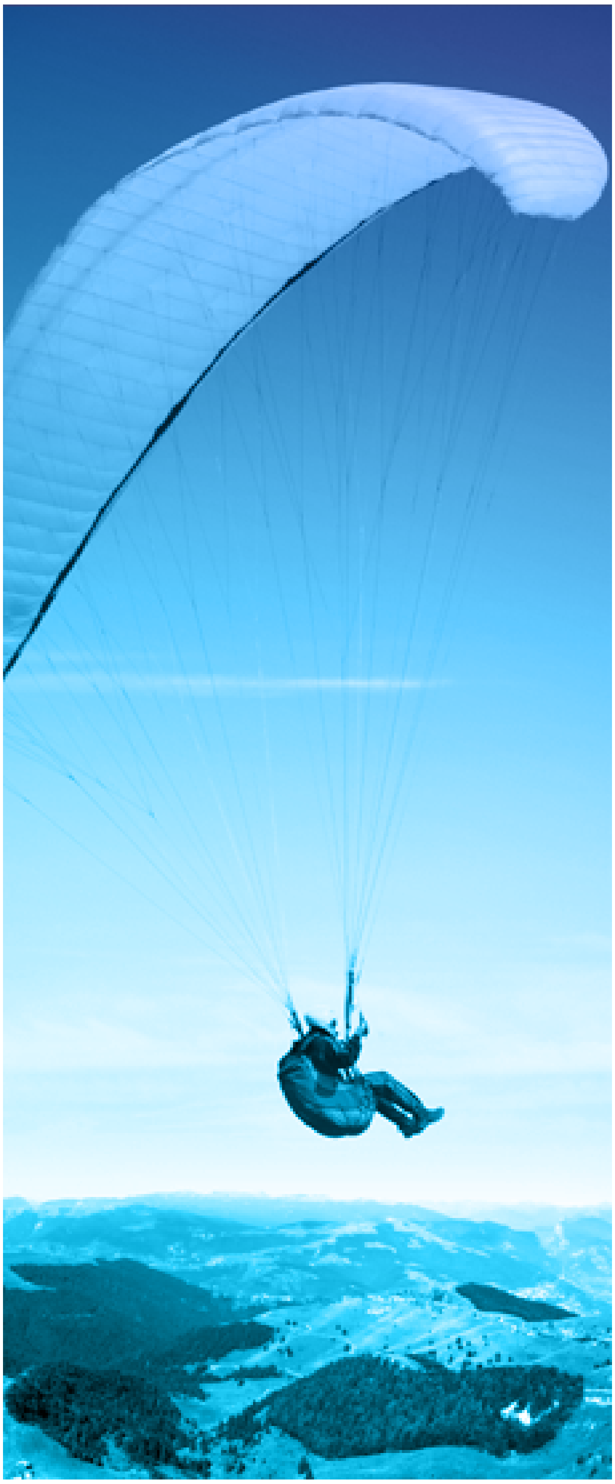
the future are made by the Group and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial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

Pension benefits

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

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 18.



2. Segment information

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

The reportable operating segments derive their revenue primarily from the Regulatory Sector, comprising the activities of Safety regulation, Regulatory policy, Consumer protection, 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, disclosure is also given regarding revenue analysed between statutory scheme charges and other revenue.

Included within Miscellaneous services are grants from the Department for Transport (DfT) amounting to £2,069k during the year (2015: £2,043k). 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 2016 income of £1,320k has been deferred (2015: £1,585k deferred).

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

	Safety regulation	Markets and consumer regulation	Consumer protection	Aviation security	Regulatory Sector subtotal	UK en route air traffic services	CAA International	Miscellaneous services	Total
Revenue	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Statutory and scheme charges	**55,917**	**7,119**	**6,533**	**8,545**	**78,114**	**-**	**-**	**-**	**78,114**
Eurocontrol service charges	**-**	**-**	**-**	**-**	**-**	**13,325**	**-**	**-**	**13,325**
Other revenue	**1,166**	**1,561**	**718**	**-**	**3,445**	**-**	**15,738**	**21,997**	**41,180**
Total revenue	**57,083**	**8,680**	**7,251**	**8,545**	**81,559**	**13,325**	**15,738**	**21,997**	**132,619**
Operating costs (excluding IAS 19 pension scheme adjustments)	**59,936**	**8,322**	**6,661**	**8,701**	**83,620**	**12,979**	**12,547**	**25,957**	**135,103**
(Loss) / profit before IAS19 adjustments	**(2,853)**	**358**	**590**	**(156)**	**(2,061)**	**346**	**3,191**	**(3,960)**	**(2,484)**
IAS 19 pension scheme adjustments	**(1,446)**	**(170)**	**(164)**	**(252)**	**(2,032)**	**-**	**(161)**	**(755)**	**(2,948)**
Operating (loss) / profit	**(4,299)**	**188**	**426**	**(408)**	**(4,093)**	**346**	**3,030**	**(4,715)**	**(5,432)**
(Loss) / profit before income tax	**1,008**	**811**	**1,026**	**516**	**3,361**	**346**	**3,619**	**(1,945)**	**5,381**

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

2. Segment information (continued)

The comparable segment information for the previous year, ended 31 March 2015, is as follows:

	Safety regulation	Markets and consumer regulation	Consumer protection	Aviation security	Regulatory Sector subtotal	UK en route air traffic services	CAA International	Miscellaneous services	Total
Revenue	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Statutory and scheme charges	58,722	6,771	6,327	7,325	79,145	-	-	-	79,145
Eurocontrol service charges	-	-	-	-	-	14,116	-	-	14,116
Other revenue	1,179	1,273	1,112	75	3,639	-	16,177	20,980	40,796
Total revenue	59,901	8,044	7,439	7,400	82,784	14,116	16,177	20,980	134,057
Operating costs (excluding IAS 19 pension scheme adjustments)	59,273	8,142	6,859	8,463	82,737	12,593	14,209	24,698	134,237
Profit / (loss) before IAS19 adjustments	628	(98)	580	(1,063)	47	1,523	1,968	(3,718)	(180)
IAS 19 pension scheme adjustments	(2,230)	(378)	(260)	-	(2,868)	-	(292)	(921)	(4,081)
Operating (loss) / profit	(1,602)	(476)	320	(1,063)	(2,821)	1,523	1,676	(4,639)	(4,261)
Profit / (loss) before income tax	4,713	595	1,056	(1,063)	5,301	1,523	2,369	(2,030)	7,163

A reconciliation of operating loss to profit before income tax is provided as follows:	£'000
Adjusted operating loss for reportable segments	(4,261)
Finance income	11,646
Finance costs	(222)
Profit before income tax	7,163

3. Employment costs

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

	Note	**Group 2016 £'000**	Group 2015 £'000
Wages and salaries		**51,943**	50,912
Social security costs		**5,343**	5,052
Defined benefit pension plan costs	18	**19,339**	20,166
Defined contribution pension plan costs	18	**1,274**	945
Unfunded pension plan costs	18	**40**	124
Other employee benefits expense		**4,364**	2,385
		82,303	79,584

The monthly average number of employees (including Executive Members) was:

	Group 2016 At 31 March number	**Group 2016 Monthly average number**	Group 2015 At 31 March number	Group 2015 Monthly average number
By business segment				
Safety regulation	**443**	**475**	471	489
Regulatory policy	**50**	**55**	61	56
Consumer protection	**44**	**54**	56	57
Aviation security	**80**	**83**	77	77
CAA International	**53**	**52**	62	64
Miscellaneous services	**241**	**249**	239	229
	911	**968**	966	972

4. Board Members' and key management personnel emoluments

Board member emoluments	Group 2016 £'000	Group 2015 £'000
Emoluments excluding pension contributions:		
Salaries and fees	**1,177**	1,246
Benefits	**49**	62
Performance related payments	**112**	179
Compensation payments	**382**	-
	1,720	1,487
Pension contributions	**226**	223
Pension payments to past Board Members	**95**	96
	2,041	1,806

Details of aggregate emoluments for each of the 13 Board Members (2015: 11 Board Members) are included in the table above. The Report by the Remuneration Committee provides details for each Board Member.

Key management personnel emoluments	Group 2016 £'000	Group 2015 £'000
Emoluments excluding pension contributions:		
Salaries and fees	**1,035**	825
Benefits	**4**	3
Performance related payments	**-**	44
	1,039	872
Pension contributions	**212**	133
	1,251	1,005

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

In addition to the costs shown above, key management personnel services are provided by third parties. Details of the transactions and balances with these providers are set out in note 25.

5. Auditors' remuneration

	Group 2016 £'000	Group 2015 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**84**	78
Audit of subsidiary company financial statements	**14**	20
Audit of the Group's Malaysia branch financial statements	**13**	13
Audit of the Group's Singapore branch financial statements	**-**	13
Audit related assurance services	**4**	4
	115	128

6. Profit for the year

	Note	Group 2016 £'000	Group 2015 £'000
Profit for the year has been arrived at after charging / (crediting):			
Net foreign exchange (gains) / losses on operating activities		**(62)**	167
Operating lease payments (note 23):			
- Properties (included within services and materials)		**7,219**	6,617
- Vehicles (shown within employment costs £3k credit (2015: £19k) and other expenses £26k (2015: £93k))		**23**	112
		7,242	6,729
Depreciation on property, plant and equipment	9	**2,971**	2,869
Grant released on property, plant and equipment	16	**(212)**	(212)
Amortisation of intangible assets	10	**560**	319
Grant released on intangible assets	16	**(141)**	(82)
Loss on disposal of property, plant and equipment	9	**19**	-
Loss on disposal of software and development costs	10	**844**	63
		4,041	2,957

Losses on disposal are within 'Depreciation, amortisation and disposals'.

The Department for Transport provided £1,806,804 of cash resources in connection with the transfer of responsibility for the regulation of the aviation security function (see note 2), which is released on a systematic basis over the lives of the assets to which the resources were applied (see note 16).

Research expenditure (all in respect of safety regulation):	Group 2016 £'000	Group 2015 £'000
Internal costs (included within employment costs)	**1,362**	929
External costs	**860**	834
	2,222	1,763

All costs are shown within 'Other expenses'.

7. Finance income and costs

	Note	**Group 2016 £'000**	Group 2015 £'000
Interest expense:			
National loan fund borrowings		**(121)**	(154)
Other interest expense		**-**	(36)
Unwinding of discount on provisions	19	**-**	(32)
Finance costs		**(121)**	(222)
Finance income:			
Interest on short-term deposits		**53**	65
Other interest income		**4**	-
		57	65
Financial income relating to employee benefit scheme:			
Expected return on assets		**80,361**	95,820
Interest charge on liabilities		**(69,484)**	(84,239)
Net financial income in respect of employee benefit scheme	18	**10,877**	11,581
Finance income		**10,934**	11,646
Finance income - net		**10,813**	11,424

8. Income tax charge

(a) Analysis of tax credit / (charge) in the year:	**Group 2016 £'000**	Group 2015 £'000
Current tax:		
UK corporation tax at 20% (2015: 21%) on taxable profits for the year	**-**	346
Adjustments in respect of prior years*	**(93)**	(86)
Overseas tax	**31**	19
Prior year adjustment to tax suffered overseas	**(21)**	128
Withholding tax suffered	**46**	21
Total current tax (credit) / charge	**(37)**	428
Deferred tax:		
Origination and reversal of temporary differences	**(175)**	(74)
Adjustments in respect of prior years	**(118)**	(29)
Effect of tax rate changes	**42**	5
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	**1,585**	1,500
Total deferred tax charge	**1,334**	1,402
Income tax charge	**1,297**	1,830

The adjustments in respect of prior years were as a result of a detailed review having been carried out of expenditure items of a capital nature and disallowable expenditure. The review covered the years ending 31 March 2014 and 2015, and resulted in a reduction in UK corporation tax liabilities for those years.

8. Income tax charge (continued)

(b) Reconciliation of effective tax rate:		Group 2016 £'000	Group 2015 £'000
Profit before income tax		**5,381**	7,163
Tax calculated at applicable UK corporation tax rate of 20% (2015: 21%)		**1,076**	1,504
Tax effects of:			
Expenses not deductible for tax purposes		**282**	355
Effect of overseas tax rate		**78**	8
Effect of change in rate on IAS19 defined benefit		**-**	(75)
Effect of tax rate change		**41**	5
Withholding tax		**-**	21
Income not taxable		**(28)**	-
Amounts not recognised		**80**	-
Adjustments in respect of prior years - current tax		**(114)**	12
Adjustments in respect of prior years - deferred tax		**(118)**	-
Income tax charge	Note 8a	**1,297**	1,830

The Finance Act 2015, which provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2018 and 18% effective from 1 April 2020, was substantively enacted on 8 July 2015. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the balances recognised in these financial statements are expected to reverse over the longer term, the 18% rate which will apply from 1 April 2020, has been used to measure deferred tax balances.

9. Property, plant and equipment

	Freehold buildings £'000	Leasehold buildings £'000	Plant and equipment £'000	Vehicles £'000	Furniture, fixtures and fittings £'000	Assets in the course of construction £'000	Total £'000
Group							
Cost							
At 1 April 2014	22,026	25,280	8,129	127	4,296	2,885	62,743
Additions	12	3	(9)	-	(277)	572	301
Disposals	-	-	-	(14)	-	-	(14)
Reclassification (note 10)	-	-	-	-	-	23	23
Transfers	78	874	357	-	1,599	(2,908)	-
At 1 April 2015	22,116	26,157	8,477	113	5,618	572	63,053
Additions	-	-	47	-	117	71	235
Disposals	-	-	(316)	-	(2,179)	(10)	(2,505)
Transfers	-	-	478	31	124	(633)	-
At 31 March 2016	**22,116**	**26,157**	**8,686**	**144**	**3,680**	**-**	**60,783**
Accumulated depreciation							
At 1 April 2014	18,976	18,362	7,213	124	3,298	-	47,973
Charge for the year	752	1,457	346	3	311	-	2,869
Eliminated on disposal	-	-	-	(14)	-	-	(14)
At 1 April 2015	19,728	19,819	7,559	113	3,609	-	50,828
Charge for the year	754	1,457	432	6	322	-	2,971
Eliminated on disposal	-	-	(307)	-	(2,179)	-	(2,486)
At 31 March 2016	**20,482**	**21,276**	**7,684**	**119**	**1,752**	**-**	**51,313**
Net book value 31 March 2016	**1,634**	**4,881**	**1,002**	**25**	**1,928**	**-**	**9,470**
Net book value 31 March 2015	2,388	6,338	918	-	2,009	572	12,225

At 31 March 2016 the Group had no contractual commitments for the acquisition of property, plant and equipment (2015: nil).

The £2,971k (2015: £2,869k) depreciation charge is included within 'Depreciation, amortisation and disposals' (see note 6).

9. Property, plant and equipment (continued)

	Freehold buildings £'000	Leasehold buildings £'000	Plant and equipment £'000	Vehicles £'000	Furniture, fixtures and fittings £'000	Assets in the course of construction £'000	Total £'000
Authority							
Cost							
At 1 April 2014	22,026	25,280	8,044	85	4,220	2,885	62,540
Additions	12	3	(9)	-	(277)	572	301
Disposals	-	-	-	(14)	-	-	(14)
Reclassification	-	-	-	-	-	23	23
Transfers	78	874	357	-	1,599	(2,908)	-
At 1 April 2015	22,116	26,157	8,392	71	5,542	572	62,850
Additions	-	-	31	-	117	72	220
Disposals	-	-	(249)	-	(2,179)	(11)	(2,439)
Transfers	-	-	478	31	124	(633)	-
At 31 March 2016	**22,116**	**26,157**	**8,652**	**102**	**3,604**	**-**	**60,631**
Accumulated depreciation							
At 1 April 2014	18,976	18,363	7,133	85	3,222	-	47,779
Charge for the year	752	1,456	341	-	311	-	2,860
Eliminated on disposal	-	-	-	(14)	-	-	(14)
At 1 April 2015	19,728	19,819	7,474	71	3,533	-	50,625
Charge for the year	754	1,457	430	6	322	-	2,969
Eliminated on disposal	-	-	(240)	-	(2,179)	-	(2,419)
At 31 March 2016	**20,482**	**21,276**	**7,664**	**77**	**1,676**	**-**	**51,175**
Net book value 31 March 2016	**1,634**	**4,881**	**988**	**25**	**1,928**	**-**	**9,456**
Net book value 31 March 2015	2,388	6,338	918	-	2,009	572	12,225

At 31 March 2016 the Authority had no contractual commitments for the acquisition of property, plant and equipment (2015: nil).

The £2,969k (2015: £2,860k) depreciation charge is included within 'Depreciation, amortisation and disposals'.

10. Intangible assets

	Software development costs £'000	Assets in the course of construction £'000	Other intangible assets £'000	Total £'000
Group				
Cost				
At 1 April 2014	6,310	1,058	-	7,368
Additions	220	2,414	-	2,634
Reclassification (note 9)	(99)	76	-	(23)
Disposals	(63)	-	-	(63)
Transfers (restated*)	1,263	(1,263)	-	-
At 1 April 2015	7,631	2,285	-	9,916
Additions	-	2,454	155	2,609
Disposals	(129)	(844)	-	(973)
Transfers	572	(572)	-	-
At 31 March 2016	**8,074**	**3,323**	**155**	**11,552**
Accumulated amortisation				
At 1 April 2014	5,391	-	-	5,391
Charge for the year	319	-	-	319
At 1 April 2015	5,710	-	-	5,710
Charge for the year	545	-	15	560
Eliminated on disposal	(129)	-	-	(129)
At 31 March 2016	**6,126**	**-**	**15**	**6,141**
Net book value 31 March 2016	**1,948**	**3,323**	**140**	**5,411**
Net book value 31 March 2015	1,921	2,285	-	4,206

At 31 March 2016 the Group had contractual commitments for the acquisition of intangible assets of £nil (2015: £1.6m).

The £560k (2015: £319k) amortisation charge is included within 'Depreciation, amortisation and disposals' (see note 6).

- The restatement relates to £524k being transferred from assets in the course of construction to software development costs. This was to reflect the operational start date of the e-exams solution as being January 2015 rather than April 2015.

10. Intangible assets (continued)

	Software development costs £'000	Assets in the course of construction £'000	Other intangible assets £'000	Total £'000
Authority				
Cost				
At 1 April 2014	6,087	1,058	-	7,145
Additions	220	1,809	-	2,029
Reclassification	-	(23)	-	(23)
Transfers	739	(739)	-	-
At 1 April 2015	7,046	2,105	-	9,151
Additions	-	2,114	-	2,114
Disposals	(67)	(814)	-	(881)
Transfers	450	(450)	-	-
At 31 March 2016	**7,429**	**2,955**	**-**	**10,384**
Accumulated amortisation				
At 1 April 2014	5,333	-	-	5,333
Charge for the year	316	-	-	316
At 1 April 2015	5,649	-	-	5,649
Charge for the year	408	-	-	408
Eliminated on disposal	(67)	-	-	(67)
At 31 March 2016	**5,990**	**-**	**-**	**5,990**
Net book value 31 March 2016	**1,439**	**2,955**	**-**	**4,394**
Net book value 31 March 2015	1,397	2,105	-	3,502

At 31 March 2016 the Authority had contractual commitments for the acquisition of intangible assets of £nil (2015: £1.6m).

The £408k (2015: £316k) amortisation charge is included within 'Depreciation, amortisation and disposals'.

11. Principal subsidiaries and investments

Authority

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent	Proportion of voting rights held by parent	Investment
CAA International Limited	UK	Aviation consultancy, training & examination services	100%	100%	£1
Air Safety Support International Limited	UK	Regulatory oversight	100%	100%	£1

The registered office of both subsidiaries is:

CAA House
45-59 Kingsway
London
WC2B 6TE

Shares in Group undertakings

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

	2016	2015
	£	£
Beginning and end of the financial year	**2**	2

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

12. Trade and other receivables

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Trade receivables	**5,504**	8,223	**2,690**	5,295
Less: provision for doubtful receivables	**(171)**	(347)	**(127)**	(291)
Trade receivables - net	**5,333**	7,876	**2,563**	5,004
Prepayments	**3,022**	2,809	**2,947**	2,770
Accrued income	**8,483**	6,626	**6,485**	5,523
Other receivables	**652**	1,148	**647**	828
Trade and other receivables (current)	**17,490**	18,459	**12,642**	14,125
Total trade and other receivables	**17,490**	18,459	**12,642**	14,125

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

As at 31 March 2016 trade receivables of £2,341k (2015: £2,192k) for the Group and £1,516k (2015: £448k) for the Authority were past their due date but were not doubtful. The ageing analysis of these is as follows:

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Past due:				
Up to 3 months	**2,140**	1,422	**1,415**	89
From 3 to 12 months	**155**	785	**101**	377
Over 12 months	**46**	(15)	**-**	(18)
	2,341	2,192	**1,516**	448

The credit balances over 12 months old and not provided against relate to credit notes not yet offset against debt that is less than 12 months old.

12. Trade and other receivables (continued)

Movements on the Group and the Authority provision for doubtful trade receivables are as follows:

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
At 1 April	**347**	178	**291**	116
Provision for doubtful receivables	**109**	219	**141**	225
Receivables written off during the year as uncollectible	**(258)**	(17)	**(258)**	(17)
Unused amounts reversed	**(27)**	(33)	**(47)**	(33)
At 31 March	**171**	347	**127**	291

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

The maximum exposure to credit risk at the reporting date is the value of each class of receivable mentioned above. The Group and the Authority do not hold any collateral as security.

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

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
UK pounds	**4,653**	7,584	**3,337**	6,123
Euros	**1,132**	1,632	**-**	-
Kuwaiti dinars	**301**	-	**-**	-
US dollars	**58**	129	**-**	-
Other currencies	**12**	26	**-**	-
	6,156	9,371	**3,337**	6,123

13. Cash and cash equivalents

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

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Cash at bank and on hand	**743**	1,210	**611**	1,013
Short-term bank deposits	**4,890**	1,854	**4,890**	1,854
Short-term HM Treasury deposits	**4,000**	8,000	**4,000**	8,000
At 31 March	**9,633**	11,064	**9,501**	10,867

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

14. Retained earnings

	Note	**Group £'000**	**Authority £'000**
At 1 April 2014		221,199	210,014
Profit for the year		5,333	3,743
Unrealised foreign exchange differences		133	133
Actuarial gain on employee benefit scheme	18	52,989	52,989
Movement on deferred tax relating to employee benefit scheme		(10,598)	(10,598)
At 31 March 2015		269,056	256,281
At 1 April 2015		**269,056**	**256,281**
Profit for the year		**4,084**	**814**
Unrealised foreign exchange differences		**(296)**	**-**
Actuarial loss on employee benefit scheme	18	**(236,312)**	**(236,312)**
Movement on deferred tax relating to employee benefit scheme		**47,262**	**47,262**
Effect of tax rate changes relating to post-employment benefit obligations		**1,884**	**1,884**
At 31 March 2016		**85,678**	**69,929**

Retained earnings represent the cumulative surpluses and other gains made by the Authority and the Group since its inception.

15. Borrowings

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Non-current				
National Loans Fund	**1,905**	3,047	**1,905**	3,047
	1,905	3,047	**1,905**	3,047
Current				
National Loans Fund	**1,142**	1,108	**1,142**	1,108
	1,142	1,108	**1,142**	1,108
Total borrowings	**3,047**	4,155	**3,047**	4,155

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
No later than 1 year	**1,142**	1,108	**1,142**	1,108
Later than 1 year and not later than 5 years	**1,905**	3,047	**1,905**	3,047
	3,047	4,155	**3,047**	4,155

The borrowings are repayable to the National Loans Fund on an instalment basis, the final instalment being due for repayment during December 2019. The borrowing rates are fixed for the entire period of the loans. These borrowings are unsecured.

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

	Carrying amount 2016 £'000	Carrying amount 2015 £'000	**Fair value 2016 £'000**	Fair value 2015 £'000
Non-current	**1,905**	3,047	**1,888**	3,015
Current	**1,142**	1,108	**1,132**	1,096
	3,047	4,155	**3,020**	4,111

The fair values of borrowings are calculated by discounting the cash outflow by the rate ruling at the balance sheet date for borrowings with similar maturity and repayment style. The fair values are based on cash flows discounted using rates relevant to the entity i.e. for CAA on borrowing rates between 1.35% and 1.44% (2015: 1.52% and 1.73%) and for ASSI 0.0025% (2015: 0.0025%).

The carrying amounts of the Group and Authority's borrowings are denominated in pound sterling.

The Group and Authority have maximum borrowing powers of £550 million (2015: £550 million) under the Civil Aviation Authority (Borrowing Powers) Order 1995. Below are details of the Group and Authority's undrawn and uncommitted borrowing facilities:

	2016 £'000	2015 £'000
Bank overdraft facility	**10,000**	5,000

The available overdraft facility was increased to £10,000k with effect from 4 April 2015.

16. Trade and other payables

	Note	**Group 2016 £'000**	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Current liabilities:					
Trade payables		**4,049**	1,545	**3,905**	1,199
Amounts due to related parties	25	**-**	-	**14,461**	12,281
Social security and other taxes		**2,347**	1,731	**2,347**	1,724
Accrued expenses		**8,990**	9,354	**8,343**	8,487
Deferred income		**10,773**	10,567	**7,177**	9,130
Other payables		**1,677**	3,015	**860**	656
Trade and other payables (current)		**27,836**	26,212	**37,093**	33,477
Non-current liabilities:					
Other payables		**796**	829	**796**	829
Accruals and deferred income		**809**	1,160	**809**	1,160
Trade and other payables (non-current)		**1,605**	1,989	**1,605**	1,989
Total trade and other payables		**29,441**	28,201	**38,698**	35,466

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

The Department for Transport provided £1,806,804 of cash resources in connection with the transfer of responsibility for the regulation of the aviation security function (see note 2), which is released on a systematic basis over the lives of the assets to which the resources were applied (see note 6).

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

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
No later than 1 year	**353**	353	**353**	353
Later than 1 year and not later than 5 years	**715**	1,037	**715**	1,037
Later than 5 years	**92**	123	**92**	123
	1,160	1,513	**1,160**	1,513

17. Deferred income tax

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

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
At 1 April	**125**	26	**100**	4
Income statement credit	**251**	99	**241**	96
At 31 March	**376**	125	**341**	100

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the taxation authority where there is an intention to settle the balances on a net basis.

The offset amounts are as follows:

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Deferred tax asset to be recovered after more than 12 months	**531**	535	**496**	510
Deferred tax liability to be reversed after more than 12 months	**(155)**	(410)	**(155)**	(410)
Deferred tax assets (net)	**376**	125	**341**	100

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

	Group Accelerated tax depreciation £'000	**Group Total £'000**	**Authority Accelerated tax depreciation £'000**	**Authority Total £'000**
Deferred tax liabilities				
At 1 April 2015	(410)	(410)	(410)	(410)
Credited to the income statement	255	255	255	255
At 31 March 2016	**(155)**	**(155)**	**(155)**	**(155)**

	Group Tax losses £'000	**Group Other £'000**	**Group Total £'000**	**Authority Tax losses £'000**	**Authority Other £'000**	**Authority Total £'000**
Deferred tax assets						
At 1 April 2015	-	535	535	-	510	510
Charged to the income statement	-	(4)	(4)	-	(14)	(14)
At 31 March 2016	-	**531**	**531**	**-**	**496**	**496**

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of £126k (2015: £58k) in respect of losses amounting to £700k (2015: £291k) that can be carried forward against future taxable income. The Group expects to have taxable profits in the longer term once the general economic conditions improve.

The Finance Act 2015, which provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2018 and 18% effective from 1 April 2020, was substantively enacted on 8 July 2015. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the balances recognised in these financial statements are expected to reverse over the longer term, the 18% rate which will apply from 1 April 2020, has been used to measure deferred tax balances.

On the face of the Balance Sheet, the deferred income tax liability of £16,959k (2015: £64,520k) relates to the pension scheme surplus (see note 18).

18. Retirement benefit obligations

The Group has both defined benefit and defined contribution retirement benefit plans and an unfunded Scheme for past Board Members. The Group's main plan is Civil Aviation Authority Pension Scheme which is a defined benefit plan that was closed to new entrants on 30 November 2012. After that date new entrants have been able to join a defined contribution plan, currently the Civil Aviation Authority Personal Pension Plan, contract based arrangement. In order to further mitigate the increase in the defined benefit liabilities the CAA has introduced a cap on the growth of future pensionable earnings. The cap is based upon the members' pensionable earnings as at the 31 March 2013 level plus inflation.

Defined contribution plan: a defined contribution plan is a pension arrangement under which the benefits are linked to contributions paid; the performance of each individual's chosen investments and the form in which the individuals choose to take their benefits. The Group has two defined contribution plans, one in which contributions are paid into an independently administered fund and a second where contributions are paid to the Civil Service Pension Plan following the transfer of responsibility for regulating aviation security from the Department for Transport to the Civil Aviation Authority as from 1 April 2014. The income statement charge in respect of the defined contribution plans represents the contributions payable by the Group based on a percentage of the employees' pay. The CAA has no exposure to investment and other experience risks. Costs associated with these schemes of £1,274k (2015: £945k) were charged to the Income Statement.

Unfunded scheme: the CAA also operates an unfunded scheme for some past members of the Board. Costs associated with this scheme of £40k (2015: £124k) were charged to the Income Statement in accordance with the advice of a professionally qualified actuary. A non-current liability of £1,540k (2015: £1,594k) and a current liability of £97k (2015: £96k) are held in the Balance Sheet in respect of post employment benefits payable under this scheme.

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

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

In July 2015, the Trustee of the Scheme, with the support of the CAA, agreed to purchase a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014. The value of the buy-in policy held on behalf of the members is equal to the value of the benefits covered by the policy and is included under the asset class 'insured annuity policies'. The value of these benefits as at 31 March 2016 is estimated to be £1,397,903,000.

The last formal actuarial valuation of the CAA Section of the Civil Aviation Authority Pension Scheme was carried out as at 31 December 2012. The last valuation revealed a small deficit of £8 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 2018. In addition, the CAA will pay contributions in line with the Schedule of Contributions dated 27 February 2014 to cover the cost of new benefits. The funding rate was set at 21% of pensionable earnings for the year 2015/16 in respect of which the CAA paid contributions of £16.4 million. The expected contribution in the 2016/17 year is £16.7 million. The expected future benefit payments for 2016/17 are forecast to be £107.2 million.

18. Retirement benefit obligations (continued)

The methodology underlying the formal valuation differs from that used for annual IAS 19 disclosures, particularly in relation to the financial assumptions used. The discount rates used for the 2012 formal valuation were largely based on Government bond (gilt) yields. This reflects the investment strategy of the Scheme where the majority of the assets (about 82.5% as at 31 December 2012) are held in a portfolio designed to match, as closely as possible, projected payments to current pensioner and deferred members. However, IAS 19 requires that projected future benefits are discounted at the yield on AA-rated corporate bonds; at 31 December 2012 these were about 1.2% p.a. higher than gilt yields resulting in a substantial reduction in the present value of benefit obligations compared with the formal actuarial valuation.

In addition, the formal valuation has a more prudent basis than IAS 19 disclosures and this is allowed for by means of further adjustments to the discount rate and the inclusion of reserves for contingent events, including further improvements in longevity. The main differences between the methodology used for the 31 December 2012 valuation and that used for IAS 19 disclosures are:

Measurement of liabilities using IAS 19 assumptions:

- i) Discount rate based on AA-rated corporate bond yields
- ii) No allowance for a reserve for changes in mortality and contingencies.

Measurement of liabilities for the 31 December 2012 formal valuation:

- i) Discount rates:
  - Pensioner and deferred liabilities - gilt yields less 0.1% pa.
  - Pre-retirement discount rate for active members - gilt yields plus 3.0% pa.
- ii) Allowance for a reserve for changes in mortality and contingencies in respect of SPADs (Separation Pensioners and Deferreds).

18. Retirement benefit obligations (continued)

	Group and Authority	
	2016 £'000	2015 £'000
Balance sheet assets for:		
Post employment benefits - fully funded pension fund	**77,256**	258,078
Balance sheet obligations for:		
Non-current post employment benefits - unfunded pension scheme	**(1,540)**	(1,594)
Current post employment benefits - unfunded pension scheme	**(97)**	(96)
Post employment benefits - unfunded pension scheme	**(1,637)**	(1,690)
Income statement charge for:		
Pension benefits (note 3)	**19,339**	20,166
Post employment benefits - unfunded pension scheme (note 3)	**40**	124
Total income statement charge	**19,379**	20,290

Funded pension benefits

The amounts recognised in the balance sheet are determined as follows:	Group and Authority	
	2016 £'000	2015 £'000
Fair value of plan assets	**2,177,603**	2,480,200
Present value of funded obligations	**(2,083,388)**	(2,157,602)
Surplus in funded scheme	**94,215**	322,598
Related deferred tax liability at 18% (2015: 20%)	**(16,959)**	(64,520)
Net surplus in funded pension scheme	**77,256**	258,078

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

The movements in surplus in funded pension scheme are as follows:	Group and Authority	
	2016 £'000	2015 £'000
Surplus in funded pension scheme at 1 April	**322,598**	262,109
Service cost	**(19,339)**	(20,166)
Net interest on net defined benefit asset	**10,877**	11,581
Remeasurement effects recognised in other comprehensive income	**(236,312)**	52,989
Employer contributions	**16,391**	16,085
Surplus in funded pension scheme at 31 March	**94,215**	322,598

The remeasurement effects recognised in other comprehensive income are principally the effects of the IAS19 valuation assumptions upon the purchase of a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014.

18. Retirement benefit obligations (continued)

The movements in the defined benefit obligations (DBO) over the year are as follows:	**Group and Authority**	
	2016 £'000	2015 £'000
DBO at end of prior year	**2,157,602**	2,007,691
Current service cost (including administration costs)	**19,339**	20,065
Interest cost on the DBO	**69,484**	84,239
Scheme participants' contributions	**158**	185
Actuarial gain - experience	**(24,756)**	(43,492)
Actuarial (gain) / loss - financial assumptions	**(31,874)**	187,909
Benefits paid from Scheme assets	**(106,565)**	(99,096)
Past service cost – plan amendments	**-**	101
DBO at end of the year	**2,083,388**	2,157,602

The movements in the fair value of plan assets in the year are as follows:	**Group and Authority**	
	2016 £'000	2015 £'000
Fair value of assets at end of prior year	**2,480,200**	2,269,800
Interest income on Scheme assets	**80,361**	95,820
Return on Scheme assets (less) / greater than discount rate	**(292,942)**	197,406
Employer contributions	**16,391**	16,085
Scheme participants' contributions	**158**	185
Benefits paid	**(104,080)**	(97,274)
Administrative costs paid	**(2,485)**	(1,822)
Fair value of assets at end of current year	**2,177,603**	2,480,200

The CAA provides pensions administration services to the Scheme and has charged £2,485k (2015: £1,822k) over the course of the year. The CAA also charges for third party costs incurred on behalf of the Scheme. These totalled £3,283k (2015: £3,641k) for the year.

18. Retirement benefit obligations (continued)

The Scheme assets are allocated as follows:

	Group and Authority			
	2016 £m	**%**	2015 £m	%
Index Linked (UK)	**361.2**	**16.6%**	1,812.0	73.0%
Conventional Govt Bonds (UK)	**0.0**	**0.0%**	180.4	7.3%
Cash	**0.0**	**0.0%**	60.0	2.4%
Total Dedicated Bond Fund	**361.2**	**16.6%**	2,052.4	82.7%
UK Equity Fund	**52.9**	**2.4%**	54.8	2.2%
North America Equity	**30.9**	**1.4%**	32.4	1.3%
Europe Equity Fund	**10.7**	**0.5%**	11.2	0.5%
Global Equity Fund	**83.4**	**3.9%**	86.6	3.5%
Japan Equity Fund	**4.5**	**0.2%**	4.9	0.2%
Pacific Equity Fund	**16.1**	**0.7%**	16.2	0.7%
EM Equity Fund	**47.2**	**2.2%**	46.7	1.9%
Total Quoted Equities	**245.7**	**11.3%**	252.8	10.3%
Total Insured Annuity Policies	**1,397.9**	**64.2%**	0.0	0.0%
Other Holdings (of which unquoted private equity fund is £16.6m (2015: £16.7m)	**172.8**	**7.9%**	175.0	7.0%
Fair value of Scheme assets at 31 March 2016	**2,177.6**	**100.0%**	2,480.2	100.0%

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

The amounts recognised in the Income Statement are as follows:

	Group and Authority	
	2016 £'000	2015 £'000
Current service cost	**19,339**	20,065
Past service cost	**-**	101
Total income statement charge included in employment costs	**19,339**	20,166
Net interest on defined benefit obligation	**69,484**	84,239
Expected return on funded pension scheme assets	**(80,361)**	(95,820)
Total charge to finance income (note 7)	**(10,877)**	(11,581)
Total included in Income Statement	**8,462**	8,585

18. Retirement benefit obligations (continued)

Analysis of amounts recognised in the Statement of Comprehensive Income:

	Group and Authority	
	2016 **£'000**	2015 £'000
Actuarial gains due to liability experience	**(24,756)**	(43,492)
Actuarial (gains) / losses due to liability assumption changes	**(31,874)**	187,909
Return on Scheme assets less / (greater) than discount rate	**292,942**	(197,406)
Actuarial loss / (gain) recognised in the Statement of Comprehensive Income	**236,312**	(52,989)

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

As at 31 March	**2016** **% pa**	2015 % pa
Discount rate	**3.3**	3.3
Inflation assumption (RPI)	**3.0**	3.1
Inflation assumption (CPI)	**2.0**	2.1
Rate of increase in salaries in the next financial year	**3.0**	3.1
Rate of increase in salaries in future financial years	**3.0**	3.1
Rate of increase in pensions in payment (pre 1 June 2015) *	**3.0**	3.1
Rate of increase in pensions in payment (post 1 June 2015) *	**2.0**	n/a
Rate of increase for deferred pensioners **	**3.0**	3.1
Rate of increase in deferred pensioners (post 1 June 2015) **	**2.0**	n/a

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

* In excess of any guaranteed minimum pension

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

Mortality assumptions are based on the Self-Administered Pension Scheme All Pensioners Light series tables with allowance for future improvements in line with the Continuous Mortality Investigation011 Core Projections model. The expected lifetime of a current pensioner who is aged 60 and the expected lifetime of a current non-pensioner (at age 60) are shown in years below:

Age	**Males**	**Females**
60	29.7	31.2
60 in 10 years	30.9	32.4

Additional information

Expected contributions for year ending 31 March 2017:

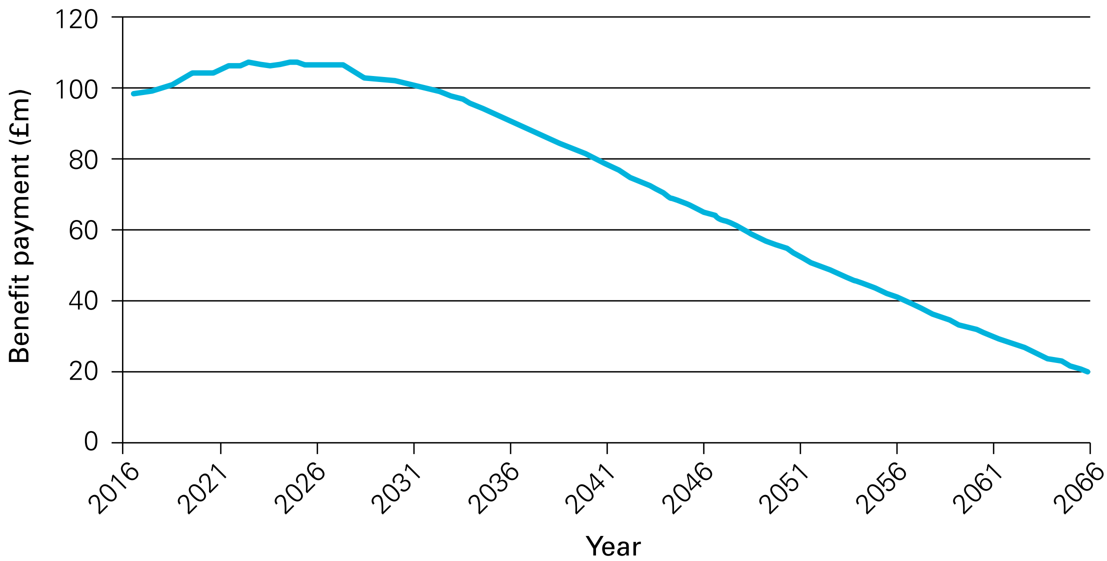
Employer	**16,729**
Scheme participants	**201**

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

18. Retirement benefit obligations (continued)

Maturity Profile of Defined Benefit Obligation

The graph below shows the Scheme's projected benefit payments from 1 April 2016. The data underlying the graph has been provided by the Scheme's actuary.



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	3.3%	0.1% increase	1.5% reduction
Price inflation (RPI)	3.0%	0.1% increase	1.5% increase
Price inflation (CPI)	2.0%	0.1% increase	<0.1% increase
Salary growth	3.0%	0.1% increase	0.1% increase
Mortality	101% (male) / 99% (female)	Long-term trend 1.25%	1.3% reduction

19. Provisions for other liabilities and charges

	Building repairs Group £'000	Building repairs Authority £'000
At 1 April 2014	1,369	1,291
Unwinding of discount	32	32
At 31 March 2015	1,401	1,323
At 1 April 2015	**1,401**	**1,323**
Credited to the Income Statement	**(1,323)**	**(1,323)**
At 31 March 2016	**78**	**-**

	Group		Authority	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Analysis of total provisions:				
Non-current	**-**	1,401	**-**	1,323
Current	**78**	-	**-**	-
Total provisions	**78**	1,401	**-**	1,323

Building repairs

A provision was recognised in respect of the cost of building repairs that would be recovered by the head leaseholder to restore the property at 45-59 Kingsway, London to its original condition on the termination of the lease in 2019. A Deed of Variation was agreed and signed in January 2016 which removed this dilapidations requirement, and the provision has now been released.

A provision is recognised in respect of the cost of building repairs that will be required to restore the property at Northgate House, Crawley, to its original condition on the termination of the lease on 24 December 2016.

The provisions are based on estimates made by independent property consultants of the terminal dilapidation liabilities and related professional fees that will arise.

The fair value of the provision is calculated by discounting the anticipated cash outflows by the rates ruling at the balance sheet date i.e. for the CAA 1.44% (2015: 1.73%), for ASSI 0.0025% (2015: 0.0025%).

20. Derivative financial instruments

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Forward foreign exchange contract asset	**-**	18	**-**	18
Forward foreign exchange contract liability	**279**	-	**279**	-

The fair value of the forward foreign exchange contracts is determined using the forward exchange rate at 31 March 2016, discounted back to present values.

21. Financial instruments by category

		Group 2016			Group 2015		
		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
	Note						
Assets as per Balance Sheet							
Derivative financial instruments	20	**-**	**-**	**-**	18	-	18
Trade and other receivables (excluding prepayments and accrued income)	12	**-**	**5,985**	**5,985**	-	9,024	9,024
Cash and cash equivalents	13	**-**	**9,633**	**9,633**	-	11,064	11,064
Net book amount		**-**	**15,618**	**15,618**	18	20,088	20,106

		Authority 2016			Authority 2015		
		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
	Note						
Assets as per Balance Sheet							
Derivative financial instruments	20	**-**	**-**	**-**	18	-	18
Trade and other receivables (excluding prepayments and accrued income)	12	**-**	**3,210**	**3,210**	-	5,832	5,832
Cash and cash equivalents	13	**-**	**9,501**	**9,501**	-	10,867	10,867
Net book amount		**-**	**12,711**	**12,711**	18	16,699	16,717

21. Financial instruments by category (continued)

		Group 2016			Group 2015		
		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
	Note						
Liabilities as per Balance Sheet							
Borrowings	15	**-**	**3,047**	**3,047**	-	4,155	4,155
Derivative financial instruments	20	**279**	**-**	**279**	-	-	-
Trade and other payables (excluding statutory liabilities)	16	**-**	**6,522**	**6,522**	-	5,389	5,389
Net book amount		**279**	**9,569**	**9,848**	-	9,544	9,544

		Authority 2016			Authority 2015		
		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
	Note						
Liabilities as per Balance Sheet							
Borrowings	15	**-**	**3,047**	**3,047**	-	4,155	4,155
Derivative financial instruments	20	**279**	**-**	**279**	-	-	-
Trade and other payables (excluding statutory liabilities)	16	**-**	**20,022**	**20,022**	-	14,965	14,965
Net book amount		**279**	**23,069**	**23,348**	-	19,120	19,120

Financial risk management disclosures are set out in the Financial Review on pages 66 to 79.

22. Cash generated from operations

	Group 2016 £'000	Group 2015 £'000	**Authority 2016 £'000**	Authority 2015 £'000
Profit before income tax	**5,381**	7,163	**2,159**	5,280
Adjustments for:				
Depreciation, amortisation and adjustment on disposal	**4,394**	3,251	**4,211**	3,176
Grant amortisation	**(353)**	(294)	**(353)**	(294)
Finance income - net	**(10,813)**	(11,557)	**(10,809)**	(11,591)
Unrealised foreign exchange differences	**-**	133	**296**	-
Changes in working capital:				
- Trade and other receivables	**(1,184)**	(1,130)	**1,483**	(559)
- Trade and other payables	**3,705**	775	**3,540**	1,281
IAS 19 current service costs net of cash contributions	**2,948**	4,081	**2,948**	4,081
Provisions	**(1,323)**	-	**(1,323)**	-
Cash generated from operations	**2,755**	2,422	**2,152**	1,374

23. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting year but not yet incurred was nil (2015: nil).

(b) Operating lease commitments

The Group leases offices (part of which are sub-let) and plant and machinery under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years. The majority of lease agreements contain provisions for upwards rent reviews, amounts which are agreed between the lessor and the lessee as the best rent likely to be achieved if let at open market conditions.

The Group also leases vehicles under cancellable operating lease agreements. The Group is required to give, in some instances, 30 days' notice for the termination of such agreements. The lease expenditure charged to the Income Statement during the year is disclosed in note 6.

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

Operating lease payments:

	2016		2015	
Group	**Properties £'000**	**Vehicles £'000**	Properties £'000	Vehicles £'000
No later than 1 year	**6,946**	**570**	6,505	663
Later than 1 year and not later than 5 years	**18,690**	**292**	23,535	388
	25,636	**862**	30,040	1,051

Vehicle lease rental agreements are entered into by the corporation. Lease rental charges for agreements entered into from 2012 are reimbursed by the member of staff responsible for each vehicle. As shown in note 6 this has resulted in a lower charge to the Income Statement this year (2015: lower than the previous year).

Operating lease receipts in respect of sub-let office space:

	2016	2015
Group	**Properties £'000**	Properties £'000
No later than 1 year	**5,493**	4,899
Later than 1 year and not later than 5 years	**15,105**	13,473
	20,598	18,372

24. Guarantees and contingencies

Group and Authority

As at 31 March 2016, the Group had the following guarantees in place:

- A performance guarantee in the sum of KWD 99,981 with the Directorate General of Civil Aviation of the Government of the state of Kuwait, expiring 28 June 2016.
- An advance payment guarantee in the sum of KWD 99,981 with the Directorate General of Civil Aviation of the Government of the state of Kuwait, expiring 28 June 2016.
- A performance guarantee in the sum of MYR 247,500 with the Government of Malaysia, expiring 31 December 2018.
- An advance payment guarantee in the sum of USD 83,868 with the Ministry of Transport, Communication and Tourism, Suriname, expiring 3 March 2017.

Other than as described above, as at 31 March 2016, the Group is not aware of any material contingent liabilities and the Group does not anticipate that any material contingent liabilities will arise other than those for which provision has been made (note 19).

25. Related party transactions

Group

The Civil Aviation Authority is a statutory corporation whose duties, powers and functions are established in and pursuant to primary and secondary legislation. By virtue of provisions in the Civil Aviation Act 1982, the Airports Act 1986 and the Transport Act 2000 in specified circumstances the Secretary of State for Transport may direct the Civil Aviation Authority as to the performance of those duties, powers and functions.

During the year the CAA has undertaken work for the Department for Transport and has recognised revenue of £5,359k (2015: £5,305k).

The Air Travel Trust (ATT) exists to fund repatriation or reimbursement of holiday-makers in the event of the failure of a tour operator. The ATT is funded by contributions made when ATOL-protected holidays are purchased and, in certain circumstances, has recourse to bonds or insurance. M Medlicott, C Jesnick until 31 January 2016, R Jackson until 31 January 2016, R Moriarty from 31 January 2016 and C Tingle from 31 January 2016 (Board Members of the CAA) and K Staples (Secretary to the CAA) were Trustees of the ATT during the year. As detailed in note 1.2, the ATT is excluded from the consolidated financial statements of the CAA.

During the year, the CAA charged £13,424 (2015: £173,563) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £625,071 (2015: £974,721) to the ATT during the year for legal fees, accommodation costs, accounting and other administrative services, none of which was accrued at the year end. In addition, the ATT made a one-off contribution during the year of £364,500 to the CAA towards the cost of developing an improved crisis management system.

During the year, K Staples and R Jackson were Trustees of the Civil Aviation Authority Pension Scheme. Details of the Scheme and the transactions between the CAA and the CAA Pension Scheme are disclosed within note 18.

25. Related party transactions (continued)

The Confidential Human Factors Incident Reporting Programme (CHIRP) is a company limited by guarantee with charitable status and the programme continues to be supported by the CAA. During the year, D King, a non-executive Board Member of the CAA, was on the CHIRP Board of Trustees and the CAA incurred expenditure of £208,000 (2015: £277,350) in support of the programme.

Key management personnel services are provided by Alium Partners and Smart Sourcing. During the year the total expenditure incurred by the CAA was £972,629 (2015: £1,387,638) and £113,507 (2015: £900,933) respectively; the amounts included in trade payables at the end of the year were £97,686 (2015: nil) and nil (2015: £26,336) respectively.

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

Authority

The following transactions with subsidiaries occurred during the year:

	2016 £'000	2015 £'000
Re-charge of Corporate legal, finance, IT and facilities costs:		
CAA International Limited	**831**	811
Air Safety Support International Limited	**294**	294
Re-charge of Corporate Board Member costs:		
CAA International Limited	**70**	67
Air Safety Support International Limited	**17**	17
Provision of Radio Licensing service to CAA International Limited	**221**	170
Work carried out on behalf of CAA International Limited with regard to commercial aviation related services	**2,808**	2,565
Provision of technical assistance to Air Safety Support International Limited	**8**	18
Interest on inter company trading balances:		
Payable to CAA International Limited	**(29)**	(26)
Payable to Air Safety Support International Limited	**(1)**	(3)

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

	Note	**2016 £'000**	2015 £'000
CAA International Limited		**13,182**	11,354
Air Safety Support International Limited		**1,279**	927
	16	**14,461**	12,281

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

26. Current cost return on capital employed

	Operating profit £'000	Average capital employed £'000	Return on capital employed %
CAA Regulatory Sector	**395**	**37,161**	**1.1%**

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

The differences in accounting convention used when comparing current cost accounts with historic cost accounts are:

i) The current cost accounts have been prepared in accordance with the withdrawn Statement of Standard Accounting Practice Number 16, by the application of Government indices to the historic cost of fixed assets together with a working capital adjustment, so as to allow for the impact of price changes on profits and losses and asset values; and

ii) The treatment of the pension scheme under IAS 19 has been excluded from the Balance Sheet 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	01.04.15 - 31.03.16	3.5%

The business segment is required to achieve the higher of either the annual target rate of return on the average current cost of capital employed or break-even after charging interest and tax.

27. Ultimate controlling party

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

Group five-year summary

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Income Statement (historic cost accounts)					
Revenue	**132.6**	134.1	132.0	125.8	115.3
Operating loss before finance income - net and income tax charge	**(5.4)**	(4.3)	(5.9)	(6.9)	(11.2)
Finance income - net	**10.8**	11.3	23.9	30.3	11.0
Income tax charge	**(1.3)**	(1.8)	(3.9)	(4.3)	(0.1)
Profit / (loss) for the financial year	**4.1**	5.3	14.1	19.1	(0.3)
Balance Sheet (historic cost accounts)					
Non-current assets	**109.5**	339.1	278.9	569.7	477.4
Current assets	**27.6**	30.0	32.9	36.1	32.6
Total assets	**137.1**	369.1	311.8	605.8	510.0
Reserves	**85.7**	269.0	221.2	438.0	472.8
Equity	**85.7**	269.0	221.2	438.0	472.8
Total liabilities	**51.4**	100.1	90.6	167.8	37.2
Total equity and liabilities	**137.1**	369.1	311.8	605.8	510.0

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

	2016	2015	2014	2013	2012
CAA Regulatory Sector	**1.1%**	3.1%	8.6%	5.5%	4.2%

Civil Aviation Authority (Accounts) Direction 2016

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 2016 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 statement of the financial position of the Regulatory Authority and of the Group;

   g) a statement of changes in equity; and

   h) a statement of cash flows,

   including in each case such notes as may be necessary for the purposes referred to in paragraphs 2 and 3 below.

   The statement of accounts shall, without limiting the information given, meet insofar as they are appropriate to public corporations:

   a) the accounting and disclosure requirements of companies legislation currently in force;

   b) the accounts disclosure requirements of paragraphs 9.8.6 and 9.8.8 of the UK Listing Rules;

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

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

2. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 to this Direction. The annual accounts shall include the information set out in Schedule 2 to this Direction.

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

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

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

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

4. The Direction issued to the Authority dated 1 April 2015 is hereby revoked.

Patricia Hayes
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State

Dated: 16 February 2016

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 Regulation
        - » Markets and Consumer Regulation
        - » Consumer Protection
        - » 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 and amortisation, other gains/(losses) (as appropriate) - net, income equalisation and other expenses; and

   d) a statement showing separately the interest on capital loans.

2. The balance sheet or a note thereto shall show:

   a) the Group's maximum borrowing power; and

   b) all sums borrowed showing separately amounts borrowed from the National Loans Fund and other borrowings and showing separately when repayment is due.

3. The statement of accounts or notes thereto shall include:

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

   b) an explanation of the manner in which the returns have been computed and a definition of the target to be achieved;

   c) comparisons with other financial targets which have been agreed with the Group; and

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

Civil Aviation Authority (Report) Direction 2016

The Secretary of State for Transport, in exercise of his / her powers under Section 21 (2) (d) of the Civil Aviation Act 1982 hereby specifies that the Annual Report of the Civil Aviation Authority, (the Group which is comprised of the Authority and its subsidiaries) shall include:

1. the agreed performance and service aims of the Group, and the outturn against them;
2. the main features of the latest Strategic Plan of the Group;
3. an audited statement of efficiency;
4. a fair and full review of development of the business during the year, the significance of the circumstances facing the Group, and indication of likely future developments for each of the significantly different classes of business. The review should deal separately with the Group's financial position and should include:
    a) a comparison of results against target including explanation of the relationship between current and historic cost accounts and the significance of returns on assets employed;
    b) comments on and changes in funding levels;
    c) significant changes in property, plant and equipment and intangible assets, with a brief description of assets involved;
    d) indication of activities in the field of research;
    e) comments on other relevant aspects of the financial results; and
    f) summary of significant events since the end of the reporting period.
5. a five year summary of the Group's financial results, including and identifying inter-alia:
    a) appropriate analyses of income and expenditure and assets and liabilities;
    b) total equity; and
    c) operating profit/(loss) (as appropriate) before interest expressed as a return on average current cost of total equity excluding treatment of the pension scheme under International Accounting Standard 19, analysed between the different classes of business; and
6. this Direction and the Accounts Direction.
7. the Report Direction issued to the Civil Aviation Authority dated 1 April 2015 is hereby revoked.

Patricia Hayes
Director General Civil Aviation, Department for Transport
Signed by authority of the Secretary of State
Dated: 16 February 2016

Slavery and human trafficking statement 2015/16

Introduction

The Civil Aviation Authority ("CAA") is committed to ensuring best practice in its own business activities and has similar expectations of companies in its supply chains. The CAA acknowledges its responsibility under the Modern Slavery Act 2015 and will ensure transparency both within the organisation and with suppliers of goods and services to the organisation.

CAA procurement

As a public body the CAA is required to adhere to the 2014 EU Procurement Directives, as implemented by the UK in the Public Contracts Regulations 2015. The regulations govern how we buy goods, services and works above certain threshold values; known as the EU thresholds.

The Directives and the regulations are designed to enshrine fundamental principles of transparency, equal treatment and non-discrimination in all public sector procurements irrespective of value.

Typical categories of CAA procurement include:

- Professional services and consultancy (management, technical aviation, financial, medical and legal);
- Temporary staff;
- Research and development;
- IT supplies, services and telephony;
- Travel services (including car hire, hotels, air and rail travel);
- Hire of conference facilities;
- Estate services;
- Building and civil maintenance;
- Fleet management;
- Catering;
- Cleaning and waste disposal;
- Grounds maintenance;
- Training and development;
- Stationary and consumables;
- Furniture and furnishings;
- Employee benefits; and
- Occupation health.

CAA supply chain

CAA's supply chains predominately cover services and limited goods related to the support and provision of our daily operations.

Depending on the value of the procurement we find suppliers through the following means:

- Existing suppliers known to us;
- Suppliers registered on Government Frameworks (e.g. Crown Commercial Service);
- Contracts Finder, Official Journal of the European Union (OJEU) and trade press;
- Suppliers who have registered interest on the CAA's e-Sourcing Portal;
- Information provided to us from partner organisations;
- Research based on suppliers' websites; and
- Trade information or trade exhibitions.

Slavery and human trafficking

The CAA is committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its business. During the course of this reporting year we have taken preparatory steps in response to the enactment of the Modern Slavery Act 2015, identifying the detailed work that we will carry out to ensure that we meet our obligations under the Act.

As part of a detailed programme of work in 2016/17, the CAA will:

- Develop and implement an internal policy that reflects the CAA's commitment to acting ethically and with integrity in all our business relationships. Thereafter the policy statement will be reviewed and published annually;
- Undertake a risk assessment of CAA current supply chain and internal practices to identify any risks;
- Where appropriate, undertake measures to mitigate and remove any risk identified within the current supply chain;
- Implement and enforce effective systems and controls to ensure that slavery and human trafficking is not taking place anywhere in our supply chains;
- As part of supplier approval process, incorporate slavery and human trafficking assessment at due diligence stage;
- Update CAA tender and contractual templates to incorporate the new Act provisions;
- Determine the appropriate level of management control and reporting necessary to manage CAA responsibilities; and
- Provide appropriate training across the business to ensure that a high level of understanding of the risks of modern slavery and human trafficking is understood.

The CAA will not support or deal with any business knowingly involved in slavery or human trafficking.

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

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

Christopher Tingle
Chief Operating Officer
15 June 2016