



2010 – 2011

# ANNUAL REPORT



Civil Aviation Authority of New Zealand

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This Annual Report has been prepared in accordance with:

- *Section 38A of the Third Schedule to the Civil Aviation Act 1990; and*
- *Section 150 of the Crown Entities Act 2004.*

I provide this Annual Report on the performance of the Civil Aviation Authority of New Zealand for the financial year 1 July 2010 to 30 June 2011.

A handwritten signature in black ink, appearing to read 'Nigel Gould', with a large, stylized initial 'N'.

**NIGEL GOULD**

Chairman of the Civil Aviation Authority of New Zealand

18 October 2011



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## Introduction from the Chairman

The past year has been particularly challenging and exciting. The Authority has experienced a period of significant change, and this is set to continue throughout the next year, and beyond.

The Civil Aviation Authority has the fundamental responsibility of ensuring that a 'safe skies' environment is provided for commercial operators to meet their business objectives, alongside recreational participants enjoying their activities. The CAA, as one arm of the Authority, oversees the aviation regulatory system, undertaking certification, safety promotion, surveillance, and compliance roles; the other arm, Avsec, provides the security services that are essential in today's aviation environment.

This Annual Report provides a commentary on the progress the Authority has made over the last year against its responsibilities and operating intentions outlined in the Statement of Intent.

### Aviation system performance

New Zealand has a good air safety record. It is also considered a low risk nation in terms of security.

Overall, New Zealand's civil aviation system has performed well over the 2010/11 year. The safety performance of airlines is consistent with that of international counterparts and the overall trend in the general aviation sector is for fewer aircraft accidents and fatalities. There have been no security failures which have compromised safety.

However the loss of nine lives at Fox Glacier, on the day of the first Christchurch earthquake, highlights the potentially dreadful consequences of any failure in the system.

### Authority operations and developments

The work that the Authority does through regulatory oversight and security services is critical to the safety of New Zealand's skies. As well as maintaining its core operations, there have been a number of major initiatives over 2010/11.

Both parts of the Authority have had to respond to increased activity levels for regulatory services and security operations, and continuing changes in aviation technologies, international standards and requirements. Particularly in the last year natural events have added to these challenges. Staff from the CAA and Avsec reacted rapidly to the Christchurch earthquakes to support emergency operations. Additionally a dynamic and flexible response was provided to the Puyehue Cordon Caulle volcanic ash event, which resulted in flight disruptions for most airlines being minimised.

Avsec has had a particularly active year with the opening of a new Auckland Airport Base, a significant Christchurch Airport rebuild, and the move of its national office to a new building. Major planning was undertaken for the Rugby World Cup, a new electronic rostering system deployed, and planning commenced for major screening equipment replacement, scheduled for 2013. Enhanced forecasting capability, combined with better cost management, enabled improvements in efficiency to be achieved during the year.

The CAA also relocated into new premises adjacent to Avsec. This provided the opportunity for a shared services approach to be developed, with initial implementation commencing at year end.

As well as the CAA's funding and value for money reviews mentioned below, steady progress has been made in implementing improvements in core certification and surveillance processes, in response to the OAG's audit recommendations released in June 2010. Other programmes commenced in the year include preparatory work to deploy the Safety Management System (SMS) approach, which represents a major change to risk-based regulatory oversight, and initial policy work on a national Airspace and Air Navigation Plan.

### Organisation change

The Authority has accepted the challenge to meet and respond to changing sector requirements and government drives for increased value for money. In addition to the efficiencies to be gained from integrating support functions, the design of the Authority's regulatory and security operations is being re-examined as part

of the wider Change Programme that was initiated prior to year end. Changes in organisational structure and processes will be introduced following consultation with the aviation sector.

### Financial position

The Authority is a Crown Entity that derives more than 95% of its revenue on a 'user-pays' basis through levies, fees and charges on aviation sector participants and passenger security charges. Crown funding, which was slightly reduced during the year, represents the major portion of the balance.

Readers of the Annual Report may note what appears to be a major decline in the Authority's financial performance. A consolidated deficit of \$7.5 million is reported for the 2010/11 year, compared with a surplus of \$15.1 million for the previous financial year. As indicated through the budget figures shown in the financial statements, this is the result of a deliberate strategy driven principally by the accepted need to reduce the accumulated surplus within Avsec's memorandum accounts.

The Authority decided to accelerate the programme to erode the surplus and, as a consequence, the passenger security charges were substantially reduced at year end. For the next two years, under this strategy, airline passengers will experience a charge effectively subsidised by over-recovery in earlier years. This accounted for the major portion of the adverse trend.

At the same time the CAA has continued to experience a financial deficit within its regulatory functions. Funding for the CAA has not kept up with the growing volume and scope of regulatory requirements, with a significant portion of fees and charges remaining unchanged for 14 years. During the year a comprehensive Funding Review was progressed, in conjunction with a Value for Money Review, with proposals provided for industry consultation. The programme of work to finalise and agree the model for a sustainable regulatory funding regime is due for completion in the next financial year.

As a result of these accumulated deficits, and recognising the need for the CAA to be appropriately funded to progress organisational developments, the Crown invested a further \$7.5m in equity at year end, which coincided with a return of \$15m of surplus equity by Avsec.

### Acknowledgements

The Authority acknowledges the hard work of the Executive team, managers and staff of the CAA and Avsec, who have a united commitment to keeping New Zealand's aviation safe and secure. The positive response to the new challenges being set is particularly appreciated.

Subsequent to year end, Steve Douglas, Director of Civil Aviation, announced his intention to resign in the New Year. He has had a long period of service to the Authority, including almost five years as Director, and further acknowledgement of his contribution will be made in next year's annual report.

During the year the previous Chairman, Rick Bettle, retired as a member of the Authority, as did Susan Hughes immediately following year end. They are acknowledged for their work in laying the foundations for initiatives now being introduced. The remaining three members, Peter Griffiths (Deputy Chair), Anita Mazzoleni (Chair of the Audit, Finance and Risk Committee) and John Bartlett, have contributed strongly to planning for the changes now being undertaken. As the incoming Chair, I have been well supported.

The Authority is also appreciative of continuing support from government and the aviation community, particularly through a period of significant change. Maintaining strong relationships with our stakeholders will be critical as we work to meet our common objective of safe and secure flight.



### NIGEL GOULD

Chairman of the Civil Aviation Authority of New Zealand



# Part A:

## Overview of the Authority

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## 1

## Governance and accountability statement of the Authority

The Minister of Transport is responsible to Parliament for overseeing and managing the Crown's interests in the Civil Aviation Authority. The Minister expects the Authority to set the direction of the entity, achieve the government's desired results set out in the *Civil Aviation Act 1990* and other government legislation, and manage any civil aviation safety and security risks on behalf of the Crown.

Members of the Authority have a range of business, legal and aviation experience and knowledge. In its decision making, the Authority draws on the expertise, experience, and knowledge of its members, and the advice offered by the executives of the CAA and Avsec in its decision making. With respect to their role on the Authority, members act in accordance with applicable statutory requirements, and in the interests of the role and functions of the CAA and Avsec.

The Authority's decisions must be consistent with the statutory requirements placed on it (notably the *Civil Aviation Act 1990*, and *Crown Entities Act 2004*) and the expectations of the share-holding Ministers.

### RESPONSIBILITIES

A key to the efficient running of the CAA and Avsec is the governance structure under the *Civil Aviation Act 1990* and *Crown Entities Act 2004*. The Authority concentrates on setting high-level policy, strategy, and objectives, as required by the relevant legislation and the expectations of the government. The Authority monitors the progress of its two arms, the CAA and Avsec, in achieving the desired outcomes associated with these strategies and policies. The Director of Civil Aviation, the General Manager of Aviation Security Service, and their respective management teams are concerned with the implementation of the Authority's policies and strategies.

The Authority, the Director of Civil Aviation, and the General Manager of Aviation Security Service have statutory functions in the civil aviation system. The Director and the General Manager are guided and accountable in the exercise of their functions by the Authority to the extent permissible under the *Civil Aviation Act 1990*, the *Crown Entities Act 2004* and administrative law. The Authority is accountable to the Minister of Transport for the efficient and effective performance of its functions.

Under the *Civil Aviation Act 1990*, the Director of Civil Aviation is required to make independent decisions in relation to granting, suspending or revoking of aviation documents.

The Authority clearly demonstrates its role by ensuring that the delegation of responsibility and authority to the Director of Civil Aviation and the General Manager of Aviation Security Service is concise and complete.

### INTERNAL AUDIT

While many of the Authority's statutory functions have been delegated to the Director of Civil Aviation and the General Manager of the Aviation Security Service, the overall responsibility for maintaining effective systems of organisational control remains with the Authority.

The Authority has required the Director of Civil Aviation and the General Manager of Aviation Security Service to establish, maintain and monitor internal control (e.g. policy systems and procedures) to provide assurance that specific objectives of the Authority will be achieved.

Both the CAA and Avsec have internal audit functions that monitor their internal controls. This function is concerned with the quality and reliability of financial and non-financial information reported to the Authority. Internal Audit operates independently of line management. It reports through the executive management to the

Audit and Risk Management Committee of the Authority. In the case of the CAA, the internal audit function is outsourced.

### **RISK MANAGEMENT**

The Authority acknowledges that it is ultimately responsible for the management of organisational risks. The Authority has required the Director of Civil Aviation and the General Manager of Aviation Security Service, through their respective risk management policies to establish and operate a risk management programme. The Authority has a risk management process whereby the likelihood and consequence of strategic and operational risks are regularly assessed, mitigations are reviewed and the level of residual risk reappraised.

### **LEGISLATIVE COMPLIANCE**

The Authority ensures that both arms of the entity comply with all legislation. The Authority has delegated responsibility to the Director of Civil Aviation and the General Manager of Aviation Security Service for the development and operation of a programme to systematically identify compliance issues and ensure that members of staff are aware of legislative requirements that are particularly relevant to them.

### **ETHICS**

The CAA and Avsec are guided by their respective Codes of Conduct.

The Civil Aviation Authority is a Crown entity stipulated in *Crown Entities Act 2004*; the State Services Commissioner's Standards of Integrity and Conduct cover both arms of the entity.

### **STANDARD FOR QUALITY MANAGEMENT**

ISO certification represents an internationally recognised standard for quality management. The Authority has a policy of maintaining its management system certification to ISO 9001:2000, and its successors. This assures that the highest possible standard is reached at all times. The CAA and Avsec are audited under this process.

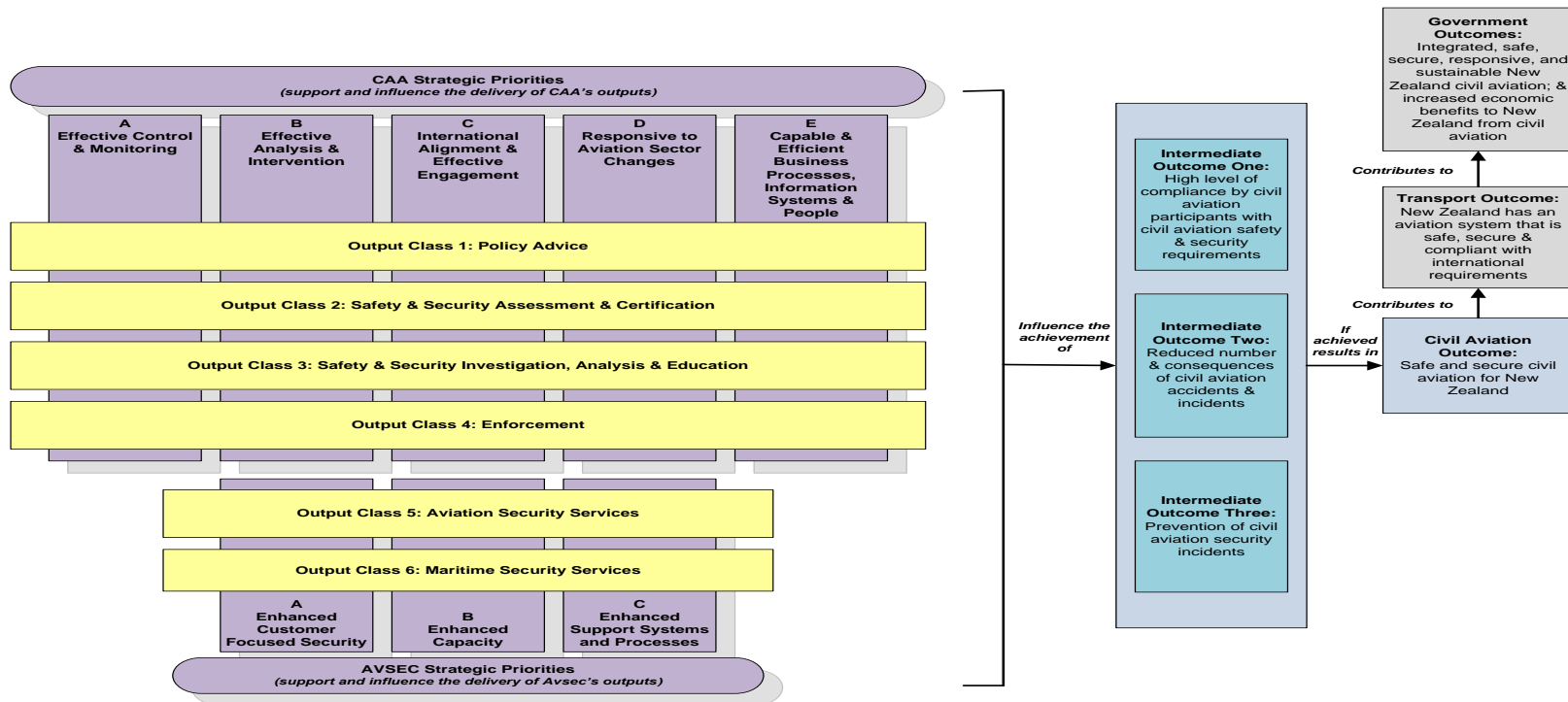
### **ENGAGEMENT WITH STAKEHOLDERS**

The Authority acknowledges its responsibility to engage with stakeholders and in particular to remain cognisant of the expectations of transport Ministers, the Government and the New Zealand public.

# 2

## Strategic framework

### Civil Aviation Authority's Strategic Framework Financial Year 2010/11



# 3

## Overview of the Civil Aviation Authority's role and contribution

The role played by the Civil Aviation Authority is key to maintaining integrity and confidence in New Zealand's civil aviation system. Aviation is strategically important in the country's transport system, with strong safety and security performance providing many benefits for New Zealanders.

### 3.1 THE FUNCTIONS OF THE CIVIL AVIATION AUTHORITY

The Authority has two arms: the CAA is the regulatory agency under the Director of Civil Aviation; and the Aviation Security Service (Avsec) provides aviation security services that are regulated by the CAA.

1. The **CAA** regulates aircraft, air operators, airport operators, pilots, engineers and other organisations and personnel operating in the civil aviation system. It exercises its role through:
  - Safety promotion through information, advice and education
  - Certification and licensing of participants to enter the aviation system when they demonstrate they can meet the requirements of the civil aviation rules and operate safely
  - Surveillance (including audits, inspections and spot checks) to monitor compliance with safety and security standards by participants already in the system
  - Investigation of accidents and incidents
  - Corrective action and enforcement where breaches of civil aviation legislation have been identified

Other activities undertaken by the CAA are:

- Developing civil aviation rules, aligned with international standards
  - Promoting the interests of New Zealand and the South Pacific region through active membership of ICAO
  - Contributing to airspace and aviation system policy development
2. **Avsec** provides security screening services at seven security-designated airports, for all international passengers and their hold and carry-on baggage, and for domestic passengers on aircraft with 90+ passenger seats, and their carry-on bags. Avsec also provides perimeter patrols, screens airport workers at certain sites and issues airport identity cards.

### 3.2 CONTRIBUTION TO GOVERNMENT OUTCOMES

The Authority's work to promote and enable safe and secure civil aviation contributes to broader transport outcomes and, in turn, the Government's goals for social well-being and economic growth.

Safe and secure civil aviation enables New Zealanders to connect across the country and with the world. It provides increased mobility, better social and commercial linkages and broader work and leisure opportunities.

The social costs and reputational impacts of air accidents or terrorist events are significant, particularly for public air transport. As well as the intrinsic safety and security benefits for passengers and other users, safe flight leads to public confidence and a strong international reputation for New Zealand civil aviation. Through this positive standing, the country is able to leverage many economic opportunities.

#### → ECONOMIC BENEFITS

Assurance of safe and secure air transport underpins growth in passenger and cargo revenues and enables access to valuable international tourism and business markets. Having an air freight regime that meets international commercial expectations is critical to the export viability of many high-value and time-sensitive goods.

New Zealand's agreements with other countries are based upon confidence in the New Zealand regulatory system. Without this, concessionary bilateral arrangements could be removed leading to increased costs for New Zealand firms supplying international markets.

Aviation makes a sizeable direct contribution to New Zealand's economy through income from operating New Zealand based commercial aircraft and related training and maintenance activities, as well as through a significant recreational aviation sector. Revenues approached \$10 billion in 2010, representing nearly 7% of New Zealand's GDP.

Aviation operations also support the productivity of primary agricultural and forestry industries, provide access for our high-earning tourism trade, and enable investment and export of services to overseas markets.




# 4

## Civil aviation operating environment

### 4.1 SECTOR PROFILE AND GROWTH

The New Zealand civil aviation system encompasses a wide range of aircraft that are used for commercial and personal travel, air freight, sport, recreation and agriculture. The CAA classifies aircraft operations into three broad groups, as shown below.

The lowest accident rates are in the Public Air Transport group, which covers most of the passenger flights in New Zealand. The highest accident rates are in the Recreational Aviation group, which has the majority of aircraft on the register but represents less than 2% of flight activity.

Civil aviation sectors		% of total no. of aircraft on NZ register	% of flight activity (total seat hours)	2010 accident rate per 100,000 hours flown
<b>Public Air Transport -</b> Airline operations in large, medium & small aeroplanes, & helicopters		4%	96.3%	1.3
<b>Other Commercial Operations -</b> Aeroplane & helicopter, including agricultural aviation		31%*	2.3%	7.2
<b>Recreational Aviation -</b> Private aeroplanes, helicopters and sport aircraft		65%*	1.4%	23.4

*\*Figures for these groups are estimated, as smaller aircraft and helicopters on the register can be used for both commercial and recreational purposes. This breakdown may be subject to some variation over time.*

Civil aviation in New Zealand has grown significantly in the last five years. The trends in passenger volumes, participant numbers, aircraft registrations and movements are expected to continue for the foreseeable future.

#### → AIRCRAFT, FLIGHTS AND PILOTS (2010/11 FIGURES COMPARED WITH 2005/06)

4,490 aircraft on the register (+12%)	20 -30% growth in large & medium aircraft, helicopters & sport aircraft
4,410 commercial pilots (+21%)	3,767 private pilots (+4%)
1.1 million aircraft movements (+2%)	Estimated 958,000 hours flown (+9%)

## → INTERNATIONAL AND DOMESTIC PASSENGER NUMBERS

The Authority constantly faces a dynamic operating environment. It must proactively adjust to a range of factors in its operating environment, while its resources are directly influenced by the number of passengers travelling by air.

Number of passengers travelling by air	For years ended 30 June					% change (2011v.2010)
	2007	2008	2009	2010	2011	
Total international passenger departures	4,359,298	4,436,717	4,312,686	4,452,310	4,582,295	2.92%
Total domestic passengers recorded by:						
CAA (all domestic operators)	8,894,997	9,777,968	9,507,548	9,243,532	9,823,072	6.27%
Avsec (limited to aircraft with seating capacity of 90+ seats)	5,024,706	5,654,619	5,620,650	5,703,733	5,497,128	(3.62%)
Source: Finance Unit (These numbers are drawn from aviation safety levy figures and thus may differ from Statistics New Zealand figures.						
The CAA domestic passengers data for 2009/10 are understated compared with the actual domestic passengers carried (estimated at >9.5 million). During the period 10 Jun - 03 Dec 2009, Australian Operating Certificates (AOC) carriers (e.g. Jetstar and Qantas) operated under their ANZA privileges which exempted them from paying passenger safety levies to the CAA. On 04 Dec 2009, the Civil Aviation (Safety) Levies Order 2002 was amended where Australian carriers with ANZA privileges operating within New Zealand will pay a levy of \$1.66 (from \$2.00 prior ANZA affectivity date) per domestic passenger sector.						

In 2010/11, international departures increased by 3% (2010/11: 4.582 million) compared with the previous year (2009/10: 4.452 million). The launch of new flights (such as between Guangzhou/Auckland and Kuala Lumpur/Christchurch in April 2011; and additional frequency between Singapore and Christchurch in March 2011) increased the number of passenger arrivals. The increase may have been more, but for natural disasters that reduced passenger numbers from February to June 2011. These included:

- Flight delays and cancellations to and from New Zealand from 12 June 2011 due to volcanic ash cloud from the Chilean Puyehue-Cordon Caulle volcanic eruption.
- The Christchurch earthquake on 22 February 2011 drastically reduced visitor arrivals to the city.

However, the long-term outlook for inbound tourism is positive. Tourism Research forecasts the average annual growth at 3.5% from 2010 to 2016, with a peak increase in passenger traffic movement in September - October 2011, due to the Rugby World Cup (RWC).

### International Connections

New Zealand has many direct connections to the rest of the world. In 2010 there were 33 overseas cities with scheduled flights to and from New Zealand, branching out through multiple onward routes.

In particular there is expansion of routes between New Zealand and Asia, with three major foreign air operators certified in March/April 2011 to fly between New Zealand and Singapore, Kuala Lumpur, Guangzhou, Beijing and Shanghai. Passenger numbers from mainland China increased by almost 20% in 2010. Middle East carriers also increased their cargo and seat capacities into New Zealand.

## 4.2 DISTINCTIVE FEATURES OF NEW ZEALAND AVIATION

Air travel is viewed as an ordinary and affordable mode of transport for most of our population. Air transport is the main business travel system, is used extensively for social journeys, and, because New Zealand is an island country, it is the predominant form of international travel.

We also have one of the highest per capita ratios of private pilots in the world.

New Zealand has a large and diverse general aviation sector that supports major parts of the economy. Aircraft are widely used for fertilising, crop spraying and other operations supporting the country's agri-business.



New Zealand is an adventure tourism destination and the use of aircraft for new sport and recreation activities is growing. In both cases the extent of adaptation of aircraft pushes them to operational limits.

Physical features influence how aircraft are used in New Zealand. The country's geography necessitates many short haul flights with frequent take-offs and landings, resulting in aircraft suffering fatigue more rapidly than in other environments. Terrain is varied, often rugged or mountainous, and aviators need to cope with rapidly changing weather patterns.

New Zealand's domestic aviation operates over a land area of 269,000 square kilometres. The wider Flight Information Region allocated to New Zealand covers 30 million square kilometres, from the Cook Islands to the South Pole. This represents 5% of world airspace.

A key feature of aviation in New Zealand is that infrastructure and services are fully cost-recovered from users of the system, with minimal contribution from central government revenues.

### 4.3 LONGER TERM DEVELOPMENTS FOR CIVIL AVIATION

Looking out over the next 20 years, many developments will impact civil aviation globally, with the effects flowing through to New Zealand:

- Estimated demand for new aircraft will double every 15 years worldwide; every six years in China and India
- The Asia Pacific region will increase its percentage share of world traffic
- Growth in micro-lights and unmanned aircraft systems (UAS) is developing rapidly
- The number of business jets is set to double globally
- Smaller aerodromes will be of growing importance
- Significant changes in air navigation systems are underway as satellite based navigation and communication systems take over from ground based equipment
- Real-time aircraft performance and meteorological data will be shared between aircraft and the ground
- Environmental issues will continue to pressure the industry – greenhouse gas emissions, bio-fuel alternatives, noise control, etc
- There will be a strong drive for international regulatory harmonisation, particularly to keep technology standards aligned
- World oil demand is predicted to grow by 49% over the next 20 years and demand will exceed supply
- Fuel will be an increasing percentage of aviation costs, possibly impacting usage

### 4.4 IMPLICATIONS OF THE OPERATING ENVIRONMENT FOR THE AUTHORITY

Continuing growth in the size and operations of the New Zealand aviation industry requires the Authority to manage increased regulatory and security demands and greater numbers of transactions. Busier skies and the rapid pace of innovation and technological advances in all facets of aviation activity make the issues in safety and security management more complex

New aviation activities keep emerging. For instance, aircraft such as the A330, A340 and A380, although not listed in the New Zealand fleet, are flown here by foreign airlines. These aircraft tend to be lighter, more fuel and eco-efficient; with higher capacities and longer ranges than older technology aircraft. Greater use of business jets will extend the boundaries of regulatory oversight and bring new safety and security challenges. So too will growth in the commercial and recreational use of unmanned aerial systems (UAS) and new technologies such as the jet-pack.

The aviation industry will continue to be susceptible to natural disasters, widespread public health episodes and evolving forms of terrorist threat. As part of an international aviation network New Zealand's safety and security operations have to adapt to events and incidents occurring in other parts of the world.

The Authority must stay abreast of the wide range of developments in aviation technology, and maintain alignment with continuing changes in international standards. The increased sophistication of aircraft and the computer systems used on board, in air traffic management and for the design and testing of aircraft broadens the arena of the CAA's safety oversight for New Zealand.

Stricter international and domestic security requirements have been put in place in the last 10 years and we must continue to remain vigilant. While international standards are led by ICAO; some states, such as the US and Australia, set more restrictive levels of security on airlines entering their airspace. Avsec ensures that these higher levels of security are met. In the dynamic international security environment, continuing attention and investment in security technologies are needed to stay abreast of international security standards and to enable a secure supply chain for airfreight.

Importantly too, the Authority has to deal with different risk scenarios than those faced by other jurisdictions. The New Zealand aircraft fleet is aging rapidly because of the preponderance of short haul flights, and this necessitates more frequent monitoring. General aviation aircraft frequently use the same airports and share the same airspace as domestic and international airline operations. In a number of parts of the country there is significant exposure for individuals and property on the ground. These factors all add to the difficulty of the Authority's job in managing the risks of aviation safety failures.

# Part B:

Reporting progress against the Statement of Intent 2010-2013

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# 5

## Measuring progress towards outcomes

The overall outcome that the Authority works towards is **Safe and Secure Civil Aviation for New Zealand**.

Progress towards this goal for the civil aviation system is demonstrated through **Intermediate Outcomes** of:

- High level of compliance by civil aviation participants with civil aviation safety and security standards
- Reduced numbers and consequences of civil aviation accidents and incidents
- Prevention of aviation security incidents.



### 5.1 OVERALL OUTCOME: SAFE AND SECURE CIVIL AVIATION SYSTEM FOR NEW ZEALAND

#### → MEASURES

- Public perception of the safety and security of the civil aviation system
- Social cost per seat hour by safety outcome target group
- Aggregate social cost
- In-flight and airside security incidents/breaches

#### → PERFORMANCE ACHIEVEMENT IN 2010/11

Overall, New Zealand's civil aviation system has performed well during the 2010/11 year. The safety performance of airlines continues to be on a par with that of international counterparts. The overall trend on the general aviation sector also points to declining numbers of fatalities and fewer aircraft accidents per 100,000 flight hours flown.

The civil aviation system also has strong security performance. In the area that Avsec is responsible for there have been no in-flight nor airside security incidents and no security failure that compromised safety.



































The civil aviation system is complex and the Authority does not have a single performance measure to describe or assess how well it is performing. The Authority measures progress towards meeting its overall outcome using basket range of performance measures. These measures include the cost of safety failure (social cost), accident rates, and other key performance metrics.

A summary table of three key metrics is provided below. More detailed data for these and other measures are shown in Appendix 3, covering financial years 2005/06 to 2010/11.

These measures show that the civil aviation system's performance is varied across sectors. Some parts of the system have maintained good safety performance levels, at or better than target levels set for 2010. Other parts of the system have improved but are still some way from reaching the desired level of safety performance. Of concern are those parts of the system where safety performance has deteriorated and is moving away from the performance targets set for 2010.

What is clear is that the commercial parts of the aviation sector that carry most passengers have maintained a good safety performance record. There is one exception to this, which is the commercial part of the aviation sector that provides 'adventure' services, such as a parachuting and hang-gliding. This grouping has a poor performance, which is of some concern to the CAA. Specific actions are being taken to address this issue, through the introduction of a new Civil Aviation Rule Part.

Non-commercial operations have a poor performance record, and show little sign of significant improvement. The CAA's primary means of influence for this part of the aviation sector is through its outreach programmes that provide education and advice.

Key measures of Civil Aviation System Outcomes							
Measures	Rate of aircraft accidents per 100,000 flight hours		Social cost per seat hour (\$)			Aggregate social cost (\$ millions)	
	2010/11 Actual	5 year Trend line	2010/11 Target	2010/11 Actual	5 year Trend line	2010/11 Actual	5 year Trend line
<b>Aviation Safety Target Groups</b>							
<b>Public air transport</b>							
1. Airline operations - large aeroplanes	0.90		0.10	0.00		0.00	
2. Airline operations - medium aeroplanes	1.79		0.10	0.02		0.00	
3. Airline operations - small aeroplanes	5.01		6.50	2.47		0.00	
4. Airline operations - helicopters	1.68		6.50	10.28		0.33	
5. Sport aviation transport operations	Data not available		13.00	63.52		1.58	
<b>Other commercial operations</b>							
6. Other commercial operations - aeroplanes	5.17		6.50	57.80		41.16	
7. Other commercial operations - helicopters	15.11		6.50	61.06		16.76	
8. Agricultural operations - aeroplanes	16.83		14.00	53.96		0.00	
9. Agricultural operations - helicopters	7.96		14.00	7.49		1.19	
10. Agricultural operations - sport aircraft	Data not available		28.00	Data not available		Data not available	
<b>Non-commercial operations</b>							
11. Private operations - aeroplanes	12.62		10.00	53.29		0.00	
12. Private operations - helicopters	37.43		10.00	89.49		7.35	
13. Private operations - sport aircraft	Data not available		20.00	88.65		21.69	

\*Note: Refer to Appendix 3 for detailed historical data tables by aviation safety target groups for financial years 2005/06 to 2010/11.

The following commentaries discuss the range of measures used by the Authority to assess how well the civil aviation system is performing in terms of safety and security. The term "groups" refers to the 13 Aviation Safety Target Groups as detailed above.

### **Measure 1: Public Perception of the Safety and Security of the Civil Aviation System**

At the end of the 2010/11 year, the CAA and Avsec completed work to establish baseline data about how users of the civil aviation system perceive how safe and secure it is. The findings of the survey<sup>1</sup> were:

- 72% of resident travelers felt extremely or very safe and secure on their most recent domestic or international flight.
- 86% of overseas travelers feel extremely or very safe and secure on domestic or international flights departing from New Zealand.

### **Measure 2: Social cost per seat hour by safety outcome target group**

The groups that carry the majority of fare paying passengers have met or exceeded the targets set.

One group, 'Agricultural operations – aeroplanes,' has significantly improved safety performance compared to the previous year. However, of concern is the medium-term trend, which has been quite volatile and considerably worse than the target value. A number of things have contributed to this poor performance, including over-loading of aircraft.

Areas of concern include:

- Sport aviation transport operations
- Other commercial operations – aeroplanes and helicopters
- All non-commercial operations (privately operated aeroplanes, helicopters and sport aircraft)

Safety performance results for these groups were significantly worse than the targets set for 2010. While some show improvement in performance over time, the rate of improvement is not sufficient to indicate that any will meet the 2010 target levels in the short-term.

Reasons for persistent poor performance are complex. They include the impact of economic drivers, the extent of the CAA's direct regulatory influence and changes in amount of activity that takes place in the groups.

In response to the safety performance issues the measures are indicating, the CAA has targeted its activities for the 2011/12 year, with the intent of increasing the rate of improvement in these target areas.

### **Measure 3: Aggregate social cost**

Aggregate social cost reflects the actual cost of death, injury and property loss associated with aviation accidents that have occurred in each target group. The statistic is not moderated by any measure of exposure to risk. Most social cost is incurred in four of the thirteen target groups:

- Other Commercial operations – aeroplanes
- Other Commercial operations – helicopters
- Private operations – helicopters
- Private operations - sport aircraft

Social cost is a sensitive indicator of safety failure, and a single accident can represent a high social cost. Consequently, social cost helps the CAA to understand the severity of the accidents and incidents that have occurred. For example, the tragic accident at Fox Glacier in September 2010, which resulted in nine fatalities, is the principle reason why social cost for the 'Other Commercial operations - aeroplanes' target group is \$41.16 million for the 2010/11 year, compared with much lower figures for the previous two years (0.17 and 4.03 respectively). The aggregate social cost data tells us that most failure occurs in four groups, and that a single accident can dramatically affect the short- and medium-term in safety performance.

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<sup>1</sup> July 2011, Colmar Brunton, "Project Feel Safe", Research Report prepared for the Civil Aviation Authority and the Aviation Security Service

## 5.2 INTERMEDIATE OUTCOME 1: HIGH LEVEL COMPLIANCE BY CIVIL AVIATION PARTICIPANTS WITH CIVIL AVIATION SAFETY AND SECURITY STANDARDS

### → MEASURES

- Distribution of risk profiles for aviation document holders demonstrates a reduction in latent risk.
- Reduction in the number of non-compliance with civil aviation rules or expositions by operators.
- Reduction in enforcement actions/ prosecutions for non-compliance and/or breach of civil aviation rules.
- Reduction in the rate of aircraft accidents per 100,000 flying hours.

### → PERFORMANCE ACHIEVEMENT IN 2010/11

2010/11 Outcome Measures	Commentary	2010/11 Actual
<b>Distribution of risk profiles for aviation document holders demonstrates a reduction in latent risk</b>	<p>The risk profiles for most activity types show a downward trend with the average for all assessed participants falling into the Low Risk (0 - 16) category by 2010. Only two activities have not yet reached the Low Risk category (Part 125 Air Operator Medium Aeroplanes 16.1 and Part 137 Agricultural Aircraft Operator 16.2). However, both these are trending down significantly.</p> <p>Risk assessments are, for the most part, applied only to holders of 'organisational type' documents. Operations in many of the sectors with unsatisfactory social cost outcomes are not subject to risk assessment because the activities in these sectors are carried out by individual document holders.</p>	<p><input checked="" type="checkbox"/> <b>Achieved excluding 2 groups:</b></p> <p><input checked="" type="checkbox"/> <b>Part 125 Air Operator Aeroplanes, and Part 137 Agricultural Aircraft Operator.</b></p>
<b>Reduction in the number of non-compliances with civil aviation rules or expositions by operators</b>	<p>Overall, the number of non-compliances with civil aviation rules or exposition by operators has declined.</p>	<p><input checked="" type="checkbox"/> <b>Achieved</b></p>
<b>Reduction in enforcement actions/prosecutions for non-compliance and/or breach of civil aviation rules</b>	<p>Historically the Authority has carried out a very low number of prosecutions per year in comparison to the number of occurrences reported. Over the last five years the number of prosecutions as a percentage of reported occurrences has decreased. From 2002 to 2006 an average 4.5 cases per 1000 occurrences resulted in a prosecution. From 2006 to 2011 the figure dropped to 3.6 per 1000.</p>	<p><input checked="" type="checkbox"/> <b>Achieved</b></p>
<b>Reduction in the rate of aircraft accidents per 100,000 flying hours</b>	<p>The statistics associated with this performance metric need to be treated and interpreted with care. Most target groups have low numbers of accidents, but an increase in any one year can cause a spike in the medium- to long-term trend.</p> <p>The five year trend for most target groups shows consistent or improved safety performance, with some spikes because of single events.</p> <p>The critical issue to consider here is the severity of accidents. This statistic should be considered in conjunction with the aggregate social cost data, which shows that in some groups the number of accidents has increased, but their impact has been low. Whereas in other groups, the number of accidents has declined, but the impact of accidents that have occurred has been severe.</p>	<p><input checked="" type="checkbox"/> <b>Achieved excluding 3 groups:</b></p> <p><input checked="" type="checkbox"/> <b>Airline operations – small aeroplanes</b></p> <p><b>Other commercial operations – aeroplanes and</b></p> <p><b>Other commercial operations – helicopters</b></p>

### 5.3 INTERMEDIATE OUTCOME 2: REDUCED NUMBERS AND CONSEQUENCES OF CIVIL AVIATION ACCIDENTS AND INCIDENTS

#### → MEASURES

- Reduction in the number of aircraft accidents
- Reduction in the social cost of aircraft accidents per 100,000 flight hours.
- Reduction in the number of fatalities and injuries per 100,000 flight hours.
- Reduction in the social cost of fatalities and serious injuries

#### → PERFORMANCE ACHIEVEMENT IN 2010/11

2010/11 Outcome Measures	Commentary	2010/11 Actual
<b>Reduction in the number of aircraft accidents</b>	<p>Data for aircraft accidents from 2005/06 to 2010/11 show a considerable variation in the number of aircraft accidents in each safety target group. For some groups, the number of accidents is low, and the change relative to previous years is not statistically meaningful. In particular, the airline operations groupings have had very few accidents through time.</p> <p>Other groups appear to have upwards trends, particularly Private operations - sport aircraft and Sport aviation transport operations. Both groups are of increasing concern to the CAA as their safety performance is deteriorating through time.</p>	<p><input checked="" type="checkbox"/> <b>Achieved excluding 3 groups:</b></p> <p><input checked="" type="checkbox"/> <b>Private operations - sport aircraft;</b></p> <p><b>Sport aviation transport operations;</b></p> <p><b>Other commercial operations – aeroplanes.</b></p>
<b>Reduction in the social cost of aircraft accidents per 100,000 flight hours</b>	<p>The CAA considers the social cost of aircraft accidents per 100,000 flight hours, and uses a three-year rolling average. This approach is taken because the actual number of accidents is low, so a single event can distort what is happening over time. Averaging smoothes the data to better indicate whether the impact the CAA is trying to have on safety performance, is actually being achieved.</p> <p>The data shows that some safety performance groups have deteriorating safety performance, and others are continuing to perform better than or at the target levels set for 2010. Those groups of concern are:</p> <ul style="list-style-type: none"> <li>• Other commercial operations – helicopters</li> <li>• Other commercial operations - aeroplanes</li> <li>• Private operations - helicopters.</li> </ul> <p>These three groups have higher social cost than in previous years, reflecting the number and/or severity of accidents and incidents that have occurred.</p>	<p><input checked="" type="checkbox"/> <b>Achieved excluding 3 groups:</b></p> <p><input checked="" type="checkbox"/> <b>Other commercial operations – helicopters</b></p> <p><b>Other commercial operations – aeroplanes and</b></p> <p><b>Private operations - helicopters.</b></p>
<b>Reduction in the number of fatalities and injuries per 100,000 flight hours.</b>	<p>The total number of aviation fatalities in New Zealand is, statistically, a small number. That does not diminish the impact of each fatality. Likewise, the number of injuries sustained in aviation, compared to other sectors, is relatively low.</p> <p>Fatalities and injuries are one indicator of accident severity. In 2010, there were a number of multiple fatality accidents, the most tragic.</p>	<p><input checked="" type="checkbox"/> <b>Achieved excluding 2 groups:</b></p> <p><input checked="" type="checkbox"/> <b>Other commercial operations - aeroplanes and helicopters</b></p>
<b>Reduction in the social cost of fatalities and serious injuries</b>	<p>Fox Glacier, where nine people lost their lives on 4 September. Without wishing to take away from the impact of that single accident, the number of fatalities shows a gradual decline through most commercial aviation activities. Non-commercial operations however, show a relatively static performance, with slight increase in some groups.</p>	<p><input checked="" type="checkbox"/> <b>Achieved excluding 3 groups:</b></p> <p><input checked="" type="checkbox"/> <b>Other commercial operations – aeroplanes and helicopters</b></p> <p><b>Private operations - sport aircraft</b></p>



#### 5.4 INTERMEDIATE OUTCOME 3: PREVENTION OF AVIATION SECURITY INCIDENTS

##### → MEASURES

- A nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972 for aircraft which have been screened by Avsec.
- A nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where Avsec operates.
- A nil rate of incidents involving the introduction of dangerous goods into aircraft screened by Avsec.

##### → PERFORMANCE ACHIEVEMENT IN 2010/11

2010/11 Outcome Targets	Outcome Measures	2007/8 to 2009/10 Actuals	2010/11 Actual
To achieve a nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972 for aircraft which have been screened by Avsec.	<b>Number of in-flight security incidents</b>	Nil	<input checked="" type="checkbox"/> <b>Achieved. No in-flight security incidents.</b>
To achieve a nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where Avsec operates.	<b>Number of airside security incidents.</b>	Nil	<input checked="" type="checkbox"/> <b>Achieved. No airside security incidents.</b>
To achieve a nil rate of incidents involving the introduction of dangerous goods into aircraft screened by Avsec.	<b>Number of dangerous goods introduced into aircraft.</b>	Nil	<input checked="" type="checkbox"/> <b>Three dangerous goods item were introduced into aircraft.</b>

## 5.5 OVERALL SUMMARY OF PROGRESS TOWARDS OUTCOMES FOR THE CIVIL AVIATION SYSTEM

The following table provides a summary of progress towards the intermediate outcomes and the overall outcome of **Safe and Secure Civil Aviation for New Zealand**.

Outcome	Measures/Indicators	2010/2011 Achievement
Overall Outcome: <b>Safe and secure civil aviation for New Zealand</b>	Public perception of the safety and security of the civil aviation system	86% of overseas travellers and 72% of resident travellers surveyed felt extremely or very safe on their most recent flight
	Social cost per seat hour	The airline operations groups carrying the majority of fare-paying passengers have met or exceeded targets. Agricultural operations show improvement in last year. There are concerns re performance in other Commercial and Non-commercial groups.
	Aggregate social cost	Most failure occurs in 4 groups: Other commercial – aeroplanes and helicopters; and Private operations – helicopters and sport aircraft.
	In- flight and airside security incidents/breaches	There were no in-flight or airside security incidents where Avsec has security responsibilities. There were three dangerous goods items introduced into aircraft.
Intermediate Outcome One: <b>High level of compliance by civil aviation participants with civil aviation safety and security standards</b>	Distribution of risk profiles for aviation document holders demonstrates reduction in latent risk	<input checked="" type="checkbox"/> <b>Achieved for 16 out of 18 activities</b>
	Reduction in the number of non-compliances with civil aviation rules or expositions by operators	<input checked="" type="checkbox"/> <b>Achieved</b>
	Reduction in enforcement actions/prosecutions for non-compliance and/or breach of civil aviation rules	<input checked="" type="checkbox"/> <b>Achieved</b>
	Reduction in the rate of aircraft accidents per 100,000 flying hours	<input checked="" type="checkbox"/> <b>Achieved for 7 out of 10 groups *</b>
Intermediate Outcome Two: <b>Reduced numbers and consequences of civil aviation accidents and incidents</b>	Reduction in the number of aircraft accidents	<input checked="" type="checkbox"/> <b>Achieved for 6 out of 12 groups *</b>
	Reduction in the social cost of aircraft accidents per 100,000 flight hours	<input checked="" type="checkbox"/> <b>Achieved for 7 out of 10 groups *</b>
	Reduction in the number of fatalities and serious injuries per 100,000 flight hours	<input checked="" type="checkbox"/> <b>Achieved for 8 out of 10 groups *</b>
	Reduction in the social cost of fatalities and serious injuries	<input checked="" type="checkbox"/> <b>Achieved for 9 out of 12 groups *</b>
Intermediate Outcome Three: <b>Prevention of aviation security incidents</b>	Nil in-flight security incidents, (involving offences against the <i>Aviation Crimes Act 1972</i> for aircraft screened by Avsec)	<input checked="" type="checkbox"/> <b>Achieved</b>
	Nil airside security incidents (involving offences against the <i>Aviation Crimes Act 1972</i> at security designated aerodromes where Avsec operates)	<input checked="" type="checkbox"/> <b>Achieved</b>
	No dangerous good introduced into aircraft (that are screened by Avsec)	<input checked="" type="checkbox"/> Three dangerous goods items were introduced into aircraft.

\* Refers to the number of Aviation Safety Target Groups where there is a downward (positive) trend out of the total of groups for which performance data are available for the measure.

## 5.6 OUR NEXT STEPS

To achieve further improvement in safety and security outcome performance, the Authority's strategic priorities for 2011 to 2014 are, as reflected in pages 24 and 25 of the Authority's Statement of Intent 2011-2014:

### 1. Improving Safety Oversight

- Deployment of the Safety Management Systems approach
- Development of Sector Risk Profiles
- Maintaining strong performance in the Airlines sector

### 2. Targeting Poor Performance Areas

- agricultural aviation, adventure aviation, sport and recreation aviation, and flight training

### 3. Managing Security Risk and Major Events

### 4. Improving Efficiency in Regulatory Processes

- Rectifying the deficiencies in certification and surveillance identified by the OAG
- Rules development

### 5. Improving Efficiency in Security Services

- Ongoing drive for efficient utilisation of aviation security resources
- Implementation and refinement of Avsec's rostering system
- Planning for replacement of Hold Baggage Screening (HBS) equipment

### 6. Sustainable Funding

### 7. Recognising Stakeholder Expectations

- Strengthening sector relationships
- Understanding user perceptions of air safety and security

Additionally, the Authority has initiated an **Organisational Change Programme**. This is a critical initiative in its own right as well as supporting achievement of other strategic priorities.

## 6

## Progress report on operating intentions and strategic priorities

### INTRODUCTION

This section reports on progress over the last year with programmes of work to address the strategic priorities for operational areas identified in the 2010/13 Statement of Intent:

- CAA: Effective Entry Control and Monitoring
- CAA: Effective Analysis and Intervention
- CAA: International Alignment and Effective Engagement
- CAA: Responsive to Aviation Sector Changes
- Avsec: Enhanced Customer-Focused Security

*(Note progress against the strategic priorities for improving organisational effectiveness is reported in Section 8.)*

Within these longer term operating intentions, there have been a number of key projects during the 2010/11 year aimed at reviewing and building capabilities for the future (Refer Section 7). The following table provides a summary of achievements against the Strategic Priorities detailed below and against the Key Projects covered in Section 7.

Strategic priorities		Summary of achievement of work programmes for 2010/11
CAA	6.1 Effective Entry Control and Monitoring	Certification Project completed. Surveillance Improvement Project milestones achieved, with final completion date moved from September 2011 to March 2012 to integrate with Phase 2 Organisational Design Review. Draft Regulatory Tools Policy completed.
CAA	6.2 Effective Analysis and Intervention	Most elements completed . Some ongoing work in 2010/11, linked to change programme.
CAA	6.3 International Alignment and Effective Engagement	All specific initiatives towards outcomes completed as planned. Ongoing work to negotiate international agreements.
CAA	6.4 Responsive to Aviation Sector Changes	A range of specific initiatives completed. Ongoing work on environmental issues and building skills to respond to technological developments. Continuing work with MoT on improving rule development process.
Avsec	6.5 Enhanced Customer-Focused Security	Actions completed as planned or part of ongoing operations.
<b>Key projects</b>		
CAA & Avsec	7.1 Organisational Change Programme	Initiated in May 2011. Progress on track against milestones.
CAA	7.2 Implementation of OAG Recommendations on Certification and Surveillance functions	2 of the 13 OAG recommendations for the CAA to action have been fully completed. Steady progress with the programme of corrective actions.
CAA	7.3 Funding Review	Consultation process completed, but review not finalised by end of 2010/11. Revised timeframe agreed with government to complete the review by the end of 2011/12 to incorporate VfM findings and finalise the comprehensive funding case.
CAA	7.4 Value for Money Review (VfM)	Completed. Recommendations being addressed within change programme and Funding Review.
CAA	7.5 Implementation of Safety Management Systems (SMS)	Preliminary work undertaken. Will be formed as formal project in 2011/12 and activities will intensify over next two years.
Avsec	7.6 Implementation of Recommended Actions from the Operational Efficiency Review	All actions to address recommendations of review have been completed. Costing of related efficiency savings due by September 2011.
Avsec	7.7 Value for Money Review and Passenger Security Charges Review	Value for Money Review delayed to enable revised forecasts and improved performance measures. The resulting Passenger Security Charges Review revised charges downwards for two years to eliminate an accumulated surplus.
Avsec	7.8 Collective Employment Agreement (CEA) Renegotiation	Bargaining completed by year end and new CEA subsequently ratified.

## 6.1 STRATEGIC PRIORITY: EFFECTIVE ENTRY CONTROL AND MONITORING

For the CAA this means:

- a surveillance (monitoring) methodology that produces clear safety benefits or outcomes;
- robust knowledge and intelligence about participants' risks;
- active observation and engagement with the aviation community in identifying non-compliance and risks;
- interventions linked specifically with assessed risk; and
- transparency and integrity in applying surveillance methodology.

### → PERFORMANCE ACHIEVEMENT 2010/11

Operating Intentions to achieve <i>Effective entry control and monitoring</i>	Work Programme for 2010/11	
	Key Achievements	Status at End Year
1. Improve effectiveness of surveillance system		
a) <i>Fix surveillance systems tools, method and business processes</i>	Surveillance Improvement Project milestones achieved: <ul style="list-style-type: none"> <li>• Review of existing processes completed</li> <li>• Draft surveillance policy completed</li> <li>• Diploma training developed and approved</li> <li>• Initial IT scoping work underway</li> </ul>	The process of monitoring surveillance output quality has improved output quality but no means of measuring the effectiveness of surveillance outputs was available by year end. <sup>2</sup>  Further actions from the Surveillance Project are being integrated with Phase 2 of the Organisation Design. The target completion date is now 31 March 2012 and the project is on schedule for completion then.
b) <i>Strengthen the link between the level of surveillance and the level of risk.</i>		
c) <i>Improve the capability of CAA staff in applying the surveillance and risk assessment system.</i>		
2. Improve management and implementation of (industry) corrective actions.	Being undertaken through internal review processes of operational groups. Technical issues are being addressed in conjunction with the Surveillance Improvement Project.	Target completion of technical changes by 31 March 2012, in conjunction with other Surveillance Project actions.
3. Strengthen entry controls	Certification Project activities completed in accordance with milestones and overall project objectives. This included: <ul style="list-style-type: none"> <li>• training staff on performance requirements</li> <li>• introducing an authorisation scheme so that only trained and competent staff can perform certification roles</li> <li>• strengthening business processes and documentation requirements</li> </ul>	The completion of the Certification Project has strengthened entry controls and improved the quality and integrity of internal processes.  Actions from the post implementation review of the project are underway and regular training is being conducted to maintain standards.

<sup>2</sup> The development of a method for measuring the effectiveness of interventions has subsequently been completed. It is planned that it will be applied to a range of interventions, including surveillance, during the 2011/12 year.

Operating Intentions to achieve <i>Effective entry control and monitoring</i>	Work Programme for 2010/11	
	Key Achievements	Status at End Year
4. Scope and document parameters of regulatory tools available to the CAA	Draft Regulatory Tools Policy developed and finalised for approval by the Director of Civil Aviation. The policy covers the scope and of regulatory tools available to the CAA and provides guidance on their application.	Draft developed on time. Minor delay in approval of final policy. <sup>3</sup>
Note: Those operating intentions in italics are action plans related to the implementation of the Safety Management Systems.		

## 6.2 STRATEGIC PRIORITY: EFFECTIVE ANALYSIS AND INTERVENTION

For the CAA this means:

- good understanding of intervention process drivers;
- clear understanding of intended interventions;
- the aviation community behaves positively and is measurably influenced;
- calibrated use of regulatory tools in interventions; and
- use of demonstrably effective regulatory tools/intervention tools to effect behavioural change.

### → PERFORMANCE ACHIEVEMENT 2010/11

Operating intentions to achieve <i>Effective analysis and intervention</i>	Work Programme for 2010/11	
	Key Achievements	Status at Year End
1. Develop measures of the macro-level effectiveness of intervention tools.		
a) <i>Define aviation community safety and security behaviours, interconnection, and cause and effect.</i>	The Regulatory Tools Policy covered in 6.1.4 above has addressed this in part and provided guidance for staff.	Partial achievement. Further definition of relationships and behaviours will be undertaken in 2011/12 through the work to refresh the CAA's Regulatory Operating Model, which is one of the streams of work within the Change Programme.
b) <i>Evaluate various models of deploying regulatory interventions. (The objective is to ascertain the effectiveness of the current practice &amp; have future practice that is reflective of the nature and changes in the civil aviation system.)</i>	The methodology has been developed. Proving of the method has been undertaken and will be ready for piloting by 31 August 2011.	First phase of work completed. Ongoing application of methodology.
2. Align and build capacity and capability to gather, analyse, interpret, and disseminate safety and security information in a timely manner to manage safety and security risks and interventions effectively.	This work-stream is being integrated with Phase 2 of the Organisation Design Review	Completion is due December 2011 as part of ODR Phase 2

<sup>3</sup> The Regulatory Tools Policy was approved in August 2011.

Operating intentions to achieve <i>Effective analysis and intervention</i>	Work Programme for 2010/11	
	Key Achievements	Status at Year End
3. Review and improve performance measures at outcome level.		
a) <i>Review existing performance measures. The objective is to provide better guidance for CAA management, and identify measures that are relevant to the flying public and other civil aviation stakeholders.</i>	A review of the safety performance measurement framework was completed in 2009/10, with new measures established then. Further refinement of the framework has been undertaken, along with the development of the Statement of Intent for 2011/2014. Targets for safety performance are being extended beyond the 2010 calendar year, with a detailed review during 2011/12.	Completed.
b) <i>Develop better measures of safety and security performance, review safety targets, and redefine as necessary.</i>		Ongoing; estimated completion in 2011/12
Note: Operating intentions in italics are action plans related to the implementation of the Safety Management Systems.		

### 6.3 STRATEGIC PRIORITY: INTERNATIONAL ALIGNMENT AND EFFECTIVE ENGAGEMENT

For the CAA these obligations mean that:

- the government has confidence in the Civil Aviation Authority as delegated authority in respect of the ICAO, the Convention on International Civil Aviation, and other international civil aviation obligations assigned to it by the Crown; and
- New Zealand's civil aviation safety and security rules and standards are aligned with international standards and practice.

#### → PERFORMANCE ACHIEVEMENT 2010/11

Operating intentions to achieve <i>International alignment and effective engagement</i>	Work Programme for 2010/11	
	Key Achievements	Status at Year End
1. Build capacity and capability to maintain appropriate alignment with ICAO Standards.	The Standards and Recommended Practices (SARPs) issued by ICAO, that became applicable on 18 November 2010, have been reviewed. Where NZ civil aviation rules are not consistent, the CAA has lodged a difference with ICAO. Where difference have been filed these have been identified for potential rulemaking or alternate means of compliance.	Preliminary capacity and capability established.  Completed SARPS review utilising ICAO's online differences system, on a pilot basis. This provides a permanent and dynamic record of New Zealand's compliance with ICAO standards and enhances the CAA's efficiency.  Work was undertaken to improve implementation of ICAO standards through rules and other means.
2. Address differences to ICAO Standards.	The CAA has completed a comprehensive review of New Zealand's differences with ICAO SARPs.	Completed first review of NZ compliance with ICAO standards. All differences have been analysed and addressed, or identified as requiring rule making.

Operating intentions to achieve <i>International alignment and effective engagement</i>	Work Programme for 2010/11	
	Key Achievements	Status at Year End
3. Establish, publish, and follow priority areas for the engagement with appropriate ICAO and related decision-making forums and study groups in the development of New Zealand standards and implementation of ICAO requirements.	The organisation is now regularly engaged in major technical forums of ICAO: the Air Navigation Commission, the Aviation Security Panel and the Committee for Aviation Environmental Protection. Representatives of the CAA attended these forums CAA staff are also actively involved in technical working groups on air navigation issues.	Priority areas of engagement established and continuing participation in appropriate forums.
4. Develop multi-lateral technical or policy arrangements with other countries.	Work is underway with FAA on the extension of the FAA-CAA airworthiness arrangement. Progress with other arrangements has been delayed due to the cessation of air services negotiations between New Zealand and the EU; as well as ongoing discussions in the US Congress about proposed conditions for overseas maintenance of US-registered aircraft.	Ongoing negotiations.



## 6.4 STRATEGIC PRIORITY: RESPONSIVE TO AVIATION SECTOR CHANGES

For the CAA this means responding well to technical developments in aviation, through recognizing, enabling and authorizing changes needed and, in doing this, ensuring that:

- technological risk is assessed and understood;
- the economic impact of the CAA's change management is understood;
- the CAA is flexible and open in the application of technology within the sector; and
- the organisation is nimble, agile and timely in approach.

### → PERFORMANCE ACHIEVEMENT 2010/11

Operating intentions to achieve	Work Programme for 2010/11	
	Key Achievements	Status at Year End
1. Review alternative methods for the development and delivery of rules.	<p>The CAA has analysed synergies between alignment with ICAO standards and NZ rule-making.</p> <p>Work to speed up the CAA's internal rule-making processes has been superseded by the MoT's Transport Rule Redesign Project, The CAA has been actively participating in this transport portfolio reform.</p>	Ongoing; estimated completion in 2011/12
2. Support initiatives to increase sustainability and reduce environmental impacts of aviation.	<p>The CAA has engaged in the international environmental debate at a technical level.</p> <p>A GNSS safety case has been concluded to support air navigation policy work. This will enable the CAA to authorise more aircraft to use global navigation satellite systems, thereby flying more direct routes and causing lower emissions.</p> <p>The CAA is working with the MoT on a national Airspace Policy statement.</p>	The CAA is actively engaged in environmental sustainability debates and issues at national and international levels. Development work is underway on specific initiatives.
3. Align and build skills, capacity, and capability reflecting the future civil aviation environment.	Resourcing is currently insufficient. The CAA has been undertaking work through the Value for Money (VfM) Review and the Funding Review to determine its needs.	Implementation of resourcing changes and skills development will occur through the Authority's Change Programme over 2011/12.

Operating intentions to achieve <b>Responsive to aviation sector changes</b>	Work Programme for 2010/11	
	Key Achievements	Status at Year End
4. Develop and monitor stakeholder relationship initiatives that reflect the stakeholders' roles in civil aviation.	<p>Seminars, workshops and publications for the 2010/11 year have been developed to enable effective engagement with sub-sectors of the civil aviation system. A stakeholder engagement protocol has been developed to guide all engagement undertaken by the CAA, including specific initiatives like the Funding Review.</p> <p>Both arms of the CAA have negotiated and concluded relationship protocols with the MoT.</p> <p>At the end of the 2010/11 year, the CAA and Avsec completed work to establish baseline data about how users of the civil aviation system perceive how safe and secure it is.</p>	A range of specific initiatives have been completed over 2010/11. There will be ongoing focus on enhancing stakeholder relationships.
Note: Operating intentions shown in italics are initiatives related to the implementation of Safety Management Systems.		

## 6.5 STRATEGIC PRIORITY: ENHANCED CUSTOMER-FOCUSED SECURITY

For Avsec this means having the people, processes, equipment and expertise to ensure that its approach to business and security screening programmes is of a very high standard. It also means ensuring Avsec remains customer focused, and that its intervention is perceived as effective and valuable to the travelling public and other stakeholders.

### → PERFORMANCE ACHIEVEMENT 2010/11

Operating intentions to achieve <b>Enhanced customer-focused security</b>	Work Programme for 2010/11	
	Key Achievements	Status at End Year
1. Ensure security technology development meets aviation security needs and regulatory requirements through ongoing research and awareness of emerging technology.	Replacement equipment needs to comply with standards set by the Transport Safety Authority, UK Department of Transport or European Civil Aviation Conference. A specialist consultant has been appointed to assist Avsec with the tendering and selection process for the significant replacement of the current Hold Baggage Screening (HBS) x-ray equipment and Cabin Screening equipment, due for replacement during 2013/14.	Ongoing
2. Enhance the effectiveness and efficiency of the quality of aviation security services, ensuring contingency plans are current and staff are deployed to operational activities through an improved rostering process.	Contingency plans were reviewed and updated. An electronic rostering system was procured and implementation roll-out commenced March 2011.	Contingency plan review completed and subject to ongoing review. Rostering rollout scheduled for completion 31 October 2011.

Operating intentions to achieve Enhanced customer-focused security	Work Programme for 2010/11	
	Key Achievements	Status at End Year
3. Enhance Avsec's preparedness to respond to major security events.	Exercise Resolution 2011 was cancelled due to Christchurch Earthquake, and will be replaced by a number of smaller exercises.  Significant planning for Rugby World Cup (RWC) has been undertaken in conjunction with other government agencies and stakeholders. Avsec continues to brief airports on ongoing RWC status as part of normal airport security meetings.	Ongoing.
4. Integrate Avsec's intelligence system into the operations business unit and further development of appropriate intelligence products and communication processes.	Intelligence unit is adequately resourced. Intelligence products are established and circulated to internal and external personnel and agencies as appropriate.	Ongoing.
5. Complete development of Auckland Operations Base and National Office and ensuring all of Avsec's building and facility needs are appropriate and optimal for operations requirements.	New Auckland Base fully operational 23 August 2010. New National Office operational 11 October 2010.	Completed. Ongoing review of Avsec's regional operational needs as required.
6. Ensure aviation security capability is maintained to respond to a maritime incident.	Contingency plans reviewed and updated. Appropriate staff trained and ongoing refresher training completed November 2010. Table-top exercises deferred due to the Christchurch earthquake.	Contingency plans subject to ongoing review. Table-top exercises rescheduled for 2012.
7. Ensure Avsec's Explosive Detector Dog Unit (EDDU) keeps pace with changing international trends in training requirements and explosive manufacture.	Ongoing work with NZ Police and Customs on enhancing training processes. Continuous monitoring of international trends through relationships with other countries. Key staff undertake internationally recognised training courses.	Ongoing
8. Sponsor South Pacific project activity that contributes to New Zealand's aviation security objectives and assists South Pacific aviation security development.	Ongoing liaison and country visits. Funding being sought for training courses.	Ongoing
9. Contribute to New Zealand's national approach to counter-terrorism capability.	Avsec participated in Exercise Guardian during 2010 and will continue to participate in smaller operational exercises on an ongoing basis.	Ongoing
10. Enhance operational efficiencies by implementing the recommendations identified in the Avsec Efficiency Review including the development of appropriate efficiency performance measures that can be benchmarked internationally.	Recommendations around training integration, efficiency measurement, evaluation criteria, behavioural analysis, business tools (data analysis), and screening point design have all been implemented.	Completed
11. Work resulting from Cabinet decisions on the Passenger Security Charges Review, early 2011.	A consultation process for a further reduction in the international and domestic passenger security charges took place in early 2011. The joint Value for Money Review of Avsec indicated that a projected accumulated surplus from passenger security charges would not be eroded by 2012/13 as anticipated, owing to overestimated budgets. The Government lowered the charges for a two-year period, taking effect from 1 July 2011, to ensure the accumulated surplus was eliminated in the desired period.	Completed with effect from 1 July 2011.

# 7 Progress report on key projects

The Authority undertook a number of key projects during the 2010/11 year, aimed at reviewing and building capabilities for the future.

	1. Organisational Change Programme
<b>CAA</b>	2. Implementation of OAG Recommendations on Certification and Surveillance functions 3. Funding Review 4. Value for Money Review (VfM) 5. Implementation of Safety Management Systems (SMS)
<b>Avsec</b>	6. Implementation of Recommended Actions from the Internal Operational Efficiency Review 7. Value for Money Review and Passenger Security Charges Review 8. Collective Employment Agreement (CEA) Renegotiation

## 7.1 ORGANISATIONAL CHANGE PROGRAMME

<b>Description / Background</b>	<p>The CAA's 2010/11 Value for Money Review identified that a "step change" in performance is required to ensure that the CAA's regulatory oversight remains efficient and effective, and does not fall behind best practice. The VfM concluded that "the level of change that is required is unlikely to be achieved without investment in capability" and proposed a number of areas for attention. These build on earlier recommendations from OAG regarding the organisational effectiveness of the CAA.</p> <p>The Avsec Efficiency Review in October 2009 also pointed to a range of areas for improved efficiency and the better utilisation of staff in relation to fluctuations in passenger flows.</p>
<b>Objectives / Benefits</b>	<p>On 25 May 2011 the Board determined that a comprehensive change programme is needed to lift organisational performance to the level required for effective regulatory oversight and security services in the future, and to deliver this in a way that provides good value for money. Achievement of the Authority's strategic priorities is dependent on this.</p> <p>Key outcomes sought are:</p> <ul style="list-style-type: none"> <li>• Change in culture and leadership style to provide a more flexible, responsive and outcome-focused organisation</li> <li>• "Fit for purpose" organisation operating as a single entity, with shared support functions and performing two sets of legislative responsibilities</li> <li>• Clear focus and strategy for improved efficiency and effectiveness, to achieve best practice operation as an aviation safety regulator and a security service provider</li> <li>• Enhanced confidence of key stakeholders</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>• Distraction from BAU during a period of change.</li> <li>• Inability to deliver intended benefits of change.</li> <li>• Lack of available internal resource to implement change programme and maintain BAU or other improvement work.</li> </ul>
<b>What has been achieved in 2010/11</b>	<ul style="list-style-type: none"> <li>• Initial planning</li> <li>• Proposal developed and published, on the provision of support services to Avsec and the CAA via a shared services model.</li> <li>• Workplace Survey conducted.</li> </ul>
<b>Status as at 30 June 2011</b>	<p>The first milestone of publication of the consultation document for Phase 1 Design Review proposed changes was achieved on time, 20 June 2011. Other milestone achievements for this multi-year programme were due after the 2010/11 financial year.</p>

## 7.2 CAA: IMPLEMENTATION OF RECOMMENDATIONS BY THE OFFICE OF THE AUDITOR GENERAL ON CERTIFICATION AND SURVEILLANCE FUNCTIONS<sup>4</sup>

<b>Description / Background</b>	<p>The Office of the Auditor General (OAG) released its report <i>CAA's progress with improving certification and surveillance</i> on 29 June 2010. This was the OAG's fourth such report and followed up on the CAA's progress with the OAG's 2005 recommendations on certification and surveillance. The 2010 report found that, of the ten recommendations made in 2005, only one was fully addressed; eight were partially addressed; and one had not been addressed. The 2010 report went on to identify contributing factors and made 14 recommendations on improvements to strengthen the CAA's certification and surveillance functions, 13 of which were for the CAA to action.</p> <p>To embed the behavioural change that supports these regulatory improvements, the Authority has directed that implementation of the OAG recommendations will take place within the context of the organisational change programme, which is aimed at achieving improved management, policy, performance and culture across the organization.</p>
<b>Objectives / Benefits</b>	<ul style="list-style-type: none"> <li>• Public visibility that CAA is making the desired performance improvements.</li> <li>• Increased public confidence in the safety of air transport and in the work of the CAA.</li> <li>• Improved stakeholder confidence in the CAA as regulator of the New Zealand civil aviation safety system.</li> <li>• Improved efficiency and effectiveness of regulatory functions</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>• Lack of alignment between OAG recommendations and modern regulatory approach being implemented as part of change programme.</li> <li>• Distraction from BAU during a period of change.</li> <li>• Inability to deliver intended benefits of change.</li> <li>• Lack of available internal resource to implement corrective actions and maintain BAU or other improvement work.</li> </ul>
<b>What has been achieved in 2010/11</b>	<p>For the 13 OAG recommendations raised for CAA action, the CAA developed 31 actions<sup>5</sup> comprising its Corrective Action Plan. At year-end 22 actions were completed and 9 are progressing to be completed in the next financial year. Quarterly status reports were provided to the Minister of Transport detailing progress over the year and can be found at <a href="http://www.caa.govt.nz">www.caa.govt.nz</a></p> <p>Internal quality assurance measurements of core certification and surveillance functions have significantly improved compared to baseline measurements made six months ago. Satisfactory result for certification is at 92% (6 months ago: 59%), and for surveillance 93% (6 months ago: 48%).</p> <p>CAA is currently working on completing the remaining 9 actions, which it has determined will be more effectively addressed in conjunction with the change programme.</p>
<b>Status as at 30 June 2011</b>	<p>2 of the 13 OAG recommendations for the CAA to action have been fully completed.</p> <p>22 actions were complete. In many cases, a transfer to business-as-usual has occurred, with subsequent assurance provided via reporting to the Audit, Finance and Risk Committee of the Board, or other mechanism.</p> <p>9 outstanding corrective actions are to be completed in 2011/12, in conjunction with the change programme..</p>

<sup>4</sup> Refer to <http://www.oag.govt.nz/2010/caa> for the full report.

### 7.3 CAA: FUNDING REVIEW

<b>Description / Background</b>	<p>The options available to the CAA to fund its operations in a sustainable way are a combination (in varying degrees) of Crown funding, taxation, certification charges, levy charges, and fees and charges for services.</p> <p>Many fees, levies, and charges for CAA services have remained substantially unchanged since they were set in the mid-1990s. As a consequence, the levels of fees and charges have fallen well below the actual level of costs incurred in undertaking the CAA's regulatory functions; and below the level the CAA considers necessary to build and maintain an appropriate level of organisational capability and capacity.</p> <p>The Authority has initiated a CAA Funding Review to examine the CAA's financial base, in the light of changing demands. Elements of this programme are to consider a range of informed financial models, assess the range of services provided and their overall effectiveness, and consult with stakeholders. The aim is to achieve a new funding model and business model that are broad-based, simple, transparent, and equitable; and that keep administration and transaction costs to a measurable minimum, consistent with the government's core cost recovery objectives.</p>
<b>Objectives / Benefits</b>	<p>A new funding regime and business model for the CAA that is sustainable and meets objectives of:</p> <ul style="list-style-type: none"> <li>• being clear about the parameters of Crown funding, fees and charges, and levies;</li> <li>• enabling the CAA to adequately perform the functions prescribed under the Civil Aviation Act 1990, and any other statute that may set out required functions, including meeting New Zealand obligations under international agreements, assigned to the CAA;</li> <li>• rewarding/promoting better safety and security behaviour by the aviation community;</li> <li>• supporting a sector oversight model which is sustainable, allows for regular review and is not subject to random changes or frequent adjustments to the level of fees, levies or charges; and</li> <li>• having an accurate aggregate overview of total costs and the revenue streams that the organisation needs to cover those costs. (There should not be an imbalance between costs and revenue over the medium to long term).</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>• Delay to timeline to incorporate findings of the VfM review, impacting ability to finalise internal project investment required for capability development.</li> <li>• Financial modelling in the consultation document is becoming increasingly historic as time delays persist.</li> <li>• Stakeholder reaction to delays and risk of resistance to any proposal developed that does not adhere to their views.</li> <li>• Development of final funding proposal that incorporates change requirements may require additional analysis and may differ in part from what was consulted on.</li> </ul>
<b>What has been achieved in 2010/11</b>	<p>The Authority released its Funding Review consultation paper on CAA charges on 12 October 2010. After an industry consultation period the CAA completed its review of these submissions and published a summary on its website on 24 December 2010.</p> <p>It had been planned to complete the Funding Review by the end of 2010/11 with implementation from 1 July 2011. The Authority proposed a revised timeframe to the Minister to allow time for the supporting business case analysis and incorporation of input from the VfM Review.</p> <p>A revised implementation timeframe of no later than 1 July 2012 has been accepted.</p>
<b>Status as at 30 June 2011</b>	<p>The final submission was deferred due to completion of the Authority's initial organisational redesign. Further development of financial modelling and the final funding proposal is continuing.</p>

## 7.4 CAA: VALUE-FOR-MONEY (VFM) REVIEW

<b>Description / Background</b>	<p>This project was established to obtain independent and expert advice to inform the CAA's Funding Review and its programme to improve organisational performance. The purpose of the review is to determine whether the activities and functions carried out by the CAA provide value for money for the Government, participants and users of the civil aviation system. Questions that were addressed include the following:</p> <ul style="list-style-type: none"> <li>• What must the CAA do?</li> <li>• What benefits are provided by the CAA's activities?</li> <li>• Who benefits from what the CAA does?</li> <li>• How does the CAA currently deliver its functions and services and what is the cost of doing so?</li> <li>• What can the CAA do more efficiently and effectively and how can this be achieved?</li> <li>• What is the CAA doing well?</li> <li>• What can the CAA stop doing?</li> </ul>
<b>Objectives / Benefits</b>	<p>The review is required to:</p> <ul style="list-style-type: none"> <li>• demonstrate a clear understanding of the costs involved in the performance of the CAA's activities and functions;</li> <li>• determine the economic and social value that the services performed by the CAA deliver to industry participants, the aviation sector and the NZ economy;</li> <li>• assess how the delivery of the CAA's activities can be undertaken in a sustainable and more efficient and effective manner; and</li> <li>• compare the CAA's performance by benchmarking against comparable NZ regulatory agencies and overseas civil aviation regulatory authorities.</li> </ul>
<b>What has been achieved in 2010/11</b>	<p>The VfM Review was completed in April 2011 and accepted by the Authority. The Authority decided to initiate an overarching change programme to integrate existing improvement efforts within the organisation with actions to implement the recommendations made in the VfM report.</p>
<b>Status as at 30 June 2011</b>	<p><input checked="" type="checkbox"/> Completed. Recommendations are being addressed within the Authority's Change Programme.</p>

## 7.5 CAA: IMPLEMENTATION OF SAFETY MANAGEMENT SYSTEMS (SMS)

<p><b>Description/ Background</b></p>	<p>ICAO has mandated that contracting states systematically move towards implementing the Safety Management Systems (SMS) approach as a means of enhancing safety in the civil aviation system. SMS embodies a risk-based approach to managing safety. In essence, SMS places the onus on the participant to identify risks, and puts in place actions to mitigate those risks. The Government has the same responsibility. This means the CAA will need to develop new ways of identifying risks in the New Zealand civil aviation system, and actively put actions in place to mitigate them.</p> <p>The CAA's work on the implementation of SMS is currently in a preliminary phase with work being undertaken by several units. A formal implementation project is yet to be established for SMS and this entry is better described as a work stream at present.</p> <p>The current work being undertaken relates to:</p> <ul style="list-style-type: none"> <li>• Development of the draft SMS rules</li> <li>• Development of the associated Advisory Circular (AC)</li> <li>• Training of CAA staff on the implications of the move to the SMS approach to regulation</li> </ul> <p>The implementation of SMS also underpins many of the Strategic Priorities identified in Section 4 above. The CAA's work on the Funding Review and the Change Programme will address many of the capability issues for SMS implementation.</p>
<p><b>Objectives / Benefits</b></p>	<p>The eventual outcome of this work stream is the implementation of the ICAO SMS concept within New Zealand, and the associated State Safety Programme within the CAA.</p> <p>This will involve the CAA moving to become a risk-focussed, outcome-oriented regulator.</p> <p>The benefit of this change will be a regulatory system that focuses resources on mitigating sources of aviation safety risk, based upon a system-wide risk assessment identified through safety information and intelligence.</p> <p>For industry, the SMS approach will deliver more cost effective safety outcomes that can be tailored to the specifics of the particular operator.</p>
<p><b>Risks</b></p>	<p>Key risks identified are:</p> <ul style="list-style-type: none"> <li>• Extent of change for the CAA as the regulator is underestimated</li> <li>• Insufficient resources allocated to invest in the organisation and support change across it</li> <li>• Insufficient time and resources allocated to support change in aviation sector</li> <li>• Inadequate safety information to enable proper risk identification</li> <li>• CAA staff not educated and trained on SMS and risk identification concepts</li> </ul>
<p><b>What has been achieved in 2010/11</b></p>	<p>The draft NPRM for the first SMS Rule was delivered to the Ministry of Transport in October 2010, but its finalisation and publication for industry consultation will be delayed until late 2011 because of lack of CAA capacity and agreement with government to prioritise the development of other rules. This will allow sufficient time for preparatory work to be completed.</p> <p>Work is continuing on the associated guidance material in an advisory circular that is planned to be published in conjunction with the draft NPRM.</p> <p>The CAA continues to conduct training courses for key staff on SMS as part of its internal preparations for the transition to this approach.</p>
<p><b>Status as at 30 June 2011</b></p>	<p>Ongoing. It is anticipated that activities to work on this will intensify in the next two years.</p>



## 7.6 AVSEC: COMPLETION OF IMPLEMENTATION OF RECOMMENDED ACTIONS FROM THE INTERNAL OPERATIONAL EFFICIENCY REVIEW

<b>Description / Background</b>	<p>In 2007 Cabinet approved an increase in the Passenger Security Charges, effective 13 December 2007. As part of the process the Authority gave Cabinet (and industry) an undertaking to review Avsec's staffing levels against the duties and functions it is required to undertake.</p> <p>The key objectives and outcome of the review were:</p> <ul style="list-style-type: none"> <li>• validating staffing levels at each metro station;</li> <li>• identifying operational efficiencies and staff deployments;</li> <li>• recommending changes to operational activities and deployments as a result of identified issues;</li> <li>• providing objective evidence of any conclusions reached for external scrutiny.</li> </ul> <p>In June 2008 the General Manger widened the Terms of Reference for the review. Avsec was committed to provide the results of the Review to the Minister by 31 October 2009.</p>
<b>Objectives / Benefits</b>	<p>The desired outcome of the Review was to improve aviation security through:</p> <ul style="list-style-type: none"> <li>• a better-trained, more engaged and productive Avsec workforce;</li> <li>• development of enhanced performance measures;</li> <li>• utilisation of robust capability measurement that will provide a benchmark against which future screening point evaluations can be compared;</li> <li>• development of a new rostering tool that will ensure a better deployment of staff;</li> <li>• by enhancing Avsec's current staff training in behavioural analysis ;</li> <li>• greater efficiency with the provision of business tools for reviewing staffing and operational efficiency matters; and</li> <li>• implementing the most appropriate and efficient screening point design.</li> </ul>
<b>What has been achieved in 2010/11</b>	<p>The seventeen recommendations of the 2009 Operational Efficiency Review and additional recommendations from a peer review were captured within seven project groups; and implemented over the remainder of the 2009/10 and 2010/11 years. There were also a number of recommendations dealt with as 'business as usual'.</p> <p>Measurement of the efficiencies achieved at screening point locations as a result of these initiatives will be reported from 2011/12.</p>
<b>Status as at 30 June 2011</b>	<input checked="" type="checkbox"/> Completed.

## 7.7 AVSEC: VALUE FOR MONEY REVIEW AND PASSENGER SECURITY CHARGES REVIEW

<b>Description / Background</b>	In addition to the internal Operational Efficiency Review, a joint Value for Money Review by the Ministry of Transport and Avsec was completed in March 2011. As a result, Avsec and the Ministry then undertook a further review of passenger security charges.
<b>Objectives / Benefits</b>	The Value for Money Review focused on reviewing Avsec's cost structures, enhancing its forecasting and reporting capacities, and developing better performance measures and monitoring arrangements. The Passenger Security Charges Review focused on reducing the charges to eliminate a further projected accumulated surplus.
<b>What has been achieved in 2010/11</b>	<p>The Value for Money Review arose from the 2010 review of passenger security charges, which reduced these charges to eliminate a forecast accumulated surplus by 2012/13. The Value for Money Review found that this elimination would not occur as Avsec's forecast overestimated staffing requirements and costs, and did not take account of likely efficiency gains identified in its internal operational efficiency review. As a result, the Board reduced Avsec's budgeted costs by \$21 million over the 2010-13 period and developed an improved set of performance measures and more transparent monitoring arrangement.</p> <p>The Minister then asked that passenger security charges be revised downwards to fully eliminate the revised forecast accumulated surplus. Avsec consulted with industry and the government reduced these charges by the requested date of 1 July 2011. The reduced charges are for a period of two years and are expected to eliminate the forecast surplus by 2012/13.</p> <p>Since the Value for Money Review, Avsec has been reporting to the Board and the Minister against the recommendations of the Review including the new performance measures. The Board has set in place closer monitoring of Avsec's financial management processes.</p>
<b>Status as at 30 June 2011</b>	<input checked="" type="checkbox"/> Completed.

## 7.8 AVSEC: COLLECTIVE EMPLOYMENT AGREEMENT (CEA) RENEGOTIATION

<b>Description / Background</b>	<p>Avsec's three year Collective Employment Agreement (CEA) expired on 30 June 2011. The CEA covers 91% of Avsec's workforce with union membership covered by three unions (PSA, NUPE and EPMU). The current collective was negotiated prior to the economic downturn and employees have received fair remuneration increases over the last three years.</p> <p>Renegotiation of the collective is a significant activity for Avsec as approximately 77% of Avsec's total costs are related to remuneration.</p> <p>The negotiations were undertaken in an environment where there is government expectation of constraint. The parties to the negotiations recognised the key messages of the Government relating to collective bargaining for Crown entities.</p>
<b>Objectives / Benefits</b>	Renegotiation of a CEA that is fair and reasonable to all parties and in line with government expectations and Avsec's budgeted affordability package.
<b>Risks</b>	Risk level is medium to high. Risks were mitigated through Avsec's early engagement with the unions and delegates and pre-bargaining activity. This included constructive dialogue with the unions on later alternative remuneration structures.
<b>What has been achieved in 2010/11</b>	<ul style="list-style-type: none"> <li>• A new two year CEA was agreed at negotiations and ratified subsequent to 30 June 2011.</li> <li>• A working party has been established with the unions to consider a new remuneration structure by 2012.</li> </ul>
<b>Status as at 30 June 2011</b>	<input checked="" type="checkbox"/> Bargaining completed. <sup>6</sup>

<sup>6</sup> In late August 2011 Avsec and its three unions ratified a renegotiated two-year CEA, commencing from 1 July 2011.

## 8

## Progress report in managing organisational health and capability

### 8.1 STRATEGIC PRIORITIES TO ENHANCE ORGANISATIONAL HEALTH AND CAPABILITY

The 2010/2013 SOI identified strategic priorities to enhance organisational health and capability, in support of the CAA's regulatory functions and the aviation security operations of Avsec.

#### → CAA: CAPABLE AND EFFICIENT PEOPLE, PROCESSES AND SYSTEMS

Operating Intentions	Work Programme for 2010/11	
	Key Achievements	Status at Year End
1. Implement enhanced business planning and reporting measures and frameworks,	<p>A more effective framework and processes for business planning at strategic and operational levels has been implemented in the CAA over 2010/11, including risk and capability elements.</p> <p>Combined quarterly reports for the CAA and Avsec were produced from Q2 onwards.</p> <p>A broader set of system and organisational performance measures has been delineated in the 2011/14 Statement of Intent that was completed at the end of the year. This provides a base for improved reporting to the Board and the Minister in the 2011/12 year.</p>	<p>Good progress over year.</p> <p>Further development of an overarching Strategic Plan is under development as part of the Authority's Change Programme.</p> <p>A new reporting framework will be developed by October 2011.</p>
2. Implement on a priority basis:		
a) <i>Improve the linkage between organizational outcomes and individual performance and development.</i>	<p>A work programme has been undertaken to tie individual staff performance more closely to business plans for units and groups – directly reflecting SOI requirements. A management development programme has also been developed for the CAA, targeting all managers. The first two modules have been delivered, focusing on objective setting and performance management.</p>	<p>Good progress.</p> <p>Further development of the performance management system is planned as part of the Authority's change programme.</p>
b) <i>Ensure information management systems development focus on supporting CAA outcomes and regulatory responsibilities.</i>	<p>Investment in the development of information systems is occurring on a prioritised basis in accordance with the Information Systems Strategic Plan (ISSP).</p>	<p>Steady progress through year.</p> <p>The ISSP is due for review in 2011/12, alongside the planned consolidation of the IT and information functions of the CAA and Avsec under a single management structure. (This is an outcome of the Organisational Design Review).</p>
c) <i>Establish better project management and change management systems and processes.</i>	<p>The CAA's project to improve its programme and project management capability was completed on schedule by the end of the year. Policies and tools have been redeveloped and training programmes delivered for CAA managers and staff.</p>	<p><input checked="" type="checkbox"/> Completed</p>

Operating Intentions	Work Programme for 2010/11	
	Key Achievements	Status at Year End
3. Enhance and integrate better corporate risk management system.	<p>A review of the corporate risk management framework has been completed, together with an updated risk policy. Initiatives in the last quarter have included the CAA and Avsec working to harmonise a single risk management framework that can be applied across both organisations.</p> <p>Identification of risks and mitigation actions has been incorporated into planning processes. In Q4 a comprehensive list of operational risks that groups and units are managing has been drawn from unit plans.</p>	Work is required to embed the framework within other management processes, and this will be ongoing over 2011/12.
4. Develop increased flexibility and seek to increase funds for the rules programme.	No increase in funding has been attainable. The MoT's Transport Rules Redesign Project is considering a revised Rules agreement.	Ongoing. The outcomes of the Rules Redesign Project are expected to be implemented in 2011/12
5. Review the basis and objectives of levy, and fees and charges (part of Funding Review). Complete the report and recommendations focusing on value-for-money.	The Authority proposed a revised timeframe to allow time for business case analysis and to enable the incorporation of Value for Money input. Now that the VfM Review has identified the CAA's future requirements and its results have been accepted, the Funding Review can be completed.	<p>Delayed.</p> <p>A revised implementation timeframe of no later than 1 July 2012 has been accepted.</p>
6. Implement the conclusions of the Support Services Review.	During Q2 staff were consulted about a proposal to introduce a particular shared services model. After consideration of a number of issues, the Authority decided not to proceed with the proposal at that time. Alternative models for shared services are under consideration as part of the organisational design element of the Authority's Change Programme.	Implementation of a final design will take place as part of the Authority's Change Programme over 2011/12.

→ **AVSEC: ENHANCED CAPACITY**

Avsec must maintain a talented, engaged and flexible workforce to meet the needs of a changing aviation security environment, and ensure that its people, processes and programmes contribute to strengthening its operational aviation security capacity.

Operating Intentions	Work Programme for 2010/11	
	Key Achievements	Status at Year End
1. Review and enhance Avsec's current recruitment strategy and practices to maximise the return on the investment in Avsec people.	All regional practices reviewed and best practices analysed.	☑Completed
2. Review and develop enhanced performance management policies and processes.	Review undertaken.	☑Completed
3. Enhance Avsec's talent development strategy to achieve a workforce of competent and motivated individuals, highly trained and knowledgeable in areas that will enable them to provide high quality service to their customers.	Strategy developed and candidate identification will occur during 2011/12.	Ongoing
4. Foster and encourage positive and enduring relationships with stakeholders and customers.	Education and support for effective relationship building process is ongoing.	Ongoing
5. Identify high potential individuals and implement a framework to develop staff into more senior positions and ensure effective succession planning.	Process is currently work in progress.	Ongoing
6. Maximise return on training investment with targeted training and follow-up processes to ensure maximum benefit from training.	Coaching and mentoring skills included in professional development programme for executive managers. Providers identified for senior managers.	Ongoing
7. Ensure a safe and healthy environment for all employees, representatives and visitors of Avsec: through specific Health and Safety initiatives.	National Health & Safety Committee formed. Avsec HR representatives and senior managers are represented on the Committee.	Ongoing
8. Enhance Avsec's employment relations strategy, including timely and relevant communication with staff and encouragement of relationships that are positive and constructive.	Employee perceptions are now assessed through staff surveys; employee forums for suggestion on service improvement established; engagement with unions through National Working Party.	Ongoing

→ **AVSEC: ENHANCED SUPPORT SYSTEMS AND PROCESSES**

Avsec needs to be recognised as an expert in its mandated activity – aviation security. To do so Avsec ensures that it has sound business support systems and processes, forecasting and reporting capacity, and robust performance measuring and benchmarking processes.

Operating Intentions	Work Programme for 2010/11	
	Key Achievements	Status at Year End
1. Improve financial information gathering, data analysis and reporting for effective decision making.	Upgrades completed of FMIS; evaluation of IATA passenger forecast data facilitation is currently under review.	Ongoing
2. Improve financial forecasting and monitoring process to enhance forecasting in accountability documents and passenger security charges reviews.	The Avsec Value for Money Review (refer section 7.7) looked at revenue and cost projections and was aimed at enhancing forecasting and reporting. As a result of the Review, the Authority reforecast Avsec's budgets, and passenger security charges were reduced for two years to eliminate a projected accumulated surplus. Other changes have been made to improve financial management and reporting.  FMIS upgrade to support budgeting and forecasting process is currently under review as part of the CAA/Avsec change programme.	Ongoing
3. Review and enhance business processes, internal control and efficiencies.	Financial policy review in progress as part of the CAA/Avsec change programme; five year capital asset plan under development.	Ongoing
4. Develop Avsec's business support systems, including electronic rostering system, data collection and performance management system, intranet development, review of existing ID Card System and payroll system enhancements.	Intranet development being considered as part of CAA/Avsec change programme; evaluation of IATA passenger forecast data facilitation is currently under review; replacement of existing ID card system is in progress; further enhancements of payroll system are under review in conjunction with the implementation of the electronic rostering system; video conferencing between Avsec locations under review as part of the CAA/Avsec change programme; national training register upgrade under consideration for incorporation in the Avsec payroll system.	Ongoing
5. Improve deployment, efficiency and security of the Information Technology infrastructure, including the development of an ISS Strategic Plan.	Enhanced security software was introduced for remote access authentication; IT documentation for disaster recovery plan reviewed and updated; upgrade of WAN (wide area network) completed; Avsec has moved to all of Government procurement for purchase of IT hardware.	Ongoing
6. Integrate Knowledge Management (IP Management).	Analysis completed and integration now under consideration as part of the CAA/Avsec change programme	<input checked="" type="checkbox"/> Completed
7. Improve information reporting and relationships with key stakeholders.	Key industry Memorandum of Understanding reviewed and validated.	Ongoing

## 8.2 THE AUTHORITY'S GOOD EMPLOYER PROGRAMME

The Authority's "Good Employer Programme" covers the following areas:

EEO Elements	CAA	Avsec
<b>Leadership, accountability and culture</b>	<ul style="list-style-type: none"> <li>• Service charter.</li> <li>• CAA-wide quarterly forum with the Director of Civil Aviation.</li> <li>• Weekly web-based internal newsletter ("the Loop").</li> <li>• Social Club activities.</li> <li>• Ka Awatea (relates to the interaction with Maori people).</li> <li>• Regular executive, group and unit meetings.</li> <li>• Commitment to ongoing senior and executive leadership development.</li> <li>• Register of Interest (managing conflicts of interest) maintained by Legal Services.</li> <li>• Code of conduct.</li> <li>• Confidentiality policy.</li> <li>• Travel policy (international and domestic).</li> <li>• Discipline policy.</li> <li>• Privacy and personal information policy</li> <li>• Protected Disclosure Policy and Procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Regular national staff bulletins and frequent regional bulletins.</li> <li>• Redevelopment of the HR and training pages of the Avsec Intranet to ensure information is widely available in as many formats as possible.</li> <li>• Regular Executive and Operations Management meetings, including Avsec's Quality Council to ensure consistency across the organisation.</li> <li>• Regular review of existing policies.</li> <li>• Commitment to ongoing senior and executive leadership professional development.</li> <li>• Organisation wide staff satisfaction survey and Health, Safety and Wellness culture for internal improvement benchmarking.</li> <li>• Regional in-house teams to improve staff/management communications.</li> <li>• Support for in-house sporting events.</li> <li>• Comprehensive HR strategy in place.</li> <li>• Register of interests maintained.</li> </ul>
<b>Recruitment, selection and induction</b>	<ul style="list-style-type: none"> <li>• Vacancies advertised internally and externally. Relocation assistance.</li> <li>• Short-listing based on specific competencies.</li> <li>• Behavioural &amp; competency based interviewing.</li> <li>• Provision for allowing whanau/support persons to interviews upon applicant's request.</li> <li>• Interview training for inexperienced interviewers.</li> <li>• All candidates notified of recruitment process; shortlisted candidates notified of results.</li> <li>• Use of psychometric and health profiling where required.</li> <li>• Induction and training on CAA IT systems and health and safety. Buddy system used. Monitoring of health and wellbeing at both the organisational and team level.</li> <li>• New staff introduced during quarterly forums of the Director and web-based internal newsletter "the Loop".</li> </ul>	<ul style="list-style-type: none"> <li>• Vacancies advertised internally and externally.</li> <li>• Short-listing based on specific competencies.</li> <li>• Open information days held prior to short-listing officers.</li> <li>• All role descriptions include role specific competencies, outputs and outcomes.</li> <li>• Behavioural and competency based interviewing.</li> <li>• Interview training for inexperienced interviewers.</li> <li>• All candidates notified of recruitment process; shortlisted candidates notified of results.</li> <li>• Comprehensive Basic training courses and on job follow up induction training.</li> </ul>
<b>Employee development, promotion and exit</b>	<ul style="list-style-type: none"> <li>• Due to the nature of our work, staff are trained in New Zealand and overseas to maintain their skills at international level.</li> <li>• Provision of on-the-job, experiential learning and external study assistance.</li> <li>• In-house training (e.g. legal programmes on</li> </ul>	<ul style="list-style-type: none"> <li>• Management development programmes for supervisory staff that reflect the leadership development programmes for Executive staff.</li> <li>• Recognition for On-Job-Trainers and training support staff.</li> <li>• Officer training is integrated as much as</li> </ul>

EEO Elements	CAA	Avsec
	<p>natural justice and fit and proper person; IT's, internal software systems).</p> <ul style="list-style-type: none"> <li>• Restructuring and redundancy policy.</li> <li>• Resignation and termination policy.</li> <li>• Exit survey completed by exiting staff.</li> <li>• Optional exit interview, conducted by HR/manager (exiting staff's choice) to encourage objective input.</li> </ul>	<p>possible with operations.</p> <ul style="list-style-type: none"> <li>• National Training Steering Group and Training Working Group guide and implement new initiatives.</li> <li>• Development requirements form an integral part of the performance management system.</li> <li>• Exit interviews conducted by external providers to encourage objective input.</li> </ul>
<b>Flexibility and work design</b>	<ul style="list-style-type: none"> <li>• Working from home policy complies with current legislation.</li> <li>• Where possible, flexibility of role design depending on individual circumstances.</li> <li>• Where possible part-time work available for staff returning after maternity leave.</li> </ul>	<ul style="list-style-type: none"> <li>• Consideration of flexible working arrangements complying with current legislation.</li> <li>• Where possible, flexibility of role design depending on individual circumstances.</li> <li>• Where possible part-time work available for staff returning after maternity leave.</li> </ul>
<b>Remuneration, recognition and conditions</b>	<ul style="list-style-type: none"> <li>• Equitable, transparent and gender neutral remuneration structure and policy.</li> <li>• Equal access to job opportunity and conditions.</li> <li>• 26.1% of CAA are members of the PSA.</li> <li>• Formal disputes resolution process.</li> <li>• KiwiSaver Scheme at 4% employer contribution since 1 July 2007.</li> <li>• Performance review and development programme</li> <li>• Performance Rewards programme.</li> <li>• Non-monetary rewards policy.</li> <li>• Remuneration benchmarking and ongoing Hay job evaluation and market survey.</li> </ul>	<ul style="list-style-type: none"> <li>• Equitable, transparent and gender neutral remuneration structure and policy.</li> <li>• Equal access to job opportunities and conditions.</li> <li>• 90.7% of Avsec belong to a Collective Employment Agreement.</li> <li>• Formal disputes resolution process.</li> <li>• Ongoing engagement between management and three unions.</li> <li>• KiwiSaver provider and 2% employer contribution.</li> <li>• Remuneration benchmarking and ongoing Hay job evaluation and market survey.</li> </ul>
<b>Harassment and bullying prevention</b>	<ul style="list-style-type: none"> <li>• Discrimination and harassment prevention policy.</li> <li>• Provision of internal employee assistance advisors and in-house chaplain services.</li> <li>• Code of conduct is clear that harassment is not tolerated.</li> </ul>	<ul style="list-style-type: none"> <li>• Discrimination and harassment prevention policy.</li> <li>• Harassment and bullying workshops for employees, ongoing.</li> <li>• Code of Conduct is clear that harassment and bullying are not tolerated.</li> <li>• Separate policy regarding harassment and bullying.</li> </ul>



EEO Elements	CAA	Avsec
<b>Safe and healthy environment</b>	<ul style="list-style-type: none"> <li>• Stress management policy and guidelines.</li> <li>• Member of Southern Cross group discount scheme.</li> <li>• Personal protective equipment provided to staff as required.</li> <li>• Health and safety committee and employee representation.</li> <li>• Subsidised eye examinations and spectacles.</li> <li>• ACC Partnership programme.</li> <li>• Trained First aiders and wardens.</li> <li>• Availability of Wellness and Parent rooms</li> <li>• In-house health and safety, and employee assistance framework and programme.</li> <li>• Health and safety, critical incident, emergency response induction and ongoing training.</li> <li>• Flu vaccines offered to all staff.</li> <li>• Vaccinations and health checks for overseas travel</li> </ul>	<ul style="list-style-type: none"> <li>• Annual wellness payment to all staff.</li> <li>• Uniform provided to all operational staff.</li> <li>• Member of Southern Cross group discount scheme.</li> <li>• Personal protective equipment provided to all staff as required.</li> <li>• Subsidised eye examinations and spectacles.</li> <li>• Hearing tests carried out on a regular basis.</li> <li>• Subsidised Employee Assistance programme.</li> <li>• Life and trauma cover for employees.</li> <li>• First Aid Officers at all Avsec locations.</li> <li>• National and Regional Health and safety committees and education.</li> <li>• Tamiflu available for all staff.</li> <li>• Vaccinations (Hepatitis A &amp; B, seasonal flu, Tetanus).</li> </ul>

#### → THE AUTHORITY'S EQUAL EMPLOYMENT OPPORTUNITIES PROGRAMME

The Authority is committed to the principles and practice of equal opportunity and reflects these in good employer programmes. The organisation will continue to foster a diverse workplace and an inclusive culture.

Vacancies are advertised internally and externally to give people an equal chance to be considered in the selection process. Avsec recruitment processes recognise gender requirements for some security screening activities.

Appointments are based on merit and all staff will be valued, treated equitably and with respect, whatever their gender, ethnic or social background, sexual orientation or disability.

→ **STAFF PROFILE**

Staff Profile (As at year end 30 June 2011)	CAA		Avsec	
	Number	%	Number	%
<b>Total staff numbers</b>				
Head count (including contracts)	184	100%	822	100.0%
Full-time equivalent (FTE)	173.9	94.5%	755.42	91.9%
Contract staff (total FTE)	13	7.1%	4	0.5%
<b>Length of service (excluding contractors)</b>				
Less than 1 year	16	9.4%	70	9.0%
1 year to less than 2 years	10	5.9%	1	0.1%
2 years to less than 5 years	48	28.1%	227	27.6%
5 years to less than 10 years	44	25.7%	364	44.3%
10 years to less than 15 years	26	15.2%	91	11.1%
15 years to less than 20 years	12	7%	24	2.9%
20 years and over	15	8.7%	41	5.0%
Total	171	100%	818	100.0%
<b>Employment status</b>				
Members of collective agreement	43	25%	742	90.7%
Individual employment agreements	128	75%	76	9.3%
Total	171	100%	818	100.0%
<b>KiwiSaver enrolments</b>				
Employees contributing to KiwiSaver	129	75%	528	64.6%
<b>Frontline or Operations/ Management Support</b>				
Frontline operations	116	67.8%	756	92.4%
Managerial and support*(incl Dir & GMs)	55*	32.2%	62	7.6%
Total	171	100%	818	100.0%
<b>Staff turnover</b>				
Annualised attrition rate	-	11%	-	7.0%
<b>Staff movement</b>				
Headcount 30 June 2010	182		799	
Resignations	(19)		(53)	
Retired	(1)		0	
Recruited	17		75	
Retrenched	(1)		0	
Long Term Leave without pay	0		(3)	
Headcount 30 June 2011	171*		818	

\*Seven vacancies not filled.

### 8.3 REPORTING ON CAPITAL AND ASSET MANAGEMENT INTENTIONS

The table below reflects comparative actual capital expenditure against budget set out in the 2010/13 Statement of Intent.

	Capital Expenditure			
	Budget 2010/11 (\$000)	Actual 2010/11 (\$000)	% of budget spent	Variance Comments
<b>CAA</b>				
Computer hardware	388	855	220.4%	Budget allocated from IT fit-out included in Plant & equipment in SOI.
Computer software	210	150	71.4%	
Plant & equipment	550	48	8.7%	Budget included in IT fit-out in Plant & equipment in SOI allocated in IT equipment replacements.
Furniture & fittings	1,089	915	84.0%	
Motor vehicles	80	38	47.5%	
Leasehold improvements*	-	3,021	0	Crown loan to fund fit-out.
<b>TOTAL</b>	<b>2,317</b>	<b>5,027</b>	<b>217.1%</b>	
<b>AVSEC</b>				
Computer hardware	164	146	89.02%	Variance relates to savings made on the purchase of replacement Servers.
Computer software	1,919	1,169	60.92%	The variance of \$750k is made up \$327k of software under-construction (ID Card replacement system) and a further \$135k of software projects to be carried forward into 2011/12. A further \$288k of software (including network management software and records management software) is no longer required.
Plant & equipment	2,160	973	45.05%	Against the original budget, \$973k was spend on replacement screening equipment and refurbishment of screening lanes. The expected CCTV replacement programme of \$294k has been delayed following a technological review of recording and play-back of CCTV footage. This item will be carried forward into 2011/12.  Following a review of this asset class, it was agreed not to proceed with replacement purchases of Maritime screening equipment (\$281k), P25 Radio replacement programme (\$336k) and other ancillary equipment (\$276k).
Furniture & fittings	591	607	102.71%	Additional furniture purchased for the National Office Training room accounts for this variance of \$16k.
Motor vehicles	250	673	269.2%	The over-spend of \$423k relates to 11 motor vehicles ordered in 2009/10, not delivered or commissioned until 2010/11
Leasehold improvements*	2,956	2,923	98.88%	This under-spend of \$33k relates to savings of fit-out costs, for the new National Office in Wellington and the new Operations Base in Auckland
Office equipment	143	119	83.22%	This variance relates to an over-spend for new audio equipment at the Operations base in Auckland (\$42k) against an under-spend of \$4k for a replacement projector and an expected carry forward of \$62k for a Video Conferencing facility in Wellington.
<b>TOTAL</b>	<b>8,183</b>	<b>6,610</b>	<b>80.78%</b>	

→ **CAA**

The majority of the variance in capital expenditure by CAA in 2010/11 was for the relocation of the CAA head office from Petone to Wellington. Expenditure completed covered a fit-out of the leased space, including furniture and fittings and a refreshing of desktop computer equipment. The fit-out expenditure was not included in the 2010/13 SOI as it was expected that the fit-out would be funded as part of the building lease agreement. Subsequent to this a Crown loan (\$4.3M) was approved to fund the relocation.

→ **AVSEC**

Avsec's largest capital expenditure item in 2010/11 was the relocation of the head office to 55 Featherston St, Wellington, and the associated fit-out costs. Additionally a new operations base was opened in Auckland, involving expenditure on fit-out and equipment to run an upgraded operation ahead of the Rugby World Cup.

A new roster management system was installed during the year to provide increased flexibility and efficiency in staff time management. Further development of operational capacity included upgrades and replacements to selected screening equipment and lanes, to provide more effective processes for mitigating risk to the travelling public. Avsec has an ongoing programme of staged replacement for security equipment, to ensure that it continues to comply with international standards and utilises new technology to enhance security screening and obtain greater efficiencies.

## 9

## Report on managing key strategic risks

The Authority has a risk management process whereby the likelihood and consequence of specific strategic and operational risks are regularly assessed, mitigations are reviewed, and the level of residual risk reappraised.

Outlined below are the areas of strategic risk and corresponding mitigations as described in the Statement of Intent, along with a report on what eventuated during the 2010/11 year in terms of material changes in risk exposure and resultant mitigation actions. Major operational risks occurring during the year are also covered in the following section 9.2.

### 9.1 REPORT ON STRATEGIC RISKS AND MITIGATIONS IN THE STATEMENT OF INTENT

Key Strategic Risks	Mitigations	Changes to risks/mitigations in 2010/11
<b>Economic driver of safety and security risk</b>		
<p>The current global economic situation may diminish (or compromise) the safety and security efforts of both aviation participants and the regulator.</p> <p>For example, some participants in the civil aviation system may cut corners and pay less attention to safety and security in managing their operations in times of economic difficulty.</p>	<ul style="list-style-type: none"> <li>• Monitor developments and deploy regulatory interventions.</li> <li>• Implement specific remedial action as necessary where non-compliance is observed or reported.</li> <li>• Continue to ensure that the Authority has the capacity to fund and carry out its regulatory obligations.</li> </ul>	<p>No material change in risk exposure.</p> <p>Existing mitigations, including progressing the CAA's Funding Review, have been augmented by the \$7.5 million internal transfer of Crown capital between Avsec and the CAA. This has covered off the forecast shortfall in the CAA's operating costs for 2011/12 in addition to providing initial funding for the Change Programme.</p>
<b>Rapid changes in aviation and security technology</b>		
<p>Rapid changes in aviation and security technologies require more frequent updating of Rules and operating methodologies, as well as requiring regular updating of staff skills to keep pace.</p> <p>Failure to invest in either would be detrimental to a safe and secure civil aviation environment, and the efficiency and effectiveness of the system.</p>	<ul style="list-style-type: none"> <li>• Collaborative engagement with aviation participants and other stakeholders to address technological changes.</li> <li>• Regular interaction with overseas regulators and industry representatives.</li> <li>• Train technical staff to update their knowledge on new aircraft, aerospace and aviation security technology intended for the New Zealand civil aviation system.</li> </ul>	<p>Planned mitigations have been effected and are ongoing, but there continue to be significant underlying issues remaining.</p> <p>The CAA Funding Review proposals are aimed at enabling a broader capability for the CAA to respond to change, and would strengthen mitigations in this area. The CAA Value for Money (VfM) Review recommendations have endorsed this and the Change Programme that is underway will address key needs.</p>

Key Strategic Risks	Mitigations	Changes to risks/mitigations in 2010/11
<b>Loss of confidence by key stakeholders</b>		
<p>Loss of confidence by key stakeholders (Minister, Ministry of Transport, Government, industry) that the Authority is delivering value would seriously impede the Authority's standing and ability to deliver to its mandate.</p> <p>Reputational risk as a result of a systemic failure in an area over which the Authority exercises full control (eg a screening failure leading to a security incident).</p>	<ul style="list-style-type: none"> <li>• Ensure that operating strategies and investment are aligned to the Government's and other key stakeholders' priorities, and that the value created from our activities is demonstrable.</li> <li>• Active engagement with stakeholders to inform, and be informed of, issues and risks as they arise.</li> <li>• Testing standards set at a high level.</li> <li>• Internal quality systems place emphasis on compliance and continual improvement.</li> <li>• Improvements in staff capability.</li> <li>• Use of proven modern technology.</li> </ul>	<p>The industry input to the VFM Review highlighted the need for the CAA to improve its capability while ensuring efficient use of resources. The programmes of work in response to the OAG recommendations, the Vfm and Funding Reviews have been aimed at improving the performance of the CAA and in turn increasing confidence in the organisation.</p> <p>Over the year Avsec has addressed perceptions by some stakeholders around significant surpluses from security charges, and concerns about its forecasting models, process efficiencies and staffing levels. Forecasting processes were reviewed and improved. Efficiency Review recommendations have been put in place and reduced passenger security charges took effect from 1 July 2011.</p> <p>Both arms of the Authority are now in a better position to demonstrate they are delivering value, thus reducing the risk of losing stakeholder confidence..</p>
<b>Increasing demand to address environmental issues and emissions</b>		
<p>The capability of the Authority to address environmental concerns from the New Zealand aviation sector affects stakeholders' confidence in the Authority's ability to adequately respond to civil aviation environmental issues with stakeholders.</p>	<ul style="list-style-type: none"> <li>• Work with aircraft operators and Airways Corporation on the implementation of Performance Based Navigations systems (PBN) and other similar efficiency initiatives.</li> <li>• Monitor developments in the technical and safety aspects of the environmental impact of aviation.</li> </ul>	<p>No material change in risk exposure.</p> <p>In addition to existing mitigations the CAA is more actively engaged in international fora addressing aviation environmental issues. It has achieved permanent observer status on the ICAO Committee for Aviation Environmental Protection (CAEP).</p>
<b>Changes in aviation regulatory approach</b>		
<p>If New Zealand does not meet ICAO's international standards, the effective and efficient engagement of New Zealand with international civil aviation will be constrained. Regulatory costs could rise as New Zealand would not be able to rely on overseas regulatory systems.</p>	<ul style="list-style-type: none"> <li>• Work to ensure New Zealand meets its obligations to international civil aviation agreements, including the Chicago Convention.</li> <li>• Implementation of the Safety Management Systems (SMS) approach to regulation, a State Safety Plan, and other corrective actions following ICAO's USOAP (safety) and USAP (security) audits of New Zealand.</li> </ul>	<p>Whilst there was no material change in this risk over the last year the CAA will need to put more effort into these mitigations in the future to contain the risk exposure. The CAA's work on the Safety Management Systems approach has been in a preliminary phase over 2010/11 and will extend into a major development programme in succeeding years. ICAO audit corrective actions are 73% complete with outstanding findings requiring rule action.</p>

Key Strategic Risks	Mitigations	Changes to risks/mitigations in 2010/11
<b>Ongoing security threats against the aviation industry (and other modes of transportation)</b>		
<p>Changing and evolving aviation (and other) security risks.</p> <p>Instability and under-resourcing in areas of interest to New Zealand increase the the aviation security risk in the South Pacific.</p> <p>NB An act of unlawful interference in the Asia-Pacific region is likely to have a long term negative impact on regional economies, viability of airlines and tourism.</p>	<ul style="list-style-type: none"> <li>• The Authority remains connected to other regulators to ensure early awareness of any pending/potential security requirements and responses.</li> <li>• Maintain awareness of research, development and procurement of new and emerging aviation security technology.</li> <li>• Ensure security requirements do not unduly impede maintenance of efficient passenger and cargo flows.</li> <li>• Capability development, training equipment and strategic advice to the South Pacific aviation authorities.</li> <li>• Planning for the implementation of new /enhanced security measures.</li> <li>• Enhanced intelligence.</li> </ul>	<p>While there was no heightened risk in 2010/11, civil aviation remains an attractive target for global terrorism. There are no grounds for complacency and ongoing vigilance is required to prevent acts of unlawful interference against civil aviation.</p> <p>All mitigations were employed and will continue: these include application of safety measures that conform to ICAO standards; implementation of new and enhanced security measures, particularly the phased replacement of Avsec's x-ray baggage systems, to ensure its detection capability remains world class; and ongoing contingency planning for any expanded level of domestic aviation security screening (refer Rugby World Cup entry below)..</p>
<b>A significant aviation incident</b>		
<p>A significant incident at an airport in New Zealand or overseas could create unexpected demands with respect to safety or security that requires an immediate response from the Authority (e.g. a volcanic event affecting NZ airspace, or major damage to airport infrastructure).</p>	<ul style="list-style-type: none"> <li>• Intelligence gathering and analysis.</li> <li>• Contingency plans for various scenarios.</li> </ul>	<p>This risk did materialise, in the form of the Puyehue Cordon Caulle volcanic ash event. Volcanic ash from the Puyehue Cordon Caulle volcano eruption in Chile extended over wide areas of Australia, the Tasman Sea, New Zealand and South Pacific and Southern Oceans for much of June and early July 2011. This posed significant potential safety risks for aviation. The CAA successfully managed the Puyehue Cordon Caulle volcanic ash event through overseeing the implementation of the risk-based regulatory and information strategy it had developed after the Mt Ruapehu events 15 years earlier. As a result flight disruptions for most airlines were minimised.</p>

Key Strategic Risks	Mitigations	Changes to risks/mitigations in 2010/11
<b>Civil aviation revenue flows</b>		
<p>Volatility in passenger numbers (caused by global recession, natural disaster, pandemic fears, changes in preferred passenger destination/airline schedule changes or disinclination to travel due to security threats or environmental policies) complicates accurate revenue forecasting.</p> <p>Passenger safety levy revenue may not be sufficient to finance the required CAA capability in the short to medium term, while increasing passenger numbers create a risk of over-recovery of passenger security charges for Avsec.</p>	<ul style="list-style-type: none"> <li>• Complete the CAA Funding Review (in collaboration with the Ministry of Transport and Treasury) with clear recommendations on how to resolve the funding issues.</li> <li>• Balance levy income against revenue from other sources.</li> <li>• Better manage recovery of fees and charges.</li> <li>• Maintain efficiency measures (e.g. review travel, training, recruitment).</li> <li>• Examine alternative means of financing short-term capital requirements.</li> <li>• Close liaison with carriers regarding scheduling changes, to ensure effective deployment of Avsec resources.</li> </ul>	<p>End of year revenues are on budget, even with the impact of a major carrier withdrawing from domestic routes in new Zealand during the year. Trends in passenger numbers will continue to be monitored closely.</p> <p>Existing forecasting and funding mitigations, as detailed, were considered adequate and will be continued.</p> <p>Note: The risk of over-recovery of Avsec passenger security charges has been managed through implementation of reduced charges for two years with effect from 1 July 2011.</p>
<b>Organisational capability and resilience</b>		
<p>The Authority may be constrained in its ability to implement internal change as quickly as needed in the increasingly dynamic aviation and regulatory environment, and with static revenue streams.</p>	<ul style="list-style-type: none"> <li>• Implement human resource strategies to ensure the most appropriate and capable staff.</li> <li>• Ensure long-term plans reflect expected changes in the aviation environment.</li> <li>• Optimise relationships with stakeholders.</li> <li>• Tight financial management including ongoing review of remuneration strategies, and other significant expenditure.</li> <li>• Continue rigorous review of costs against budgets.</li> <li>• Continual review and update of contingency or business continuity plans.</li> </ul>	<p>Mitigations were effected as planned. Additionally the Value for Money (VfM) Review identified the need for a 'step-up' in organisational capability and effectiveness, in order to maintain the highest standards of regulatory oversight and be able to respond to continuing advances in technology and industry practices.</p> <p>Going forward, the integration of a number of organisational developments into a structured and funded change programme potentially reduces the risk exposure in this area.</p>
<b>Staffing instability and attrition</b>		
<p>Some Authority staff members are approaching retirement. The Authority may find difficulty in accessing suitably qualified staff as and when required.</p> <p>There is competition, both domestic and international, for qualified, technical and professional staff in the aviation industry. Emergence from the recession may see attrition rates increase as staff seek other opportunities</p>	<ul style="list-style-type: none"> <li>• Succession planning</li> <li>• Preparedness to recruit internationally for necessary technical/professional skills</li> <li>• Capability development, in particular implementation of the leadership development program.</li> <li>• Ongoing review of employee recognition and rewards and remuneration benchmarking.</li> <li>• Collective bargaining negotiations with Combined Unions.</li> <li>• Enhanced staff communication</li> </ul>	<p>There was no material change in the risk level overall, although difficulty was experienced in recruiting and retaining technical inspection staff with helicopter pilot qualifications in the second half of the year.</p> <p>Specific remuneration and resourcing actions have been initiated to address this particular area. The generic mitigations will continue to be applied to anticipate and address potential skills shortages.</p>



## 9.2 OTHER SIGNIFICANT OPERATING RISKS DURING 2010/11

Major Operational Risks	Mitigations	Changes to risks/mitigations in 2010/11
<b>Increased risk around Rugby World Cup (RWC) 2011</b>		
<p>High profile events with multinational participants present a potential target for attack/disruption.</p> <p>In particular there will be a high increase in passengers transiting/departing Auckland during the RWC and the expected attendance of a number of country premiers.</p> <p>Domestic aviation will be of higher security risk as domestic flights are not subject to 'hold baggage screening' and passenger screening is only undertaken on domestic jet flights.</p> <p>RWC also coincides with Avsec's collective bargaining process.</p>	<ul style="list-style-type: none"> <li>• High level industry and inter-agency planning and preparation</li> <li>• Leave management and planning</li> <li>• The new rostering system will ensure efficient staff deployment</li> <li>• Revision of business continuity plans</li> </ul>	<p>Mitigation actions undertaken as planned and considered adequate, to date.</p> <p>From an Avsec perspective the residual risk was considered low.</p>
<b>Renegotiation of Avsec's Collective Employment Agreement</b>		
<p>Avsec's Collective Employment Agreement was due to expire at 30 June 2011. Government had signalled that it expected restraint in terms of remuneration increases, whereas the existing collective had been negotiated prior to the economic downturn, potentially raising expectations for this round.</p> <p>Avsec was also proposing a new remuneration structure, moving from the existing incremental system.</p> <p>The proximity of the RWC event and the upcoming election heightened the severity of risk through possible non-settlement.</p>	<ul style="list-style-type: none"> <li>• Early engagement with the unions and delegates</li> <li>• Pre-bargaining activity, including intensive consultation with the unions re. the remuneration structure</li> </ul>	<p>Collective bargaining was concluded in June 2011 and was subject to ratification at 30 June 2011.<sup>7</sup> The risk of non-ratification was assessed as low.</p>

<sup>7</sup> In late August 2011 Avsec and its three unions ratified a renegotiated two-year CEA, commencing from 1 July 2011.



# Part C:

Statement of service performance and financial statements 2010-2011

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# 10 Statement of responsibility

Pursuant to the *Crown Entities Act 2004*, the Authority accepts responsibility for:

- The preparation of the financial statements and the statement of service performance and for the judgments used therein.
- The establishment and maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the Authority, the financial statements and Statement of Service Performance fairly reflect the financial position and operations of the Civil Aviation Authority for the year ended 30 June 2011.

Signed on behalf of the Board:



**NIGEL GOULD**

Chairman of the Civil Aviation Authority of New Zealand

18 October 2011



**PETER GRIFFITHS**

Deputy Chairman

18 October 2011



**STEVE DOUGLAS**

Director of Civil Aviation

18 October 2011



**MARK EVERITT**

General Manager, Aviation Security Service

18 October 2011

## MINISTERIAL DIRECTIONS

- There were no ministerial directions to the Civil Aviation Authority during 2010/11 financial year

# 11 Audit report

**AUDIT NEW ZEALAND**  
 Mana Arotake Aotearoa

## Independent Auditor's Report

### To the readers of the Civil Aviation Authority's financial statements and statement of service performance for the year ended 30 June 2011

The Auditor-General is the auditor of the Civil Aviation Authority (the Authority). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 82 to 118, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Authority on pages 64 to 81.

## Opinion

In our opinion:

- the financial statements of the Authority on pages 82 to 118:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Authority's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the Authority on pages 64 to 81:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects, for each class of outputs for the year ended 30 June 2011, the Authority's
    - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and
    - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 18 October 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

### **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Authority's preparation of the financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### **Responsibilities of the Board**

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;

- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect its service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004.

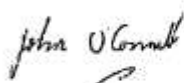
### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

### **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out an independent review of the Authority's quarterly reports on the Authority's implementation of the Office of the Auditor-General's recommendations. Other than the audit and this assignment, we have no relationship with or interests in the Authority.



John O'Connell  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

### **Matters relating to the electronic presentation of the audited financial statements and statement of service performance**

This audit report relates to the financial statements and statement of service performance of the Civil Aviation Authority for the year ended 30 June 2011 included on the Civil Aviation Authority's website. The Board is responsible for the maintenance and integrity of the Civil Aviation Authority's website. We have not been engaged to report on the integrity of the Civil Aviation Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 18 October 2011 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



# 12 Statement of service performance

The Authority's statement of service performance comprises the following output classes:

	<b>Output Classes:</b>
<b>Civil Aviation Authority (CAA)</b>	Output Class 1: Policy advice Output Class 2: Assessment and certification Output Class 3: Investigation, analysis and education Output Class 4: Enforcement
<b>Aviation Security Service (Avsec)</b>	Output Class 5: Aviation security services Output Class 6: Maritime security services

## 12.1 OUTPUT CLASS 1: POLICY ADVICE

### Description

Output Class 1, covers the following outputs, and associated activities and services:

- coordination of New Zealand's response to ICAO regarding matters of a specifically technical or safety regulatory nature;
- administration of aviation security matters;
- participation in appropriate ICAO international and regional forums;
- development and administration of bilateral agreements with the civil aviation safety regulatory authorities of other countries;
- working with Pacific Island States to develop safety and security objectives;
- provision of policy advice to Government, including the development and review of legislation;
- ministerial servicing, including ministerial correspondence, Parliamentary Questions, and reports to the Minister and Select Committees; and
- services to develop Civil Aviation Rules under contract to the Ministry of Transport.

### Impacts the outputs have on safe and secure civil aviation

The impacts and consequences of advice provided by the CAA to the Government are to ensure that government policies and decisions are developed and implemented in an informed manner, and that reasons for these policies and decisions are clear.

The impacts and consequences of international obligations are to ensure that:

- the Government's obligations in respect of international aviation safety and security agreements with other regulatory agencies are administered in a competent manner;
- international requirements relating to civil aviation safety and security are reflected in the New Zealand environment, where applicable; and
- the potential for accidents or incidents is reduced by ensuring that a safer and more secure interface is achieved between international and domestic aviation operations.



The impacts and consequences of rules development are that the Civil Aviation Rules are aligned with international civil aviation standards.

2009/10	Output class 1: Policy Advice - output measures	2010/11	
Actual		Budgeted standard	Actual
<b>Reports to the Parliament and Minister:</b>			
a) Responses to Ministerial correspondence. b) Reports and briefings to the Minister. c) Responses to Parliamentary Questions. d) Responses to Select Committee e) SOI, Annual and Quarterly Reports f) Comment on government initiatives (new measure in 2010/11)			
Demand-driven. Provided as required.  a) 50 responses to Ministerial correspondence b) No reports and briefings to the Minister c) 107 responses to Parliamentary Questions d) 3 responses to Select Committee questions e) 1 Statement of Intent, 1 annual report, 4 quarterly reports.	<b>QUANTITY:</b> Number of reports, representations or projects provided, or completed as required.	Demand-driven. Provided as required. Estimated range:  a) 20-50 responses to Ministerial correspondence b) 50-80 reports and briefings to the Minister c) 15-80 responses to Parliamentary Questions d) 4-8 responses to Select Committee questions e) 1 Statement of Intent, 1 Annual Report, 4 Quarterly Reports f) 6 comments on government initiatives.	Demand-driven. Provided as required.  a) 43 responses to Ministerial correspondence b) 68 reports and briefings to the Minister c) 21 responses to Parliamentary Questions d) 2 responses to Select Committee questions. g) 1 Statement of Intent, 1 Annual Report, 4 Quarterly Reports e) 2 comments on government initiatives.
100% of responses, reports, or briefings to Ministerial correspondence and Parliamentary Questions are acceptable to the Minister and advisers.	<b>QUALITY:</b> Percentage of reports that meet the recipient's objectives, requirements or expectations.	100% of briefings, responses, or reports are acceptable to, and viewed as robust by the recipient. <b>Measured by:</b> 1. Twice annual survey of the Minister of Transport and the Associate Minister of Transport. 2. Assessment by Ministers of individual papers, reports and briefings.	1. The Minister and Associate Minister both provided an overall assessment of "Generally satisfactory performance" in a survey for the full year. 2. 100% were acceptable to recipients' requests and/or expectations, based on comments received from them.
Less than 100%; minor delay.	<b>TIMELINESS:</b> Percentage of reports, submissions or projects provided on-time by due dates.	100% of responses, reports or briefings are responded to by the CAA within agreed due dates as required.	a) 77% responses to Ministerial correspondence b) 100% reports and briefings to the Minister c) 100% responses to Parliamentary Questions d) 100% responses to Select Committee questions to the CAA e) 100% of documents delivered by due dates. f) 100% comments on government initiatives.
<b>Comment re responses to Ministerial correspondence:</b>  During the year the timeframe was reduced for response to the MoT. It took time to reflect this change in the CAA's systems and this, coupled with temporary staffing issues, resulted in a number of overdue responses, mostly 1-3 days past the due date. This has now been addressed.			

2009/10	Output class 1: Policy Advice - output measures	2010/11	
Actual		Budgeted standard	Actual
<b>International relations and obligations</b>			
Engaging with ICAO including: responses to ICAO proposals; and representation of New Zealand interests with ICAO.			
New measure from 2010/11.	QUANTITY: Engagement in those proposals and issues that are determined to be of significance to New Zealand.	100% engagement.	100% engagement in those proposals and issues identified as significant to New Zealand
100% of inputs and participation were provided within the agreed deadlines.	TIMELINESS: Percentage of inputs and participation meeting agreed deadlines.	100% of inputs and participation provided within the agreed deadlines.	100% of inputs and participation were provided within the agreed deadlines.
<b>International relations and obligations</b>			
Fulfilling ICAO requirements to include: monitoring of ICAO guidance; advice of compliance with, or filing a difference from, ICAO standards; reviews of compliance with ICAO SARPs; and implementation of the ICAO Corrective Action Plan.			
100% provided as required.	QUANTITY: Demand-driven. Provided as required	100% ICAO requirements provided as required.	100% ICAO requirements were provided as required. All ICAO compliance data provided.
New measure from 2010/11.	QUALITY: Application of guidance or standards, or provision of clear justification as to why New Zealand differs.	100% application of guidance or standards or provision of clear justification as to why New Zealand differs.	100% application of guidance or standards or provision of clear justification as to why New Zealand differs.
Less than 100%; some delays due to external factors.	TIMELINESS: Percentage of ICAO requirements completed within the required timeframe.	100% of ICAO requirements completed within the required timeframe.	100% of ICAO requirements completed within the required timeframe. (Some Corrective Action Plan projects are still ongoing; NB dependent on rule development.)
<b>International safety and security agreements with other countries</b>			
a) Maintaining and operating existing agreements. b) Developing new specific projects (described in the 2010/11 CAA Business Plan). c) Liaison and coordination with other civil aviation authorities.			
New measure from 2010/11.	QUANTITY: Demand-driven. Provided as required.	Expecting 5 agreements.	High level agreements exist (BASA IPA, ANZA, Canada and EASA). We are in negotiations to establish another agreement under BASA. One-off aircraft / operator agreements are regularly developed within the CAA operational groups.
New measure from 2010/11.	TIMELINESS: Percentage of CAA inputs provided within the agreed timeframe.	100% of CAA inputs are provided within agreed timeframe.	Less than 100%. Some delays in some agreements due to more urgent priorities, or political factors in foreign countries.

2009/10	Output class 1: Policy Advice - output measures	2010/11	
Actual		Budgeted standard	Actual
<b>Policy development activities and programmes (develop and review policy projects as required.)</b>			
Of the ten policy projects and programmes listed: 1 was achieved, 6 were not achieved based on their June 2010 deadline, and 3 were work in progress with a June 2011 deadline.	QUANTITY: Number of projects completed as required.	Number of projects completed as required.	1 major unscheduled project was initiated (operation of NZ aircraft overseas). In part this work was prioritised as a result of issues raised by Helicopter New Zealand operations.
New measure from 2010/11.	QUALITY: Percentage of advice provided meets policy-making requirements: a) comprehensive analysis of information from relevant sources; b) relevant to the priorities and goals of the Government; c) clear, robust, accurate, and well-presented options and recommendations; and d) appropriate consultation with interested parties.	100% of advice provided meets policy-making requirements.	100% of advice provided met policy-making requirements.
Of the seven projects or programmes due for completion in June 2010, 6 (86%) were deferred to enable resources to be allocated to the expanded Funding Review.	TIMELINESS: Percentage of projects completed within the agreed or required timeframe.	100% of projects completed within agreed or required timeframe	Not applicable. No project was scheduled to be completed during the 2010/11 financial year.
<b>South Pacific obligations</b>			
a) New Zealand representation on the council of the Pacific Aviation Safety Office (PASO). b) Administration of safety (and security) support agreements with PASO and Pacific Island countries.			
New measure from 2010/11.	QUANTITY: a) Percentage attendance at PASO Council meetings. b) Five safety (security) agreements with PASO and Pacific Island countries.	a) 100% attendance at PASO council meetings. b) 100% (5 agreements with PASO).	a) 2 attendances at PASO council meetings (Fiji and Montreal). b) 5 agreements (with PASO, Cook Islands, Samoa, Tonga, and Niue).
100% complied	QUALITY: Participation is consistent with priorities and goals of the Government and the CAA.	100% participation; and delivery of safety and security is closer to standards defined by ICAO SARPS.	a) CAA attended 100% of PASO council meetings. b) Pacific states are responsible for their compliance with SARPs. CAA advice is aimed at increasing the ability of these states to comply. CAA has responded to all requests for advice and assistance where these are within the scope of the relevant agreement.

2009/10	Output class 1: Policy Advice - output measures	2010/11	
Actual		Budgeted standard	Actual
Some delays with some activities or projects	TIMELINESS: Percentage of completion by due dates.	100% on-time completion of activities and/or projects.	100% of all administration work completed.
<b>1.2 Rules development</b>			
100% provided as required.	QUANTITY: Percentage of Rules provided as agreed in the 2010/11 Agreement for Rules Development Services.	100% of Rules provided as agreed.	5 out of 6 final rules delivered + 1 additional rule from 2011-12 programme , (NB 2 projects that had been delivered in 2010-11 were removed from the programme following a Ministerial decision. )
100% achieved.	QUALITY: Percentage of Rule documentation meeting the quality requirements as stated in the 2010/11 Agreement for Rules Development.	100% of Rule documentation meets the quality requirements in the 2010/11 Agreement for Rules Development Services with the Ministry of Transport.	80-90% Due to the government's ' <i>Better regulation less regulation</i> ' policy statement, the MoT sought final Regulatory Impact Statements (RIS) from the CAA, which was outside of the Agreement for Rules Development Services. A number of final RIS were not completed by the end of the period.
Less than 100%; not achieved.	TIMELINESS: Percentage of Rules meeting timeliness requirements as stated in the 2010/11 Agreement for Rules Development.	100% of contracted deliverable documents meet the timeliness requirements in the 2010/11 Agreement for Rules Development Services with the Ministry of Transport.	Less than 100%. Some delays. Requests made for changes to dates. One project was delivered ahead of schedule.

Note: Refer to Appendix 2 for the CAA's progress report on the Rules Development Programme.

2009/10	Cost to deliver Output Class 1: Policy Advice	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
1,821	Crown funding (Vote Transport: Policy Advice)	1,821	1,821
1,541	Ministry contract revenue (Rules Development)	1,418	1,418
-	Other income	-	68
<b>3,362</b>	<b>Total output revenue</b>	<b>3,239</b>	<b>3,307</b>
<b>(3,919)</b>	<b>Total output expenses</b>	<b>(4,047)</b>	<b>(3,846)</b>
<b>(557)</b>	<b>Net surplus / (deficit)</b>	<b>(808)</b>	<b>(539)</b>

## 12.2 OUTPUT CLASS 2: ASSESSMENT AND CERTIFICATION

### Description

Output Class 2 covers the following outputs and associated activities and services:

- exercise of control over entry into the New Zealand civil aviation system through the issuance or amendment of aviation documents and approvals to organisations, individuals and products (*section 7 of the Civil Aviation Act 1990*);
- exercise of control over exit from the civil aviation system through the amendment of aviation documents including the suspension, revocation or imposition of conditions on documents where such action is necessary in the interests of safety and security;
- monitoring of adherence to safety and security standards by participants in the civil aviation system including carrying out inspections and audits;
- development and review of New Zealand airworthiness directives; and
- management of inspections and audits under the *Health and Safety in Employment 1992*, including identification and follow-up of corrective actions that need to be taken by employers in the aviation sector to ensure adherence and compliance to the regulations.

### Impacts the outputs have on safe and secure civil aviation

The impacts and consequences of activities under this output class are to minimise the risk of accident and incidents, ensure compliance with civil aviation rules and standards, and improve overall performance within the context of the CAA's legislative responsibilities.

2009/10	Output class 2: Assessment and Certification – output measures	2010/11	
Actual		Budgeted standard	Actual
<b>Airline sector's audits and inspections (surveillance)</b>			
New measure from 2010/11.	QUANTITY: Number of units, based on an estimate of the safety risk of participants.	Demand-driven (Estimate: 200-250)	193
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons, find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	83% followed CAA policy and procedures. (Note: the 3 failures that occurred in the first quarter. A 100% result has been achieved for the following three quarters.)
New measure from 2010/11.	TIMELINESS: Percentage of audit/inspection reports issued to the subject within 30 working days of the entry meeting.	90% of audit/inspection reports issued within 30 working days.	89% of reports were issued within 30 working days.
<b>Airline sector's organisation certification</b>			
974	QUANTITY: Number of organisation certifications.	Demand-driven	541
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% random sampled events, 100% followed CAA policy and procedures.	100% followed CAA policy and procedures.

2009/10	Output class 2: Assessment and Certification – output measures	2010/11	
Actual		Budgeted standard	Actual
New measure from 2010/11.	TIMELINESS: Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant.	From acceptance of fully compliant documentation, 100% of certification will occur within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.	100% of certification occurred within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.
<b>Airline sector's aircraft certification</b>			
New measure from 2010/11.	QUANTITY: Number of aircraft certifications.	Demand-driven (Estimate: 180-250)	1,467 total for both Airlines and General Aviation. The system does not distinguish the totals for each sector.
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 98% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant.	From acceptance of fully compliant documentation 100% of certification will occur within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.	100% of certification occurred within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.
<b>General Aviation sector's audits and inspections</b>			
New measure from 2010/11.	QUANTITY: Number of units based on assessed safety risk of participants.	Demand driven (Estimate: 200-250)	316
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 92% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Percentage of audit/inspection reports issued within 30 working days of entry meeting.	90% of audit/inspection reports issued within 30 working days.	71% of audit/inspection reports issued within 30 working days.
<b>General Aviation sector's airworthiness directives (ADs)</b>			
New measure from 2010/11.	QUANTITY: Number of Airworthiness Directives.	Demand-driven (Estimate:200-350)	216
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% random sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 100% followed CAA policy and procedures.

2009/10	Output class 2: Assessment and Certification – output measures	2010/11	
Actual		Budgeted standard	Actual
New measure from 2010/11.	TIMELINESS: Percentage of issuance of Emergency ADs and Routine ADs.	100% of emergency ADs issued prior to State of Design effective date or within 24 hours.  100% of routine ADs issued prior to State of Design effective date or within 30 working days.	100% of emergency ADs issued prior to State of Design effective date or within 24 hours.  100% of routine ADs issued prior to State of Design effective date or within 30 working days.
<b>General Aviation sector's organisation certification</b>			
New measure from 2010/11.	QUANTITY: Number of general aviation organisation certificates.	Demand-driven	787
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	95% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant.	100% of renewals completed within 60 working days, and 100% of new certifications within 90 working days.	95% of renewals completed within 60 working days, and 95% of new certifications within 90 working days.
<b>General Aviation sector's aircraft certification</b>			
New measure from 2010/11.	QUANTITY: Number of aircraft certifications.	Demand-driven (Estimate: 750-920)	1,467 total for both airlines and general aviation. The system does not distinguish the totals for each sector.
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 98% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant.	From acceptance of fully compliant documentation 100% of certification will occur within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.	100% of certification occurred within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.
<b>Personnel licensing and aviation services' audits and inspections (relating to aeronautical services and aviation security)</b>			
New measure from 2010/11.	QUANTITY: Number of units based on an estimate of the safety risk of participants.	Demand-driven (estimate: 200-250)	256
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. Independent random sample of 5% of events, by suitably qualified, independent persons find only minor issues (unimportant) for rectification.	Of the 5% sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 100% followed CAA policy and procedures.



2009/10	Output class 2: Assessment and Certification – output measures	2010/11	
Actual		Budgeted standard	Actual
New measure from 2010/11.	TIMELINESS: Percentage of audit/inspection reports issued within 30 working days of entry meeting.	90% of audit/inspection reports issued within 30 working days.	100% of audit/inspection reports issued within 30 working days.
<b>Personnel licensing</b>			
6,620	QUANTITY: Number of personnel license changes completed.	Demand-driven (estimate: 5,000 – 7,000)	7,367
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. A review of a random sample (2%) of events by suitably qualified independent persons find only minor issues (unimportant) for rectification.	Of the 2% randomly sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 100% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Timeframe for completion of certification depends upon the complexity and completeness of documentation submitted by the applicant. Completion of license certification from acceptance of fully compliant documentation.	95% of personnel license certification completed within 10 working days.	100% of personnel license certification completed within 10 working days.
<b>Service provider certification</b>			
New measure from 2010/11.	QUANTITY: Number of aviation service provider certification changes completed.	Demand-driven (estimates: 35-45)	130
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. A review of a random sample (5%) of events by suitably qualified independent persons find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 94% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant. Completion of certification from acceptance of fully compliant documentation:	100% of certification will occur within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.	88% of certification occurred within: 60 working days for renewals of existing certification, and 88% within 90 working days for new certifications.
<b>Aviation community health and safety in employment: investigations</b>			
New measure from 2010/11.	QUANTITY: Number of units based on an estimate of the safety risk of participants.	Demand-driven (estimates: 30-35)	40
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. A review of a random sample (5%) of events by suitably qualified independent persons find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 100% followed CAA policy and procedures



2009/10	Output class 2: Assessment and Certification – output measures	2010/11	
Actual		Budgeted standard	Actual
New measure from 2010/11.	TIMELINESS: Percentage of investigations completed within agreed timeframes.	75% of HSE investigations completed within 12 months and 100% within 24 months.	Of the 40 closed (received in current and previous years): 30% of HSE investigations were completed within 12 months and 75% within 24 months.
<p><u>Commentary on timeliness measure:</u> Both Q3 and Q4 involved implementing corrections to the reporting system and closing off historical files. This involve resolving issues with data and remedial systems development. That work has been completed and the Unit is on track and performing within the timeliness criteria specified. This is evidenced by the fact that of 15 investigations opened and closed within year 10/11 all but 1 have been completed within 12 months of their respective opening dates. The Unit expects the Q1 report for year 11/12 to demonstrate the improved situation.</p>			
<b>Aviation community health and safety in employment: audits and inspections</b>			
New measure from 2010/11.	QUANTITY: Number of activities based on health and safety risk.	Demand-driven (estimates:20-30)	30
New measure from 2010/11.	QUALITY: Percentage of CAA policy and procedures followed. A review of a random sample (5%) of events by suitably qualified independent persons find only minor issues (unimportant) for rectification.	Of the 5% randomly sampled events, 100% followed CAA policy and procedures.	Of the sampled events, 100% followed CAA policy and procedures.
New measure from 2010/11.	TIMELINESS: Percentage of audits and inspections completed within agreed timeframes.	90% of HSE reports issued within 30 working days of entry meeting.	100% of HSE reports issued within 30 days.

2009/10	Cost to deliver Output Class 2: Assessment and certification	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
440	Crown funding (Vote Transport: Health and safety in aviation)	440	440
3,574	Fees and charges	4,341	4,085
15,110	Levies	16,282	15,870
467	Other income	-	393
<b>19,591</b>	<b>Total output revenue</b>	<b>21,063</b>	<b>20,788</b>
<b>(19,178)</b>	<b>Total output expenses</b>	<b>(22,163)</b>	<b>(21,852)</b>
<b>413</b>	<b>Net surplus / (deficit)</b>	<b>(1,100)</b>	<b>(1,064)</b>

## 12.3 OUTPUT CLASS 3: INVESTIGATION, ANALYSIS AND EDUCATION

### Description

Output Class 3 covers the following outputs and activities:

- investigation and identification of causes of civil aviation safety and security occurrences, received by way of occurrence information and complaints; and
- promotion of safety and security by providing education, information and advice, and safety and security programmes, including public awareness on transport of dangerous goods by air.

### Impacts the outputs have on safe and secure civil aviation

It is expected that work on investigations into accidents and incidents will ensure associated safety and security issues are quickly identified and remedied.

Work on the analysis of safety and security data and information, and on the provision of information services and education programmes is aimed at minimising the future risk of accidents or incidents and maximising compliance with civil aviation rules.

2009/10	Output Class 3: Investigation, Analysis and Education - output measures	2010/11	
Actual		Budgeted standard	Actual
<b>Safety and security investigations</b>			
875	QUANTITY: Number of safety and security investigations completed.	Demand driven	652
New measure from 2010/11.	QUALITY: Percentage of sampled investigation reports that are independently peer reviewed, and found to require no rework or alteration.	Of the sampled investigation reports peer reviewed, 100% required no rework.	90% required no rework. Areas for improvement are currently being addressed
79% in 12 months 99% within 2 years	TIMELINESS: Percentage of completion of safety and security investigations	75% completed within 12 months of registration and 100% within 2 years.	89% completed within 12 months of registration. 96.5% completed within 24 months of registration.
<b>Safety investigations under section 15A (power of Director to investigate holder of aviation document)</b>			
New measure from 2010/11.	QUANTITY: Number of section 15A investigations completed.	Demand driven	1
New measure from 2010/11.	QUALITY: Support provided to satisfaction of Lead Investigator.	(Standard or target not provided in the SOI 2010/11)	100% complied.
New measure from 2010/11.	TIMELINESS: Percentage completed to the Lead investigator's timeframe.	100% completed within lead investigator's timeframe.	100% complied.
<b>Safety Summary and Aviation Safety reports</b>			
4 Safety Summary Reports and 2 Aviation Safety Reports	QUANTITY: Number of Safety Summary and Aviation Safety reports released.	4 Safety Summary Reports are released and 2 Aviation Safety Reports.	4 Safety Summary Reports and 2 Aviation Safety Reports released.
100%	QUALITY: Percentage of accurate information determined by number of errata published.	100% of reports published without any errata.	100% of reports published without any errata.

2009/10	Output Class 3: Investigation, Analysis and Education - output measures	2010/11	
Actual		Budgeted standard	Actual
100% complied	TIMELINESS: Percentage of on-time publication of reports: - Safety Summary reports released - Aviation Safety reports released	100% of Safety Summary published within 40 days of quarter end, and 100% of Aviation Safety reports within 6 months of period end.	100% of Safety Summary reports published within 40 days of quarter end, and 100% of Aviation Safety reports within 6 months of period end.
<b>Safety and security education and information; outreach programme comprising:</b>			
a) Publications b) seminars, workshops, courses c) Media management d) External communications			
New measure from 2010/11.	QUANTITY: Number of units	a) 12-20 publications b) 20-30 programmes c) Demand-driven d) Demand-driven	a) 14 publications b) 32 programmes c) Demand met d) Demand met
New measure from 2010/11.	QUALITY: a) Accuracy of information, as determined by the number of errata that are published. b) Activities have the intended impact upon the target audience as determined by surveys of participants.	a) 100% accurate or no errata published. b) 100% positive impact.	a) 100% accurate or no errata published. b) 100% positive impact.
New measure from 2010/11.	TIMELINESS: Percentage of on-time delivery	95% of publications delivered on-time	100% of publications delivered on-time

2009/10	Cost to deliver Output Class 3: Investigation, analysis and education	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
4,806	Levies	4,884	5,118
17	Other income	-	100
<b>4,823</b>	<b>Total output revenue</b>	<b>4,884</b>	<b>5,218</b>
<b>(4,842)</b>	<b>Total output expenses</b>	<b>(5,502)</b>	<b>(5,413)</b>
<b>(19)</b>	<b>Net surplus / (deficit)</b>	<b>(618)</b>	<b>(195)</b>

## 12.4 OUTPUT CLASS 4: ENFORCEMENT

### Description

Output Class 4 covers the appropriate follow-up of actions in the interest of the public:

- recording of complaints of alleged or suspected offences;
- investigation of allegations of breaches to the *Civil Aviation Act 1990*; and
- taking appropriate action such as providing education, issue of a warning letter, issue of an infringement notice, or commencing summary proceedings.

### Impacts the outputs have on safe and secure civil aviation

The Authority's enforcement policy recognises that preventive action to minimise the risk of accidents and incidents, and voluntary compliance with civil aviation rules and standards, are better means of achieving aviation safety and security than retrospective punitive action.

The Authority's primary concern is not to secure prosecution but to promote a high standard of aviation safety. However, if willing compliance with those standards is not achieved, the Authority will take enforcement action if appropriate.

The impacts and consequences of the Authority's enforcement activities are to:

- attempt to modify aviation participants' behaviour, and/or generate an improvement in safety management systems, and/or generate a greater understanding of the Civil Aviation Rules;
- ensure fair and consistent treatment of all participants in the civil aviation system; and
- deter future incidents of non-compliance.

2009/10	Output Class 4 :Enforcement - output measures	2010/11	
Actual		Budgeted standard	Actual
50	QUANTITY: Number of detailed enforcement investigations undertaken.	Demand-driven (Estimate: 50-80)	60
New measure from 2010/11.	QUALITY: a) 5% sample of investigations is independently reviewed and found to meet CAA quality expectations. b) Percentage of success rate of prosecutions undertaken.	a) 100% of decisions are reasonable in the context of the CAA enforcement policy. b) 90% of prosecutions result in a finding of guilt.	a) An external review confirmed that 100% of decisions were reasonable in the context of the CAA enforcement policy. b) 100% of prosecutions resulted in a finding of guilt.
New measure from 2010/11.	TIMELINESS: Percentage of detailed investigations completed from commencement date.	100% of detailed investigations completed within 12 months of the date of the event.	100% of detailed investigations completed within 12 months of the date of the event.

2009/10	Cost to deliver Output class 4: Enforcement	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
1,135	Levies	1,003	1,179
3	Other income	-	21
<b>1,138</b>	<b>Total output revenue</b>	<b>1,003</b>	<b>1,200</b>
<b>(1,040)</b>	<b>Total output expenses</b>	<b>(1,123)</b>	<b>(1,274)</b>
<b>98</b>	<b>Net surplus / (deficit)</b>	<b>(120)</b>	<b>(74)</b>

## 12.5 OUTPUT CLASS 5: AVIATION SECURITY SERVICE

### Description

Output Class 5 covers the following outputs, and associated activities and services:

- screening of all passengers and their carry-on baggage at [seven] security designated airports<sup>8</sup>;
- screening of all hold baggage carried on departing international flights;
- screening of airport workers with access to, and within, enhanced security areas at international airports;
- managing the issue of airport identity cards through delegation of the Director of Civil Aviation;
- perimeter patrols at security designated aerodromes and navigation facilities, together with guarding of aircraft and aircraft searches, to ensure the prompt interception of persons unlawfully in security areas (including verification of Airport Identity Cards) and increase safety for the flying public.

### Impacts these outputs have on aviation security<sup>9</sup> :

- activities under this output class are the minimization of risks of aviation security incidents, and ensuring compliance with international and other regulatory requirements; and
- ensuring that the travelling public and other stakeholders have increasing confidence in the security of commercial aircraft departing from and flying within New Zealand.

2009/10		Output Class 5: Aviation Security Services - output measures	2010/11	
Actual			Budgeted standard	Actual
<b>(a): Prevention of in-flight security incidents (including dangerous goods screening)</b>				
<b>Screening of hold baggage</b>				
These performance measures reflect Avsec's capability to process a significant number of passengers <sup>10</sup> and their baggage, detect prohibited items and ensure Avsec is not responsible for delays to aircraft departures.				
100%	1.	QUANTITY: Percentage of international hold baggage screened.	100%	100%
Nil	2.	TIMELINESS: Number of flight delays attributable to screening activities (due to an Avsec system failure).	Nil	1
Nil	3.	TIMELINESS: Number of flight delays attributable to aircraft search activities.	Nil	Nil
<b>Waiting time performance measures</b>				
These performance measures are a test of Avsec's capability and efficiency in processing passengers at international and domestic screening points within prescribed international standards.				
AKL: 1 min 21 sec CHC: 1 min 12 sec	4.	TIMELINESS: Average passenger wait times at international departure screening points (benchmark tested six-monthly <sup>11</sup> at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times).	No more than three minutes.	AKL: 1 min 54 sec <sup>12</sup> CHC: 1 min 19 sec

<sup>8</sup> All departing international passengers and their carry-on baggage are screened. All domestic passengers and their carry-on baggage are screened where the passenger is travelling on aircraft with seats for 90 or more passengers.

<sup>9</sup> Section 72F, Civil Aviation Act 1990

<sup>10</sup> For 2011/12 the numbers of screened passengers are forecasts as: International Passengers 4,783,722; Domestic Passengers 6,037,165.

<sup>11</sup> Benchmark testing is undertaken at the two largest international airports, twice per year, as they provide a fair representation and measure that can be applied to other airports where Avsec undertakes passenger screening

<sup>12</sup> While the reported waiting times are well within the 3mins targets, the higher times compared with 2009/10 are due to increased LAGs interventions (more passengers bringing LAGs through screening points) and the inefficient layout of some screening points. In the case of Auckland an improved layout and the recent re-introduction of 'queue groomers' has led to a decrease in the waiting times.

2009/10		Output Class 5: Aviation Security Services - output measures	2010/11	
Actual			Budgeted standard	Actual
AKL: 50 sec CHC: 46 sec	5.	TIMELINESS: Average passenger wait times at domestic departure screening points (benchmark tested six-monthly at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times).	No more than three minutes.	AKL: 1 min 10 sec <sup>13</sup> CHC: 53 sec
<b>Screening performance measures</b>				
These performance measures reflect the very high standard of proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.				
100%	6.	QUANTITY: Percentage of all Aviation Security Officers involved in the screening function covertly rested within a 150 working day cycle against key aviation security functions (includes searching, wandering, and x-ray proficiency).	100%	100%
7	7.	QUALITY: a) Number of verified unauthorised or prohibited items discovered post screening points (due to an Avsec system failure).	Nil	44
2	8.	b) Number of verified dangerous goods discovered post screening points (due to an Avsec system failure <sup>14</sup> ).	Nil	3
<b>Complaints and audit performance measures</b>				
These performance measures are quality tests and measure the proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.				
100%	9.	TIMELINESS: Percentage of any audit findings cleared within the specified timeframes	100%	100%
Nil	10.	QUALITY: a) Number of corrective action requests issued pertaining to the aircraft search function issued by external auditors during any programmed audit.	Nil	Nil
Nil	11.	QUALITY: b) Number of corrective action requests issued pertaining to screening functions issued by external auditors during any programmed audit.	Nil	Nil
1 complaint per 423,639 passengers screened	12.	QUALITY: c) Number of substantiated complaints against Aviation Security Officers involved in the screening function (includes 'free riders'). <sup>15</sup>	No more than one formal complaint per 250,000 passengers screened.	One formal complaint per 1,398,528 passengers screened.

<sup>13</sup> See footnote 16 – the same comment applies to domestic departure screening point waiting times

<sup>14</sup> The items in 7 above are all in the lesser security breach category.

▪ **Major Security Breach**

A major security breach occurs when an uncleared person or item enters the sterile area and there is consequently a security incident on the ground or in flight (or the potential for such an incident to occur). The threshold test for a 'Major' breach is a breach meeting the criteria for the principal security outcomes of no in-flight or airside incidents under the Aviation Crimes Act and no dangerous goods introduced into aircraft. An example would be an in-flight attack committed by a person or persons using an IED successfully carried through a screening point.

▪ **Lesser Security Breach**

A lesser security breach occurs when an uncleared person or item enters the sterile area and there is consequently an incident on the ground or in-flight (or the potential for such an incident occurring) which does not meet the threshold test for 'Major Security Breach' but involves actual or potential harm. An example would be failure to detect and retain a prohibited item such as a knife, carried inadvertently by a passenger but with no malicious intent.

<sup>15</sup> "Free riders" refers to those screened domestic passengers for which no charge is recovered from airlines. The situation arises due to infrastructural configurations at certain airports.

2009/10	Output Class 5: Aviation Security Services - output measures		2010/11	
Actual			Budgeted standard	Actual
Less than 1.25 complaints per annum.	13.	QUALITY: d) Number of substantiated airline complaints against Aviation Security Officers pertaining to aircraft search.	No more than 5 airline complaints per annum	Nil airline complaints.
<b>(b): Prevention of airside security incidents</b>				
<b>Access control management and response to security-related emergencies</b>				
These performance measures are a reflection of Avsec's management of access control at a security designated airport and its ability to respond with urgency to a security related emergency.				
100%	1.	TIMELINESS: Number of responses to any security-related emergency within five minutes of being requested.	100%	100%
Nil	2.	QUALITY: Number of corrective action requests pertaining to access control issued by external auditors.	Nil	Nil
<b>Management of Airport Identity Card (AIC) process</b>				
These performance measures reflect Avsec's capability to manage the AIC System according to the standards and requirements set out in the Civil Aviation Rules <sup>16</sup> .				
99.63%	3.	QUALITY: Percentage compliance <sup>17</sup> by Airport Identity Cardholders per Civil Aviation Rule 19.357.	100%	99.44%
Nil	4.	QUALITY: Number of corrective action requests issued pertaining to Avsec management of the Airport Identity Card process.	Nil	Nil

<sup>16</sup> The issuance of AICs is a security measure to ensure non-passengers are confirmed as having a legitimate purpose for being in security enhanced areas. In addition to the administrative role required for the issuance of the AICs it is a mandated role of Avsec to screen airport workers with access to and within enhanced security areas.

<sup>17</sup> Applies only to those cards checked by Avsec. Civil Aviation Rule 19.357 sets out the requirements for the issuance of Airport Identity Cards, areas of security designated airports that these must be worn and the vetting processes that are provided for. Compliance testing is both targeted and random and is reported on a monthly basis.

2009/10	Total Cost to Deliver Output Class 5: Aviation security services	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
3,842	Contracted services	3,569	3,274
77,931	Passenger security charges	62,055	61,992
3,115	Other income	3,368	3,421
<b>84,888</b>	<b>Total output revenue</b>	<b>68,992</b>	<b>68,687</b>
<b>(69,844)</b>	<b>Total output expenses</b>	<b>(79,336)</b>	<b>(74,246)</b>
<b>15,044</b>	<b>Net surplus / (deficit)</b>	<b>(10,344)</b>	<b>(5,559)</b>

2009/10	Total Cost to Deliver Output Class 5 (a): Prevention of in-flight security incidents including dangerous goods	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
1,567	Contracted services	1,077	765
77,931	Passenger security charges	62,055	61,992
2,514	Other income	2,704	2,714
<b>82,012</b>	<b>Total output revenue</b>	<b>65,836</b>	<b>65,471</b>
<b>(54,308)</b>	<b>Total output expenses</b>	<b>(62,796)</b>	<b>(57,939)</b>
<b>27,704</b>	<b>Net surplus / (deficit)</b>	<b>3,040</b>	<b>7,532</b>

2009/10	Total Cost to Deliver Output Class 5 (b): Prevention of air side security incidents	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
2,275	Contracted services	2,492	2,509
601	Other income	664	707
<b>2,876</b>	<b>Total output revenue</b>	<b>3,156</b>	<b>3,216</b>
<b>(15,536)</b>	<b>Total output expenses</b>	<b>(16,540)</b>	<b>(16,307)</b>
<b>(12,660)</b>	<b>Net surplus / (deficit)</b>	<b>(13,384)</b>	<b>(13,091)</b>



## 12.6 OUTPUT CLASS 6: MARITIME SECURITY SERVICES

### Description

Output class 6 covers the provision of maritime security services following the declaration of a high level threat situation at the Port of Auckland, affecting cruise ships or their passengers<sup>18</sup>.

### Impacts this output has on aviation security

These maritime security services are provided under the Maritime Security Act. They do not directly impact on the aviation sector.

2009/10	Output Class 6: Maritime Security Services - output measures	2010/11	
Actual		Budgeted standard	Actual
Avsec responds to any requests from the Minister of Transport, or the Director of Maritime New Zealand to a high level threat situation at the Port of Auckland affecting cruise ships or their passengers.			
Nil	QUANTITY: Number of requests	Demand-driven	Nil requests
Not applicable	QUALITY: Percentage of requestors' satisfaction with performance.	100% satisfaction	Not applicable (no request)
Not applicable	TIMELINESS: Percentage of responses within four (4) hours.	100% within 4 hours	Not applicable (no request)

2009/10	Total cost to deliver Output Class 6: Maritime security service	2010/11	
Actual (\$000)		Budget (\$000)	Actual (\$000)
145	Crown funding	145	145
145	<b>Total output revenue</b>	<b>145</b>	<b>145</b>
(145)	<b>Total output expenses</b>	<b>(145)</b>	<b>(145)</b>
-	<b>Net surplus / (deficit)</b>	<b>-</b>	<b>-</b>

<sup>18</sup> Avsec is not actively involved in the day-to-day maritime security. Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staff are well-trained to respond where cruise ships, or their passengers, might be affected. Avsec's current role in maritime security is not significant on a day to day basis.

# 13 Financial statements

## 13.1 STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Note	2011 Actual \$000	2011 Budget \$000	2010 Actual \$000
<b>Income</b>				
Levies revenue	2	22,167	22,169	21,051
Revenue from passenger security charges and other services	2	69,355	69,533	85,555
Crown funding revenue	3	2,406	2,406	2,406
Ministry contract revenue	3	1,934	1,683	1,976
Other income	4	3,466	3,520	2,940
<b>Total income</b>		<b>99,328</b>	<b>99,311</b>	<b>113,928</b>
<b>Expenditure</b>				
Personnel costs	5	77,848	80,830	73,634
Depreciation and amortisation expense	14,15	5,841	6,309	6,007
Capital charge	6	2,316	2,533	2,011
Finance costs	7	687	288	405
Other cost of services	8	20,067	22,341	16,892
<b>Total expenses</b>		<b>106,759</b>	<b>112,301</b>	<b>98,949</b>
<b>NET SURPLUS / (DEFICIT)</b>		<b>(7,431)</b>	<b>(12,990)</b>	<b>14,979</b>
<b>Other comprehensive Income:</b>				
Gain / (Loss) on revaluation of land and buildings	14	(44)	-	150
<b>Total comprehensive income</b>		<b>(7,475)</b>	<b>(12,990)</b>	<b>15,129</b>

The accompanying notes form part of these financial statements.

## 13.2 STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Note	2011 Actual \$000	2011 Budget \$000	2010 Actual \$000
<b>Equity</b>				
<b>Opening balance of equity at 1 July</b>				
General funds		34,255	37,127	30,744
Property, plant and equipment revaluation reserve	21	790	640	640
Passenger security charges reserve	21	49,812	48,052	35,363
<b>Total opening balance of equity at 1 July</b>		<b>84,857</b>	<b>85,819</b>	<b>66,747</b>
<b>Comprehensive Income</b>				
Surplus/deficit		(7,431)	(12,990)	14,979
Other Comprehensive Income		(44)	-	150
Total comprehensive income for the year		(7,475)	(12,990)	15,129
<b>Owner Transactions</b>				
Repayment of capital		(7,500)	-	-
Capital contributions		2,410	283	2,981
<b>Total changes in equity during the year</b>		<b>(12,565)</b>	<b>(12,707)</b>	<b>18,110</b>
<b>Closing balance of equity at 30 June</b>				
General funds	21	27,591	34,444	34,255
Property, plant and equipment revaluation reserve	21	746	640	790
Passenger security charges reserve	21	43,955	38,028	49,812
<b>Total closing balance of equity at 30 June</b>		<b>72,292</b>	<b>73,112</b>	<b>84,857</b>

The accompanying notes form part of these financial statements.

### 13.3 STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	2011 Actual \$000	2011 Budget \$000	2010 Actual \$000
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	9	37,175	65,593	66,373
Debtors and other receivables	10	9,100	8,320	8,347
Inventories including services Work in Progress	11	394	362	345
Investments - term deposits	12,29	29,000	-	14,750
Derivative financial instruments	13	-	-	8
<b>Total Current Assets</b>		<b>75,669</b>	<b>74,275</b>	<b>89,823</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	14	20,045	17,714	18,028
Intangible assets	15	2,787	3,112	2,015
Investment property	16	310	-	-
<b>Total Non-Current Assets</b>		<b>23,142</b>	<b>20,826</b>	<b>20,043</b>
<b>Total Assets</b>		<b>98,811</b>	<b>95,101</b>	<b>109,866</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Creditors and other payables	17	5,059	4,353	6,535
Employee entitlements	18	8,959	9,125	8,758
Provisions	19	83	-	210
Borrowings	20	1,936	1,535	1,446
Derivative financial instruments	13	23	-	-
<b>Total Current Liabilities</b>		<b>16,060</b>	<b>15,013</b>	<b>16,949</b>
<b>Non-Current Liabilities</b>				
Employee entitlements	18	4,185	4,314	3,991
Provisions	19	233	361	233
Borrowings	20	6,041	2,301	3,836
<b>Total Non - Current Liabilities</b>		<b>10,459</b>	<b>6,976</b>	<b>8,060</b>
<b>Total Liabilities</b>		<b>26,519</b>	<b>21,989</b>	<b>25,009</b>
<b>NET ASSETS</b>		<b>72,292</b>	<b>73,112</b>	<b>84,857</b>
<b>EQUITY</b>				
General funds	21	27,591	34,444	34,255
Property, plant and equipment revaluation reserve	21	746	640	790
Passenger security charges reserve	21	43,955	38,028	49,812
<b>TOTAL EQUITY</b>		<b>72,292</b>	<b>73,112</b>	<b>84,857</b>

The accompanying notes form part of these financial statements.

### 13.4 STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Note	2011 Actual \$000	2011 Budget \$000	2010 Actual \$000
<b>Cash Flows from Operating Activities</b>				
Receipts from levies		21,912	22,565	20,701
Receipts from passenger security charges and other services		68,900	71,759	86,826
Receipts from Crown funding and Ministry contracts		4,340	4,089	4,382
Interest received		3,185	3,331	2,535
Payments to employees		(73,718)	(75,168)	(69,702)
Payments to suppliers		(25,174)	(26,593)	(16,955)
Interest paid		(452)	(288)	(158)
Payments of capital charge to the Crown		(2,316)	(2,533)	(2,011)
Goods and Services Tax (net)		51	110	(26)
<b>Net Cash Flows from Operating Activities</b>	22	<b>(3,272)</b>	<b>(2,728)</b>	<b>25,592</b>
<b>Cash Flows from Investing Activities</b>				
Sale of property, plant and equipment		216	4,669	426
Placement of investments		(14,250)	-	(14,750)
Purchase of property, plant and equipment		(8,297)	(11,338)	(11,892)
Purchase of intangible assets		(1,199)	(1,919)	(861)
<b>Net Cash Flows from Investing Activities</b>		<b>(23,530)</b>	<b>(8,588)</b>	<b>(27,077)</b>
<b>Cash Flows from Financing Activities</b>				
Capital contributions from the Crown		2,410	283	2,981
Proceeds from external borrowings		4,340	-	5,231
Repayment of capital		(7,500)	-	-
Repayment of external borrowings		(1,646)	(1,446)	(2,262)
<b>Net Cash Flows from Financing Activities</b>		<b>(2,396)</b>	<b>(1,163)</b>	<b>5,950</b>
Net increase/(decrease) in cash and cash equivalents		(29,198)	(12,479)	4,465
Opening cash and cash equivalents at 1 July		66,373	78,072	61,908
<b>CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	9	<b>37,175</b>	<b>65,593</b>	<b>66,373</b>

The GST (net) component of net cash flows from operating activities comprises the net GST paid and received. This component has been presented on a net basis as the cash flows reflect amounts collected and returned on behalf of the Inland Revenue Department.

*The accompanying notes form part of these financial statements.*

## 14

## Notes to the financial statements

**1 STATEMENT OF ACCOUNTING POLICIES****REPORTING ENTITY**

The Civil Aviation Authority (The Authority) is Government-owned and was established in New Zealand under the *Civil Aviation Act 1990* as a Crown entity on 10 August 1992, and is domiciled in New Zealand. As a Crown entity, the Authority is subject to the provisions of the *Crown Entities Act 2004* (CEA 2004). The Authority has a responsibility to work to the development and delivery of achieving an integrated, safe, responsive and sustainable transport system.

To fulfil these statutory responsibilities, the Authority comprises the aviation safety and regulatory services of the Civil Aviation Authority (the CAA) and the separate aviation security services of the Aviation Security Service (Avsec).

As the Authority's primary objective is to provide services for social benefit rather than for the purpose of making a financial return, the Authority (encompassing CAA and Avsec) has designated itself as a public benefit entity for financial reporting under *New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)*.

These financial statements of the Authority are for the year ended 30 June 2011. The financial statements were approved by the Authority on 18 October 2011.

Section 72B (3B) of the Civil Aviation Act 1990 states that the Authority shall perform its functions in respect of the Aviation Security Service separately from its other functions and shall maintain accounts, records, and reports accordingly.

**BASIS OF PREPARATION****Statement of compliance**

The financial statements have been prepared in accordance with the requirements of the *Crown Entities Act 2004*, which includes the requirement to comply with *New Zealand Generally Accepted Accounting Practice (NZ GAAP)*. They comply with NZ IFRS and other applicable Financial Reporting Standards as appropriate for public benefit entities.

**Measurement basis**

The financial statements have been prepared on the basis of historical cost, except where modified by the revaluation of certain items of property, plant and equipment and measurement of any derivative financial instruments at fair value.

With the exception of cash flow information which has been prepared on a cash basis, the financial statements have been prepared on the basis of accrual accounting.

**Functional and presentation currency**

The functional and presentation currency is New Zealand dollars. All values are rounded to the nearest thousand dollars (\$000).

## CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year.

The Authority has adopted the following revisions to accounting standards during the financial year. These have only had a presentation or disclosure effect:

- NZ IFRS 7 Financial instruments: Disclosures - The effect of early adoption of these amendments is that the following information is no longer disclosed:
  - the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and
  - the maximum exposure to credit risk by class of financial instrument if the maximum credit risk exposure is best represented by their carrying amount.

### **New Standards, Amendments and Interpretations issued that are not yet effective and not yet early adopted**

The following standards, amendments and interpretations that are relevant to the Authority are not yet effective for the year ended 30 June 2011 and have not been applied in preparing these financial statements:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Authority has not yet assessed the impact of the new standard and expects it will not be early adopted.
- NZ IAS 24 *Related Party Disclosures* (Revised 2009) replaces NZ IAS 24 *Related Party Disclosures* (Issued 2004) and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
  - Removes the previous disclosure concessions applied by the Authority for arms-length transactions between the Authority and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Authority and entities controlled or significantly influenced by the Crown.
  - Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Transport, the Authority will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown. The Authority expects it will early adopt the revised standard for the year ending 30 June 2012.

## SIGNIFICANT ACCOUNTING POLICIES

The following significant account policies, which materially affect the measurement of financial performance and financial position, have been applied:

### **Revenue**

The Authority earns revenue from:

- regulated levies and charges on airlines based on outgoing international passenger numbers and domestic sectors travelled by passengers;
- regulated charges on domestic aerodromes;
- fees and charges for regulatory and aviation safety services and for additional aviation security activities that are outside its core function;

- interest income;
- Crown funding; and
- Ministry contracts.

Revenue is measured at the fair value of the consideration received or receivable.

- Provision of fee-based services

Revenue derived from the CAA's provision of regulatory and aviation safety services is recognised in the Statement of Comprehensive Income in the period that the services have been rendered, in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the time spent on the work to date and the estimated time to completion.

- Interest

Interest income is recognised using the effective interest method.

- Crown funding and Ministry contracts

Revenue provided by the Crown and revenue earned under Ministry contract is recognised in the Statement of Comprehensive Income in the period in which the Authority provides the funded programmes.

### **Capital charge**

The capital charge is recognised as an expense in the period to which the charge relates.

### **Goods and services tax**

All items in the financial statements are presented exclusive of Goods and Services Tax (GST), except receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable it is recognised as part of the related asset or expense.

Net GST receivable or payable at balance date is included in receivables or payables in the Statement of Financial Position as appropriate. Commitments and contingencies are disclosed exclusive of GST.

The net GST paid, or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

### **Income Tax**

The Authority (encompassing CAA and Avsec) is a Public Authority in terms of the Income Tax Act 2004 and consequently exempt from the payment of income tax. Accordingly no charge for income tax has been provided for.

### **Payment of Any Surplus to the Crown**

Section 165 of the Crown Entities Act 2004 provides the Minister of Finance with discretion to require Crown entities to return annual and accumulated operating surpluses to the Crown, unless exempted in Schedule 1. The Authority is so exempted. However, section 72CA of the Civil Aviation Act 1990 specifically provides that repayment of Avsec surplus funds to the Crown may be requested by the Minister of Finance at his discretion.

### **Derivative Financial Instruments and Foreign Currency Transactions**

*Financial instruments measured at fair value through profit or loss - comprising forward exchange contract derivatives.*

Financial instruments in this category comprise those either held for trading or designated at fair value through profit or loss at inception. Under NZ IFRS, those derivatives not designated as hedge accounting instruments are classified as held for trading instruments irrespective of the purpose for which they have been entered into. The Authority enters into forward exchange contract derivatives from time to time solely to mitigate currency risks associated with its operational activities.



Forward exchange contract derivatives are recognised in the Statement of Financial Position at their fair value. Realised and unrealised gains and losses arising from changes in fair value or upon settlement are recognised in the Statement of Comprehensive Income in the period in which they arise.

The full fair value of a forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date, otherwise derivatives are classified as non-current.

#### *Foreign currency transactions*

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the transactions, and from the translation at year-end exchange rates of foreign currency monetary assets and liabilities, are recognised in the Statement of Comprehensive Income.

#### **Other Financial Instruments**

Financial assets are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all the risks and rewards of ownership.

#### *Loans and receivables financial assets - comprising cash and cash equivalents, debtors and other receivables*

Loans and receivables financial assets are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. After initial recognition, loans and receivables financial assets are carried at amortised cost using the effective interest method.

#### *Financial liabilities measured at amortised cost - comprising creditors and other payables, finance lease liabilities*

After initial recognition, financial liabilities measured at amortised cost are carried at amortised cost using the effective interest method.

#### *Impairment of Financial Assets*

Financial instruments are regularly reviewed for objective evidence of impairment. Both provisioned and non-provisioned bad debts are written-off when recovery actions have been unsuccessful and when the likelihood of recovery is considered remote.

#### **Leases**

##### *Finance Leases*

The Authority has entered into finance leases for certain security screening and office equipment in relation to Avsec. Finance leases effectively transfer to the Authority substantially all the risks and rewards of asset ownership, whether or not title is eventually transferred.

At the commencement of the lease term, the Authority recognises finance leases as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is expensed to the Statement of Comprehensive Income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If it is not certain that the Authority will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

##### *Operating Leases*

The Authority leases office premises and office equipment. As substantially all the risks and rewards incidental to ownership of the asset are retained by the lessor, these leases are classified as operating leases.

Operating lease payments are recognised in the Statement of Comprehensive Income as an expense on a straight-line basis over the lease term.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash is measured at its face value.

### **Inventories**

#### *Services Work in Progress*

The Authority carries services work in progress that includes cost incurred in the partial completion of certification and audit engagements.

The Authority's services work in progress is measured at the lower of the costs incurred to date for the specific work being undertaken, and net realisable value. The estimated net realisable value is based on the contracted service price.

#### *Inventories held for use in the provision of services*

The Authority holds stocks of security cards and these items are carried at the lower of cost (calculated using the weighted average cost method) and net realisable value.

#### *Inventory write-downs*

Any write-down from cost to net realisable value for either services work in progress or inventories held for use in the provision of services is recognised in the Statement of Comprehensive Income when the write-down occurs.

### **Investments**

At each balance date the Authority assesses whether there is any objective evidence that an investment is impaired.

#### *Bank deposits*

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition investments are measured at amortised cost using the effective interest method. For bank deposits, impairment is established when there is objective evidence that the Authority will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into bankruptcy, and default in payments are considered factors that the deposit is impaired.

### **Property, Plant and Equipment**

Property, plant and equipment assets are carried at cost or fair value less any accumulated depreciation and impairment losses.

#### *Revaluations*

Buildings held for service delivery purposes are valued at least every three years to ensure that the carrying amount does not differ materially from fair value. All other asset classes are carried at depreciated historical cost.

#### *Accounting for Revaluations*

The Authority accounts for the revaluation of property, plant and equipment on a class of assets basis. The results of revaluation are recorded in the appropriate asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Income. Any subsequent increase in the revaluation that offsets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of

Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve of the asset class.

#### *Additions*

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. The minimum cost value for a purchase to be capitalised as a property, plant and equipment asset is \$2,000.

#### *Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in revaluation reserves in respect of these assets are transferred to general funds.

#### *Subsequent Costs*

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income as they are incurred.

#### *Depreciation*

Depreciation is provided for on a straight-line basis on all property, plant and equipment at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes or assets have been estimated as follows:

Buildings (including components)	10-24 years	10% - 4%
Leasehold improvements	10 years	10%
Furniture and fittings	10 years	10%
Plant and equipment	5 – 10 years	20% – 10%
Office equipment	5 years	20%
Motor vehicles	4 – 5 years	25% - 20%
Computer equipment	3 – 4 years	33% - 25%
Leased hold-baggage screening (HBS) equipment	4 years	25%

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

### **Intangible Assets**

#### *Software acquisition and development*

Acquired computer software licences and databases are capitalised on the basis of the costs incurred to acquire and bring these to use.

Costs incurred by the Authority for the development of software for internal use, other than for the development of software associated with websites, are recognised as an intangible asset where the asset meets the criteria for recognition. Costs recognised include the software development, employee costs and any other directly attributable costs.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software, staff training and with the development and maintenance of websites, are expensed when incurred.

### *Indefinite life intangible assets*

The Aeronautical Information Service (AIS) database acquired and used in the fulfilment of the Authority's statutory safety obligations is considered to have an indefinite useful life. Indefinite life intangible assets are carried at cost less any accumulated impairment losses.

### *Amortisation*

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

The useful lives and associated amortisation rates of major classes of intangible asset have been estimated as follows:

Acquired computer software	3 years	33%
Developed computer software	3 - 5 years	33% - 20%
AIS database	indefinite life	nil

Intangible assets with an indefinite useful life are not amortised and are instead subject to an annual impairment test.

### **Impairment of Property, Plant and Equipment and Intangibles**

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for indicators of impairment at each financial reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Indefinite life intangible assets are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on depreciated replacement cost.

If an asset is impaired its carrying amount is written down to the recoverable amount. For assets carried at historical cost, the total impairment loss and any subsequent reversals of impairment are recognised in the Statement of Comprehensive Income.

For revalued assets, any impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount carried in that reserve. Where the impairment loss would result in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income. Subsequent reversals of impairment losses are recognised firstly in the Statement of Comprehensive Income, to the extent the impairment loss was originally recognised there, and then in the associated revaluation reserve.

### **Investment property**

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or capital appreciation. Property held to meet service delivery objectives is classified as property, plant, and equipment.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, investment property is measured at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

### **Borrowings**

Borrowings are initially recognised at their fair value net of transaction costs incurred. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Authority has an unconditional right to defer settlement of the liability for at least 12 months after the balance date or if the borrowings are expected to be settled within 12 months of the balance date.

## **Employee Entitlements**

### *Short-Term Employee Entitlements*

Employee entitlements that the Authority expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay.

The Authority recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

### *Long-Term Employee Entitlements*

Entitlements that are payable beyond 12 months have been calculated on an actuarial basis by Melville Jessup Weaver consulting actuaries. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

### *Post-Employment Entitlements*

#### Superannuation schemes

Obligations for the Authority's contributions to KiwiSaver, Government Superannuation Fund, and National Provident Fund are accounted for as contributions to a defined contribution superannuation scheme and are recognised as an expense in the Statement of Comprehensive Income.

## **Provisions**

The Authority recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the obligation.

## **Equity**

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified in to the following components:

- General funds
- Property revaluation reserve
- Passenger security reserve

### *Property revaluation reserve*

This reserve relates to the revaluation of property, plant and equipment to fair value.

*Passenger security reserve*

This reserve relates to the accumulated surpluses/deficits arising from the recovery of costs relating to passenger security activities.

**Budget figures**

The budget figures are derived from the Statement of Intent as approved by the Authority at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Authority for the preparation of the financial statements.

**Output costing***Criteria for Direct and Indirect Costs:*

Direct costs for CAA are those costs directly attributable to an output. Indirect costs are those costs that cannot be identified with a specific output in an economically feasible manner.

Indirect personnel, property, occupancy and certain other indirect costs for the Aviation Security Service are charged on the basis of actual staff hours attributable to an output. Depreciation and capital charges are charged on the basis of asset utilisation.

Indirect costs for the CAA, including indirect depreciation, are charged on the basis of full time equivalent staff members attributable to an output.

There have been no changes to the cost allocation methodology since the date of the last audited financial statements.

**Critical Accounting Estimates, Assumptions and Judgements**

Preparing financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

In the process of applying the Authority's accounting policies, management had made the following judgements, estimates, and assumptions that have had the most significant impact on the amounts recognised in these financial statements:

*Internally developed computer software intangible assets availability of use*

Determining whether an internally developed computer software intangible asset has reached the condition necessary for it to be capable of operating in the condition intended by management requires judgement as to the intended level of functionality and when this has been reached.

Once the software has reached the determined level of functionality it is classified as available for use and amortisation commences over the assets estimated useful life. Annual impairment testing of the development project is no longer required and the completed intangible asset is, reviewed annually for indicators of impairment.

The Authority has exercised its judgement in determining the availability for use of particular developed computer software intangible assets while others remain classified as under development.

*Lease classification*

Determining whether a lease agreement is a finance or operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Authority. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment, whereas for an operating lease, no such asset is recognised.

The Authority has exercised its judgement on the appropriate classification of equipment leases and has determined a number of lease arrangements are finance leases.

#### *Retirement and long service leave*

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in note 18.

## 2 REVENUE FROM LEVIES AND SERVICES

	Actual 2011 \$000	Actual 2010 \$000
<b>Levies revenue</b>		
International passenger levies	4,066	3,888
Domestic passenger levies	17,068	16,152
Other levies	1,033	1,011
<b>Total levies revenue</b>	<b>22,167</b>	<b>21,051</b>
<b>Revenue from passenger security charges and other services</b>		
International passenger security charges	40,725	54,680
Domestic passenger security charges	21,267	23,251
Aviation regulatory and safety services	4,089	3,797
Other contracted aviation security services	3,274	3,827
<b>Total revenue from passenger security charges and other services</b>	<b>69,355</b>	<b>85,555</b>

## 3 CROWN FUNDING AND MINISTRY CONTRACT REVENUE

### CROWN FUNDING REVENUE

The Authority has been provided with funding from the Crown for the following specific purposes of the Authority as set out in the Civil Aviation Act 1990 and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2010: nil).

	Actual 2011 \$000	Actual 2010 \$000
Policy	1,821	1,821
Health and Safety	440	440
Maritime security	145	145
<b>Total revenue from the Crown</b>	<b>2,406</b>	<b>2,406</b>

#### **Policy**

The Authority has been provided funding from the Crown to enable it to provide reports to Parliament and the Minister, undertake its work in International Relations and South Pacific obligations, develop international safety and security agreements with other countries and to conduct policy work.

The funding provided has been used to deliver work in each of the key areas:

- concentrating on agreed policy projects;
- ensuring New Zealand's response to the International Civil Aviation Organization requirements;
- developing and supporting the Pacific Aviation Safety Office; and
- further developing aviation safety and security agreements with other countries.

### Health and safety in employment

The Authority received funding from the Crown for the purposes of implementing the requirements of the Health and Safety in Employment Act 1992 ('HSE') within the context of the aviation industry. The Authority has used the Crown funding provided to:

- conduct HSE investigations, audit and inspections;
- provide advice and education on HSE in the aviation sector; and
- fund other activities connected with HSE practice in the aviation industry.

### Maritime security

The Authority receives funding directly from the Crown, through the Ministry of Transport, that is restricted in use for the purposes of meeting the Authority's maritime security obligations.

#### Ministry contract revenue

	Actual 2011 \$000	Actual 2010 \$000
<b>Ministry contract revenue</b>		
Rules development (Ministry of Transport)	1,418	1,541
Pacific Security Fund (Ministry of Foreign Affairs and Trade)	268	435
Other consulting	248	-
<b>Total Ministry contract revenue</b>	<b>1,934</b>	<b>1,976</b>

The Authority provides rules development services under contract to the Ministry of Transport and receives funding directly from the Ministry of Foreign Affairs and Trade's Pacific Security Fund (PSF) as a reimbursement of training and consultancy services provided to agencies and airlines of the South Pacific region.

## 4 OTHER INCOME

	Actual 2011 \$000	Actual 2010 \$000
Interest income	3,286	2,534
Net gain on sale of property, plant and equipment	145	281
Net foreign exchange gains	-	125
Other income	35	-
<b>Total other income</b>	<b>3,466</b>	<b>2,940</b>

During the year the Authority disposed of vehicles and screening equipment that formed a part of the capital replacement programme as determined by the useful life of the asset. The total gain on the sale of assets was \$145,000 (2010: \$281,000).



## 5 PERSONNEL COSTS

	Actual 2011 \$000	Actual 2010 \$000
Salaries and wages	70,251	66,689
Employer contributions to defined contribution plans	1,168	980
Other personnel expenses	6,033	4,609
Increase/(decrease) in employee entitlements (Note 18)	396	1,356
<b>Total personnel costs</b>	<b>77,848</b>	<b>73,634</b>

Employer contributions to defined contribution plans include contributions to KiwiSaver, National Provident Fund, and Government Superannuation Fund.

## 6 CAPITAL CHARGE

The Authority pays a capital charge to the Crown as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2011 was 7.5% equating to \$2,316,000 (2010: 7.5% or \$2,011,000).

## 7 FINANCE COSTS

	Actual 2011 \$000	Actual 2010 \$000
Interest on Crown Loan	163	-
Interest on finance leases	289	158
Discount unwind on long-term employee entitlements	235	247
<b>Total finance costs</b>	<b>687</b>	<b>405</b>

## 8 OTHER COST OF SERVICES

	Actual 2011 \$000	Actual 2010 \$000
Fees to auditor:		
Audit fees for financial statements audit	100	100
Audit fees – other Audit New Zealand fees	42	-
Audit related fees for assurance and related services	32	-
Operating lease expense	4,132	2,419
Building operating expenses	588	808
Information technology expenses	1,721	1,537
Staff travel	3,304	3,632
Insurances	1,123	1,244
Donations	16	23
Impairment of receivables (note 10)	14	2
Safety information services	1,885	1,820
Consultancy	2,291	1,382
Consumables and maintenance	2,031	1,529
Net foreign exchange losses	32	2
Net loss on sale of property, plant and equipment	329	-
Impairment of property, plant, equipment & intangibles	113	29
Other expenses	2,314	2,365
<b>Total other cost of services</b>	<b>20,067</b>	<b>16,892</b>

Staff travel expense includes all travel related to the Authority's normal business functions. Travel that is incidental to staff training is included within Other Personnel Expenses in Note 5.

Other Audit New Zealand fees were for an assurance review over CAA's quarterly reports to the Minister of Transport.

## 9 CASH AND CASH EQUIVALENTS

	Actual 2011 \$000	Actual 2010 \$000
Cash on hand and at bank	1,590	4,593
Cash equivalents -- short-term deposits	35,585	61,780
<b>Total cash and cash equivalents</b>	<b>37,175</b>	<b>66,373</b>

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value, due to the short-term nature of the deposits.

The weighted average effective interest rate for the short-term deposits held is 4.0% (2010: 3.8%).

No part of cash and cash equivalents has been pledged as security for liabilities or contingent liabilities.

As all cash and cash equivalents deposits are held with New Zealand registered banks that have high quality credit ratings, no security is held for the balances, nor considered necessary.

## 10 DEBTORS AND OTHER RECEIVABLES

	Actual 2011 \$000	Actual 2010 \$000
Debtors	7,931	7,986
Other receivables	1,183	361
Less: provision for impairment	(14)	-
<b>Total debtors and other receivables</b>	<b>9,100</b>	<b>8,347</b>

The carrying value of debtors and other receivables approximates their fair value, due to the short period of time in which they are expected to be collected.

As at 30 June 2011 and 2010, all receivables were reviewed for evidence of impairment. Both provisioned and non-provisioned bad debts are written-off when recovery actions have been unsuccessful and when the likelihood of recovery is considered remote.

The ageing profile of receivables at year end is detailed below:

	Current	Past due 1-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total \$000
<b>2011</b>						
Not past due and not impaired	3,123	-	-	-	-	3,123
Past due but not impaired	-	5,310	458	136	73	5,977
Impaired assets -- gross	-	-	-	3	11	14
Impairment	-	-	-	(3)	(11)	(14)
Impaired assets -- net	-	-	-	-	-	-
<b>Total debtors and other receivables</b>	<b>3,123</b>	<b>5,310</b>	<b>458</b>	<b>136</b>	<b>73</b>	<b>9,100</b>
<b>2010</b>						
Not past due and not impaired	2,521	-	-	-	-	2,521
Past due but not impaired	-	5,519	235	17	55	5,826
Impaired assets -- gross	-	-	-	-	2	2
Impairment	-	-	-	-	(2)	(2)
Impaired assets -- net	-	-	-	-	-	-
<b>Total debtors and other receivables</b>	<b>2,521</b>	<b>5,519</b>	<b>235</b>	<b>17</b>	<b>55</b>	<b>8,347</b>

All receivables amounts that are neither past due nor impaired are considered fully collectible.

Movements in the provision for impairment of receivables are as follows:

	Actual 2011 \$000	Actual 2010 \$000
Balance at 1 July	-	(2)
Additional provisions made during the year	(14)	2
Receivables written-off during the period	-	(2)
Provisions reversed during the year	-	2
<b>Balance at 30 June</b>	<b>(14)</b>	<b>-</b>

No security is held for any debtors and other receivable balances.

No part of debtors or other receivables has been pledged as security for liabilities or contingent liabilities.

## 11 INVENTORIES

	Actual 2011 \$000	Actual 2010 \$000
Inventories held for use in the provision of services	80	90
Services work in progress	314	255
<b>Total inventories</b>	<b>394</b>	<b>345</b>

### Inventories held for use in the provision of services

Identification card stocks are held for sale in the ordinary course of business and are in the form of materials to be consumed in the rendering of services.

No inventories are pledged as security for liabilities. However, some inventories are subject to retention of title clauses.

There have been no write-downs (2010: \$nil) or reversals of write-downs (2010:\$nil) for inventories during the year.

## 12 INVESTMENTS

	Actual 2011 \$000	Actual 2010 \$000
<b>Current investments are represented by:</b>		
Term deposits	29,000	14,750
	<b>29,000</b>	<b>14,750</b>
<b>Maturity analysis and effective interest rates of term deposits</b>		
Term deposits with maturities of 4-6 months (91-180 days)	29,000	14,750
Effective interest rate	3.8%	4.8%
	<b>29,000</b>	<b>14,750</b>

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

The Authority has taken a forward exchange contract for USD 440,000 (2010: USD 465,000) to settle liability insurance cover premiums for the 2011/12 financial year. The contract will be settled within six months from balance date.

The fair values of forward exchange contracts have been determined using the market rate as at balance date.

## 14 PROPERTY, PLANT AND EQUIPMENT

Movements for each class of property and equipment are as follows:

	Asset under construction \$000	Buildings (incl components) \$000	Leasehold improvements \$000	Furniture & fittings \$000	Plant & equipment \$000	Office equipment \$000	Motor vehicles \$000	Computer equipment \$000	Leased HBS screening equipment \$000	Total \$000
<b>Cost or valuation</b>										
Balance at 1 July 2009	601	807	2,534	1,097	10,213	690	3,019	3,614	11,651	34,226
Additions	2,680	-	96	-	2,616	27	935	304	5,231	11,889
Revaluation increase	-	11	-	-	-	-	-	-	-	11
Disposals	-	-	(18)	(2)	(362)	-	(782)	(10)	(10,675)	(11,849)
<b>Balance at 30 June 2010</b>	<b>3,281</b>	<b>818</b>	<b>2,612</b>	<b>1,095</b>	<b>12,467</b>	<b>717</b>	<b>3,172</b>	<b>3,908</b>	<b>6,207</b>	<b>34,277</b>
Balance at 1 July 2010	3,281	818	2,612	1,095	12,467	717	3,172	3,908	6,207	34,277
Additions	(3,195)	-	7,118	1,522	1,021	119	712	1,001	-	8,298
Revaluation increase	-	(170)	-	-	-	-	-	-	-	(170)
Disposals	-	(48)	(867)	(471)	(308)	(116)	(466)	(163)	-	(2,439)
Transfer to investment assets	-	(600)	-	-	-	-	-	-	-	(600)
<b>Balance at 30 June 2011</b>	<b>86</b>	<b>-</b>	<b>8,863</b>	<b>2,146</b>	<b>13,180</b>	<b>720</b>	<b>3,418</b>	<b>4,746</b>	<b>6,207</b>	<b>39,366</b>
<b>Accumulated depreciation and impairment losses</b>										
Balance at 1 July 2009	-	(141)	(1,296)	(508)	(6,188)	(528)	(1,369)	(2,969)	(9,489)	(22,488)
Depreciation expense	-	(93)	(502)	(171)	(1,526)	(69)	(653)	(421)	(2,173)	(5,608)
Eliminate on disposal	-	-	8	-	331	-	684	10	10,676	11,709
Eliminate on revaluation	-	138	-	-	-	-	-	-	-	138
Impairment losses	-	-	(9)	-	-	-	-	-	-	(9)
Reversal of impairment losses	-	-	9	-	-	-	-	-	-	9
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>(96)</b>	<b>(1,790)</b>	<b>(679)</b>	<b>(7,383)</b>	<b>(597)</b>	<b>(1,338)</b>	<b>(3,380)</b>	<b>(986)</b>	<b>(16,249)</b>
Balance at 1 July 2010	-	(96)	(1,790)	(679)	(7,383)	(597)	(1,338)	(3,380)	(986)	(16,249)
Depreciation expense	-	(63)	(667)	(138)	(1,733)	(77)	(764)	(420)	(1,552)	(5,414)
Eliminate on disposal	-	33	844	357	275	116	428	163	-	2,216
Eliminate on revaluation	-	126	-	-	-	-	-	-	-	126
<b>Balance at 30 June 2011</b>	<b>-</b>	<b>-</b>	<b>(1,613)</b>	<b>(460)</b>	<b>(8,841)</b>	<b>(558)</b>	<b>(1,674)</b>	<b>(3,637)</b>	<b>(2,538)</b>	<b>(19,321)</b>
<b>Carrying amounts</b>										
At 1 July 2009	601	666	1,238	589	4,025	162	1,650	645	2,162	11,738
At 30 June 2010	3,281	722	822	416	5,084	120	1,834	528	5,221	18,028
At 30 June 2011	86	-	7,250	1,686	4,339	162	1,744	1,109	3,669	20,045

The total amount of property, plant and equipment in the course of construction is \$86,000 (2010: \$3,281,000). Building costs held in WIP in the 2010 year represented the costs incurred in the fit-out of the CAA's Head Office at 55 Featherston Street, Wellington. The fitout was completed in the 2011 year and the CAA has relocated to these premises. These costs have transferred to leasehold improvements.

The net carrying amount of property, plant and equipment held under finance leases is \$3,669,000 (2010: \$5,221,000). Other than items of property, plant and equipment that are subject to finance leases, there are no title restrictions for any of the Authority's property, plant and equipment assets nor are any items of property, plant and equipment pledged as security for liabilities or contingent liabilities.

## 15 INTANGIBLE ASSETS

Movements for each class of intangible asset are as follows:

	Assets under construction \$000	AIS navigation database \$000	Acquired software \$000	Internally developed software \$000	Software under development \$000	Total \$000
<b>Cost</b>						
Balance at 1 July 2009	-	785	1,250	1,810	20	3,865
Additions	449	31	287	100	-	867
<b>Balance at 30 June 2010</b>	<b>449</b>	<b>816</b>	<b>1,537</b>	<b>1,910</b>	<b>20</b>	<b>4,732</b>
Balance at 1 July 2010	449	816	1,537	1,910	20	4,732
Additions	327	45	720	-	107	1,199
Transfer to available for use	(449)	-	449	-	-	-
Disposals	-	-	(89)	-	-	(89)
<b>Balance at 30 June 2011</b>	<b>327</b>	<b>861</b>	<b>2,617</b>	<b>1,910</b>	<b>127</b>	<b>5,842</b>
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 July 2009	-	-	(958)	(1,340)	-	(2,298)
Amortisation expense	-	-	(242)	(157)	-	(399)
Impairment losses	-	-	-	-	(20)	(20)
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>-</b>	<b>(1,200)</b>	<b>(1,497)</b>	<b>(20)</b>	<b>(2,717)</b>
Balance at 1 July 2010	-	-	(1,200)	(1,497)	(20)	(2,717)
Amortisation expense	-	-	(254)	(173)	-	(427)
Disposals	-	-	89	-	-	89
<b>Balance at 30 June 2011</b>	<b>-</b>	<b>-</b>	<b>(1,365)</b>	<b>(1,670)</b>	<b>(20)</b>	<b>(3,055)</b>
<b>Carrying amounts</b>						
<b>At 1 July 2009</b>	<b>-</b>	<b>785</b>	<b>292</b>	<b>470</b>	<b>20</b>	<b>1,567</b>
<b>At 30 June 2010</b>	<b>449</b>	<b>816</b>	<b>337</b>	<b>413</b>	<b>-</b>	<b>2,015</b>
<b>At 30 June 2011</b>	<b>327</b>	<b>861</b>	<b>1,252</b>	<b>240</b>	<b>107</b>	<b>2,787</b>

The total amount of intangibles in the course of construction is \$327,000 (2010: \$449,000). The amortisation expense for intangible assets is included within depreciation and amortisation expense in the Statement of Comprehensive Income. There are no title restrictions for any of the Authority's intangible assets, nor are any intangible assets pledged as security for liabilities or contingent liabilities.

### Intangible assets with an indefinite useful life

Under the Civil Aviation Act 1990, the Authority is required to ensure that an information service is provided and readily available for the safety, regularity and efficiency of air navigation in New Zealand. To achieve this, the CAA acquired and maintains the Aeronautical Information Service (AIS) database which comprises maps, charts and other aeronautical information of a lasting character essential to New Zealand air navigation. Due to the critical nature of the information contained in the database and the requirement to ensure its continuing availability for as long as there is an aviation sector in New Zealand, there is no foreseeable end to demand for the content. The AIS database is therefore considered to have an indefinite useful life.

## 16 INVESTMENT PROPERTY

	Actual 2011 \$000	Actual 2010 \$000
Balance at 1 July	-	-
Transfer from Property, Plant, and Equipment	600	-
Fair value gains/(losses) on valuation	(290)	-
<b>Balance at 30 June</b>	<b>310</b>	<b>-</b>

The Authority owns a building at Auckland International Airport (former Avsec operational base). The original carrying amount of this building was \$900,000.

The building was revalued on 30 June 2011 by an independent valuer, Seagar & Partners, FPINZ to fair value of \$310,000. Buildings are valued at fair value using market based evidence. Market rents and capitalization rates were applied to reflect market value.

## 17 CREDITORS AND OTHER PAYABLES

	Actual 2011 \$000	Actual 2010 \$000
Creditors	1,931	4,031
Other payables	3,128	2,504
<b>Total creditors and other payables</b>	<b>5,059</b>	<b>6,535</b>

The carrying value of creditors and other payables approximates their fair value as these liabilities are non-interest bearing and are normally settled within 30 days.

## 18 EMPLOYEE ENTITLEMENTS

	Actual 2011 \$000	Actual 2010 \$000
<b><i>Current employee entitlements are represented by:</i></b>		
Accrued salaries and wages	2,328	2,205
Annual leave	5,985	5,963
<i>Current portion of long-term employee entitlements</i>		
Sick leave	147	154
Retiring and long service leave	499	436
<b>Total current portion</b>	<b>8,959</b>	<b>8,758</b>
<b><i>Non-current employee entitlements are represented by:</i></b>		
<i>Long-term employee entitlements</i>		
Retiring and long service leave	3,887	3,721
Sick leave	298	270
<b>Total non-current portion</b>	<b>4,185</b>	<b>3,991</b>
<b>Total employee entitlements</b>	<b>13,144</b>	<b>12,749</b>

The present value of the retirement, long service leave, and sick leave obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

In determining the appropriate discount rate, the Authority considered the interest rates on New Zealand Treasury Bills and Government Bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical

salary inflation patterns and after obtaining advice from an independent actuary. Term-specific risk-free rates as at 30 June 2011 ranging from 2.84% pa to 6.00% pa (2010: weighted average discount rate of 5.5%) and salary inflation factor of 3.0% pa (2010: 3.5% pa) were used.

#### Actuarial estimate sensitivity analysis

If the discount rate were to be 1% pa higher/lower than the Authority's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$367,000 lower/\$427,000 higher respectively (2010: \$360,000 lower/\$421,000 higher respectively).

If the salary inflation factor was 1% pa higher/lower than the Authority's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$390,000 higher/\$335,000 lower respectively (2010: \$380,000 higher/\$333,000 lower respectively).

## 19 PROVISIONS

	Actual 2011 \$000	Actual 2010 \$000
<b>Current provisions are represented by:</b>		
Leasehold refurbishment	83	210
<b>Total current portion</b>	<b>83</b>	<b>210</b>
<b>Non-current provisions are represented by:</b>		
HBS screening equipment decommissioning	233	233
<b>Total non-current portion</b>	<b>233</b>	<b>233</b>
<b>Total provisions</b>	<b>316</b>	<b>443</b>

Movements for each class of provision as follows:

	HBS screening equipment decommissioning \$000	Leasehold refurbishment \$000	Total \$000
<b>2011</b>			
Balance at 1 July	233	210	443
Additional provisions made	-	(127)	(127)
<b>Balance at 30 June 2011</b>	<b>233</b>	<b>83</b>	<b>316</b>
<b>2010</b>			
Balance at 1 July	210	117	327
Additional provisions made	23	93	116
<b>Balance at 30 June 2010</b>	<b>233</b>	<b>210</b>	<b>443</b>

#### Hold Baggage Screening (HBS) equipment decommissioning

The Authority has recognised a provision for the cost of decommissioning the Hold Baggage Screening equipment at the end of its estimated useful life.

## Leasehold Exit Obligations

In respect of leased office space in Petone, the Authority has relinquished the lease as at 30 June 2011, but exit obligations costs remain unfinalised at balance date. Information about the Authority's leasing arrangements are disclosed in Note 20.

## 20 BORROWINGS

	Actual 2011 \$000	Actual 2010 \$000
<b>Current borrowings are represented by:</b>		
Finance leases	1,535	1,446
Advances from the Crown	401	-
<b>Total current portion</b>	<b>1,936</b>	<b>1,446</b>
<b>Non-current borrowings are represented by:</b>		
Finance leases	2,301	3,836
Advances from the Crown	3,740	-
<b>Total non-current portion</b>	<b>6,041</b>	<b>3,836</b>
<b>Total borrowings</b>	<b>7,977</b>	<b>5,282</b>
<b>Analysis of finance leases</b>		
<b>Minimum lease payments payable:</b>		
Not later than one year	1,733	1,733
Later than one year and not later than five years	2,422	4,155
<b>Total minimum lease payments</b>	<b>4,155</b>	<b>5,888</b>
Future finance charges	(319)	(606)
<b>Present value of minimum lease payments</b>	<b>3,836</b>	<b>5,282</b>
<b>Present value of minimum lease payments payable:</b>		
Not later than one year	1,535	1,446
Later than one year and not later than five years	2,301	3,836
<b>Total present value of minimum lease payments</b>	<b>3,836</b>	<b>5,282</b>

### Fair value

Due to the interest rate on the unsecured loan being set at a market related level, the carrying amounts of unsecured loans approximate their fair value.

The fair value of finance leases is \$3,836,000 (2010: \$5,282,000). Fair value has been determined using contractual cash flows discounted using a rate of 3.5%.

### Description of leasing arrangements

The Authority has entered into finance leases for Hold Baggage Screening (HBS) equipment and for various items of office equipment. Approval for these borrowing arrangements is held from the Minister of Finance in terms of the requirements of the *Public Finance Act 1989* and the *Crown Entities Act 2004*.

Leased HBS equipment is disclosed as a separate class of property, plant and equipment in Note 14. The net carrying amount of other leased items within each relevant class of property, plant and equipment is also shown in Note 14.

On expiry, the Authority has the option to return the equipment or continue using it. The Authority does not have the option to purchase the equipment. The rental payments are unchanged if the Authority continues to use the asset. There are no restrictions placed on the Authority by any of these finance leasing arrangements.



Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

### Description of Advances from the Crown

On 30 August 2010 the Crown agreed to provide an unsecured loan to the CAA (\$4,340,000) for the purpose of funding the hard fitout of new premises at 55 Featherston St, Wellington. The loan is for a period of five years to 30 June 2015. The loan was issued at fixed rate of 6.84%.

## 21 EQUITY

	Actual 2011 \$000	Actual 2010 \$000
<b>General funds</b>		
Opening balance at 1 July	34,255	30,744
Transfer from statement of comprehensive income	(7,475)	15,129
Transfer to property, plant and equipment revaluation reserve	44	(150)
Transfer to/from passenger security charges reserves	5,857	(14,449)
Capital contributions	2,410	2,981
Repayment of capital	(7,500)	-
<b>Closing balance at 30 June</b>	<b>27,591</b>	<b>34,255</b>
<b>Reserves</b>		
<b>Property, plant and equipment revaluation reserve</b>		
Opening balance at 1 July	790	640
Transfer from statement of comprehensive income	(44)	150
<b>Closing balance at 30 June</b>	<b>746</b>	<b>790</b>
<b>Passenger security charges reserve</b>		
Passenger security charges reserve - Domestic	6,914	4,431
Passenger security charges reserve - International	35,398	23,432
Passenger security contingency reserve - Domestic	3,000	3,000
Passenger security contingency reserve - International	4,500	4,500
	<b>49,812</b>	<b>35,363</b>
<i>Transfer from General Funds to:</i>		
Passenger security charges reserve - Domestic	(541)	2,483
Passenger security charges reserve - International	(5,316)	12,455
<b>Total transfers from General Funds</b>	<b>(5,857)</b>	<b>14,938</b>
<i>Transfer to General Funds from:</i>		
Passenger security charges reserve - International	-	(489)
<b>Total transfers to General Funds</b>	<b>-</b>	<b>(489)</b>
Passenger security charges reserve - Domestic	6,373	6,914
Passenger security charges reserve - International	30,082	35,398
Passenger security contingency reserve - Domestic	3,000	3,000
Passenger security contingency reserve - International	4,500	4,500
<b>Closing balance at 30 June</b>	<b>43,955</b>	<b>49,812</b>

Section 165 of the Crown Entities Act 2004 provides the Minister of Finance with discretion to require Crown entities to return annual and accumulated operating surpluses to the Crown, unless exempted in Schedule 1. The Authority is so exempted. However, section 72CA of the Civil Aviation Act 1990 specifically provides that repayment of Avsec surplus funds to the Crown may be requested by the Minister of Finance at his discretion.

## 22 RECONCILIATION OF NET SURPLUS / (DEFICIT) TO NET CASH FROM OPERATING ACTIVITIES

	Actual 2011 \$000	Actual 2010 \$000
<b>Net surplus/(deficit)</b>	<b>(7,431)</b>	<b>14,979</b>
<b>Add/(less) non-cash items:</b>		
Depreciation and amortisation expense	5,841	6,007
Write-down of property, plant and equipment	329	-
Impairment of receivables	14	3
Net foreign exchange (gains) / losses	31	(123)
Discount unwind on employee entitlements	235	247
Non-current employee entitlements	(2)	(75)
Impairment losses -- property, plant & equipment	113	29
<b>Total non-cash items</b>	<b>6,561</b>	<b>6,088</b>
<b>Add/(less) items classified as investing or financing activities:</b>		
(Gains) / losses on disposal of property, plant & equipment	(145)	(281)
<b>Total items classified as investing or financing activities</b>	<b>(145)</b>	<b>(281)</b>
<b>Add/(less) movements in working capital items:</b>		
Debtors & other receivables (increase)/decrease	(667)	919
Inventories (increase)/decrease	(49)	(12)
Creditors & other payables increase/(decrease)	(1,578)	2,502
Current Employee entitlements increase/(decrease)	164	1,356
Provisions increase/(decrease)	(127)	41
<b>Net movements in working capital items</b>	<b>(2,257)</b>	<b>4,806</b>
<b>Net cash from operating activities</b>	<b>(3,272)</b>	<b>25,592</b>

## 23 CAPITAL AND OPERATING COMMITMENTS

	Actual 2011 \$000	Actual 2010 \$000
<b>Capital commitments</b>		
Property, plant and equipment	85	6,879
Intangible assets	376	519
<b>Total capital commitments</b>	<b>461</b>	<b>7,398</b>
<b>Non-cancellable operating leases</b>		
Not later than one year	6,202	5,521
Later than one year and not later than five years	21,024	23,267
Later than five years	23,390	30,463
<b>Total non-cancellable operating leases</b>	<b>50,616</b>	<b>59,251</b>

The Authority leases office premises in Wellington. It also leases office premises and car parks, staff facilities and operational space for regulatory screening points at three metropolitan and five regional airports.

There are no restrictions placed on the Authority by any of its operating leasing arrangements.

**Other non-cancellable operating commitments**

	Actual 2011 \$000	Actual 2010 \$000
Not later than one year	1,666	1,356
Later than one year and not later than five years	1,891	2,734
<b>Total non-cancellable operating leases</b>	<b>3,557</b>	<b>4,090</b>

**24 CONTINGENCIES****CONTINGENT LIABILITIES****Legal actions**

The Authority has taken, or is responding to, legal actions involving nine (2010: one) aviation participants and one staff member (2010: one). The Authority has relied on advice from legal counsel in forming the view that contingent liabilities with an estimated value of \$nil (2010: \$33,000) exist in relation to the proceedings.

**CONTINGENT ASSETS**

The Authority has no contingent assets (2010: \$nil).

**25 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL****RELATED PARTY TRANSACTIONS**

The Authority is a wholly owned entity of the Crown. The government significantly influences the functions the Authority undertakes and also provides Crown funding to support the execution of those functions.

The CAA has been provided with funding from the Crown of \$2,261,000 (2010: \$2,261,000) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. The Aviation Security Service also received \$0.145 million funding for maritime security preparedness (2010: \$0.145 million) specifically focused on the port of Auckland during the financial year.

The Authority has a five member board, appointed for terms of up to three years and it reports to the Minister of Transport.

The Authority enters into transactions with government departments, state-owned enterprises and other Crown entities that are related parties of the Authority solely by virtue of their common Crown ownership. Where these transactions have occurred within a normal supplier or client relationship, and are on terms and conditions no more or less favourable than those which it is reasonable to expect that the Authority would have adopted if dealing with that entity at arms length and in the same circumstances, the transactions have not been disclosed as related party transactions.

*The following transactions were carried-out with related parties other than those described above:*

All related party transactions have been entered into on an arm's length basis. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Transactions	Ref	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2011 \$	2010 \$	2011 \$	2010 \$
<b>Income</b>					
R Crawford - Authority member	(i)	-	133	-	-
Philips Search & Rescue Trust	(i)	-	6,650	-	-
<b>Expense</b>					
Revera Limited	(ii)	119,553	90,254	-	-

(i) Ceased to be related parties in June 2010.

(ii) R Bettle, an Authority member until April 2011, is a Director of Revera Limited. CAA paid Revera Limited for business continuity services and systems storage. The fee paid was on normal commercial terms at the usual rate for the services provided.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2010: \$nil).

Key management personnel compensation

	Actual 2011 \$000	Actual 2010 \$000
Salaries and other short-term employee benefits	3,724	3,313
Post-employment benefits	92	298
Other long-term benefits	21	46
<b>Total key management personnel compensation</b>	<b>3,837</b>	<b>3,657</b>

Key management personnel include all Authority Members, the Director of Civil Aviation, the General Manager of Aviation Security, the remaining eight members of CAA's Executive team, and the six members of Avsec's Executive Management team.

Key management personnel compensation excludes the remuneration and other benefits the Minister of Transport and the Associate Minister of Transport received. The Minister and the Associate Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the Authority. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and are not paid by the Authority.

## 26 AUTHORITY MEMBER COMPENSATION

The total value of remuneration paid or payable to each Authority member during the year was:

	Actual 2011 \$000	Actual 2010 \$000
R Bettle (Chair - re-appointed December 2009)	38	49
E Millar (Deputy Chair - term expired June 2010)	-	28
D Park (resigned 9 June 2010)	-	24
Susan Hughes (re-appointed June 2010)	24	24
R Crawford (term expired June 2010)	-	24
N Gould (appointed April 2011)	12	-
P Griffith (appointed June 2010)	27	-
J Bartlett (appointed June 2010)	23	-
Anita Mazzoleni (appointed June 2010)	23	-
<b>Total Authority member remuneration</b>	<b>146</b>	<b>149</b>

There have been no payments made to committee members appointed by the Authority who were not Authority members during the financial year.

The Authority has effected Directors and Officers Liability and Professional Indemnity insurance cover for the financial year, in respect of any liability or costs it may incur arising from the activities of Authority members and employees.

## 27 EMPLOYEE REMUNERATION

Total remuneration paid or payable

	Actual 2011 \$000	Actual 2010 \$000
\$100,000 - \$109,999	32	21
\$110,000 - \$119,999	12	9
\$120,000 - \$129,999	9	7
\$130,000 - \$139,999	9	11
\$140,000 - \$149,999	13	6
\$150,000 - \$159,999	4	7
\$160,000 - \$169,999	5	4
\$170,000 - \$179,999	2	-
\$180,000 - \$189,999	1	4
\$190,000 - \$199,999	4	2
\$200,000 - \$209,999	2	4
\$210,000 - \$219,999	3	1
\$220,000 - \$229,999	-	-
\$230,000 - \$239,999	1	-
\$240,000 - \$249,999	-	-
\$250,000 - \$259,999	-	-
\$260,000 - \$269,999	-	-
\$270,000 - \$279,999	-	-
\$280,000 - \$289,999	-	-
\$290,000 - \$299,999	-	1
\$300,000 - \$309,999	1	-
\$400,000-\$409,999	-	1
\$540,000-\$549,999	1	-
<b>Total number of employees</b>	<b>99</b>	<b>78</b>

The General Manager Aviation Security Services remuneration included cashed up annual leave and retirement entitlements of \$180,000 and other employee benefits of \$22,000 during the 2010/11 financial year.

During the year ended 30 June 2011, 18 (2010: 12) employees and no Authority members (2010: nil) received compensation and other benefits in relation to cessation totalling \$689,000 (2010: \$298,000).

## 28 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date except for:

CAA announced the commencement of an organisation-wide Change Programme on 26 May 2011, involving three phases of organisational change and restructuring. The process for phase one of the programme was announced on 20 June 2011 with decisions about the details of the programme to be made in August 2011. No specific obligations existed at balance date.

## 29 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying of amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	Actual 2011 \$000	Actual 2010 \$000
<b>Financial assets</b>		
<i>Loans and receivables</i>		
Cash and cash equivalents	37,175	66,373
Debtors and other receivables	9,100	8,347
Investments - term deposits	29,000	14,750
<b>Total loans and receivables</b>	<b>75,275</b>	<b>89,470</b>

Investments consist of term deposits with maturities ranging from 91 to 180 days with ASB Bank Ltd, Westpac New Zealand Ltd, and BNZ.

### Financial liabilities

#### *Financial liabilities measured at amortised cost*

Creditors and other payables	5,059	6,535
Finance lease liabilities	3,836	5,282
Advances from the Crown	4,141	-
<b>Total financial liabilities measured at amortised cost</b>	<b>13,036</b>	<b>11,817</b>

#### *Fair value through profit and loss*

Derivative financial instrument assets	-	8
Derivative financial instrument liabilities	23	-

## FAIR VALUE HIERARCHY DISCLOSURES

Derivative financial instrument assets and liabilities recognised at fair value in the Statement of Financial Position have been determined according to level 2 valuation techniques - observable inputs.

## 30 FINANCIAL INSTRUMENT RISK

The Authority's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Authority has a set of policies in place to manage the risks associated with financial instruments and it seeks to minimise its exposure to financial instrument risk.

These policies do not allow the Authority to enter into any transactions that are speculative in nature.

There have been no changes from the previous reporting period in either the types of financial instrument held, the type of risk exposure, or the way in which these financial instrument risks are managed.

### MARKET RISK

#### Price risk

Price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as interest rates, foreign exchange rates and other market factors.

#### Interest rate risk

The Authority is exposed to interest rate risk on its balances of cash and cash equivalents. The Authority minimises its exposure to interest rate risk by investing surplus liquid funds at short-term fixed interest rates and limiting its floating rate deposit balances to daily funding requirements.

As the Authority's short-term deposits are invested at fixed interest rates, any change in interest rates prior to deposit maturity has no impact on net surplus/(deficit). As these financial assets are carried at amortised cost, rather than at fair value, there is no direct impact on equity from any change in interest rates.

#### Currency risk

The Authority purchases some goods and services from overseas that require it to enter into transactions denominated in foreign currencies. Exposure to currency risk arises as a result of these activities. It is the Authority's policy to manage foreign currency risks arising from contractual commitments and liabilities by entering into foreign exchange forward contract derivatives to mitigate the foreign currency risk exposure.

As the Authority has no significant foreign currency monetary items at the balance sheet date, the effect on net surplus/(deficit) of any changes in foreign exchange rates is limited to the impact on the fair value of foreign currency forward contract derivatives and is not considered to be material. The Authority has no designated hedging instruments or foreign currency translation reserves therefore there is no direct impact on equity from changes in foreign currency exchange rates.

#### Credit risk

Credit risk is the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Authority. The Authority is exposed to credit risk on its balances of cash and cash equivalents, debtors and other receivables, and derivative contracts entered into. The Authority manages its exposure by placing all cash and cash equivalents and derivative contracts with New Zealand registered banks having high quality credit ratings and by managing debtors and other receivables in accordance with the Authority's credit management policy.

The Authority holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

Concentrations of credit risk	2011 \$000	2011 concentration %	2010 \$000	2010 concentration %
<i>Loans &amp; receivables</i>				
New Zealand registered banks	66,175	87.9%	81,123	90.4%
New Zealand airports	2	0.0%	6	0.0%
Domestic and International passenger airlines	8,354	11.1%	8,011	8.9%
Other	744	1.0%	622	0.7%
<b>Total</b>	<b>75,275</b>	<b>100.0%</b>	<b>89,762</b>	<b>100.0%</b>

Surplus funds are invested with registered banks and organisations with AA rating.

### Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting its payment obligations for commitments as they fall due. The Authority manages its liquidity risk by maintaining sufficient cash deposits in accordance with the levels set under its approved liquidity maintenance policy.

#### *Contractual maturity analysis of financial liabilities, excluding derivatives*

The table below analyses the present value of contractual undiscounted cash flows for the Authority's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000	Between 6 months & 1 year \$000	Later than 1 year \$000
<b>2011</b>					
Creditors and other payables (Note 17)	5,059	5,059	5,059	-	-
Borrowings (Note 20)	7,977	8,973	1,204	1,202	6,567
Derivative financial instruments	23	23	23	-	-
<b>Total contractual undiscounted cash flows</b>	<b>13,059</b>	<b>14,055</b>	<b>6,286</b>	<b>1,202</b>	<b>6,567</b>
<b>2010</b>					
Creditors and other payables (Note 17)	6,535	6,535	6,381	154	-
Borrowings (Note 20)	5,282	5,888	866	867	4,155
<b>Total contractual undiscounted cash flows</b>	<b>11,817</b>	<b>12,423</b>	<b>7,247</b>	<b>1,021</b>	<b>4,155</b>

### Sensitivity Analysis

At year end, a movement of one percentage point interest rates would affect the Authority's surplus and equity by \$ 662,000 (2010: \$768,000).

## 31 CAPITAL MANAGEMENT

The Authority's capital is its equity, which comprises the Crown's capital contributions, accumulated surplus and other reserves. Equity is represented by net assets. The Authority is subject to the financial management and accountability provisions of the *Crown Entities Act 2004*, the *Public Finance Act 1989*, and the *Civil Aviation Act 1990*, which impose restrictions in relation to borrowings, the acquisition of securities, the issue of guarantees and indemnities, and the use of derivatives.

The Authority manages its equity by prudently managing revenues, expenses, assets, liabilities, and investments in accordance with its written policies and the requirements of the Acts to ensure that the Authority effectively achieves its objectives and purpose, whilst remaining a going concern.



### 32 AVIATION SECURITY MEMORANDUM ACCOUNTS

The following memorandum accounts provide additional financial information on the regulated passenger security charges collected by the Authority:

	International Passenger Security Charges	Domestic Passenger Security Charges	Other Fees / Charges	Actual 2011	Budget 2011	Actual 2010
	\$000	\$000	\$000	\$000	\$000	\$000
<b>2011</b>						
Revenue	40,725	21,267	3,680	65,672	66,034	82,360
Expenditure	(46,041)	(21,808)	(3,382)	(71,231)	(76,378)	(67,316)
Net surplus / (deficit)	(5,316)	(541)	298	(5,559)	(10,344)	15,044
Opening balance at 1 July	39,898	9,914	(1,109)	48,703	46,116	33,659
<b>Closing balance at 30 June</b>	<b>34,582</b>	<b>9,373</b>	<b>(811)</b>	<b>43,144</b>	<b>35,772</b>	<b>48,703</b>
<b>2010</b>						
Revenue	54,680	23,251	4,429	82,360	77,435	84,152
Expenditure	(42,225)	(20,768)	(4,323)	(67,316)	(76,021)	(64,351)
Net surplus / (deficit)	12,455	2,483	106	15,044	1,414	19,801
Opening balance at 1 July	27,443	7,431	(1,215)	33,659	30,082	13,858
<b>Closing balance at 30 June</b>	<b>39,898</b>	<b>9,914</b>	<b>(1,109)</b>	<b>48,703</b>	<b>31,496</b>	<b>33,659</b>

### 33 EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

Explanations of budget variances are provided below for each specific financial statement, where the financial statement variance is considered significant.

#### STATEMENT OF COMPREHENSIVE INCOME

Income for the year ended 30 June 2011 of \$99.3 million was consistent with budget.

Expenditure of \$106.7 million was favourable against the budget of \$112.3 million by \$5.8 million. This was primarily due to:

- Personnel costs (actual \$77.9 million; budget \$80.8 million) - these costs were lower than budget in the CAA due to position vacancies not being filled while decisions were pending in respect of the Shared Services Review and the Change Programme. Avsec personnel costs also declined as a result of carrying a higher number of vacancies during the year, influenced by a review of staffing levels.
- Depreciation and amortisation expense (actual \$5.8 million; budget \$6.3 million) – these expenses were lower due to Avsec not incurring planned capital expenditure and the delayed commissioning of screening equipment, software projects, and two major leasehold improvement projects (replacement of Auckland operational base and national office accommodation). This was partly offset by the CAA incurring increased depreciation expenses as a result of investing in the fit-out of new premises at 55 Featherston Street, Wellington. This fit-out was funded by a \$4.34 million Crown loan (refer Note 20), which was a more cost effective financing facility than this asset being leased from the landlord as originally planned.
- Other cost of services (actual \$20.0 million; budget \$22.3 million) – these costs were lower than budget for the following key reasons:
  - training costs were lower due to the volume of operational work reducing staff ability to take time out for planned flight and technical training;

- travel expenses were reduced due to training related travel planned but not required during the year, and reduced costs of meeting Avsec's Pacific Island Security Fund obligations;
- the running costs for Avsec's vehicle fleet were lower as a result of lower than budgeted fuel and maintenance costs;
- Avsec's screening equipment maintenance costs were lower due to improved preventative maintenance schedules, its hold stow baggage (HBS) refurbishment in December 2010 and lower consumables expenditure;
- information technology costs were reduced as a result of lower software licence and maintenance costs;
- communication costs were reduced due to the lower cost of land-line and mobile plans; and
- building rental costs were lower, due to the hard fit-out of 55 Featherston St being acquired by the CAA rather than it being funded by an operating lease through the landlord.

## **BUDGET REVIEW - AVSEC**

The Authority and Avsec management recognised early in 2010, that Avsec was unlikely to incur all of its 2010/11 budgeted expenditure, given the tough economic conditions faced by the airline industry and modest passenger growth outlook. The Authority directed a full review of costs, resulting in \$7.5m of costs removed from Avsec 2010/11 budget, together with a reduction of \$15.3m over 2011 through to 2013, based on 2010/11 budget projections and assuming no change in current levels of service. Concurrent with this review an internal Operational Efficiency Review was undertaken along with a Value for Money review initiated by the Ministry of Transport.

The outcome of these reviews resulted in the Government, after consultation with the aviation industry, lowering the passenger security charges on 1 July 2011 for a two year period, which will return Avsec to a true cost of service model. As a result, the International passenger security charge reduces by \$2.22 to \$8.00 (GST inclusive) and the domestic passenger security charge reduces by \$0.75 to \$3.70 (GST inclusive). These passenger security charges are set at a level that covers the cost of providing the underlying security services and contemplates the utilisation of historic passenger security charge surpluses (excluding reserves) that have accumulated over time.

The reviews also led to \$15m reduction in Crown capital, with \$7.5m being returned to the Crown and \$7.5m transferred to the CAA (refer below).

## **STATEMENT OF CHANGES IN EQUITY**

The total closing balance of equity as at 30 June 2011 of \$72.3 million is broadly consistent with the budget of \$73.1 million. However, this includes a transfer of taxpayers' funds of \$7.5 million made from Avsec's general funds to the CAA, which fully nets off in the Statement of Changes in Equity. This is separately disclosed in the additional financial information provided in Section 15. The transfer of taxpayers' funds was agreed on 12 April 2011 by the Ministers of Finance and Transport to contribute initial funding for the Authority's Change Programme. The transfer was part of the Authority's \$15 million reduction of Avsec's taxpayers' funds, which also included a \$7.5 million repayment to the Crown.

# 15 Additional financial information

## 15.1 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

The following additional financial information provides segmental reporting that discloses the two industry segments operated within the Authority. These relate to the operations of the CAA and Avsec.

Group 2010 Actual \$000		Aviation Safety 2011		Aviation Security 2011		Elimination 2011		Group 2011	
		Actual \$000	Budget \$000	Actual \$000	Budget \$000	Actual \$000	Budget \$000	Actual \$000	Budget \$000
	<b>Income</b>								
21,051	Levies revenue	22,167	22,169	-	-	-	-	22,167	22,169
85,555	Revenue from passenger security charges and other services	4,106	3,925	65,266	65,623	(17)	(15)	69,355	69,533
2,406	Crown funding revenue	2,261	2,261	145	145	-	-	2,406	2,406
1,976	Ministry contract revenue	1,666	1,418	268	265	-	-	1,934	1,683
2,940	Other income	313	416	3,153	3,104	-	-	3,466	3,520
<b>113,928</b>	<b>Total income</b>	<b>30,513</b>	<b>30,189</b>	<b>68,832</b>	<b>69,137</b>	<b>(17)</b>	<b>(15)</b>	<b>99,328</b>	<b>99,311</b>
	<b>Expenditure</b>								
73,634	Personnel costs	20,554	20,593	57,294	60,237	-	-	77,848	80,830
6,007	Depreciation and amortisation expense	928	750	4,913	5,559	-	-	5,841	6,309
2,011	Capital charge	290	290	2,026	2,243	-	-	2,316	2,533
405	Finance costs	185	-	502	288	-	-	687	288
16,892	Other cost of services	10,428	11,202	9,656	11,154	(17)	(15)	20,067	22,341
<b>98,949</b>	<b>Total expenses</b>	<b>32,385</b>	<b>32,835</b>	<b>74,391</b>	<b>79,481</b>	<b>(17)</b>	<b>(15)</b>	<b>106,759</b>	<b>112,301</b>
<b>14,979</b>	<b>NET SURPLUS / (DEFICIT)</b>	<b>(1,872)</b>	<b>(2,646)</b>	<b>(5,559)</b>	<b>(10,344)</b>	<b>-</b>	<b>-</b>	<b>(7,431)</b>	<b>(12,990)</b>
	<b>Other comprehensive income:</b>								
150	Gain on revaluation of land and buildings	-	-	(44)	-	-	-	(44)	-
<b>15,129</b>	<b>Total comprehensive income</b>	<b>(1,872)</b>	<b>(2,646)</b>	<b>(5,603)</b>	<b>(10,344)</b>	<b>-</b>	<b>-</b>	<b>(7,475)</b>	<b>(12,990)</b>

## 15.2 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

Group 2010 Actual \$000		Aviation Safety		Aviation Security		Elimination		Group	
		2011 Actual \$000	2011 Budget \$000	2011 Actual \$000	2011 Budget \$000	2011 Actual \$000	2011 Budget \$000	2011 Actual \$000	2011 Budget \$000
	<b>Equity</b>								
	<b>Opening balance of equity at 1 July</b>								
30,744	General funds	8,977	8,602	25,278	28,525	-	-	34,255	37,127
640	Property, plant and equipment revaluation reserve	-	-	790	640	-	-	790	640
35,363	Passenger security charges reserve	-	-	49,812	48,052	-	-	49,812	48,052
	Passenger safety charges reserve	-	-	-	-	-	-	-	-
<b>66,747</b>	<b>Total opening balance of equity at 1 July</b>	<b>8,977</b>	<b>8,602</b>	<b>75,880</b>	<b>77,217</b>	<b>-</b>	<b>-</b>	<b>84,857</b>	<b>85,819</b>
14,979	Net surplus / (deficit) for the year	(1,872)	(2,646)	(5,559)	(10,344)	-	-	(7,431)	(12,990)
2,981	Capital contributions	-	-	2,410	283	-	-	2,410	283
-	Repayment of capital	-	-	(7,500)	-	-	-	(7,500)	-
-	Capital transfers	7,500	-	(7,500)	-	-	-	-	-
150	Transfer to property, plant and equipment revaluation reserve	-	-	(44)	-	-	-	(44)	-
14,449	Transfer to/(from) passenger security reserves	-	-	(5,857)	(10,024)	-	-	(5,857)	(10,024)
(14,449)	Transfer to/(from) general funds	-	-	5,857	10,024	-	-	5,857	10,024
	Transfer to passenger Safety reserves	-	-	-	-	-	-	-	-
	Transfer from passenger Safety reserves	-	-	-	-	-	-	-	-
<b>18,110</b>	<b>Total changes in equity during the year</b>	<b>5,628</b>	<b>(2,646)</b>	<b>(18,193)</b>	<b>(10,061)</b>	<b>-</b>	<b>-</b>	<b>(12,565)</b>	<b>(12,707)</b>
	<b>Closing balance of equity at 30 June</b>								
34,255	General funds	14,605	5,956	12,986	28,488	-	-	27,591	34,444
790	Property, plant and equipment revaluation reserve	-	-	746	640	-	-	746	640
49,812	Passenger security charges reserves	-	-	43,955	38,028	-	-	43,955	38,028
	Passenger safety charges reserves	-	-	-	-	-	-	-	-
<b>84,857</b>	<b>Total closing balance of equity at 30 June</b>	<b>14,605</b>	<b>5,956</b>	<b>57,687</b>	<b>67,156</b>	<b>-</b>	<b>-</b>	<b>72,292</b>	<b>73,112</b>

## 15.3 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

Group 2010 Actual \$000		Aviation Safety 2011		Aviation Security 2011		Elimination 2011		Group 2011	
		Actual \$000	Budget \$000	Actual \$000	Budget \$000	Actual \$000	Budget \$000	Actual \$000	Budget \$000
	<b>CURRENT ASSETS</b>								
66,373	Cash and cash equivalents	12,791	4,418	24,384	61,175	-	-	37,175	65,593
8,347	Debtors and other receivables	2,741	1,753	6,645	6,567	(286)	-	9,100	8,320
345	Inventories	314	294	80	68	-	-	394	362
14,750	Investments - term deposits	-	-	29,000	-	-	-	29,000	-
8	Derivative financial instruments	-	-	-	-	-	-	-	-
<b>89,823</b>	<b>TOTAL CURRENT ASSETS</b>	<b>15,846</b>	<b>6,465</b>	<b>60,109</b>	<b>67,810</b>	<b>(286)</b>	<b>-</b>	<b>75,669</b>	<b>74,275</b>
	<b>NON-CURRENT ASSETS</b>								
18,028	Property, plant and equipment	6,007	2,215	14,038	15,499	-	-	20,045	17,714
2,015	Intangible assets	1,215	1,322	1,572	1,790	-	-	2,787	3,112
-	Investment property	-	-	310	-	-	-	310	-
<b>20,043</b>	<b>TOTAL NON-CURRENT ASSETS</b>	<b>7,222</b>	<b>3,537</b>	<b>15,920</b>	<b>17,289</b>	<b>-</b>	<b>-</b>	<b>23,142</b>	<b>20,826</b>
<b>109,866</b>	<b>TOTAL ASSETS</b>	<b>23,068</b>	<b>10,002</b>	<b>76,029</b>	<b>85,099</b>	<b>(286)</b>	<b>-</b>	<b>98,811</b>	<b>95,101</b>
	<b>CURRENT LIABILITIES</b>								
6,535	Creditors and other payables	1,886	2,092	3,459	2,261	(286)	-	5,059	4,353
8,758	Employee entitlements	1,929	1,524	7,030	7,601	-	-	8,959	9,125
210	Provisions	83	-	-	-	-	-	83	-
1,446	Borrowings	401	-	1,535	1,535	-	-	1,936	1,535
-	Derivative financial instruments	-	-	23	-	-	-	23	-
<b>16,949</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>4,299</b>	<b>3,616</b>	<b>12,047</b>	<b>11,397</b>	<b>(286)</b>	<b>-</b>	<b>16,060</b>	<b>15,013</b>
	<b>NON-CURRENT LIABILITIES</b>								
3,991	Employee entitlements	424	430	3,761	3,884	-	-	4,185	4,314
233	Provisions	-	-	233	361	-	-	233	361
3,836	Borrowings	3,740	-	2,301	2,301	-	-	6,041	2,301
<b>8,060</b>	<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>4,164</b>	<b>430</b>	<b>6,295</b>	<b>6,546</b>	<b>-</b>	<b>-</b>	<b>10,459</b>	<b>6,976</b>
<b>25,009</b>	<b>TOTAL LIABILITIES</b>	<b>8,463</b>	<b>4,046</b>	<b>18,342</b>	<b>17,943</b>	<b>(286)</b>	<b>-</b>	<b>26,519</b>	<b>21,989</b>
<b>84,857</b>	<b>NET ASSETS</b>	<b>14,605</b>	<b>5,956</b>	<b>57,687</b>	<b>67,156</b>	<b>-</b>	<b>-</b>	<b>72,292</b>	<b>73,112</b>
	<b>EQUITY</b>								
34,255	General funds	14,605	5,956	12,986	28,488	-	-	27,591	34,444
790	Property, plant and equipment revaluation reserve	-	-	746	640	-	-	746	640
49,812	Passenger security charges reserves	-	-	43,955	38,028	-	-	43,955	38,028
<b>84,857</b>	<b>TOTAL EQUITY</b>	<b>14,605</b>	<b>5,956</b>	<b>57,687</b>	<b>67,156</b>	<b>-</b>	<b>-</b>	<b>72,292</b>	<b>73,112</b>

## 15.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

Group 2010 Actual \$000		Aviation Safety		Aviation Security		Elimination		Group	
		2011 Actual \$000	2011 Budget \$000	2011 Actual \$000	2011 Budget \$000	2011 Actual \$000	2011 Budget \$000	2011 Actual \$000	2011 Budget \$000
	<b>Cash Flows from Operating Activities</b>								
20,701	Receipts from levies	21,921	22,565	-	-	(9)	-	21,912	22,565
86,826	Receipts from Passenger security charges and other services	4,045	4,047	64,907	67,712	(52)	-	68,900	71,759
4,382	Receipts from Crown funding and Ministry contracts	3,927	3,679	413	410	-	-	4,340	4,089
2,535	Interest received	294	416	2,891	2,915	-	-	3,185	3,331
(69,702)	Payments to employees	(19,225)	(18,172)	(54,493)	(56,996)	-	-	(73,718)	(75,168)
(16,955)	Payments to suppliers	(11,376)	(13,343)	(13,859)	(13,250)	61	-	(25,174)	(26,593)
(158)	Interest paid	(163)	-	(289)	(288)	-	-	(452)	(288)
(2,011)	Payments to capital charge to the Crown	(290)	(290)	(2,026)	(2,243)	-	-	(2,316)	(2,533)
(26)	Goods and Services Tax (net)	53	-	(2)	110	-	-	51	110
<b>25,592</b>	<b>Net Cash Flows from Operating Activities</b>	<b>(814)</b>	<b>(1,098)</b>	<b>(2,458)</b>	<b>(1,630)</b>	<b>-</b>	<b>-</b>	<b>(3,272)</b>	<b>(2,728)</b>
	<b>Cash Flows from Investing Activities</b>								
426	Sale of property, plant and equipment	8	4,443	208	226	-	-	216	4,669
(14,750)	Placement of investments	-	-	(14,250)	-	-	-	(14,250)	-
(11,892)	Purchase of property, plant and equipment	(4,877)	(5,074)	(3,420)	(6,264)	-	-	(8,297)	(11,338)
(861)	Purchase of intangible assets	(152)	-	(1,047)	(1,919)	-	-	(1,199)	(1,919)
<b>(27,077)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(5,021)</b>	<b>(631)</b>	<b>(18,509)</b>	<b>(7,957)</b>	<b>-</b>	<b>-</b>	<b>(23,530)</b>	<b>(8,588)</b>
	<b>Cash Flows from Financing Activities</b>								
2,981	Capital contributions	-	-	2,410	283	-	-	2,410	283
-	Capital Transfer	7,500	-	(7,500)	-	-	-	-	-
5,231	Proceeds from external borrowings	4,340	-	-	-	-	-	4,340	-
-	Repayment of capital	-	-	(7,500)	-	-	-	(7,500)	-
(2,262)	Repayment of external borrowings	(200)	-	(1,446)	(1,446)	-	-	(1,646)	(1,446)
<b>5,950</b>	<b>Net Cash Flows from Financing Activities</b>	<b>11,640</b>	<b>-</b>	<b>(14,036)</b>	<b>(1,163)</b>	<b>-</b>	<b>-</b>	<b>(2,396)</b>	<b>(1,163)</b>
4,465	Net increase/(decrease) in cash and cash equivalents	5,805	(1,729)	(35,003)	(10,750)	-	-	(29,198)	(12,479)
61,908	Opening cash and cash equivalents at 1 July	6,986	6,147	59,387	71,925	-	-	66,373	78,072
<b>66,373</b>	<b>CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>12,791</b>	<b>4,418</b>	<b>24,384</b>	<b>61,175</b>	<b>-</b>	<b>-</b>	<b>37,175</b>	<b>65,593</b>

The GST (net) component of net cash flows from operating activities comprises the net GST paid and received. This component has been presented on a net basis as the cash flows reflect amounts collected and returned on behalf of the Inland Revenue Department.

# Part D:

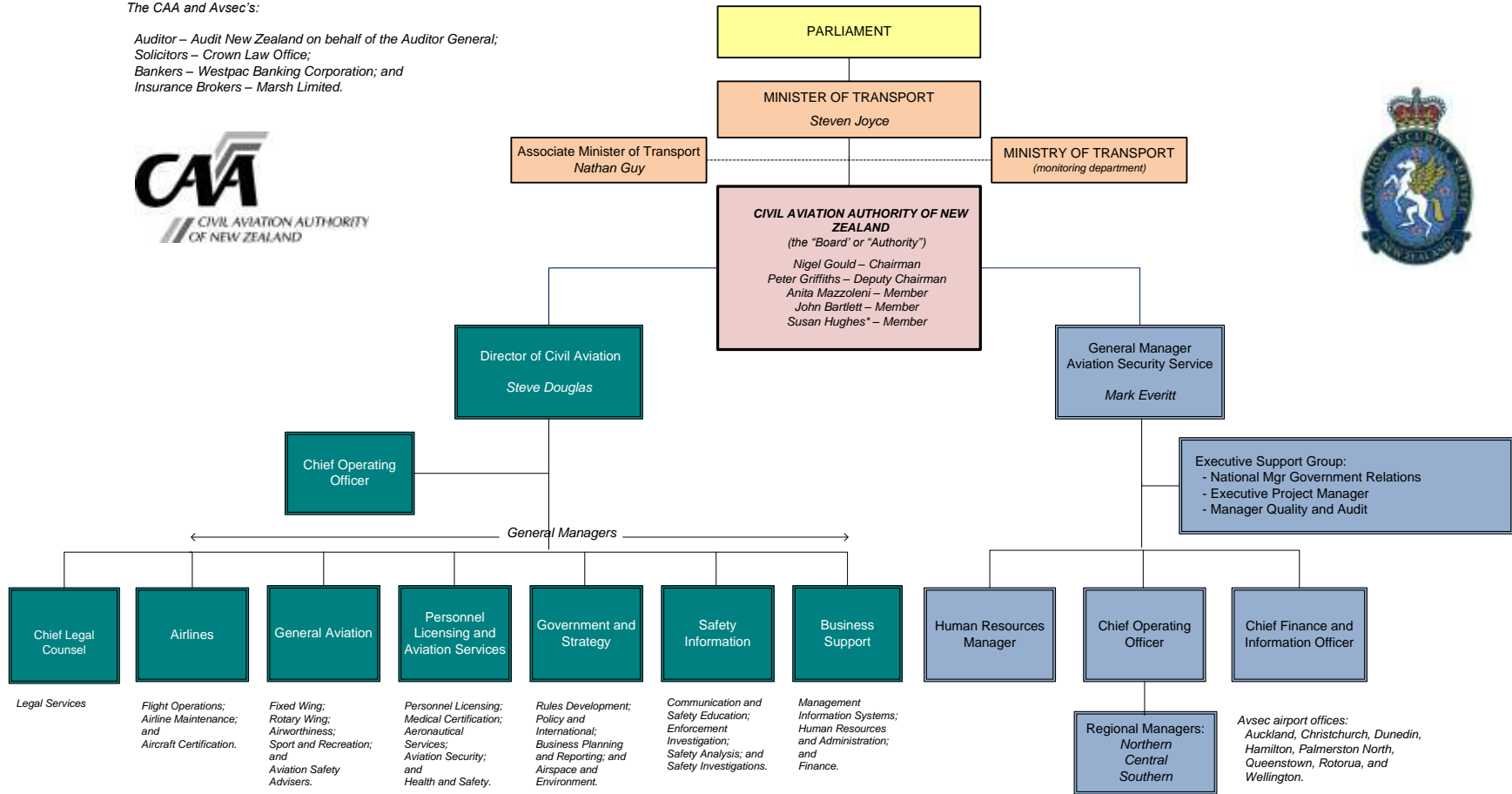
## Appendices

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# Appendix 1: Organisational structure as at 30 June 2011

The CAA and Avsec's:

Auditor – Audit New Zealand on behalf of the Auditor General;  
 Solicitors – Crown Law Office;  
 Bankers – Westpac Banking Corporation; and  
 Insurance Brokers – Marsh Limited.



\* Susan Hughes retired from the Board with effect from 17 July 2011. Grant Lilly was appointed to the Board with effect from 13 September 2011.



## Appendix 2: Progress Report on Rules Development Programme

Civil Aviation Rule Part		Estimated delivery date for draft final rule	What has been done in 2010/11	Status as at 30 June 2011
<b>Rules Projects for the Minister's signature in 2010/11</b>				
121	Extended Diversion Time Operations (EDTO)	August 2010	Minister signed rule in September 2010	☑Completed
125	Air Operations Medium Aeroplanes	September 2010	Draft final Rule package forwarded to MoT in October 2010	☑Completed under contract. At final stages (MoT to coordinate for the Minister's signature)
121	Training requirements	October 2010	NPRM published for public consultation on 30 November 2010. Draft final rule package forwarded to MoT in May 2011.	Re-drafting RIS and coordinating with MoT.
137	Agricultural operations	November 2010	The draft final rule package was forwarded to MoT in March 2011.	Redrafting RIS and coordinating with MoT.
	ICAO Equipment Compliance	December 2011	Amended Draft NPRM and draft RIS forwarded to MoT in May 2011.	Responding to comments from MoT on draft NPRM and RIS. Draft final rule expected delivery date in December 2011.
135	Terrain Awareness Warning System (Fixed Wing)	2007/08	Rule draft packages were forwarded to MoT. However these were not progressed and have now been withdrawn.	Removed from Rule Programme.
61 Stage3 141	Aviation Training Organisation	2009/10		
<b>Additional Rule brought forward from 2011/12</b>				
115	Adventure aviation	May 2011	Draft final rule package forwarded to MoT in March 2011	Redrafting RIS and coordinating with MoT.

Other Rules Activity			
Rule Part	Project Title	Next Milestone and Target Stage	Expected Delivery Date
	ICAO – Operational Compliance	Minister has decided to remove project from 2010/11 Rules Programme	Removed from Rule Programme.
Part 61	Pilot Licences and Ratings Stage 2	Draft NPRM to MoT	November 2011
Part 125	Training Requirements	Draft final rule to MoT	December 2011
	Security Review	Draft final rule to MoT	November 2011
Part 139 review	ICAO	Draft final rule to MoT	December 2011
	ICAO Safety Management Systems – Group 1	Draft final rule to MoT	November 2011
Part 172	ICAO	Minister has decided to remove project from 2010/11 Rules Programme	
	ICAO Safety Management Systems – Group 2	Draft NPRM to MoT	December 2011

## Appendix 3: Historical safety data in reference to “Measuring progress towards outcomes”

Total flight hours by aviation safety target group						
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Public air transport</b>						
1. Airline operations - large aeroplanes	305,543	306,908	308,030	324,148	311,470	334,723
2. Airline operations - medium aeroplanes	68,144	65,131	63,650	62,489	54,610	55,789
3. Airline operations - small aeroplanes	93,727	68,451	49,679	41,937	43,526	39,887
4. Airline operations - helicopters	69,696	71,291	63,807	58,429	52,374	59,561
5. Sport aviation transport operations *	1,590	1,339	1,390	1,211	1,114	1,440
<b>Other commercial operations</b>						
6. Other commercial operations - aeroplanes	141,760	186,899	251,642	270,854	281,676	232,279
7. Other commercial operations - helicopters	37,142	41,270	54,869	53,904	58,678	46,315
8. Agricultural operations – aeroplanes	48,042	53,557	48,130	32,374	33,800	35,648
9. Agricultural operations - helicopters	51,088	50,295	48,143	48,231	48,889	50,264
10. Agricultural operations - sport aircraft *	0	31	0	0	0	0
<b>Non-commercial operations</b>						
11. Private operations - aeroplanes	47,243	46,648	44,539	38,748	39,429	39,619
12. Private operations - helicopters	17,455	20,406	22,926	20,919	19,685	16,028
13. Private operations - sport aircraft *	3,514	3,705	2,848	3,218	3,415	3,451

\*Note: Safety target groups 5, 10 and 13 show hours only for aeroplanes, helicopters and balloons in these categories, as flight hours are not available for other aircraft, hang gliders and parachutes. Several results tables that follow exclude these groups where accident or other data cannot be matched with comparable flight hours.

### A3.1 OVERALL OUTCOME: SAFE AND SECURE CIVIL AVIATION FOR NEW ZEALAND

Measures
1. Public perception of the safety and security of the civil aviation system
2. Social cost per seat hour
3. Aggregate social cost
4. In-flight and airside security incidents/breaches

#### → MEASURE 1: PUBLIC PERCEPTION OF THE SAFETY AND SECURITY OF THE CIVIL AVIATION SYSTEM

A survey was conducted in June 2011 to establish baseline data about how safe and secure users of the civil aviation system perceive it to be. There is no comparable historical data.

#### → MEASURE 2: SOCIAL COST PER SEAT HOUR

The table below shows the performance for each safety target group for the year ending 30 June 2011, and the preceding five financial years.

Measure: Social cost per seat hour by aviation safety group (\$)							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2010 Target
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.11	0.00	0.00	0.00	0.00	0.00	0.10
2. Airline operations — medium aeroplanes	5.13	4.70	0.29	0.00	0.02	0.02	0.10
3. Airline operations — small aeroplanes	55.74	44.59	0.03	0.39	2.34	2.47	6.50
4. Airline operations — helicopters	3.07	2.79	0.00	5.35	9.17	10.28	6.50
5. Sport aviation transport operations	15.75	20.36	14.49	66.39	59.24	63.52	13.00
<b>Other commercial operations</b>							
6. Other commercial operations — aeroplane	55.91	35.38	44.82	25.06	25.43	57.80	6.50
7. Other commercial operations — helicopter	3.96	30.84	71.11	62.92	36.85	61.06	6.50
8. Agricultural operations — aeroplanes	164.37	108.65	114.47	74.61	100.55	53.96	14.00
9. Agricultural operations — helicopters	18.23	18.32	20.21	22.29	8.57	7.49	14.00
10. Agricultural operations — sport aircraft	Data not available						28.00
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	176.93	83.74	81.58	48.74	51.25	53.29	10.00
12. Private operations — helicopters	387.08	184.85	163.70	35.11	39.58	89.49	10.00
13. Private operations — sport aircraft	109.19	93.07	98.09	97.94	97.15	88.65	20.00

## Commentaries

This form of monitoring and reporting enables direct comparisons to be made between the aviation sectors that the CAA monitors. The outcome for:

Airline Operations – Large Aeroplanes	(96.7% of total seat hours) has remained well below the target level of \$0.10 per hour of exposure since 2006. This represents an excellent outcome performance.
Airline Operations – Medium Aeroplanes	is trending down and has been at or below the target level since the quarter Apr to Jun 09. The exposure (1.4% of total seat hours) associated with this sector is relatively small. The significantly higher outcomes prior to 2009 were the direct result of a double fatality accident in May 2005. Post 2008 this represents an excellent outcome performance.
Airline Operations – Small Aeroplanes	(0.1% of total seat hours) shows a downward trend and has been at or below the target level since 2008. Historically this had been a particularly unsafe sector with cost outcomes far in excess of the target level of \$6.50. The improved performance can be attributed to recertification activity undertaken during the 2005 – 2010 outcome monitoring period.
Airline Operations – Helicopters	which remained below the target level of \$6.50 for the early part of the monitoring period exceeded the established target in 2010 and looks likely to remain above an acceptable level for some time. There have been 2 serious and 5 minor injuries and several hull losses in this group in the three years Apr 08 to Mar 11, demonstrating the sensitivity of this monitoring and reporting methodology
Airline Operations – Sport Transport	has remained above the target level of \$13.00 for the entire 2005 – 2010 monitoring period. The significant spike in 2009 is, for the most part, the result of a double fatality accident involving a microlight aircraft. There have been 5 fatal, 12 serious and 13 minor injuries in this sector in the three years Apr 08 to Mar 11
Other Commercial Operations – Aeroplanes	is well above the target of \$6.50 and has been for the entire 2005 – 2010 monitoring period. During the three years Apr 08 to Mar 11 there have been 12 fatal, 3 serious and 3 minor injuries in this sector. The principle activities carried out by this sector are flight training and tandem parachute dropping. Mid air collisions and one parachute dropping multiple fatality accident are the main contributors to this outcome
Other Commercial Operations – Helicopters	is also well above the target level. There have been 2 fatal, 2 serious and 3 minor injuries in this group in the three years Apr 08 to Mar 11. The loss of several expensive helicopters contributed significantly to this outcome.
Agricultural Operations – Aeroplanes	is well above the target level of \$13.00. During the three years Apr 08 to Mar 11 there have been 1 fatal, 2 serious and 2 minor injuries in this group. The retro fitting of turbine engines to significant numbers of aircraft operating in this group and the consequent ability to operate with increased payloads has contributed significantly to this outcome
Agricultural Operations – Helicopters	has been below the target level since the 2010. There have been 1 serious and 3 minor injuries in the three years Apr 08 to Mar 11. It is likely that the economic downturn that commenced in 2007 has had an influence on the outcome for this sector.
Agricultural Operations – Sport Aircraft	is not reported as activity in this sector did not eventuate in the way expected when the 2005 – 2010 monitoring regime was being developed.
Private Operations – Aeroplanes	while well above the target level of \$10.00 has shown considerable improvement over time. There have been 2 fatal, 3 serious and 2 minor injuries in the three years Apr 08 to Mar 11.
Private Operations – Helicopters	shows a downward trend but is still well above the target level. There have been 1 fatal, 2 serious and 5 minor injuries in the three years Apr 08 to Mar 11
Private Operations – Sport	is well above the target of \$20.00. There have been 14 fatal, 27 serious and 29 minor injuries in the three years Apr 08 to Mar 11.

The Public Transport groups that carry the majority of fare paying passengers have met or exceeded set targets.

One target group, 'Agricultural operations – aeroplanes', has significantly improved safety performance compared to the previous year. However, of concern is the medium-term trend, which has been quite volatile and considerably higher than the target value. A number of things have contributed to this poor performance, including over-loading of aircraft.

Areas of concern include:

- Sport aviation transport operations
- Other Commercial operations - aeroplanes
- Other Commercial operations - helicopters
- all Non-commercial operation groups

These groups have safety performance results significantly worse than the targets set for 2010. While some show improvement in performance over time, the rate of improvement is not sufficient to indicate that any will meet the target levels set for 2010 in the short-term.

Reasons for persistent poor performance are complex and include the impact of economic drivers, the extent of the CAA's direct regulatory influence and changes in amount of activity that takes place in the groups.













In response to the safety performance issues the measures are indicating, the CAA has targeted its activities for the next period, with the intent of increasing the rate of improvement in poor performing areas. (Details can be found in the Civil Aviation Authority's 2011/14 Statement of Intent pages 19, 24 and 76).

### → MEASURE 3: AGGREGATE SOCIAL COST

Aggregate social cost reflects the actual cost of death, injury and property loss associated with aviation accidents that have occurred in each target group. The statistic is not moderated by any measure of exposure to risk.

The table shows that most social cost is incurred in four of the thirteen target groups:

- Other Commercial operations - aeroplanes
- Other Commercial operations - helicopters
- Private operations - helicopters
- Private operations - sport aircraft

Measure: Aggregate social cost (\$ millions)							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Trend line
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.02	0.02	0.37	0.10	0.00	0.00	
2. Airline operations — medium aeroplanes	0.60	0.00	0.00	0.00	0.05	0.00	
3. Airline operations — small aeroplanes	0.00	0.00	0.02	0.16	0.56	0.00	
4. Airline operations — helicopters	0.00	0.00	0.00	2.25	1.21	0.33	
5. Sport aviation transport operations	1.53	2.62	0.02	19.96	1.63	1.58	
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	7.86	0.03	16.25	0.17	4.03	41.16	
7. Other commercial Operations — helicopter	0.03	5.45	10.41	0.70	0.00	16.76	
8. Agricultural operations — aeroplanes	11.32	0.29	6.60	4.46	1.58	0.00	
9. Agricultural operations — helicopters	0.06	3.87	1.47	0.99	0.00	1.19	
10. Agricultural operations — sport aircraft	Data not available						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	7.92	7.65	0.02	1.30	7.49	0.00	
12. Private operations — helicopters	21.68	0.68	0.91	3.87	1.56	7.35	
13. Private operations — sport aircraft	4.32	21.23	26.94	11.90	21.08	21.69	

### Commentaries

Social cost is a sensitive indicator of safety failure, and a single accident can represent a high social cost. Consequently, social cost helps the CAA to understand the severity of the accidents and incidents that occur. For example, the tragic accident at Fox Glacier in September 2010, which resulted in nine fatalities, is the principle reason why social cost for the 'Other Commercial operations – aeroplanes' target group is \$41.16 million for the 2010/11 year, compared with much lower figures for the previous two years (0.17 and 4.03 respectively).

The aggregate social cost data tells us that most failure occurs in four groups, and that a single accident can dramatically affect the short- and medium- term trend in safety performance.

### A3.2 INTERMEDIATE OUTCOME 1: HIGH LEVEL OF COMPLIANCE BY CIVIL AVIATION PARTICIPANTS WITH CIVIL AVIATION SAFETY AND SECURITY SAFETY AND SECURITY STANDARDS

Measures	
1.	Distribution of risk profiles for aviation document holders demonstrates a reduction in latent risk
2.	Reduction in the number of non-compliances with civil aviation rules or expositions by operators
3.	Reduction in enforcement actions/prosecutions for non-compliance and/or breach of civil aviation rules
4.	Reduction in the rate of aircraft accidents per 100,000 flying hours

#### → MEASURE 1: DISTRIBUTION OF RISK PROFILES FOR AVIATION DOCUMENT HOLDERS

Measure: Average distribution of risk profiles for aviation document holders (assessed participants)						
Activity Type	2005/06	2006/07	2007/08	2008/09	2009/10	Trend
Australia AOC with ANZA Privileges			6.4	4.1		*
Australia AOC with ANZA Part 108 Security			0.0	5.5	5.9	*
Part 108 Security Programme	7.5	8.0	7.5	8.4	7.5	1%
Part 109 Regulated Air Cargo Agent			8.5	13.6	11.1	*
Part 119 Air Operator Certificate - Pacific	7.5	13.1	9.4	9.8		*
Part 121 Air Operator Large Aeroplanes	12.4	11.1	9.7	10.1	10.0	-5%
Part 125 Air Operator Medium Aeroplanes	23.5	17.5	14.5	15.1	16.1	-10%
Part 129 Foreign Air Transport Operator	9.4	13.3	10.7	7.2	8.9	-7%
Part 135 Air Operator Helos and Small Aeropl	28.4	21.3	17.2	16.7	15.8	-15%
Part 137 Agricultural Aircraft Operator	33.3	25.9	18.6	16.3	16.2	-20%
Part 139 Aerodrome Operator	8.3	6.7	5.3	6.5	5.8	-8%
Part 140 Aviation Security Service Organisation	29.7	11.0	4.8	5.5	4.6	-50%
Part 141 Aviation Training Organisation	15.8	15.4	11.1	11.5	9.4	-13%
Part 145 Maintenance Organisation	14.4	11.9	10.9	10.5	10.4	-8%
Part 146 Aircraft Design Organisation	12.0	12.4	8.4	7.6	11.8	-5%
Part 148 Aircraft Manufacturing Organisation	13.0	13.1	11.1	10.5	11.2	-5%
Part 149 Aviation Recreation Organisation	11.8	3.0	5.1	30.7	8.4	18%
Part 171 Telecom Service Organisation	21.9	10.8	6.0	4.9	6.8	-36%
Part 172 Air Traffic Service Organisation	29.2	25.9	7.5	9.6	10.0	-33%
Part 173 Instrument Flight Procedure			5.7	6.1	8.7	*
Part 174 Meteorological Service Organisation	16.3	30.2	7.0	10.1	10.3	-22%
Part 175 Aeronautical Info Service Organisation	25.1	34.4	6.1	8.0	12.1	-31%
Part 19F Supply Organisation	12.9	12.6	12.6	10.8	11.2	-4%
Part 61 Pilot Licence (Aeroplane) Holder	2.6	0.0	82.6		2.7	*
Part 66 Aircraft Maintenance Engineer	2.6	18.2				*
Part 92 Dangerous Goods Pack Approval Holder	2.6			2.6	5.6	*

\*Insufficient data points

#### Commentary

The risk profiles for most activity types show a downward trend with the average for all assessed participants falling into the Low Risk (0 – 16) category by 2010. Only two activities have not yet reached the Low Risk category (Part 125 Air Operator Medium Aeroplanes 16.1 and Part 137 Agricultural Aircraft Operator 16.2); but both of these are trending down significantly.

Risk assessments are, for the most part, applied only to holders of “organisational type” documents. Operations in sectors with unsatisfactory Social Cost outcomes are not subject to risk assessment because the activities in these sectors are carried out by individual document holders.

→ **MEASURE 2: REDUCTION IN THE NUMBER OF NON-COMPLIANCES WITH CIVIL AVIATION RULES OR EXPOSITIONS BY OPERATORS<sup>19</sup>**

Measure: Number of non-compliances with Civil Aviation Rules or expositions by operators								
Finding Category	FY 2009/10				FY 2010/11			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NCP	473	443	291	312	337	300	243	282

**Commentary**

The data in the table above shows that, overall, the number of non-compliances with Civil Aviation Rules or exposition by operators has declined.

→ **MEASURE 3: REDUCTION IN ENFORCEMENT ACTIONS/ PROSECUTIONS FOR NON-COMPLIANCE AND/OR BREACH OF CIVIL AVIATION RULES**

Measure: Enforcement actions / prosecutions for non-compliance and/or breach of civil aviation rules					
Year	Total number of occurrences	Number of Prosecutions commenced	Prosecutions as a % of Occurrences	Written Warnings issued	Infringement Notices issued
2000	4538	21	0.46%	42	0
2001	4787	21	0.44%	23	0
2002	4004	22	0.54%	34	0
2003	4131	18	0.43%	27	0
2004	4688	19	0.40%	31	0
2005	4707	22	0.46%	26	0
2006	5324	23	0.43%	18	4
2007	5007	21	0.41 %	16	5
2008	5927	19	0.32%	12	10
2009	5275	17	0.32%	11	9
2010	5529	24	0.43%	9	7
2011 (to 1 July)	3070	11	0.35%	4	7

<sup>19</sup> Non-compliance finding values are measures of how well participants in the civil aviation system are meeting their obligations. Each person or entity that holds an aviation document is required to meet the performance standards applicable to the specific aviation document held.

The CAA uses a safety monitoring system to determine how well document holders are adhering to the requirements of the document they hold. Where safety monitoring reveals that a document holder is not adhering to the required standard, the CAA issues a non-compliance finding. The CAA measures the number of non-compliance findings issued.



## Commentary

Historically the Authority has carried out a very low number of prosecutions per year in comparison to the number of occurrences reported. Over the last five years the number of prosecutions as a percentage of occurrences reported has decreased. Between 2002 and 2006, an average 4.5 cases per 1000 occurrences resulted in a prosecution. Between 2006 and 2011 the figure dropped to 3.6 per 1000.

### → MEASURE 4: REDUCTION IN THE RATE OF AIRCRAFT ACCIDENTS PER 100,000 FLIGHT HOURS

Measure: Rate of aircraft accidents per 100,000 flight hours							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Trend line
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.00	0.00	0.00	0.31	0.64	0.90	
2. Airline operations — medium aeroplanes	1.47	1.54	0.00	0.00	3.66	1.79	
3. Airline operations — small aeroplanes	3.20	1.46	4.03	7.15	4.59	5.01	
4. Airline operations — helicopters	2.87	0.00	1.57	6.85	7.64	1.68	
5. Sport aviation transport operations*	Insufficient data						
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	4.94	5.89	6.36	3.32	4.62	5.17	
7. Other commercial Operations — helicopter	8.08	16.96	7.29	11.13	3.41	15.11	
8. Agricultural operations — aeroplane	10.41	7.47	22.85	18.53	14.79	16.83	
9. Agricultural operations — helicopter	11.74	7.95	8.31	12.44	10.23	7.96	
10. Agricultural operations — sport aircraft*	Insufficient data						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	14.82	21.44	8.98	46.45	25.36	12.62	
12. Private operations — helicopters	51.56	29.40	34.90	14.34	50.80	37.43	
13. Private operations — sport aircraft*	Insufficient data						

\*Note: Flight hours travelled by an aircraft in this aviation group are not collected.

## Commentary

The statistics associated with this performance metric need to be treated and interpreted with care. Most target groups have low numbers of accidents, but an increase in any one year can cause 'blips' in the medium- to long-term trend.

Overall the five year trend most target groups show consistent or improved safety performance, with some spikes because of single events.

The critical issue to consider with respect to aircraft accidents is their severity. This statistic should be considered in the conjunction with the aggregate social cost data, which shows that for some groups the number of accidents may have increased, but the impact of those accidents is low. In other areas, the number of accidents is declining, but the impact of the accidents that have occurred is severe.

### A3.3 INTERMEDIATE OUTCOME 2: REDUCED NUMBERS AND CONSEQUENCES OF CIVIL AVIATION ACCIDENTS AND INCIDENTS

Measures
1. Reduction in the number of aircraft accidents
2. Reduction in the social cost of aircraft accidents per 100,000 flight hours
3. Reduction in the number of fatalities and injuries per 100,000 flight hours.
4. Reduction in the social cost of fatalities and serious injuries

#### → MEASURE 1: REDUCTION IN THE NUMBER OF AIRCRAFT ACCIDENTS

Measure: Number of aircraft accidents by aviation safety group							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Trend line
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0	0	0	2	2	3	
2. Airline operations — medium aeroplanes	1	1	0	0	2	1	
3. Airline operations — small aeroplanes	3	1	2	3	2	2	
4. Airline operations — helicopters	2	0	1	4	4	1	
5. Sport aviation transport operations*	4	9	0	11	13	9	
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	7	11	16	9	13	12	
7. Other commercial Operations — helicopter	3	7	4	6	2	7	
8. Agricultural operations — aeroplane	5	4	11	6	5	6	
9. Agricultural operations — helicopter	6	4	4	6	5	4	
10. Agricultural operations — sport aircraft	Data not available						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	7	10	4	18	10	5	
12. Private operations — helicopters	9	6	8	3	10	6	
13. Private operations — sport aircraft*	36	38	38	46	54	52	
Others	0	0	0	1	1	1	

#### Commentary

The data in the table shows considerable variation in the number of aircraft accidents in each safety target group. For some groups, the number of accidents is low, and the change relative to previous years is not statistically meaningful. In particular, the airline operations groupings have a very small numbers of accidents through time.

Other groups appear to have upwards trends, particularly Private operations - sport aircraft and Sport aviation transport operations. Both groups are of increasing concern to the CAA, as their safety performance is deteriorating through time.

→ **MEASURE 2: REDUCTION IN THE SOCIAL COST OF AIRCRAFT ACCIDENTS PER 100,000 FLIGHT HOURS**

Measure: Social cost per 100,000 flight hours (\$ millions)							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Trend line
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.01	0.01	0.12	0.03	0.00	0.00	
2. Airline operations — medium aeroplanes	0.89	0.00	0.00	0.00	0.09	0.00	
3. Airline operations — small aeroplanes	0.00	0.00	0.03	0.38	1.30	0.00	
4. Airline operations — helicopters	0.00	0.00	0.00	3.85	2.31	0.55	
5. Sport aviation transport operations*	Insufficient data						
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	5.54	0.02	6.46	0.06	1.43	17.72	
7. Other commercial Operations — helicopter	0.09	13.21	18.97	1.30	0.00	36.19	
8. Agricultural operations — aeroplane	23.57	0.55	13.71	13.78	4.68	0.00	
9. Agricultural operations — helicopter	1.18	7.70	3.05	2.06	0.00	2.37	
10. Agricultural operations — sport aircraft*	Insufficient data						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	16.77	16.40	0.04	3.35	19.00	0.00	
12. Private operations — helicopters	124.20	3.35	3.99	18.51	7.87	45.84	
13. Private operations — sport aircraft*	Insufficient data						

\*Note: Results set to zero because flight hours data are not collected for these groups.

### Commentary

The CAA considers the social cost of aircraft accidents per 100,000 flight hours, and uses a three year rolling average. An averaging approach is used because the actual number of accidents is small, and consequently, a single event can distort what is happening over time. The idea behind averaging is to 'smooth' out the data to see whether the impact the CAA is trying to have on safety performance, is actually being achieved.

The data shows that some safety performance groups have deteriorating safety performance, and others are continuing to perform better than or at the target levels set for 2010. Those groups of concern are:

- Other commercial operations – helicopters
- Other commercial operations - aeroplanes
- Private operations - helicopters.

These three groups have higher social cost than in previous years, reflecting the number and/or severity of accidents and incidents that have occurred.

→ **MEASURE 3: REDUCTION IN THE NUMBER OF FATALITIES AND INJURIES PER**

Measure: Number of fatalities and serious injuries per 100,000 flight hours							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Trend line
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.00	0.00	0.32	0.00	0.00	0.00	
2. Airline operations — medium aeroplanes	0.00	0.00	0.00	0.00	0.00	0.00	
3. Airline operations — small aeroplanes	0.00	0.00	0.00	0.00	2.30	0.00	
4. Airline operations — helicopters	0.00	0.00	0.00	3.42	0.00	0.00	
5. Sport aviation transport operations*	Insufficient data						
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	1.41	0.00	2.78	0.00	0.36	6.03	
7. Other commercial Operations — helicopter	0.00	2.42	3.65	1.86	0.00	10.80	
8. Agricultural operations — aeroplane	6.24	0.00	4.16	3.09	2.96	0.00	
9. Agricultural operations — helicopter	0.00	1.99	0.00	2.07	0.00	0.00	
10. Agricultural operations — sport aircraft*	Insufficient data						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	4.23	4.29	0.00	7.74	5.07	0.00	
12. Private operations — helicopters	40.10	0.00	0.00	4.78	0.00	24.96	
13. Private operations — sport aircraft*	Insufficient data						

\*Note: Results set to zero because flight hours data are not collected for these groups.

### Commentary

The total number of aviation fatalities in New Zealand is, statistically, a small number. That does not diminish the impact of each fatality. Likewise, the number of injuries sustained in aviation, compared to other sectors, is relatively small.

Fatalities and injuries are one indicator of accident severity. In 2010, there were a number of multiple fatality accidents, the most tragic of which happened at Fox Glacier, where nine people lost their lives on 4 September. Without wishing to take away from the impact of that single accident, the number of fatalities shows a gradual decline through most commercial aviation activities. Non-commercial operations however, show a relatively static performance, with some slight increase in some groups.

→ **MEASURE 4: REDUCTION IN THE SOCIAL COST OF FATALITIES AND SERIOUS INJURIES**

Measure: Social cost of fatalities and serious injuries (\$)							
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Trend line
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.00	0.00	0.37	0.00	0.00	0.00	
2. Airline operations — medium aeroplanes	0.00	0.00	0.00	0.00	0.00	0.00	
3. Airline operations — small aeroplanes	0.00	0.00	0.00	0.00	0.37	0.00	
4. Airline operations — helicopters	0.00	0.00	0.00	0.75	0.00	0.00	
5. Sport aviation transport operations*	1.50	2.62	0.00	19.76	1.50	1.50	
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	7.16	0.00	15.44	0.00	3.58	40.49	
7. Other commercial Operations — helicopter	0.00	0.37	7.16	0.37	0.00	14.69	
8. Agricultural operations — aeroplane	10.74	0.00	3.95	3.58	0.37	0.00	
9. Agricultural operations — helicopter	0.00	3.58	0.00	0.37	0.00	0.00	
10. Agricultural operations — sport aircraft	Data not available						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	7.16	7.16	0.00	1.12	7.16	0.00	
12. Private operations — helicopters	18.64	0.00	0.00	3.58	0.00	4.70	
13. Private operations — sport aircraft*	4.12	20.89	26.55	11.65	20.51	21.26	

