Civil Aviation Authority

Annual Report & Accounts 2022/23

Launch

CAP2561

Annual Report & Accounts 2022/23 Civil Aviation Authority

Presented to Parliament pursuant to section 15(2) of the Civil Aviation Act 1982, as amended by the Civil Aviation Authority (Auditing of Accounts) Order 1984.

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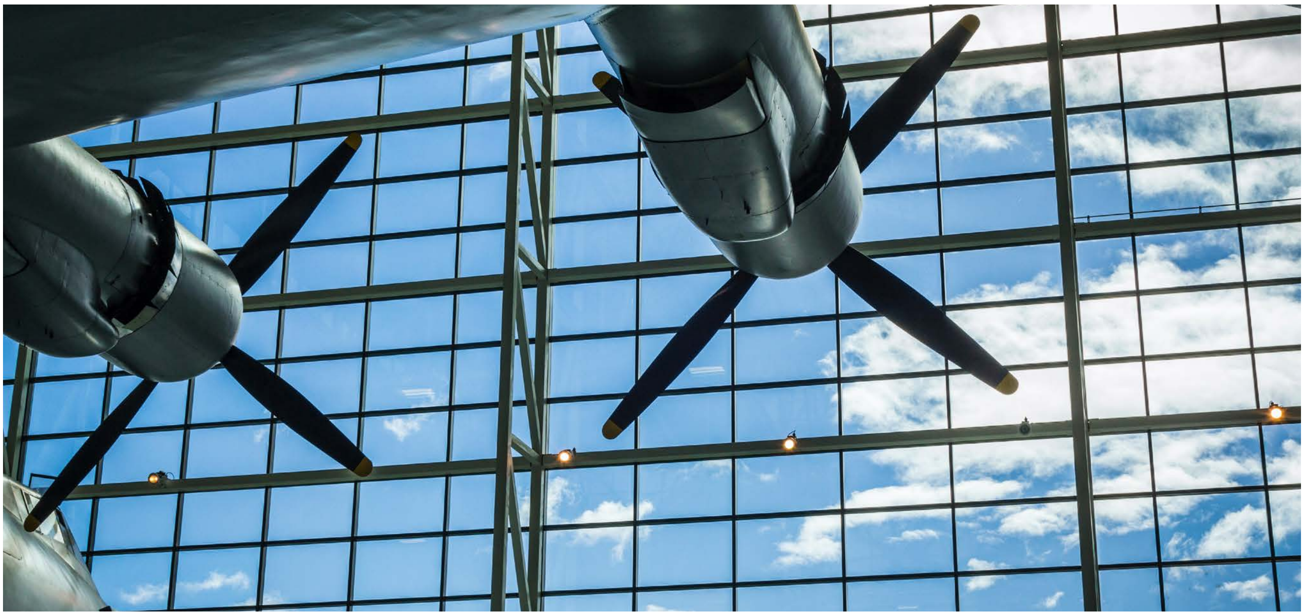
Strategic Framework and Business Model



We are a public corporation established by Parliament in 1972 and now constituted under the Civil Aviation Act 1982 (as amended). Our functions are set out in legislation that includes the Civil Aviation Act 1982, the Aviation Security Act 1982, the Airports Act 1986, the Transport Act 2000 and the Civil Aviation Act 2012, the 2018 Space Industry Act and the UK Basic Regulation, and in secondary legislation made under those Acts, principally the Air Navigation Order and Implementing Regulations.

As the United Kingdom's aviation regulator our objectives are to make sure that:

> The aviation and aerospace industry meets the highest safety standards;

> Consumers have choice, value for money, are protected and treated fairly when they fly;

> Through efficient use of airspace, the environmental impact of aviation is effectively managed and emissions are reduced; and

> The aviation industry manages security risks effectively.

The following pages and graphics set out our business model, strategy, Board priorities and key enablers. These form the bedrock of our work and are referred to throughout this report. More detail on the purpose of each is set out before each graphic.

Business Model

Our business model sets out the framework within which we operate and how our role and remit fit in with the wider aviation and aerospace sectors. It also sets out our statutory functions and duties that define our powers to act and that guide our decision-making.

In setting our strategy and plans, we also take into account priorities set out publicly for us by the Secretary of State for Transport, including those elements that relate to Government policy. These include supporting the recovery and growth of the industry; supporting innovation; modernising airspace and facilitating skills. The full set of the Government's priorities are published on our **website**.

Our business model shows:

> The key organisations that we work with to achieve our aims;

> Those that oversee our work;

> The many companies and individuals we directly regulate;

> UK Parliament, to which we are accountable;

> The Department for Transport, which is our Government sponsoring department; and

> The International Civil Aviation Organisation (ICAO), whose international regulations we must meet and who audit us and other national aviation regulators.

We also show the key risks that we constantly track to monitor the success of our work.

CAA Business Model

Our Stakeholders

Those we PROTECT

- Aviation consumers
- The overflown

Those we REGULATE

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

Those who WORK WITH us

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

Those who OVERSEE our work

UK Parliament

Department for Transport

Our Statutory Functions

- Regulating civil aviation safely, participating in the design of UK airspace, considering all factors including access and environmental impact
- Advising and assisting the Secretary of State for Transport on all civil aviation matters, including policy for the use of UK airspace so as to meet the needs of all users, having regard for national security, economic and environmental factors, while maintaining a high standard of safety
- The licensing of airlines, including assuring their financial fitness
- The economic regulation of airports with significant market power and of the provision of en-route air traffic services
- Concurrent competition powers (with the Competition and Markets Authority) over airports and air traffic control
- Oversight of the design, maintenance and repair of aircraft
- The licensing of pilots, air traffic controllers, aircraft maintenance engineers and commercial RPAS operators
- The licensing of air travel organisers and management of the ATOL protection scheme
- Enforcing general consumer protection and aviation specific legislation, such as denied boarding compensation and persons with reduced mobility
- The inspection of UK outbound aviation security and drafting of regulations as directed by the Secretary of State for Transport
- Oversight of Cyber Security resilience
- Overseeing satellite licensing, commercial and large rocket permissions

Regulatory Principles

Understanding and addressing risk

We will understand and address safety, security, and consumer protection risks across the sector, for the benefit of consumers and the general public. We will be clear that primary responsibility lies with those delivering the activity and require them to show us how they manage their own risk. We will work with partners where they are best placed to deliver better outcomes.

Delivering unique value

We will take a proactive, collaborative approach to the functioning and development of the regulatory system in the UK and worldwide. We will facilitate and nurture innovation and help others to do the same. We will deliver independent regulatory oversight within the legislative and policy framework set by Parliament and Government.

Acting proportionately

We will explore different ways of achieving desired outcomes, regulating only where we have to. The benefits expected from our regulation will outweigh any burden or cost we impose. We will maintain a strong understanding of the differences among the organisations and individuals we regulate and will tailor regulatory approaches accordingly.

Engaging proactively and transparently

We will constantly look outwards and challenge ourselves to prepare for sectoral and technological innovation and new challenges. We will draw on a wide range of evidence, ideas, and feedback from those we regulate and wider society to inform our decisions. We will be clear about how our actions and decisions may affect our stakeholders. We will publish appropriate information in a clear and accessible manner to ensure transparency.

Acting on our combined insight

We will value the collective insights of the CAA, and continually encourage innovative approaches in our work. We will draw on evidence, data, best practice, and external insights, particularly when balancing competing interests or considering trade-offs.

Our Strategy

The oversight of the safety and security of civil aviation and space sectors and protecting consumers are our core regulatory roles. We constantly challenge ourselves and those we regulate to improve these critical areas. We will take independent regulatory decisions to uphold high standards of safety, security and consumer protection, guided by our regulatory principles and in accordance with our legal duties.

The context in which we operate changed significantly during the lifetime of our previous strategy. The UK exited the European Union (EU) in January 2020, and as a result the UK is no longer a member of the EU aviation regulatory system including the European Aviation Safety Agency. This has led to a significant increase in the scope of the CAA's regulatory oversight and rulemaking activities and has meant an increase of over 1,000 new entities requiring approvals from the CAA.

The aviation industry has always been innovative and at the forefront of technological development, but recent years have seen a step change in areas such as remotely piloted vehicles, commercial space activity and the rapid development of electric vertical take-off and landing aircraft. We will work to make sure these additions, and the infrastructure that will be required to enable this new activity, can be safely introduced into the existing aviation system.

In July 2021 the CAA was appointed by the Government as the UK's civil space regulator to help support the Government's ambition for the UK to be a leading country within Europe for the exploitation of commercial space launch.

With increasing environmental challenges from climate change, there has never been greater need for the aviation and aerospace sectors to manage and mitigate their environmental impacts. Everyone involved in aviation and aerospace must rise to the challenge to play a full part in mitigating this threat, while retaining its vital role connecting people and businesses around the world.

The impact of Covid-19 on the aviation industry has been extensive and its effects continued to be felt well into the financial year 2022/23. Our role to protect safety, security and consumer rights has seen us directly involved throughout the pandemic. As the industry's recovery continues, our work will focus on engaging with operators on a safe and managed return to full capacity and protecting consumer rights in times of disruption.

All these changes have further demonstrated that we must continue to focus on our core regulatory activity and enable the development of new parts of the aviation system by anticipating and adapting quickly to change.

Our strategy, published in May 2021, positioned in this context, sets out what we want to achieve, how we achieve those outcomes and what resources and systems are required to enable this.

In the delivery of our strategy, we continually challenge ourselves to improve by drawing on a wide range of insights and evidence to deliver regulation in a way that the public, consumers, the regulated community and those who oversee us would expect.

We have one top-level strategy, one plan and one set of priorities for the organisation, whilst having the flexibility to adapt in a fast-changing environment.

Our Strategy at a Glance

Our Mission

Improving aviation and aerospace for consumers and the public

Our Vision

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

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

Our Purpose

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

To uphold consumer choice, value and fair treatment.

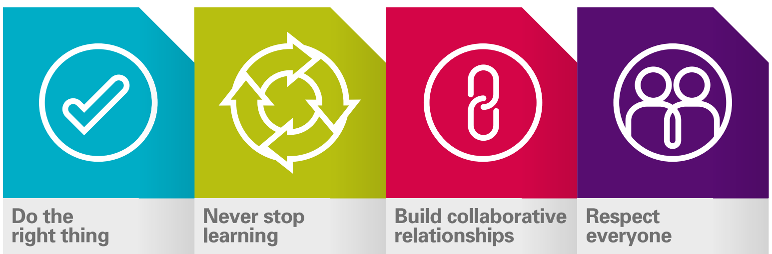
To enhance vibrant, competitive and innovative aviation and aerospace sectors.

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

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

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

Our Values



Our Strategic Focus Areas

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

Our Regulatory Approach

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

Board Priorities

Every year the Board reviews the appropriateness of our strategy and reviews and approves our priorities for the next financial year, which are those activities the Board wants the organisation to particularly focus on and it will track closely.

The following two infographics show these Board priorities for the organisation to help achieve the longer-term outcomes defined by the strategy. The first details those Board priorities for the financial year 2022/23, and the second sets out the Board priorities for the financial year 2023/24. Our annual business plan, also approved by the Board, is aligned to these annual Board priorities and performance is monitored at Board level.

For the 2023/24 financial year our priorities include making sure we continue to deliver on our core regulatory responsibilities, including safety, security and consumer protection. The Board has also highlighted a programme to improve our customer experience for those coming to us for licences and other transactional services, and how our overall work can help future aviation sustainability. The following diagrams show our full Board priorities that will support their delivery.

Board Priorities for 2022/23

Building on our strategy and the context we are operating in, these are the agreed in-year business plan items which will be a priority for 22/23.

Aviation Recovery

Use our role to encourage good consumer outcomes and operational resilience, while recognising the likely demand/supply constraints in the system this year and the importance of operational and financial recovery for commercial aviation.

Examples:

- Deliver a robust programme for safety, security and consumer protection
- Take an active role in co-ordinating responses to cross-sector/entity issues
- Continue to promote more financial robustness amongst ATOL holders and airlines, while supporting growth and competition
- Realistic and deliverable service levels in place for passengers with reduced mobility

Service Delivery

Enhanced focus on improving the customer experience of CAA's service delivery and dealing effectively with the volume of applications expected with the end of the EU recognition period.

Examples:

- Service level agreements consistently met, with resilience built in to meet increased demands
- Improve how we deal with customers in terms of interactions and complaints
- Transform business processes by leveraging digital solutions to improve customer experience
- Improve transparency and regularly make public our performance data

ICAO Audit

In partnership with DfT, we prepare for the ICAO audit by November 2022, achieving a minimum of 95% score for audited CAA scope.

Examples:

- All continuous monitoring approach tools and information completed, reviewed and uploaded into the online framework before the audit
- Mock audit completed based on ICAO audit scope and timetable
- Online framework maintenance process developed, implemented and documents updated and published
- Fully participate in the DfT's state-level preparation programme

CAA Reward Strategy

Deliver a new reward model and a credible implementation plan.

Examples:

- Colleagues understand the model and have the opportunity to input their views
- Includes a robust progression mechanism and clearer, consistent grading and job naming
- Continue to have transparent pay governance in place
- Undertake bi-annual equal pay audits and address issues identified

New User Integration

Integrate new users into the existing UK aviation system, including spaceflight, RPAS (remotely piloted aircraft systems), BVLOS (beyond visual line of sight) services and UAM (urban air mobility).

Examples:

- Develop roadmaps and strategies to integrate existing and new users into UK aviation system
- RPAS and UAM entities have clear pathways to airworthiness certification
- Spaceflight licensing decisions are evidence based and made in a timely manner
- All applications requiring authorisation from CAA are issued following adequate assessment of safety risk and compliance with regulations

“We will continue to ensure the CAA delivers effective safety, security and consumer regulation, and encourage operational resilience in a recovering industry while commanding stakeholder confidence. At the same time we will be focused on providing excellent customer service for our licensing and investing in future capabilities to enable new technologies.

Richard Moriarty, Chief Executive, UK Civil Aviation Authority

Together we will

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

Board Priorities for 2023/24

Building on our strategy and the context we are operating in, these are the agreed in-year business plan items which will be a priority for 2023/24.

Core Regulation

Deliver a high degree of assurance that key safety, security and consumer risks are being well managed, as recovery from Covid-19 continues to address the consequential consumer impacts that affected the sector, while seeking to evolve our regulatory and oversight frameworks in light of the Reform of EU Legislation Bill and supporting economic growth.

Customer Experience

Define a Board-approved customer experience and modernisation programme for delivering measurable improvements for those that require licences and other transactions from the CAA, and deliver projects to improve our customer-facing services.

Future Aviation & Sustainability

Build advisory and regulatory capabilities that are both effective and scalable in enabling the UK to take a leading position in the development of new technologies including making a strong contribution to the sustainability challenge.

Governance & Effectiveness

Continue to seek improvements in our own governance and effectiveness, ensure that we have effective leadership during a period of senior leadership transition and successfully implement the agreed actions with the CAA Board and DfT following the ALB Review.

Organisation Capabilities & Capacity

Undertake a review of our future organisation capabilities and capacity and have an agreed action plan for delivery.

Together we will

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

Key Strategic Enablers and Values

Our one-CAA approach underpins our people strategy to create a high-performing, values-based organisation. It is based on shared accountability where we all have a role to play in creating a culture and work environment where everyone's best talents are brought to bear in delivering the people strategy and realising our vision.

Our principal capability is the expertise and commitment of our people and their skills and knowledge that makes us a world leading aviation regulator. Our colleagues have the experience and knowledge to both regulate and guide the industry to achieve outcomes that maintain high levels of safety while also enabling the UK's aviation system to grow and develop.

It is therefore critical that we recruit well and that we provide an environment that enables colleagues to develop and thrive. This allows us as an organisation to continue to perform at the highest level.

Our culture is supported by our four values which underpin how we operate:

- **Do the right thing**- we always do the right thing, not the easy thing, to achieve our vision and mission
- **Never stop learning**- we're always open to challenging our thinking
- **Build collaborative relationships**- we have common goals and we use our diverse experiences, skills and knowledge to achieve them
- **Respect everyone**- we know, and show, that everyone deserves respect

We commit to efficiency without jeopardising our role. We will always make sure our actions are evidence-based and that we follow the Government's better regulation principles.

From a financial perspective, in most years we are largely funded by those we regulate and to whom we provide services. However, due to the impact Covid-19 has had on the industry and therefore our income, we have gratefully received additional funding support from Government during this period up to the end of 2022/23.

What We Do: Stats & Facts

ATOL Claims Processed
15,587
As at end FY22-23

ATOL Licences Granted
1,994
Through FY22-23

Training Organisations
280
As at end FY22-23

Air Traffic Service Providers
69
As at end FY22-23

Air Operator Certificate (AOC) Holders
118
As at end FY22-23

UK Registered Aircraft
19,072
As at end FY22-23

Licensed Air Traffic Controllers
2,120
As at end FY22-23

Flight Crew Licensing Applications Completed for Commercial Pilots
6,953
Through FY22-23

Flight Crew Licensing Applications Completed for Private Pilots
5,176
Through FY22-23

What We Do: Stats & Facts

Airspace Change Request Applications
114
Through FY22-23

Space Orbital Licences Issued
174
As at end FY22-23

PACT Cases Received
4,056
Through FY22-23

Foreign Carrier Permits Granted
10,628
As at end FY22-23

Active RPAS Operational Authorisation
3,620
As at end FY22-23

Active Aerodromes
133
As at end FY22-23

Active Part 145 Maintenance Organisations
703
As at end FY22-23

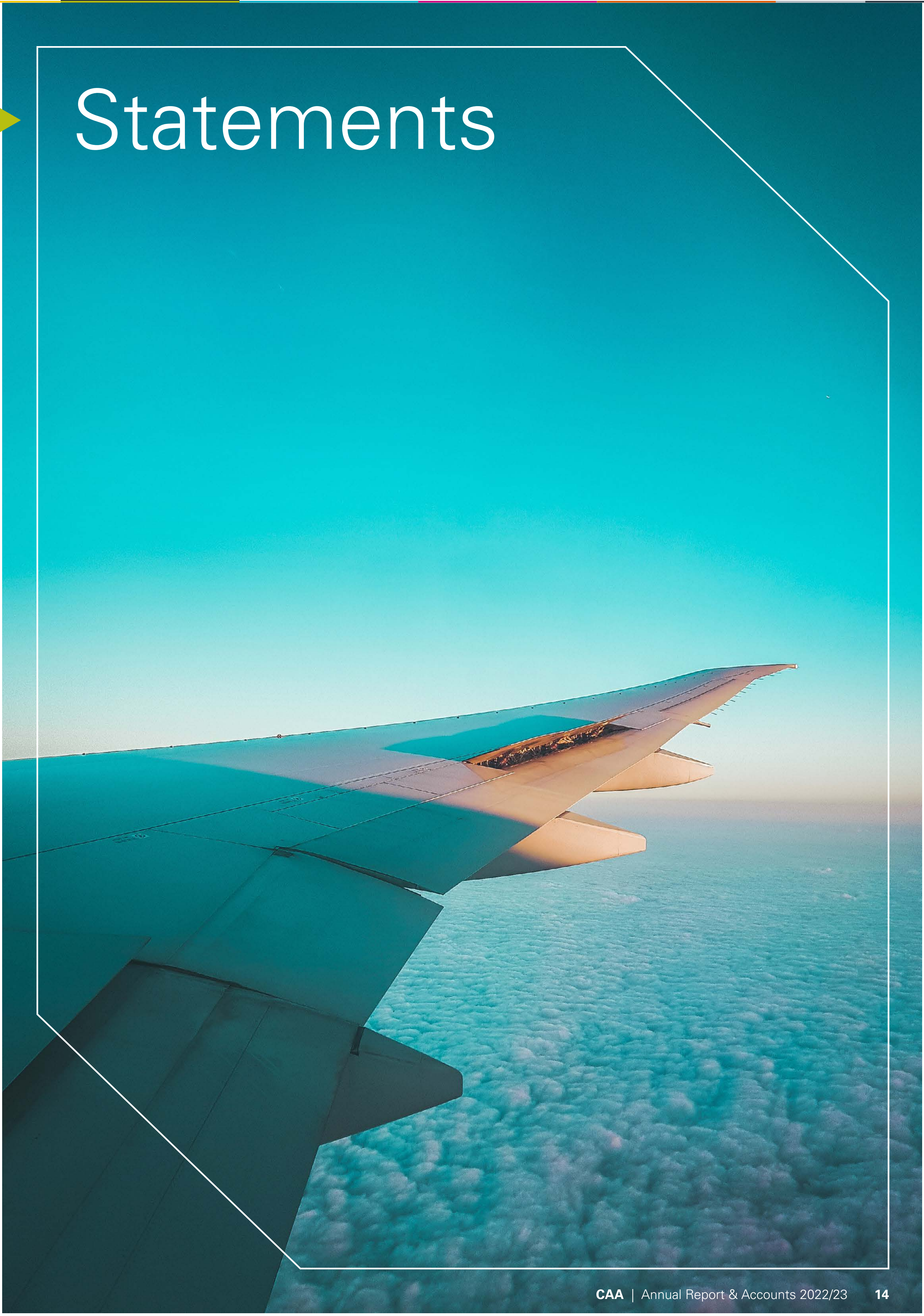
Aeromedical Examiners
125
As at end FY22-23

Licensed Maintenance Engineers
13,307
As at end FY22-23

Pilot Licence Holders
52,395
As at end FY22-23

Active RPAS Users
513,860
As at end FY22-23

Statements



Statement by the Chair

Sir Stephen Hillier

I started my introduction to the 2021/22 CAA Annual Report and Accounts by speaking about the aviation sector's recovery from the Covid-19 pandemic: I do so again for our 2022/23 report.

While the recovery from Covid-19 has been more rapid than forecast in many respects, the pace has not been even across the sector and there is more recovery still to happen.

Working with the Government and the industry, I am confident that, as the CAA, we have played our part to the full in making sure both safety and security have been safeguarded in the midst of the challenges of recovery.

However, the adverse impact on consumers' interests, particularly those with mobility issues, has been clear especially at the start of this period. We are, therefore, closely watching how the upcoming peak season progresses. The process of recovery has also further underlined how the CAA needs additional powers to protect consumers' interests and expectations, a position which is supported by Government. We are looking forward to seeing further developments in this important area.

Supporting aviation's recovery from the pandemic was one of our Board's priorities in 2022/23. Equally, we made much progress across our other priorities. We have undergone the first audit by the International Civil Aviation Organisation (ICAO) of the UK's aviation system since we left the European Aviation Safety Agency system in 2020. The final report shows an excellent level of compliance with ICAO's Standards and Recommended Practices and the UK was praised for having comprehensive oversight and excellent cooperation and communication with industry. In addition, in two areas our system and technical procedures were highlighted as 'best practice'. This result reflects the exceptional efforts and achievements of colleagues across the CAA and confirms our strong national and international reputation as a safety regulator.

We have worked hard to make some further improvements to the service we deliver to our customers. This work has included the application of significant additional resources to process thousands of new licences, through to improving our complaints process for those occasions when we might not have met the high standards we set ourselves. In the coming year and beyond we will continue to invest in our overall service to customers and increase our digital offering to make it easier for stakeholders to interact and get regulatory services from us.

We have also invested significantly, with welcome Government financial support, in our ability to support the development of sustainable aviation, enable aerospace innovation and the introduction of new technologies. In turn, this has enabled us to take further steps to create a regulatory environment that supports growth, while also safely integrating new aerospace users. Our progress in space licensing was most notable and we have rapidly grown our capacity and capabilities since becoming the UK's space regulator in July 2021. We have already licensed over 300 satellites and 174 space orbital licences, as well as the first spaceport launch operator licence for the UK.

Progress with our strategy and the Board's priorities over the last year has confirmed our baseline is strong. However, there is still more that we can and must do to improve the role we play for the aviation and aerospace sectors and our own regulatory customers. For most of this year, we have been busy supporting an external review of the CAA led by Jeremy Newman. One of our core values is to never stop learning, so the review is a welcome opportunity to analyse our responsibilities and capabilities and help us define the CAA of the future and rightly challenge us to be an ever-better regulator. This is set against the backdrop of a CAA which is steadily growing in size as our perimeter of responsibilities expand.

I am confident the review's recommendations will help us make sure we are an ever-more forward-looking, efficient, effective and well-governed organisation, one which is able to move in a more agile fashion in pursuit of aviation consumers' interests and constantly improving regulatory customer service. Those two latter points are very important to us and they are fully reflected in the Board's Priorities for 2023/24.

Statement by the Chair

Sir Stephen Hillier

Across all our endeavours, we work closely with our sponsor and partner, the Department for Transport as well as many other Government departments. This work involves informing Government's policy making, working together on joint programmes, as well as on the more formal governance arrangements that apply between us. In addition, we are grateful for the funding Government provides for specific activities.

The Board was naturally disappointed when our CEO, Richard Moriarty, announced his intention to leave the organisation at the end of this financial year. Richard has been a first-class CEO, successfully leading the CAA during periods of major crisis, such as the Covid-19 pandemic and the collapse of the Thomas Cook organisation. He also oversaw the expansion of our responsibilities. The Board and everyone at the CAA join me in wishing Richard every success in his future ventures. His departure comes at the same time as a number of other CAA executives leave us, after several years of remarkably little change.

The Board fully recognises the potential risks through this period of change but we are equally clear that our strategies, priorities and relationships remain a constant and that we will safeguard the predictability and certainty which stakeholders value highly. Richard and the organisation's senior leaders had established a strong succession plan to cover the changes. We are looking forward to appointing our next CEO and other new executives as soon as practicable.

This Annual Report makes clear that it has been another busy and demanding year for the CAA. A successful year too, and I am confident that we remain trusted to support the highest standards in safety, security and consumer interests for those that fly in the UK.

Sir Stephen Hillier, Chair
21 June 2023

Statement by the Chief Executive
Richard Moriarty

This statement has been written by the former Chief Executive, Richard Moriarty, who was in post for the duration of the financial year ended 31 March 2023. He stood down from the Board on 5 April 2023.

As Stephen mentioned in his Chair's introduction, in the past few annual reports and accounts our statements have focused on the significant impact of Covid-19 on the world and aviation in particular. I'm pleased, therefore, this year to be able to report on the industry's significant recovery and a journey towards normality.

European air traffic control body Eurocontrol report that levels of air traffic over the continent in 2022 were back to 83% of what they were in 2019, the last year before Covid-19 restrictions were in place.

The main priority of everyone this year was a safe and secure return from an unprecedented shut down. In doing this, the industry maintained the excellent safety record we've seen for some time. This was no mean feat, and all involved should be commended for their professionalism and attention to the risks involved. I am also very grateful for the tremendous degree of collaboration shown by the industry in helping to navigate the risks posed by this rapid recovery profile.

While a safe and secure return was great to see, the disruption experienced by many passengers during the summer was disappointing. In some cases, it was unacceptable, particularly the issues faced by consumers with reduced mobility. This showed how difficult it was to re-start an industry from zero, but it also highlighted some fragilities within the UK aviation ecosystem such as changes within the labour markets that have historically supported ground handling activities. There are, of course, many separate moving parts which need to operate correctly and in unison.

The issues started to be resolved as last summer wore on and the UK system is in a much better state to now provide the level of service and resilience that consumers have a right to expect. Although the CAA played a strong role in supporting the return to resilient operations, we did have to step in on several occasions to remind the industry, and individual operators, of their duties to consumers.

The problems were by no means limited to the UK, emphasising the international nature of the business we oversee. We have excellent working relationships with many other aviation regulators around the world. Sharing information and learnings helps us all to perform to the highest level. In undertaking our safety work, we all use the standards set by the United Nations body, the International Civil Aviation Organisation (ICAO).

It was the UK system's turn to be subject to a focussed safety audit by ICAO in 2022. These inspections help to confirm whether a nation is on track with its entire safety oversight system and highlight any areas of improvement.

I'm pleased to say that both the CAA and the wider UK system achieved a very good result placing us among the very best performing aviation regulatory systems in the world. Not that this will make us complacent. Not only does a result like this reflect the significant work of the whole aviation system including the CAA and set us up for the future, but it also shows the UK aerospace system in a good light and helps to enable future growth. It is a tribute to the work of everyone at the CAA and further afield who place safety at the heart of everything we do.

This safety emphasis has been the priority as we took on new powers to be the UK's civil space regulator. While ultimately the Virgin Orbit launch in January 2023 was unsuccessful, the flight of the launch vehicle went to plan, and from a safety oversight perspective the system did 'fail safe' without harm as it was designed to. The overall lessons that can be learnt from this first launch activity will be taken on board and applied for future licensing activity.

We remain committed to helping to facilitate the safe expansion of the UK space industry as we do the many other areas of innovation under our remit and recognise the pace at which some of these operators aspire to move.

Not everything in aerospace is new. Heathrow Airport has been in operation since 1946 and for the majority of that time has been the UK's dominant airport. Because of its strong market position we regulate the maximum charge it can levy on the airlines that use it. Traditionally this price cap is set every five years and our most recent decision was made in March 2023.

Statement by the Chief Executive
Richard Moriarty

Given the starkly opposing commercial interests of the airport operator and airlines, it is unlikely any decision we make will be met with uniform consensus. This was borne out in April 2023 when the airport operator and several airlines applied to the Competition and Markets Authority to appeal our decision. It is important to remember we regulate primarily for the protection of consumers, making sure they get a fair price and a value-for-money service.

Departures and arrivals at Heathrow were controlled for a period on 19 September 2022 to allow London to fall silent for the sad occasion of the funeral of Her Majesty Queen Elizabeth the Second. The Royal family has always played a large part in our nation's aviation story and our airspace team were proud to undertake a coordination role in making the airspace silence possible.

How our airspace is used and who has access to it is an ongoing challenge, especially as we see new technologies such as drones and electric vertical take-off and landing (eVTOL) aircraft entering the system. We relaunched our airspace modernisation strategy in January 2023 which sets out some really exciting possibilities for how we treat this vital bit of infrastructure in the future and enable our industry to grow. The integration of new users such as drones alongside existing airspace users was a particular focus of the new strategy alongside retaining a commitment to modernising the controlled airspace around our major airports. This work is about making sure we are using technology to extract the maximum use from a scarce airspace resource. But it is also about trying to match the differing requirements of airspace users and factoring the impact of those who are overflown.

One key set of airspace users is the General Aviation (GA) community. In some parts of the UK the long-term increase in commercial air travel has made the airspace structure to accommodate it quite complex. Our new modernisation strategy seeks to use technology and an increased sharing of dynamic information on flights to improve this situation by allowing different users to use the same piece of airspace; in some cases by reliably and accurately being electronically visible to each other. We are keen to see GA flourish in the UK as it brings enjoyment to many thousands of people as well as helping to provide the industry with its future aircrew.

Another challenge for our airspace is to make sure the UK gets the best possible outcomes from drone use, a key part of the Government led Future Flight programme; important work that we're actively supporting. One major challenge still to be completely solved is the full integration of drones flying beyond the visual sight of its operator. In December 2022 we set out our proposals for how this could become a more everyday occurrence over the next few years. These proposals initially focus on developing checks on pilot competence and the airworthiness of the devices themselves. They will then form part of a package of new guidelines that will allow flights such as drone inspections close to infrastructure. In April 2023 we expanded on this work by publishing an airspace policy proposal for wider airspace integration. This will be researched as part of a regulatory sandbox led by our innovation team.

We have continued to support the aim for the UK to be a leading country for developing, trialling and certifying new technologies. We have built, and will continue to grow, the platforms in the organisation to enable this. In March 2023 we further refined the split between our innovation and safety teams to set us up for future challenges and help stakeholders bring their products to market. Introducing innovators into the aviation system is one area where we are uniquely placed to assist. Having international coordination and harmonisation around the future of flight is also a key aim for us when we work with other regulatory bodies around the world.

Our innovation work goes well beyond drones and eVTOL. If we are to make aviation more sustainable then new fuels and engines will be key areas of development. I'm pleased to say we were able to support a number of projects in these areas including hydrogen/electric propulsion both to individual companies and by contributing to the Government's Jet Zero programme. We've detailed more on our work for these areas in our review of the business section of this report.

Statement by the Chief Executive

Richard Moriarty

What we do around innovation is part of our overall effort to help the UK industry safely meet its sustainability aims. In May 2022, we published our environmental sustainability strategy setting out how we will work with the whole aviation system, both domestically and globally, to address aviation environmental performance. It provides clarity to our colleagues, stakeholders, and those we regulate on our roles, remit and ambitions. The strategy also explains what we plan to deliver in the short and medium term, setting out our long-term climate change vision and the Government and industry's evolving approaches.

It is essential that we continuously look to improve in this area and across all our other responsibilities. We are always exploring ways to better the service we provide, especially where we are the best-placed body to lead on a subject or issue, and we recognise both the recent progress we've made and the journey still ahead of us. This was the case with the end of the EU transition period. With such an important issue having a finite deadline, we stepped in to make sure everyone impacted knew exactly what their options were and set up a specific team to run and oversee what was required. We have ambitious plans to continue to improve the service we provide to our regulatory customers over the coming years.

We are also aware that existing regulation and requirements must be kept under constant review to make sure they remain fit for purpose. A radical overhaul may be required in some cases. For instance, in October 2022, we launched a once-in-a-generation review to simplify the application process for private pilot licences. We also have a wider duty to make sure we are doing the right thing, reflected in our work this year to help pilots with HIV. This was a world first for the area when we announced that all pilots living with HIV are now able to work towards gaining a full medical licence.

December 2022 saw the public Inquest into the 2015 Shoreham Airshow tragedy. The thoughts of all of us at the CAA remain with the families and friends of everyone affected by this terrible event. At the Inquest the Coroner concluded that those tragically lost were unlawfully killed by the pilot. Since the tragedy, there have been a number of investigations, reviews and changes to regulations aimed at preventing any repeat of what took place. We carefully considered all these enhancements to safety and the oversight of air displays, and the necessary changes have been implemented. We continue, however, to closely monitor the safety of civil air displays in the UK.

Whatever area we are involved in, it is absolutely right that we are subject to scrutiny and learn lessons about how we can continually improve as an organisation. The Arms-Length Body review of our work which the Government initiated in 2022 under Jeremy Newman's leadership will help us to identify what's working well and where we can improve. The same applies to the ICAO audit of the UK's safety oversight that took place in 2022. In these, as across so many of our activities, we recognise the constructive relationship we continue to have with our sponsor the Department for Transport and many other Government departments.

It is vital colleagues in the organisation are committed and engaged if we are to provide a high level of service, value for money and meet our future challenges. During the year we have worked on our total reward strategy and how we can continue to deliver a modern and flexible workplace post Covid-19.

As well as developing our own colleagues, we are very aware of the need to show the benefits and generate excitement of a career in aviation to children and students. This year our Science, Technology, Engineering and Maths (STEM) programme has gone from strength to strength. We have partnered with STEM charities and educational establishments to deliver specific training and awareness packages. We also sought to directly inspire young people at events and have expanded the educational material we make available to schools and teachers.

> I truly believe that the organisation is set up to deliver our remit and beyond well into the future.

I believe we have consistently delivered to a high standard this year across an ever-expanding set of responsibilities. From the oversight of our growing space industry to making it easier for people to learn to fly, I'm proud of how my colleagues have continued to rise to the various challenges and live by our values.

I truly believe that the organisation is set up to deliver our remit and beyond well into the future.

It has been a tremendous privilege to lead this organisation of exceptional and committed people and serve our stakeholders. Part of leadership is knowing when the time is right to hand the baton on and that time is now right for me to do so. The CAA will go from strength to strength under the leadership of a great Board, led by Sir Stephen Hillier, and a first-class executive team led by Paul Smith and Rob Bishton.

Richard Moriarty

Statement by interim joint Chief Executive

Rob Bishton & Paul Smith

We were both very privileged to be asked by the Board to take on the role of interim joint Chief Executive in April 2023. Under Richard Moriarty's leadership the organisation has continued to develop, adding significant new responsibilities such as space regulation. We will now aim to continue the journey the CAA has been on.

The main objective of the CAA remains the protection of the public, across our safety, security and consumer rights responsibilities. We are very aware that in this next era, improving engagement and service, with all our stakeholders and customers, is increasingly important – we aim to build on solid foundations. This endeavour will help to make sure the CAA continues to play its important leadership and enabling role, delivering the right outcomes for the UK aviation and aerospace sector.

The immediate future offers significant challenges and opportunities, particularly in areas such as sustainability and innovation, where we are keen to support Government ambition.

We would like to thank all our colleagues, the CAA Board and DfT officials, including the Aviation Minister and Transport Secretary, for the support we have already received.

Rob Bishton & Paul Smith, interim joint Chief Executive
21 June 2023

Strategic

Review of Our Business

In fulfilling our role as the UK regulator of civil aviation and aerospace our aim is for the UK to have the highest levels of safety, security and consumer protection. We work to facilitate an aviation sector that provides choice and value for all users of aviation. Beyond our core regulatory role, we also work internationally for wider impact as a leading regulator across the world. We are committed to being an enabler to our industry, covering many sectors and particularly through our work with innovators and new technologies. We will also play our role to improve the sustainability and growth of the aviation sector.

We use our regulatory principles as a guide in everything we do so we can make effective regulatory decisions which underpin our vision, and make sure we act within the legislative and policy framework set by Parliament and the Government.

We have a set of Board priorities for each year, as set out earlier in the report. These are used by our Board and Executive Committee to drive specific change objectives, with progress monitored at each Board meeting throughout the year and in this review we pick out some key achievements against those objectives. The following annual review section is split into the areas that best represent the overall key issues and challenges of the last year- business as usual and change- in order to provide a full narrative of our work and the wider aviation industry.

Our core role in safety, security and protecting consumers in a changeable uncertain operating environment

In reviewing a year of our work, we've highlighted the wider range and diversity of activities we undertake which enable us to help protect consumers. Some of these we undertake directly, such as safety oversight and enforcing legal rights for passengers. Others, such as helping to ease the transition for individuals regaining a UK safety licence post European Union (EU) Exit, are more indirect. They all will have an impact on the wider public if not addressed effectively.

Return from Covid-19

The challenge of Covid-19 brought all the activities we undertake to protect consumers under the microscope. While aviation saw a significant and welcome recovery from Covid-19 in 2022 it also exposed an overall lack of resilience in the aviation system during the recovery leading to extra work and challenges.

The aviation industry itself was primarily responsible for implementing the recovery, with assistance and support from both the Government and the CAA. Our particular role, as highlighted in our recovery Board priority, focussed on looking at the overall safety of the system as it recovered and held operators to account for looking after their passengers. Covid-19 highlighted just how important it is that the UK is connected to the world, not just for consumers' holidays and business, but for the overall profile of the UK and its supply chain. Aviation plays a significant part in our trade with the rest of the world, and the year under review was as much about aviation's resilience as it was about recovering from the pandemic.

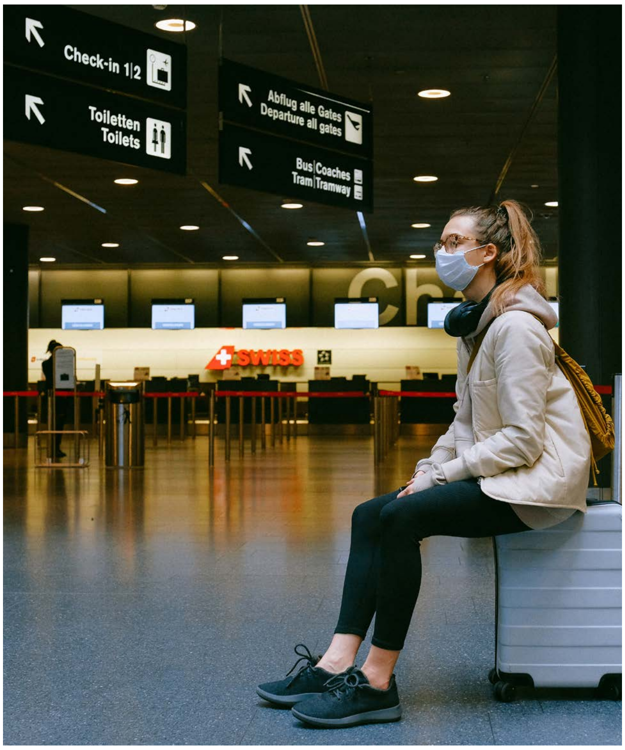
With such a rapid increase in activity, it was important the aviation industry scaled up in a measured and safe way. Our engagement with the industry throughout the period of restrictions saw us build on our strong relationships and an understanding of the issues faced. It allowed us to have detailed discussions with increased trust, both from a safety and security perspective.

The significant number of people needing to be trained and cleared in airport security in such a short period did, unfortunately, lead to disruption. But at no time did this result in a detriment to security.

Through our engagement, the industry understood there could be no trade-off between security and operational performance. Our teams were in situ at airports throughout the period. This was valued by the industry and helped them to make the right decisions.

As with other areas of aviation oversight, continuing to move to a risk-based, assurance-led method is the way forward to enhance airport security. If the industry proves its own actions to address risks are robust and meet our standards then we, as a regulator, can have the confidence to change our role. Instead of conducting the same standard inspections, we can be more varied in our oversight and use our capacity to add value in other areas where our expertise and position can help increase airport safety and security.

Making sure we see our desired high levels of safety and security in the UK and international aviation system is our first priority. We can then place significant effort into supporting growth, innovation, sustainability and efficiency.



Review of Our Business

Holding industry to account for protecting aviation consumers

The summer disruption saw us reaching out to consumers to offer advice and information, and to keep them informed on their rights. Where they needed extra protection, we directly challenged the industry to do better.

We continue to see improvements in service from operators post our interventions. In December 2022, Wizz Air acted positively after we criticised them publicly for excessive levels of Alternative Dispute Resolution complaints and a backlog of claims payments. In the same month, Ryanair decided not to pursue its appeal against the Court of Appeal decision supporting our view that strike action by airline staff was not an ‘extraordinary circumstance’ and to provide compensation to passengers who were disrupted by the strike action taken by Ryanair pilots in 2018.

As well as taking direct action, issuing timely advice to passengers allows them to make informed choices and have accurate information, even during extreme disruption, such as the failure of Flybe in January 2023.

In all our work to implement our consumer functions we seek the input and insight of our Consumer Panel. This includes our key aim of making aviation accessible and we acted during the year to protect passengers. Our seven-month review in 2022 found a number of airports were providing an unacceptable level of service to disabled people and passengers with reduced mobility. We required several airports and airlines to put in place action plans, resulting in marked improvements in performance.

As part of our work on airport security, we engaged with diabetic support groups to help make travelling with insulin pumps as easy as possible. We also continued our engagement with airport screening teams to make sure passengers with hidden disabilities had access to scanning that took into account their needs.

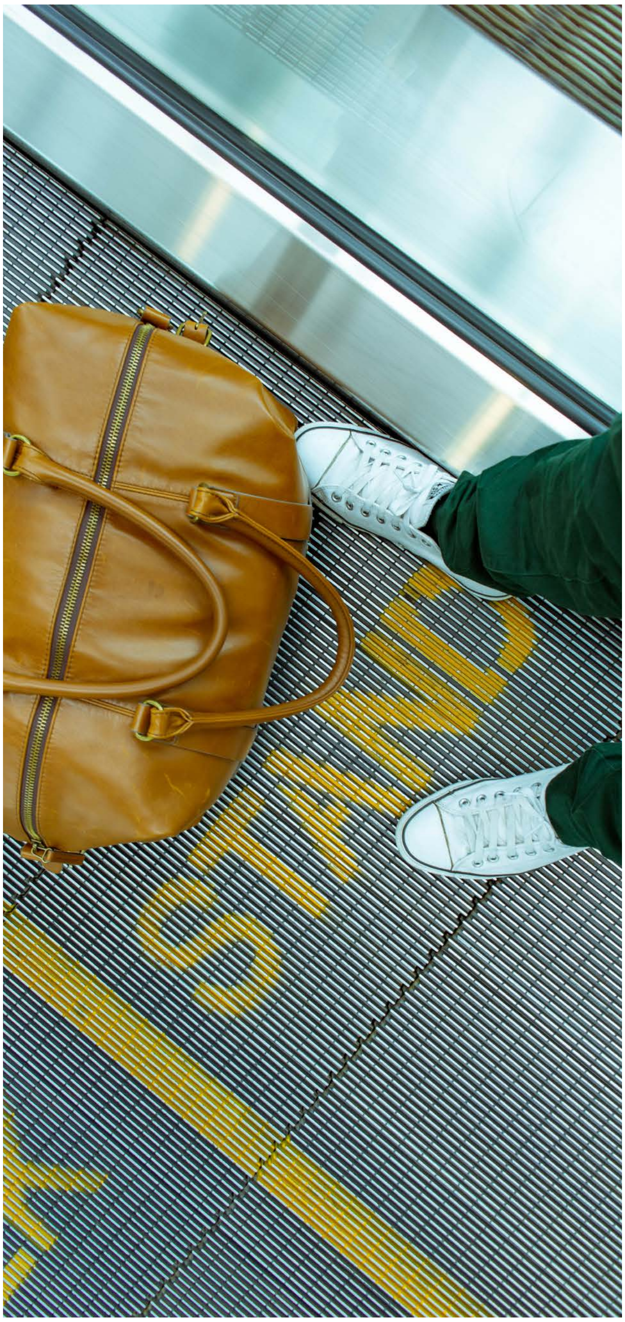
As well as protecting consumers’ safety, security, and rights, we also act as an economic regulator. Because Heathrow is the UK’s dominant airport, we regulate the maximum charge it can levy on the airlines that use it to make sure these charges, which feed through into consumers’ ticket prices, are reasonable while still enabling the airport to invest in the services it provides to travellers.

The latest review finished in March 2023. The Competition and Markets Authority has granted permission to British Airways plc, Delta Air Lines Inc, Heathrow Airport Ltd and Virgin Atlantic Airways Ltd to appeal against our decision. This process will continue throughout 2023 and the status depicted here is correct at the time of the report sign-off.

Our process was challenging, as Heathrow’s future runway expansion plans changed, compounded by the delays due to Covid-19. Throughout our process we set out to do what most benefits the consumer, focusing on price while also understanding that setting improved service targets results in a better airport experience for travellers.

Millions of passengers using UK airports will be flying on a holiday protected by our Air Travel Organisers Licensing (ATOL) scheme. ATOL steps in if the travel operator the consumer booked with ceases trading. The ATOL scheme makes sure travellers are not stranded abroad and provides them with a refund for the holiday where appropriate. Overall consumer feedback from those using the refund system has been positive.

In January 2023, we published updated details of our plans to reform the scheme. These aim to provide consistently better protection for consumers’ money by travel businesses and, as a result, improve the financial resilience of the ATOL scheme overall.



Review of Our Business

International oversight

Aviation is a true global industry and aircraft cross international boundaries every few seconds. Cooperation between nations is vital, as is trust and compliance with international standards of safety, helping each nation to respect the safety levels and oversight of others.

A significant measure of a nation's safety oversight performance are the audits carried out by the International Civil Aviation Organisation (ICAO). While audits can only provide a snapshot of a nation's safety position when they are undertaken, they can show the efficacy of an organisation and provide a seal of approval from a highly respected body.

The UK agreed to undertake a focused ICAO USOAP Audit, part of the Universal Safety Oversight Programme (USOAP) between 29 November- 6 December 2022. This is the traditional audit designed to test a State's implementation of the ICAO Standards and Recommended Practices (SARPs) and effectiveness of their oversight system and arrangements. The final report shows a 96% Effective Implementation (EI) score for the areas in scope of this audit. To put these results into a global context, the global average EI is 68%. The UK was praised for having comprehensive oversight and excellent cooperation and communication with industry. In addition, in two areas our system and technical procedures were highlighted as "best practice". The result meets our Board priority to prepare for a successful ICAO audit and aim to achieve a result of at least 95%.

In addition, between 16-28 November 2022, ICAO assessed the UK under the new State Safety Programme Implementation Assessment (SSPIA) activity (which the UK volunteered to participate in) which considers the overall maturity of the State's safety management regime and practices. This is a new addition to the USOAP process. ICAO were impressed by the UK's overall level of maturity and over 75% of the UK's responses were assessed as Level 3 (present and effective) or Level 2 (present). For all other assessment questions, ICAO identified that the CAA had work in progress to implement the necessary processes and suggested some enhancements for the UK to consider in order to continue to evolve our safety management practices. The UK is only the third State to undergo the SSPIA and ICAO have indicated that they will soon make some changes, so broader international comparisons for this assessment are not available at this time.

A positive result is always welcome especially so coming so soon after the UK's departure from the European Aviation Safety Agency (EASA) / EU system. It provides confidence to both the organisation, those we oversee, and our international partners and assists the UK on the international stage. However, we continue to look at our performance and ever improve it, particularly the introduction of new technology to assist stakeholders and our customers.

Our aviation security team were subject to their first audit by ICAO in ten years. The check on the security training oversight took place in March 2022 and was a significant success resulting in no findings being made against us.

This international oversight of our work is a vital check and part of a larger global effort to improve security in aviation which includes our role as chair of the European Civil Aviation Conference training group.

As UK citizens use airlines and aviation infrastructure around the world, we seek to help and influence outside of the UK to enhance safety alongside our domestic safety responsibilities. The UK develops and publishes a list of airlines and operators which are banned from operating in our airspace because they are unsafe and/or they are not sufficiently overseen by their authorities.

Where possible, rather than just publishing a list, we seek to work with these nations to support an increase in their safety. This year our team worked with authorities in Pakistan offering support and helping them to raise standards ahead of future audits by ICAO and the UK. The team undertaking this work have a clear separation from those making future decisions on bans.

The services offered by our wholly owned subsidiary CAA International Ltd (CAAi) have continued to recover post Covid-19, for example with new contracts to deliver aviation exams for nations including Pakistan and Bangladesh. For the second year running, CAAi's training service has been granted platinum provider status by the Feefo review platform. Those attending CAAi's training courses are rating the service at least four and a half out of five for service delivery, a standard which was maintained throughout Covid-19 when all training was run virtually. Post pandemic our offering is around 70% virtual/30% face to face.

As part of CAAi's aim to enhance safety around the world, we ran a programme in Thailand to implement the new safety regulations the team previously helped the Thai authorities to develop. In February 2023, CAAi signed a deal with Saudi Arabia as part of its Vision 2030 project to support the development of its safety regulator. The year under review has seen the world starting to re-ignite these developments since Covid-19 and CAAi has been well placed to support their needs. Our other wholly owned subsidiary company, Air Safety Support International (ASSI), continued its work during the year to oversee the safety of civil aviation in the UK's overseas territories. Where a territory has its own oversight ASSI supports those existing authorities in the safety regulation of all aspects of civil aviation, including the licensing of personnel and the certification of aircraft, airlines, airports and air traffic control. In territories where the civil aviation regulator does not have the resources to undertake the task themselves, then ASSI can be designated by the Governor to perform the civil aviation regulatory tasks on behalf of the Governor. On 1 April 2023, ASSI celebrated 20 years since its inception.

Review of Our Business

Enabling innovation and use of technology

We aim to be a significant enabler of new technologies and innovation throughout the sector. The Government has set a clear objective with its Future Flight and Jet Zero programmes to back innovation in aerospace and help grow the UK industry and support emerging sectors. These will introduce new ways to fly, as well as aiming to address some of the industry's key sustainability challenges.

UK Research and Innovation, via its Future Flight Challenge, has been a key partner for us and has helped to deliver and fund projects across the aviation spectrum. Primarily this has covered work on drones and air taxies, and we continue to see demand for our service from new entrants, including from outside the UK. The Government's Jet Zero programme, and in particular its Zero Emission Flight activity, has provided a welcome framework for taking forward work with the sector on how to develop and regulate new forms of cleaner propulsion.

Many of the companies we work with in this space are new to aviation and its particular regulatory structure and requirements. A significant part of our role remains educating these companies on how to achieve success in the UK and international regulatory landscape. All our work with this sector contributes to our Board priority to integrate new users into the aerospace system.

Our paid-for Innovation Advisory Services team, separate from our regulatory business, is key to this and we supported over 40 companies during the year under review. The team helps new organisations to be regulation ready, supporting them so that when they come to our regulatory teams they are much better prepared, and our regulatory teams have a view to what's coming in the future.

Innovation is also about change and challenge, so we constantly review our requirements to make sure we are developing as an organisation. This includes challenging ourselves to offer more permissive testing of innovative projects while still achieving the high levels of safety that the UK has come to expect from its aviation industry.

The newest addition to our regulatory work is the oversight of the UK's civil space industry. We now have a unique multi-disciplinary team providing expert knowledge of rockets, satellites and spaceports, together with wider aviation and regulatory skills. Since July 2021, the team has issued over 300 approvals for satellite launches alongside spaceport applications.

The highest profile approval during the year was the Virgin Orbit launch from Spaceport Cornwall in January 2023. While our primary duty for safety was met, we were disappointed that the launch was not ultimately successful. We continue to support the Air Accidents Investigation Branch with its review into the failure and participated in a 'lessons learnt' exercise with everyone involved.

We continue to work closely with other UK and overseas agencies and regulators to join up oversight, regulation and future planning of space activity. For example, we worked alongside the Maritime and Coastguard Agency and the Health and Safety Executive as well as the Government throughout the UK Space Agency spaceflight programme.

Key innovation projects during the year were the continued development of electric vertical take-off and landing aircraft (eVTOL) and how Remotely Piloted Aircraft Systems (RPAS) can be safely and fully integrated into our airspace, allowing them to routinely fly beyond the visual line of sight (BVLOS) of their operator.

Both these areas of work have the potential to deliver radical change. With eVTOL, developers are proposing a new method of air taxi operations, including linking cities and airports with fast services. Rolling out much wider BVLOS flying would unlock significantly more of the potential of RPAS by allowing devices to fly longer distances, for example, on infrastructure inspections.

Providing the necessary regulatory framework is key for our role and remit and an area we have been developing this year. In June 2022, we gave clarity to eVTOL manufacturers by confirming we would be using the EASA certification standards.

Complete widespread BVLOS flying may be in the future, but we have set out the principles for how more limited BVLOS operations could benefit the industry much sooner, building on the successful trials that have been ongoing in the UK for several years.

To make sure we are best placed to deliver this extensive portfolio of innovation work we have changed our internal structure and revised our paid-for services model using the combined capabilities of the Innovation Advisory Team and CAAi. This will help to confirm the regulatory independence required at certain stages.

Review of Our Business

Continuing to improve our service offering to our regulatory customers

The end of 2022 saw the final phase of the UK leaving the EU, with the end of the two-year transition period which had been put in place to allow aviation to stagger its transfer. During that time, the UK continued to recognise licences and approvals from EASA.

That recognition finished at the start of 2023 and during the year under review we undertook a major project to minimise any effect from the changes. We contacted thousands of individuals and organisations which potentially needed a licence or approval from us to be able to work or trade in the UK. We also built and trained a new team to handle the increased workload.

As a result, at the start of 2023 we achieved our aim of no material disruption to aviation services or impact on consumers. More than 1,000 new individuals and organisations were added to UK oversight. While we still have more work to undertake on improving our customer service this work successfully contributed to our Board priority to improve in this area, especially in minimising the impact of EU Exit on stakeholders.

Leaving the EU has also seen us negotiate and sign bilateral recognition agreements with other nations, such as Taiwan and Brazil, allowing a level of mutual recognition of each other's activities and approvals. A more significant change was required to replace the rules covering aviation security, as for the UK this involved a complete decoupling from EU regulation. Again, thanks to significant efforts by our teams and the industry, it was completed with no disruption to service.

Generally, our service delivery levels remained good overall. Our teams continued to remain in place during Covid-19 restrictions with little impact on stakeholders. We have continued our programme of work to move as many as possible of our transactions and interactions with stakeholders to digital platforms. During the year under review, this included the registration of aircraft ownership process, and a new system for registering aviation security instructors.

To make sure we are best placed to grow and continue to develop our offering to customers and organisations throughout the world, in March 2023 we announced we would be pooling our international and Shared Service Centre teams into a new Professional Services Group. The aviation industry is changing, more quickly than we've ever seen before, and our ability to react to and support that change has never been so critical. The new team will help drive our customer excellence programme and make sure we are seeking every opportunity to provide the best possible service now and in the future.

Alongside making our systems fit for purpose, we have a duty to make sure our regulatory requirements remain suitable and achieve the correct outcomes. Our oversight of the General Aviation (GA) community is an area of particular focus with far-reaching consultations launched in 2022 on major proposals for changes to pilot licences and pilot medical declarations. These aim to streamline the licence process and make it easier for pilots to progress through differing licence types.

Helping GA airfields secure their future and grow to enable more people to learn to fly and continue using them is a key aim of our airfield advisory team. We've received very positive feedback this year from the airfields we helped. This ranged from advice over the positioning of solar panels to explaining the implications and requirements on airfield planning decisions by planning authorities.

Safety is always our first principle in deciding on change but we also actively consider social responsibility. In January 2023, we announced a landmark package of measures for pilots living with HIV to support them flying and continuing with their careers. We were able to use new guidance to set up a process to make it easier for these pilots to continue to maintain their licence. This built on similar previous changes to support pilots with diabetes.

We discussed these issues and others at the 2022 Farnborough Airshow. The event showed the current high levels of ambition in the industry with a number of new technologies and platforms being promoted.

Review of Our Business

Contributing to aviation environmental initiatives

Aviation continues to explore ways to reduce its current environmental impact of global carbon dioxide (CO_2) emissions. The key gains will be made operationally by industry, and we aim to proactively support these developments and Government plans for the UK.

The Government's Jet Zero strategy commits UK domestic aviation to achieving net zero emissions by 2040, and for all airports in England to be zero-emission by the same year. We chair the project's regulatory sub-group to help collaborate with industry and achieve the overall project aims.

We can help improvements by safely enabling innovative change and the launch of our environmental sustainability panel in January 2022 is helping to fulfil that role by acting as an expert critical friend. We also published our first Sustainability Strategy in May 2022.

This includes investigating alternative powerplants and, in December 2022, we granted a permit to fly for ZeroAvia's Dornier 228 aircraft so it could start testing its hydrogen/electric engine in flight. A similar project led by Cranfield Aerospace Solutions is also benefiting from our proactive engagement.

As well as developing new power plants, fuels and aircraft, the infrastructure supporting aviation is key to reducing the environmental impact of aviation.

The UK's airspace forms the major part of that infrastructure and, in January 2023, we published our new Airspace Modernisation Strategy. It includes a significant focus on integrating new users, such as eVTOL aircraft and RPAS, alongside the broad range of existing users. It sets out a proposed direction of travel to 2040 with a range of delivery model options.

The strategy does not set out specific airspace change proposals, so we continue to process applications for changes in the UK via our airspace portal. In the year under review, that included significant changes for the Luton and Stansted area as well as free route airspace. The process for airspace change is, quite rightly, a thorough one. In support of the modernisation programme, we are investigating how users can have increased confidence in the timely delivery of the programme.

The CAA and Department for Transport cannot deliver airspace modernisation alone. We will be working collaboratively with a range of aviation organisations, particularly airspace change sponsors such as air navigation service providers and airports as well as airlines, manufacturers, representative organisations and, where appropriate, bespoke delivery bodies to make sure it is delivered in a coherent and consistent way in line with the legislative and policy framework set by Government. A wider range of other stakeholders, including communities, will be engaged through the consultation process on airspace changes.

How airspace is used operationally on a day-to-day basis has a significant impact on its efficiency and, therefore, its environmental impact. We manage environmental performance under the NATS (En-Route) plc price controls where we set targets for NATS and encourage positive change, tying in with the overall airspace modernisation project.

It is imperative we take expert independent advice to make sure we receive constructive challenge in this area of our work.

Making quality data available on impacts drives good decisions and our environmental research and consultancy team has delivered on its core noise monitoring work while also expanding into carbon measurement. As well as providing services to domestic aviation, the team has been funded by an ICAO project aimed at reducing carbon by providing data and support to several African nations.

Continual improvement of our people capabilities, our internal efficiency and effectiveness

People

We are a people organisation and CAA people are our key asset. During the year we have grown, and new colleagues have joined to help us take on the new roles we have adopted, such as space regulation.

We're confident our reward strategy is fair and transparent for colleagues and we host regular colleague experience and pulse surveys to check in with them. From these, action plans are created for each business area to benchmark against other organisations and the previous year.

We have a key focus on diversity, inclusion and wellbeing which has seen improvements in our people capabilities. We have set clear goals and targets for gender pay and ethnicity targets, and we are transparent on what has been achieved and where challenges remain. By March 2024 we would like at least 30% of roles at senior level to be undertaken by female colleagues and at least 7.5% of senior roles to be undertaken by ethnic minority colleagues.

The addition of new colleagues has helped to improve our diversity. This is particularly the case in our aviation security team where the last three intakes of auditors have been predominantly female.

Attracting the right people and increasing their capability is essential and our successful graduate and apprenticeship programmes continued during the year.

Reviews of our work

During 2022/23 we have been supporting the DfT appointed Arm's Length Body Review Team with its review of the CAA. We expect the ALB Review findings and recommendations to be published during summer 2023, and will report in subsequent Annual Report and Accounts how we have progressed with the implementation of the recommendations.

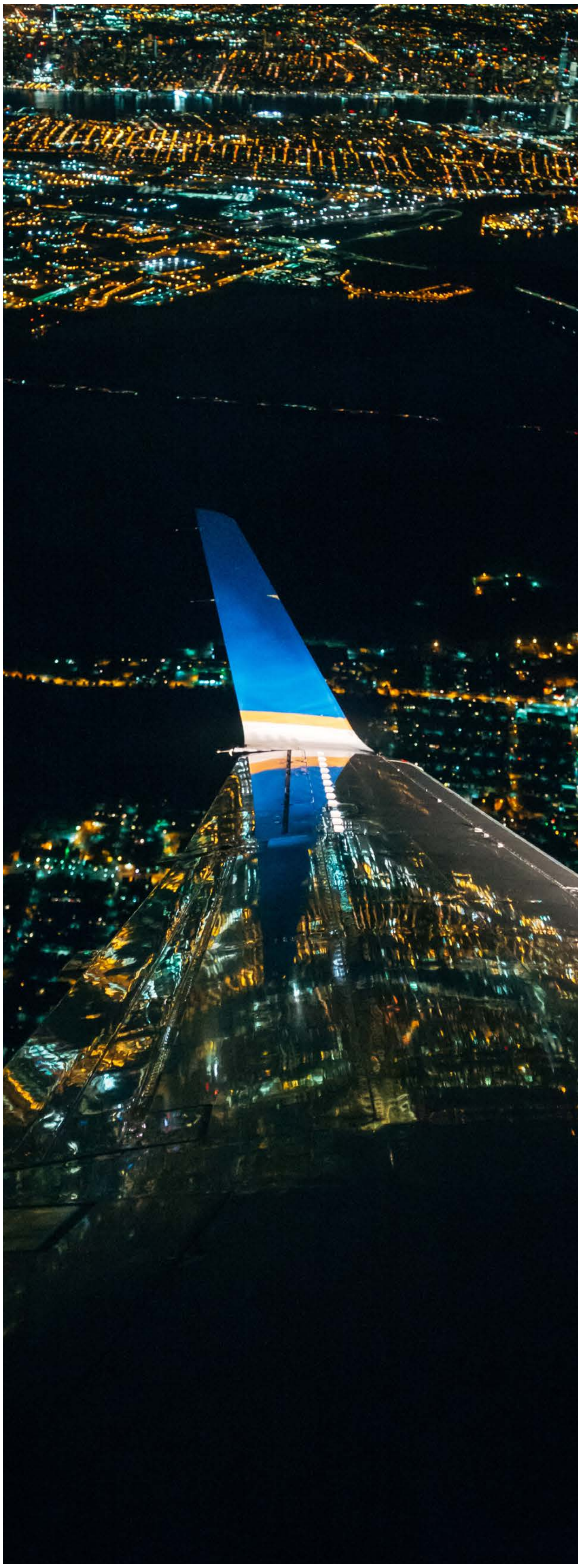
Review of Our Business

Our efficiency

Continuing to develop the organisation and increasing our efficiency are important drivers throughout the year. Teams in many areas have taken on new and increased scope and scale of responsibilities. This is especially the case with the changes post EU Exit and in many cases this has been achieved without an increase in resource, demonstrating increased efficiency.

To optimise the customer experience, we need to improve our systems, notably how we process transactions and applications. We have a project underway to define target areas for improvement. One immediate improvement is increasing the automation of collection and analysing statistics from airports and airlines in the UK industry and how we conduct passenger surveys. Further, and more far reaching, service improvements are planned over the coming years.

Efficiency goes beyond systems and process. Since Covid-19 we have actively sought to make the best use of our property, fitting in with new hybrid working arrangements. That's demonstrated by us sharing 30 per cent of our London office capacity with the Water Services Regulation Authority OFWAT, reducing our footprint and resulting in savings to both organisations. Further, we limited the increase in our statutory charges to 1% less than CPI inflation, while increasing the efficiency of our service offering. This continues a long pattern of below inflation increases over the last decade. Further efficiency improvements are being planned for future years.



Companies Act s.172 Statement

The following paragraphs explain how we have, over the course of the year under review, fulfilled our obligations set out in Section 172(1) (a) to (f) of the Companies Act 2006.

Our approach

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

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

When preparing for and taking significant policy decisions, the CAA Board makes sure that meaningful and appropriate steps have been taken to engage and, where necessary, consult with, all affected stakeholders. The CAA Board makes sure that suitable options for action are identified and carefully considered before conclusions are reached. By following the explicit application of the CAA's various policies, the CAA Board makes sure, when taking regulatory decisions, that all relevant matters are considered and that the Board is clear about the outcome to be achieved. Members of the CAA Board, its Executive Committee and many CAA employees engage regularly with a range of key stakeholders to understand the concerns and interests of industry sectors, users and consumers to enable our early action or intervention as and when needed.

In all our work we endeavour to use a variety of channels to communicate, choosing on a case-by-case basis those which best target the intended audience and subject. In the year under review we worked with colleagues in our safety teams to further embed this principle. Colleagues have been encouraged to coordinate information to stakeholders and use the most direct and targeted channels possible. Following regulatory best practice, we make sure consultations are a key part of our engagement. Ranging from snapshot surveys providing instant feedback, to formal regulatory consultations on major rule changes, proposals and decisions, consulting enables us to receive direct feedback and inputs from those we regulate. Responses are taken into account when we determine our final decisions. Prior to a consultation we will also frequently work with relevant stakeholders, using their views and input to help shape proposals.

Those we regulate

Timely and appropriate engagement with both those we regulate and the users and consumers of the aviation sector is key to achieving our priorities and the safety and success of the aviation industry. We have a very large and diverse range of stakeholders – millions of aviation consumers on whose behalf we regulate, many hundreds of thousands of individuals and many thousands of businesses, from large global businesses to small regional businesses operational domestically and globally across all parts of the aviation, aerospace and space sectors, all of whom seek a regulatory approval to operate from us.

Aviation is a dynamic and changing industry, and we constantly keep our rules and regulations under review to make sure they remain fit for purpose. Given the fast-paced nature of the sector we have a frequent need to alert those we regulate to requirements and changes and to offer advice in our role as regulator. We use multiple channels to achieve this based on what is most appropriate for the audience and message. We have a multitude of active engagement groups with stakeholders. These cover most sectors we regulate including a flight operations liaison group, a general aviation partnership and groups covering drones and future air mobility. Our Skywise alerting system allows quick and digestible information to be sent by email to targeted sections of the industry. More than 350 such alerts were issued in the year under review. During the year we further developed the system to incorporate requests and feedback from industry. Our regular stakeholder forums, such as the General Aviation Partnership (GAP), which includes the main aviation member associations and trade bodies, allow us to exchange views and share updates on future work plans. The forum also acts as a public record of how we share this information, with minutes of meetings published on our website. We have direct engagement with stakeholders at all levels to hear their views and exchange information. This engagement ranges from our Board meeting with UK airlines and airports on economic regulation, roadshows and attendance at events, to the everyday interface between our inspectors and those we regulate.

We seek to provide continual advice and guidance to those we regulate. During the year under review this has included frequent safety education advice to General Aviation pilots. This included safety advice in spring 2023 on returning aircraft to service after a winter layoff that featured an animation for social media and a video.

Companies Act s.172 Statement

Aviation consumers

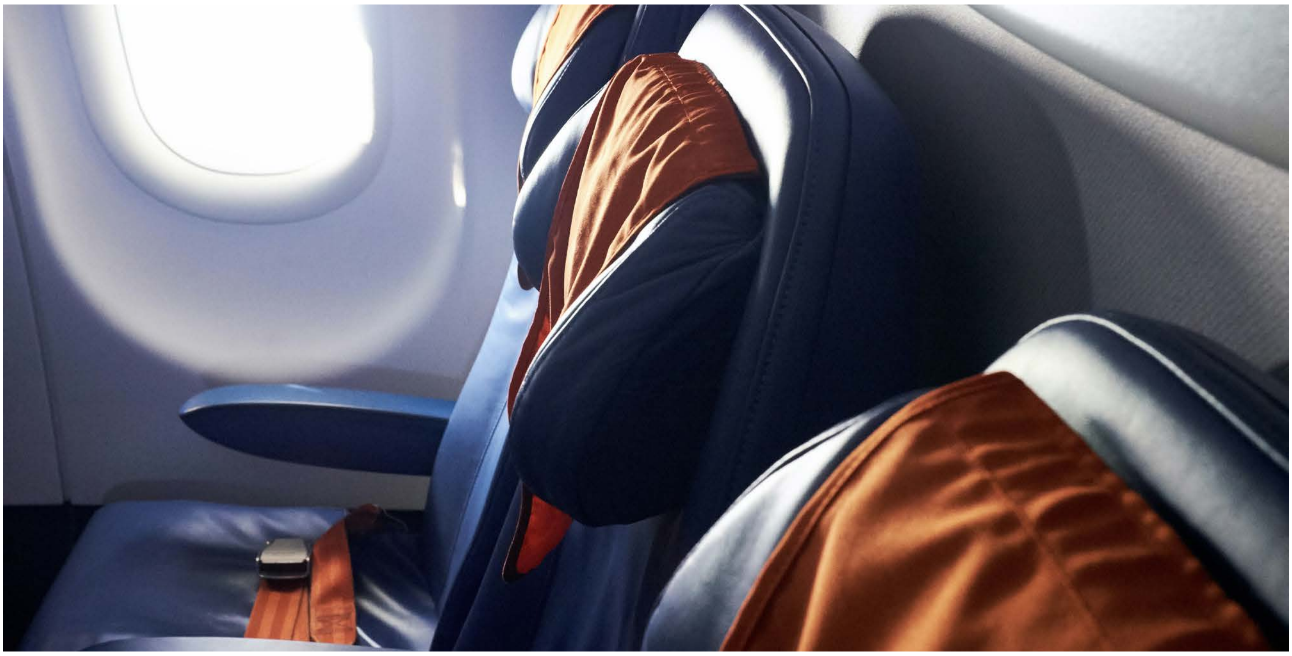
We exist to protect aviation's consumers and those affected by aviation. One key aspect of this work is consumer rights and financial protection. It's a topic we communicate directly with consumers about. Having clear and available information helps consumers to make informed choices and understand their rights. We make use of a variety of media channels and online resources including our social media feeds to make this information available. This work has been of particular importance during the issues the industry encountered during its recovery from Covid-19 in the summer of 2022. We proactively alerted consumers to their rights if flights are disrupted and cancelled. During the year we also ran an extensive campaign on social media to promote the benefits of the ATOL financial protection scheme to consumers. Our work in this area is also influenced by our advisory panels.

Colleagues

The CAA Board recognises that all CAA employees are key to effective performance. Accordingly, the CAA Board makes significant efforts to engage with all CAA employees and oversees a range of actions designed to foster real employee engagement. These include receiving regular reports from the CAA People Director on employee matters, such as diversity, inclusion and gender pay performance. The CAA Employee Forum meets at least eight times per year and offers elected employee and Trade Union representatives an opportunity to discuss matters of interest or concern with CAA leadership. The CAA's People Director attends each Employee Forum and other directors attend by invitation. The Employee Forum is actively involved in improvements to ways of working. A hybrid working model post Covid-19 has been introduced to help support those colleagues who returned to the office once pandemic restrictions were lifted.

In line with our programmes to those we regulate, we also offer colleagues our 'Speak Up' process providing guidance on what to report and to whom. The programme is backed up by recourse to independent investigation and oversight where necessary or appropriate. The Board receives an annual report on all confidential reporting and is briefed on any important issues arising as and when necessary throughout the year. Increasing diversity in decision making has been found by many studies to have positive benefits for organisations. Our Skyline Board, which launched in 2021, is comprised of ten colleagues from across the business, from a range of roles below leadership team level. They work alongside ExCo to help establish greater diversity of thought at Board level. Members share their knowledge, areas of expertise and qualifications, and their experiences from a variety of different backgrounds. It all helps to play a big part in how we develop leadership throughout our organisation. We consider the wellbeing of every colleague to be of the utmost importance and we seek to support and enable wellbeing as a core element of 'business as usual' for the whole organisation. The CAA's Wellbeing Board, chaired by the CAA's Professional Services Group Director and the Wellbeing Consultant, meets monthly and is responsible for the implementation of all necessary actions, supported by a network of representatives from across the organisation, chosen to represent the range of work and grades in the CAA.

We also continue to use smaller, regular employee pulse surveys which allow us to keep up to date of any immediate actions required.



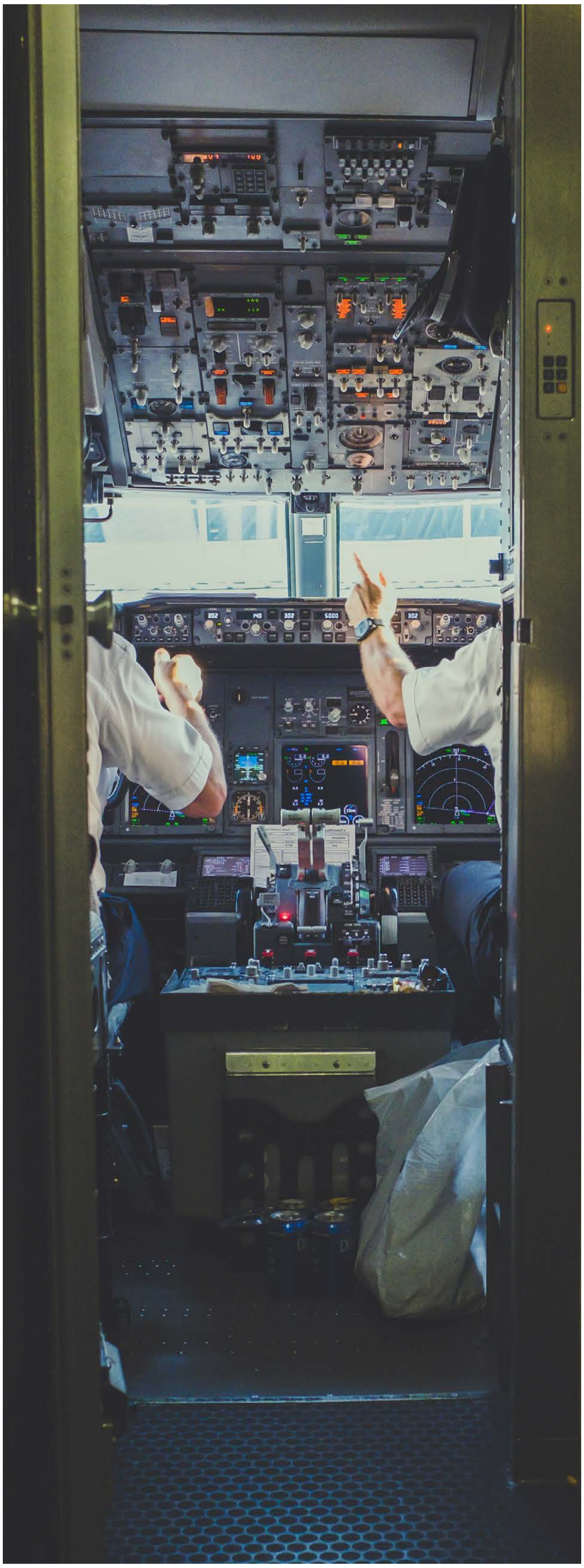
Companies Act s.172 Statement

Government

As well as our sponsoring department (the Department for Transport (DfT)) we have extensive coordination with a range of Government departments and projects. We welcome the collaborative and supportive nature of those relationships across Government. Teams from across the organisation at all levels are in constant contact with their counterparts in the DfT. They will engage, wherever appropriate, on issues where Government policy and legislation sets the framework within which we undertake our regulatory functions. These channels are well developed and effective, operating at all levels, including Ministerial and official, and range from regular meetings to more formal processes. We play a key role in many cross-Government groups. An example is our work to support innovation in safety entering the aviation system such as input into the spaceflight programme and the Jet Zero Council. We play an active role in projects such as the Future Flight Challenge run by UK Research and Innovation which involves multiple Government partners. We work closely with children and students too in order to encourage them to take up future careers in aviation and we chair the Government's regulatory group in its net zero aviation project.

Those we work with

Aviation is an international industry, and we have counterparts and partners across the world. These range from global bodies, such as ICAO, to other national regulators. We use a variety of forums, working groups and project team contacts to coordinate work and information and share best practice. We have colleagues seconded to support the ICAO's work in situ as part of a UK delegation. Our advisory arm, CAA International, continues to develop its offer to match the needs of regulators around the world. Following EU-Exit we are seeking even closer working relationships with other national aviation regulators around the world. This includes the National Aviation Authorities Network with the USA, Canada, Australia and New Zealand. On a national level, we use working groups and team partnerships with bodies such as the Military Aviation Authority and Health and Safety Executive to make sure there is close coordination on shared areas of regulation. In addition to meeting all relevant legal requirements, such as those relating to Modern Slavery, we actively participate in initiatives of wider societal impact. The CAA is a signatory to the Women in Aviation and Aerospace Charter and colleagues actively support programmes designed to encourage girls and women to pursue careers in science and technology. In March 2023 the CAA Chair became patron of the Women in Aviation and Aerospace Charter. Examples demonstrating how important our stakeholders are in the Board's decision-making process, and how we have engaged with those stakeholders, can also be found in the Review of Our Business (**pages 22 to 28**) section of this report.



Risk Management

Our Framework and Approach

Here at the CAA, we have an established Risk Management Framework (RMF); it is embedded at all levels of the organisation to ensure that we apply a consistent approach to the identification, assessment and mitigation of risks.

Our Regulatory Safety Management System is a core part of the RMF. It is the mechanism we use to provide oversight of aviation safety risks owned and managed by the aviation industry.

Risk reporting is standard practice in all CAA business areas. Risks are escalated through the management chain where necessary, supported by our central risk function.

Regular updates are provided to the Board on any significant changes to our top risks. The Executive Committee and Board carry out periodic reviews to ensure we capture the right threats and are managing these effectively.

Our Audit Committee receives regular updates on the overall health of our risk management processes, undertakes reviews of key risks and provides challenge on any areas for improvement.

We are continuing to evolve our risk management arrangements using the advice of our Audit Committee and best practice more widely. In particular, we are embedding a three line of defence model across all areas of our organisation.

Three Lines of Defence

First line of defence

Executive Management

> Identify, manage and own risks
> Ensure the embeddedness of the risk management framework
> Design and implement systems of internal control
> Deliver risk mitigations
> Monitor and respond to emerging threats
> Ensure there is a transparent risk reporting culture at all levels across the organisation

Second line of defence

Risk Management Function

> Maintain and update risk management framework and oversee its application
> Assist management to identify and assess risks
> Monitor the progress of mitigation strategies
> Provide quality assurance/constructive challenge
> Facilitate risk escalation
> Report on key risks
> Provide second line insights/advice on key risks

Third line of defence

Internal Audit

> Provide independent and objective assurance over the effectiveness and sustainability of the CAA's governance, risk management and internal control framework

Key Risks

A core element of our RMF is the categorisation of risks, which encourages us to consider risk as widely as possible. We have three risk categories:

> **Consumer and Public Risks**- these are risks that could impact directly on consumers and the public. We do not exclusively own these risks as they often belong, or are relevant, to others, such as industry or the Government.
> **Strategic Risks** - risks to the delivery of our strategy.
> **Business Risks**- routine risks to our day-to-day operations/the running of the CAA including compliance with legislation.

A summary of the overarching consumer and public risks our work seeks to influence, followed by the principal strategic and business risks facing our organisation, is set out below. Each risk is linked to one or more of our strategic focus areas:

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

We have also indicated the trend/direction of travel for each risk:

↓ Risk on downward trend
↑ Risk on upward trend
↔ Risk steady (neither trending up or down)

Risk Management

Consumer and Public Risks

Title	Description	Trend	Strategic Focus Area	Key Mitigations
Aviation Safety	Commercial air transport accidents in the UK or affecting UK passengers globally. General aviation accidents in the UK, including remotely piloted aircraft systems.	↔	> > >	We oversee the UK aviation sector's compliance with the required safety standards and the management of the safety risks it owns. We use a performance-based approach to target our resources and ensure the industry addresses any weaknesses we identify. We published the UK National Aviation Safety Plan during the year under review. This sets out operational and systemic risks in the UK aviation system and the action needed to reduce these. This includes the carriage of potentially dangerous goods (lithium batteries) in the cargo holds of some aircraft which remains a key risk. We continue to focus on industry's ability to maintain safety standards in light of resilience challenges, such as rising consumer demand (post Covid-19), the availability of aircraft components (following the war in Ukraine), industrial action and the challenging employment market. Our work also includes the management of potential safety risks arising from new aviation technologies (see Emerging Risks **page 37**). Towards the end of last year, the CAA's safety oversight capabilities and performance were audited by the International Civil Aviation Organisation (ICAO). The outcome was positive, with the CAA assessed as meeting 94.74% (effective implement rate) of ICAO requirements. Areas for improvement will be taken forward.
Aviation Security (including cyber security)	A terrorist or other malicious attack at a UK airport or on an aircraft. A cyber-attack on aviation services/infrastructure.	↔ ↑	> > >	We work to ensure security regulations reflect and remain proportionate to the threat. Through our oversight activity, we monitor the regulated industry's compliance with UK and international law. This includes ensuring the aviation industry addresses any improvements required. This year, we particularly focused on working with the Government and the industry on the regulatory framework relating to the installation of new advanced screening equipment in UK airports. Cyber-attacks are increasing, and the UK aviation industry is an attractive target. Our Cyber Security Team continues to support and oversee industry compliance with the Cyber Assessment Framework. This framework helps aviation organisations identify and manage their cyber security risks. These risks include ransomware and distributed denial of service attacks (such as those emanating from the geopolitical situation). Over the past year, we worked closely with the industry to ensure security standards were maintained as aviation activity resumed in the wake of Covid-19. In the year ahead, we will review the regulatory framework so that it supports industry in the recruitment and retention of staff in a challenging employment market.

Risk Management

Consumer and Public Risks (continued)

Title	Description	Trend	Strategic Focus Area	Key Mitigations
Consumer choice, value and fair treatment	Consumers are provided with air transport services which do not perform as expected and consumers have difficulties seeking redress. Consumers are stranded abroad following a UK tour operator failure(s).	↔	> >	Our regulatory work helps to protect consumers by enforcing passenger rights and competition law. This includes vulnerable consumers and those who might need additional help accessing air travel. Our economic regulation of airports and air traffic services also furthers the interests of consumers, in areas such as cost and service quality. We encourage airlines to appoint Alternative Dispute Resolution (ADR) providers so consumers can seek redress from an independent source without necessarily needing to go to court. We operate the Air Travel Organisers' Licensing (ATOL) scheme to protect consumers in the event of a failure of a UK tour operator(s). This includes repatriation and payment of claims for which we work closely with (and act as agent for) the Air Travel Trust. As passenger numbers steadily increase, we will continue to work with industry to ensure consumers are treated fairly and do not suffer detriment as a result of the challenges industry face, such as industrial action and recruitment.
Environment	Insufficient action is taken to reduce the impacts of aviation (and its contribution to climate change). Or the actions taken disproportionately affect consumers (higher prices and less choice).	↔	>	During the year under review, we published our Sustainability Strategy. The intent is to help drive and influence industry to take the actions we consider they need to deliver and that are within our remit. We have established a dedicated sustainability strategy, reporting and performance team. The team's role includes progressing work to meet consumer demand for information on the carbon impact of aviation. A call for evidence on this topic was published in January 2023. We are now reviewing the responses and aim to consult on the draft recommendations towards the end of 2023. The CAA is a member of the Government's Jet Zero Council and leads a regulatory sub-group on zero emission flight. The CAA also continues to jointly sponsor with DfT on the modernisation of UK airspace, to deliver cleaner, quicker and quieter journeys for the benefit of those who use, and are affected by, UK airspace.

Risk Management

Principal Strategic and Business Risks

Title	Description	Trend	Strategic Focus Area	Key Mitigations
Business Resilience	Organisational resilience might be insufficient to respond to concurrent strategic challenges. Pressure on colleagues might increase and service delivery could be affected.	↔	>	During the year under review, we successfully managed a range of strategic challenges, such as UK-EU Transition where we worked to minimise the impact on consumers, industry and the CAA following the end of the saving provisions (on 31 December 2022). Our Prioritisation & Performance Board continues to oversee performance across the CAA and make prioritisation decisions where needed. We continue to work towards a new target operating model. This includes the creation of a new Professional Services Group to consolidate service delivery, including resilience and improvements. Steps have been taken to minimise leadership continuity risks following changes to our senior executive team. We continue to increase our capacity to meet demand in relation to innovative and technical advances in the industry. We are also actively supporting the public body review of the CAA, and the opportunities this could present to enhance how we operate.
Information Security and Management	Information stored and processed by the CAA may become unavailable or corrupted. Sensitive information may be unduly disclosed. We may not fully comply with applicable legislation and standards.	↓	>	We maintain a range of measures to protect the information we hold. These include controls to prevent, detect and minimise the impact of cyber-attacks such as using the services of the National Cyber Security Centre to identify malicious activity, and our own internal measures; continuous (24x7) monitoring, network security controls and our ongoing security maturity programme. Cyber security risks are dynamic and constantly evolving. There are (and may always be) some aspects of our cyber security arrangements we need to enhance. So we continue to review our arrangements, through audits, penetration tests and using the aviation industry ‘Cyber Assessment Framework’. Any improvements identified are prioritised and acted upon. We also work to ensure information, including sensitive personal information, is managed in line with applicable legislation/standards and initiate corrective actions where needed.

Risk Management

Principal Strategic and Business Risks (continued)

Title	Description	Trend	Strategic Focus Area	Key Mitigations
Financial Exposure	Changes in the income we receive from industry as a result of macro-economic conditions could create financial pressures. Changes in the financial markets could increase the liabilities of the Defined Benefit Pension Scheme.	↔	>	We continue to monitor the status of the industry and how this might affect our income. Issues might include potential changes to consumer booking levels due to the cost of living, and industry's ability to meet demand during peak periods, or other factors. We will take mitigating actions to minimise the impact any changes to our income could have on our operations where necessary. In extreme situations, such as pandemics, this may include engaging with Government regarding the provision of ongoing financial support for the delivery of our core regulatory functions. We continue to work with the CAA Pension Scheme (CAAPS), and our advisors, around changes in financial markets and how this might affect our Defined Benefit Pension Scheme. The latest triennial valuation of CAAPS as at 31 December 2021 did not result in any changes to the contributions payable by the CAA in relation to colleagues ongoing membership of the scheme. We also continue to monitor the rate of inflation and will manage any potential impacts this might have for the CAA.

Risk Management

Emerging Risks

Mechanisms are in place to identify emerging risks, such as new aviation technologies and how these could be safely incorporated into the aviation system. These mechanisms include (not an exhaustive list):

- We carry out horizon scanning covering emerging technological and innovative developments in the aviation sector. We use this work, alongside our work with innovators, to test ideas and to help manage any emerging threats or opportunities at an early stage.
- Our horizon scanning processes help to identify areas where we need to take an early interest. That includes where we might need to adapt aviation safety regulations in future. This gives us a longer-term view and input to our safety rule making processes. This work includes participating in international working groups and developing relationships with organisations pioneering innovative technologies. Through the CAA's Safety Improvement Projects, we commission and support the industry and academic research/development on safety matters. The overarching aim is to manage future safety risks and any potential impacts they might have on consumers, the industry and the CAA.

Climate Change

We recognise climate change will lead to more extreme weather events which impact how we work, such as physical risks to our staff and infrastructure. We are able to adapt if necessary, such as by prioritising essential business travel in relation to the delivery of our core regulatory functions (where alternative delivery methods are not feasible) and minimising business travel (through remote working) for other CAA functions where on site/office attendance is not essential.

Our approach to procurement, enables us to secure value for money and manage the risk of climate change which could lead to higher costs, insurance and utilities, for example.

We do not currently consider climate change as a significant threat to our viability, but we will continue to actively monitor it.

For more information, see our sustainability section on **pages 47 to 49**.

Financial Review

Significant Financial Developments

- **Total revenue:** £163.6m, up by 15.0% (2022: £142.3m)
- **Operating profit:** £2.8m (2022: operating profit £3.2m)
- **Pension surplus:** £75.6m, down by 67.0% (2022: £229.4m)

As we are largely funded by those we regulate, in the region of 40% of our income is normally derived from variable charges linked to aviation activity. As a result of the response to the Covid-19 pandemic, aviation demand collapsed in the spring of 2020.

At the outset of the pandemic we deferred the planned increase in charges for an initial period of six months from 1 April 2020 which was subsequently extended through to the end of 2021/22. A general increase of 2.9% was implemented across all charges schemes for 2022/23 (see Our Efficiency Report for further information).

The DfT provided Section 12 grant funding[1] to the CAA in 2020/21 (£37m), 2021/22 (£31m) and 2022/23 (£5m) to address the shortfall in variable income associated with the pandemic and enable the organisation to continue to carry out its statutory duties.

The aviation industry has seen a stronger than anticipated recovery in 2022/23. As a result, statutory revenue was ahead of budget with a £6.7m positive variance for the full year. This, together with cost savings, particularly in respect of employment costs, training and travel and related expenditure, has delivered an operating profit of £1.7m (prior to IAS 19 adjustments). The result is broadly in line with budget despite only drawing down £5m of S.12 funds this year.

We are directed by the DfT to prepare the financial statements in accordance with the accounting and disclosure requirements of companies' legislation currently in force and generally accepted international accounting practice. The financial results of the Group are assessed, however, by reference to financial targets agreed with the Secretary of State for Transport. We achieved the target rate of return of 3.5% for the Regulatory Sector, the rate set by the Secretary of State for Transport. Further analysis is provided on **page 43**.

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

In order to manage its pension liability, CAAPS has been implementing a strategy of buy-in annuity contracts for pensioners since 2015. The value of the buy-in policies held on behalf of the members is equal to the value of the benefits covered by the policies and is included under insured annuity policies. The value of these benefits as at 31 March 2023 is estimated to be £1,287.1m (2022: £1,034.8m).

1 Section 12 to the Civil Aviation Act 1982, under which this grant was issued.

The last formal actuarial valuation of the CAA Section of the CAAPS was carried out as at 31 December 2021. The 2021 valuation revealed a deficit of £17.9 million. A recovery plan was agreed by the CAA and the Trustees of the scheme, whereby we will remove the deficit over the period to 31 December 2030. The primary reason for the difference in valuation between the last formal valuation and that used for accounts purposes is that IAS 19 requires that the discount rate used to value scheme liabilities is determined by reference to high quality corporate bonds.

Overall Financial Performance

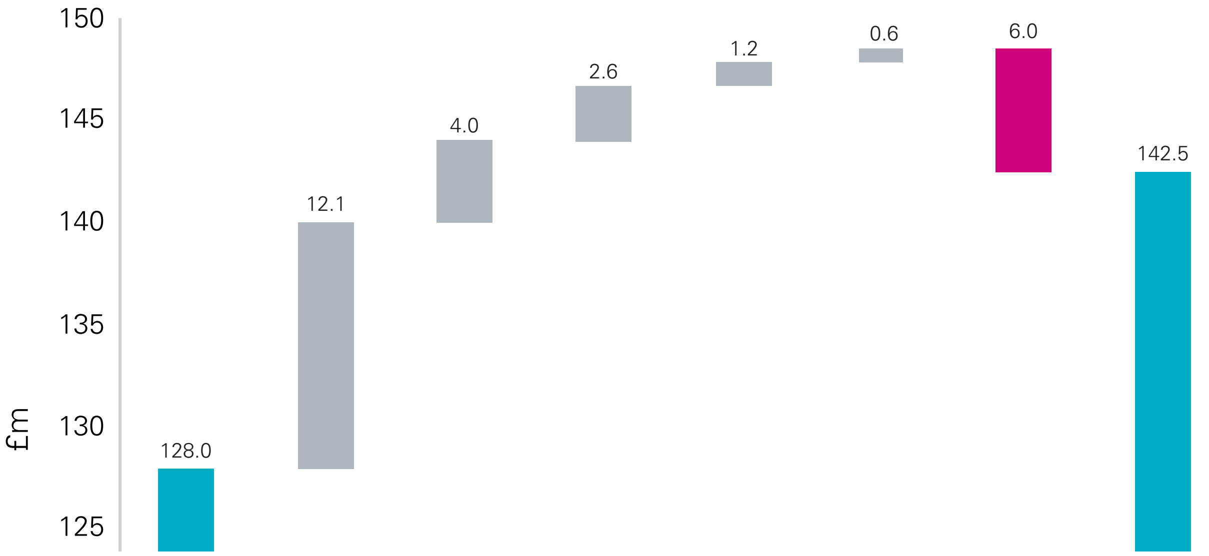
In the year ended 31 March 2023, the CAA recorded an operating profit before interest and tax of £2.8m (2022: operating profit £3.2m). These results included the effects of IAS 19. Within the operating result, the Regulatory Sector, comprising the activities of Safety & Airspace Regulation, Consumers & Markets, Aviation Security and Space Regulation, as well as the result achieved by CAA International Ltd (CAAi), made a £1.3m profit before IAS 19 adjustments (2022: £0.9m profit) and a profit after adjustments for IAS 19 pension costs and net interest, but before tax, of £2.1m (2022: £1.7m profit).

CAA Financial Performance Results	2023 £m	2022 £m
Group revenue	163.6	142.3
Operating costs (excluding IAS 19 pension scheme adjustment)	(161.9)	(140.1)
Group operating profit	1.7	2.2
IAS 19 pension scheme adjustment	1.1	1.0
Group adjusted operating profit	2.8	3.2
Net interest	6.9	4.2
Profit before taxation	9.7	7.4
Taxation	(2.6)	(2.0)
Profit after taxation	**7.1**	**5.4**

Financial Review

Revenue

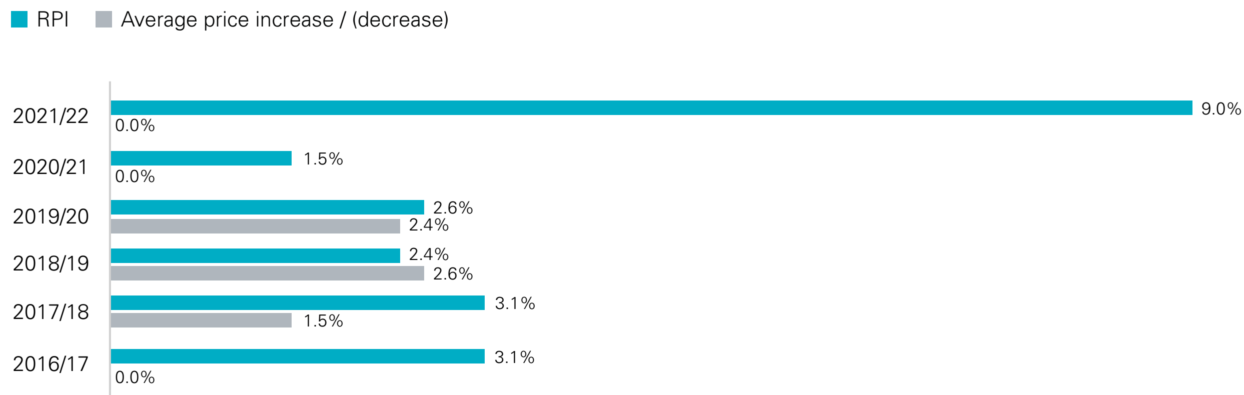
Movement in Group Revenue



Group revenue for the year ended 31 March 2022 was £142.3m (2021: £128.0m), an increase of £14.3m (11.2%). The Regulatory Sector saw an increase of £11.0m (11.2%) to £109.0m (2021: £98.0m). This increase in income has arisen primarily because of the positive impact of the industry's ongoing recovery from the Covid-19 pandemic with activity levels steadily continuing to rise. Revenue received through our statutory charges schemes is heavily dependent on industry volumes. The impact on the Regulatory Sector was largely mitigated by the grant funding provided by the DfT in the last two financial years. The Regulatory Sector also saw additional income of £4.0m in the financial year arising from Space Regulation activities, for which the CAA took responsibility with effect from July 2021.

Average price changes

Price increase/(decrease) versus CPI(H) (%)



CPI(H) source is Office for National Statistics

We are required to set statutory charges to recover our operating costs. The average increase in charges excludes any new charges that we have been consulting on during this financial year. In the light of Covid-19 and the severe financial impact it has had on the aviation industry, the CAA agreed that there would be no increases to charges for the financial years 2020/21 and 2021/22, with charges therefore remaining at 2019/20 levels. A general increase of 2.9% was implemented across all charges schemes for 2022/23 which was modest in the context of the inflationary pressures experienced during the year.

Financial Review

Operating Costs

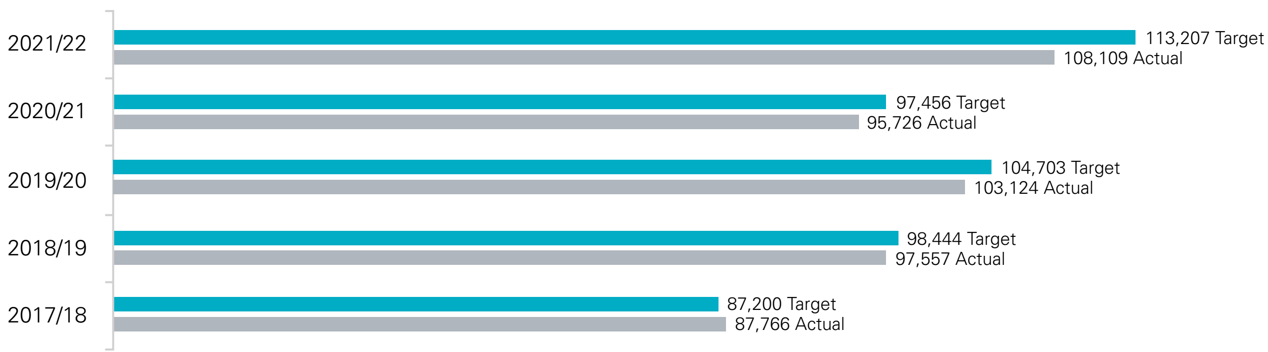
Operating costs (including IAS 19 pension scheme adjustment) for the year ended 31 March 2023 increased to £160.8m (2022: £139.1m). The significant areas of change are described below:

- Employment costs were £107.9m, showing an increase of £10.2m (10.4%) compared to the prior year. An annual pay increase of 3.0% together with an increase in the average number of employees in the Group by 129 (10.3%) in the financial year to 1,387 (2022: 1,258) as disclosed in note 3 contributed to this increase.
- Services and materials expenditure increased by £4.2m to £17.1m (2022: £12.9m). The significant part of this increase is attributable to outsourced services costs on a number of IT improvement projects, as well as a number of other cost-recovery projects. Software licensing costs also saw large increases compared to the previous year.
- Other expenses costs were £29.2m (2022: £20.7m). The majority of the year-on-year increase is due to regulatory and business activities having reverted to normal levels following very low periods of activity during the Covid-19 pandemic. Expenditure areas that have seen the most significant increases include contract staff, professional fees, travel and related expenditure, security vetting services and associated irrecoverable VAT costs.

Operating Costs - Regulatory Sector

The graph below shows the operating costs for the Regulatory Sector, which is made up of the activities of safety and airspace regulation, consumers and markets, aviation security and space regulation, net of the result achieved by CAA International Limited.

Operating costs – Regulatory Sector (£000s)



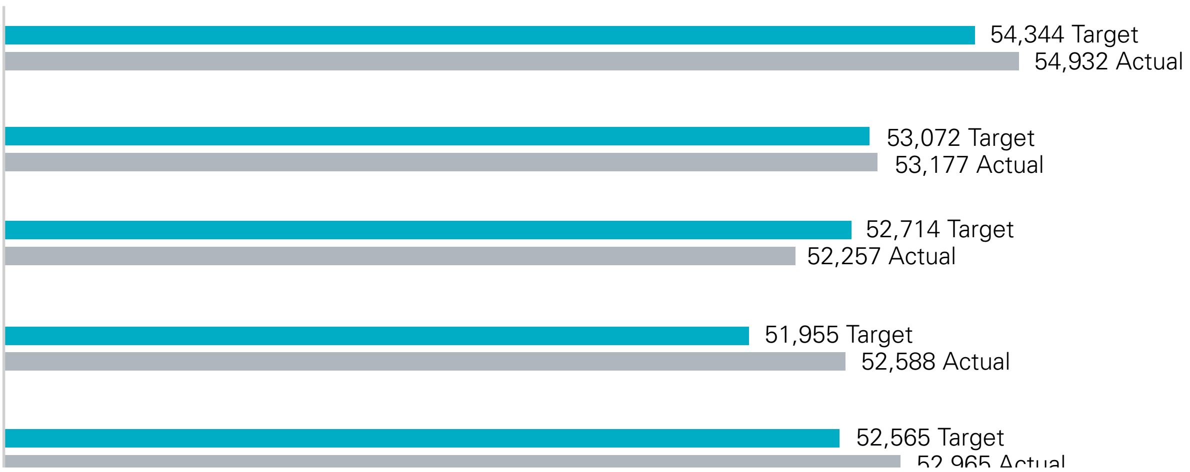
Regulatory costs were £5.5m lower than budgeted for the year, although they were £4.8m higher than the previous year. 2022/23 has seen a continued return towards normal levels of business activity as the industry recovers from the effects of the Covid-19 pandemic. The CAA has seen a significant upturn in recruitment activity with average staff numbers increasing by 129, including resources needed to support the organisation's new and growing regulatory activities including overseas approvals, EU returners, design and certification work, space regulation and cyber security. As well as employment costs, there have been rises in outsourced services and software costs, contract staff, professional fees, travel and related expenses, security vetting services and irrecoverable VAT associated with increased activity as the aviation sector continues to recover following the Covid-19 pandemic.

Financial Review

Cost per employee including CAA Board

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

Cost per employee (£)



The nominal terms increase in the average cost per employee this year compared to 2021/22 is largely attributable to:

- A 3% cost of living increase awarded to colleagues as from 1 April 2022; and
- Pay adjustments made to correct pay anomalies for some of the workforce on the implementation of the organisation's new reward model in October 2022.

This was partially offset by the effect of 2021/22 costs including lump sum payments to higher earners representing a partial return of voluntary temporary pay cuts taken in 2020/21.

Corporation Tax

The estimated tax charge for this year is £2.6m (2022: £2.1m). This is primarily as a result of a deferred tax charge resulting from the origination and reversal of temporary differences, particularly in relation to the defined benefit pension scheme.

Capital Expenditure

Capital expenditure additions during the year totalled £0.8m (2022: £2.4m). This principally related to IT equipment (£0.2m) and buildings improvement work at the Gatwick head office (£0.4m) and the Westferry London office (£0.1m), whilst £0.1m was in respect of new right-of-use assets, which were all lease vehicles. The net book value of the Group's capitalised assets as at 31 March 2023 decreased in the year by £3.5m to £11.5m (2022: £15.0m). During the year, an assessment of the Group's ongoing compliance with IFRS 16 Leases was carried out; employee vehicles that are leased from a third party through the organisation's salary sacrifice car leasing scheme were assessed as not meeting the criteria of a lease under IFRS 16, resulting in vehicles with a total net book value of £1.0m being declassified as right-use-assets together with the associated lease liability.

Financial Review

Financial Management

Treasury Policy

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

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

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

We primarily place our surplus sterling funds with either HM Treasury debt management office or on short-term or overnight deposit at banks that have money market credit ratings of at least BBB+. We keep these institutions under constant review to secure the best returns available, consistent with the minimum credit rating we require. We limit our credit exposure to individual banks and other counterparties by reviewing credit ratings and closely monitoring aggregate exposures. The majority of our expenditure is settled in sterling. There is some foreign currency exposure on part of the revenue earned by CAA International Limited, although this exposure is minimised through hedging contracts where the cash flows are material and reasonably certain.

Financing

Throughout the year and at 31 March 2023, we had a £5.0m overdraft facility with our bankers, NatWest, which we did not utilise during the financial year.

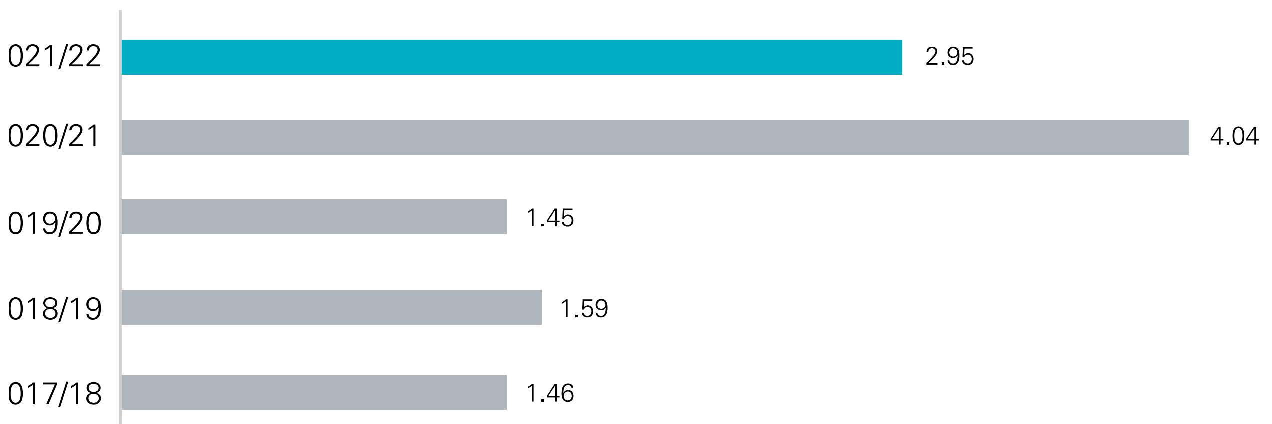
An analysis of our borrowing facilities can be found in note 14 to the accounts on **page 123**.

Liquidity

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

The cash balance was £21.1m at the end March 2023. This balance includes advance section 12 funding received from the DfT of £12.3m for specific project costs that will be incurred in 2023/24. The year-end balance also includes £7.2m that is being used to support airspace modernisation and airspace change initiatives.

Cash resources / current liabilities ratio

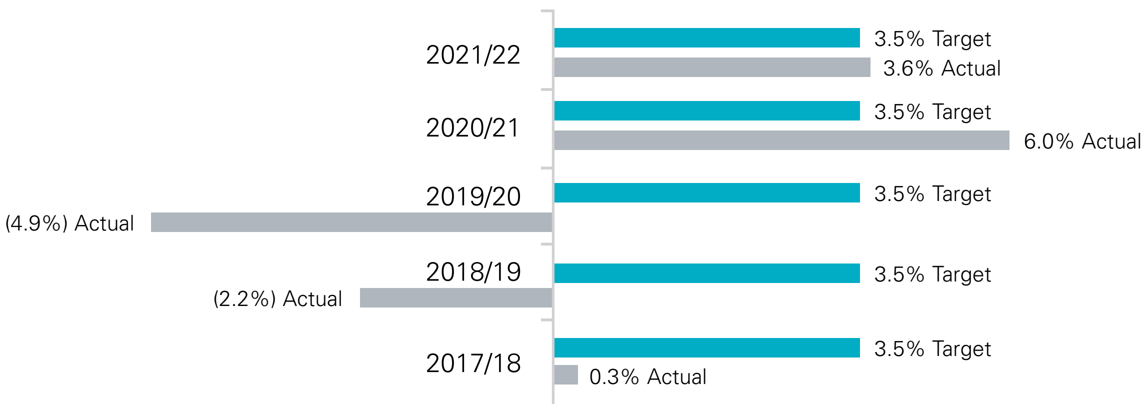


Financial Review

Financial Target

The Secretary of State for Transport sets us a financial target for the Regulatory Sector, which covers safety and airspace regulation, consumers and markets, aviation security and space regulation, as well as the result achieved by CAAi. The target is the higher of an annual 3.5% rate of return on average current cost of capital employed or break-even after charging interest and tax. This both reflects Government policy and allows the CAA to retain a modest level of reserves for investment and managing risks.

Rate of Return (%)



The rate of return for 2022/23 was 3.5%, which is in line with the target rate and slightly below the rate achieved in 2021/22. This has followed a period that saw large fluctuations in the actual rate achieved as a result of:

- The CAA Board decision to fund certain project related expenditure in 2018/19 and 2019/20 from surplus reserves created in earlier years; and
- The partial rebuilding of those reserves again in 2020/21.

The receipt of s.12 grant funding in 2022/23, 2021/22 and 2020/21 has covered the revenue shortfalls faced due to the downturn in activity in the aviation industry due to Covid-19.

Financial Review

Business Sector Review

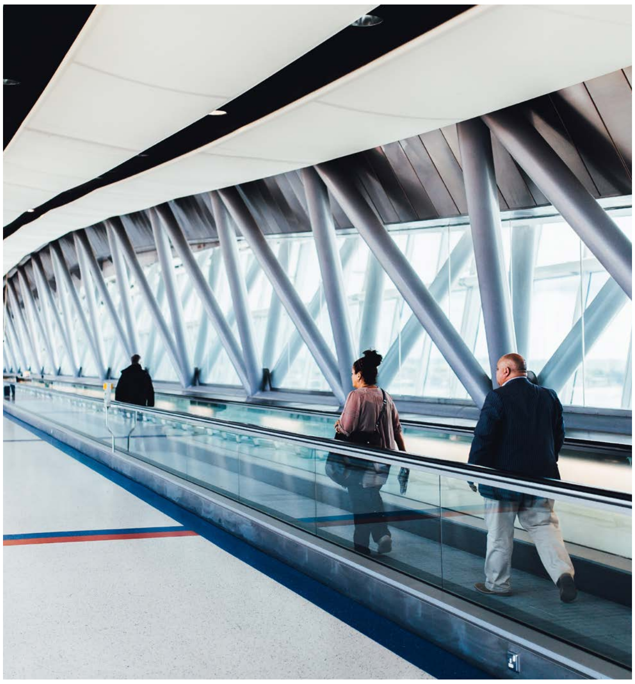
Our activities are divided into seven sectors.

Safety and Airspace Regulation

Through the work of our Safety and Airspace Regulation Group (SARG) we actively assess compliance with UK civil aviation safety standards in a co-operative and cost-effective manner. We must be satisfied that: aircraft are properly manufactured, operated and maintained; airlines are competent; flight crews, air traffic controllers and aircraft maintenance engineers are fit and competent; licensed aerodromes are safe to use; and air traffic services and general aviation activities meet required safety standards.

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

The operating costs of the safety and airspace regulation activities for the year ended 31 March 2023 (excluding the effects of IAS 19 pension scheme adjustments) were £75.8m (2022: £72.8m), an increase of £3.0m (4.1%). Revenue for the year was £75.4m (2022: £74.3m), an increase of £1.1m (1.5%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating loss of £0.4m (2022: profit of £1.5m). Average staff numbers for the year were 674 (2022: 606), an increase of 68.



Consumers and Markets

Our Consumers and Markets Group's (CMG) work covers the economic regulation of airports and NATS en route air traffic services. We advise the Government on aviation policy, including the liberalisation of airline markets, economic regulation and competition in the supply of aviation services and infrastructure and economic aspects of environmental policy. We also compile our published statistical information on airlines, airports and passengers.

Our general approach is to consider the extent of competition and its implications for regulation and then to involve, to the greatest extent possible, the commercial parties.

CMG is also responsible for implementing legislation on airline licensing and administering the ATOL scheme. The consumer protection function is responsible for managing the consequences for consumers when an ATOL holder becomes insolvent. The activities include organising repatriation flights, dealing with hotels and paying refunds, where appropriate, to those who have not yet travelled.

Operating costs of Consumers and Markets activities for the year ended 31 March 2023 (excluding the effects of IAS 19 pension scheme adjustments) were £16.5m (2022: £17.5m), a decrease of £1.0m (5.7%). Revenue for the year was £19.9m (2022: £17.8m), an increase of £2.1m (11.8%). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £3.4m (2022: £0.3m). The average number of staff in the year ended 31 March 2023 was 129 (2022: 121). In addition, the CAA employed, on average, 8 survey staff at airports.

Aviation Security

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

Aviation Security had an operating loss (excluding the effects of IAS 19 pension scheme adjustments) of £1.2m (2022: £0.5m profit). Operating costs for the year ended 31 March 2023 (excluding the effects of IAS 19 pension scheme adjustments) were £14.0m (2022: £12.0m). Revenue for the year was £12.8m (2022: £12.5m), an increase of £0.3m (2.4%). The average number of Aviation Security staff in the year ended 31 March 2023 was 129 (2022: 121).

Financial Review

Space Regulation

The UK Space Regulation team was established in 2021 to implement the Space Industry Regulations 2021, the modern and innovative new legislation enabling new space activities to operate from within the UK. The multi-disciplinary team contains a wide range of experience, including outcome-focused regulation across hazardous sectors, space and aerospace engineering specialists, environment experts and regulatory officers. The team assesses applications for the space sector, issues relevant licences and monitors and oversees operators to ensure they are meeting their legal obligations in relation to safety. The key regulated elements include launch operators, spaceport operators, range operators and satellite/in-orbit operators. To date, the majority of our space regulation costs have been funded by the DfT under S.16 of the Civil Aviation Act 1982.

Space Regulation achieved a breakeven result (2022: £0.1m profit) for the year ended 31 March 2023. Revenue for the year was £5.9m (2022: £4.3m), an increase of £1.6m (37.2%). Operating costs were £5.9m (2022: £4.2m), an increase of £1.7m (40.5%). The average number of Space Regulation staff in the year was 40 (2022: 31).

UK En Route Air Traffic Services (UKATS)

As a signatory to the Eurocontrol Multilateral Agreement relating to route charges, the UK has agreed to adopt a common policy in respect of route charges and is subject to the Eurocontrol Principles for establishing the cost-base en route charges and the calculation of unit rates, the costs of providing air navigation services. Consistent with ICAO, these principles allow the recovery of the costs of provision of en route air navigation services from those that use them- i.e. airlines. In addition to ANSP costs, they also include the costs incurred by competent authorities (the CAA), costs stemming from international agreements (DfT's share of costs for the running of Eurocontrol), and costs for meteorological services (the Met Office).

Under the Eurocontrol Principles, the costs are established for a 5 year regulatory period and set out in a performance plan. The current period runs from 2023 to 2027. The costs of national authorities like the CAA (and DfT) are not subject to volume risk and are recovered on a fixed basis, to reflect expected costs for the period. The Principles include provisions that where actual costs are higher, or lower, than forecast, national authorities may recover, or return, the difference from or to airlines.

Costs of UKATS for the year ended 31 March 2023 were £20.6m (2022: £15.7m). Our UKATS costs arise from SARG activities, 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 £21.0m (2022: £16.1m). The net result (excluding the effects of IAS 19 pension scheme adjustments) was an operating profit of £0.4m (2022: £0.4m).

CAA International (CAAi)

CAA International Limited is a leading, globally recognised aviation advisory group and a wholly owned subsidiary of the CAA. The company provides best-practice advice and training to civil aviation authorities and industry worldwide, as well as examinations and licensing systems. CAAi is a social enterprise and, as such, it helps to extend our regulatory influence overseas, working to raise aviation standards across the globe to protect UK air passengers travelling abroad or on non-UK airlines. CAAi's objectives are wholly aligned to the strategic safety, security, consumer protection and environmental objectives of the CAA.

The company's principal business activities include independent advisory services, training, licensing systems and examinations for pilots, engineers and air traffic controllers. Throughout the year, CAAi has been providing regulatory advice, mainly to: National Aviation Authorities in Asia, the Middle East, Africa and Europe, the Ministry of Defence, EASA and UKRI (UK Research and Investment). Activities covered all regulatory areas including: aviation safety, security, environment, economic regulation and consumer choice and value. CAAi regularly supports EASA and ICAO at events throughout the year.

The company also provides open access courses and in company training programmes for civil aviation authorities and industry; in addition, it has a strategic partnership with other training providers, such as SAA (Singapore Aviation Academy), MAVA (Malaysia Aviation Academy) and GAA (Gulf Aviation Academy).

CAAi achieved revenues of £7.7m (2022: £5.6m). The company's operating result (excluding the effects of IAS 19 pension scheme adjustments) was a net operating loss of £0.5m (2022: £1.4m loss). The company employed an average of 45 staff (2022: 43) during the financial year, with a further 23 full-time equivalents being supplied from other areas within the CAA (2022: 19). A combination of staff supplied from the CAA and management charges in respect of HR, finance, IT services, insurance, accommodation and central administration functions, provided a contribution to the CAA Regulatory Sector before corporation tax of £1.9m (2022: £0.5m).

The last quarter of 2022/23 saw a return to a profit making position and this is expected to continue throughout 2023/24.

Financial Review

Miscellaneous Services

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

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

Turnover for the year was £20.8m (2022: £11.7m), an increase of £9.1m (77.8%). The net operating profit for Miscellaneous Services (excluding the effects of IAS 19 pension scheme adjustments) was £0.3m (2022: £0.8m profit). The average number of staff in the year ended 31 March 2023 was 370 (2022: 337).

Financial Outlook

As part of the Government's 2021 Comprehensive Spending Review (CSR) for the three years commencing April 2022, the CAA submitted a claim for section 12 liquidity funding. Only £5m of the £24.8m available for 2022/23 was required due to the strong recovery of the aviation industry. Based on the Group's budget and cash flow forecasts it is not envisaged any further DfT or overdraft facility funding will be required to be drawn for the current year. Whilst the aviation industry continues to report strong growth with the prospect of a return to near normal levels of activity through the summer and beyond, this is in the context of stubbornly high levels of inflation and cost of living challenges which may feed in to demand for aviation services as the year progresses.

Tracey Martin, interim Chief Financial Officer
21 June 2023

Sustainability

During 2022/23, we have continued to develop our approach to sustainability. Our corporate strategy makes clear that supporting the improvement of aviation's environmental performance is a key element of our work and this is strengthened by sustainability being one of the CAA Board's priorities for 2023/24.

We fully recognise that aviation delivers significant economic, social and cultural benefits, regionally and globally. However, we also acknowledge that the sector is facing a challenge to mitigate emissions, noise and other adverse impacts. Industry is investing in new, more sustainable fuels, new forms of propulsion and more efficient operating procedures. Governments in the UK and globally are setting targets and introducing policies, incentives and fiscal measures to create the conditions for industry to deliver the required improvements. Regulators have a distinct role in enabling the achievement of these targets.

Our Environmental Sustainability Strategy, which was published in May 2022, is positioned within the long-term nature of climate change and the Government and industry's evolving approaches. The strategy sets out how we are working with the whole aviation and aerospace systems to address environmental performance, in an agile, ambitious and credible way, being clear about what we can and can't do, and recognising where we can focus our expertise to add unique value. It also provides our colleagues, stakeholders, and those we regulate with clarity on our roles, remit and ambition in this area.

We continue to ensure safety, security and consumer protection in the aviation sector, but we also want to be ambitious in the way we prioritise sustainability in our work, across several strategic areas:

- Enabling development of Jet Zero technology;
- Co-leading the modernisation of airspace;
- Reporting on the sustainability performance of industry, including noise, to provide information to consumers on the environmental impact of aviation;
- Advising and supporting the UK Government on domestic and international policy;
- Reducing the impact of our own corporate activities and operations;
- Assessing local environmental impacts in relevant regulatory activity and monitoring how industry is adapting to climate change; and
- Taking into account the environment in our regulation and oversight.

More specifically, we contribute to and, where appropriate, lead in the Jet Zero Council and its delivery groups, which was set up by Government to coordinate the net zero challenge in aviation.

We have acquired a number of reporting functions. We have a duty to produce a triennial report (next report due during 2023/24) reviewing the environmental performance of UK aviation, as well as annual noise and greenhouse gas emissions reports, which complement the UK environmental review and provide a greater level of analysis of environmental impacts on a local level. We are also focusing on exploring the feasibility of sharing information with consumers on the environmental impact of their flights, to improve travel choices.

Additionally, we are spending more time considering how the environment impacts aviation, not just the other way around adaptation to climate change, as well as mitigation and we are planning to contribute to the fourth round of Climate Change Adaptation Reporting, which feeds into the Government National Adaptation Plan.

To underpin the CAA's work in sustainability, we created a Sustainability Team. The team has a specific focus on addressing environmental performance in aviation and is tasked with delivering the strategy's short and medium-term programme of work and is supported by a Sustainability Programme Board, which has an oversight function for the programme's activities.

Furthermore, in June 2022, we stood up an independent Sustainability Panel, modelled on our existing Consumer Panel. The panel is a specialist, non-statutory body that provides expert technical advice to the CAA and supports and challenges us on the delivery of our Environmental Sustainability Strategy. It acts as a 'critical friend' and ensures that environmental and sustainability issues are considered in our policy development to the extent that current legislation requires and allows.

The Panel published its interim work programme and has also set out a number of longer-term environmental sustainability issues of potential wider interest to the CAA, including adaptation and resilience, data quality, the science of impacts of alternative aviation fuels, electrification, local health effects of aviation, whole life cycles and system effects and impacts.

As well as working with industry to improve environmental performance, we focus our attention on our STEM programme. The programme is aimed at inspiring young people to explore careers in STEM, aviation and aerospace, to support and encourage their future career choices. Its scope was recently extended with the addition of a new sustainability and environment section, developed jointly by the CAA sustainability team and the STEM programme team and designed to showcase potential career paths in aviation and sustainability.

Lastly, an important part of our work in sustainability is the way we address, reduce and mitigate the impacts of our own corporate operations on the environment. We have developed and agreed our corporate environmental strategy and have set the CAA's net zero target to 2035. This target will be primarily delivered by reducing energy use across the organisation through improvements to our office estate, car fleet and travel plans.

Sustainability

Environment reporting from our operations

Improving environmental performance is one of the CAA's Board priorities. This also includes the efforts we put in to minimise our own environmental impacts. The CAA has re-established its Corporate Environmental Sustainability Strategy to manage our operational environmental impact. During FY 22/23 we have been implementing this for our operations, with the objectives of reducing our environmental impacts, promoting transparency to a wide range of stakeholders, providing mid-term cost savings and attracting talent. As part of that and to align CAA's exposure to climate-related risks with a 1.5°C temperature rise scenario and achieve Government's net zero by 2050 targets, we have set the following targets:

- Transition CAA's car fleet to electric by 2030; and
- Achieve Net zero GHG emissions by 2035.

Our approach to achieve this is to reduce usage, be more efficient and switch to sustainable resources.

During FY 22/23 we focused on embedding environmental management into the business by preparing to be compliant with ISO 14001. Some of the initiatives undertaken during this year to reduce our environmental impact included aligning CAA's Estate Strategy with our net zero targets and improve the EPC rating of Aviation House. As the emissions from business mileage increased by 3% this year compared to the baseline, a review of the business travel will be undertaken in FY23/24 to assess options for reducing emissions from this aspect of our operations.

Streamlined Energy and Carbon Reporting (SECR)

In FY 22/23 our total net greenhouse gases (GHG) emissions were 1,394.8 tonnes carbon dioxide equivalent (tCO_2e). This represents a decrease of 24% compared with 1,824.1 tCO_2e in the baseline year, FY 19/20.

Aspect	FY22/23	FY21/22	FY20/21	FY19/20	% Change from baseline
			GHG Emissions (tCO_2e)		
Total emissions from combustion of gas and oil (Scope 1)	337.8	367.5	375.0	371.5	-9%
Emissions from combustion of fuel for transport purposes (Scope 1)	36.4	32.1	33.2	55.5	-34%
Emissions from purchased electricity (Scope 2)	315.9	400.4	382.0	714.8	-56%
Emissions from electricity for transport purposes (Scope 2)	1.1	-	-	-	-
Emissions from business mileage claimed by employees and from car rentals (Scope 3)	703.5	457.7	178.0	682.2	+3%
Total gross GHG emissions	**1,394.8**	**1,257.7**	**968.3**	**1,824.1**	**-24%**
				Energy (MWh)	
Total annual gas consumption for combustion purposes	1,850.8	2,006.7	2,039.6	1,978.2	-6%
Total annual transport fuel	216.2	243.1	255.9	417.9	-48%
Total annual purchased electricity consumption	1,633.7	1,885.5	1,638.7	2,796.7	-41%
Total annual purchased electricity for transport purposes	5.7	-	-	-	-
Total from business travel mileage claimed by employees and from car rentals	2,853.5	1,860.4	717.7	2,662.9	+7%
Total annual energy consumption used to calculate emissions	**6,559.8**	**5,995.7**	**4,652.0**	**7,855.8**	**-16%**
Intensity ratio: tCO_2e/GIA (m_2)	**0.10**	**0.09**	**0.07**	**0.10**	**0%**

Sustainability

Streamlined Energy and Carbon Reporting (SECR) (continued)

We are reporting on SECR on a voluntary basis, according to the criteria stated in The Companies and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018, as CAA is a Public Corporation. The reporting period that this submission covers is 1 April 2022 to 31 March 2023. We have followed the GHG Protocol Corporate Accounting and Reporting Standard, 2022 UK Government Conversion Factors for Company Reporting, 2022 UK Government Conversion Factors for Company Reporting and manufacture emission factors for company cars. We have utilised an operational control approach, including activities from CAA's two subsidiaries. We have measured our scope 1 (excluding fugitive emissions), scope 2 and scope 3 (transport consumption and emissions). The intensity ratio chosen was tCO_2e per gross internal area. This was chosen as it is deemed to be the best metric which could be used consistently year-on-year. We have reported our emissions of CO_2 on a carbon dioxide equivalent basis. We have no emissions of methane, nitrous oxide and fluorinated gases.

Energy use during the period has reduced by 16% compared with the FY 19/20 baseline due to energy efficiency improvements, the impact of the Covid-19 pandemic and changes due to hybrid working. The principal measures undertaken to improve energy efficiency included a review of CAA's Estate Strategy for alignment with net zero targets, the development of ISO 14001 processes, inclusion of hybrid cars in the fleet and replacing chillers at Aviation House. The FY 19/20, FY 20/21, FY 21/22 and FY 22/23 scope 1, 2 and 3 energy consumption and associated emissions within our report have been independently assured through a limited assurance engagement conducted in accordance with the International Standard on Assurance 3410 "Assurance engagements on greenhouse gas statements" (ISAE 3410).

Our Efficiency Report

We are better able to achieve our key objectives by being efficient and effective. Our commitment to better regulation principles means we understand the impact of our regulation and seek to minimise costs and unnecessary 'red tape' where possible. Being efficient also ensures we have the resources available to focus on the aviation industry's most significant risks. We strive for a regulatory framework that effectively and efficiently delivers high standards of safety, security and consumer protection.

Our approach to efficiency is based on three core principles:

1. Challenging ourselves to make sure our regulation is proportionate to the risks being managed;
2. Continuously improving our engagement with stakeholders; and
3. Aiming to achieve efficiency and value for money in our costs of operation.

This report provides a review of the efficiencies we have achieved and the improvements we have planned.

Efficiency strategy

In February 2023, the CAA Board approved the organisation's efficiency strategy which had been in development throughout the year. The primary objectives of the strategy are to achieve an efficiency target in terms of a real reduction in costs, to bring price certainty to stakeholders who pay our statutory charges, and to reinvest net savings into our customer experience and digitalisation programmes.

Efficiency target

The CAA will deliver a 5% real reduction on its FY22/23 budgeted regulatory cost base by the end of the next three-year period starting in 2023/24 (5% equates to c.£7.7m p.a.). This will be achieved by making real terms savings against budgeted regulatory costs. Certain activities are excluded from the target where their scale/scope is currently highly uncertain and/or growing rapidly, where they contribute directly to our economic growth duty, or where they are, in effect, a contracted revenue-generating service outside our statutory charging schemes where we provide to operators on an individual basis.

Charging certainty

During the next three-year period, we will give stakeholders certainty on the continuing charges they will pay by committing to a real terms charges reduction of CPIH–1% per annum. Any variance to this will be consulted on through the annual scheme of charges consultation process.

Reinvestment

We will reinvest net savings into accelerating our customer experience and modernisation programmes. The key benefits anticipated from the programmes include: speeding up regulatory processes and approvals; improving 'right first time' applications for standard services; and changing processes and behaviours in the organisation to deliver a measurably better customer experience. These programmes are currently estimated to take 4-5 years to complete. We are committed to developing these enhancements in consultation with our customers and stakeholders.

1. Regulation is proportionate to the risks being managed

Exemptions

At the start of the 2022/23 year, several countries around the world continued to enforce travel restrictions due to the Covid-19 pandemic and we issued a number of exemptions to individuals and specific operators to enable essential operations to continue (such as medical supplies and testing equipment to be carried and transported). We also issued general exemptions related to preparations for the end of the saving and transition period, arising from the 2-year EU-exit transition period for issues such as the transfer and renewal of licences. Most of these were related to additional privileges added to the EU-issued aircraft maintenance licences on or after 1 January 2021. The CAA recognised these as if they had been applied to the UK-issued licence for those individuals who had applied for (and were waiting for the issue of) their UK licences. There were no exemptions for EU-exit related provisions that went beyond 31 December 2022. More recently, we have issued specific exemptions related to ongoing pandemic-related global supply chain issues; due to the way in which aircraft are certified, a non-safety related unserviceability on an aircraft that is not fixed within a certain period would result in the aircraft being grounded. Delays to availability of spare parts may result in these time limits being exceeded but fall outside of the control of aircraft operators.

Aviation security

We learnt a great deal from the Covid-19 pandemic about the different ways in which we could support the aviation industry to ensure security risks continued to be addressed and standards maintained. We developed and used remote working programmes and secure data transfer methods far more during the last year, resulting in a less intrusive regulatory impact on the aviation industry with no detriment to safety.

Our Efficiency Report

2. We continuously improve our engagement with stakeholders

Modernisation of our IT infrastructure

Our digitalisation programme has continued this year for pilot and engineers licensing applications. The programme has helped us deliver our objective to provide online access to licensing services through modern, user friendly systems that are straightforward, streamlined and accessible to all, with efficient back end processes allowing licences to be issued quickly and effectively. Services supporting over 80% of all applications received have now been moved online, in updated, redesigned formats. The application forms have been designed based on right-first-time analysis of previous applications aimed at minimising enquiries and follow ups for a faster processing time.

Plans for the coming year involve a move toward portal-presented application processes allowing personalised applications to be made quicker through systems already aware of the applicant's current licence statuses, starting with engineer licensing, helping to further simplify our licence application process.

Our Payments Strategy project, delivering later in 2023, will provide a consistent and more satisfactory user journey for the way we take payments from customers across a broad spectrum of services CAA-wide. The project aims to simplify the process of taking payments associated with applications by ensuring the correct fee is calculated and presented, and payment taken quickly and securely, without need for an applicant to share sensitive payment details. The receipt of payments in an automated and consistent process is expected to see processing efficiencies across the CAA.

ATOL - CAA Claims Portal

As at end of March 2023, 15,587 claims have been submitted and processed via the CAA Claims Portal.

228 consumer satisfaction responses were received during the period April 2022 to the end of March 2023:

- 81% of respondents found the instructions and welcome page easy to understand, and considered the portal user friendly and easy to navigate;
- 78% of respondents found the information displayed clear and straightforward, and were able to find help and further information when needed; and
- 80% of respondents found the processing of their claim effective and their interactions with the CAA and third-parties informative and courteous.

Airspace Coordination and Obstacles Management Service (ACOMS)

During the financial year we began development of a new portal, case management and mapping solution for the coordination and deconfliction of Unusual Aerial Activity. This will provide significant efficiencies for the operational team in processing applications and issuing notifications across different channels. Automating the initial application process should remove the need for manual intervention for the majority of simple cases such as cranes and drones applications, and reduce the processing time for complex cases such as military exercise applications. The first phase (minimal viable product), which saw the implementation of just the cranes and obstacles activity submissions, was completed in February. The second phase, which will see around 20 activity types being processed, is expected to complete in late September.

Our Efficiency Report

Complaints about the CAA

We are committed to providing a high standard of service to our stakeholders and welcome complaints. This feedback enables us to continuously improve. Over the past year we have revised our complaints handling approach with new governance, standards, and reporting, to ensure a consistent and effective service. We have also introduced a process helping us to learn from complaints, to ensure we use the insight to make improvements to our services.

A table highlighting the number of complaints received during the last three years can be seen below. The number of complaints received this financial year was reduced to 199 (a decrease of 26% compared to last year). This level represents less than 1% of all services provided.

While the number of complaints received has decreased, they are predominantly about licensing applications associated with the UK's exit from the EU. Demand and staffing levels in some service areas have adversely affected application and correspondence lead times.

We will continue to monitor and look for ongoing improvements as post-Covid-19 services return to normality and we embed working practices outside of EASA.

Complaints about the CAA	FY2022/23	FY2021/22	FY2020/21
Number of complaints in line with our complaints policy	199	270	153
Upheld in full or in part	118 (59%)	207 (77%)	103 (67%)
The categories of upheld complaints are:			
Poor service, including:	64 (54%)	162 (78%)	70 (68%)
Application processing delays	31 (48%)	104 (50%)	35 (50%)
Failure to respond to enquiries	17 (27%)	13 (6%)	4 (6%)
Other (quality and systematic issues)	16 (25%)	45 (22%)	31 (44%)
Charges/fees	4 (3%)	4 (2%)	2 (2%)
Staff behaviour	4 (3%)	3 (1.5%)	-
Lack of CAA action	34 (29%)	20 (10%)	22 (21%)
Unfair treatment/bias	1 (1%)	6 (3%)	4 (4%)
Over regulation/gold plating	3 (3%)	1 (0.5%)	-
Incorrect advice	8 (7%)	11 (5%)	5 (5%)

Learning from complaints

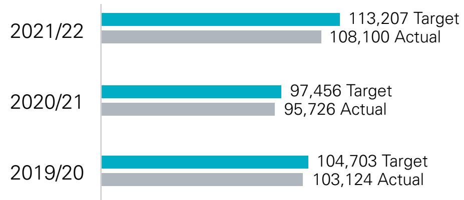
With complaints being a valuable insight tool to learn more about the experiences of people using our services, in August 2022 we reviewed our internal process to track and monitor any trends and pinpoint any recurring issues. Our revised process now provides us with an opportunity to reflect, analyse and transform complaints into learning and intelligence to determine areas for improvement. We think it is important to share this learning with our customers and more information is available on our **website**.

If all stages of our internal complaints process have been followed and the complainant is still not satisfied, then they can ask the CAA to refer their complaint to an Independent Complaints Assessor (ICA).

Our Efficiency Report

3. Aiming to achieve efficiency and value for money in our costs of operation

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

Target	Outcome
Increases in fees and charges for those we regulate are kept within inflation in the long-term.	A general price increase of 2.9% was implemented for 2022/23 versus CPI(H) of 8.9% i.e. a 6% real terms reduction.
Manage our pension costs to reduce as a percentage of total employment costs over time.	Our defined benefit scheme is closed to new members. The overall pension cost in the Income Statement has increased by £0.2m. However, average actual contribution per employee has reduced by 6.9% year-on-year as the proportion of defined benefit members continues to drop due to staff turnover and retirements.
Regulatory operating costs do not exceed 2022/23 budgeted levels which are in line with the agreed 2.9% inflationary increase for charges and track well below the current level of inflation.	Regulatory costs were £5.5m lower than budgeted for 2022/23. See further information in the Financial Review on **page 40**. 
Manage our cash flows effectively, so as not to use our overdraft facility during the year.	The cash balance decreased by £8.8m to a still healthy balance of £21.1m. The overdraft facility was not used.

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

- Deliver on our efficiency strategy commitment of achieving a 5% real terms reduction on our FY2022/23 budgeted cost base;
- Achieve a real terms charges reduction of CPIH–1% per annum; and
- Manage our pension costs to reduce as a percentage of total employment costs over time.

Our Efficiency Report

Schemes of charges

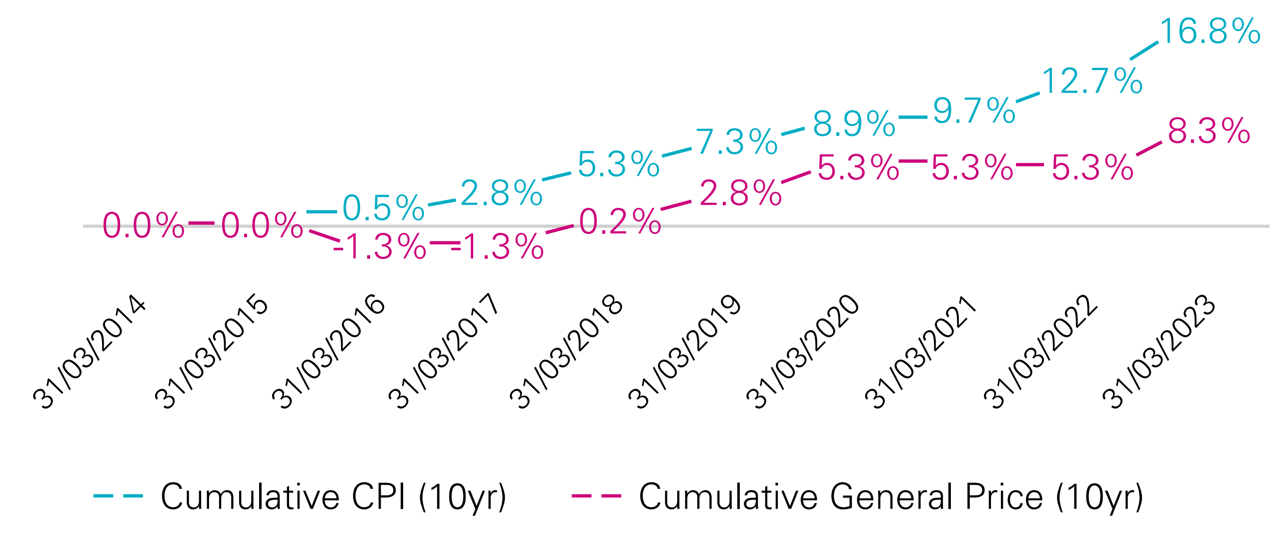
We are normally primarily funded directly by charges paid by those we regulate and, accordingly, we are required fully to recover our costs. Given the impact of reduced passenger volumes on our income for 2020/21 through 2022/23, we received section 12 grant funding from the DfT to cover the shortfall in stakeholder income.

In the light of Covid-19 and the severe financial impact it has had on the aviation industry, we agreed there would be no increases to stakeholder charges for the financial years 2020/21 and 2021/22. However, the need to secure people to deliver our often-changing statutory remit and significant increases in CPI(H) has built cost pressure on the CAA, leading to a general increase of 2.9% being implemented across all charges schemes for 2022/23.

The current economic environment continues to present challenges to our cost base driven by sustained high levels of inflation, higher energy prices and upward pressure on salaries. As with many of our stakeholders across the aviation industry, we have not been immune to these economic impacts and, given the desirable technical expertise of our colleagues, we have faced an increasing retention challenge. This has been exacerbated by pay freezes put in place in the organisation during Covid-19 and substantial price increases from our suppliers, in some cases in the region of 10%-15%. Every organisation has had to mitigate the impacts of inflation. These factors and the forecast increase in inflation for the coming year, has led to a general increase of 7.8% across all charges schemes for 2023/24. This is still below the current rate of CPI(H) inflation.

The chart below sets out the cumulative historic price increases and decreases, including the proposed charges increase for the next year (2023/24), alongside the cumulative changes in CPI(H). The general price increase of 7.8% has been implemented from 1 April 2023. Since 2013 our charges have increased (16.8%) by only around half the increase in inflation (31.2%) in that period.

Cumulative price increases versus CPI(H)



One of the Board's priorities in 2021/22 was to begin reviewing the way the CAA is funded with a view to developing a new funding model over the next few years. The outcomes from the ALB review will be factored into the future funding model requirements when this work starts again later in 2023. It is important we have a flexible, modern and customer-focused funding model, capable of supporting the pace of change in the aviation and aerospace industry and providing sufficient financial resilience for the future.

Our Efficiency Report

Pension changes

Employment costs make up the majority of our total expenditure, and a key element of these are pension costs. Our defined benefit scheme was closed to new entrants in 2012. Well over 50% of colleagues are now within our replacement defined contribution scheme. The latest triennial actuarial valuation for the defined benefit scheme, as at 31 December 2021, was finalised in September 2022. Employer contribution rates have been maintained at current levels following an update of actuarial assumptions. Market volatility due to Covid-19 and the national cost of living challenges continue to impact the level of scheme deficit, together with future service contribution rates, which are closely monitored on an ongoing basis.

CAA premises

As part of our move to hybrid working, we concluded that we did not need all of the space in our Westferry Circus office. In August 2022, Ofwat moved into the building and now share office space with us, having taken over approximately 30% of the floor space. This sub-lease arrangement has provided reduced premises costs and will help us achieve our environmental goals by having a reduced office footprint.

We are also currently undertaking a wide-ranging review of all our premises in the light of our hybrid working arrangements, with a view to establishing the ongoing requirements for our premises' footprint in the long term.

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 2023 (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 2022/23 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 85 to 91**.

BDO LLP

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

21 June 2023

Key Safety and Service Performance Indicators

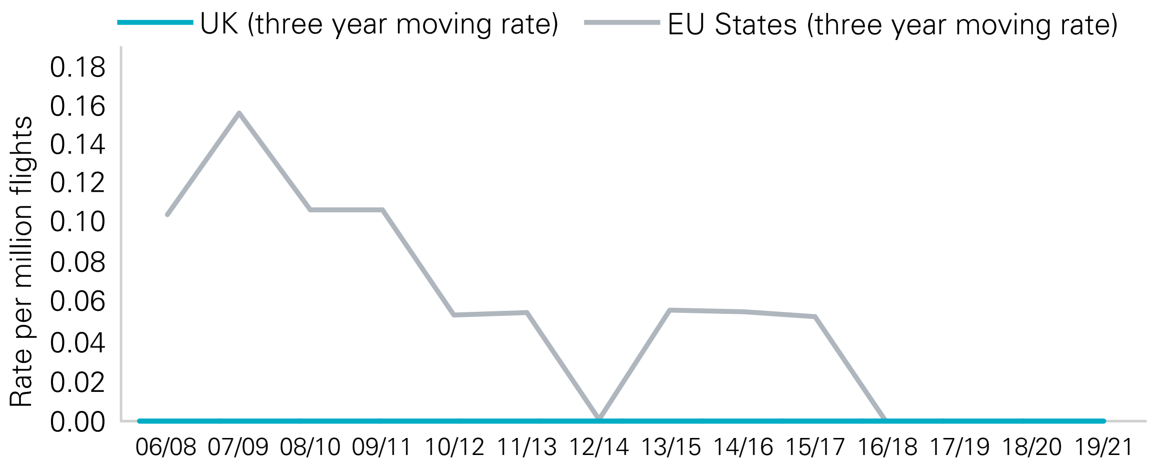
We select a series of key performance indicators to show both the current safety levels of UK civil aviation and also our organisational performance for our service delivery work.

For the safety indicators we have chosen to highlight sectors of aviation that reflect the main elements of the industry ranging from commercial airlines to general aviation. The data for our safety indicators is primarily taken from occurrence reports submitted to us by industry.

These safety performance indicators are for UK-registered or operated passenger aircraft, using a three-year moving rate (based upon the preceding calendar years) of fatal accidents per million flights. A fatal accident is defined as an accident that results in fatal injury to any person in or upon the aircraft or, by direct contact with any part of the aircraft or by direct exposure to jet blast[2].

UK-registered/Air Operator Certificate (AOC) fixed wing passenger aircraft above 5,700kg Maximum Take-off Weight Allowed (MTWA)

Fatal Accident Rate



Analysis

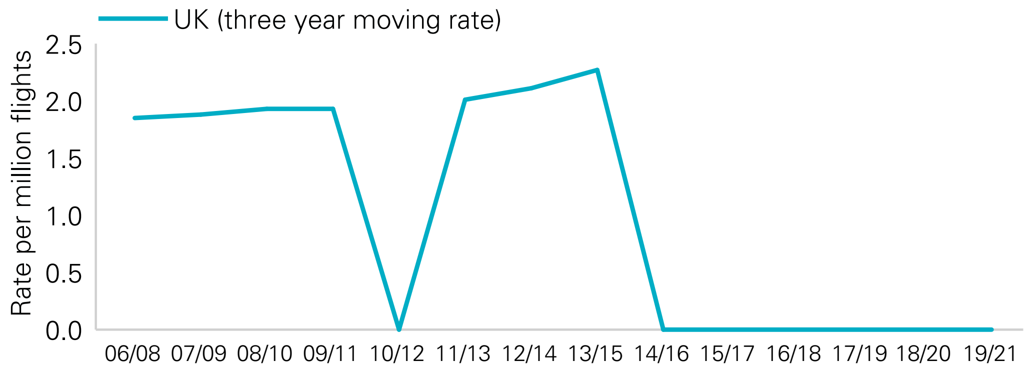
In the three-year period between 2020-2022 there were no fatal accidents involving UK operators and none involving an EU member state. The UK fatal accident rate in this category has remained at zero since 1999 when a Boeing 757 experienced a heavy landing in Girona, Spain, resulting in one fatality.

2 For the purposes of this document jet blast, and by extension, downwash, has been included in this definition.

Key Safety and Service Performance Indicators

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

Fatal Accident Rate



Analysis

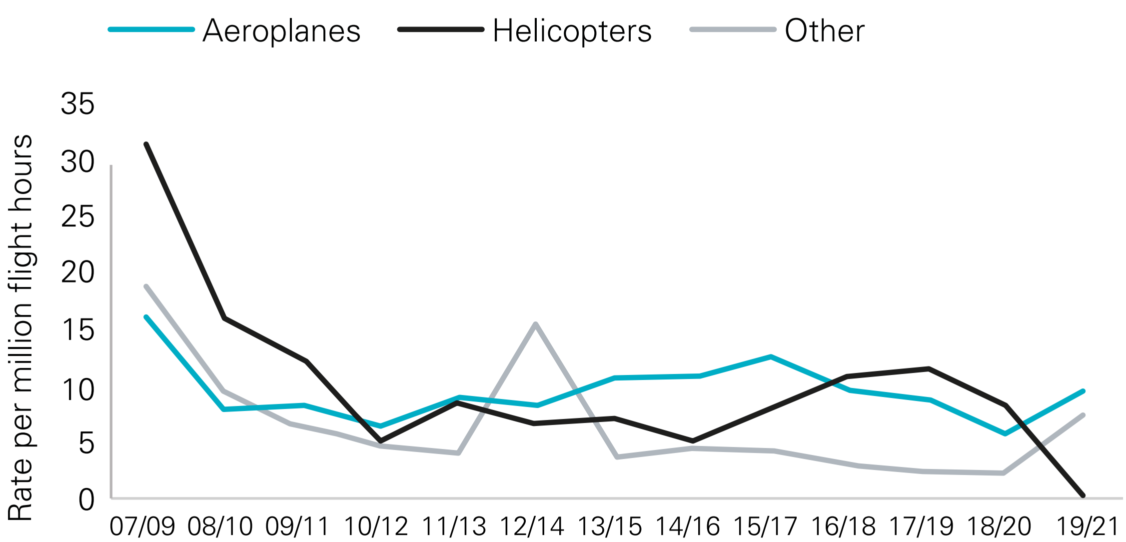
The fatal accident rate for UK commercial air transport helicopter operations rose for the three-year period from 2020 to 2022 due to a fatal accident on 4 March 2022. The accident involved a Sikorsky S92-A which was landing with a patient at Derriford Hospital, Plymouth. The downwash from the arriving helicopter fatally injured one pedestrian and injured another.

Prior to this the last fatal accident involving this category of aircraft occurred in 2013 when an AS332 Super Puma crashed into the North Sea, resulting in four fatalities.

Key Safety and Service Performance Indicators

UK General Aviation

Fatal Accident Rate



The General Aviation (GA) fatal accident rate for UK-registered aircraft has been segmented into three categories: Fixed Wing Aeroplanes, Helicopters and Other. The Other category includes lighter than air vessels (e.g. balloons and airships), gliders, gyroplanes and microlights.

The rates shown above have been calculated using aircraft utilisation (e.g. annual flight hours) as gathered by our aircraft registration team. The utilisation data for 2022 is likely to be incomplete.

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

Analysis

Aeroplanes

According to the Air Accident Investigation Branch Annual Safety Review 2022, loss of control in flight during aerobatics, following partial power loss or flight into clouds by unqualified pilots, were the recurring themes in GA accidents in 2022.

Helicopters

There was one fatal accident involving a helicopter in 2022, hence the increase in rate.

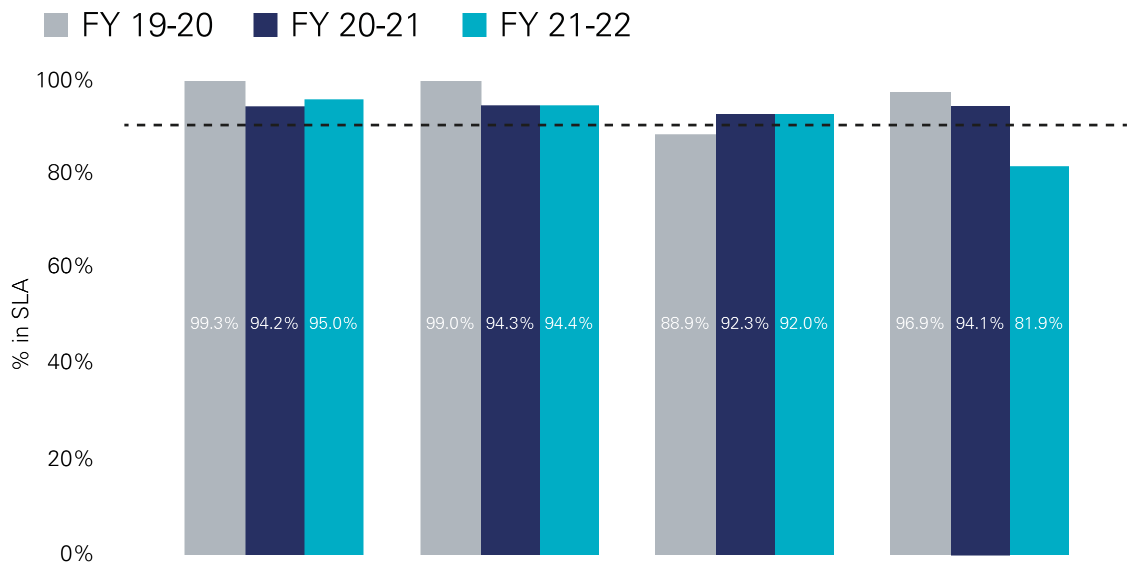
Other

There were six reported fatal accidents involving other sector aircraft reported between 2020-2022, with four fatal accidents reported during 2022. This sector has seen an increase in fatal accident rate. Aircraft involved have been microlights and gliders that are not as regulated as aeroplanes and helicopters.

Key Safety and Service Performance Indicators

Percentage of services delivered within published Service Level Agreements

% inside service level agreement (SLA)



Airworthiness Review Certificates (ARC)

Performance against the service standards for Airworthiness Review Certificates has been consistent over the last 12 months.

Part 21 Temporary Permits to Fly

Temporary Permits to Fly are treated as a priority over other applications as the aircraft are grounded and need to be moved urgently. Whilst we have been challenged throughout this last year in terms of recruiting replacement and additional Technical Standards Surveyor roles, a full process review is under way to increase capacity as well as a review of the recruitment campaigns to improve success rates.

National Permit Issues

Performance against the service standards for National Permit Issues has been challenging this year. We have lost capacity in this area and we are focussing on training to address this shortfall.

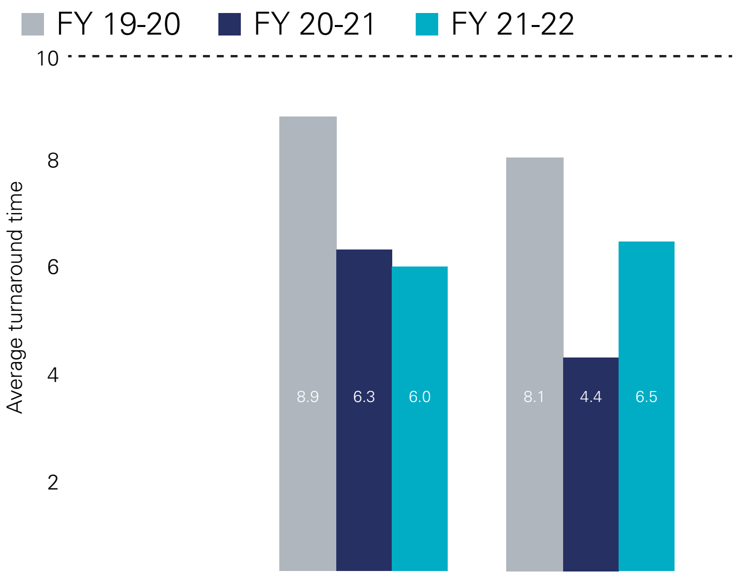
Certificates of Airworthiness (CoFA)

We continue to see increased volumes of applications post EU-Exit. Training is ongoing; however this is a significant discipline which requires high level expertise and several months of training. Similar resourcing challenges have been experienced as with Part 21 Temporary Permit to Fly approvals and the review under way to increase capacity and recruitment success will also incorporate CofA activity.

Key Safety and Service Performance Indicators

Percentage of services delivered within published Service Level Agreements (continued)

Average turnaround time of applications against 10 day service level agreement



Aircraft Maintenance

Aircraft Maintenance applications (Part-66) turnaround times have averaged 12.2 working days for FY 2022-23 which is higher than previous years and outside of SLA. The demand for applications was +17% versus the previous year (FY 2021-22) and +50% versus two years ago (FY 2020-21). Where applications require a technical assessment, this has been challenging due to resourcing and recruitment issues in respect of Technical Standards Surveyors. In addition, demand for EU-UK applications exceeded expectations, with 5,356 applications received from 6 January 2021 to 31 December 2022 (equating to an additional 60% workload across this period), including ~1,200 applications (22% of the total) received in the final seven days prior to the submission window closing. This unexpected demand deflected resource from business as usual work for several months and resulted in a less stable service delivery overall for the last 12 months.

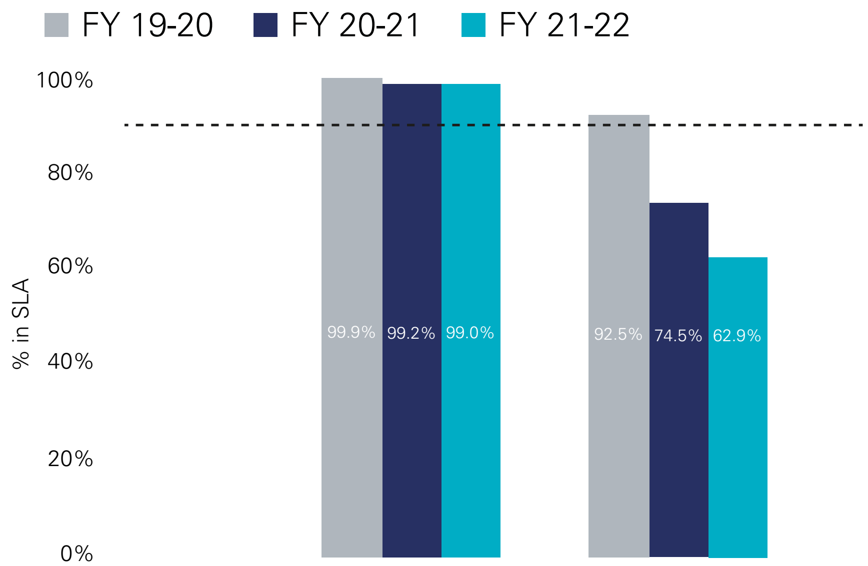
Air Traffic Services (ATS)

Air traffic services licence issues remained within agreed service levels, with average turnaround time at 6.8 working days in FY 2022-23, similar to FY 2021-22. The demand of applications was +12% versus the previous year (FY 2021-22) +64% versus two years ago (FY 2020-21). This represents a strong continued service delivery over the last 12 months.

Key Safety and Service Performance Indicators

Percentage of services delivered within published Service Level Agreements (continued)

% inside service level agreement (SLA)



RPAS Pre-Defined Risk Assessment (PDRA01)

All applications were delivered within SLA. The number of applications received for the period totalled 3,253, a 22% reduction on the previous year (4,148).

A new PDRA01 assessment criteria was introduced at the beginning of this year; this may have contributed towards the reduction in application numbers.

Flight Crew Licensing (FCL)

FCL service delivery has steadily improved through FY 2022-23 resulting in 90% being delivered within 10 working days and hitting SLA.

This has been in part due to the segregation of the EU-UK application volume into a dedicated team allowing the FCL team to focus on processing business as usual applications, the demand for which was +28% versus the previous year (FY 2021-22) and +68% versus two years ago (FY 2020-21). This was lower than pre-Covid demand in 2019. However work has been ongoing to improve resilience in preparation for greater volumes via increasing the team size and additional training. The performance represents a strong service delivery over the past 12 months.

CAA Consumer Panel: Summary of 2022/23 Annual Report

The Rt. Hon Jenny Willott OBE

The CAA Consumer Panel is an independent non-statutory body providing expert advice to the CAA to make sure that the consumer interest remains central to its policy development. The Panel acts as a critical friend, helping the CAA to understand fully and take account of the interests of current and potential aviation consumers. We publish our own Work Programme and Annual Report, which are available on the Consumer Panel page of the CAA website.

Over the year to 31 March 2023, we focused on delivering on our new Work Programme themes of building the evidence base, driving better outcomes for consumers, and influencing future frameworks.

At the same time, we reprioritised planned work to take into account the significant changes and challenges taking place in the aviation sector at this time. These include building back demand, resilience and consumer confidence after Covid-19 and disruption in 2022; significant aviation legislative and policy reform; and the development of new innovative technologies.

In this context, the Panel has engaged on a wide range of topics this year. We are pleased that the Panel's visibility and impact is extending to wider areas across the CAA, and that less obvious policy areas are considering the consumer interest earlier on. While this is an ongoing process, we welcome efforts to help build the Panel's impact and visibility across the CAA and externally.

In particular, we responded to a number of CAA and Government consultations including:

- **Public Body Review:** as part of the Government's review of the effectiveness and efficiency of the CAA, the Panel Chair met with the independent lead reviewer on three occasions to discuss the Panel's views on topics including how well the CAA carries out its consumer related functions and engages with the Panel. The Panel provided a response to the Review's call for evidence, in which we reiterated our strong support for the CAA being given effective enforcement powers and mandating ADR in the aviation sector.
- **Transport Committee Inquiry on accessible transport:** the Panel responded to the Transport Committee Inquiry call for evidence investigating the accessibility of transport services. Among other things, we set out our views on how effective current aviation legislation is in ensuring accessibility for all and identified a number of barriers in the aviation ecosystem which, if addressed, could improve outcomes for passengers with accessibility needs.
- **ATOL reform:** the Panel responded to the CAA's consultation on ATOL reform. The Panel considers this is an important future framework and considers there is a strong case for rebalancing how the ATOL scheme is funded to protect consumers.
- **Consumer environmental information:** the Panel helped shape and responded to the CAA's recently published call for evidence on consumer environmental information. Among other things, the Panel urged the CAA to undertake further consumer research to test and cross-check various options with consumers on how environmental information could be presented most effectively.

We also worked closely with the CAA and Government on various initiatives as part of DfT's 22-point plan to address the unacceptably high level of disruption and short-notice cancellations passengers experienced in 2022, which received considerable press coverage and was of significant concern to the Panel. Among other things, the Panel input to the Aviation Passenger Charter and the Groundhandling Review and was regularly briefed by the CAA on ongoing disruption developments. This allowed us to challenge, advise and seek assurance that all efforts were being made to mitigate consumer detriment and drive better outcomes in the face of a challenging and fast-paced evolving operational environment.

We are pleased that at Easter 2023 we did not see a repeat of the disruption of Easter 2022, particularly in the context of growing passenger demand. This suggests lessons have been learnt since last year and Government, CAA and industry action has had an impact on improving consumer outcomes and confidence. However, we remain very concerned with outstanding ADR complaints and delays in paying passengers what they are owed following last year's disruption, particularly by Wizz Air. We strongly support the action the CAA has taken and continues to take to address these issues within its limited existing powers and continue to support the CAA being given more effective enforcement tools to reduce the likelihood of this happening to consumers in future.

CAA Consumer Panel: Summary of 2022/23 Annual Report

The Rt. Hon Jenny Willott OBE

We devoted a lot of time to working with teams across the CAA this year to shape the evidence gathered about consumer sentiment towards flying post Covid-19 and in light of the disruption experienced in 2022, ATOL reform and anecdotal evidence on consumers' views on the accessibility of airline websites. We also supported the latest wave of the CAA's Aviation Consumer Survey, including helping to shape a number of the questions asked, in particular those around the rising cost of living, the impact of Covid-19 and disruption on passengers, particularly on those who are at risk of vulnerability and require special assistance. This evidence has helped build a stronger evidence base of consumers' priorities and needs. It has also supported the Panel's scrutiny of CAA and Government policy, enabling the development of more effective evidence-based proposals for change where needed.

In addition, this year the Consumer Panel has had particular impact in the following areas:

- **Innovation:** we are particularly pleased with progress made in understanding how consumer interests might apply in the context of Advanced Air Mobility (AAM), automation and quantum technology. In the context of AAM, the Panel was closely involved in helping shape industry guidance on how the CAA's Consumer Principles could apply to new technologies such as eVTOLs.
- **Accessibility:** the CAA is undertaking an accessibility audit of airlines' websites which was largely prompted by the Panel's focus on the risks around digital exclusion in its new Work Programme. We hope the audit will shine a light on a particularly important aspect of accessibility and incentivise better performance across the industry.
- **Consumer strategy:** we helped shape the CAA's new proposed consumer strategy, which will sit under the CAA's overarching strategy. We strongly support this, and consider it is helpful in clarifying the CAA's consumer role and could help further promote the consumer interests within the CAA.
- **Economic regulation:** we have worked with the CAA to continue enhancing the consumer voice in the CAA's approach to the Heathrow airport price control (H7) and NATS En Route plc (NR23) reviews.
- **PACT workshop:** we held a workshop with the CAA's Passenger Advice and Complaints Team (PACT) and the Consumers and Markets Group (CMG) to consider how the consumer complaints handled by the CAA could be used to drive industry improvements and how the CAA could bring about greater airline and airport accountability and more efficient and effective complaint resolutions.
- **Environmental Sustainability Panel:** we have engaged with the CAA's new Environmental Sustainability Panel, with Panel Chairs and Secretariats meeting regularly and a workshop held with both Panels in January 2023 to discuss ways of working and future opportunities for joint working and collaboration.

In the last year we have delivered several aspects of our Work Programme. Over the next year, the Panel will consider, alongside the CAA, the available consumer evidence base, including any gaps, and advise on how this should be shaped and utilised to improve outcomes for consumers as the aviation sector recovers further from the impact of Covid-19 and disruption. We will continue to focus on supporting consumer confidence as the industry recovery continues, ensure the needs of vulnerable consumers are prioritised and press for improvements in protection, redress and how consumer complaints are dealt with by airlines and airports. We will also continue to help shape future frameworks, including in the areas of innovation and environmental sustainability, that have the potential to impact consumers significantly.

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

CAA Environmental Sustainability Panel: Summary of First Year

Dr Ruth Mallors-Ray OBE

The CAA Environmental Sustainability Panel is a specialist, non-statutory body providing expert technical advice to the CAA. The Panel was established to support and challenge the CAA on the delivery of its Environmental Sustainability Strategy as the CAA develops its policy and position across its regulatory and advisory functions. These functions involve engagement across all aviation stakeholders as they mitigate and adapt to address their environmental impacts. Environmental impacts are wide ranging, incorporating climate change alongside the local impacts such as noise, air quality and biodiversity.

The Panel was established in June 2022.

The Environmental Sustainability Panel acts as a 'critical friend' to the CAA, in a similar way as the CAA Consumer Panel, providing expert technical advice to ensure environmental and sustainability issues are considered in the CAA's policy developments. The Panel does this by:

- Providing expert technical advice to the CAA to support its work programme relating to its environmental roles, or on specific tasks that it may require, including input to its response to any relevant external consultations;
- Helping the CAA to understand and take account of environmental interests and impacts in its regulatory policy and framework (although the Panel does not review or comment on individual regulatory decisions);
- Challenging and supporting the CAA on its progress towards its strategic focus on improving environmental performance, both across the aviation and aerospace sectors as well as within the CAA itself, including informing the delivery and future evolution of its Environmental Sustainability Strategy; and
- Providing advice and critique on the CAA's research and help identify where further research may be needed to inform its sustainability agenda.

Since its establishment, the Panel has:

- Provided input and challenge to the evolution of the CAA's Environmental Sustainability Strategy;
- Provided expert technical advice on the environmental impacts of upcoming changes in the industry;
- Advised, guided and supported work commissioned to the CAA;
- Supported the development of the CAA's environmental sustainability literacy;
- Established a working relationship with the CAA Consumer Panel; and
- Established its ways of working and explored its role in adding value to the CAA.

In the coming year, the Panel will continue to establish its role as the CAA's critical friend. It aims to accelerate CAA progress in facilitating the industry's move towards environmental sustainability by providing the CAA with the scientific knowledge and evidence that is required to regulate, lead and influence the industry on environmental matters.

Dr Ruth Mallors-Ray OBE
Chair of the CAA Environmental Sustainability Panel

Governance

Board Members

Sir Stephen Hillier

Sir Stephen became Chair of the Civil Aviation Authority on 1 August 2020.

He previously had a long career in the Royal Air Force, eventually becoming Chief of the Air Staff, the head of the Service. He has extensive military flying experience as a pilot and instructor on a wide range of aircraft types, although his flying career started at age 17 when the CAA issued him his Private Pilot's Licence.

He also has wide experience of leading large, complex and high-profile portfolios and programmes, and of change and risk management within regulated environments.

Rob Bishton

Appointed to the Board as Group Director of Safety and Airspace Regulation in November 2019, Rob has been at the CAA since 2014, and previously held the role of Head of Flight Operations. He became interim joint Chief Executive in April 2023.

He has extensive experience in the aviation industry, including as former Group Operations Director at Fastjet, Operations Director of Astraeus and Chief Pilot of easyJet where Rob also held the positions of Head of Aircraft Operations and Head of Flight Operations. Rob remains current as a commercial pilot with over 10,000 flying hours qualified on B787 and B737 aircraft and formerly on Airbus aircraft. During Rob's early career he specialised in crew training and examination before moving into senior leadership roles. He is also an active general aviation aeroplane and helicopter pilot.

Rob brings significant Board level experience and has been involved at a senior level in start-ups, acquisitions and turnarounds, both in the UK and overseas. Before the EU Exit, Rob represented the UK at the EASA Management Board and was formerly a NED of the UK Flight Safety Committee.

Paul Smith

Paul was appointed to the Board as Group Director of Consumers and Markets on 24 May 2018. He became interim joint Chief Executive in April 2023.

Before joining the CAA he was Head of Regulatory Strategy and Policy at the Payment Systems Regulator since January 2016.

Paul has also previously held the position of Chief Executive of the Australian Energy Market Commission. Prior to that he worked on economic regulation issues as a consultant and in a number of roles at Postcomm and Ofgem.

Katherine Corich

Katherine was appointed as a Non-Executive member of the Board on 1 July 2019.

She serves on the Audit and Remuneration Committees and also serves as a member of the Board of CAA International Ltd. She has extensive experience of corporate governance, performance/risk-based regulation and aviation safety, serving on public, corporate, academic and third sector boards.

She is currently an Independent Member of the Royal New Zealand Air Force Leadership Board, Chair of IAP anti-trafficking charity and non-Exec director of MyWave Artificial Intelligence and Pure Advantage Climate Change Think Tank.

Katherine trained as a commercial pilot and is a technology entrepreneur (Sysdoc Group and Serendata Insight). She was inducted into the NZ Hi-Tech Hall of Fame in 2015, has been twice named as an EY Entrepreneur of the Year and is a Fellow of the Royal Aeronautical Society.

Board Members

Jane Hanson CBE

Jane was appointed as a Non-Executive member of the Board on 1 September 2021.

Jane also serves as the Chair of the Audit Committee which helps direct the Civil Aviation Authority's corporate governance, internal control frameworks and oversees the financial audit processes.

A fellow of the Institute of Chartered Accountants, Jane brings a wealth of experience at Board level, holding Executive, Director and Non Executive Director positions at several large and regulated organisations including Aviva, Welsh Water, Direct Line Group and Rothesay.

She is also Chair of the Reclaim Fund and Chair of the Government's Dormant Asset Expansion Board.

Jane qualified as a Chartered Accountant with KPMG, latterly leading the advisory practice for Internal Audit and Risk Management in the North of England.

She has extensive experience in Enterprise Risk Management, Corporate Governance and Internal Control frameworks in predominantly heavily regulated sectors. Jane is also a Magistrate. In 2022 she received a CBE for services to the charitable sector.

Air Vice-Marshal Simon Edwards MBE

Simon has commanded 99 Squadron flying the C-17, along with appointments as CO 904 Expeditionary Air Wing in Afghanistan and Station Commander of RAF Brize Norton.

He graduated from the Royal College of Defence Studies in 2017, working briefly in the Cabinet Office as a policy adviser in the National Security Secretariat. Shortly after, he became the Assistant Chief of Staff for Capability Delivery at Headquarters Air Command overseeing high-risk, high value government projects.

During his tenure he was the Senior Responsible Owner for a wide portfolio, including the A400M Tactical Airlifter and the United Kingdom Military Flying Training System. Promoted to Air Vice Marshal in May 2021, Simon works in the Ministry of Defence as Assistant Chief of the Air Staff (Strategy).

Marykay Fuller

Marykay was appointed to the Board as a Non-Executive Director in January 2019 and CAA Board Senior Independent Director in 2021 and serves as a member of the Audit Committee.

She is Chair of the Air Travel Trust Fund, and is also a Board member of CAA International Ltd.

Marykay is the Chair of Intu Milton Keynes Limited and also Chairs the Audit Committee of MSX International (Pacific Bidco). She serves as a director on GCP Asset Backed Income Fund Limited where she is a member of the Audit, Risk and Remuneration Committees. She is a Non-Executive Director for TD (Tilbury Douglas) Bidco and a Board member of Carnegie Mellon University (USA).

Marykay's executive career was in finance and consulting and she is a former senior advisory partner at KPMG LLP.

Earlier in her career, she also worked for the US Government where she worked on numerous US airline restructurings and served on the White House National Airline Commission.

Board Members

Anne Lambert CMG

Anne was appointed as a Non-Executive Member of the Board on 1 February 2019.

She is currently also a non-executive member of the Horseracing Betting Levy Board.

She was an Inquiry Chair at the Competition and Markets Authority 2014 to 2019 and a Non-Executive Director of the CMA from 2016 to 2018.

Previous roles include the UK's Deputy Permanent Representative to the EU and Director, European and Government Affairs for NATS. She also works as a freelance trainer on negotiating skills.

Manny Lewis

Manny was appointed as a Non-Executive member of the Board in October 2021, serving as a Non-Executive Director leading on people, change and business excellence.

Manny brings with him a wide array of skills and experience having worked in numerous positions across the public sector and local government, including Watford Borough Council, Essex Partnership University Foundation NHS Trust and Habinteg Housing Association.

Corporate Governance

Good corporate governance is vital to us at the CAA, so our Board ensures we have the right corporate governance procedures in place and reviews them regularly.

We have applied the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code 2018, as appropriate for a public corporation, throughout the year ended 31 March 2023.

Board effectiveness

As reported in last year's Annual Report and Accounts, in late 2019 the CAA Board commissioned Flint Global to carry out a review into its work, with a principal but not exclusive focus on the Board's skills and capability in respect of the CAA's five strategic focus areas. The review was postponed because of the Covid-19 pandemic but resumed in November 2021 and reported on in March 2022. Flint Global acknowledged since the last external review of the CAA Board in 2018, the CAA has faced significant turbulence, including the impact of Covid-19 on both the sector and the CAA, the UK's Exit from the EU, net zero and new technologies such as space and drones.

Flint Global found that overall, the CAA Board has a positive and strong culture. The Board is prepared to challenge the Executive and is willing to remit issues for further consideration by the Executive, and to do so more than once if deemed necessary. The Executive also feel that it is supported by the Board, that the quality of the challenge and feedback it receives at Board meetings is high and that it is rare for the Board to misjudge (in their view) the line between executive and non-executive tasks. As a learning organisation, the CAA Board welcomed the recommendations that Flint Global made to further improve the effectiveness of the CAA Board, including to increase as it had done pre-Covid its face to face engagement with CAA colleagues and with external stakeholders. The establishment of the Environmental Sustainability Panel was an example of the Board formalising its access to external experts on topics related to key areas of strategic decision making.

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

The Board

The Board is currently made up of the non-executive Chair, two executive members and six independent non-executive members of the CAA. There were four executive members for the majority of 2022/23 but are now down to two on a temporary basis following the departure of the CEO and COO. With the exception of the ex-officio MoD representative, the Secretary of State for Transport appoints non-executive members on fixed-term contracts and also appoints the Chair and sets his objectives. In December 2021, the Chair appointed Marykay Fuller as the Senior Independent Director.

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

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

- Chris Tingle ceased to be a Board member on 23 March 2023.

Chis Tingle's resignation left a vacancy for the Chief Financial Officer role and more information on this is provided in the People Committee report on **page 79**.

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

- Richard Moriarty ceased to be a Board member on 5 April 2023; and
- Paul Smith and Rob Bishton took on responsibility for the joint interim CEO role with effect from 5 April 2023.

Corporate Governance

Board meetings and attendance

The Board is assisted by two Committees:

- **Audit Committee** – chaired by Jane Hanson CBE; and
- **People Committee** – chaired by Manny Lewis.

Members' attendance at Board and Committee meetings is shown below. When invited by the Committee's Chair they can also attend meetings of Committees of which they are not members.

Attendance for the 12 months to 31 March 2023	Board meetings	Audit Committee meetings	People Committee meetings
Number of meetings held	**12**	**4**	**5**
Sir Stephen Hillier	12	*2	*5
Richard Moriarty	12	*4	*5
Rob Bishton	12	N/A	N/A
Katherine Corich	12	3	5
AVM Simon Edwards	9	N/A	*1
Marykay Fuller	12	4	*1
Jane Hanson CBE	11	4	N/A
Anne Lambert CMG	10	2	4
Manny Lewis	11	N/A	5
Paul Smith	12	*1	N/A
Chris Tingle	12	*4	N/A

* Meetings attended by invited non-members

The Board delegates responsibility for operations and management, and the development of strategy and policies to executive members. Executive members and management make regular reports and presentations so that the Board is aware of developments within each business sector. In addition, the CAA's Governance Statement provides details of matters reserved for decision by the Board. The Governance Statement was published on the CAA website on 25 May 2023.

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

Our General Counsel and Company Secretary is responsible for ensuring that the Board follows correct procedures. As part of this, they make sure that members are offered guidance on complying with relevant rules and regulations. All Board Members have access to the advice of the General Counsel and Company Secretary.

It is the responsibility of the non-executive members to ensure that Board reports are fully discussed and critically examined. Their different backgrounds and experience complement those of the executive Board Members and they bring independent judgement to Board decisions. They also make up the membership of the Audit and People Committees.

Corporate Governance

Accountability and audit

Financial reporting

We present a balanced and comprehensive assessment of our position and prospects in the Statement by the Chair, Statement by the Chief Executive, the Review of Our Business and the Financial Review, which can be found on **pages 15, 17, 22** and **38**. In particular, the Financial Review gives details of the performance and financial position of each business sector.

For the Board members' responsibilities for the financial statements see **page 84**.

Risk management and internal control

The Board is responsible for our systems of risk management and internal control. It also monitors and reviews their effectiveness. The agenda for the Board's meetings includes a regular item on risk and control. The aim is to give the Board regular oversight and assurance about the degree of risk control, rather than ad-hoc reports when exceptional risks arise.

It is important to note that internal control systems are designed to manage the risk of failure to achieve business objectives but cannot be expected to eliminate them. The systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

We have a robust assessment process for identifying, evaluating and managing our emerging and principal financial, operational and compliance risks. It was in place for the year ended 31 March 2023 and up to the date of approval of the annual report and accounts and is regularly reviewed by the Board. It complies with the internal control guidance for directors of the UK Corporate Governance Code 2018. There were no changes to the design and implementation of internal controls as result of Covid-19. See **pages 32 to 37** for a detailed description of the principal risks and uncertainties.

Executive members report to the Board on possible control issues that have been brought to their attention by operational units' early warning mechanisms. In addition, our risk management arrangements are subject to regular scrutiny by our Audit Committee. This includes receiving regular reports from our internal auditors, which incorporate recommendations for improvement. The Committee then monitors how the recommendations are implemented.

The Board completed its annual review of the effectiveness of our risk management and internal control systems in June 2023. It confirmed that the necessary actions have been taken to remedy any significant failings or weaknesses and that no material weaknesses in the internal control system relating to financial reporting have been identified.

Our Head of Internal Audit's annual independent opinion provided adequate assurance that our governance, risk management and internal control processes were designed and operating effectively.

Several in-year improvements were noted as were initiatives to further strengthen management's internal control framework.

Corporate Governance

Viability statement

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

The Board has also considered the financial context in which the CAA operates. The CAA is largely funded by charges payable by those subject to its oversight. Prior to the Covid-19 pandemic, approximately 35% of those charges were fixed in amount and payable annually by charge payers. Of the remainder, 37% of the CAA's income was calculated by reference to passenger / cargo / available seat kilometre volumes and 28% by reference to levels of industry activity, principally relating to applications received. Accordingly, where industry's financial performance is adversely affected by economic factors, there is also an effect on the CAA. The aviation industry has seen a strong recovery during the year ended 31 March 2023 which is forecast to continue through the coming year and beyond. The Board and Executive Committee consider these matters in setting the annual budget and in actively managing expenditure.

While we have been actively involved in supporting the Government in its work associated with the tragic war in Ukraine, we have no reason to believe that the conflict will result in a significant financial impact to the CAA.

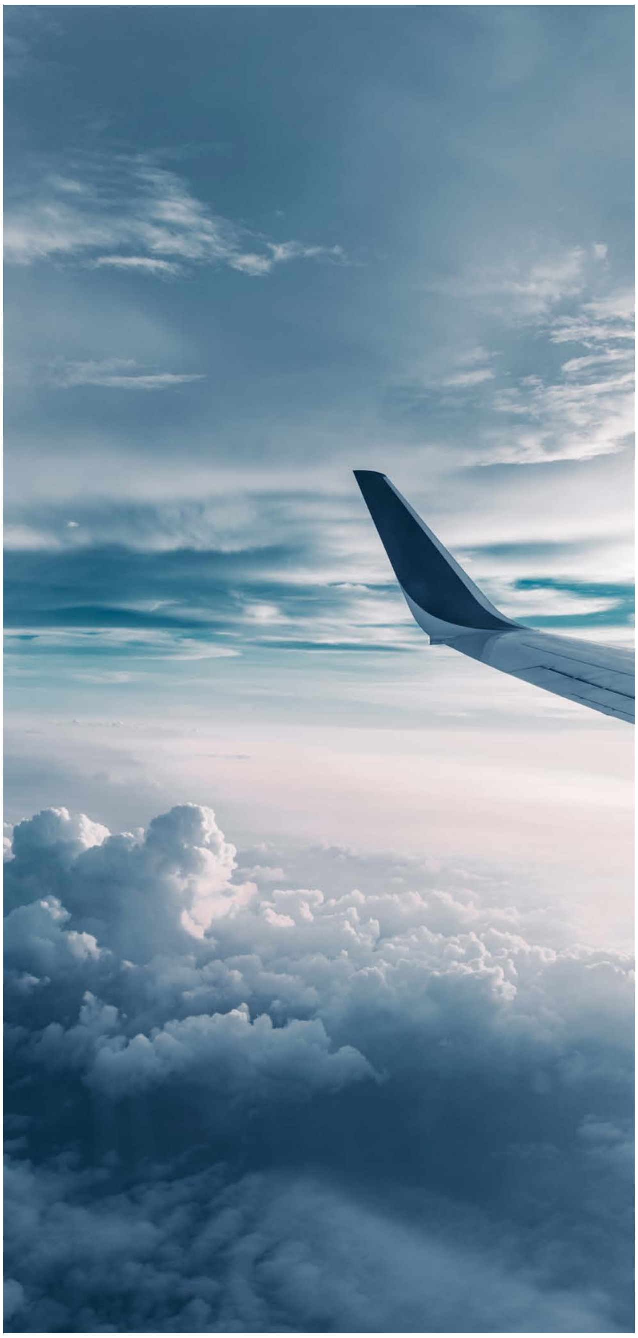
For the purposes of this Annual Report the Board has assessed the CAA's ability to continue to operate and meet its liabilities through to 31 March 2025. The Board chose this period for its review as there is a reasonable degree of certainty about our regulatory objectives.

It considered the information in the strategic plan, the approved budget for the financial year ending 31 March 2024 and plan for the following year. It also carried out a robust assessment of the principal risks that would threaten our business model, future performance and solvency. The Board has regularly reviewed the CAA Group's three-year cash forecasts, which have typically incorporated a sensitivity analysis on CAA's cash position in the event of several crisis scenarios, primarily involving the potential loss of income as a result of the failure of large and medium-size UK airlines. During the Covid-19 pandemic the Group's three-year cash flows were subjected to detailed stress tests and reverse stress tests of the revenue assumptions underpinning them with various scenarios considered in relation to the duration and severity of reduced demand in the aviation industry. As we emerge from the pandemic, the Group's three-year cash flows have been subjected to similar tests in terms of the potential speed of aviation recovery and the associated revenue assumptions on which they are based. Based on these tests the Board is satisfied that the scenarios modelled could be managed within the CAA's existing funding resources.

The Board members confirm that they have a reasonable expectation that the Group and Authority will be able to continue in operation and meet its liabilities as they fall due through to 31 March 2025.

Going concern

The Board considered it appropriate to prepare the financial statements on the going concern basis. An explanation can be found in note 1.1 to the accounts on **page 98**.



Corporate Governance

Compliance statement

We are directed by the Secretary of State for Transport to report on our compliance with the Financial Reporting Council's July 2018 UK Corporate Governance Code provisions throughout the accounting period. The Code includes 18 principles of good governance and 41 supporting provisions. The Board considers that it has complied, throughout the year ended 31 March 2023 and up to the date of approval of the annual report and accounts, with all relevant provisions of the Code, except for provisions 14, 23, 33 and 41 and we have provided a full explanation below:

- **Provision 14:** The Secretary of State for Transport writes annually to the Chair of the CAA setting out his priorities for the organisation. The most recent letter, covering priorities for 2022/23, is available on the CAA website. The terms of reference for the Audit and People Committees are also available on the CAA website. The CAA's Governance Statement, which sets out the Board's responsibilities, was updated and approved in February 2023 and has been published on the CAA website in May 2023.

- **Provision 23:** The People Committee normally meets four times a year. One meeting per year has a dedicated agenda item to discuss Diversity and Inclusion where progress against the strategy and goals is reviewed.

  The People Committee is updated annually with metrics on progress against our Diversity and Inclusion policy including our progress to date in gaining better representation at senior levels.

  We publish externally our Ethnicity Pay Gap report alongside our Gender Pay Gap report.

- **Provision 33:** The People Committee has delegated responsibility for the policy for, and setting of, executive director remuneration. In 2022, one pay increase was approved by the Committee. The award was made to an Executive Director to reflect the role's growth and increased accountability. With the exception of the 3% increase agreed at the same rate as that applied in the general CAA pay settlement, no other pay awards were made to Executive Directors or the Executive Committee during 2022/2023.

  The People Committee has no responsibility for determining the policy for Chair remuneration as this is a matter for the Secretary of State.

- **Provision 41:** We have covered the work of the People Committee (which combined the previous Remuneration and Nomination Committees) and the strategic rationale for executive directors' remuneration policies and structures within the People Committee Report.

  Our focus 2022/23 continued to be on the Reward Strategy for the CAA rather than on executive remuneration. However, CEO remuneration was considered as part of the new CEO search. The remuneration package was benchmarked externally and submitted via the Department for Transport to the Chief Secretary to the Treasury for review.

  The factors set out in Provision 40 (clarity, simplicity, risk and predictability) are reflected within our newly developed and published reward philosophy and principles which will underpin reward for everyone in scope at the CAA. Remuneration outcomes have not been a relevant consideration for 2022/23. Our level of compliance with Provision 41 is considered by the Board to be appropriate for our organisation.

Audit Committee Report

Jane Hanson CBE
Chair of the Audit Committee

Committee membership

- **Jane Hanson CBE:** Chair
- **Katherine Corich:** Independent Non-Executive Director
- **Marykay Fuller:** Independent Non-Executive Director
- **Anne Lambert CMG**: Independent Non-Executive Director

Audit Committee main responsibilities:

- Oversee the integrity of the Group's financial statements.
- Oversee and challenge the effectiveness of the CAA's financial and other control systems, risk management framework, statutory and other external compliance requirements and financial reporting.
- Oversee and challenge the plans, reporting and effectiveness of the Internal and External Auditors.
- Oversee the CAA's financial and non-financial disclosures including any climate-related financial disclosures.

Areas of focus in the reporting period

- **Pensions estimate:** a significant estimate in the financial statements is the valuation of net pension surplus for employees in the CAA Pension Fund. The net pension surplus at 31 March 2023 was £75.6 million (2022: £229.4 million), an overall decrease in the surplus of 67.0% in the past 12 months. Having taken into account the External Auditor's view, the Committee considered the reasonableness of the assumptions underlying the pension calculations and agreed the assumptions are within an acceptable range.
- **Key accounting judgements and estimates:** the Committee considered the key accounting judgements and estimates made by management where these may have a significant impact on the financial results of the organisation and the approaches taken in determining those estimates. See significant judgements and issues table on **page 76**.
- **Accounting principles and policies:** the Committee scrutinised and approved the selection of significant accounting policies and practices that have, or could have, a material effect on the statement of accounts. We were satisfied there were no new or revised accounting standards that would have a significant impact on the financial statements.
- **Going concern and viability:** we considered the impact of the continued recovery of the aviation industry from Covid-19 on the financial statements and the future cash flows of the Group. This is in particular regard to the measures in place to mitigate these impacts and the assessment of the CAA to remain viable and to be able to meet going concern requirements as at the signing date of the accounts. For more information on the viability statement see **page 72**.

The Committee considered whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and whether it gives the Secretary of State for Transport the necessary information to assess the CAA's performance, business model and strategy. We reported to the Board that we believed this to be the case and the Board were in agreement with this assessment.

Audit Committee Report

Jane Hanson CBE
Chair of the Audit Committee

Other Committee activities during 2022/23

Financial Reporting:

- Reviewed lessons learned from the 2021/22 annual report and accounts production process and the associated external audit.
- Reviewed an update on the CAA's pension schemes arrangements.
- Reviewed the maturity and resilience of the finance function.
- Reviewed and approved the 2022/23 annual report and accounts timetable.
- Reviewed and provided inputs to the 2022/23 annual report and accounts outline, format and structure.
- Reviewed the CAA cash management strategy.

External Audit:

- Reviewed the Auditor's audit completion report for 2021/22 and the draft letters of representation.
- Reviewed the Auditor's response to an Audit Quality Inspection report published by the FRC.
- Reviewed the Auditor's effectiveness, independence and fees.
- Reviewed the Auditor's 2022/23 audit planning report.

Risk Management:

- Reviewed the health of the CAA's risk management arrangements.
- Carried out in depth reviews of key risk areas assessed as being high or operating outside tolerance, including: Persons with Reduced Mobility (PRMS), Aviation Security and Communications.
- Reviewed updates on cyber and information security risks.
- Reviewed the annual update on GDPR risks.
- Reviewed a health check carried out on the CAA's security arrangements.

Internal Audit:

- Reviewed activity reports from the Head of Internal Audit.
- Reviewed Head of Internal Audit's opinion on risk, internal control and governance.
- Reviewed the Internal Audit planning process and themes arising from stakeholder consultations.
- Reviewed and approved the CAA Internal Audit Charter.

Governance:

- Reviewed an assessment of CAA's compliance with the UK Corporate Governance Code 2018.
- Reviewed and approved the Corporate Governance Statement prepared by the CAA General Counsel and Secretary.
- Reviewed and approved the Audit Committee terms of reference.

Committee skills and experience

In line with the UK Corporate Governance Code 2018 ('the code'), all members of the Audit Committee are independent. The Board has confidence that, given our considerable financial, aviation, regulatory and business experience (as outlined in the Committee members' profiles on **pages 66 to 68**) we have sufficient recent and relevant financial and other experience to fulfil the Committee's functions.

Audit Committee Report

Jane Hanson CBE
Chair of the Audit Committee

Significant Judgements and Issues

Matter Considered	Description	Action
Valuation of pension scheme assets and obligations	The defined benefit pension scheme funding position as determined under International Accounting Standard 19 'Employee Benefits' requires a number of actuarial assumptions to be made, including judgements in relation to long-term inflation, salary growth and longevity. The final calculations in respect of the scheme are carried out by a qualified actuary that is independent of the scheme. Note 17 to the accounts sets out the main actuarial assumptions used, including sensitivity analysis.	The Committee were satisfied that assumptions bases were consistent with previous years and professional advice received from CAA's consultant actuaries.
Intangible assets and impairments	Historically, the CAA has capitalised development and project costs, particularly in relation to transformation programmes. Whilst there have been no significant new capitalised projects this year, a high level review has been undertaken to consider whether there are any further impairments of projects from previous years' capitalisations. Given the level of associated management judgement, the options arising from such reviews are subject to senior review and scrutiny.	The Committee were satisfied with management's approach for intangible assets impairment reviews in the financial year and that the resulting accounting adjustments required were appropriate.
Expected credit losses	The level of bad debt provision is subjective in nature. A number of factors, including the age of the debt, specific customer knowledge, past history of the CAA and the aviation environment generally are used to inform our approach to bad debt provisioning. We also make an expected credit loss (ECL) provision based on aging category for debt not otherwise specifically provided for. The percentages used to calculate the ECL had been doubled in the last two years given the impact of Covid-19 on the aviation industry. However, given the status recovery in the industry and the high settlement rates of invoices experienced, the decision was made this year to revert to the pre- Covid-19 ECL percentages.	The Committee considered the basis used for the Group's ECL provisions and was satisfied that this was appropriate in the current operating environment.
Vehicle leases	Historically, since the implementation of IFRS 16, the CAA accounted for all vehicles procured under its salary sacrifice employee car leasing scheme as right of use assets with an associated lease liability. A review of this treatment was undertaken during the year and it was established that these leases should not be accounted for as right of use assets as the CAA does not derive any economic benefit from, or have the right to use directly, any of these assets. This change in accounting treatment is not material in the context of the Group's financial statements.	The Committee reviewed the basis for not treating salary sacrifice leased cars as right of use assets and were satisfied with the change in accounting treatment.

Audit Committee Report

Jane Hanson CBE
Chair of the Audit Committee

Risk Management

Risk management is a standing agenda item at each Audit Committee meeting. The Committee receives regular updates on the health of the CAA's risk management arrangements including risk identification, management and escalation by the CAA's first line of defence functions. The Committee also regularly reviews the resourcing and capability of the second line corporate risk function. Any areas for improvement identified by the Committee are followed up and addressed.

At each meeting, the Audit Committee reviews the outcomes of the Executive Committee's rolling review of all CAA risks (by functional area). These updates enable the Audit Committee to determine whether or not risks are being appropriately scrutinised. Where necessary, the Committee will seek additional assurance in relation to any risks of particular concern, including the actions being taken to manage them.

The Committee also reviews the work undertaken by CAA functions covering specific risk areas and/or disciplines. During the year under review, this included reviewing the mechanisms in place to manage cyber and information security risks and the work undertaken to comply with the General Data Protection Regulation. The Committee also uses the insights of the CAA's third line of defence (Internal Audit) to inform its view of the CAA's risk management arrangements.

The Chair of the Audit Committee continues to help the CAA further evolve its approach to risk management, including risk appetite and the three lines of defence model.

The CAA Board receives regular updates from the Chair of the Audit Committee. These updates provide an overview of the work of the Committee including its ongoing review of the CAA's Risk Management Framework.

Internal Audit

During the year, Internal Audit provided the Committee with independent and objective reports on the adequacy and effectiveness of the CAA's governance, risk management and internal controls. Our Head of Internal Audit suggests which risk-based assurance audits should be carried out. They are then reviewed and, if thought fit, are approved by the Committee during the year.

All audits are carried out independently, in accordance with the Chartered Institute of Internal Auditors (IIA), international standards for professional practice of internal auditing, and by our internal auditors, as required by the UK Corporate Governance Code of July 2018.

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

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

Internal Audit regularly assesses the effectiveness and independence of the internal audit function, including:

- taking stakeholder feedback on the quality of internal audit activity;
- running a biannual private discussion between the Head of Internal Audit and Committee members; and
- Internal Audit's self-assessment against and assertion of compliance with the IIA international standards.

It is good practice to perform an External Quality Assessment (EQA) of the Internal Audit (IA) function every five years and the last one was carried out in late 2017 by the IIA. The IIA was again commissioned to carry out an EQA for the CAA in late 2022. The EQA report and action plan was reviewed by the Audit Committee and will be monitored until full completion is achieved.

Key areas Internal Audit covered during 2022/23

The audits undertaken comprised a dynamic risk-based programme of work across a range of key internal areas, agreed with management and approved by the Audit Committee. Audits performed during the period included assessments of the adequacy of:

- the CAA's approach to the provision of paid-for innovation advisory services;
- the controls established to ensure ongoing compliance with the General Data Protection Regulation;
- the arrangements for the issuance of flight crew licences;
- the CAA's approach to overseeing cyber security preparedness in the aviation industry;
- the CAA's arrangements for the issuance of certain authorisations following EU-Exit;
- the approach to the Customer Payment Strategy project; and
- the approach and deliverables of the ongoing programme of work to enhance the maturity of the CAA's own cyber security arrangements.

The Audit Committee received quarterly reports on the progress of audits, changes to the programme of work in response to the evolving risk landscape, and, where appropriate, management's response to findings as well as progress made in addressing the issues identified.

Audit Committee Report

Jane Hanson CBE
Chair of the Audit Committee

External Audit

The external auditors are appointed on a three-year basis, with the option to extend for a further period. During 2021, the Committee held a full tender process, following which BDO LLP were reappointed with effect from 1 September 2021; BDO's initial contract commenced in 2017. The tender process complied with the applicable parts of the FRC's guidance "Audit Tenders: Notes on best practice". The responsible BDO partner for the audit is Michael Simms.

The Audit Committee is proactive in ensuring an effective relationship with the external auditor. Steps taken to promote this include;

- senior members of the external audit team are invited to, and attend, all Committee meetings held during the year
- at least one meeting with the external auditor is held each year at which there are no CAA management attendees present; and
- the Chair of the Committee is consulted separately by the external auditor during the audit planning process, particularly on matters relating to risks and internal controls.

Each year, the Committee assesses the effectiveness of our external audit by reviewing partner rotation, audit and non-audit fee levels and trends, audit plans, reports, other communications and independence. The Financial Reporting Council (FRC) published its latest Audit Quality Inspection and Supervision report of BDO LLP in July 2022; we discussed the report's findings, as well as BDO's plans to address areas for improvement, with the senior external audit team.

A formal process is in place for the approval of non-audit related services which may be proposed to be carried out by the external auditor. The Committee ensures, in order to protect the independence of the external auditor, that such services should not be provided unless there is a strong, clear and understandable business reason.

In addition, the external auditor cannot provide a service which results in it auditing its own firm's work. Nor can it make management decisions for the CAA, create a common interest or act as an advocate for the CAA.

It would not be in the CAA's interest to engage our external auditor to carry out services where there is a conflict of interest with one of its other clients and we do not do so.

Non-audit services, permitted by the Financial Reporting Council's Ethical Standard (2019), may be provided by the external auditors but only after pre-approval by the Audit Committee. Non-audit work performed by the auditor is awarded under the CAA's normal procurement procedures and is monitored by the CAA's Head of Procurement. The Audit Committee monitors the application of these procedures and the independence of the external auditor. £0.015m of non-audit fees were paid to the external auditor during the year (2022: £0.017m); £nil was in respect of an audit-related review of the Whole of Government Accounts return (2022: £0.002m), £0.001m related to the provision of grant assurance reports (2022: £0.003m) and £0.014m was for Streamlined Energy and Carbon Reporting assurance work (2022: £0.012m).

Jane Hanson CBE, Chair, Audit Committee
21 June 2023

People Committee Report
Manny Lewis
Chair of the People Committee

2022/23 saw the first full year of operation of the People Committee at the CAA following its establishment in November 2021 as part of ongoing improvements to our corporate governance arrangements.

Committee membership

> **Manny Lewis:** Chair

> **Katherine Corich:** Independent Non-Executive Director

> **Anne Lambert CMG:** Independent Non-Executive Director

The CAA Chair and Chief Executive are invited to attend meetings when matters applying to them are not under discussion. When matters involving the appointment of non-executive members are under discussion, that discussion in the meeting is chaired by the CAA Chair. The People Committee met five times during 2022/23.

People Committee main responsibilities:

> In consultation with the Senior Independent Director, agree objectives for the Chair of the Board.

> Agree objectives for the Chief Executive and other Executive Board Members and, on recommendation from the CEO, agree the team-based objectives applying to all members of the Executive Committee.

> Assess performance and agree reward for the Chief Executive and other Executive Board Members.

> Consider and make recommendations in respect of the appointment of Members of the CAA.

From April 2022, the People Committee's responsibilities were extended to cover the agreement of objectives, assessment of performance and agreement of reward for all members of the Executive Committee.

Board appointments

'Members' of the CAA are (up to) 16 individual members of the body corporate which is legally accountable for the discharge of the various functions of the CAA. Board members are appointed as set out in the Civil Aviation Act 1982, and as amended by the Civil Aviation Act 2012. In summary, the provisions are:

> the Secretary of State for Transport appoints the CAA Chair;

> the Secretary of State appoints the non-executive members on the basis of recommendations made following an OCPA aligned process conducted by the CAA and DfT;

> the non-executive members appoint the Chief Executive, subject to approval by the Secretary of State; and

> the Chief Executive appoints other executive members, subject to the approval of the Chair and at least one other non-executive member.

The People Committee which is chaired by Manny Lewis, with the support of the ExCo Talent Board, oversees the succession planning for key CAA roles, including the Chief Executive, other Executive Board Members and members of the Executive Committee on an annual basis. The role of the Board is to provide specific focus on the management of talent across the organisation. It oversees and approves talent approaches as well as reviewing talent pipelines in line with our diversity and inclusion commitments.

There were no changes among our non-executive members during the year under review. Marykay Fuller and Anne Lambert CMG both completed their first terms in January 2023 and had their contracts extended until 30 June 2024 by the Secretary of State, who also reappointed Katherine Corich through to 30 June 2026.

In terms of executive members, we commenced recruitment activity to replace the roles vacated by Richard Moriarty and Chris Tingle following their departures in April 2023 and March 2023 respectively. The People Committee has overseen the search for a new CEO and has appointed an external search firm, Saxton Bamfylde, to assist with identifying a list of suitable candidates for review and assessment by the Chair and Non-Executive Board members. The Chair and selected Non-Executive Board members, together with a representative from the DfT and an independent panel member, will conduct the selection assessments and refer the chosen appointable candidate(s) to the Secretary of State for approval.

The People Committee also approved the interim CEO arrangements whilst the search for a permanent CEO takes place. Two existing Executive Directors, Rob Bishton and Paul Smith now share the CEO responsibilities whilst continuing to manage their Executive Director responsibilities until the new CEO is appointed.

People Committee Report
Manny Lewis
Chair of the People Committee

Board appointments (continued)

The People Committee has also overseen the appointment of an interim Chief Financial Officer, Tracey Martin, to replace the outgoing Chief Operating Officer. Tracey took on the role in May 2023 and is a member of the CAA Executive Committee although is not a Board member. The interim Chief Financial Officer is an employee of the CAA. Duties that fall outside the remit of the interim Chief Financial Officer and were originally part of the Chief Operating Officer's remit have been taken up by existing Executive Committee members. It is the intention that the new CEO will set the criteria for the permanent position.

The People Committee oversaw the development of a CAA Board skills matrix to assist with both the development and recruitment of Board members as well as to support the Board's overall diversity goals. We have shared this with the DFT Diversity board as an example of best practice. The skills matrix received very positive feedback.

Following review by the People Committee, the CAA has developed a dedicated CAA Board learning site, to support continuous professional development for all CAA Board and non-executive members.

The CAA runs an annual Colleague Experience Survey to measure the engagement of colleagues. The People Committee reviews the output from the surveys and monitors organisational action plans. The CAA runs pulse surveys throughout the year to measure progress.

The CAA is in the second year of its 'All are Included' diversity and inclusion strategy. Our D&I Board is Chaired by an Executive Director and comprises colleagues from across the organisation. The D&I Board contributes to the development of proposed deliverables each year. The People Committee takes an active role in monitoring our progress and our gender and ethnicity pay gap data. It regularly receives updates on progress. Some example initiatives are the introduction of parental coaching, rolling out a respect training programme for all colleagues and accessibility improvements to our buildings.

Board members' contracts

All current non-executive members were appointed on fixed-term appointments of between three and four years. Our executive members are all on open-ended, permanent employment contracts and all have a termination notice period of six months.

CAA members' terms

CAA member	Date of first appointment	Date of expiry
Sir Stephen Hillier	10 June 2020	31 July 2024
Rob Bishton	6 November 2019	N/A
Katherine Corich	1 July 2019	30 June 2026
AVM Simon Edwards	16 June 2021	Ex-officio appointment
Marykay Fuller	14 January 2019	30 June 2024
Jane Hanson CBE	1 September 2021	31 August 2024
Anne Lambert CMG	1 February 2019	30 June 2024
Manny Lewis	1 October 2021	30 September 2024
Paul Smith	21 May 2018	N/A

The CAA follows the provisions of the UK Corporate Governance Code 2018 (see our Corporate Governance report on **pages 69 to 73**) and complies with the Directors' Remuneration Regulations 2002, as applicable to public corporations. We also apply the principles of good governance to executive Board members' remuneration.

During 2022/23, we focussed significantly on the introduction of a new reward model for the wider CAA with effect from 1 April 2023. This saw the introduction of a new grading structure across eight grades, including the Executive Committee. The People Committee's role is to ensure remuneration policy is operated as intended and that the workforce is engaged with and understand how executive remuneration aligns with wider company pay policy. This year, Executives' pay increased at the same rate as that applied in the general CAA pay settlement – 3.0% - with effect from 1 April 2022. Non-executive members' pay was increased, also with effect from 1 April 2022, to reflect the actual time commitment required in the role. This increase had been deferred from September 2021.

People Committee Report
Manny Lewis
Chair of the People Committee

Remuneration policy

The CAA remuneration policy is to reward executive members appropriately, so we can recruit and retain members who are qualified and motivated to deliver our objectives effectively. Executive members' remuneration is reviewed every year.

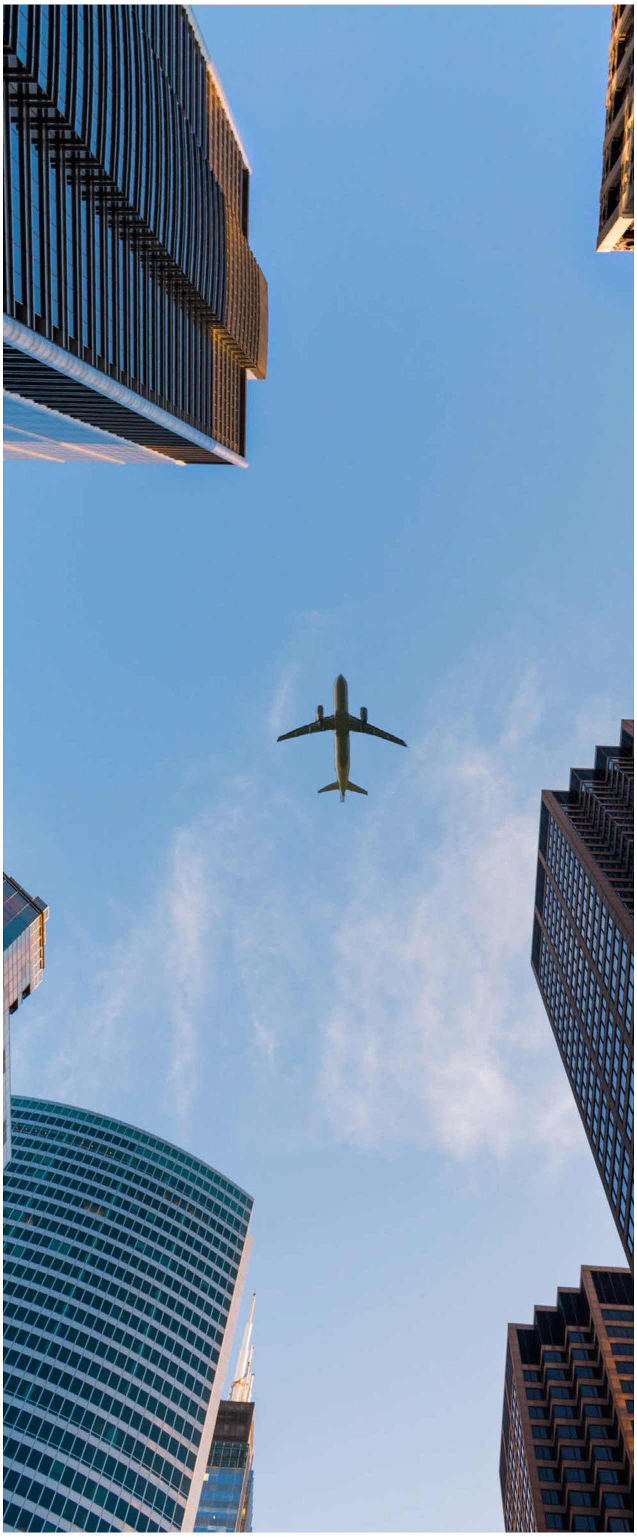
Salaries and fees

When deciding on salaries, fees and the total package of benefits, we look at relevant market rates to ensure internal consistency and relativity is maintained. The ratio of the salary of our lowest paid permanent employee and that of the CEO is 19:1. The ratio of the average CAA salary and that of the CEO is 7:1. We bear these figures in mind when making decisions on executive remuneration.

Performance-related pay

The CAA has a long-established policy of considering performance-related payments for Executive Board members, based on clear individual and team objectives. These are agreed by the Committee at the beginning of each financial year and evaluated at the end of the performance year. Under their employment contracts, the performance-related payment is normally up to 25% of basic annual salary for the Chief Executive and up to 20% of basic annual salary for other executive Board members. Performance-related payments are not pensionable. Due to a number of external factors, and despite very strong performance by executive members, it had been some years since performance-related payments were made. In 2021/22, the Committee signalled a formal return to the contractual position on performance-related payments for the 2022/23 performance year. The amounts paid are reflected in the emoluments table for 2022/23.

When performance-related payments are made, we reserve the right to recover them where, following payment, it is discovered that there is material evidence of a criminal act, misconduct, dishonesty or other deliberate wrongdoing which, had we been aware of such evidence at the time, would have influenced our decision to make the payment. Performance-related payments, when they are made, are agreed on that basis.



People Committee Report

Manny Lewis
Chair of the People Committee

Board members' emoluments

Emoluments (excluding pension arrangements) of the Chair and Board members for the financial year ended 31 March 2023 were as follows:

Board member	Note	Salary and fees	Benefits	2022/23 Performance-related payments	2022/23 Total	2021/22 Total
Sir Stephen Hillier		130.0	0.0	0.0	**130.0**	130.0
Richard Moriarty		355.5	1.0	59.3	**415.8**	358.9
Rob Bishton		211.2	1.0	34.5	**246.7**	199.6
Paul Smith		200.2	0.0	30.9	**231.1**	210.2
Chris Tingle		230.0	1.0	0.0	**231.0**	235.3
Garry Copeland	1	0.0	0.0	0.0	**0.0**	11.0
Katherine Corich	1	26.8	0.0	0.0	**26.8**	23.8
Marykay Fuller	1,3	28.0	0.0	0.0	**28.0**	25.0
Jane Hanson CBE	1,4	28.0	0.0	0.0	**28.0**	14.6
David King	1	0.0	0.0	0.0	**0.0**	10.4
Anne Lambert CMG	1	29.6	0.0	0.0	**29.6**	22.0
Manny Lewis	1,2	28.0	0.0	0.0	**28.0**	12.5
Graham Ward	1	0.0	0.0	0.0	**0.0**	10.4
AVM Simon Edwards	5	0.0	0.0	0.0	**0.0**	0.0
Board members' emoluments as per the annual accounts		**1,267.3**	**3.0**	**124.7**	**1,395.0**	**1,263.7**

1 Non-executive members are paid a non-pensionable fixed rate of £25,000 p.a. This is uprated by £3,000 for chairing Committees. In addition, a per-diem rate of £430 is paid for serving on licensing panels. The rates of pay for non-executive members are set by the DfT.

2 Manny Lewis's salary includes remuneration for his role as Chair of the People Committee (from 1 October 2021).

3 Marykay Fuller's salary includes remuneration for her role as Chair of the Air Travel Trust.

4 Jane Hanson's salary includes remuneration for her role as Chair of the Audit Committee).

5 AVM Simon Edwards is a MoD nominee holding an ex-officio post with no remuneration.

In the event of termination of a member's contract by the CAA, the executive Board members would receive compensation on broadly similar terms to those applicable to a CAA employee. Non-executive Board members would not be eligible to receive termination compensation.

People Committee Report

Manny Lewis
Chair of the People Committee

Pension arrangements

CAA Pension Scheme (CAAPS), a defined benefit scheme governed by an independent trust, has been closed to new members since December 2012. None of the executive members of the CAA were either contributing members of CAAPS or CAAPS pensioners.

A description of the scheme is given on **page 126** in note 17 to the consolidated financial statements.

Since the closure of CAAPS to new entrants we have provided a Defined Contribution (DC) pension scheme. Paul Smith and Rob Bishton were members of our DC scheme during the year. Like other employees who are members of the CAA's DC scheme, executive Board members can elect to pay 3%, 5%, or 6% of their pensionable pay into this scheme and receive a contribution from the CAA of 6%, 10% or 12% respectively.

Four years ago, the CAA introduced a scheme offering cash alternatives to pension contributions to those impacted by the pensions' statutory lifetime allowance and/or annual allowance. Richard Moriarty and Chris Tingle elected to take part in this scheme throughout this year. The relevant cash alternative amounts are included within the figures in the emoluments table on **page 82**.

Board members' pension arrangements – DC scheme

Board member	CAA contribution during the year £000	Board member's contribution during the year* £000
Paul Smith	37.1	0.0
Rob Bishton	42.4	0.0

* The CAA DC scheme operates a salary sacrifice arrangement for employee contributions. Executive Board members were members of this arrangement and so have not directly paid contributions to the scheme since the beginning of the salary sacrifice arrangement, or since joining the CAA, if later. The amount of salary sacrificed is equivalent to the employee pension contribution paid and was equal to £12,360 in relation to Paul Smith and £16,290 in relation to Rob Bishton.

Manny Lewis, Chair, People Committee
21 June 2023

Statement of Board Members' Responsibilities

Jonathan Spence

The Board members are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

The Accounts Direction issued by the Secretary of State for Transport requires the Board members to prepare financial statements for each financial year. Under the Accounts Direction the Board members have prepared the Group and CAA financial statements in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006. Under the Accounts Direction the Board members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the CAA and of the profit or loss of the Group and of the CAA for that period. In preparing the financial statements, the Board members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IASs have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the CAA will continue in business.

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

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

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

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

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

By order of the Board.

Jonathan Spence, General Counsel & Secretary
21 June 2023

Independent Auditors' Report to the Secretary of State for Transport

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Authority's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Civil Aviation Act 1982 (the "Act") and the Report and Accounts Directions made thereunder by the Secretary of State for Transport.

We have audited the financial statements of the Civil Aviation Authority (the "Authority") and its subsidiaries (the "Group") for the year ended 31 March 2023, which comprise the Group's Income Statement, the Group's and the Authority's Statements of Comprehensive Income, the Group's and the Authority's Statements of Financial Position, the Group's and the Authority's Statements of Changes in Equity, the Group's and the Authority's Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is international accounting standards in conformity with the requirements of the Companies Act 2006, the Civil Aviation Act 1982 and the Report and Accounts Directions made thereunder by the Secretary of State for Transport.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- we obtained the Board members going concern assessment, budgets and forecasts, for a period covering 12 months after the date of approval of the financial statements, and assessed the suitability of the inputs and mathematical accuracy of the budgets and forecasts, through discussion with the Board members and obtaining relevant support for key inputs and assumptions;
- we compared the previous forecasts to actual performance to assess the Board members forecasting abilities; and
- we assessed the adequacy of the going concern disclosure to check that it gives a complete and accurate description of the Board members assessment of going concern and is consistent with our understanding obtained from audit procedures performed.

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

In relation to the Authority's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Board members' statement in the financial statements about whether the Board members considered it appropriate to adopt the going concern basis of accounting.

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

Independent Auditors' Report to the Secretary of State for Transport

Overview

Coverage	100% (2022: 100%) of Group profit before tax 100% (2022: 100%) of Group revenue 100% (2022: 100%) of Group total assets		
Key audit matters		**2023**	**2022**
	Valuation of defined benefit pension scheme assets and liabilities	✓	✓
Materiality	**Overall materiality** **Group** - £2.0m based on 1.25% of revenue (2022: £25.0m based on 1.25% of defined pension benefit assets) **Authority** - £2.0m based on 1.25% of revenue (2022: £25.0m based on 1.25% of defined pension benefit assets)		

An overview of the scope of our audit

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

The Group is structured with a parent Authority i.e., the Civil Aviation Authority (the 'CAA' or the 'Authority'), and two subsidiary companies, Air Safety Support International Limited ('ASSI') and CAA International Limited ('CAAi'). The parent Authority was considered to be a significant component and was subject to a full scope audit by the group engagement team. The subsidiaries of the Group were considered non-significant; however, these have been subject to full scope audits for statutory reporting purposes and were audited by the group engagement team.

Independent Auditors' Report to the Secretary of State for Transport

Key audit matters

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

Key audit matter	How we addressed the matter in our audit
Valuation of defined benefit pension scheme assets and liabilities Given the materiality and the level of judgement involved in the valuation of certain defined benefit pension scheme assets and all defined benefit scheme liabilities, the valuation of pension scheme assets relating to insured annuity policies and liabilities is considered a significant risk. The assumptions used in the valuation of the defined benefit liabilities represent significant management estimates. The accounting policies, assumptions and relevant disclosures are included within the following notes of the financial statements: 1.14, 1.19 and 17.	We reviewed the accounting policies and disclosures related to the valuation of defined benefit pension assets and liabilities and checked that these are in line with the accounting framework. We reviewed the scheme audited accounts for the year ended 31 December 2022 to check that there were no operational issues related to the pension scheme itself. We obtained and reviewed control assurance reports and bridging letters from the defined pension scheme and checked their appropriateness relating to the defined benefit scheme's investment managers' ability to provide accurate valuations for index linked funds, equity funds and other holdings. With the assistance of our external pension expert, we reviewed the assumptions used in calculating the pension scheme liabilities prepared by the Authority's pension actuary. The assumptions related to salary increases and mortality rate were checked that they were consistent with the relevant national and industry benchmarks. We considered whether the discount and inflation rates used in the valuation of the pension liabilities were consistent with our internally developed benchmarks. We reconciled the employee data used by the actuary to the employer data and tested a sample back to supporting documentation. We reviewed the Group's latest legal advice to support that it remains appropriate for the pension surplus at 31 March 2023 to be recorded in the financial statements. **Key observations:** We are satisfied that the valuation of the defined benefit pension scheme assets and liabilities are consistent with the evidence obtained and disclosures are appropriate.

Independent Auditors' Report to the Secretary of State for Transport

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

Overall materiality	**Group** - £2.0m (2022: £25.0m) **Authority** - £1.9m (2022: £25.0m)
How we determined it	**2023:** **Overall materiality** - 1.25% of revenue **Specific materiality** - Nil **2022:** **Overall materiality** - 1.25% of defined pension benefit assets **Specific materiality** - 1.25% of revenue
Specific materiality related to balances apart from defined pension benefit assets and liabilities	**2023:** Not applicable this year **2022:** **Group** - £1.8m **Authority** - £1.7m
Rationale for benchmark applied	**2023:** Revenue is a key measure used both internally by management and externally by entities regulated by the Authority in evaluating the performance of the Group and Authority. For 2023, we have changed to applying a single materiality threshold. **2022:** Defined pension benefit assets is one of the most significant balances in the financial statements and given the level of judgement involved in valuation of these balances, we considered that those amounts would represent high interest for the financial statement readers. For all other balances, we noted that revenue is a key measure used both internally by management and externally by entities regulated by the Authority in evaluating the performance of the Group and Authority.

The level of performance materiality applied was set after having considered a number of factors including expected level of likely misstatements based on past experience and management's attitude towards proposed adjustments. On the basis of our risk assessments, together with our assessment of the Group's and Authority's overall control environment, our judgement was that performance materiality for the Group and the Authority should be set at 70% (2022: 70%) of our overall materiality being £1.4m (2022: £17.5m and £1.2m for balances other than defined pension benefit assets and liabilities). As reported above, we have changed to applying a single materiality threshold for 2023.

Independent Auditors' Report to the Secretary of State for Transport

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £40,000 (2022: £36,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Board members are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate Governance Statement

We have reviewed the Board members' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Authority's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules of the Financial Conduct Authority.

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

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

Responsibilities of the Board members

As explained more fully in the Statement of Board Members' Responsibilities, the Board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditors' Report to the Secretary of State for Transport

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Our procedures in respect of the above included:

- review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- inspection of correspondence with tax authorities and lawyers for any instances of non-compliance with laws and regulations; and
- agreement of the financial statement disclosures to underlying supporting documentation.

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- obtaining an understanding of the Group's policies and procedures relating to:
  - detecting and responding to the risks of fraud; and
  - internal controls established to mitigate risks related to fraud.
- review of minutes of meetings of those charged with governance for any known or suspected instances of fraud; and
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management bias in accounting estimates and posting inappropriate journal entries to manipulate revenue (management override of controls).

Audit procedures performed by the engagement team included:

- challenging assumptions and judgements made by management in areas involving significant estimates, including those set out in the key audit matters section of our report; and
- we tested journal entries based on identified characteristics the engagement team considered could be indicative of fraud, including those relating to revenue, as well as large and unusual transactions based upon our knowledge of the business by agreeing to supporting documentation.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Independent Auditors' Report to the Secretary of State for Transport

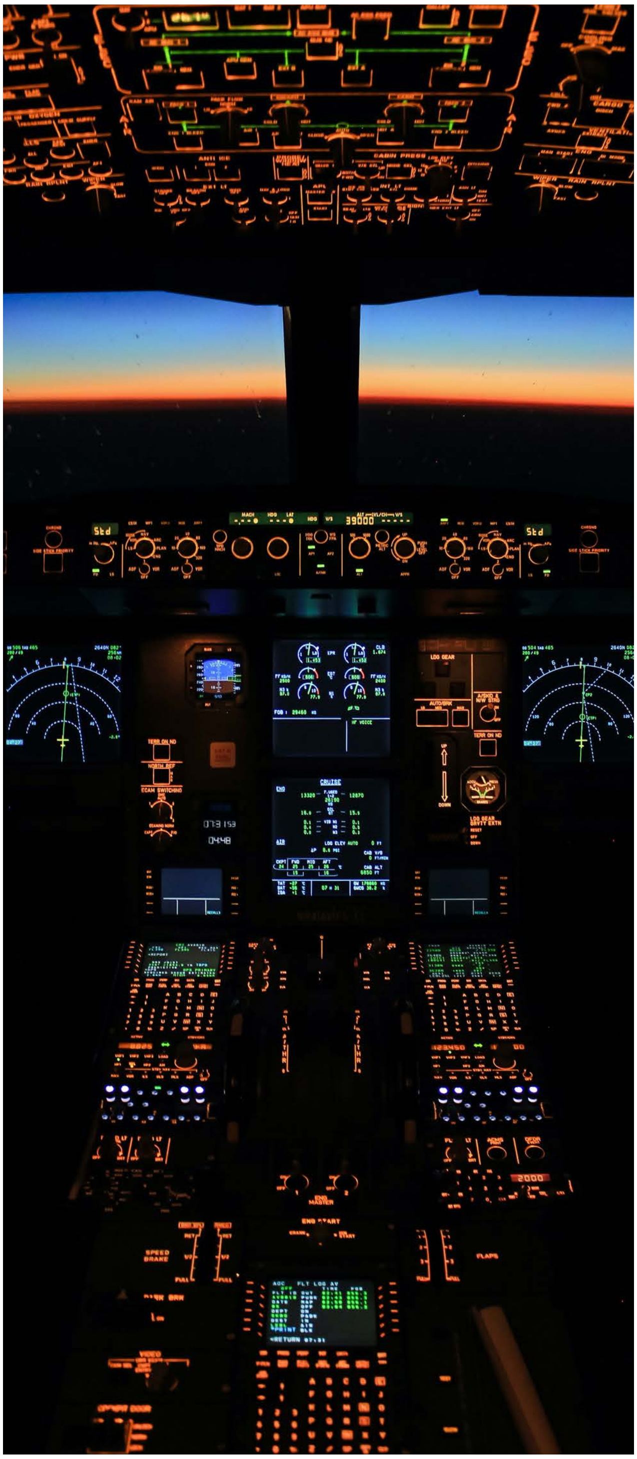
A further description of our responsibilities is available on the Financial Reporting Council's website at: **frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Secretary of State for Transport, in accordance with Section 15 of the Civil Aviation Act 1982. Our audit work has been undertaken so that we might state to the Secretary of State for Transport those matters we are required to state to the Secretary of State for Transport in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Secretary of State for Transport, for our audit work, for this report, or for the opinions we have formed.

BDO LLP, Chartered Accountants
London, UK
21 June 2023

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



Financial

Income Statement

For the years ended 31 March	Note	Group 2023 £'000	Group 2022 £'000
Revenue	2	**163,592**	**142,334**
Operating costs			
Employment costs	3	(107,929)	(97,663)
Services and materials		(17,077)	(12,884)
Repairs and maintenance		(3,212)	(3,196)
Research	6	(39)	(33)
Depreciation, amortisation, impairments and disposals	6	(3,298)	(4,611)
Other gains/(losses)	6	16	(14)
Other expenses		(29,219)	(20,734)
Net operating costs		**(160,758)**	**(139,135)**
Operating profit	See below	**2,834**	**3,199**
Finance income	7	6,959	4,333
Finance costs	7	(80)	(102)
Finance income - net		**6,879**	**4,231**
Profit before income tax		**9,713**	**7,430**
Income tax charge	8	(2,628)	(2,056)
Profit for the financial year		**7,085**	**5,374**

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 £7,719k (2022: £6,392k). The profit before IAS 19 adjustments for the Authority for the year was £2,247k (2022: £3,386k).

The supporting notes on **pages 98 to 138** are an integral part of these financial statements.

Analysis of operating profit	2023 £'000	2022 £'000
Profit before IAS 19 adjustments	1,695	2,165
IAS 19 pension scheme adjustments	1,139	1,034
Operating profit	**2,834**	**3,199**

Statements of Comprehensive Income

For the years ended 31 March	Note	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Profit for the financial year		7,085	5,374	7,719	6,392
Other comprehensive loss					
Unrealised foreign exchange differences		1	(13)	4	(14)
Movement on deferred tax relating to unrealised foreign exchange differences	16	(1)	3	(1)	4
Acturarial (loss)/gain on post employment benefit obligations	17	(161,259)	4,463	(161,259)	4,463
Movement on deferred tax relating to post employment benefit obligations	16	40,315	(1,116)	40,315	(1,116)
Effect of tax rate changes relating to post employment benefit	8	-	(12,758)	-	(12,758)
Total other comprehensive loss		**(120,944)**	**(9,421)**	**(120,941)**	**(9,421)**
Total comprehensive loss for the year		**(113,859)**	**(4,047)**	**(113,222)**	**(3,029)**

The supporting notes on **pages 98 to 138** are an integral part of these financial statements.

Statements of Financial Position

As at 31 March	Note	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Non-current assets					
Property, plant and equipment	9	7,431	9,416	7,139	9,039
Intangible assets	10	4,022	5,610	3,769	5,259
Investments in subsidiaries	11	-	-	-	-
Deferred tax assets	16	526	1,682	512	1,323
Retirement benefit assets	17	75,579	229,447	75,579	229,447
Total non-current assets		**87,558**	**246,155**	**86,999**	**245,068**
Current assets					
Trade and other receivables	12	27,816	26,997	24,727	24,665
Current income tax assets		370	6	364	-
Cash and cash equivalents	13	21,132	29,932	20,096	28,419
Total current assets		**49,318**	**56,935**	**45,187**	**53,084**
Total assets		**136,876**	**303,090**	**132,186**	**298,152**
Capital and reserves					
Retained earnings		67,117	180,976	60,154	173,376
Total capital and reserves		**67,117**	**180,976**	**60,154**	**173,376**
Total equity		**67,117**	**180,976**	**60,154**	**173,376**
Non-current liabilities					
Trade and other payables	15	5,046	5,704	4,746	5,376
Deferred tax liabilities	17	18,895	57,362	18,895	57,362
Retirement benefit obligations	17	1,034	1,237	1,034	1,237
Total non-current liabilities		**24,975**	**64,303**	**24,675**	**63,975**
Current liabilities					
Trade and other payables	15	44,673	57,700	47,246	60,690
Current tax liabilities		-	-	-	-
Retirement benefit obligations	17	111	111	111	111
Total current liabilities		**44,784**	**57,811**	**47,357**	**60,801**
Total liabilities		**69,759**	**122,114**	**72,032**	**124,776**
Total equity and liabilities		**136,876**	**303,090**	**132,186**	**298,152**

The supporting notes on **pages 98 to 138** are an integral part of these financial statements. The financial statements on **pages 93 to 138** were authorised for issue by the Board on 21 June 2023 and were signed on its behalf.

Paul Smith, interim joint Chief Executive

Rob Bishton, interim joint Chief Executive

Statements of Changes in Equity

	Note	Group Retained Earnings £'000	Authority Retained Earnings £'000
Balance as at 1 April 2021		**185,023**	**176,405**
Profit for the financial year		5,374	6,392
Unrealised foreign exchange differences		(13)	(14)
Movement on deferred tax relating to unrealised foreign exchange differences	16	3	4
Actuarial gain on post employment benefit obligations	17	4,463	4,463
Movement on deferred tax relating to post employment benefit obligations		(1,116)	(1,116)
Effect of tax rate changes relating to post employment benefit	16	(12,758)	(12,758)
Balance as at 31 March 2022		**180,976**	**173,376**
Balance as at 1 April 2022		**180,976**	**173,376**
Profit for the financial year		7,085	7,719
Unrealised foreign exchange differences		1	4
Movement on deferred tax relating to unrealised foreign exchange differences	16	(1)	(1)
Actuarial loss on post employment benefit obligations	17	(161,259)	(161,259)
Movement on deferred tax relating to post employment benefit obligations	16	40,315	40,315
Balance as at 31 March 2023		**67,117**	**60,154**

The supporting notes on **pages 98 to 138** are an integral part of these financial statements.

Statements of Cash Flows

For the years ended 31 March	Note	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Cash flows (used in)/generated from operating activities					
Cash (used in)/generated from operations	19	(8,087)	18,596	(7,515)	18,080
Interest paid	7	(80)	-	(256)	(32)
Income tax paid		-	(216)	-	(368)
Net cash (used in)/generated from operating activities		**(8,167)**	**18,380**	**(7,771)**	**17,680**
Cash flows generated from/(used in) investing activities					
Purchase of property, plant and equipment	9	(664)	(1,301)	(663)	(1,301)
Interest received	7	753	18	753	18
Net cash generated from/(used in) investing activities		**89**	**(1,283)**	**90**	**(1,283)**
Cash flows (used in)/generated from financing activities					
Lease liability instalments	20	(722)	(1,356)	(642)	(1,308)
Lease interest paid	7	-	(102)	-	(100)
Employee lease contributions		-	612	-	612
Net cash used in financing activities		**(722)**	**(846)**	**(642)**	**(796)**
Net (decrease)/increase in cash and cash equivalents		(8,800)	16,251	(8,323)	15,601
Cash and cash equivalents at beginning of year		29,932	13,681	28,419	12,818
Cash and cash equivalents at end of year	13	**21,132**	**29,932**	**20,096**	**28,419**

The supporting notes on **pages 98 to 138** are an integral part of these financial statements.

Notes to the Financial Statements

1. General information and significant accounting policies

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

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

1.1 Basis of preparation

The consolidated financial statements of the CAA have been prepared in accordance with international accounting standards, as adopted by the UK, in conformity with the requirements of the Companies Act 2006, the Civil Aviation Act 1982, the Civil Aviation Act 2012 and the Accounts Directions for the year ended 31 March 2023 authorised by the Secretary of State for Transport. The consolidated financial statements have been prepared under the historical cost convention on a going concern basis as modified by financial assets and liabilities (including derivative instruments) being stated at fair value; year on year movements are taken through the Income Statement or Statements of Comprehensive Income.

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

The financial statements, prepared on the going concern basis, assume that the Group and Authority will generate sufficient working capital to continue operational existence for the foreseeable future. The Board has, at the time of approving the financial statements, an expectation that the Group and Authority have adequate resources to continue in operational existence for the foreseeable future. The aviation industry has seen a strong recovery during the year ended 31 March 2023 which is forecast to continue through the coming year and beyond. Based on the Group's and Authority's plans and cash projections through to March 2025, DfT funding is no longer expected to be required. The Board believes that the Group and Authority will have sufficient cash flows available to continue to operate for at least twelve months from the approval of these financial statements.

Whilst we have been actively involved in supporting the Government in its work associated with the tragic war in Ukraine, we have no reason to believe that the conflict will result in a significant financial impact to the CAA.

1.1.1 Changes in accounting policies and disclosures

Adoption of new and revised standards

New standards impacting the Group that have been adopted in the financial statements for the year ended 31 March 2023 are:

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

The above amendments had a transition date of 1 January 2022. There has been no impact on the financial statements as a result of these amendments, nor is there expected to be any impact in the coming financial year.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB (International Accounting Standards Board) that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the Group for the period beginning 1 April 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback);
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current); and
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants).

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

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.2 Consolidation

The CAA's 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. Shareholding of more than one half of the voting rights and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

1.3 Segment reporting

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

1.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Foreign exchange gains and losses resulting from the movement in the fair value of foreign currency derivative instruments are recognised in the Statements of Comprehensive Income. All other foreign exchange gains and losses are presented in the Income Statement within 'Other gains / (losses)'.

1.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount, or recognised as separate assets, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

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

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

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

> Freehold buildings	10-30 years
> Leasehold buildings	Over the remainder of the lease
> Plant and equipment	3-10 years
> Furniture, fixtures and fittings	10 years
> Vehicles	5 years
> Right-of-use assets	Length of lease (2-10 years)

Assets in the course of construction are not depreciated. Once the asset is brought into use it is transferred to the relevant category and depreciation commences from that date.

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

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

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

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.6 Intangible assets

Intangible assets are stated at historical cost less amortisation and impairment with amortisation charged to operating costs within the income statement. Historical cost includes expenditure that is directly attributable to the generation of the items. Subsequent costs are included in the asset's carrying amount, or recognised as separate assets, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

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

> Software and development costs 5-10 years

> Intellectual property 5 years

Assets in the course of construction are not amortised. Once the asset is brought into use it is transferred to the relevant category and amortisation commences from that date.

1.7 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are separately distinguished at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

1.8 Financial instruments

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

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

Classification of financial assets

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

> the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

> the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

> the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

> the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Impairment of financial assets

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

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

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.8 Financial instruments (continued)

Definitions of default and write off

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

Derecognition of financial assets

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

Financial assets at fair value through profit or loss

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

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

Trade and other receivables

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

Captial management

The capital structure of the Group consists of retained earnings only with a net surplus of £67,117k (2022: £180,976k). The Group's main objective when managing capital is to safeguard its ability to continue as a going concern.

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

1.9 Derivative financial instruments and hedging activities

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

1.10 Contract balances

Contract asset

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

Trade receivables

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

Contract liabilities

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

1.11 Cash and cash equivalents

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

1.12 Borrowings

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

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

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.13 Current and deferred income tax

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

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

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

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

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

1.14 Employee benefits

(a) Short-term employee benefits

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

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

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

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

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

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

(c) Termination benefits

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

1.15 Provisions and dilapidations

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'.

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.15 Provisions and dilapidations (continued)

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

1.16 Revenue recognition

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

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

(a) Statutory charges

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

(b) Eurocontrol service charges

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

(c) Other service charges

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

(d) Rental income

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

(e) Pensions administration

Revenue is derived from the recharging of the cost of providing services to the Civil Aviation Authority Pension Scheme.

(f) Interest income

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

1.17 Leases

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

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

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

As a lessee, if the Group identifies a contract which contains an identifiable lease in line with the conditions above, a right-of-use asset and a lease liability are recognised. The right-of-use assets are separately identified under property, plant and equipment within the Statements of Financial Position. These are recognised at the value of the remaining lease commitments at the point of commencement of the lease. These assets are depreciated on a straight-line basis over the lifetime of the lease, or the remaining useful economic life of the asset, whichever is shorter.

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.17 Leases (continued)

The lease liability is recognised within trade and other payables, with a split between the current and non-current element. The value of this is determined from the remaining lease commitments at the point of commencement of the lease, measured at amortised cost using the effective interest method. The effective interest rate for leases is the Group's incremental borrowing rate, which is in line with those advised by HM Treasury.

1.18 Government grants

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

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

1.19 Significant accounting estimates and judgements

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

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

Pension benefits

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

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

The funding strategy actually adopted and the investment portfolio held, are ignored for the purposes of IAS 19.

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

Intangible assets

Estimates are made in relation to the value in use and useful economic lives of the fixed assets. These are included within the impairment review calculations. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects the current market assessment of the time value of money. Additional information is disclosed in Note 10.

Expected credit losses

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

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

Fair value measurement

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

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

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

Notes to the Financial Statements

1. General information and significant accounting policies (continued)

1.19 Significant accounting estimates and judgements (continued)

Deferred tax assets

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Additional information on deferred tax assets is disclosed in note 16.

2. Segment information

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

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

During the year, the DfT provided S.12 grants to the CAA totalling £5,000k in relation to financial support following the collapse of aviation activity brought on by the Covid-19 pandemic (2022: £31,000k). Covid-19 had a significant impact on the Group's variable revenue streams which are directly linked to passenger and cargo volumes in the UK. The reduction in the grant received in the current financial year reflects the continued recovery of passenger and cargo volumes and the resulting increase that has caused on the Group's variable revenue streams. The grant is not repayable to the DfT and the revenue has been included in other revenue in the table below, split between the regulatory segments in line with the loss of revenue in the year. Further detail on the financial support provided by the DfT is included within note 1.1 Basis of preparation.

Other grants from the DfT amounting to £2,340k during the year (2022: £2,318k), of which nil relates to the release of a grant received for assuming control of the Aviation Security function on behalf of the DfT (2022: £92k), £106k relates to the release of a grant received for the refurbishment of Aviation House (2022: nil) and £2,234k relates to work undertaken by Air Safety Support International Limited on behalf of the DfT (2022: £2,226k), are also included. As in prior years, part of the DfT funding has been deferred to be utilised against operating expenditure in future years. As at the year to 31 March 2023 funding of £727k has been deferred (2022: £532k deferred).

Notes to the Financial Statements

2. Segment information (continued)

The segment information for the year ended 31 March 2023 is as follows:

	Safety & Airspace Regulation £'000	Consumers & Markets £'000	Aviation Security £'000	Space £'000	Regulatory Sector Subtotal £'000	UK en route Air Traffic Services £'000	CAA International £'000	Miscellaneous Services £'000	Total £'000
Revenue									
Statutory and scheme charges	70,248	17,702	9,795	-	**97,745**	-	-	-	**97,745**
Eurocontrol service charges	-	-	-	-	**-**	21,047	-	-	**21,047**
Other revenue	5,179	2,204	3,025	5,901	**16,309**	-	7,687	20,804	**44,800**
Total revenue	**75,427**	**19,906**	**12,820**	**5,901**	**114,054**	**21,047**	**7,687**	**20,804**	**163,592**
Operating costs (excluding IAS19 pension scheme adjustments)	75,825	16,539	14,044	5,901	**112,309**	20,647	8,152	20,789	**161,897**
(Loss)/profit before IAS19 adjustments	**(398)**	**3,367**	**(1,224)**	**-**	**1,745**	**400**	**(465)**	**15**	**1,695**
IAS19 pension scheme adjustments	554	106	106	33	**799**	-	37	303	**1,139**
Operating profit/(loss)	**156**	**3,473**	**(1,118)**	**33**	**2,544**	**400**	**(428)**	**318**	**2,834**
Profit/(loss) before income tax	**3,499**	**4,113**	**(477)**	**230**	**7,365**	**400**	**(206)**	**2,154**	**9,713**

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

	£'000
Operating profit for reportable segments	2,834
Finance income	6,959
Finance costs	(80)
Profit before income tax	**9,713**

A breakdown of revenue from contract assets and liabilities is disclosed within Note 12.

Notes to the Financial Statements

2. Segment information (continued)

The comparable segment information for the previous year ended 31 March 2022, is as follows:

	Safety & Airspace Regulation £'000	Consumers & Markets £'000	Aviation Security £'000	Space £'000	Regulatory Sector Subtotal £'000	UK en route Air Traffic Services £'000	CAA International £'000	Miscellaneous Services £'000	Total £'000
Revenue									
Statutory and scheme charges	52,976	11,739	5,076	-	**69,791**	-	-	567	**70,358**
Eurocontrol service charges	-	-	-	-	**-**	16,096	-	-	**16,096**
Other revenue	21,325	6,071	7,415	4,333	**39,144**	-	5,578	11,158	**55,880**
Total revenue	**74,301**	**17,810**	**12,491**	**4,333**	**108,935**	**16,096**	**5,578**	**11,725**	**142,334**
Operating costs (excluding IAS19 pension scheme adjustments)	72,829	17,527	11,979	4,247	**106,582**	15,696	7,004	10,887	**140,169**
Profit/(loss) before IAS19 adjustments	**1,472**	**283**	**512**	**86**	**2,353**	**400**	**(1,426)**	**838**	**2,165**
IAS19 pension scheme adjustments	511	101	102	-	**714**	-	36	284	**1,034**
Operating profit/(loss)	**1,983**	**384**	**614**	**86**	**3,067**	**400**	**(1,390)**	**1,122**	**3,199**
Profit/(loss) before income tax	**4,071**	**798**	**1,031**	**86**	**5,986**	**400**	**(1,243)**	**2,287**	**7,430**

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

	£'000
Operating profit for reportable segments	3,199
Finance income	4,333
Finance costs	(102)
Profit before income tax	**7,430**

Notes to the Financial Statements

3. Employment costs

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

	Note	2023 £'000	2022 £'000
Wages and salaries		80,627	71,925
Social security costs		9,699	8,326
Defined benefit pension plan costs	17	10,590	11,289
Defined contribution pension plan (surplus)/costs	17	5,690	4,638
Unfunded pension plan (surplus)/costs	17	(95)	47
Other employee benefits expenses		1,418	1,438
Total employment costs		**107,929**	**97,663**

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

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

By business segment	2023 Year end	2023 Average	2022 Year end	2022 Average
Safety and Airspace Regulation	693	674	650	606
Consumers and Markets	124	129	121	120
Aviation Security	126	129	127	121
Space	48	40	36	31
CAA International	46	45	42	43
Miscellaneous Services	380	370	354	337
Total employees	**1,417**	**1,387**	**1,330**	**1,258**

Notes to the Financial Statements

4. Board members' and key management personnel emoluments

	2023 £'000	2022 £'000
Board member emoluments		
Salaries and fees	1,267	1,234
Benefits	3	3
Lump sum payments	-	26
Performance related payments	125	-
Emoluments excluding pension contributions	**1,395**	**1,263**
Pension contributions	**80**	59
Pension payments to past Board members	**98**	103
Board member emoluments	**1,573**	1,425

Details of aggregate emoluments for each of the 10 Board members (2022: 13) who received remuneration in the year are included in the table above. The People Committee Report provides details for each Board member.

	2023 £'000	2022 £'000
Key management personnel emoluments		
Salaries and fees	**937**	895
Benefits	**12**	5
Lump sum payments	**-**	15
Performance related payments	**32**	-
Emoluments excluding pension contributions	**981**	915
Pension contributions	**168**	160
Key management personnel emoluments	**1,149**	1,075

There were 7 employees considered to be key management personnel in the year (2022: 6).

5. Auditors' remuneration

	2023 £'000	2022 £'000
Fees payable to external auditor for:		
Audit of parent corporation and consolidated financial statements	**147**	147
Audit of subsidiary company financial statements	**21**	21
Audit of Group's Malaysia branch financial statements	**12**	11
Audit related assurance services	**15**	17
Total auditors' remuneration	**195**	196

Notes to the Financial Statements

6. Profit for the year

	Note	2023 £'000	2022 £'000
Profit for the year has been arrived at after charging/(crediting):			
Net foreign exchange gains/(losses) on operating activities		16	(14)
Total realised other gains/(losses)		**16**	**(14)**
Short-term/low-value operating lease payments:			
Properties (included within services and materials)		40	62
Vehicles (shown within employment costs and other expenses)		16	1
Total short-term/low-value operating lease payments		**56**	**63**
Depreciation, amortisation, impairments and disposals:			
Depreciation on property, plant and equipment	9	1,799	2,391
Grant released on property, plant and equipment	15	(106)	(92)
Depreciation on leased property, plant and equipment funded by employees (vehicles)		-	(601)
ROU Asset Dilapidations		-	(21)
Amortisation of intangible fixed assets	10	1,249	2,770
Proceeds from sale of vehicles		(2)	-
Loss on disposal of property, plant and equipment and software development		41	164
Impairment of intangible fixed assets	10	317	-
Total depreciation, amortisation, impairments and disposals		**3,298**	**4,611**

Profit or loss on disposals is shown within 'Depreciation, amortisation, impairments and disposals' on the Income Statement.

The Department for Transport (DfT) provided £1,807k of cash resources in the financial year ended 31 March 2018, in connection with the transfer of responsibility for the regulation of the Aviation Security function, which is released on a systematic basis over the lives of the assets to which the resources were applied (see note 15). The remaining balance of this grant was released in the year ended 31 March 2022 upon the disposal of the associated assets.

In the year ended 31 March 2023 £416k (2022: £309k) of income, previously provided by the DfT in 2021/22, was released in respect of the cost of refurbishment works at Aviation House. This will be released on a systematic basis over the lives of the assets to which the resources were applied (see note 15).

	2023 £'000	2022 £'000
Research expenditure (all in respect of safety regulation):		
Internal costs (included within employment costs)	1,611	955
External costs (included within research)	39	33
Total research expenditure	**1,650**	**988**

Notes to the Financial Statements

6. Profit for the year (continued)

	Note	2023 £'000	2022 £'000
Charitable donations:			
Confidential Human Factors Incident Reporting Programme		-	227
General Aviation Safety Council		20	-
UK Flight Safety Committee		78	78
Total charitable donations		**98**	**305**

7. Finance income and costs

	Note	2023 £'000	2022 £'000
Finance income:			
Interest on short-term deposits		753	18
Interest received on overpayment of corporation tax		-	1
Employee benefit scheme - Expected return on assets	17	51,917	39,650
Employee benefit scheme - Interest charge on liabilities	17	(45,711)	(35,336)
Total finance income		**6,959**	**4,333**
Finance costs:			
Other interest costs		(3)	-
Lease contract interest expense	20	(77)	(113)
Interest on leased property, plant and equipment funded by employees (vehicles)		-	11
Total finance costs		**(80)**	**(102)**
Finance income - net		**6,879**	**4,231**

Notes to the Financial Statements

8. Income tax charge

	2023 £'000	2022 £'000
Analysis of tax charge in the year:		
Current tax:		
UK corporation tax at 19% (2022: 19%) on profit for year	(5)	6
Adjustment in respect of prior years	(368)	-
Tax overseas suffered	-	-
Adjustments in respect of prior periods (overseas tax)	1	1
Total current tax (credit)/charge	**(372)**	**7**
Deferred tax:		
Origination and reversal of temporary differences	684	(809)
Effect of tax rate changes relating to deferred tax expense	-	(202)
Adjustment in respect of prior periods	480	(27)
Origination and reversal of temporary differences in relation to the defined benefit pension scheme	1,836	3,087
Total deferred tax charge	**3,000**	**2,049**
Income tax charge	**2,628**	**2,056**
Reconciliation of effective tax rate:		
Profit before income tax	9,713	7,430
Corporation tax calculated at 19% (2022: 19%)	1,845	1,412
Tax effects of:		
Fixed asset differences	124	436
Expenses not deductible for tax purposes	5	7
Adjustments to brought forward values	(65)	(121)
Amounts credited directly to OCI	-	848
Adjustments to current tax charge in respect of previous periods	(376)	7
Adjustments to deferred tax charge in respect of previous periods	480	(27)
Deferred tax charged directly to OCI	-	(13,874)
Temporary differences not recognised in the computation	10	5
Remeasurement of deferred tax due to change in rates	605	13,363
Income tax charge	**2,628**	**2,056**

In Autumn Statement 2022, the Government confirmed the planned increase in the corporation tax rate to 25% for companies with over £250,000 in profits will go ahead. This will still be the lowest rate in the G7 ensuring the UK remains strongly competitive internationally. The corporation tax rise in April 2023 will only affect the most profitable companies because of the small profits rate.

The rate of 25% has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the increase to the rate of corporation tax has been substantially enacted at the signing date of these financial statements, the 25% rate has been used to measure deferred tax balances.

Notes to the Financial Statements

9. Property, plant and equipment

Group	Freehold buildings £'000	Leasehold buildings £'000	Plant & equipment £'000	Vehicles £'000	Furniture, fixtures & fittings £'000	Right-of-use assets £'000	Assets in the course of construction £'000	Total £'000
Cost:								
At 1 April 2021	22,029	1,535	3,823	99	4,589	7,089	-	**39,164**
Additions	-	-	55	-	620	1,116	626	**2,417**
Disposals	(87)	(1)	(1,184)	-	(1,405)	(68)	-	**(2,745)**
At 31 March 2022	**21,942**	**1,534**	**2,694**	**99**	**3,804**	**8,137**	**626**	**38,836**
Additions	-	-	-	-	98	101	566	**765**
Disposals	-	-	(275)	(16)	(125)	(117)	-	**(533)**
Transfer	-	-	232	-	536	-	(768)	**-**
Declassification	-	-	-	-	-	(2,129)	-	**(2,129)**
At 31 March 2023	**21,942**	**1,534**	**2,651**	**83**	**4,313**	**5,992**	**424**	**36,939**
Accumulated depreciation:								
At 1 April 2021	21,267	301	2,741	99	3,023	2,179	-	**29,610**
Charge for the year	146	178	396	-	374	1,297	-	**2,391**
Eliminated on disposal	(86)	-	(1,184)	-	(1,243)	(68)	-	**(2,581)**
At 31 March 2022	**21,327**	**479**	**1,953**	**99**	**2,154**	**3,408**	**-**	**29,420**
Charge for the year	145	178	354	-	411	711	-	**1,799**
Eliminated on disposal	-	-	(273)	(16)	(107)	(117)	-	**(513)**
Declassification	-	-	-	-	-	(1,198)	-	**(1,198)**
At 31 March 2023	**21,472**	**657**	**2,034**	**83**	**2,458**	**2,804**	**-**	**29,508**
Net book value:								
At 31 March 2023	**470**	**877**	**617**	**-**	**1,855**	**3,188**	**424**	**7,431**
At 31 March 2022	**615**	**1,055**	**741**	**-**	**1,650**	**4,729**	**626**	**9,416**

Notes to the Financial Statements

9. Property, plant and equipment (continued)

Authority	Freehold buildings £'000	Leasehold buildings £'000	Plant & equipment £'000	Vehicles £'000	Furniture, fixtures & fittings £'000	Right-of-use assets £'000	Assets in the course of construction £'000	Total £'000
Cost:								
At 1 April 2021	22,029	1,535	3,777	99	4,455	6,886	-	**38,781**
Additions	-	-	55	-	620	727	626	**2,028**
Disposals	(87)	(1)	(1,186)	-	(1,399)	(67)	-	**(2,740)**
At 31 March 2022	**21,942**	**1,534**	**2,646**	**99**	**3,676**	**7,546**	**626**	**38,069**
Additions	-	-	-	-	97	101	566	**764**
Disposals	-	-	(257)	(16)	(125)	(117)	-	**(515)**
Transfer	-	-	232	-	536	-	(768)	**-**
Declassification	-	-	-	-	-	(2,129)	-	**(2,129)**
At 31 March 2023	**21,942**	**1,534**	**2,621**	**83**	**4,184**	**5,401**	**424**	**36,189**
Accumulated depreciation:								
At 1 April 2021	21,267	301	2,712	99	2,903	2,032	-	**29,314**
Charge for the year	146	178	390	-	360	1,216	-	**2,290**
Eliminated on disposal	(86)	-	(1,185)	-	(1,236)	(67)	-	**(2,574)**
At 31 March 2022	**21,327**	**479**	**1,917**	**99**	**2,027**	**3,181**	**-**	**29,030**
Charge for the year	145	178	348	-	410	633	-	**1,714**
Eliminated on disposal	-	-	(255)	(16)	(108)	(117)	-	**(496)**
Declassification	-	-	-	-	-	(1,198)	-	**(1,198)**
At 31 March 2023	**21,472**	**657**	**2,010**	**83**	**2,329**	**2,499**	**-**	**29,050**
Net book value:								
At 31 March 2023	**470**	**877**	**611**	**-**	**1,855**	**2,902**	**424**	**7,139**
At 31 March 2022	**615**	**1,055**	**729**	**-**	**1,649**	**4,365**	**626**	**9,039**

Notes to the Financial Statements

9. Property, plant and equipment (continued)

Right-of-use assets

The values relevant to each category of leased asset are shown below:

	Group				Authority			
	Leasehold buildings	Plant & equipment	Vehicles	Total	Leasehold buildings	Plant & equipment	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:								
At 1 April 2021	5,226	85	1,778	**7,089**	5,023	85	1,778	**6,886**
Additions	610	-	506	**1,116**	221	-	506	**727**
Disposals	(1)	-	(67)	**(68)**	-	-	(67)	**(67)**
At 31 March 2022	**5,835**	**85**	**2,217**	**8,137**	**5,244**	**85**	**2,217**	**7,546**
Additions	-	-	101	**101**	-	-	101	**101**
Disposals	(34)	(44)	(39)	**(117)**	(34)	(44)	(39)	**(117)**
Declassification	-	-	(2,129)	**(2,129)**	-	-	(2,129)	**(2,129)**
At 31 March 2023	**5,801**	**41**	**150**	**5,992**	**5,210**	**41**	**150**	**5,401**
Depreciation:								
At 1 April 2021	1,433	52	694	**2,179**	1,286	52	694	**2,032**
Charge for the year	661	17	619	**1,297**	581	17	618	**1,216**
Eliminated on disposal	(5)	-	(63)	**(68)**	(6)	-	(61)	**(67)**
At 31 March 2022	**2,089**	**69**	**1,250**	**3,408**	**1,861**	**69**	**1,251**	**3,181**
Charge for the year	684	9	18	**711**	606	9	18	**633**
Eliminated on disposal	(34)	(44)	(39)	**(117)**	(34)	(44)	(39)	**(117)**
Declassification	-	-	(1,198)	**(1,198)**	-	-	(1,198)	**(1,198)**
At 31 March 2023	**2,739**	**34**	**31**	**2,804**	**2,433**	**34**	**32**	**2,499**
Net book value:								
At 31 March 2023	**3,062**	**7**	**119**	**3,188**	**2,777**	**7**	**118**	**2,902**
At 31 March 2022	**3,746**	**16**	**967**	**4,729**	**3,383**	**16**	**966**	**4,365**

A review was performed to assess the Group's on-going compliance with IFRS 16. As a result of this review, it was determined that employee vehicles, leased from a third party through the organisation's salary sacrifice car leasing scheme, did not meet the criteria of a lease as per the guidance laid out in IFRS 16, which applied with effect from 1 April 2019.

The right of use assets for these vehicles have been declassified from the Authority and Group's Statement of Financial Position at 31 March 2023 and now show a £nil carrying value at the reporting date (2022: £931k). The associated lease liability for these vehicles has been reduced to £nil (2022: £726k). The net charge to the Income Statement for the year ended 31 March 2023 from the declassification of the right of use assets, lease liability and all other balances associated with these vehicles was £112k, which is not deemed to be material.

The remaining leased vehicles included in the financial statements have been identified as company cars and meet the IFRS 16 criteria of leases.

Notes to the Financial Statements

10. Intangible assets

Group	Software development costs £'000	Assets in the course of construction £'000	Intellectual property £'000	Total £'000
Cost:				
At 1 April 2021	19,803	420	155	**20,378**
Disposals	(2,333)	(15)	(155)	**(2,503)**
Transfers	405	(405)	-	**-**
At 31 March 2022	**17,875**	**-**	**-**	**17,875**
Disposals	(223)	-	-	**(223)**
At 31 March 2023	**17,652**	**-**	**-**	**17,652**
Accumulated amortisation and impairment:				
At 1 April 2021	11,423	420	155	**11,998**
Charge for the year	2,770	-	-	**2,770**
Eliminated on disposal	(2,333)	(15)	(155)	**(2,503)**
Transfers	405	(405)	-	**-**
At 31 March 2022	**12,265**	**-**	**-**	**12,265**
Charge for the year	1,249	-	-	**1,249**
Eliminated on disposal	(201)	-	-	**(201)**
Impairment	317	-	-	**317**
At 31 March 2023	**13,630**	**-**	**-**	**13,630**
Net book value:				
At 31 March 2023	**4,022**	**-**	**-**	**4,022**
At 31 March 2022	**5,610**	**-**	**-**	**5,610**

Notes to the Financial Statements

10. Intangible assets (continued)

Authority	Software development costs £'000	Assets in the course of construction £'000	Total £'000
Cost:			
At 1 April 2021	18,342	405	**18,747**
Disposals	(2,328)	-	**(2,328)**
Transfers	405	(405)	**-**
At 31 March 2022	**16,419**	**-**	**16,419**
Disposals	(223)	-	**(223)**
At 31 March 2023	**16,196**	**-**	**16,196**
Accumulated amortisation and impairment:			
At 1 April 2021	10,522	405	**10,927**
Charge for the year	2,561	-	**2,561**
Eliminated on disposal	(2,328)	-	**(2,328)**
Transfers	405	(405)	**-**
At 31 March 2022	**11,160**	**-**	**11,160**
Charge for the year	1,150	-	**1,150**
Eliminated on disposal	(200)	-	**(200)**
Impairment	317	-	**317**
At 31 March 2023	**12,427**	**-**	**12,427**
Net book value:			
At 31 March 2023	**3,769**	**-**	**3,769**
At 31 March 2022	**5,259**	**-**	**5,259**

An annual review is performed to assess the remaining useful economic lives (UELs) and the carrying values of intangible assets. As a result of last year's review, the UELs of the Group's e-Licensing solution, ATOL licensing solution and Information Strategy project software were reassessed as being seven years from the date of going into operation; they were originally estimated at ten years. This is due to the CAA Group having accelerated its programme of introducing new technologies and the digitalisation of its many customer facing services. As a result, there is an additional amortisation charge in this financial year of £541k for the Authority and £584k for the Group.

Impairment losses of £317k for the Group and £317k for the Authority are included within 'Depreciation, amortisation, impairment and disposals' in the Income Statement for the current year.

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

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

Notes to the Financial Statements

11. Investments in subsidiaries

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

The registered office of both subsidiaries is:

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

Shares in Group undertakings

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

	2023 £	2022 £
Beginning and end of the financial year	**2**	2

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

Notes to the Financial Statements

12. Trade and other receivables

	Note	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Current receivables:					
Trade receivables		5,898	4,011	4,914	3,231
Less: provision for doubtful trade receivables		(186)	(336)	(163)	(309)
Trade receivables - net		5,712	3,675	4,751	2,922
Social security and other taxes		1	50	-	50
Prepayments		4,534	7,464	4,177	7,129
Contract assets		16,649	15,617	14,636	14,114
Amounts due from related parties	21	-	-	278	295
Other receivables		920	191	885	155
Total current receivables		**27,816**	**26,997**	**24,727**	**24,665**
Total trade and other receivables		**27,816**	**26,997**	**24,727**	**24,665**

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

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

Notes to the Financial Statements

12. Trade and other receivables (continued)

As at 31 March 2023 Group trade receivables of £2,910k (2022: £3,137k) were past their due date but were not impaired. The ageing analysis of these is as follows:

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Past due:				
Up to 3 months	2,792	2,892	2,078	2,482
From 3 to 12 months	116	157	73	132
Over 12 months	2	88	2	88
	2,910	**3,137**	**2,153**	**2,702**

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Movements on the provision for doubtful trade receivables:				
At 1 April	336	408	309	379
Provision for receivables impaired	106	105	106	105
Receivables written off during the year as uncollectable	(137)	(51)	(137)	(39)
Unused amounts reversed	(76)	(126)	(76)	(125)
Expected credit loss provision	(43)	-	(39)	(11)
At 31 March	**186**	**336**	**163**	**309**

Notes to the Financial Statements

12. Trade and other receivables (continued)

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

The expected credit loss figure has been arrived at by allocating a risk probability against different categories of debt after removing balances against which a specific provision has already been made. The probabilities for each category of debt have been calculated based on the average actual loss experienced over the past three financial years. The probabilities were further increased in the previous financial year owing to the Covid-19 pandemic and the possible impact this may have had on customers' abilities to meet their obligations. Following a review of the status of recovery in the aviation industry, and the high settlement rates of invoices raised by the Group, the further increase, previously applied to the expected credit loss probabilities, have not been applied to the current financial year's aged debtor listing. The provision is foward-looking, based on the expected losses of debtor balances held at the reporting date.

Details of this are as follows:

	Probability		Net value		Expected credit loss	
	2023 %	2022 %	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Group:						
Trade debtors not due	1	2	2,606	355	26	6
Trade debtors overdue by 0-30 days	2	4	2,109	2,392	39	104
Trade debtors overdue by 31-60 days	4	8	645	162	26	13
Trade debtors overdue by 61-90 days	8	16	15	45	1	4
Trade debtors overdue by 91-365 days	16	32	51	28	8	15
Already provided and not subject for impairment	-	-	286	692	-	-
Expected credit loss provision			**5,712**	**3,675**	**100**	**143**
Authority:						
Trade debtors not due	1	2	2,406	44	24	1
Trade debtors overdue by 0-30 days	2	4	1,510	2,300	30	92
Trade debtors overdue by 31-60 days	4	8	542	155	22	13
Trade debtors overdue by 61-90 days	8	16	2	20	-	3
Trade debtors overdue by 91-365 days	16	32	8	28	1	7
Already provided and not subject for impairment	-	-	283	375	-	-
Expected credit loss provision			**4,751**	**2,922**	**77**	**116**

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

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

Notes to the Financial Statements

12. Trade and other receivables (continued)

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

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
British Pounds	6,526	3,820	5,636	3,077
Euros	38	46	-	-
Thai Baht	31	-	-	-
US Dollars	35	-	-	-
Other currencies	2	-	-	-
Total trade and other receivables	**6,632**	**3,866**	**5,636**	**3,077**

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

Contract Balances	Contract assets 2023 £'000	Contract assets 2022 £'000	Contract liabilities 2023 £'000	Contract liabilities 2022 £'000
Group:				
At 1 April	15,617	12,109	(35,030)	(16,723)
Transfers in the period from contract assets to trade receivables	(13,980)	(8,539)	-	-
Excess of revenue recognised over cash (or rights for cash)	15,012	12,047	-	-
Amounts included in contract liabilities that were recognised as revenue during the period	-	-	18,033	6,741
Cash received in advance of performance and not recognised as revenue during the period	-	-	(6,236)	(25,048)
At 31 March	**16,649**	**15,617**	**(23,233)**	**(35,030)**
Authority:				
At 1 April	14,114	10,210	(32,330)	(13,863)
Transfers in the period from contract assets to trade receivables	(13,103)	(7,236)	-	-
Excess of revenue recognised over cash (or rights for cash)	13,625	11,140	-	-
Amounts included in contract liabilities that were recognised as revenue during the period	-	-	17,135	5,656
Cash received in advance of performance and not recognised as revenue during the period	-	-	(5,741)	(24,123)
At 31 March	**14,636**	**14,114**	**(20,936)**	**(32,330)**

Notes to the Financial Statements

13. Cash and cash equivalents

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

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Cash at bank and in hand	2,319	3,105	1,283	1,592
Short-term bank deposits	18,813	26,827	18,813	26,827
Total cash and cash equivalents	**21,132**	**29,932**	**20,096**	**28,419**

The Group is of the opinion that the credit risk on cash and cash equivalents is limited as its counterparties are major European financial institutions with high credit-ratings assigned by credit rating agencies.

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

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

14. Borrowings

The Authority has maximum borrowing powers of £550 million (2022: £550 million) under the Civil Aviation Act 1982 (as amended). Below are details of the Authority's undrawn and uncommitted borrowing facilities at the reporting date:

	2023 £'000	2022 £'000
Bank overdraft facility	**5,000**	5,000
Total undrawn and uncommitted borrowing facilities	**5,000**	5,000

The Authority's overdraft agreement ends on the 31 of May 2023. The decision has been taken to not renew this facility as the Authorities current and future expected cashflows are sufficient to the extent that no use of an overdraft facility is anticipated in the foreseeable future.

Notes to the Financial Statements

15. Trade and other payables

	Note	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Current liabilities:					
Trade payables		5,636	1,340	5,377	1,236
Social security and other taxes		38	-	37	-
Amounts due to related parties	21	-	-	5,920	6,411
Accrued expenses		8,128	9,753	7,462	9,303
Contract liabilities	12	22,719	34,783	20,451	32,083
Other payables		7,355	10,515	7,277	10,446
Lease liabilities	20	797	1,309	722	1,211
Total current trade and other payables		**44,673**	**57,700**	**47,246**	**60,690**
Non-current liabilities:					
Other payables		567	657	567	657
Contract liabilities	12	514	247	485	247
Lease liabilities	20	3,965	4,800	3,694	4,472
Total non-current trade and other payables		**5,046**	**5,704**	**4,746**	**5,376**
Total trade and other payables		**49,719**	**63,404**	**51,992**	**66,066**

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

The Department for Transport (DfT) provided £1,807k of cash resources in connection with the transfer of responsibility for the regulation of the Aviation Security function, which was released on a systematic basis over the lives of the assets to which the resources were applied (see note 6). The assets held in relation to this grant were disposed of in the year ended 31 March 2022 and the associated grant funding balance was released against this disposal.

In the year ended 31 March 2023 the DfT provided £416k (2022: £309k) for the continued refurbishment of Aviation House. This will be released on a systematic basis over the lives of the assets to which the resources were applied.

Included in contract liabilities are the amounts shown below in respect of the grants received from the DfT:

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
No later than 1 year	134	62	134	62
Later than 1 year and not later than 5 years	486	247	486	247
Total grant outstanding	**620**	**309**	**620**	**309**

Notes to the Financial Statements

16. Deferred income tax

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

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
At 1 April	1,682	641	1,323	625
Income statement tax (charge)/credit	(1,155)	1,038	(810)	694
Other comprehensive income tax (charge)/credit	(1)	3	(1)	4
At 31 March	**526**	**1,682**	**512**	**1,323**

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

The offset amounts are as follows:

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 20212 £'000
Deferred tax assets	526	1,682	512	1,323
Deferred tax assets - net	**526**	**1,682**	**512**	**1,323**

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

	Group			Authority		
	Accelerated tax depreciation	Other	Total	Accelerated tax depreciation	Other	Total
Deferred tax assets	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2022	247	1,435	**1,682**	233	1,090	**1,323**
Income statement tax charge	(209)	(946)	**(1,155)**	(207)	(603)	**(810)**
Other comprehensive income tax charge	-	(1)	**(1)**	-	(1)	**(1)**
At 31 March 2023	**38**	**488**	**526**	**26**	**486**	**512**

At Spring Budget 2021, the Government announced an increase in the corporation tax main rate from 19% to 25% for companies with profits over £250,000 together with the introduction of a small profits rate of 19% with effect from 1 April 2023.

The rate of 25% has been reflected in the calculation of deferred tax at the balance sheet date. Deferred tax balances should be measured at the substantively enacted rate at which the balances are expected to reverse. As the increase to the rate of corporation tax has been substantially enacted at the signing date of these financial statements, the 25% rate has been used to measure deferred tax balances.

The Statement of Comprehensive Income shows a deferred tax credit of £40,315k (2022: charge £1,116k) which is a result of movements in the pension scheme surplus (see note 17).

On the face of the Statements of Financial Position, the deferred income tax liability of £18,895k (2022: £57,362k) relates to the pension scheme surplus (see note 17).

Notes to the Financial Statements

17. Retirement benefit obligations

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

Defined contribution plan: a defined contribution plan is a pension arrangement under which the benefits are linked to contributions paid, the performance of each individual's chosen investments and the form in which the individuals choose to take their benefits. The Group has two defined contribution plans, one in which contributions are paid into an independently administered fund and a second where contributions are paid to the Civil Service Pension Plan following the transfer of responsibility for regulating aviation security from the Department for Transport to the Civil Aviation Authority as from 1 April 2014. The Income Statement charge in respect of the defined contribution plans represents the contributions payable by the Group based on a percentage of the employees' pay. The CAA has no exposure to investment and other experience risks. Costs associated with these schemes of £5,690k (2022: £4,638k) were charged to the Income Statement (see note 3).

Unfunded scheme: the CAA also operates an unfunded scheme for some past members of the Board. The revaluation of the unfunded scheme at the end of the period has resulted in a credit of £95k (2022: £47k charge) to the Income Statement in accordance with the advice of a professionally qualified actuary (see note 3). A non-current liability of £1,034k (2022: £1,237k) and a current liability of £111k (2022: £111k) are held in the Statements of Financial Position in respect of post employment benefits payable under this scheme.

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

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

In July 2015, the Trustee of the scheme, with the support of the CAA, agreed to purchase a bulk annuity contract with Rothesay Life in respect of pensioners at 31 December 2014, with a second contract put in place with Pensions Insurance Corporation in January 2017 for uninsured pensioners at 30 June 2016; in July 2018, a further tranche of pensioner liabilities was insured with Pensions Insurance Corporation covering the uninsured pensioner population at 31 March 2018. During the 2020/21 financial year an additional contract was placed, with Legal and General, covering the uninsured pensioner population at 31 August 2020. The value of the buy-in policies held on behalf of the members is equal to the value of the benefits covered by the policy and is included under the asset class 'insured annuity policies'. The value of these benefits as at 31 March 2023 is estimated to be £1,035 million (2022: £1,287 million).

The last formal actuarial valuation of the CAA Section of the Civil Aviation Authority Pension Scheme was carried out as at 31 December 2021. Following discussions with the Scheme Actuary, the Trustee determined and agreed with the CAA the assumptions to be used for the latest actuarial valuation as at 31 December 2021. The 2021 valuation revealed a deficit of £17.9 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 2030. In addition, the CAA will pay contributions in line with the updated Schedule of Contributions dated 27 September 2022 which took effect immediately. The funding rate was set at 28.2% of pensionable earnings for the year 2022/23 (2022: 28.2%) in respect of which the CAA paid contributions of £11.7 million (2022: £19.3 million), which included £7m of prepaid contributions which would normally have been paid over the period from April 2023 to May 2024. The expected contribution in the 2023/24 year is £11.7 million. The expected future benefit payments for 2023/24 are forecast to be £99.5 million.

The methodology underlying the formal valuation differs from that used for annual IAS 19 disclosures, particularly in relation to the financial assumptions used. The formal valuation has a more prudent basis than IAS 19 disclosures and this is allowed for by means of adjustments to the discount rate and future improvements in mortality assumptions, and the inclusion of a reserve for contingent events. The main differences in methodology are summarised below:

IAS 19 disclosures:

(i) Discount rate based on AA-rated corporate bonds

(ii) Best estimate assumptions for future improvements in mortality

(iii) No allowance for a reserve for contingent events

Measurement of liabilities for the 31 December 2021 formal valuation:

(i) Discount rates:

- Pensioner and deferred liabilities- gilt yields less 0.1% p.a.
- Pre-retirement discount rate for active members- gilt yields plus 0.75% p.a.

(ii) Allowance for additional future improvements in mortality above best estimate assumptions

(iii) Allowance for a reserve for contingent events

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2023 £'000	2022 £'000
Statements of Financial Position assets for Group and Authority:		
Post employment benefits - fully funded pension fund	56,684	172,085
Total Statements of Financial Position assets	**56,684**	**172,085**
Statements of Financial Position obligations for Group and Authority:		
Non-current post employment benefits - unfunded pension scheme	(1,034)	(1,237)
Current post employment benefits - unfunded pension scheme	(111)	(111)
Total Statements of Financial Position obligations	**(1,145)**	**(1,348)**
Income Statement charge for Group:		
Pension benefits (note 3)	10,590	11,289
Post employment benefits - unfunded pension scheme (note 3)	(95)	47
Total Income Statement charge	**10,495**	**11,336**
Funded pension benefits		
The amounts recognised in the Statements of Financial Position are determined as follows:		
Fair value of plan assets	1,469,599	2,003,777
Present value of future obligations	(1,394,020)	(1,774,330)
Surplus in funded scheme	75,579	229,447
Related deferred tax liability at 25% (2022: 25%) (note 16)	(18,895)	(57,362)
Net surplus in funded pension scheme	**56,684**	**172,085**

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

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2023 £'000	2022 £'000
The movements in surplus in funded pension scheme are as follows:		
Surplus in funded pension scheme brought forward	229,447	212,636
Income Statement movement	(4,384)	(6,975)
Remeasurement effects recognised in Statements of Comprehensive Income	(161,259)	4,463
Employer contributions	11,729	19,323
Additional employee contributions	46	-
Surplus in funded pension scheme carried forward	**75,579**	**229,447**
The movements in the defined benefit obligations (DBO) over the year are as follows:		
DBO brought forward	1,774,330	1,866,351
Current service cost (excluding administration costs)	8,465	9,248
Interest costs on the DBO	45,711	35,336
Scheme participants' contributions	56	81
Actuarial loss - membership experience	103,192	60,665
Actuarial gain - demographic assumptions	-	(26,205)
Actuarial gain - financial assumptions	(438,205)	(62,087)
Benefits paid from scheme assets	(99,529)	(109,059)
DBO carried forward	**1,394,020**	**1,774,330**
The movements in the fair value of plan assets in the year are as follows:		
Fair value of assets brought forward	2,003,777	2,078,987
Interest income on scheme assets	51,917	39,650
Return on scheme assets less than discount rate	(496,272)	(23,164)
Employer contributions	11,729	19,323
Scheme participants' contributions	56	81
Additional scheme participants' contributions	46	-
Benefits paid	(99,529)	(109,059)
Administrative costs paid	(2,125)	(2,041)
Fair value of assets carried forward	**1,469,599**	**2,003,777**

The CAA provides pensions administration services to the scheme and has charged £1,013k (2022: £1,023k) over the course of the year. The CAA also charged for third party costs incurred on behalf of the scheme totalling £nil in the year (2022: £5k).

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2023		2022	
	£m	%	£m	%
The scheme assets are allocated as follows:				
Index Linked (UK)	222.5	15.1%	195.1	9.7%
Total Dedicated Bond Fund	**222.5**	**15.1%**	**195.1**	**9.7%**
Equity Fund	54.6	3.7%	119.0	5.9%
Total Quoted Equities	**54.6**	**3.7%**	**119.0**	**5.9%**
Insured Annuity Policies	1,034.8	70.4%	1,287.1	64.2%
Total Insured Annuity Policies	**1,034.8**	**70.4%**	**1,287.1**	**64.2%**
Other Holdings	157.7	10.8%	402.6	20.1%
Total Other Holdings	**157.7**	**10.8%**	**402.6**	**20.1%**
Fair value of scheme assets carried forward	**1,469.6**	**100.0%**	**2,003.8**	**100.0%**

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

	2023 £'000	2022 £'000
Amounts recognised in the Income Statement are as follows:		
Current service cost	8,465	9,248
Administrative costs paid	2,125	2,041
Total Income Statement charge included in employment costs	**10,590**	**11,289**
Net interest on defined benefit obligation	45,711	35,336
Expected return on funded pension scheme assets	(51,917)	(39,650)
Total credit to finance income (note 7)	**(6,206)**	**(4,314)**
Total included in Income Statement	**4,384**	**6,975**
Analysis of the amounts recognised in Statements of Comprehensive Income:		
Actuarial loss due to liability experience	103,192	60,665
Actuarial gain due to liability assumption changes	(438,205)	(88,292)
Return on scheme assets less than discount rate	496,272	23,164
Actuarial loss/(gain) recognised in Statements of Comprehensive Income	**161,259**	**(4,463)**

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

	2023 % p.a.	2022 % p.a.
The principal actuarial assumptions used for the purpose of IAS 19 were as follows:		
Discount rate	4.75	2.65
Inflation assumption (RPI)	3.25	3.65
Inflation assumption (CPI)	2.70	3.10
Rate of increase in salaries in future years	2.20	2.55
Rate of increase in pensions (pre 1 June 2015) *	3.25	3.65
Rate of increase in pensions (post 1 June 2015) *	2.70	3.10

* In excess of any guaranteed minimum pension

Mortality assumptions are based on the Self-Administered Pension Scheme All Pensioner Light series 3 tables with allowance for future improvements in line with the Continuous Mortality Investigation 2021 Core Projections model. The expected lifetime of a current pensioner who is aged 60 and the expected lifetime of a current non-pensioner (at age 60) are shown in years below:

	Males Years	Females Years
Age		
60	27.5	29.5
60 in 10 years	28.2	30.3

Additional information	2024 £'000
Expected contributions for the following year end:	
Employer	11,700
Scheme participants	56
Total expected contributions for the following year end	**11,756**

Notes to the Financial Statements

17. Retirement benefit obligations (continued)

The principal risks that the scheme is exposed to include:

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

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

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

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

Assumption	Base assumption	Sensitivity	Effect on Defined Benefit Obligation
Discount rate	4.8%	0.1% increase	1.1% reduction
Price inflation (RPI)	3.3%	0.1% increase	1.0% increase
Salary growth	2.2%	0.1% increase	0.1% increase
Mortality	105% (male)/103% (female)	Long-term trend 1.25%	0.4% reduction

Notes to the Financial Statements

18. Financial instruments by category

	2023			2022		
	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total	Assets at fair value through the Income Statement	Other financial assets at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group:						
Assets as per Statements of Financial Position						
Trade and other receivables	-	6,632	**6,632**	-	3,866	**3,866**
Cash and cash equivalents	-	21,132	**21,132**	-	29,932	**29,932**
Net book amount	**-**	**27,764**	**27,764**	**-**	**33,798**	**33,798**
Authority:						
Assets as per Statements of Financial Position						
Trade and other receivables	-	5,914	**5,914**	-	3,372	**3,372**
Cash and cash equivalents	-	20,096	**20,096**	-	28,419	**28,419**
Net book amount	**-**	**26,010**	**26,010**	**-**	**31,791**	**31,791**

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

Notes to the Financial Statements

18. Financial instruments by category (continued)

	2023			2022		
	Liabilities at fair value through the Income Statement	Other financial liabilities at amortised cost	Total	Liabilities at fair value through the Income Statement	Other financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group:						
Liabilities as per Statements of Financial Position						
Trade and other payables	-	18,320	**18,320**	-	18,621	**18,621**
Net book amount	**-**	**18,320**	**18,320**	**-**	**18,621**	**18,621**
Authority:						
Liabilities as per Statements of Financial Position						
Trade and other payables	-	23,557	**23,557**	-	24,433	**24,433**
Net book amount	**-**	**23,557**	**23,557**	**-**	**24,433**	**24,433**

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

The Group and Authority are exposed to risks that arise from its use of financial instruments. Further quantitative information in respect of these risks is presented throughout these financial statements.

Financial risk management disclosures are set out in the Financial Review on **pages 38 to 46**.

Notes to the Financial Statements

19. Cash (used in)/generated from operations

	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2022 £'000
Profit before income tax	**9,713**	**7,430**	**10,000**	**8,786**
Adjustments for:				
Depreciation, amortisation, impairment and adjustment on disposal	3,365	4,611	3,181	4,229
Proceeds from sale of vehicles	(2)	-	(2)	-
Loss on disposal of asset	41	164	41	164
Grant amortisation	(106)	(92)	(106)	(92)
Finance income - net	(6,879)	(4,231)	(6,704)	(4,200)
Unrealised foreign exchange difference	1	(13)	4	(14)
Changes in working capital:				
Trade and other receivables	186	(9,049)	946	(9,139)
Trade and other payables	(13,267)	27,810	(13,736)	26,380
IAS19 current service cost net of cash contributions	(1,139)	(8,034)	(1,139)	(8,034)
Cash (used in)/generated from operations	**(8,087)**	**18,596**	**(7,515)**	**18,080**

Notes to the Financial Statements

20. Commitments

Capital commitments

At 31 March 2023 the Group had capital commitments valued at £201k that were contracted for but not provided (2022: £332k).

Lease liabilities

At both 31 March 2023 and 31 March 2022 the Group was committed to a number of lease contracts for buildings, plant and machinery and vehicles.

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

	Note	Group 2023 £'000	Group 2022 £'000	Authority 2023 £'000	Authority 2023 £'000
Brought forward		6,109	6,385	5,683	6,300
Additions		101	1,100	101	711
Early terminations		-	(20)	-	(20)
Declassification	9	(726)	-	(726)	-
Interest expense	7	77	113	74	111
Lease payments		(800)	(1,469)	(716)	(1,419)
Total lease liabilities		**4,762**	**6,109**	**4,416**	**5,683**
Analysis of lease liabilities:					
Non-current		3,965	4,800	3,694	4,472
Current		797	1,309	722	1,211
Total lease liabilities		**4,762**	**6,109**	**4,416**	**5,683**

Right of use assets associated with the lease liabilities above of £3,188k for the Group (2022: £4,729k) and £2,902k for the Authority (2022: £4,366k) were included within the Statements of Financial Position at the end of the current financial period (note 9).

21. Related party transactions

Group

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

During the year the Group has undertaken work for the Department for Transport (DfT) and has recognised revenue of £26,800k (2022: £54,453k). In the current year, the DfT provided £5,000k (2022: £31,013k) in S.12 funding directly linked to supporting the Group financially through the Covid-19 pandemic. At the end of the year nothing was owed to the DfT by the CAA (2022: Nil). The CAA also purchased £65k of services from the DfT in the year (2022: £3k), primarily in relation to an employee secondment. Further detail on the financial support provided by the DfT is included within note 1.1 Basis of preparation.

The Air Travel Trust (ATT) exists to fund repatriation or reimbursement of holiday-makers in the event of the failure of a tour operator. The ATT is funded by contributions made when ATOL-protected holidays are purchased and, in certain circumstances, has recourse to bonds or insurance. M. Fuller, P Smith and C Tingle (Board members of the CAA) and J Spence (Secretary to the CAA), were Trustees of the ATT during the year. As detailed in note 1.2, the ATT is excluded from the consolidated financial statements of the CAA. At the end of the year nothing was owed by the ATT to the CAA in relation to failure administration and recharged expenditure (2022: £527k).

Notes to the Financial Statements

21. Related party transactions (continued)

During the year, the CAA charged £282k (2022: £200k) for failure administration services to the ATT, none of which was accrued at the year end. The CAA also recharged £1,780k (2022: £1,761k) to the ATT during the year for repatriation activities, legal fees, accommodation costs, accounting and other administrative services.

During the year revenue of £24k (2022: £11k) was invoiced to The Royal Air Force (RAF) by the CAA, primarily in respect of desk rental at CAA's offices. Simon Edwards was a non-executive member of the CAA Board thoughout the year and he also serves as Assistant Chief of the Air Staff on the RAF Board.

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

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

	2023 £'000	2022 £'000
Re-charge of Corporate legal, finance, IT and facilities costs:		
CAA International Limited	713	857
Air Safety Support International Limited	341	343
Re-charge of Corporate Board member costs:		
CAA International Limited	16	24
Air Safety Support International Limited	27	27
Work carried out by Group entities with regard to aviation regulatory services:		
CAA International Limited	(338)	(211)
Work carried out on behalf of other Group entities with regard to technical assistance:		
Air Safety Support International Limited	9	15
Work carried out on behalf of other Group entities with regard to commercial aviation related services:		
CAA International Limited	2,152	1,852
Cost of internal exams hosting and maintenance charges by other Group entities:		
CAA International Limited	(387)	(325)
Total intra Group charges	**2,533**	**2,582**

Notes to the Financial Statements

21. Related party transactions (continued)

	2023 £'000	2022 £'000
Interest receivable on Group trading balances:		
Air Safety Support International Limited	1	-
Interest payable on Group trading balances:		
CAA International Limited	(179)	(33)
Net interest payable on Group trading balances	**(178)**	**(33)**

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

	Note	2023 £'000	2022 £'000
CAA International Limited	15	(5,920)	(6,411)
Air Safety Support International Limited	12	278	295
Total payables owing to Group undertakings		**(5,642)**	**(6,116)**

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

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

Notes to the Financial Statements

22. Current cost return on capital employed

	Operating profit £'000	Average capital employed £'000	Return on capital employed %
CAA Regulatory Sector	1,487	42,493	3.5%

The Group is set financial targets by the Department for Transport of a 3.5% rate of return for the regulatory and en route sectors. The targets are based upon the annual rate of return before interest and tax, on average capital employed revalued at current cost for the target period. The financial target is calculated to provide sufficient reserves for future capital investment, interest payments and corporation tax. Further analysis is included on **page 43** within the Financial Review.

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 Statements of Financial Position and from the Income Statement.

The alternative basis has been used as it provides a more consistent basis for assessing the financial target set by the Department for Transport.

The reporting business segment and target rate of return is as follows:

	Target period	Target rate
CAA Regulatory Sector	01/04/2022 - 31/03/2023	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.

23. 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

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Income Statement (historic cost accounts):					
Revenue	**163.6**	**142.3**	**128.0**	**281.9**	**150.2**
Operating profit/(loss) before finance income - net and income tax charge	2.8	3.2	4.9	(0.9)	(2.7)
Finance income - net	6.9	4.2	5.8	2.3	5.0
Income tax charge	(2.6)	(2.0)	(2.1)	(0.4)	(0.4)
Profit for the financial year	**7.1**	**5.4**	**8.6**	**1.0**	**1.9**
Statement of Financial Position (historic cost accounts):					
Non-current assets	87.6	246.2	231.2	278.4	222.9
Current assets	49.3	56.9	31.7	42.3	30.6
Total assets	**136.9**	**303.1**	**262.9**	**320.7**	**253.5**
Reserves	67.1	181.0	185.0	218.7	183.2
Equity	**67.1**	**181.0**	**185.0**	**218.7**	**183.2**
Total liabilities	69.8	122.1	77.9	102.0	70.3
Total equity and liabilities	**136.9**	**303.1**	**262.9**	**320.7**	**253.5**

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

	2023	2022	2021	2020	2019
CAA Regulatory Sector	**3.5%**	**3.6%**	**6.0%**	**(4.9)%**	**(2.2)%**

Civil Aviation Authority (Accounts) Direction 2022

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 2022 and in respect of any subsequent accounting year, shall comprise:

- **a.** an annual report;
- **b.** a statement on internal control;
- **c.** a statement of Board members' responsibilities;
- **d.** an income statement;
- **e.** a statement of comprehensive income;
- **f.** a balance sheet of the Regulatory Authority and of the Group;
- **g.** a statement of changes in equity; and
- **h.** a statement of cash flows

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

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

- **a.** the accounting and disclosure requirements of companies legislation currently in force;
- **b.** the accounts disclosure requirements of paragraphs 9.8.6 and 9.8.8 of the UK Listing Rules;
- **c.** International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- **d.** any additional disclosure or accounting requirements that the Treasury may issue from time to time in respect of public corporations' accounts.

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

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

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

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

4. The Direction issued to the Authority dated 29 March 2021 is hereby revoked.

Benjamin Smith, Director, Aviation
Signed by authority of the Secretary of State
7 April 2022

Civil Aviation Authority (Accounts) Direction 2022

Schedule 1

1. The Companies Act 2006 requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate; the information relating to the Civil Aviation Authority shall be contained in the Annual Report.

2. The income statement shall be prepared in accordance with International Accounting Standard (IAS) 1.

3. The summary financial position shall be prepared in accordance with IAS 1, separating the classification of the current and non-current assets, and current and non-current liabilities on the face of the balance sheet.

4. The Civil Aviation Authority has no power over the Air Travel Trust Fund (ATTF) and no exposure to variable returns from its involvement with the ATTF. Accordingly, the ATTF shall not be consolidated as part of the Group financial statements.

Schedule 2

Supplementary Information

1. The income statement or the notes thereto shall include:

   a. analyses of revenue and operating profit or loss over the following:

      - Regulatory Sector made up of:
        - Safety & Airspace Regulation
        - Consumers & Markets
        - Aviation Security
        - Space
      - UK en route Air Traffic Services
      - CAA International
      - Miscellaneous Services

   b. revenue shall be analysed, as appropriate, between statutory and scheme charges and other income;

   c. expenditure shall be analysed between employment costs, services and materials, repairs and maintenance, research, depreciation, amortisation and disposals, other gains/(losses) (as appropriate)- net and other expenses; and

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

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

   a. the Group's maximum borrowing power; and

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

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

   a. statement of the target rate of return achieved by the Regulatory operations based upon the average total equity based upon changing prices;

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

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

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

Civil Aviation Authority (Report) Direction 2023

The Secretary of State for Transport, in exercise of his power 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) ending 31 March 2023 should 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 full and fair review of the development of the business during the year, the significance of the circumstances facing the Group, and an indication of likely future developments for each of the significantly different classes of business.
5. dealing separately with the Group's financial position:
   a. a comparison of results against targets, including an explanation of the relationship between current and historic cost accounts and the significance of returns on the assets employed;
   b. comments on and changes to funding levels;
   c. significant changes in property, plant and equipment and intangible assets, with a brief description of the assets involved;
   d. a description of activities in the field of research;
   e. comments on other relevant aspects of the financial results; and
   f. a summary of significant events up to the end of the reporting period.
6. a five-year summary of the Group's financial results, including and identifying amongst other things:
   a. appropriate analyses of income and expenditure and assets and liabilities;
   b. total equity;
   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
   d. this Direction and the still extant 2022 Accounts Direction.

In previous years, given the significant contribution the aviation sector makes to the UK economy and the CAA's role in its regulation, the CAA was required to include in its annual report an assessment of how its regulatory activities contribute towards the growth of the industry, and the wider economy. The Secretary of State has agreed that, from and including the 2022/23 reporting year, the CAA shall instead make a separate report on its Growth Duty which he will lay before both Houses of Parliament, alongside the Annual Report and Accounts, and which the CAA shall then publish on its website.

The Report Direction previously issued to the Civil Aviation Authority dated 7 April 2022 is hereby revoked.

David Silk, Director, Aviation
Signed by authority of the Secretary of State
20 April 2023

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